

tepaV

The Economic Policy Research Foundation of Turkey

Lessons of economic transformation: What should Turkey learn from Korea?

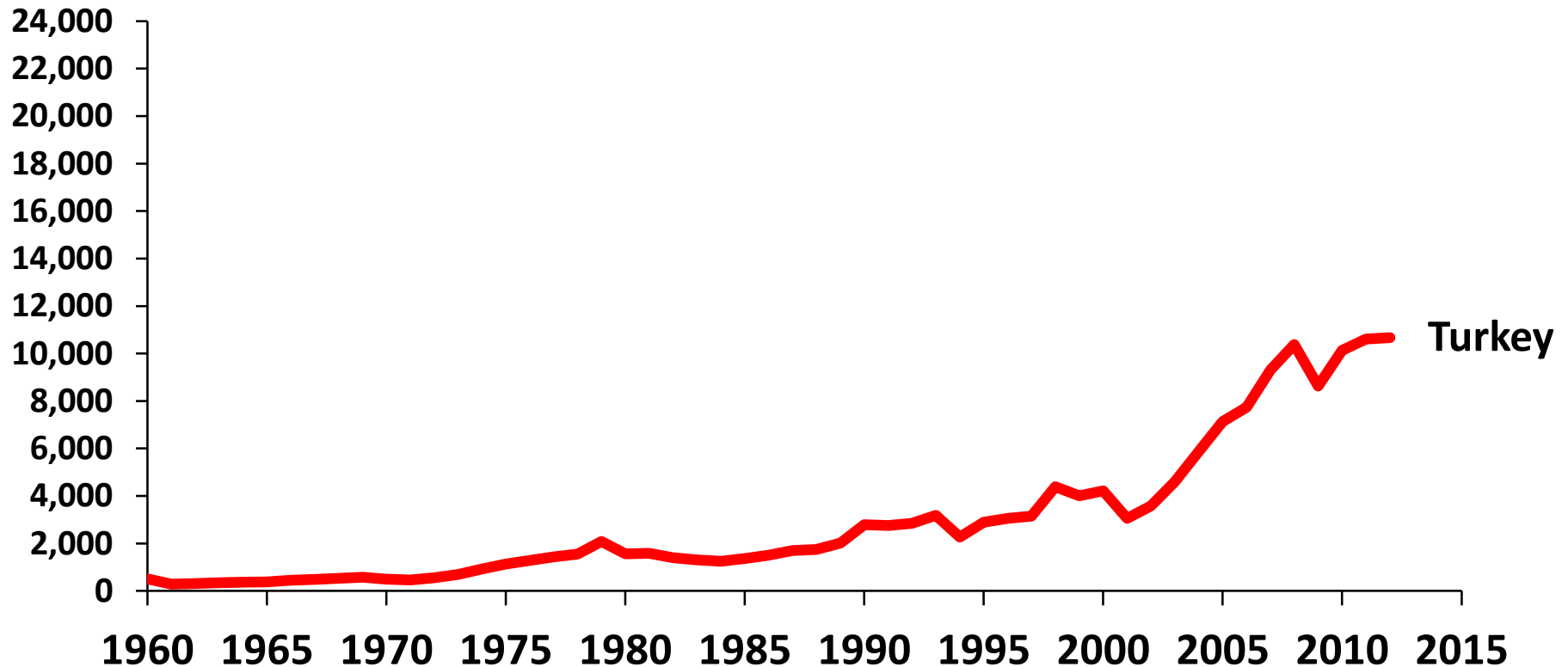
Esen Çağlar
Istanbul, 13 March 2015

Framework

- How do Korea and Turkey differ economically?
 - Economic growth? Urbanization? Openness?
Sophistication? Savings?
- What explains the difference? – Questions rather than answers...
 - Policies? Geography? Governance? Rule of law?
- Some takeaways for the industrial policy debate
 - Approach to development? Leadership?

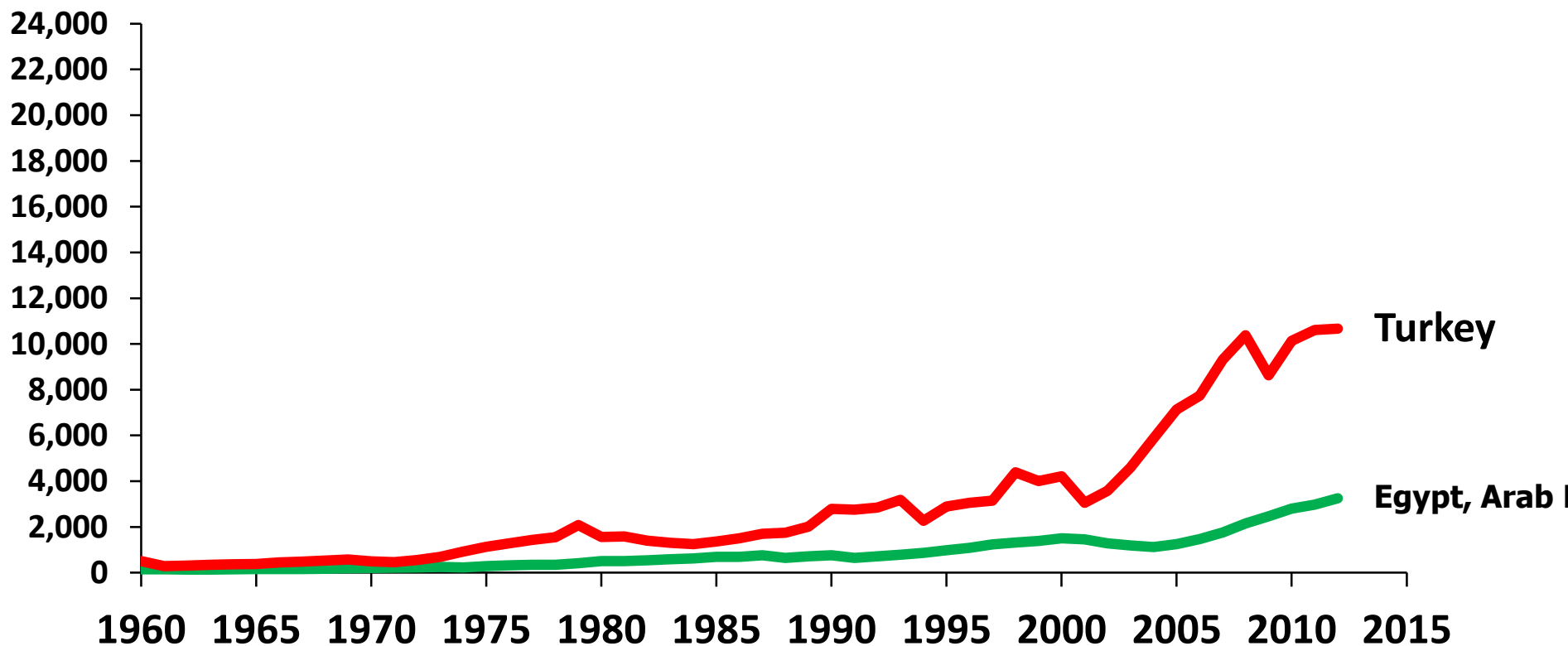
How has Turkey performed?

GDP per capita (current US\$)



Very good? In this region...

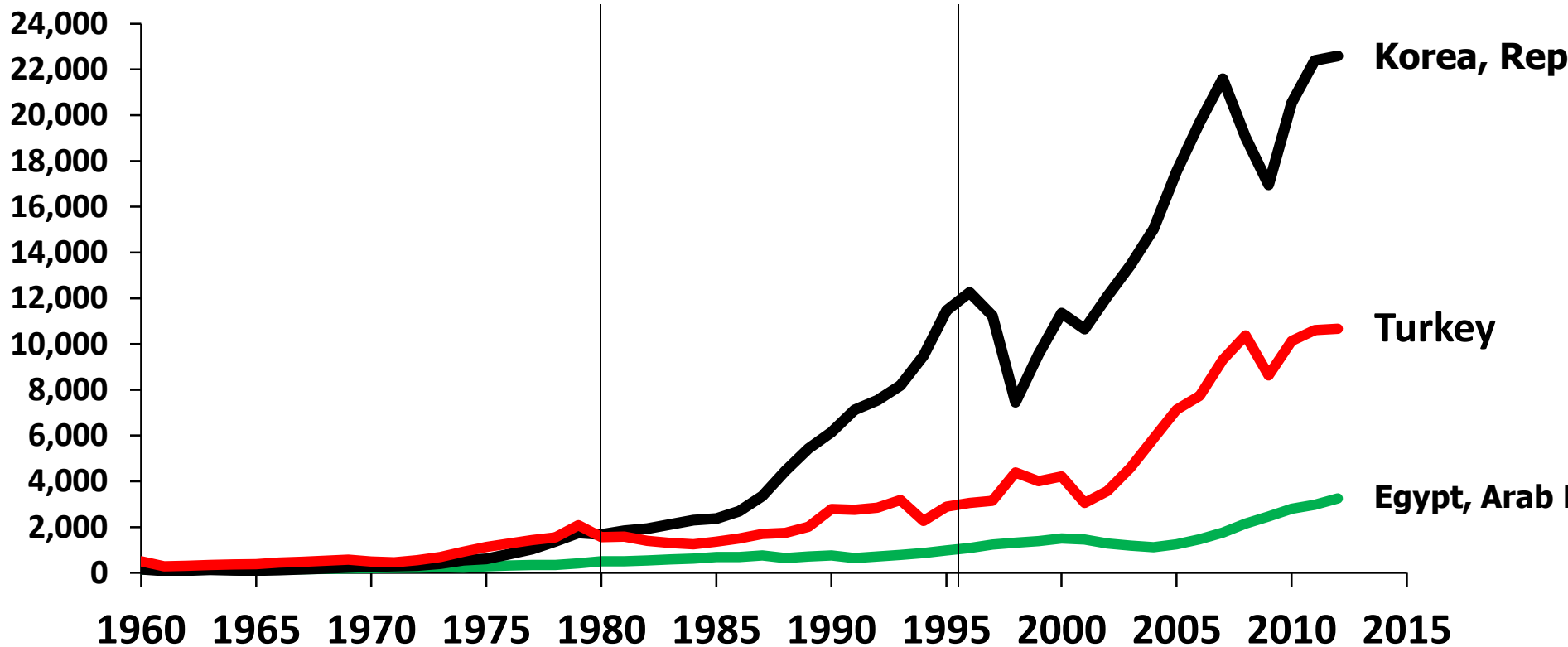
GDP per capita (current US\$)



But, could we have done better?

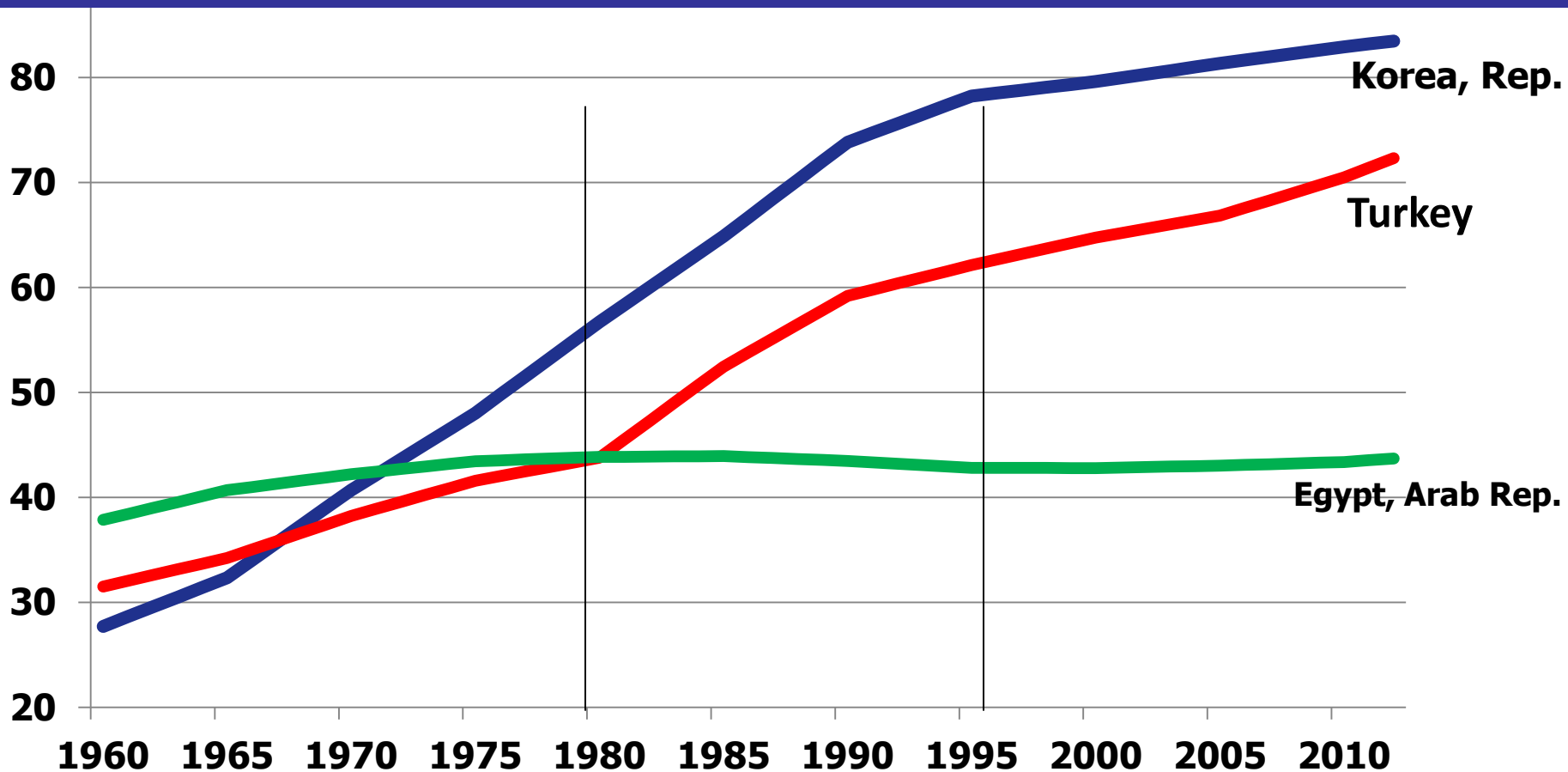
Divergence starts in the 1980s...

GDP per capita (current US\$)



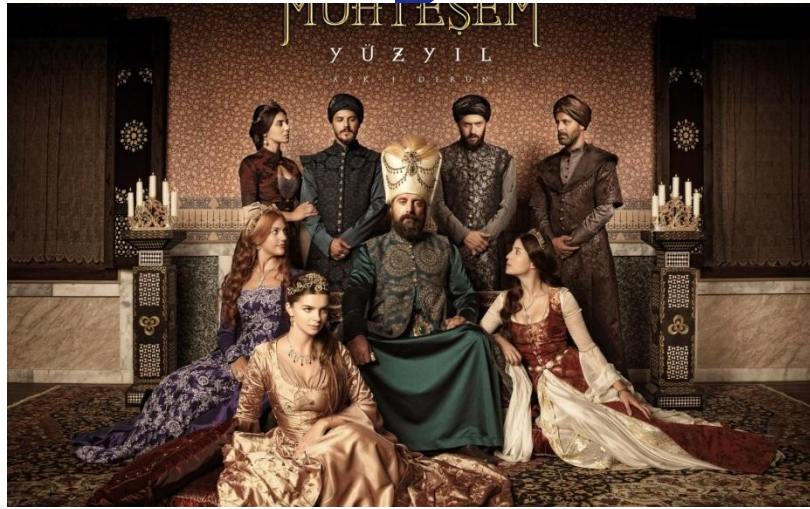
One common thing: Two rapidly changing societies...

Urban population (% of total)



A side note:

Two regional culture exporters?



Common patterns:

- Love between rich and poor
- Revenge
- Slippers at home
- Arranged marriages
- Respect for the elderly

Differences:

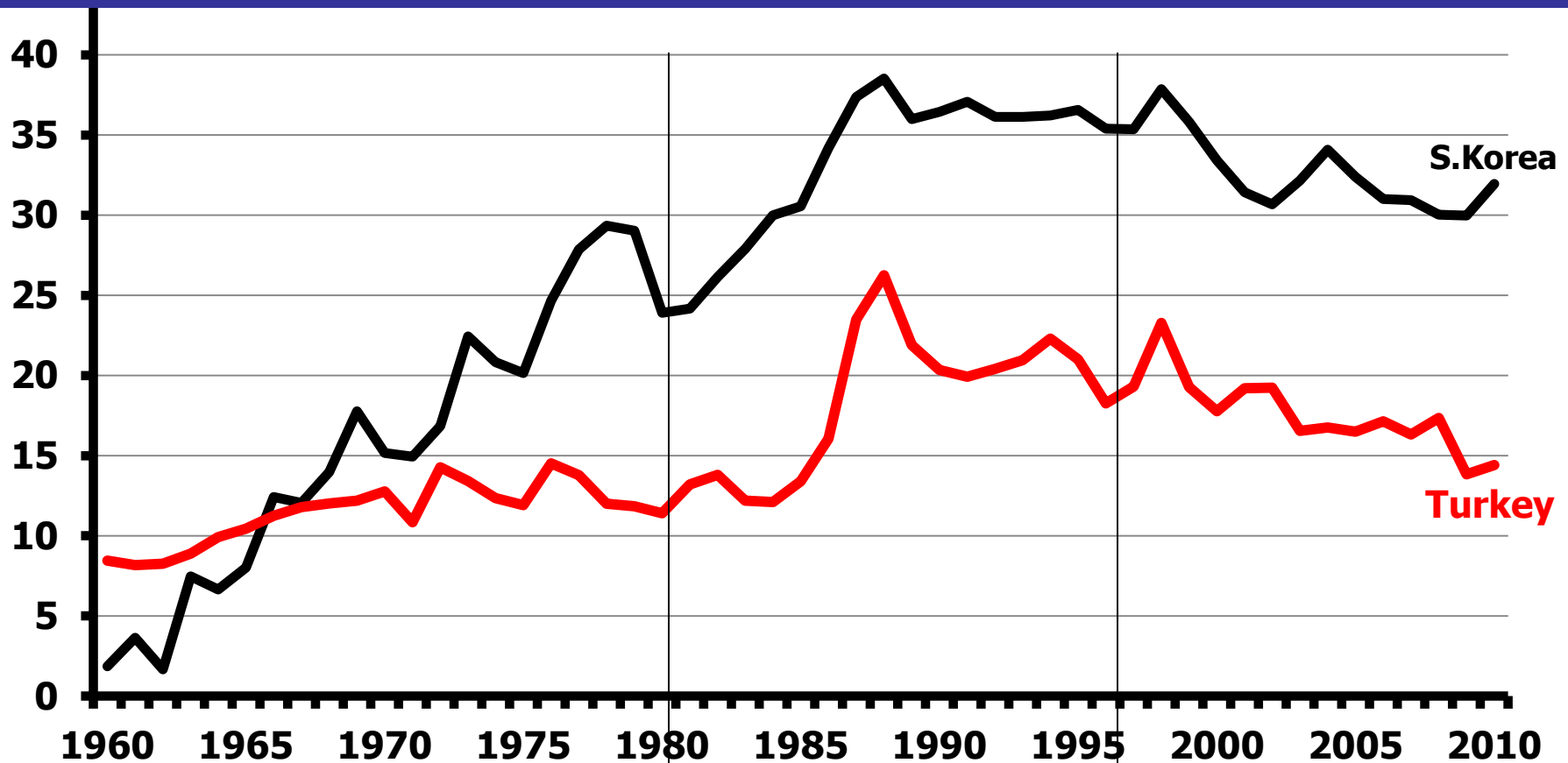
- Budgets (Korea > Turkey)
- Durations (Turkey > Korea)
+90 min vs. 50 min episodes
140 episodes vs. 20 episodes



Why doesn't Turkey save much?

Is it the difference between two countries' generals?

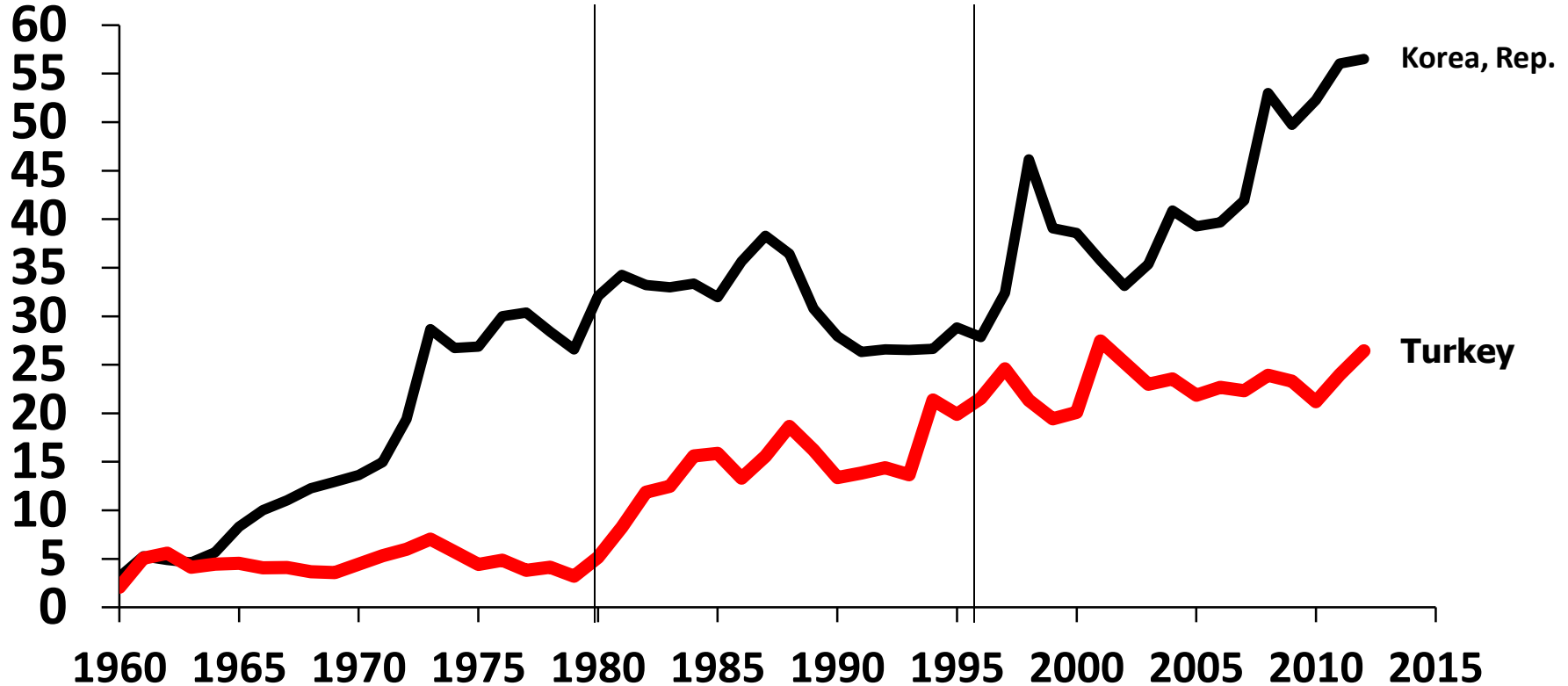
Gross domestic savings (as % of GDP), 1960-2010



Why is Turkey much more introvert?

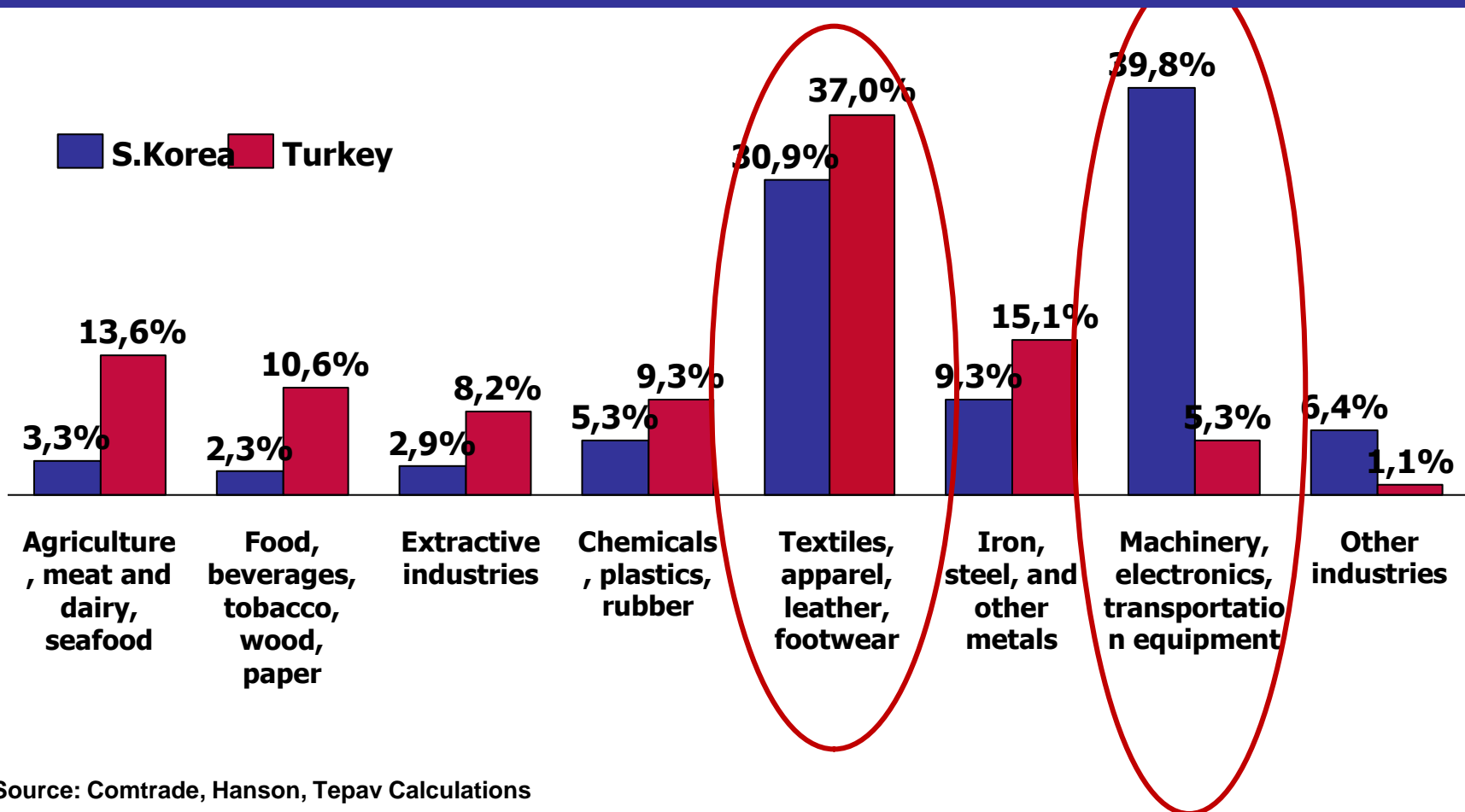
Policies between 1960-1980 may have made the difference

Exports of Goods and Services (% of GDP) 1996-2012



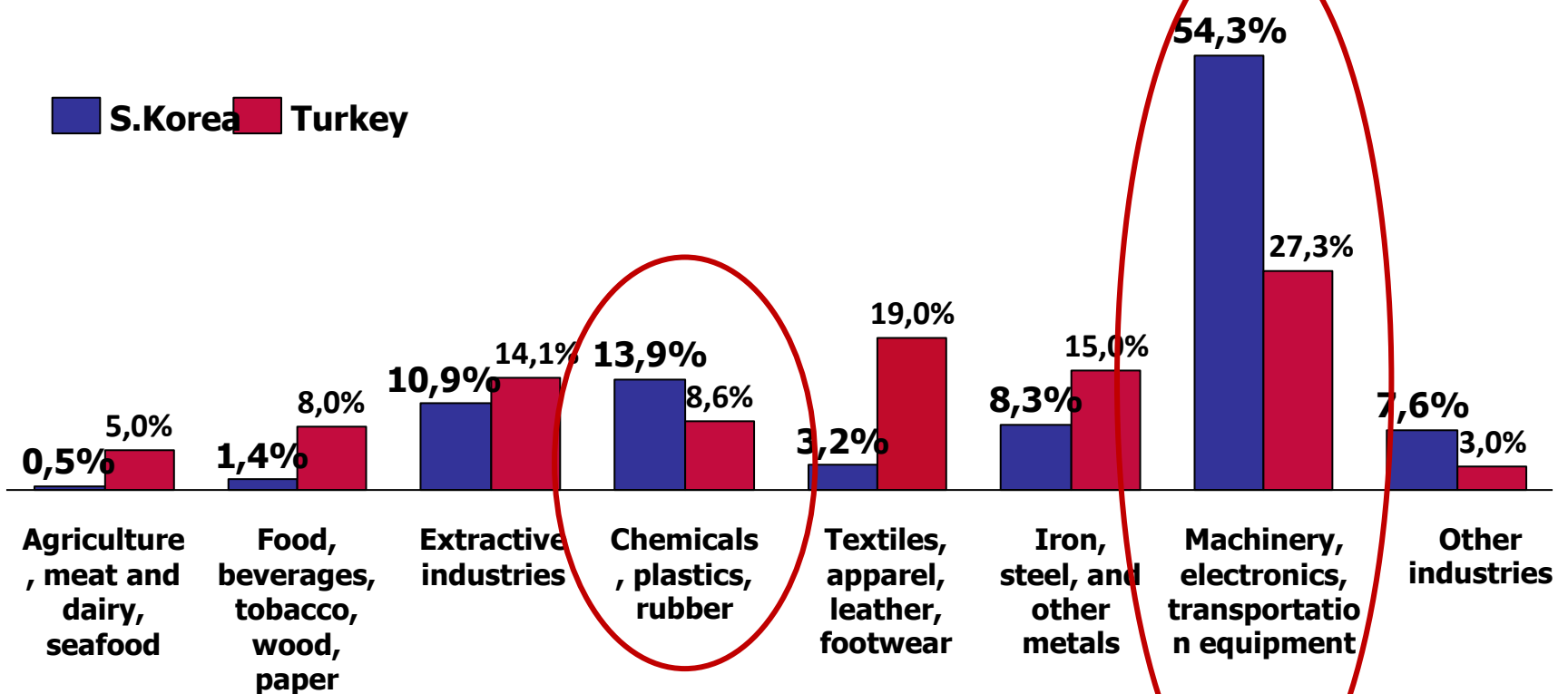
There was a already big structural difference, 25 years ago

Korea & Turkey Export Classification (Hanson) - 1988



Turkey's structural transformation...

Korea & Turkey Export Classification (Hanson) - 2013

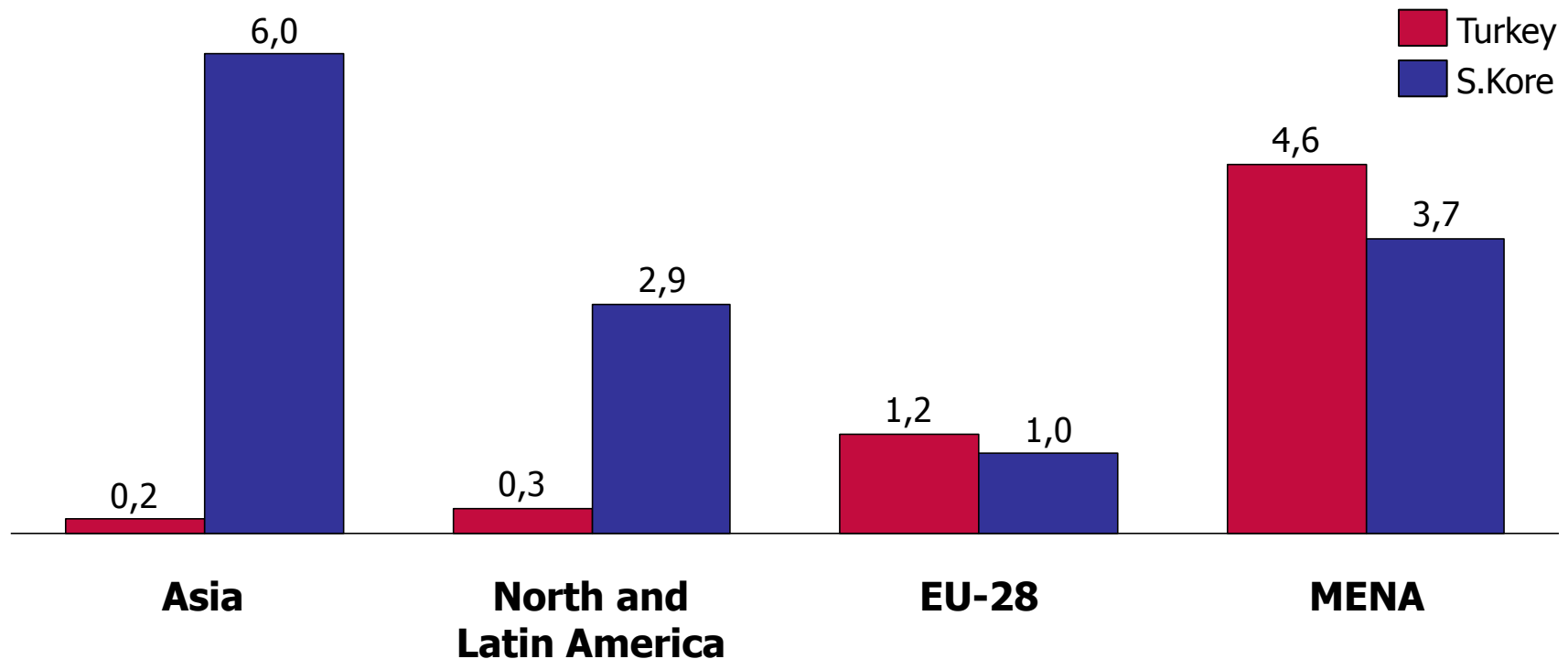


Korea and Turkey's markets greatly differ

High complementarity is also an opportunity

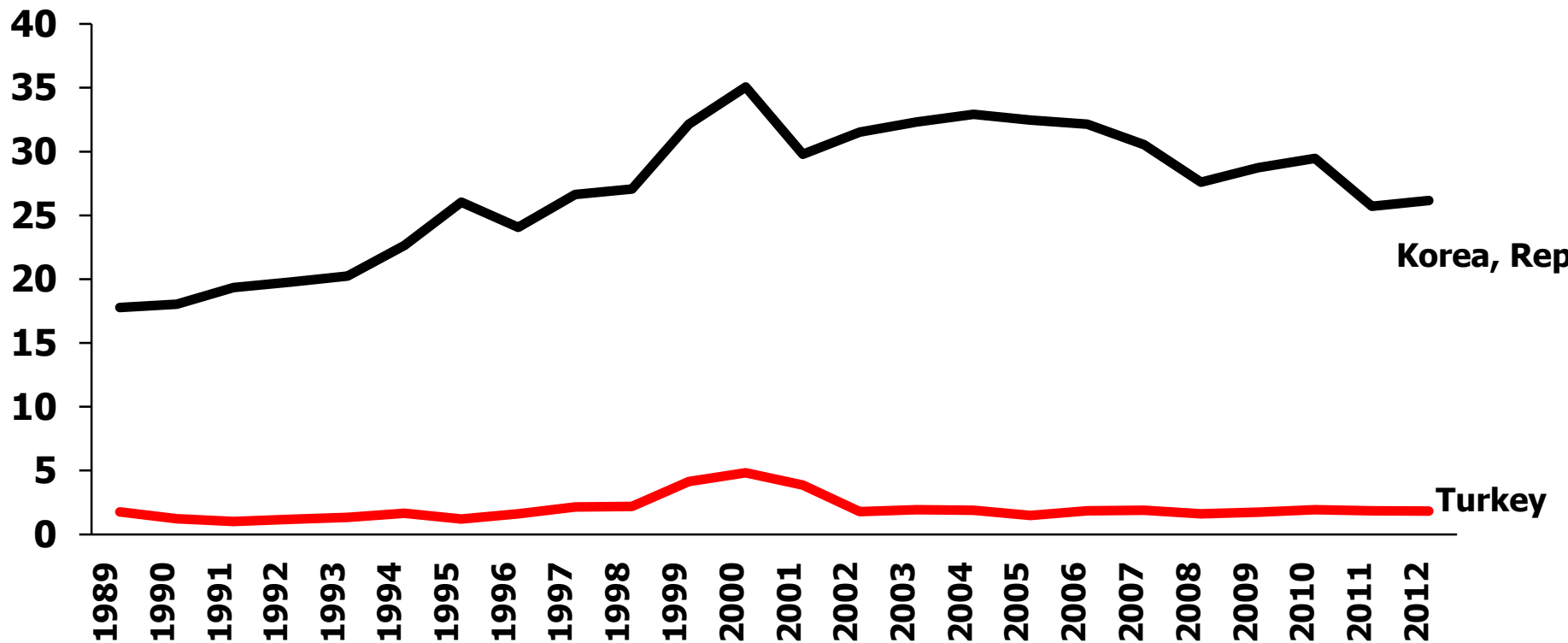
Turkey and Korea's Share in World Markets – 2013

Share of Exports of Turkey in the imports of the region

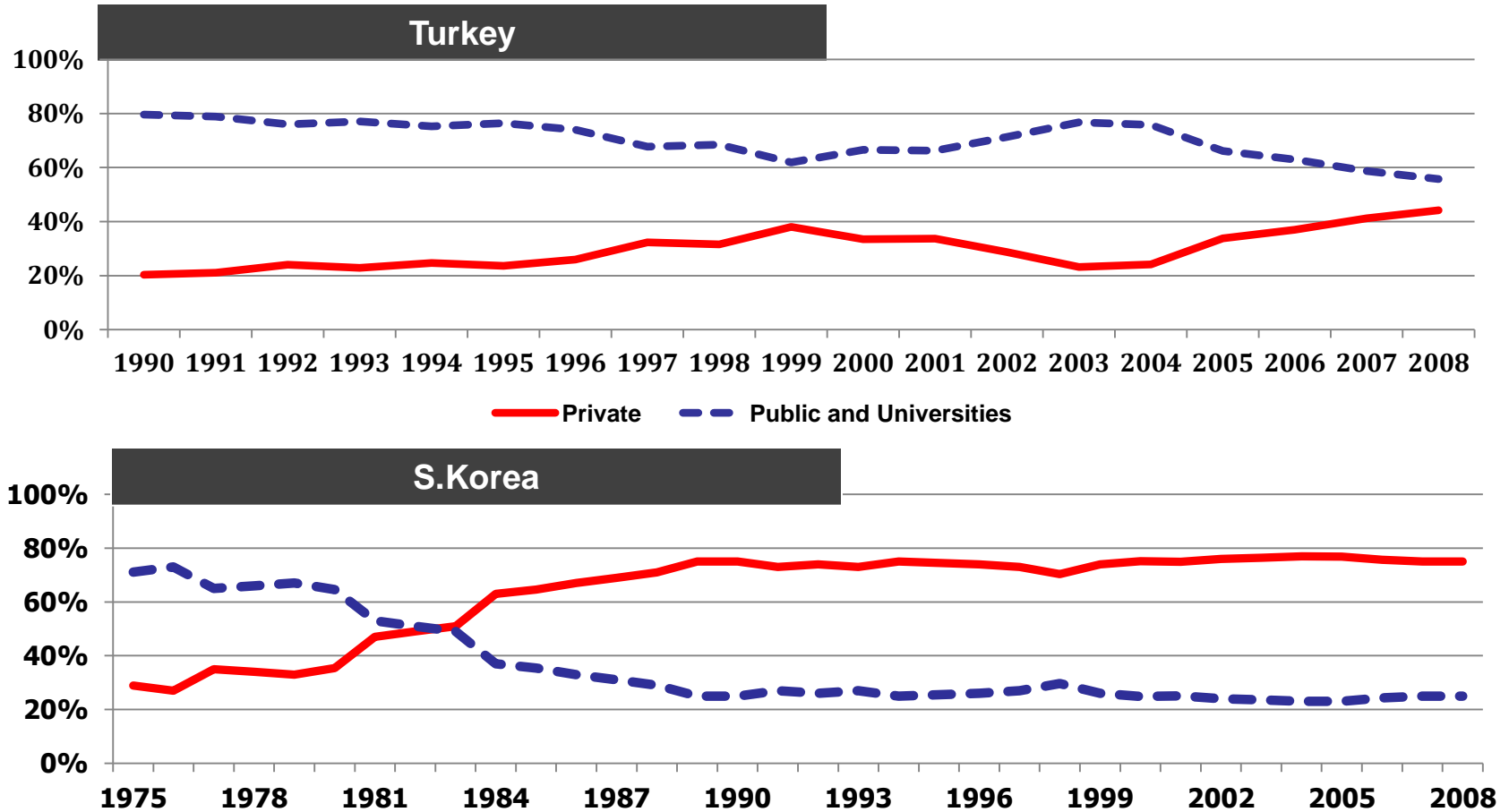


Why can't our exports get more sophisticated?

High-technology exports (% of manufactured exports)



Private R&D investments: A three decade lag?



* GDP share of R&D expenditure is 0.85% in Turkey and 3.37% in S.Korea (2009)

Source: TURKSTAT R&D expenditure by source of funds - R&D Data of S.Korea Ministry of Science and Technology.

A tale of two companies...

Revenues of two firms:

Year 1998

Vestel: USD 2 billion

Samsung: USD 4 billion




































Vestel: «how can we catch up with Samsung?»

Year 2012:

















Vestel: USD 3,5 billion

Samsung: USD 148 billion

What do bright & young Turkish engineers do?

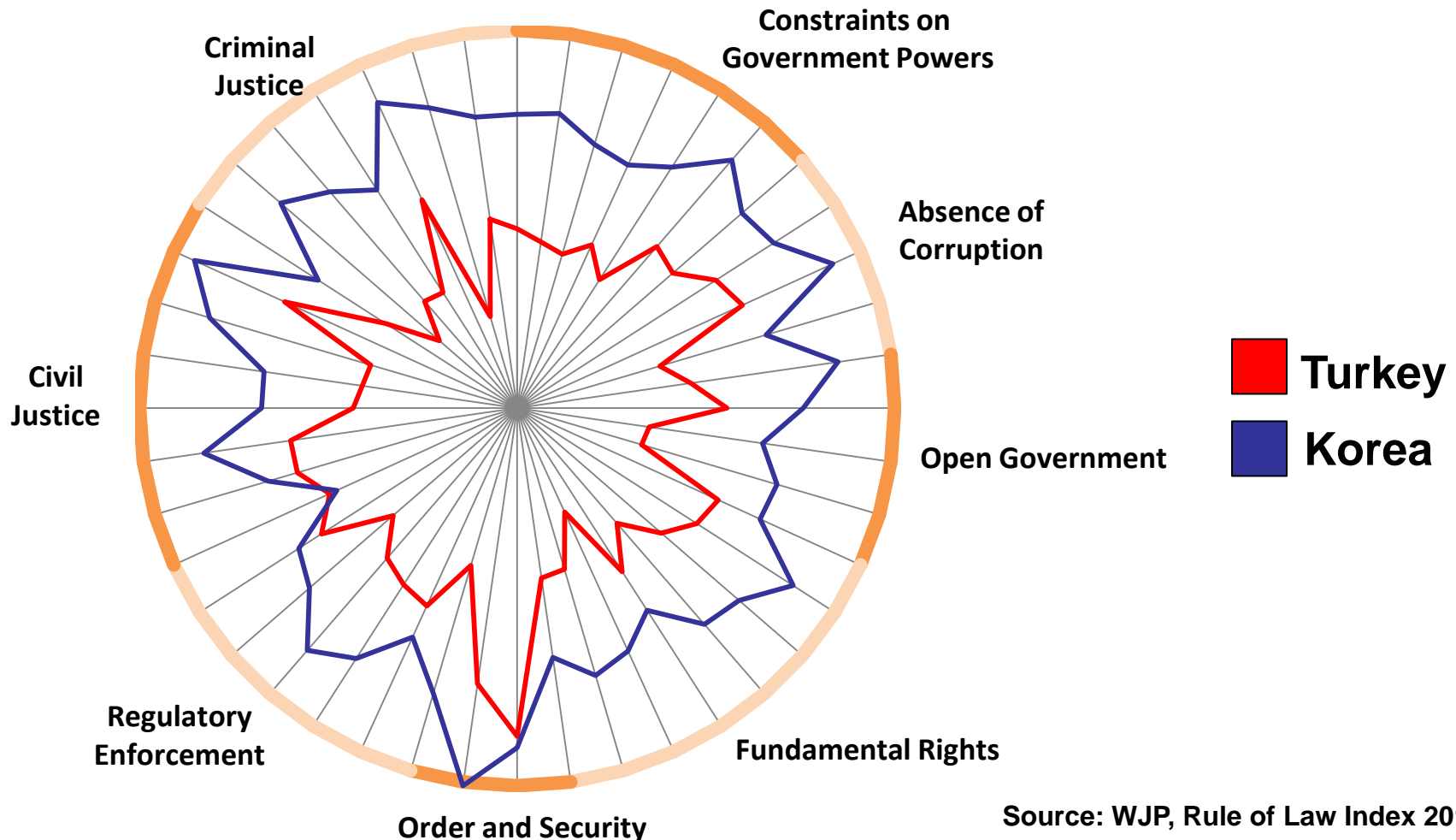
BOĞAZIÇI 	KOÇ 	İTÜ 	BİLKENT 	ODTÜ 
 TURKCELL	 TURKCELL	 Ford	aselsan	aselsan
Unilever	accenture	 arçelik	 TÜBİTAK	TAI
Procter&Gamble	Unilever	 TURKCELL	 TURK TELEKOM	 TÜBİTAK
AKBANK	Procter&Gamble	 TÜBİTAK	 Microsoft	 roketsan
 Microsoft	 Garanti	TURKISH AIRLINES 	Unilever	 arçelik
 Ford	 Microsoft	 avea	 TURKCELL	 Microsoft
accenture	 Ford	ERICSSON 	accenture	 Tüpraş
IBM	 arçelik	 ERDEMİR	VESTEL	IBM
 Pfizer	 Tüpraş	<i>Netas</i>	IBM	Schlumberger
HSBC 	AKBANK	 Garanti	<i>Procter&Gamble</i>	 HAVELSAN

How about Korean or German youth?

Seul National University 	Münih Teknik Üniversitesi 
	
	
 Korea Advanced Institute of Science and Technology	
	
	
 DAEWOO SHIPBUILDING & MARINE ENGINEERING CO.,LTD.	
	
	
 Korea Institute of Science and Technology	
	

Quality of institutions?

Rule of Law Index - 2014



Role of women?

	GDP (billion \$)	Population (million)	Per capita GDP (\$)	Output per worker (\$)	Labor force (million)	Female labor force (million)	Female labor force participation rate
S. Korea	1.014	49	21,000	41,000	25	10	50%
Turkey (current state)	734	73	10,000	30,000	25	7	24%

Is it connectivity (or density)?



Gyeongbu

Expressway (no 1)

- Connecting two major cities (Seoul and Busan)
- Constructed between 1968 and 1970.
- 416 km.

Meanwhile, Turkey is still trying to connect its main cities through expressways

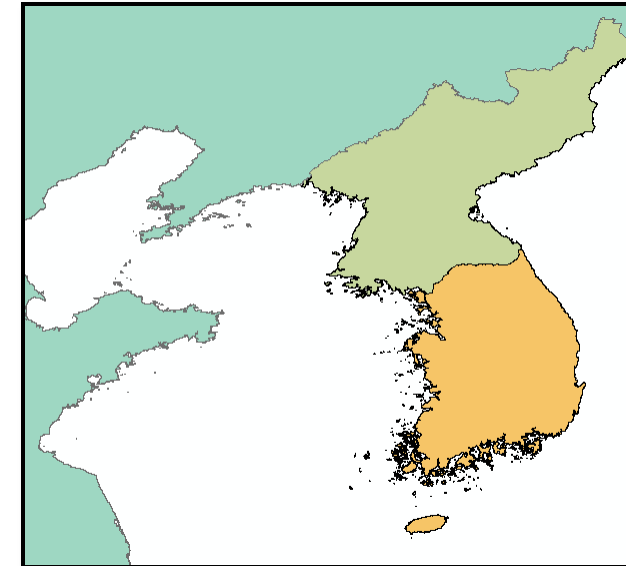
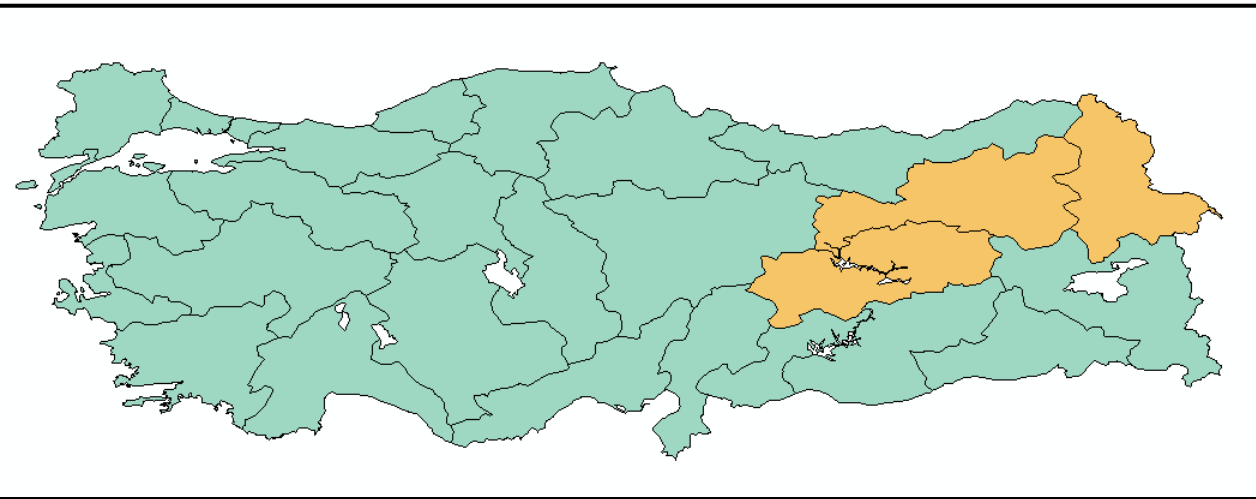
- Network**
 - completed
 - - - under construction
 - planned
- Similar fast highway roads with min. 4 lanes**
 - completed
- Other expressway projects in accordance with the TEM Master Plan of the Economic Commission for Europe**
 - TEM backbone network
 - TEM additional and missing links



Meanwhile, Turkey is still trying to connect its main cities through expressways



A big density difference



	Turkey	Korea
Land Size	783.500 km ²	100.210 km ²
Population	76.670.000	50.220.000
Density	97 persons / km ²	502 persons /km ²

Is it approach to development?

- Findings of the 2006 Knowledge Sharing Project, Korea-Turkey; public policy for private sector development
- Main difference: economic discrimination
 - Getting the incentives right; giving private sector the right incentives to do better, to be more productive
 - Korea has done it well – «a discriminatory mechanism that champions success over failure»
 - Leadership with guts? Taking unpopular measures?
 - Turkish approach has been much more egalitarian; and has mostly left discrimination to the market;
 - Turkish incentive scheme treats all investors equally

Role of leadership?

(Playing a different kind of music?)



Or?



Takeaways

- In terms of economic success and structural transformation Turkey is good, but Korea is much better
- Geography vs. institutions?
 - Access to Asia, vs MENA...
 - Managing a smaller piece of land, high density
 - Second generation reforms, participation
- History: what happened between 1960-1980?
 - Capability, vision of our generals back then...