Turkish Economic Development
2002-2015
Successes and Failures of a Resource-Poor Upper-Middle Income Country

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Turkey as a resource-poor economy

• GDP per capita (2015) : $9,125 in current US dollars.
• In 2015, natural resource rents amounted to only 0.36 percent of GDP
• Turkey imports around 89% of its oil supplies and nearly 99% of its natural gas consumption.
  – 25 million tons of crude oil in 2015: Iraq (45.6%), Iran (22.4%), Russia (12.4%)
  – Total gas imports in 2015 is around 48.4 bcm: Russia (55.3%), Iran (16.2%) and Azerbaijan (12.7%).
Turkey and the growth markets

Turkey and the BRICS

- **G**: GDP per Capita
- **C**: Domestic credit to private sector
- **U**: Urban population
- **L**: Labor Force Participation Rate
- **O**: Openness
- **S**: Schooling
- **B**: Ease of doing business index
- **I**: Infant mortality rate
Source: TURKSTAT, Development Ministry, Turkey Data Monitor.
Emerging market economies ranked by growth in GDP per capita, 2002-2014 (2002 = 100)

Source: IMF
Drivers of the Success during 2002-2006

• Structural changes:
  – Rapid move of labor force from agriculture to industry and service sectors
  – Share of manufacturing in GDP rose from 22% in 2001 to 24% in 2007.

• Productivity growth
  – Relatively high Total Factor Productivity (TFP) growth: 7th among 98 countries (2002-2011)
  – Accounts for about half of per capita GDP growth over 2002-2006.

• Broadening base of economic activity
  – Investment in physical capital and social infrastructure/public services
  – Regional convergence between West and inland regions.
  – Decline in poverty rates, expansion of middle class
Figure 7.10: The equity of expenditures - increasing investment in underserved regions
Geographical distribution of per capita government investment expenditures in education

Source: Ministry of Development

Figure 7.2: Education: Remarkable improvement in learning, particularly among low performers

Ultimate Causes of Success

1. Structural economic reforms imposed by IMF and WB
   • Lower inflation
     – From 80% in 1990s down to single digits
   • Financial sector reforms
   • Fiscal discipline
     – Public sector debt down to 35% of GDP from its post-2001 peak of 75%
   • Rule based policy making by autonomous agencies
     – Greater CB independence
   • Transparency in government procurement
Ultimate Causes of Success

2. EU Accession goal served as an anchor
   – Pressure for political reforms and a template for best-practice legislation
   – Closer ties with EU →
     • Improved rule of law
     • Higher investor confidence
     • Bulwark against a military coup
Reversal of Fortune starts in 2007

**Figure 8.8:** Institutional reforms have slowed since the mid-2000s

- Source: WGI, Doing Business, OECD
- Doing Business indicators are calculated based on the 2014 release. From the 2015 release onwards, a change has been introduced in the methodology and “distance to the frontier” measures for 2015 are not comparable across time.

Reversal of Fortune

Source: Acemoglu and Ucer (2015)
Growth became more costly

Source: Rodrik (2015)
A different problem of diversification

• Low-quality growth led by construction sector and real estate business financed through increased external borrowing
  – Manufacturing industry contributed 16.7% of GDP in 2015, down from 17.1% in 2003
  – Construction and real estate sectors accounted for about 15.8% of GDP in 2015, up from 12.5% in 2003
  – Only 26% of the foreign currency debt belongs to the manufacturing industry
  – Construction + real estate account for 20% of foreign currency debt
Old and new problems

- High CA deficit and private sector debt (e.g. construction and real estate)
- Low savings
- Low labor force participation
- Decline in education system
- Lack of a long-term strategy for export-oriented sectors, inadequate support for SMEs
  - Import dependence in intermediate goods
- Autocratic back-slide and political instability
Figure 6.1: Labor force participation in Turkey is lower and unemployment higher than in most peers

Source: World Development Indicators (WDI)

Note: Comparisons are drawn with The Organisation for Economic Co-operation and Development (OECD) averages in this chapter in addition to the peer groups used throughout the report. Categories are overlapping to some extent.
Figure 6.5: The gender gap explains why employment rates are low
Labor force participation in Turkey and OECD by gender

Source: OECD
Concluding Remarks

• Turkish experience is flagship example of why growth in resource-poor economies is heavily contingent on institutional reforms.
• Last four years of Turkish experience have shown that political instability invariably breeds macroeconomic instability.
• Turkey’s prospects for escaping the middle income trap in the foreseeable future look very bleak.