

# tepaV

The Economic Policy Research Foundation of Turkey

## **Towards a New Industrial Policy Framework for Turkey?**

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Istanbul, 27 January 2014

# TEPAV's journey in Industrial Policy

- 2005: Investment Climate Assessment, with the World Bank
- 2006: 9th Development Plan, Industrial Policy Ad-Hoc Commission, with State Planning Organization
  - 2007-2008: Secretariat of DOIK, Competitiveness Council
- 2008-2009: Industrial Strategy Document, with Ministry of Industry
- 2010-2012: Various sectoral and regional studies
- 2012-2013: 10th Development Plan, Transformation of the Manufacturing Industry Ad-Hoc Commission with Ministry of Development

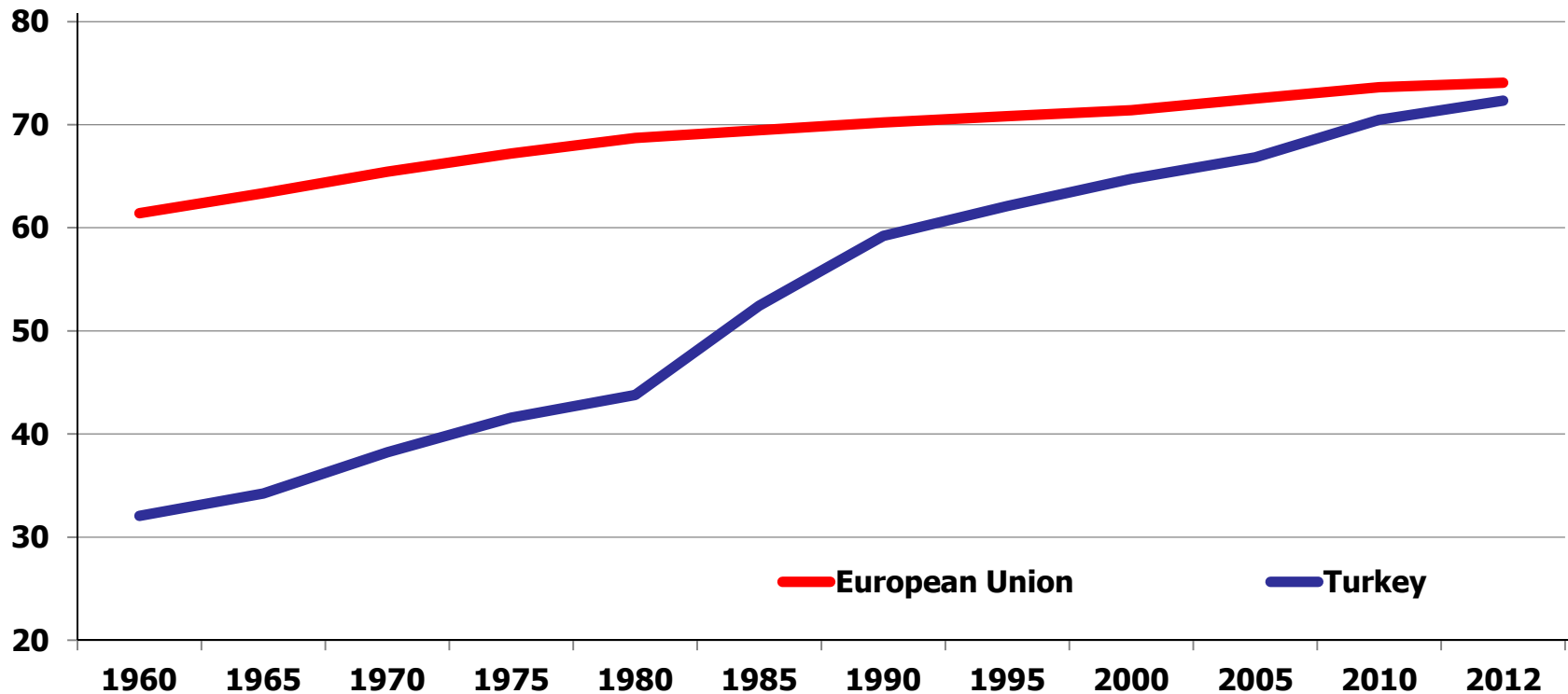
# Outline

- Major findings on Turkey's transformation
  - Why can't our manufacturing get sophisticated enough?
- How can we trigger and speed up transformation in Turkey's manufacturing industry?
  - Framework proposal from the Ad-Hoc Commission report
- Questions & takeaways (pictures..)

# Key dynamic: rapid urbanization

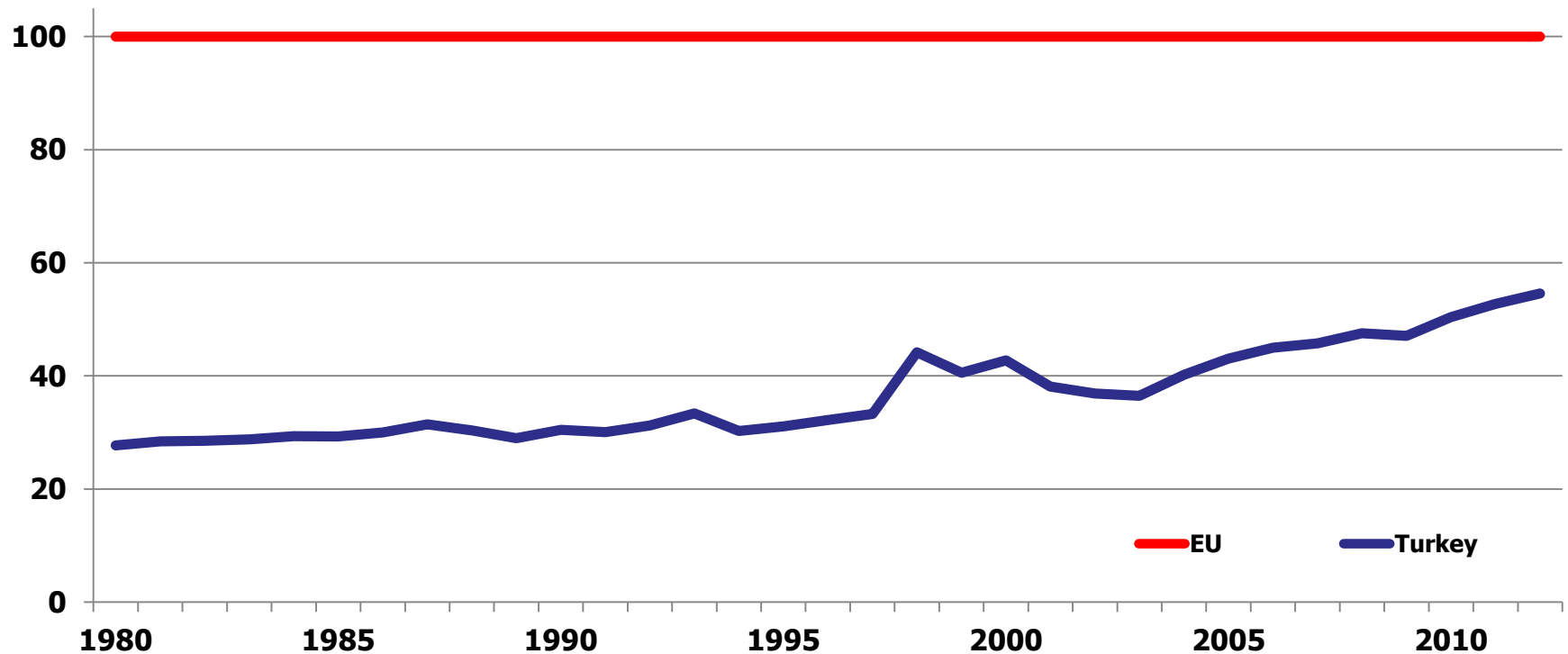
(= main source of economic growth)

## Urban population as a percentage of the total population in Turkey and EU countries, (%), 1960-2012



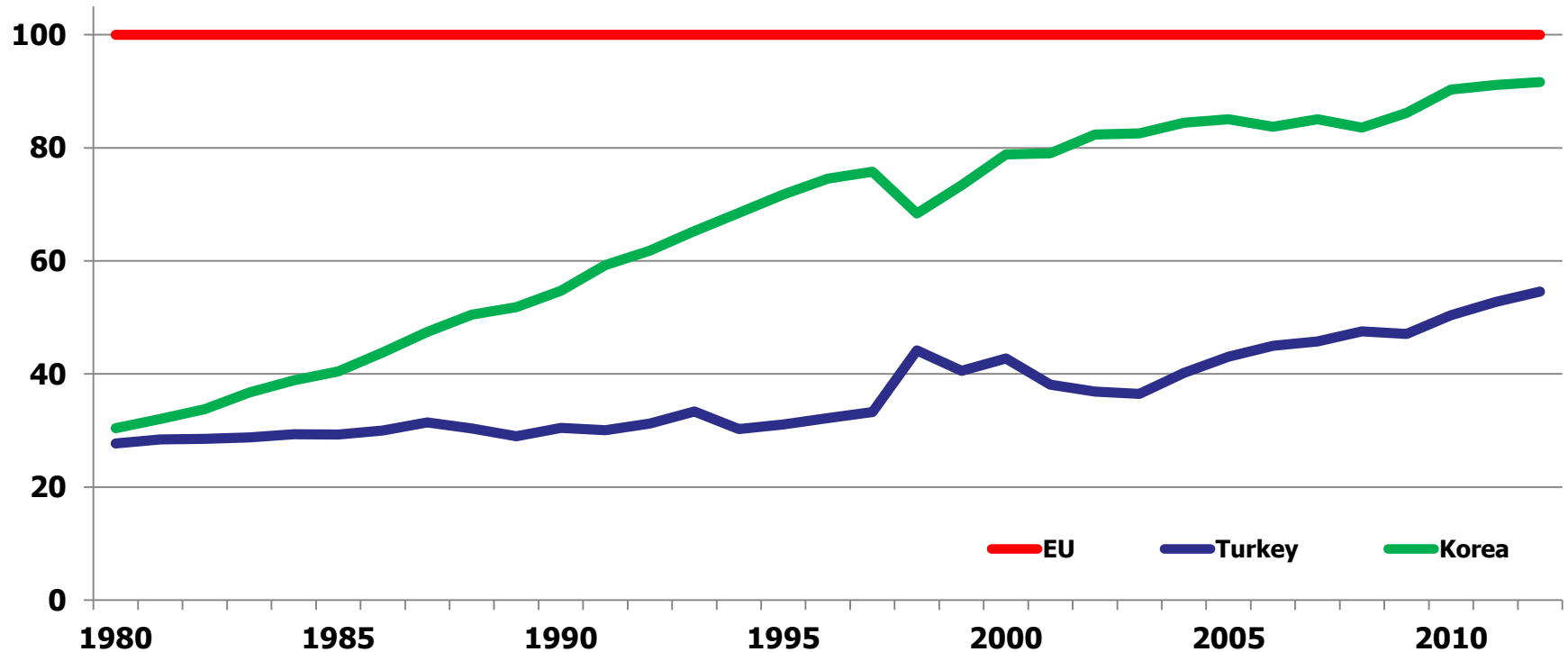
# Convergence to the EU income: we weren't expecting this fast

GDP per capita of Turkey as percentage of EU-27 GDP per capita, 1980-2012, PPP



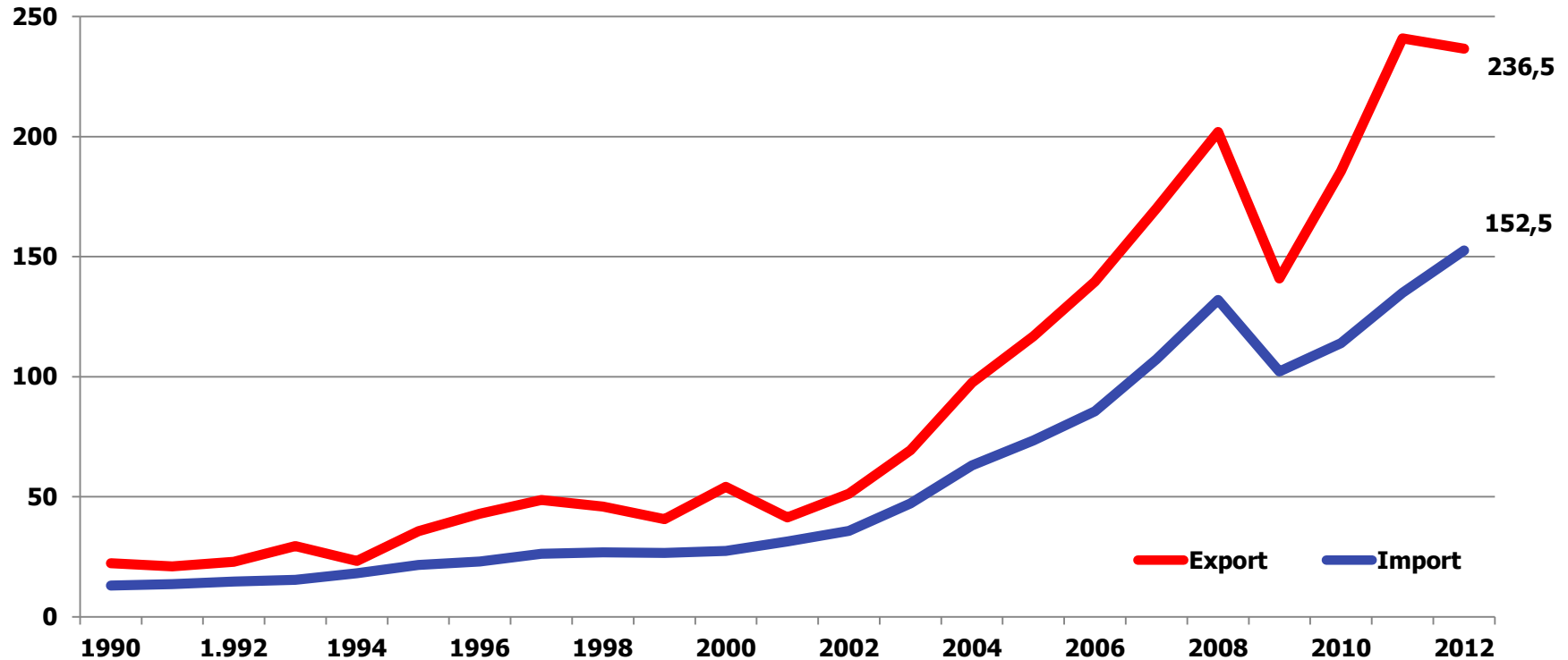
# However, it could have been much faster

GDP per capita of Turkey and S Korea as percentage of EU-27 GDP per capita, 1980-2012, PPP



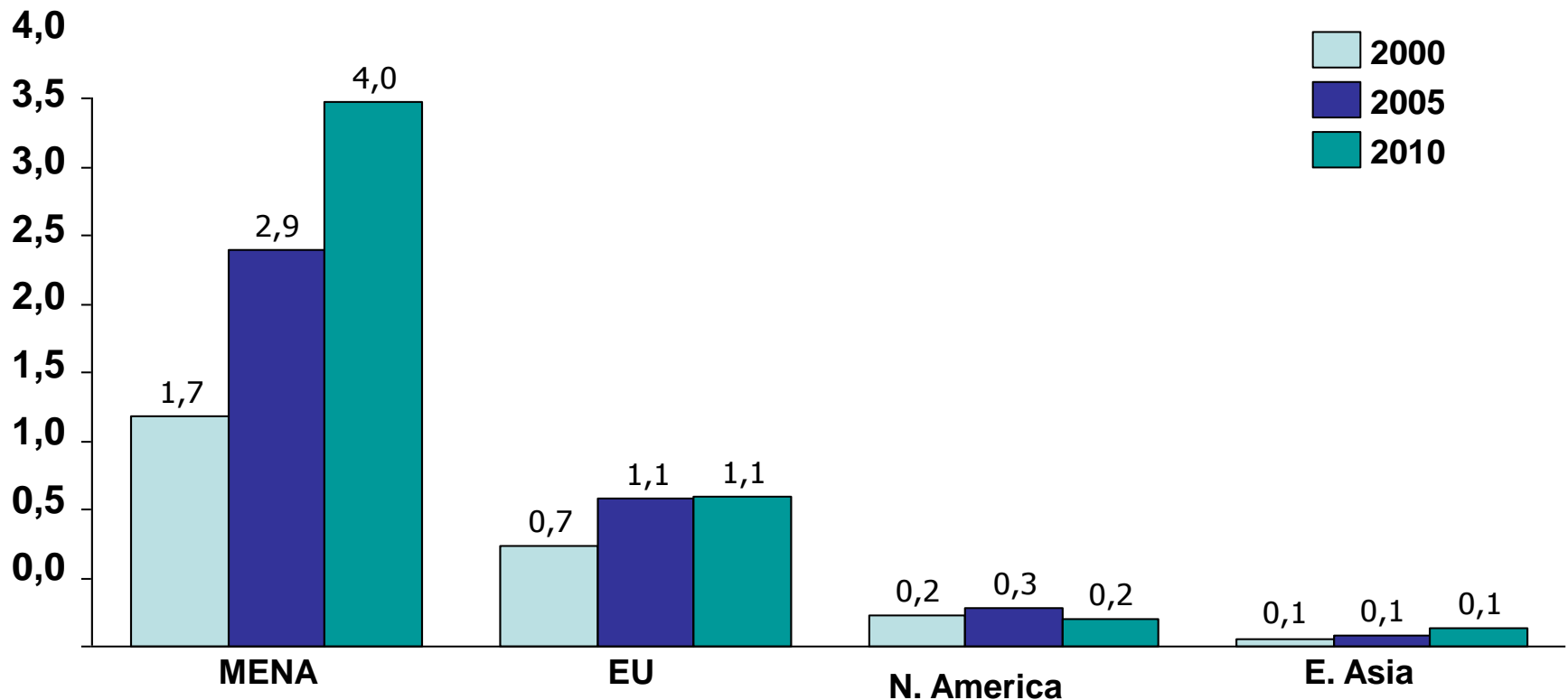
# Rapid trade integration after 2001 crisis

Turkey's imports to and exports from the World  
1990-2012, USD bn



# Presence in world markets: out of sight, out of mind?

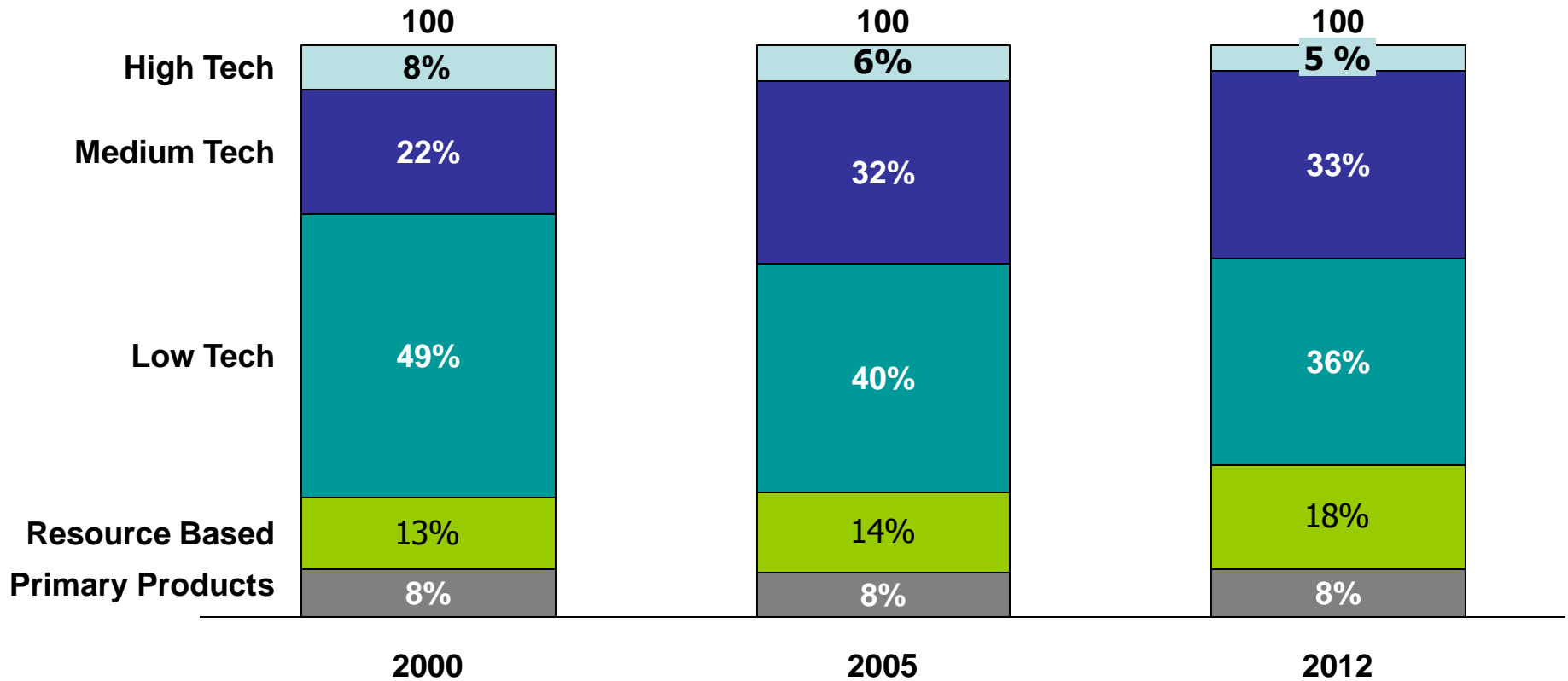
Share of Turkey's exports the imports of main regions  
2000-2005-2010, %





# Sophistication of Turkey's exports..

Technological breakdown of Turkey's total exports, 2000-2005-2012, %

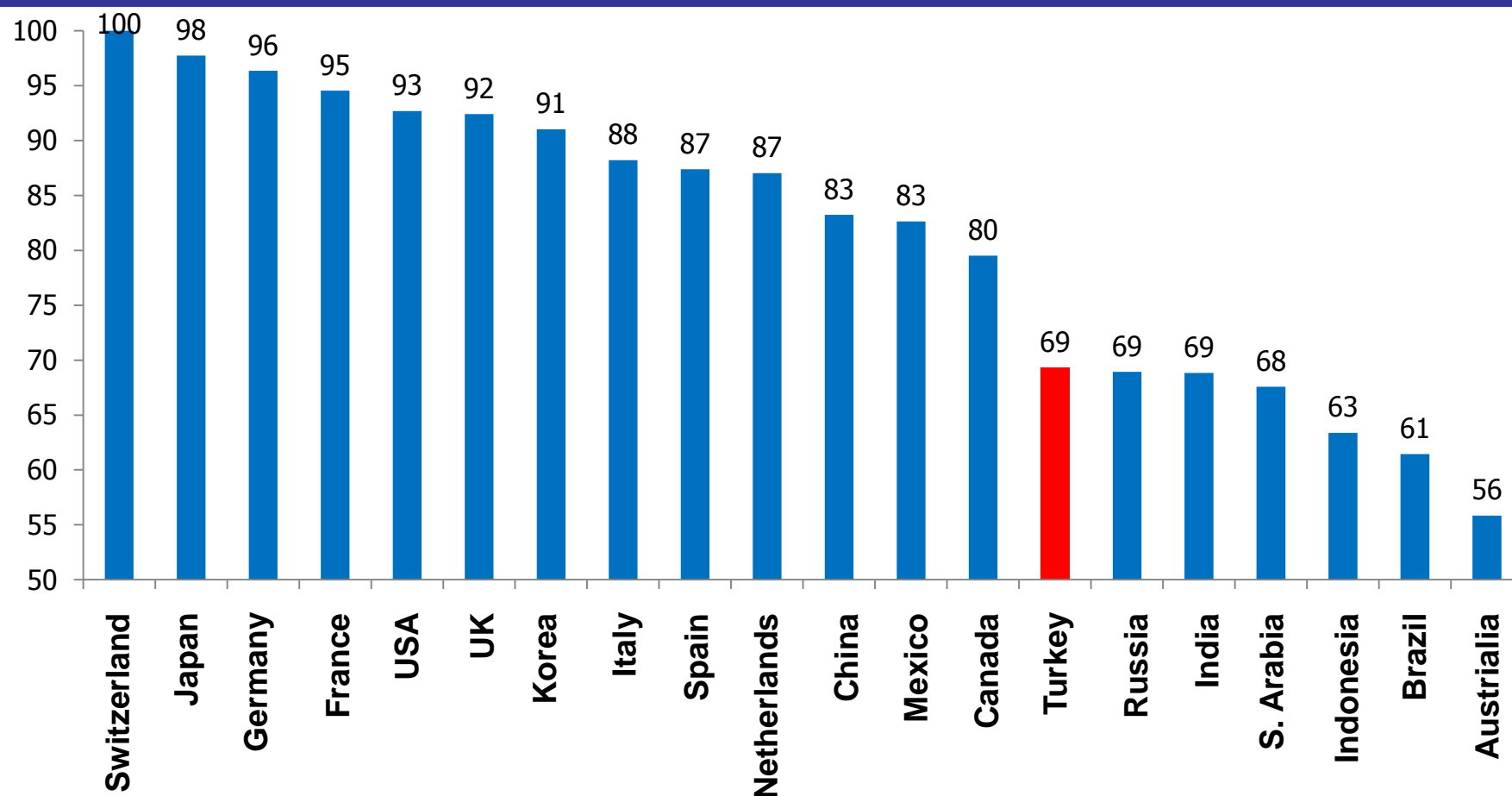


Source: UN COMTRADE, TEPAV Calculations, LALL(2000)

## Making a sophistication jump? How?

### Export sophistication index (EXPY) for the top 20 largest economies, 2010

Normalized values, Switzerland= 100, Nijer=0



## Making a sophistication jump? How?

**2023 export target is USD 500 billion.  
This implies doubling world market share.**

### How?

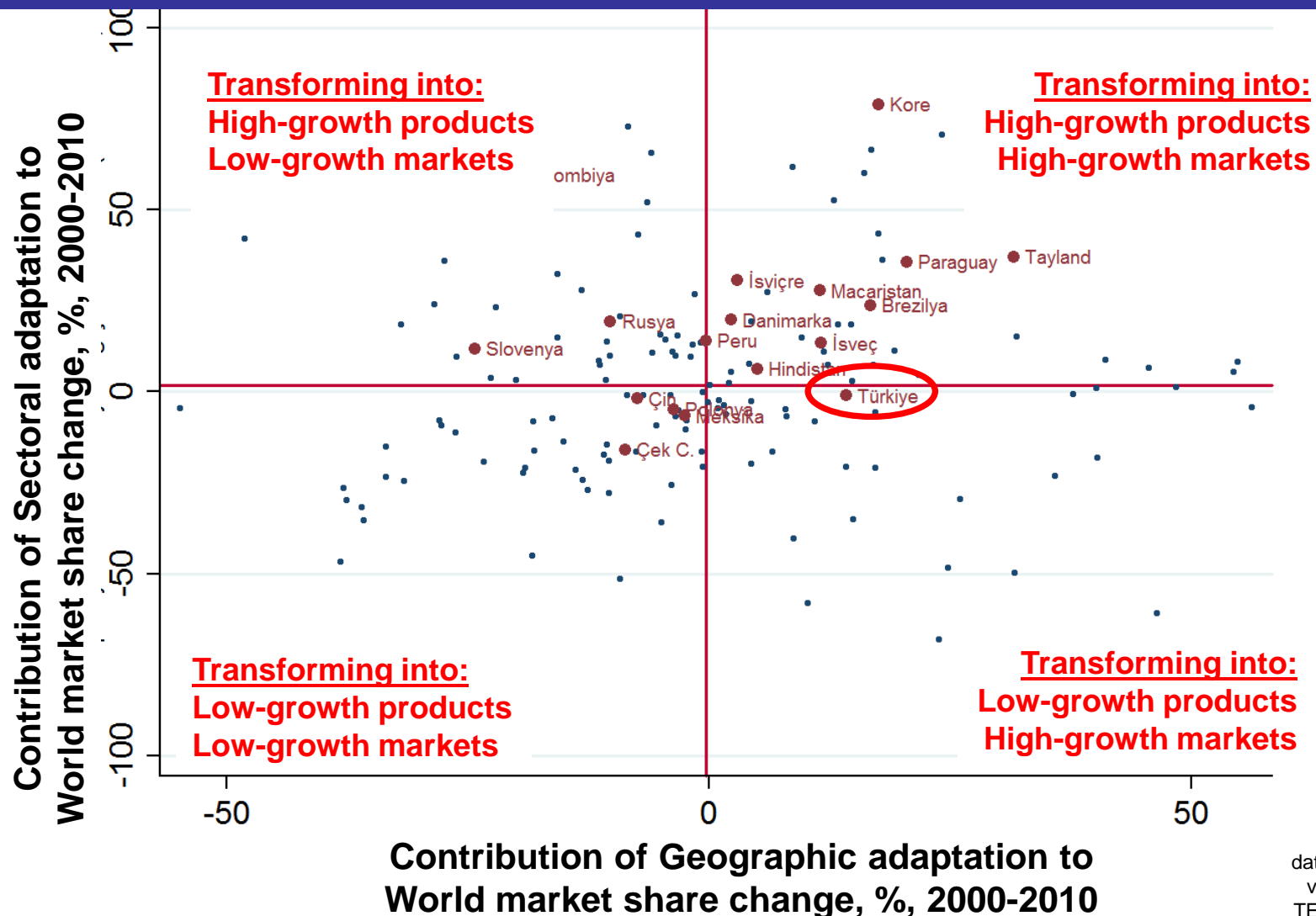
- 1. Increasing competitiveness  
(selling more of the same goods to the same markets)**
- 2. Entering new markets  
(penetrating into high growth markets?)**
- 3. Producing new products  
(penetrating into high growth products?)**



# Turkey cannot transform its product basket

In the last decade, Turkey's world market share went up from 0.42% to 0.92%

Decomposition of the change in world market share,  
geographic vs. sectoral adaptation, 2000-2010, %



# How can we transform manufacturing industry in Turkey?

- Prerequisite for being transformative: selective discrimination
  
- But how?
  - «Smart» choices
  - «Transparent» discrimination
  - «Effective» implementation capability
  - «New» targets and themes
  - «Orchestration»

# How does Turkey perform in Global Competitiveness Index?

(Turkey's overall rank is 43rd in 2012)

Turkey's ranking in GCI sub-indices	2006	2012
<b>1. Labor market</b>	114	124
<b>2. Tax system</b>	95	117
<b>3. Judiciary, rule of law</b>	56	83
<b>4. Education</b>	58	74
<b>5. Infrastructure</b>	61	51
<b>6. Macro framework</b>	101	55

# Getting the basics right?

## Three possible binding constraints

### ■ Education

- One party government, but 5 ministers in 10 years? Serious systemic problems, need focus on teachers
  - Quantity (6.5 years) + quality (PISA scores)

### ■ Institutional infrastructure

- Judicial and tax reform, not much progress until now
- No evaluation, limited accountability (e.g. for highly generous R&D incentives)

### ■ Connectivity

- Anatolia not in Customs Union yet. No scheduled train services to EU; highway connecting East-West, North-South.







**New Themes of Industrial Policy**

1

**Urban  
Renewal  
and  
Smart  
Systems**

2

**Green  
Economy  
and  
Green  
Industry**

3

**SME inter-  
nation-  
alization**

4

**Inclusive  
industry  
for  
women**

**Transformation  
in industry  
sub-sectors**

**Industrial  
Policy  
Tools**

**Horizontal  
Industrial Policy  
Areas**

**Regional  
Dimension of  
Manufacturing  
Transformation**

**Industrial Policy Tools**

**Public Procurement**

**State Aids and incentives**

**Tax system**

**Regulations**

**Dialogue and cooperation mechanisms**

**International agreements**

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**Urban Renewal and Smart Systems**

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**Transformation in industry sub-sectors**

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Skills

Energy

Logistics

Access to land

Access to finance

Research & Development

Design

Intellectual Property Rights

Measurement, Standards, Test & Quality

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Machinery and System Industries

Primary and intermediate Industries

Life Sciences Industries

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## Regional Dimension of Manufacturing Transformation



## Playing a different kind of music?





## Or?



# It should be possible...

