

Panorama



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Turkey's Economy: **THE NEED FOR A NEW NARRATIVE**

The Turkish economy's new narrative must include elements of industrial policies that shall carry us toward the 2023 targets.

THE FIRST PANORAMA ARTICLE OF 2014 WON'T BE giving you expectations and predictions regarding the Turkish and world economies. I'm sure you have read and listened to plenty of such assessments.

What I would like to do, with just ten years remaining before the centennial of the Republic of Turkey, is to open a medium- and long-term perspective up for debate.

The second half of 2013 saw significant developments concerning the future of the Turkish economy. The Tenth Development Plan, covering the period from 2014 to 2018, was ratified on July 12 by Turkish parliament. On October 9, the Medium-Term Program covering the years 2014–2016 was announced to the public. The Fifth Izmir Economic Congress assembled October 30–November 1, and the Third Industry Council was held November 20–22.

The texts prepared, speeches delivered, and decisions taken in this scope all point in the same direction: the economic debate in Turkey, which aims to become one of the world's ten largest economies by 2023, must be carried beyond the

confines of the currency exchange rate–interest rate–stock exchange triangle. And one must always keep in mind that economic policies have purposes beyond diminishing the effect of cyclical fluctuations.

The idea of the paradigm gained currency with the publication in 1962 of Thomas Kuhn's "The Structure of Scientific Revolutions." "Paradigm," with its most basic definition, means "the scientific accomplishments that provide a model to a scientific community for a certain period and are accepted universally." This is precisely what Turkey's economy needs today: a new paradigm, and perhaps a new narrative, even.

The name of the new narrative would be "The Economy of Turkey within the Process of Global Restructuring." The 19th century was Europe's age; the 20th was America's. The 21st century, on the other hand, is a candidate for an age centered on the East: ex oriente lux. We are in a period in which the legitimacy of international economic institutions established after World War II is being subject to debate. Although the last crisis was global in nature, efforts to solve it were unfortunately

not global. Emerging economies do not yet carry weight in the global system proportional to the power they hold. The old world is showing resistance. Here, the Turkish economy's need for a new story becomes even more important.

The main purpose of the Tenth Development Plane is to "make Turkey a country that has risen to the upper echelons in the international value chain hierarchy, entered the ranks of high-income countries, solved its issue of poverty once and for all, and improved its income distribution." It also envisions higher, more stable, and more sustainable growth performance and increased competitiveness and societal prosperity for Turkey.

The plan also aims for the following:

- The acceleration of capital accumulation and industrialization
- Improved effectiveness of production factors
- Reduced import dependency for the economy
- Increased innovation production capacity for the economy
- The facilitation of transformation in the organization of production through the unification of changes with the current organization of production

We now also face the necessity of shifting resources toward productive areas and bolstering the process of industrialization. If Turkey is to become "a country that has risen to the upper echelons in the international value chain hierarchy," it must adopt advanced technology in the production of industrial goods. In other words, Turkey must increase its international competitiveness and its share in world exports. To do this, it is necessary to effect a transformation in the manufacturing industry; this is the only way it will be possible to move over to a high value-added organization and increase the share of high-tech industries in both manufacturing and exports. I believe the table below deserves mulling over.

Perhaps the following example would help me clarify the issue further. The city that exports the most in Turkey is

Istanbul. Istanbul carries out more than half of Turkey's total exports. However, the city with the greatest import is also Istanbul, which accounts for roughly half of all imports. I could say that Istanbul is the leading contributor (in the negative sense, surely) to Turkey's foreign trade deficit. In 2002, the balance of trade in Turkey nationwide was 70%; in Istanbul, it was 72.5%. In 2011, this proportion was, respectively, 56%

and 50%. Looking at Istanbul's total export over the past 15 years, one sees that a significant amount of it consisted of "low-tech products." The share of low-tech products in total exports was 70% in the late 1990s. In the early 2010s, it is around 40%. In the same period, the share of "medium/low-tech products" in Istanbul's export rose from around 10% to the region of 30%. While Istanbul's "high tech" export has risen over time, it has always remained under 10%. The products that account for the largest share in Istanbul's import, meanwhile, are "medium/high-tech products," accounting for roughly 40% of the total import.

According to the Ministry of Economy's "Study of Foreign Trade Potential by Province," Istanbul is the province that carries the greatest potential to export products with more sophisticated qualities, based on its current industrial organization. However, the issue here is how production in Istanbul might be shifted toward technology-intensive fields requiring skilled labor—how will the

province's industrial transformation take place? How will foreign direct investments be put to use to this end? And so on...

The Turkish economy's new story absolutely must include elements of industrial policies that shall carry us toward the 2023 targets. The stakeholders—namely the public sector, private sector, universities, and NGOs—must identify these policies with oneness of mind. Our agenda should now include the following terms: R&D, innovation, sustainable industrial production, industrial investment zones, clustering, and international competition...



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DEVELOPMENTS AND TARGETS IN THE MANUFACTURING INDUSTRY

	2006	2012	2013	2018
Mfg. Industry / GDP (Current, %)	17.2	15.6	15.5	16.5
Mfg. Industry Export (USD Billion) ¹	79.6	129.9	144.1	257.1
Share of High-Tech Industries in Mfg. Industry Export (%) ¹	5.6	3.7	3.7	5.5
Share of Industries with Above Avg. Tech in Mfg. Industry Export (%) ¹	30.8	31.4	31.4	32.1
No. of Triadic Patent Applications in Turkey ²	14	353	63	167
Total Factor Productivity Increase in Industry (%)	1.2	-0.9	-0.8	1.9

Source: 2006–2012 data from TurkStat. 2013–2018 data from Tenth Development Plan estimates.
(1) Values do not include gold. (2) OECD Factbook, 2013. (3) 2010 values.