

tepaV

Economic Policy Research Foundation of Turkey

Any lessons from Turkey's economic transformation?

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Framework

- What is TEPAV?
- This time is different
 - Grand projects of 20th and 21st centuries
 - Shifting center of the world economy
- Any lessons from Turkey's experience for the Islamic geography
 - Preconditions for engagement
- Some ideas for functional areas for cooperation
 - Special economic zones, capacity building, entrepreneurship development

What is TEPAV?

- The Economic Policy Research Foundation of Turkey
 - A private, nonpartisan, nonprofit think tank
 - Devoted to independent research and project implementation
- Established in 2004,
 - Seed funding came from the Union of Chambers and Commodity Exchanges of Turkey
 - Funding sources increasingly diversified; now only 40 % through TOBB, rest from multilateral agencies and private firms

TEPAV's interdisciplinary approach

■ Three major disciplines:

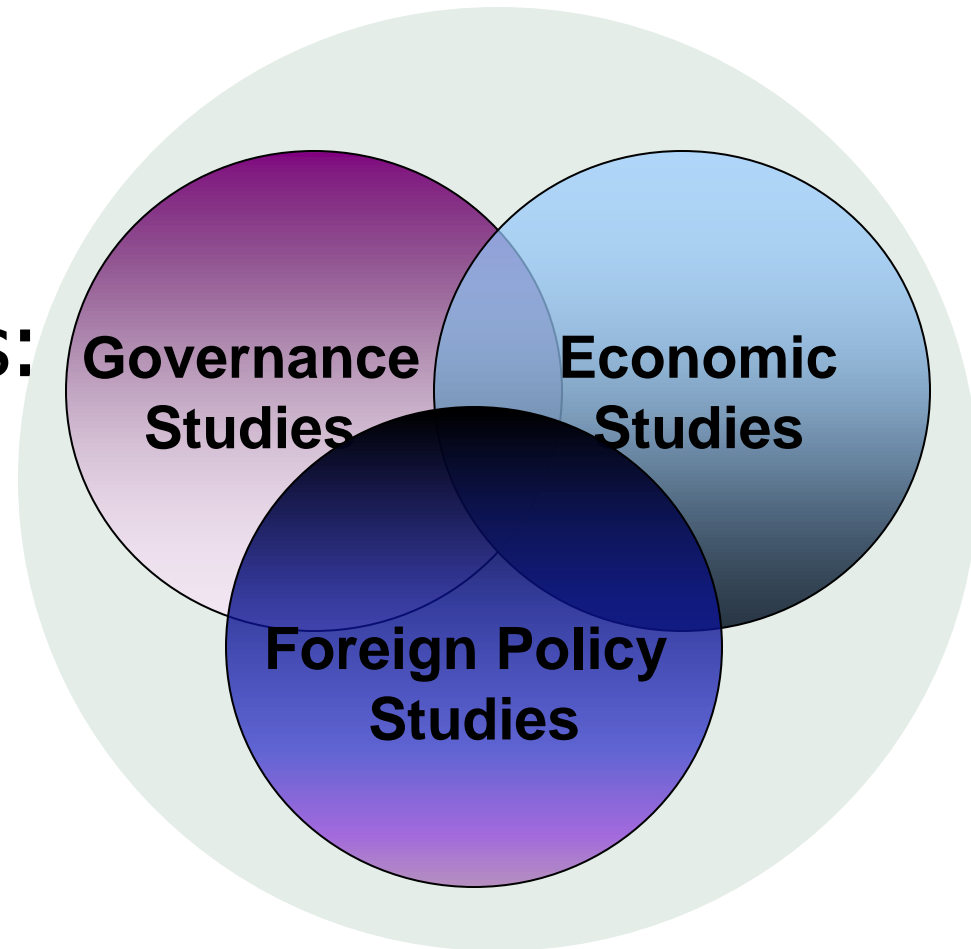
- Economic policy
- Governance
- Foreign policy

■ Cross-cutting themes:

- Competitiveness
- Regional integration
- EU accession process

■ Modus operandi:

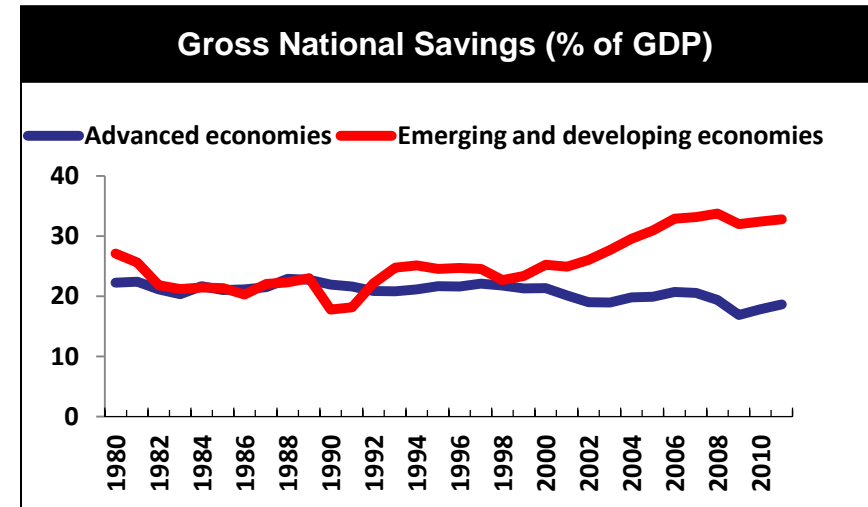
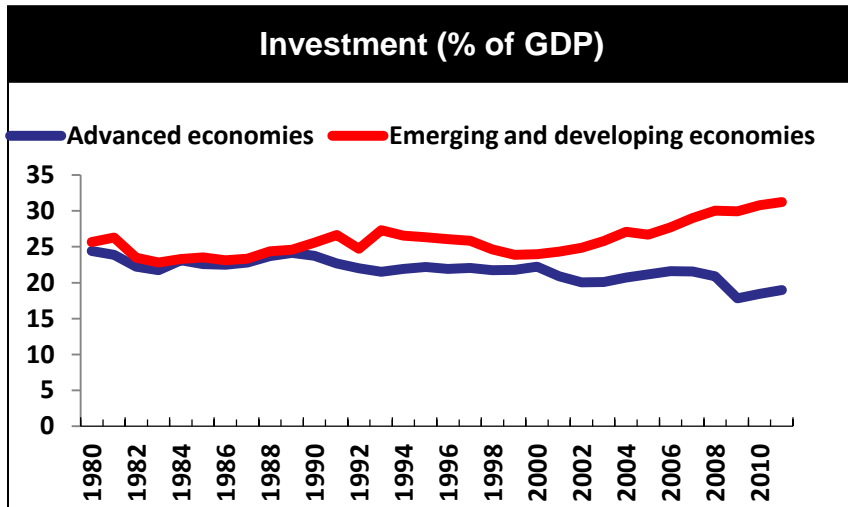
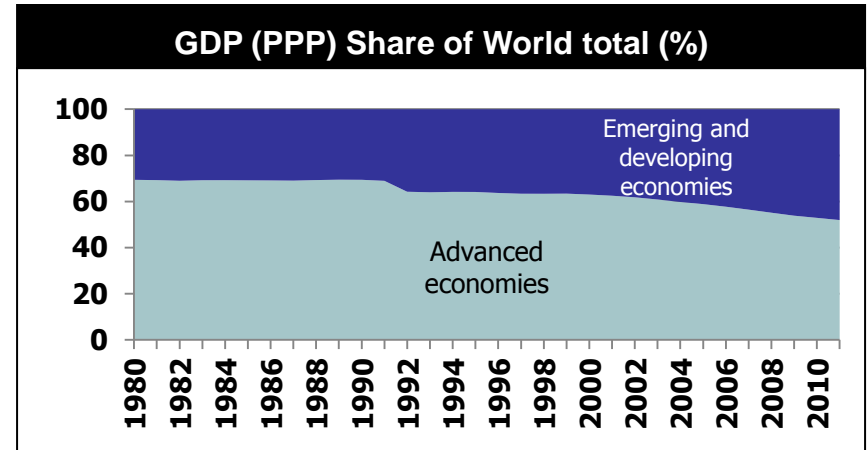
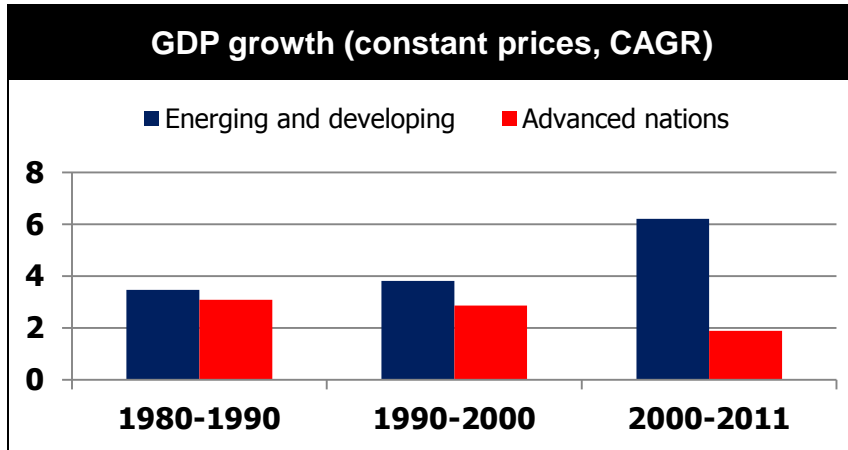
- Think-tank activities
- Projects



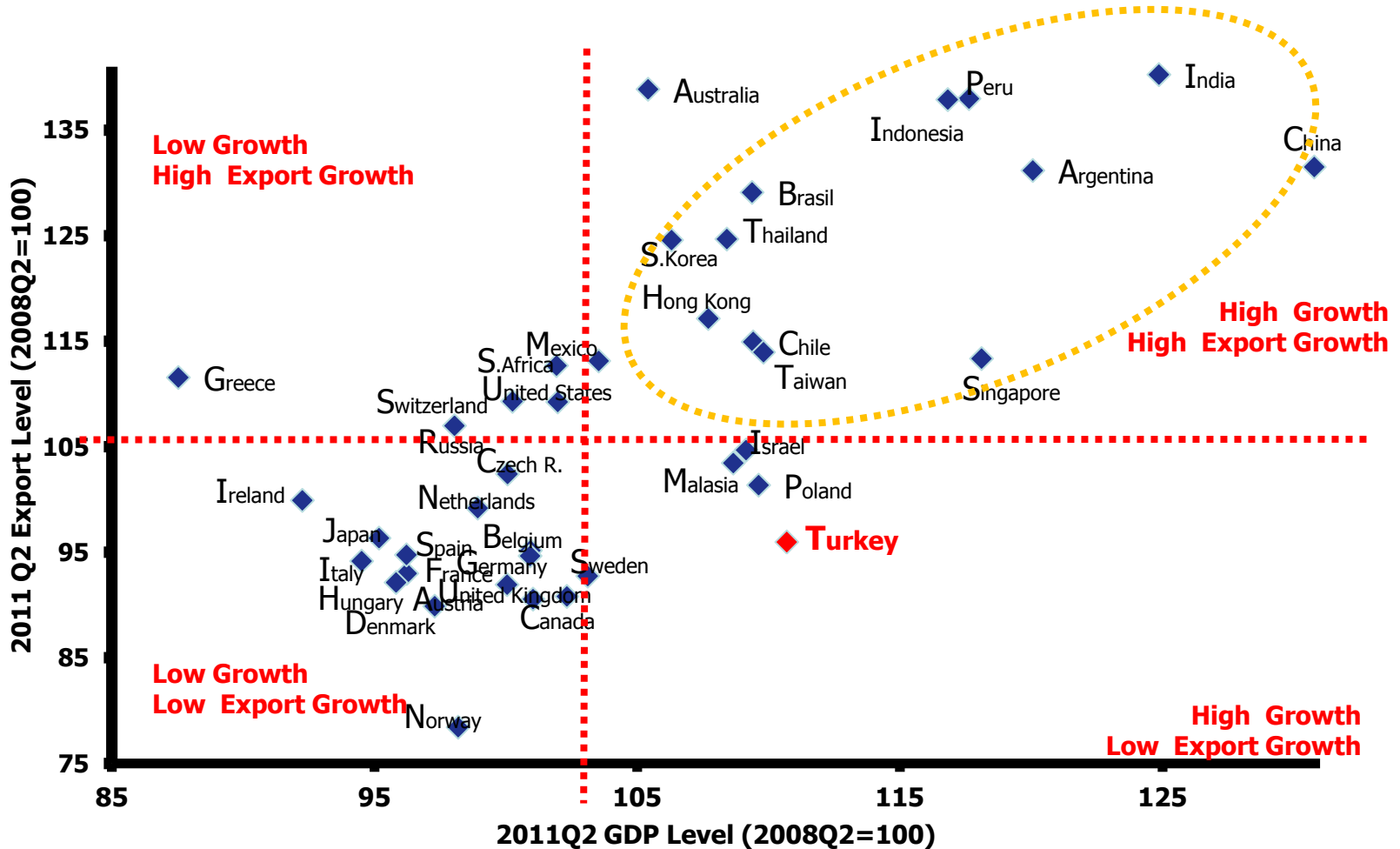
This time is different!

- The grand project of the 20th Century was Southeast Asia's integration to the world economy
 - From economic reforms to Tiananmen Square
 - A non-orthodox way of integration (state capitalism)
- 21st Century's grand project will be the integration of Islamic geography to the world economy
 - From Arab Spring to political reforms
 - The direction of the reform process is uncertain
- Turkey and Iraq can play a major transformative role in the Islamic geography
 - Prerequisite is to complete own transformation

New geography of the world economy: Center of gravity is shifting



Transformation of Turkey's surrounding region is even more important today



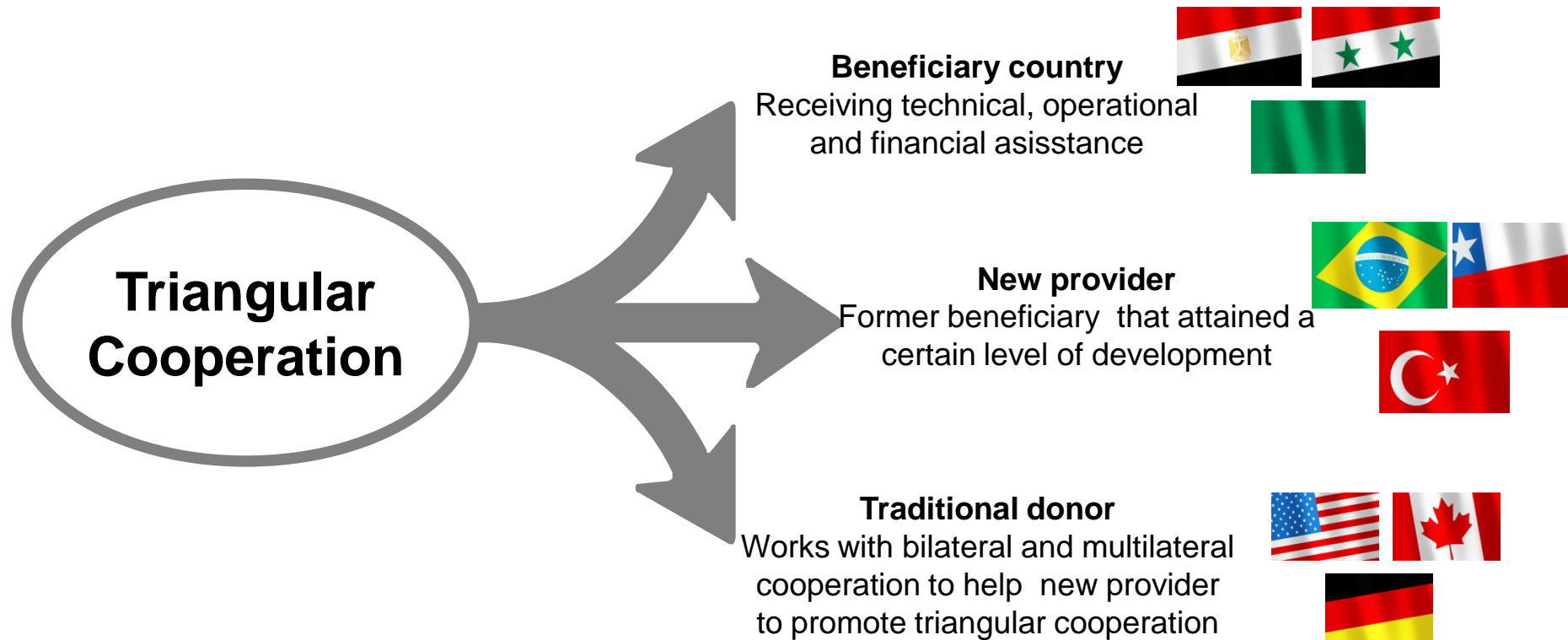
Turkey in World Bank's Doing Business Index 2012

Doing Business Indicator	Turkey	South Korea	Germany	Spain	Italy	France	Egypt	Iraq
Overall Doing Business Score (Ranking)	71	8	19	44	87	29	110	164
Starting a Business Score (Ranking)	61	24	98	133	77	25	21	176
Obtaining Construction Permits (Ranking)	155	26	15	38	96	30	154	120
Registering Property (Ranking)	44	71	77	56	84	149	93	98
Getting Credit (Ranking)	78	8	24	48	98	48	78	174
Protecting Investors (Ranking)	65	79	97	97	65	79	79	122
Paying Taxes (Ranking)	79	38	89	48	134	58	145	49
Trading Across Borders (Ranking)	80	4	12	55	63	24	64	180
Resolving Insolvency (Ranking)	120	13	36	20	30	46	137	183

Nature of international cooperation has been changing

- Advanced nations and IFIs were the only leading figures in international cooperation
 - North-South cooperation
 - ODA & technical assistance
 - World Bank, IMF development loans
- As south has become more important in the world economy S-S cooperation started to emerge
 - Failure of top-down development (N-S)
- Advanced nations as part of S-S cooperation
 - How can North make its assistance efforts successful?

A new form of international cooperation is emerging



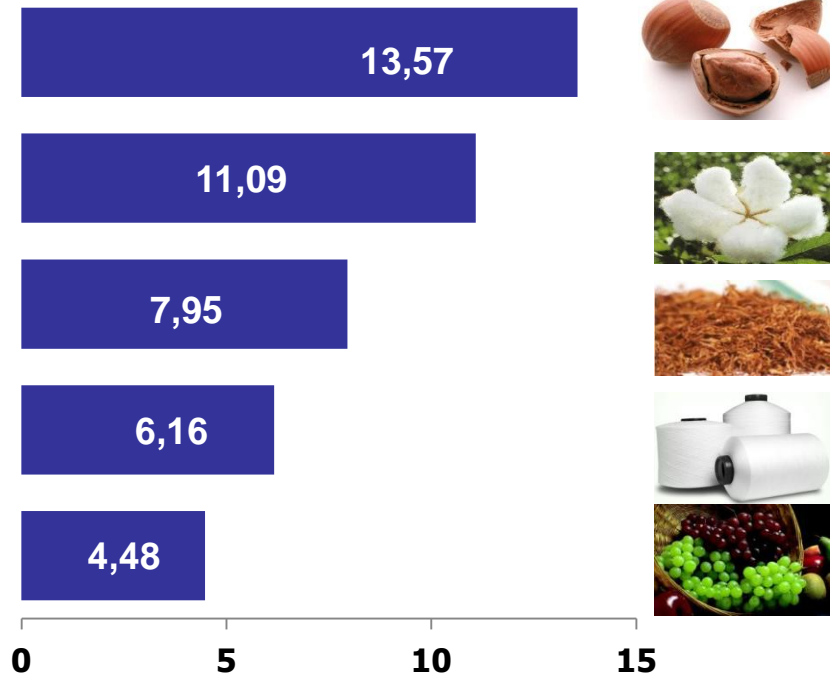
Three modalities of triangular cooperation

1. New provider and beneficiary establish the cooperation
 - Traditional donor provides provides technical and financial resources
2. Beneficiary and traditional donor establish the cooperation
 - New provider is responsible from implementation
3. All stakeholders establish the cooperation jointly
 - Identfying needs to implementing actions

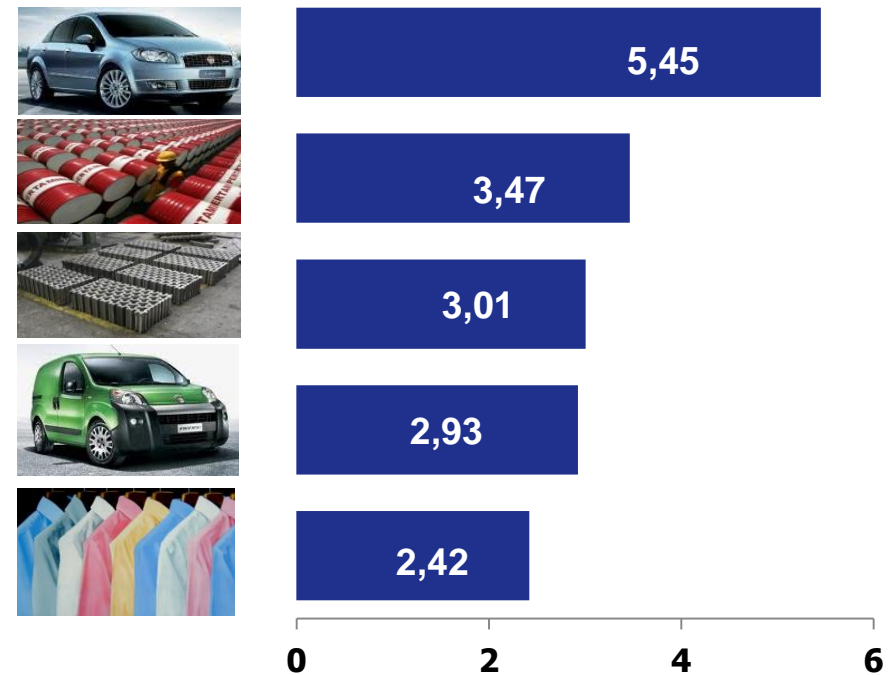
Turkey's engagement with the surrounding region is increasing

- Expanding activities of The Turkish International Cooperation and Development Agency (TIKA)
- TIKA disbursed 1,5 billion USD in 2009
 - Installment of water pumps to improve drinking water facilities in Nigeria
 - Developing new system of planting cotton in Kyrgyzstan and Tajikistan
 - Providing low-cost seeds to 20,000 low-income families in Darfur region of Sudan
- How to provide more sophisticated assistance?
 - Triangular cooperation would increase capabilities

Turkey's top-5 export items (1980, share %)

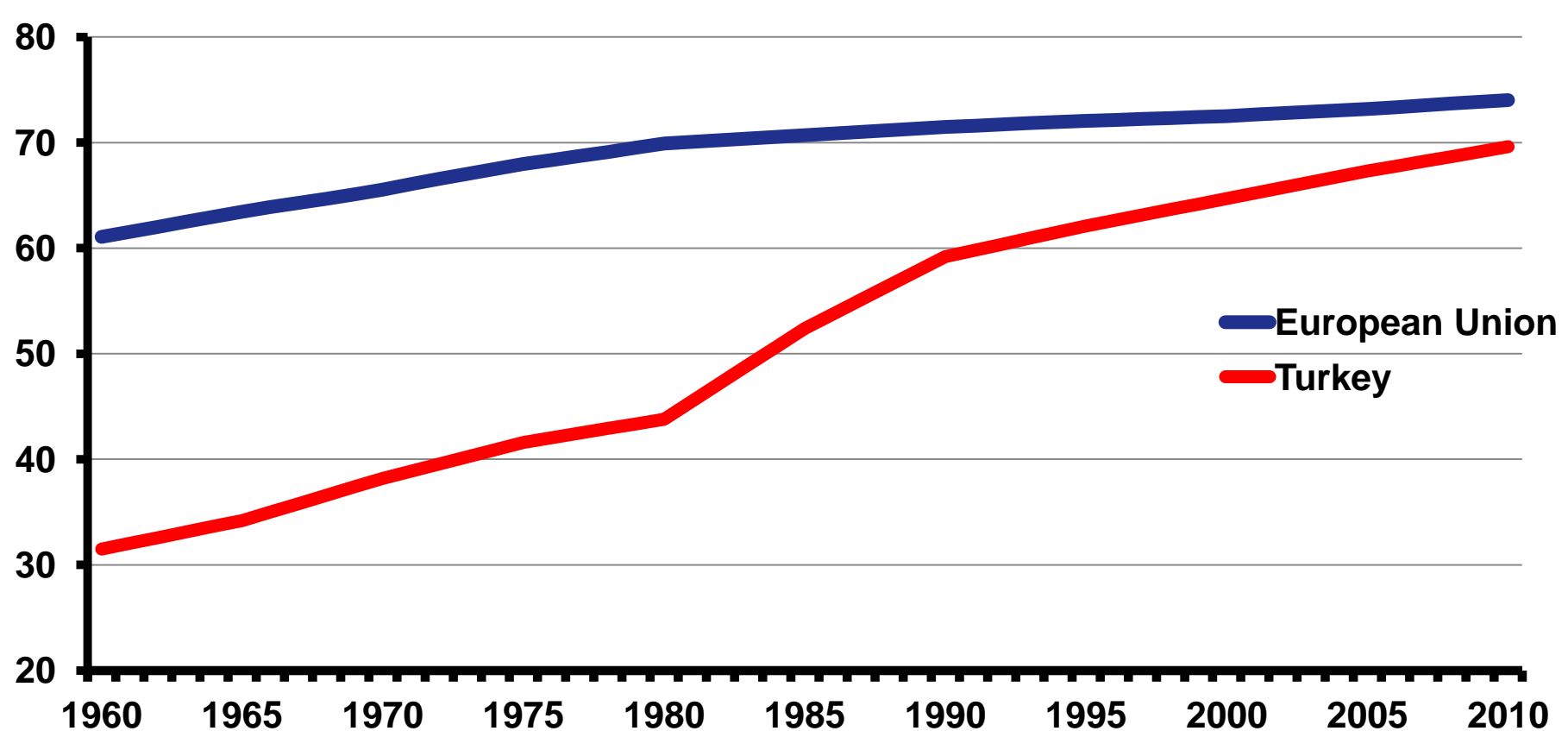


Turkey's top-5 export items (2010, share %)



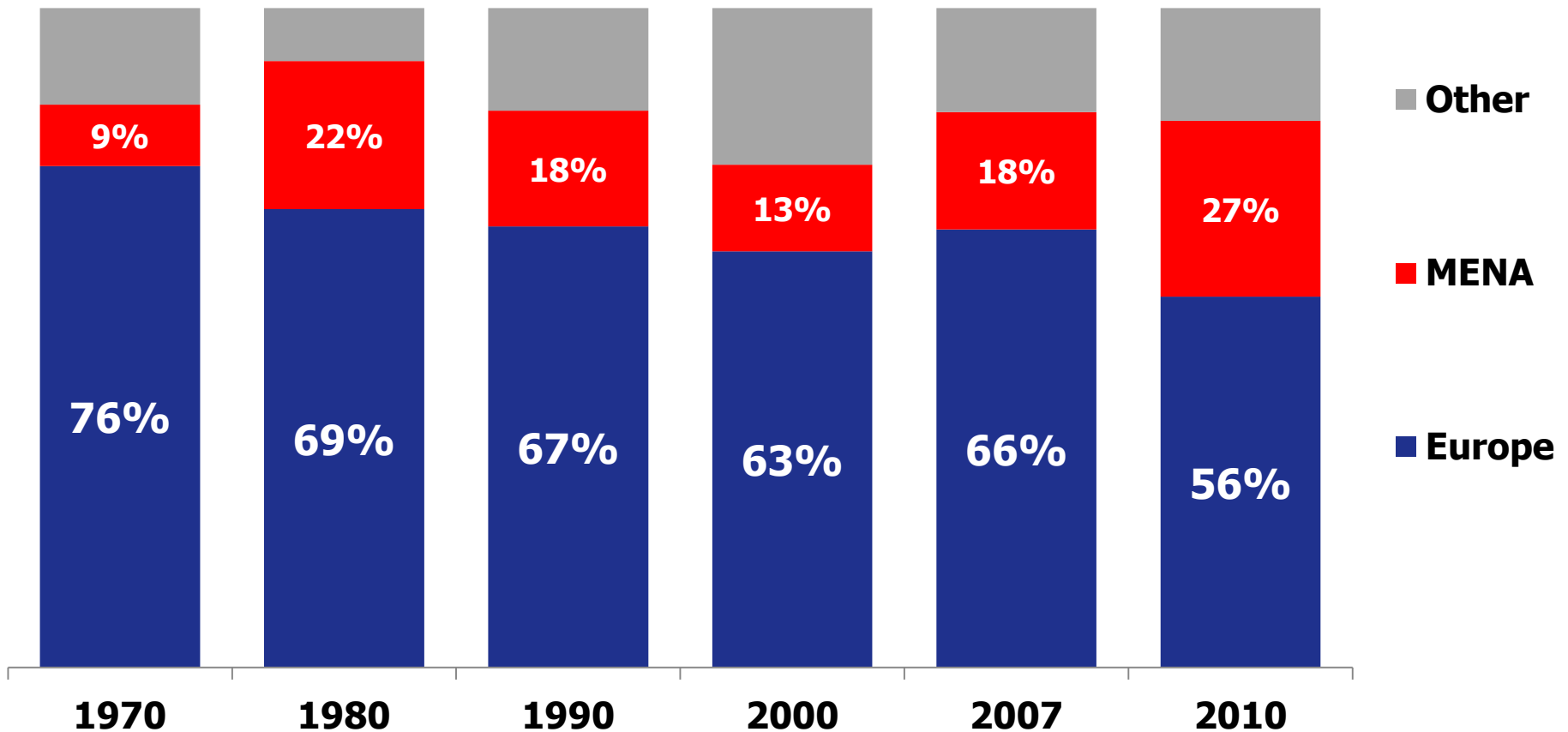
Very rapid convergence to the EU in terms of urbanization: social transformation...

Urban population as a percentage of the total population in Turkey and EU countries, (%), 1960-2010



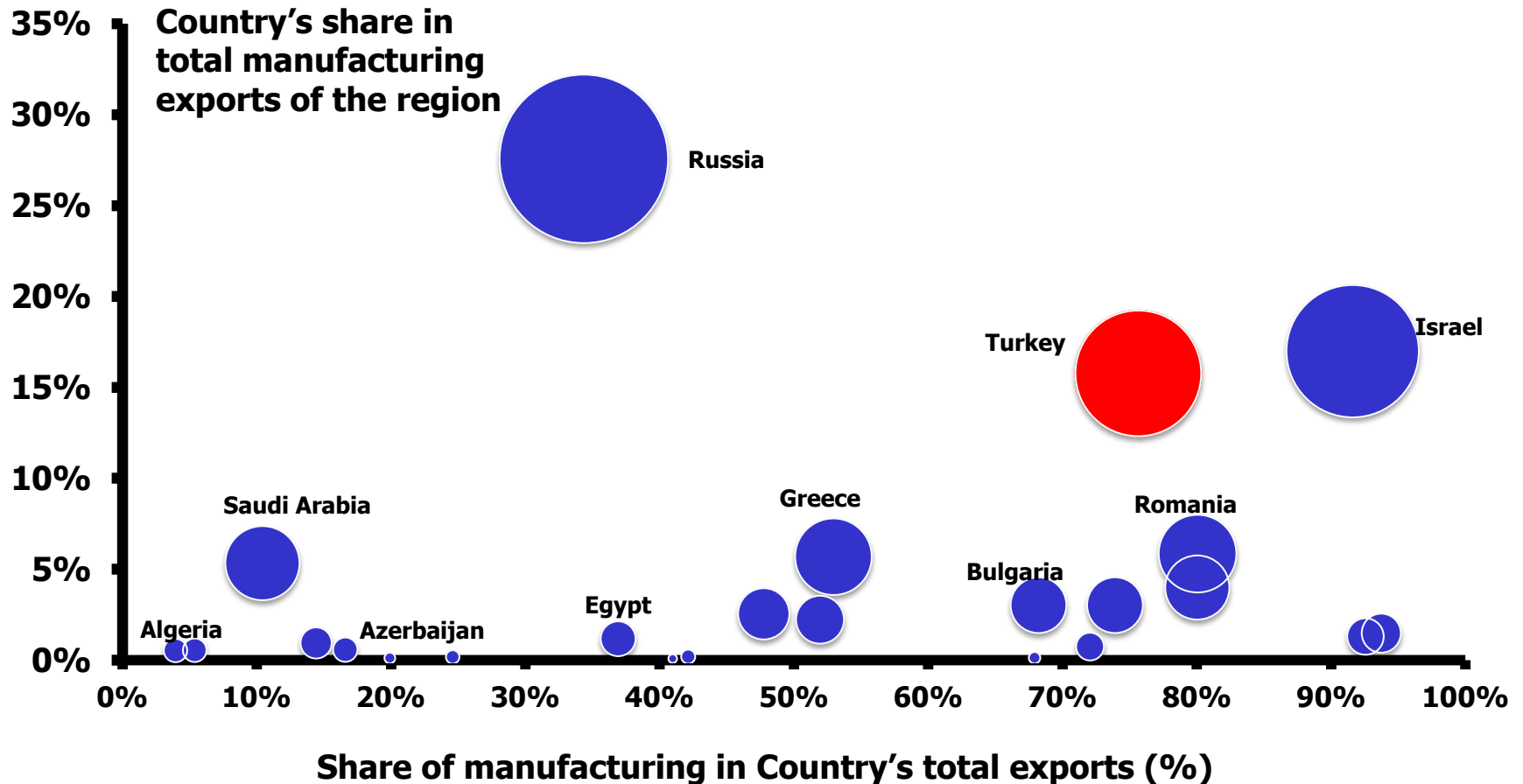
Market diversification in exports

Geographical distribution of Turkey's exports: 1970-2010



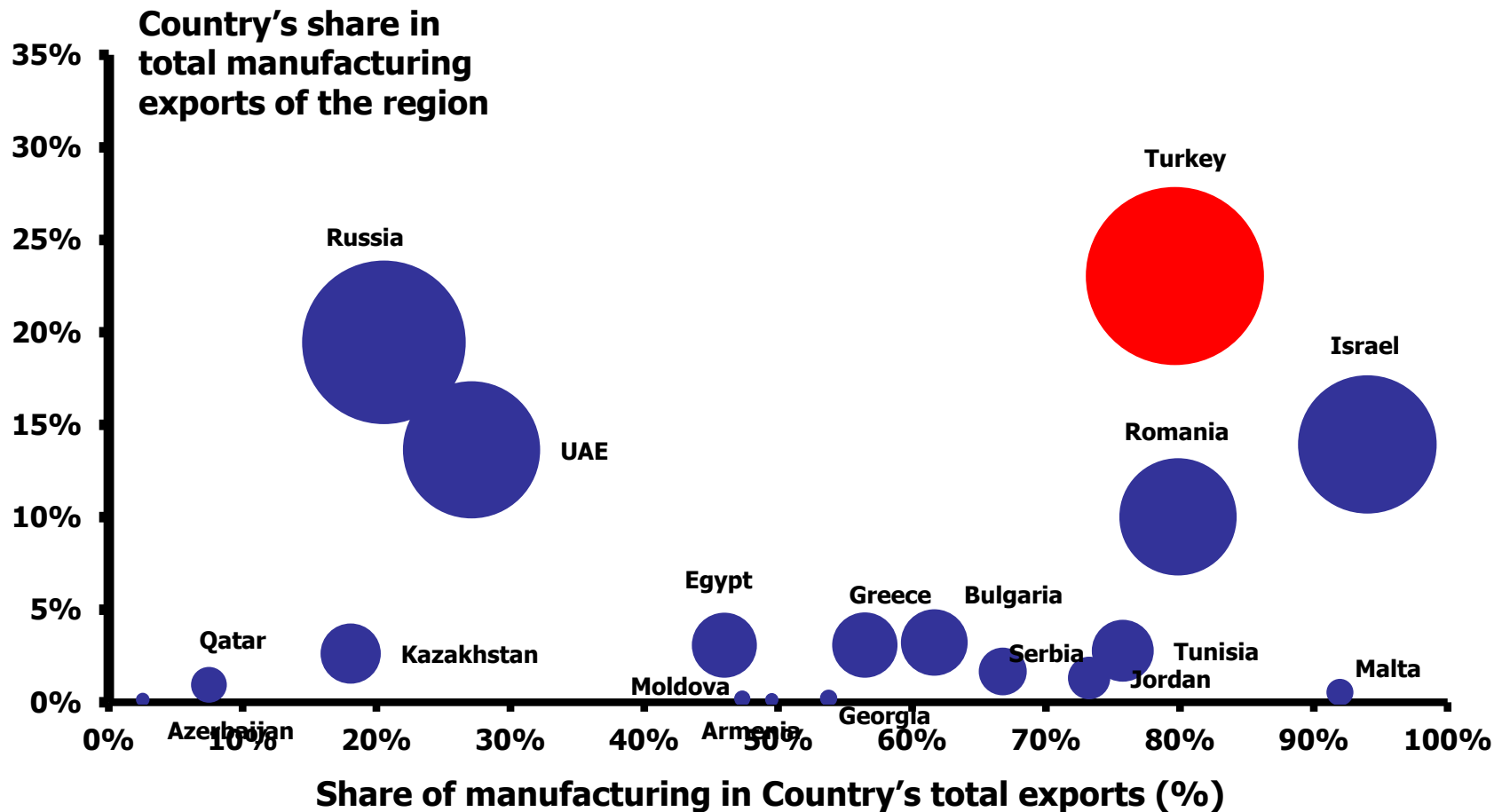
Turkey in the region: Rapid growth in manufacturing after mid-90's

Share in exports of the region and level of industrialization (1996)



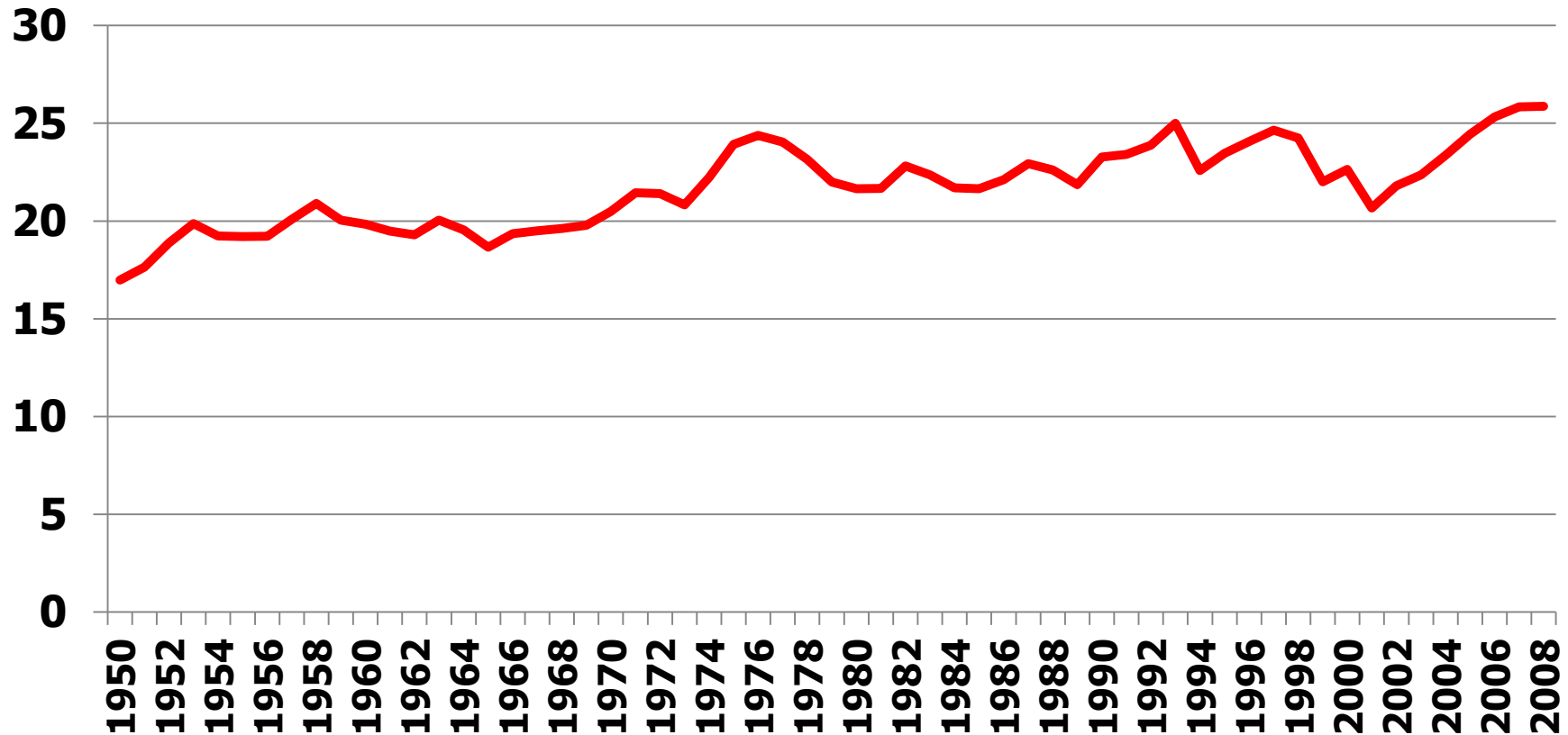
Today Turkey is the largest manufacturer in the region

Share in exports of the region and level of industrialization (2010)



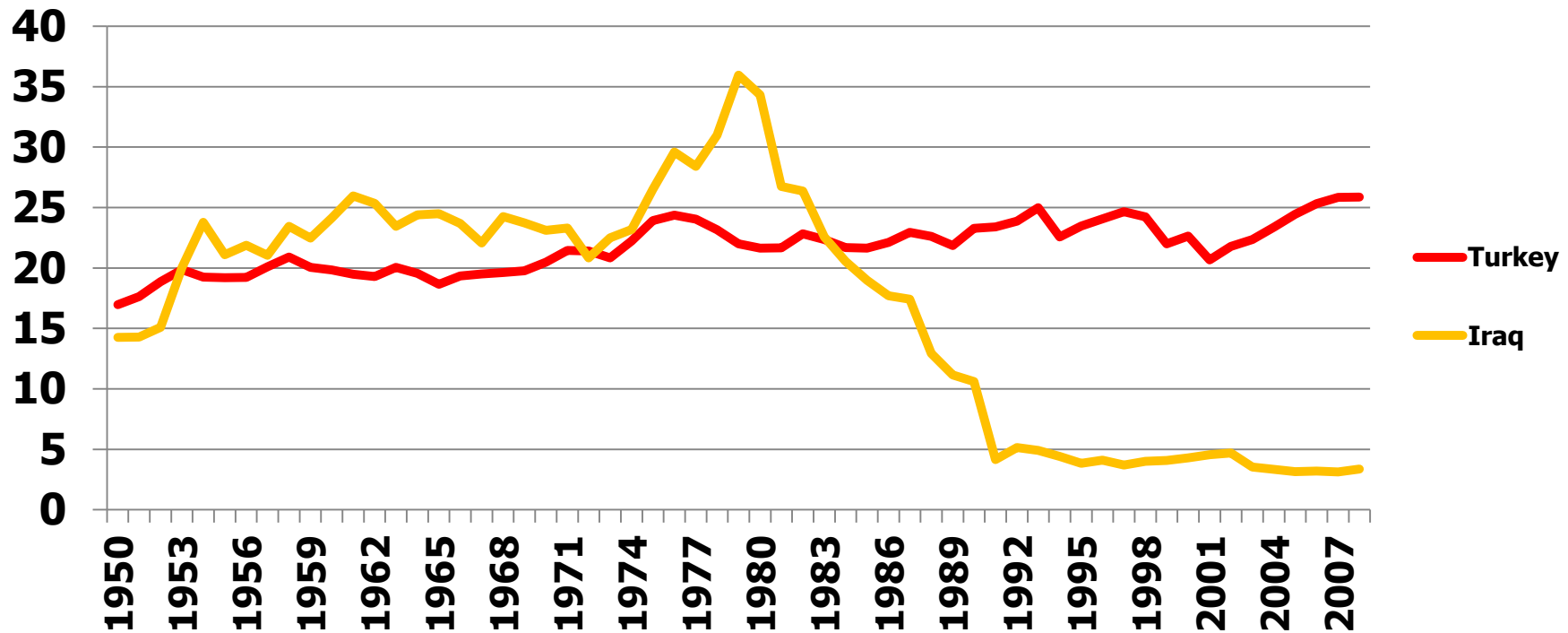
But there is no rapid income convergence...

GDP per capita in Turkey as percentage of GDP per capita in the U.S., (PPP, 1980-2010)



For Iraq we can speak about divergence...

GDP per capita in Turkey and Arab Countries as percentage of GDP per capita in the U.S.,
(PPP, 1980-2010)



Timeline of major events in Iraq

1979: General Saddam Hussein assumed the offices of President and General Commander

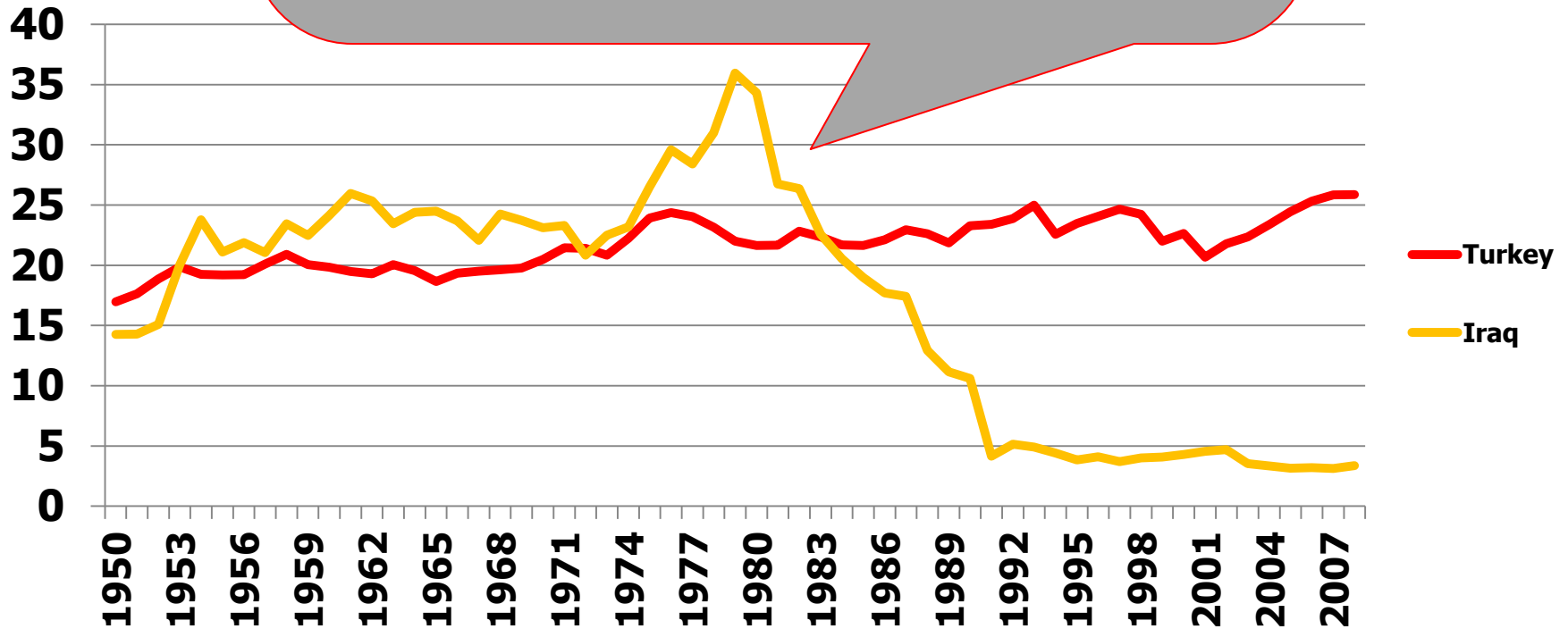
1980-88: Iraq-Iran war

1991: I Gulf War

2003: II Gulf War

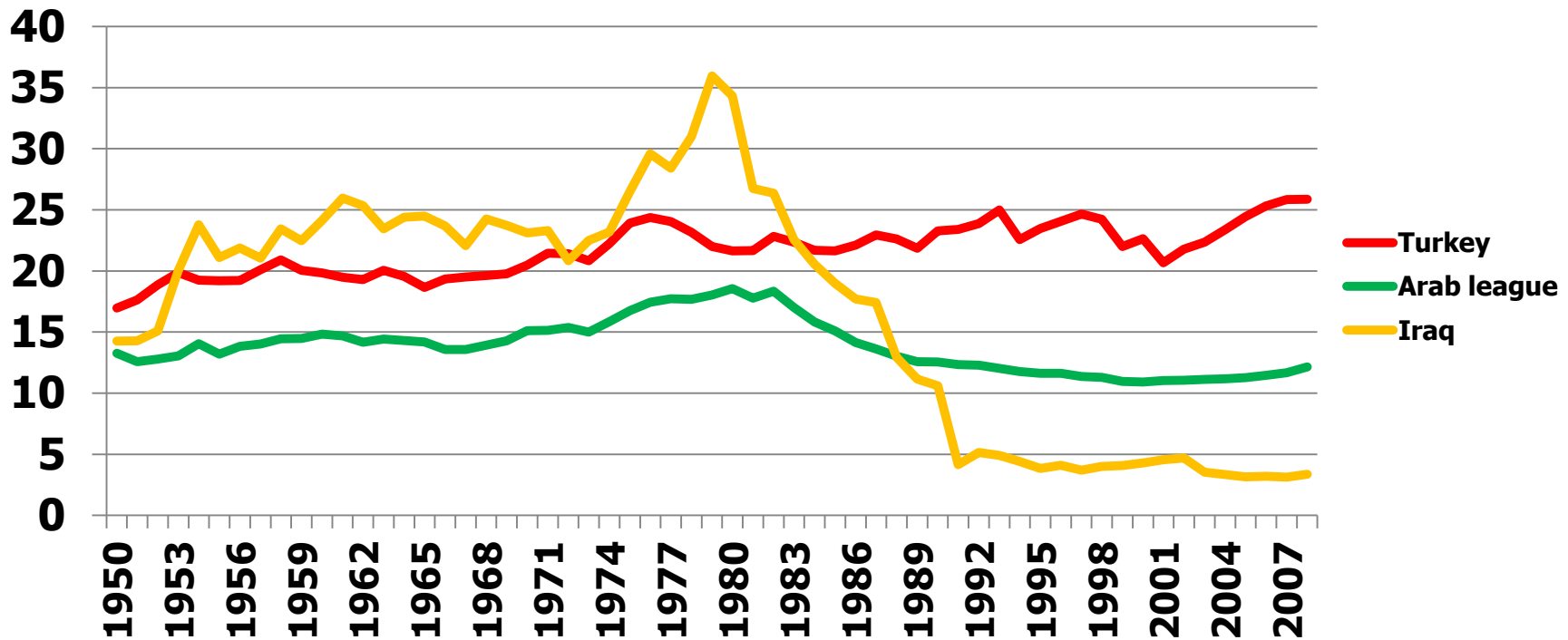
GDP per capita

capita in the U.S.,



But the glass is half-full for Turkey

GDP per capita in Turkey and Arab Countries as percentage of GDP per capita in the U.S.,
(PPP, 1980-2010)



First Generation reforms:

1980 policy reforms

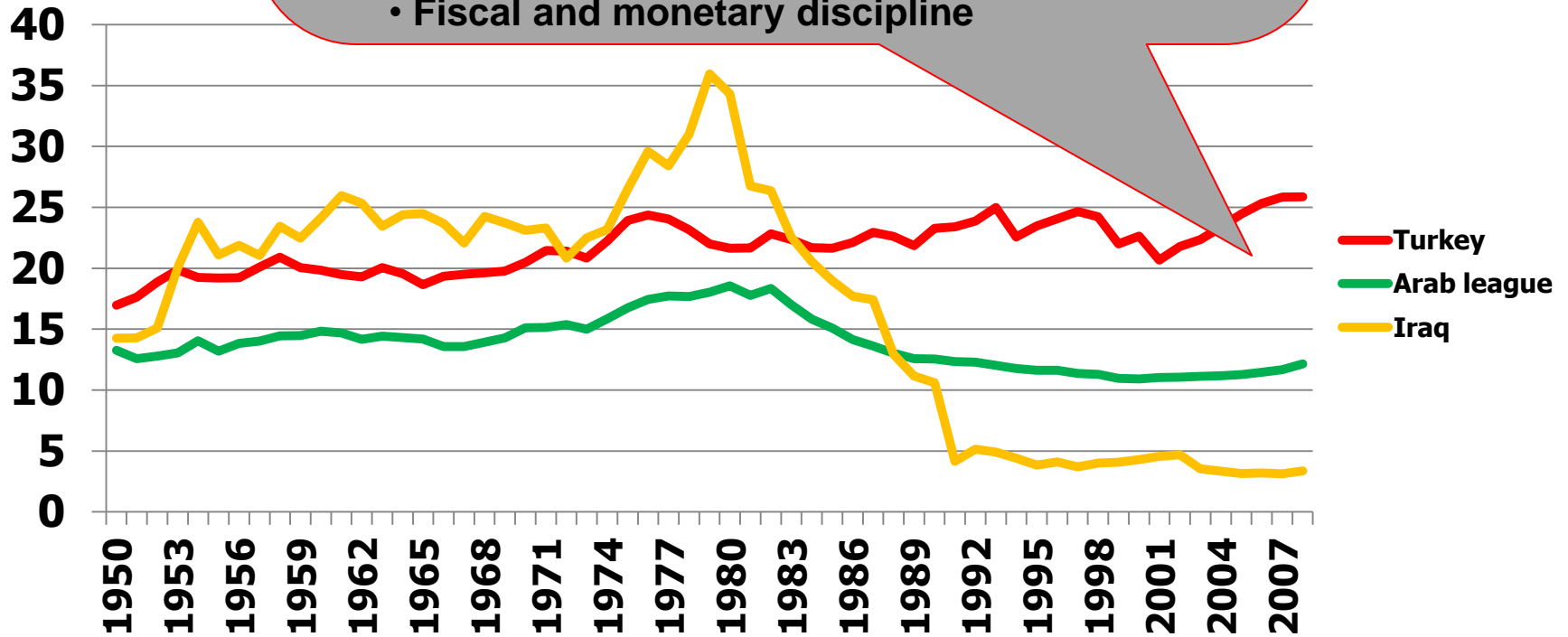
- Price reforms
- Financial liberalization
- Trade liberalization
- Convertibility of the Turkish lira

2001 policy reforms + EU process

- Banking reform—prudence etc.
- Privatization
- Independent authorities
- Fiscal and monetary discipline

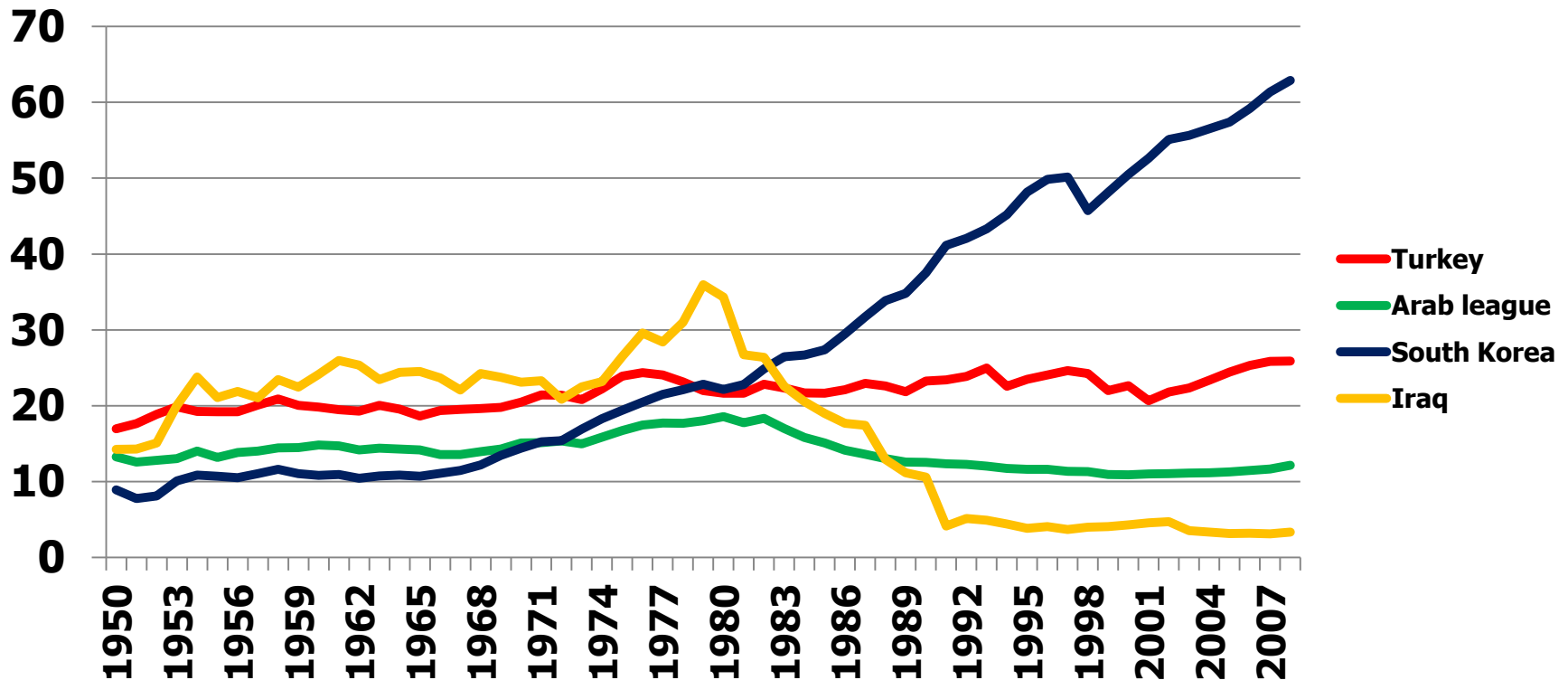
GDP per capita

capita in the U.S.,



How about the empty side of the glass?

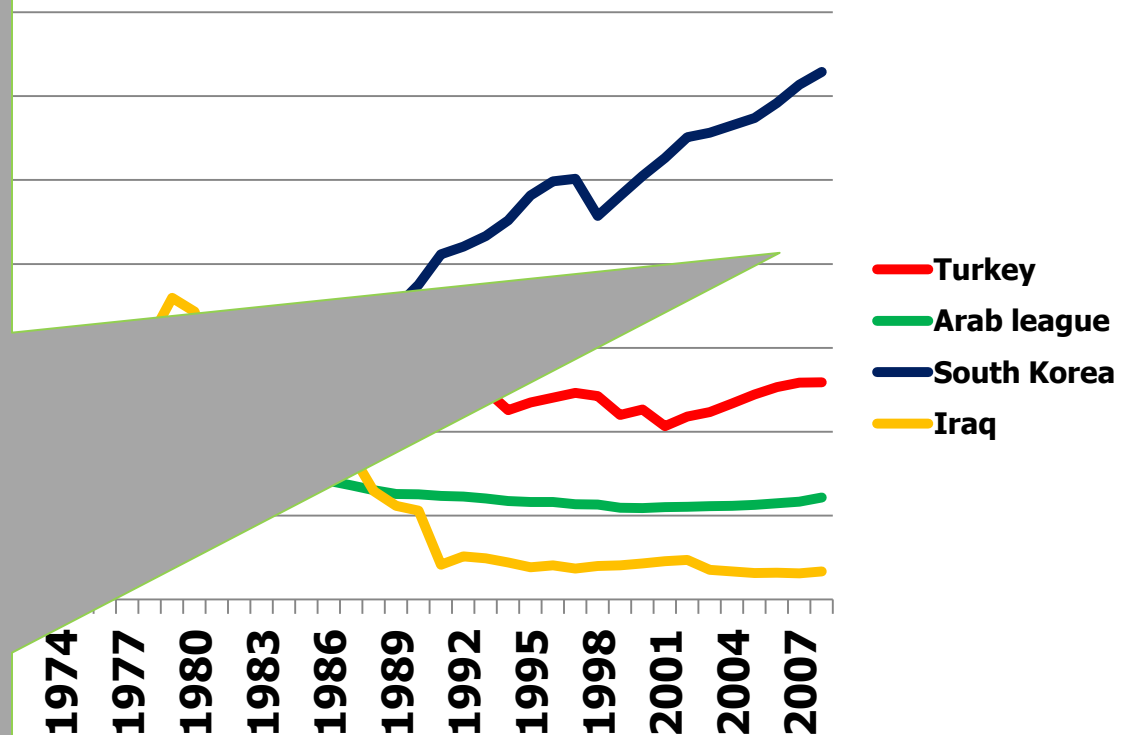
GDP per capita in S.Korea, Turkey, Arab Countries and Iraq
as percentage of GDP per capita in the U.S., (PPP, 1980-2010)



Second generation reforms:

- Public administration reform & decentralization
- Tax reform & informality
- Operational problems of the legal system
- Education reform & vocational training
- Labor market rigidities
- Health reform
- New constitution ...

Comparison of GDP per capita in the U.S., (PPP, 1980-2010) in S.Korea, Turkey, Arab Countries and Iraq



Today's challenge in Turkey:

Can we become a top-10 economy by 2023?

		Nominal GDP (billion USD)	Output per worker (thousand USD)
1	USA	14,582	104.9
2	China	5,879	7.9
3	Japan	5,498	87.9
4	Germany	3,310	85.4
5	France	2,560	99.5
6	UK	2,246	77.6
7	Brazil	2,088	94.8
8	Italy	2,051	89.7
9	India	1,730	4.1
10	Canada	1,574	92.4
11	Russia	1,480	21.2
12	Spain	1,407	76.3
13	Mexico	1,040	23.7
14	S. Korea	1,014	42.6
15	Australia	925	82.2
16	Netherlands	783	91.1
17	Turkey	735	32.5
18	Indonesia	707	6.5
19	Switzerland	524	113.4
20	Poland	469	31.3

Any lessons?

- Experience sharing:
 - “Experience is a collection of past mistakes...”
- Reform areas / preconditions for fruitful engagement
 - Changing the mode of interaction
 - (price signals as opposed to government signals)
 - Rule based interaction
 - (equal treatment)
 - Connectivity
 - (integration into global trade and investment flows)

A role for Turkey?

- Turkish entrepreneurs as change agents?
 - “Possible to be rich by being both Muslim and open to the world”
- Importance of partnerships
 - Beyond simple transactions (export – import), toward established relationships (productive investments)
- What's missing? The challenges
 - Domestic champions of policy reforms?
 - Private sector (middle class) development?

Some ideas for cooperation (1)

■ **Special economic zones (SEZs)**

- Designating certain areas as more “equal” in terms of infrastructure and business climate
- Turkey has +300 of them (OIZs and technoparks), “one-stop-shops”
- Possible to find Turkish industrialists who are willing to relocate some parts of their value chains to the region
- Case: Jenin Industrial Estate in the West Bank
- Case: TEPAV's partnership with the Islamic Development Bank's new SEZ program
- Preferential access to advanced countries

Some ideas for cooperation (2)

■ **Capacity building programs**

- for policy reforms, political will is necessary but not sufficient; reforms require competent managers from all levels
- TEPAV-TRIPP – Training and Research Institute for Public Policy
 - Training programs (3-day to 3-week) for government officials from the Middle East and Central Asia
 - Themes: Macroeconomic management, fiscal planning, competition policy, investment climate reforms, investment promotion
 - Partnership with the World Bank, IMF Institute and the Islamic Development Bank

Some ideas for cooperation (3)

■ Entrepreneurship development programs

- Entrepreneurial middle class reinforces stability, but entrepreneurship does not develop in a "vacuum"
- Global Entrepreneurship Program / Turkey: Catalyzing entrepreneurship development through identifying, educating, connecting and celebrating entrepreneurs
- Cloning GEP to other countries
 - Already in Egypt & Indonesia
 - Next step: Maghreb and Caucuses

Takeaways

- Transformation of the region is important for Turkey
 - Market diversification, regional supply chain
- Turkey is a new provider country today
 - Endowed with experience coming from the past policy mistakes
- Triangular setting is the most effective framework to improve the results of the cooperation