

Turkish Economic Development 2002-2015

Successes and Failures of a Resource-Poor
Upper-Middle Income Country

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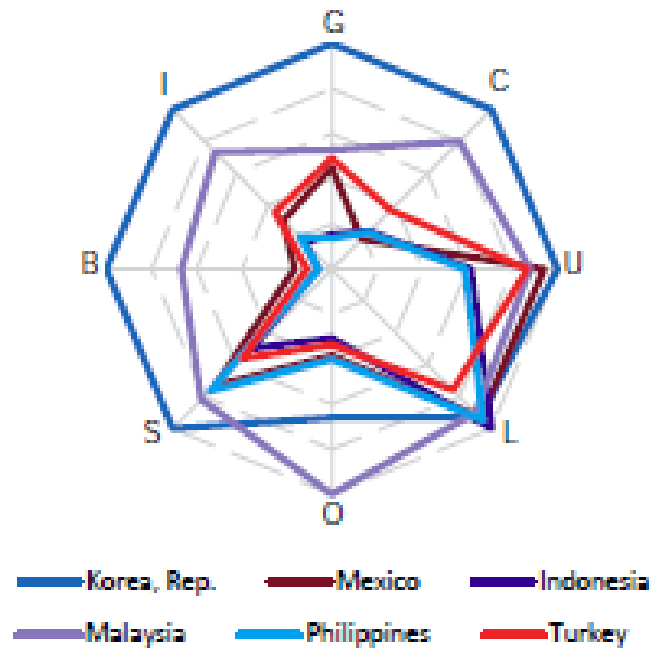
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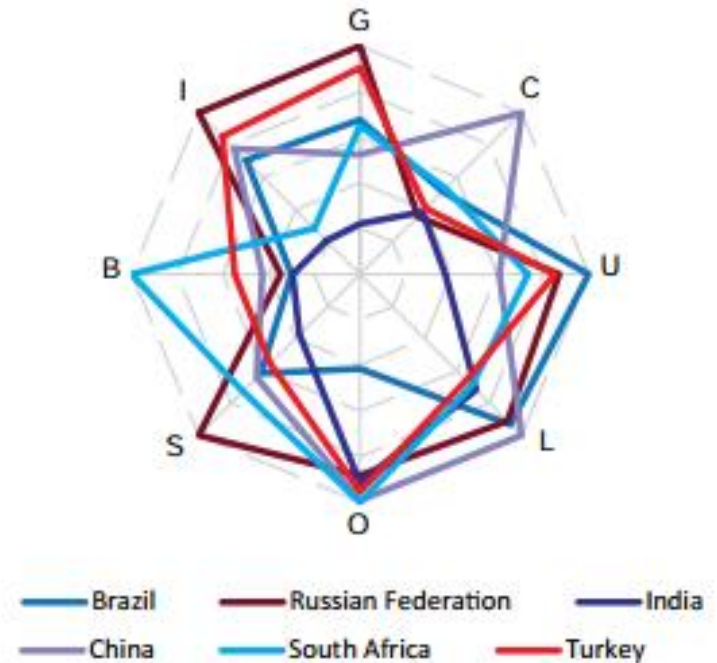
Turkey as a resource-poor economy

- 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

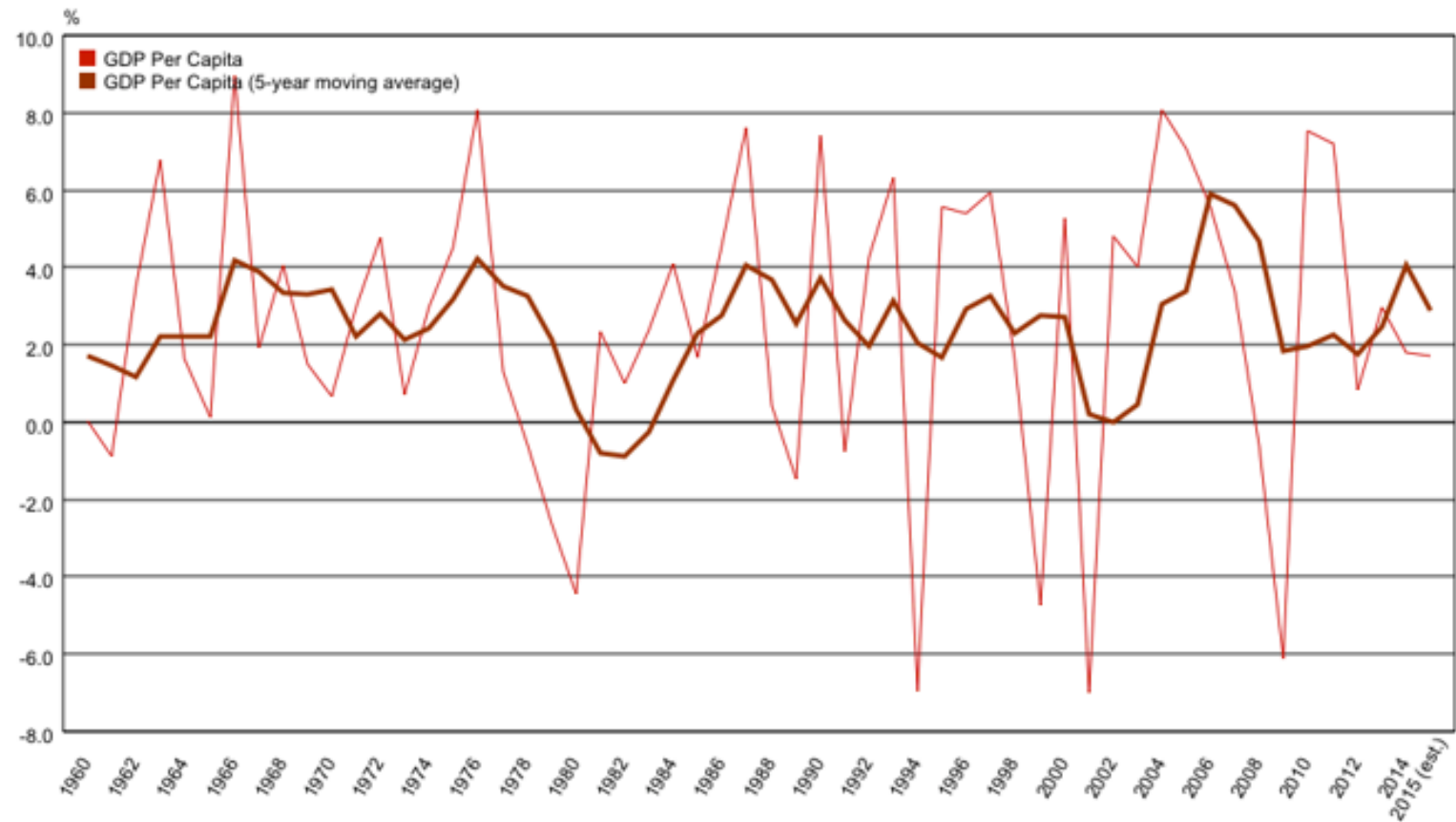


Turkey and the BRICS

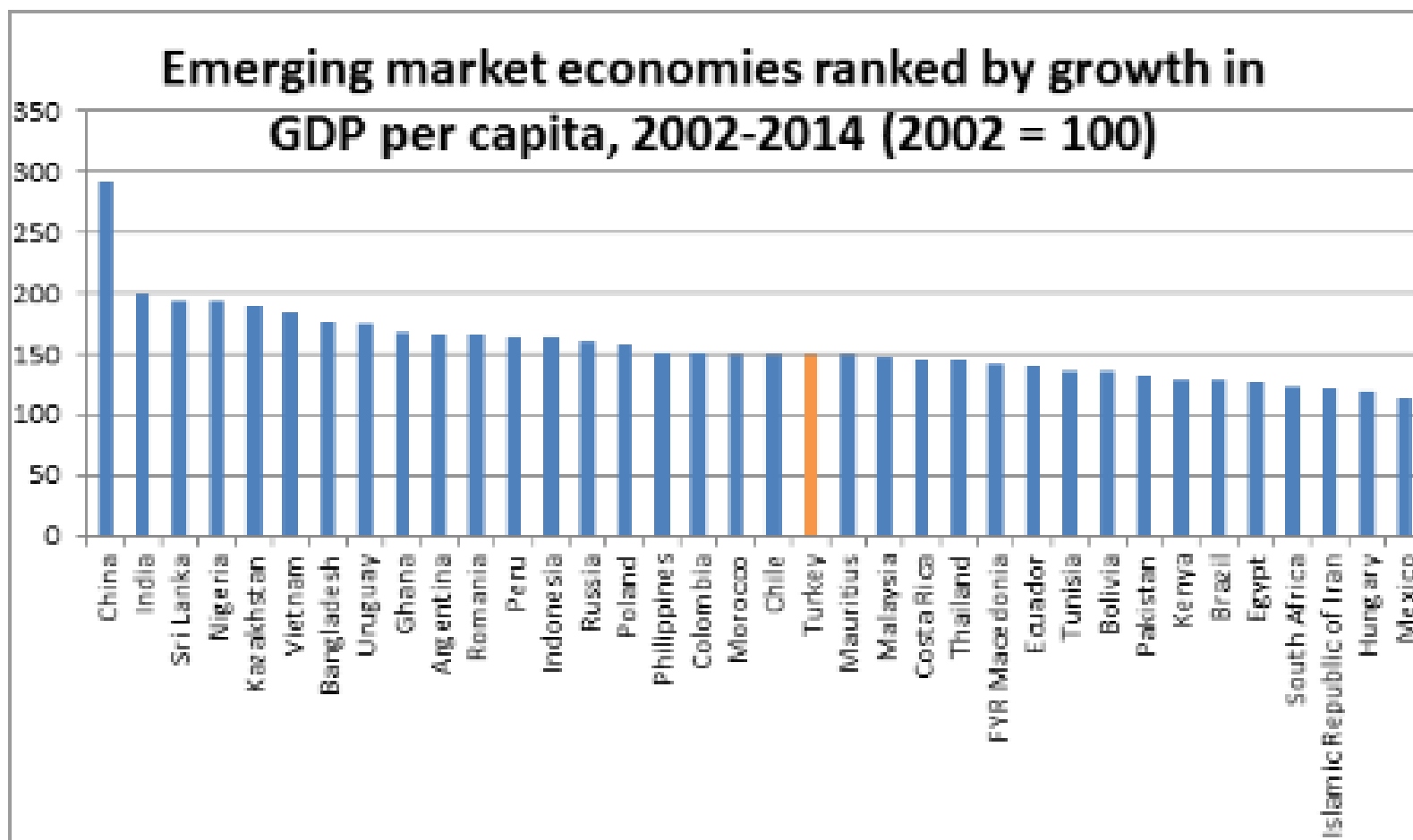


- G GDP per Capita
- C Domestic credit to private sector
- U Urban population
- L Labor Force Participation Rate
- O Openness
- S Schooling
- B Ease of doing business index
- I Infant mortality rate

GDP Per Capita Growth (%)



Source: TURKSTAT, Development Ministry, Turkey Data Monitor.



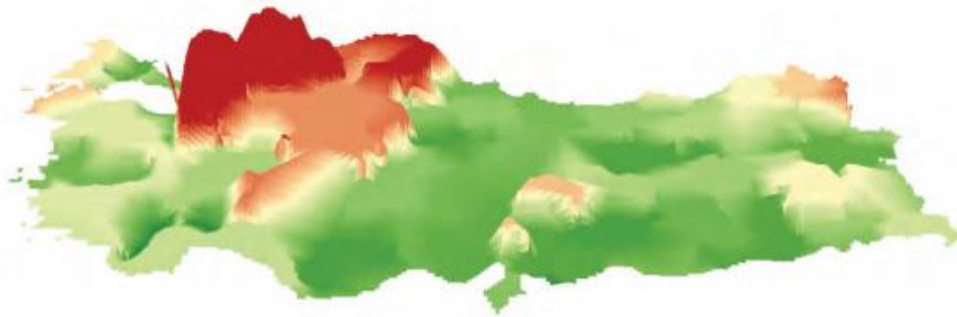
Source: IMF

Drivers of the Success during 2002-2006

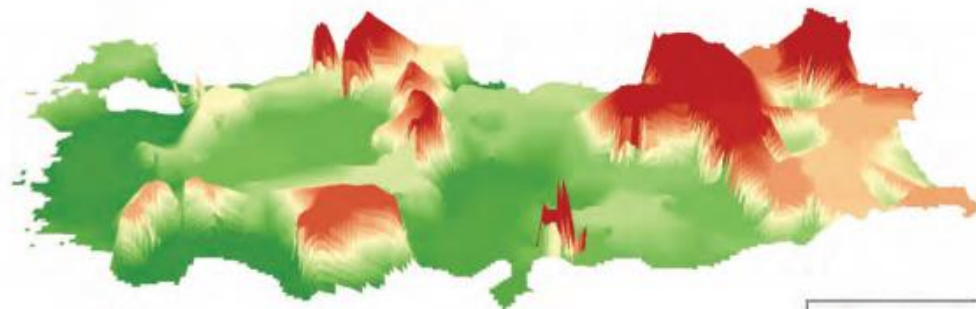
- Structural changes:
 - Rapid move of labor force from agriculture to industry and service sectors
 - Share of manufacturing in GDP rose from 22% in 2001 to 24 % in 2007.
- Productivity growth
 - Relatively high Total Factor Productivity (TFP) growth: 7th among 98 countries (2002-2011)
 - Accounts for 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

2001



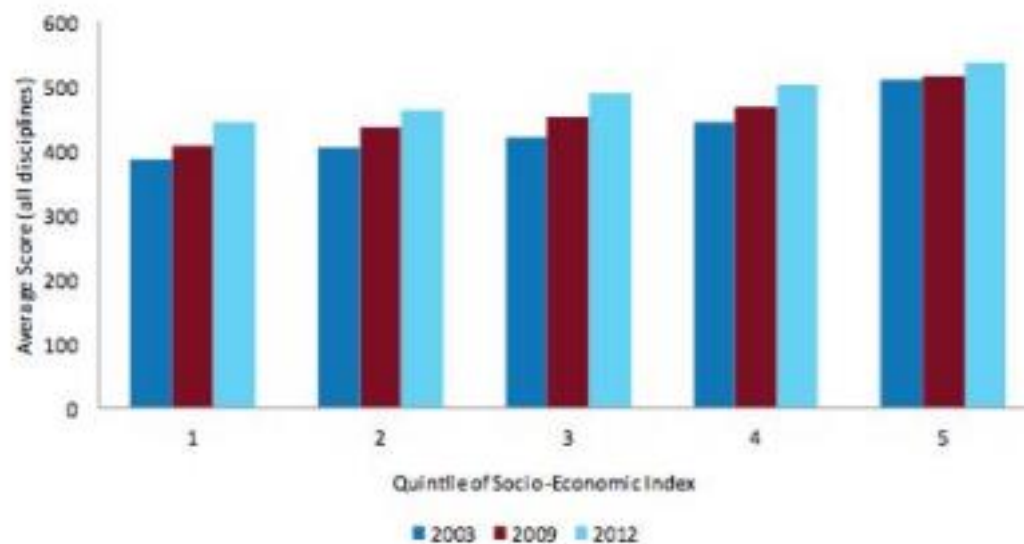
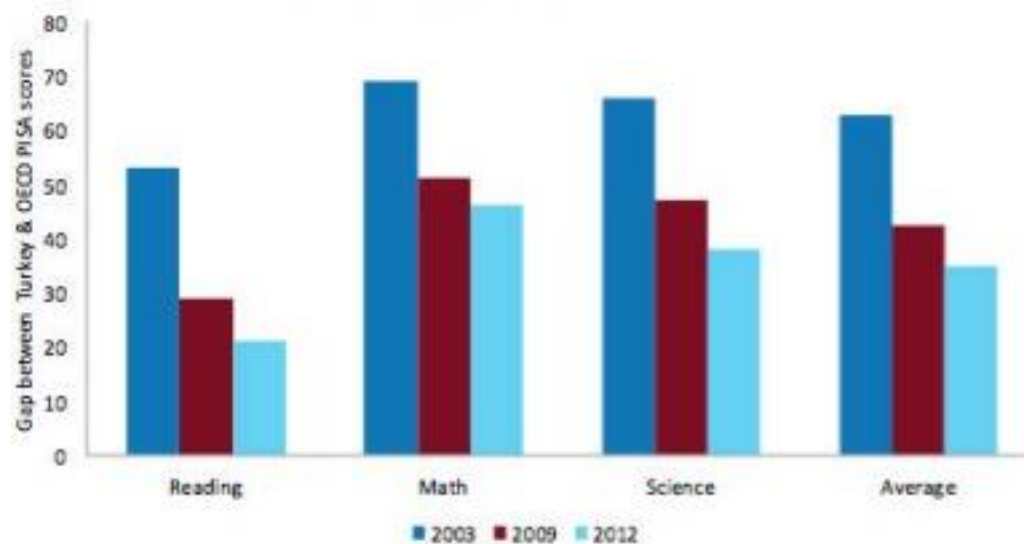
2011



Source: Ministry of Development

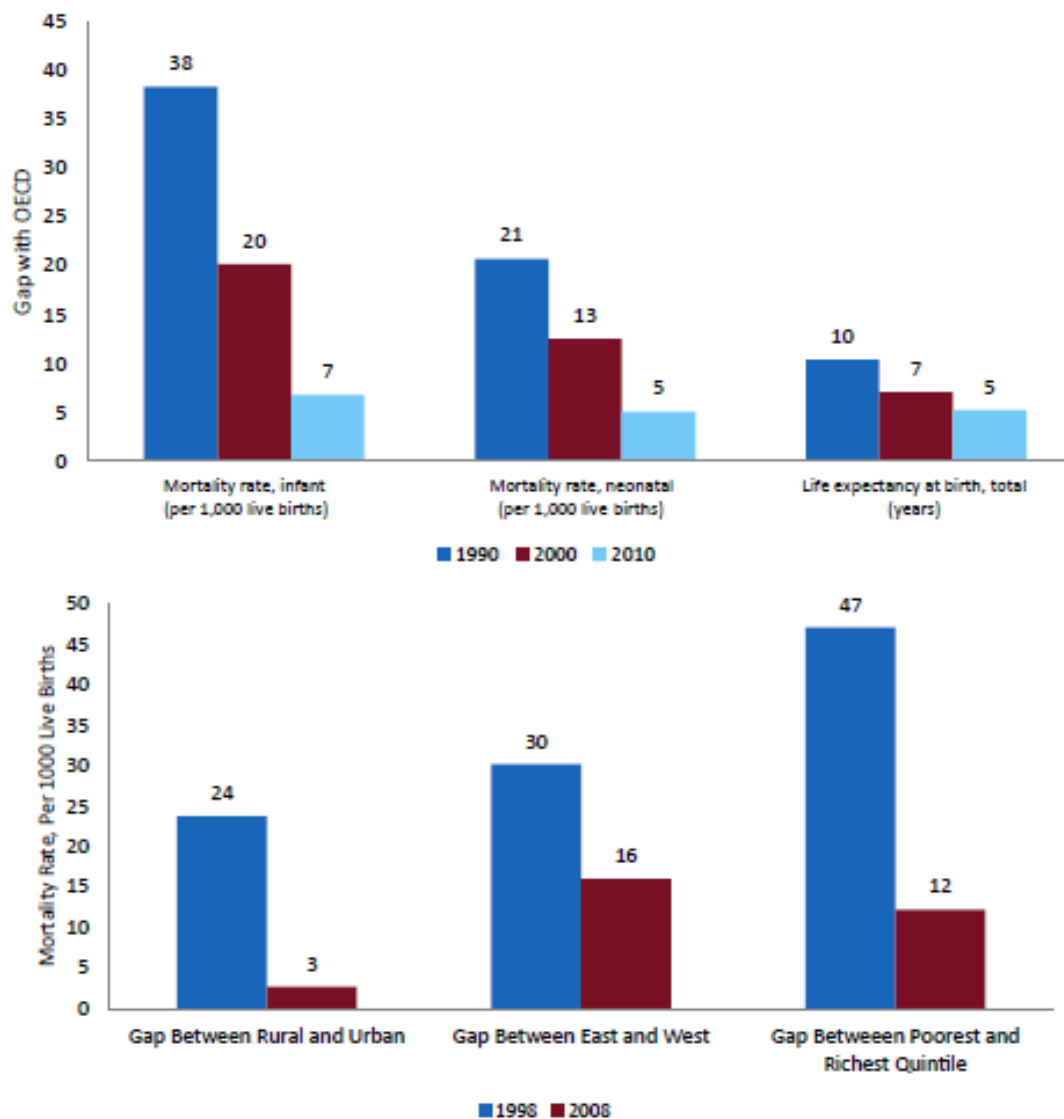
Source: World Bank (2014)

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



Source: World Bank (2014)

Figure 13: Sharp reduction in health gap with OECD and within Turkey



Source: WDI, Atun et al. (2013)

Source: World Bank (2014)

Ultimate Causes of Success

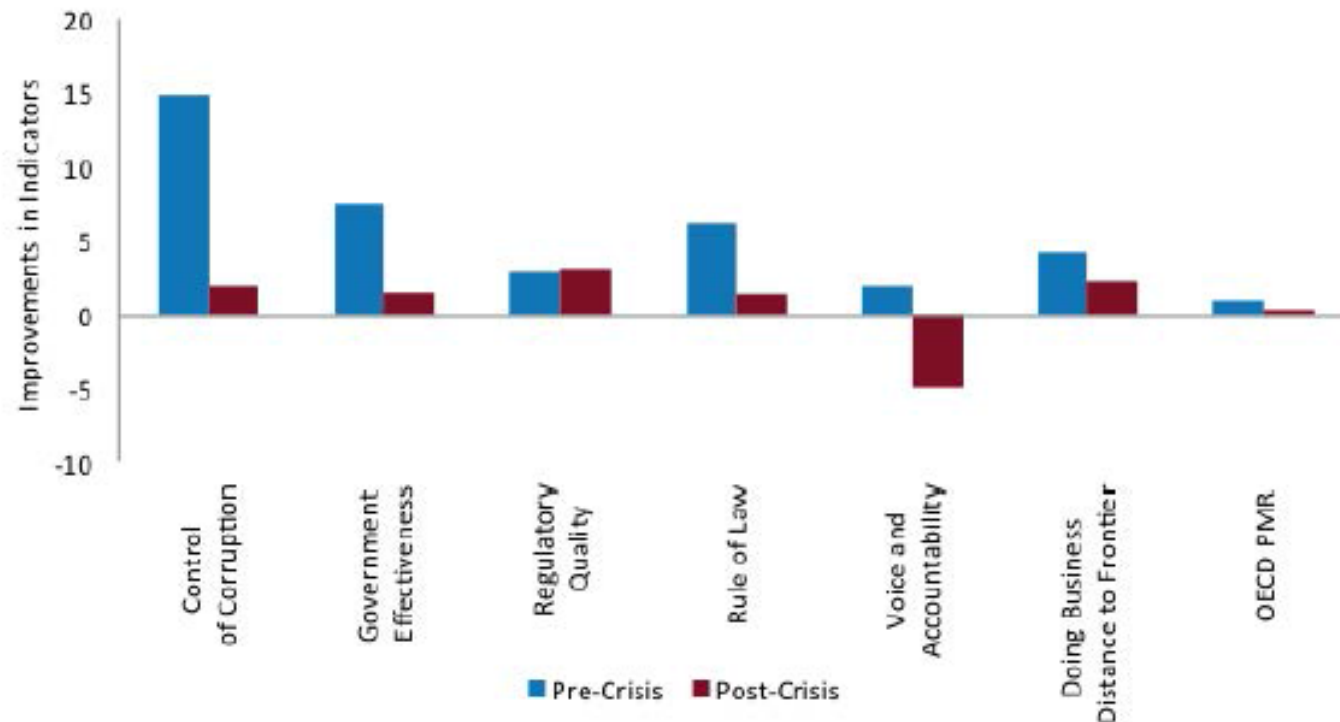
1. Structural economic reforms imposed by IMF and WB
 - Lower inflation
 - From 80% in 1990s down to single digits
 - Financial sector reforms
 - Fiscal discipline
 - Public sector debt down to 35% of GDP from its post-2001 peak of 75%
 - Rule based policy making by autonomous agencies
 - Greater CB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



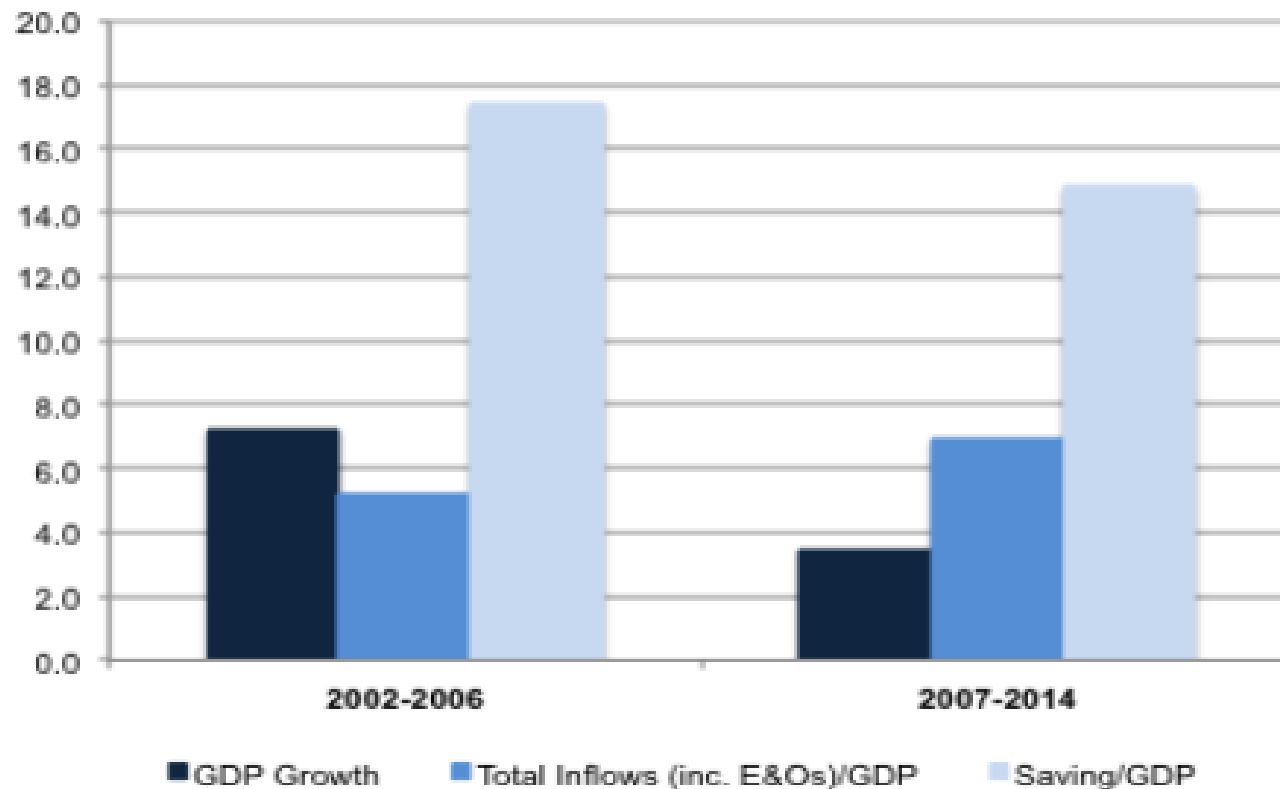
Source: WGI, Doing Business, OECD

Note: Pre-crisis refers to 2001-2007 for WGI, 2004-2007 for Doing Business, and 2003-2008 for Product Market Regulation (PMR); post crisis refers to 2008-2012 for WGI and Doing Business, and 2008-2013 for PMR.

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

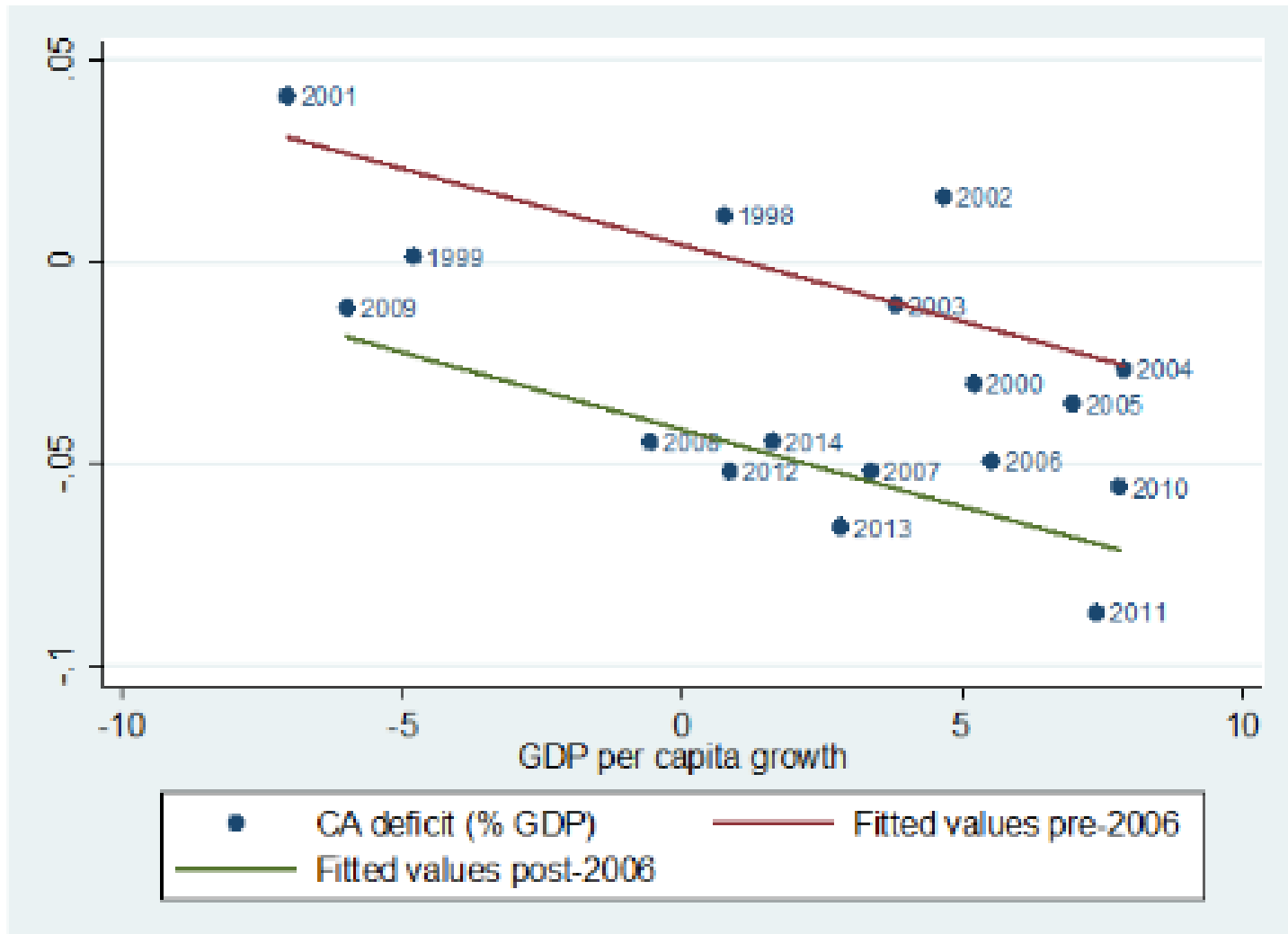
GDP Growth, Capital Inflows and Savings



Source: TURKSTAT, CBRT, Turkey Data Monitor and the authors' calculations.

Source: Acemoglu and Ucer (2015)

Growth became more costly



Source: Rodrik (2015)

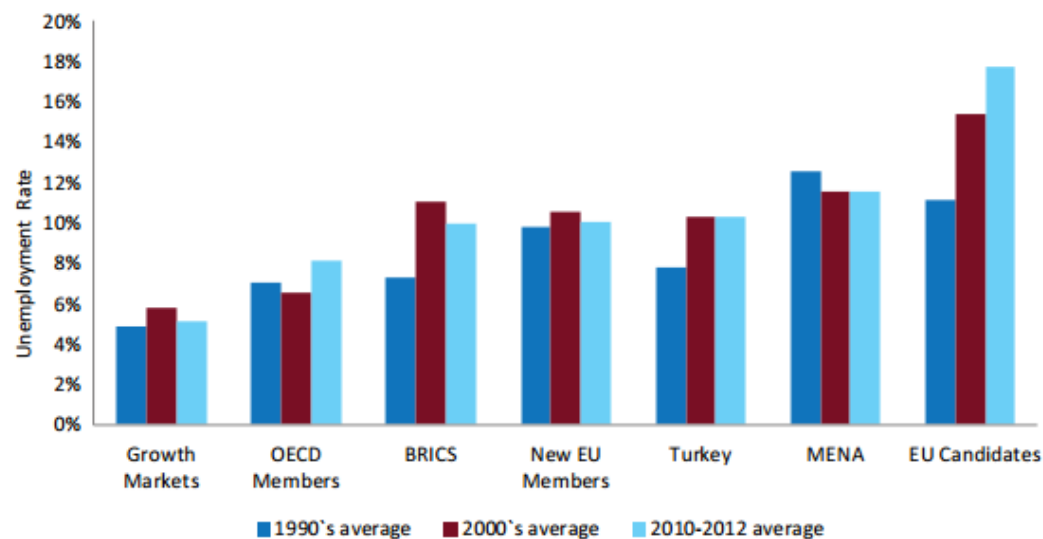
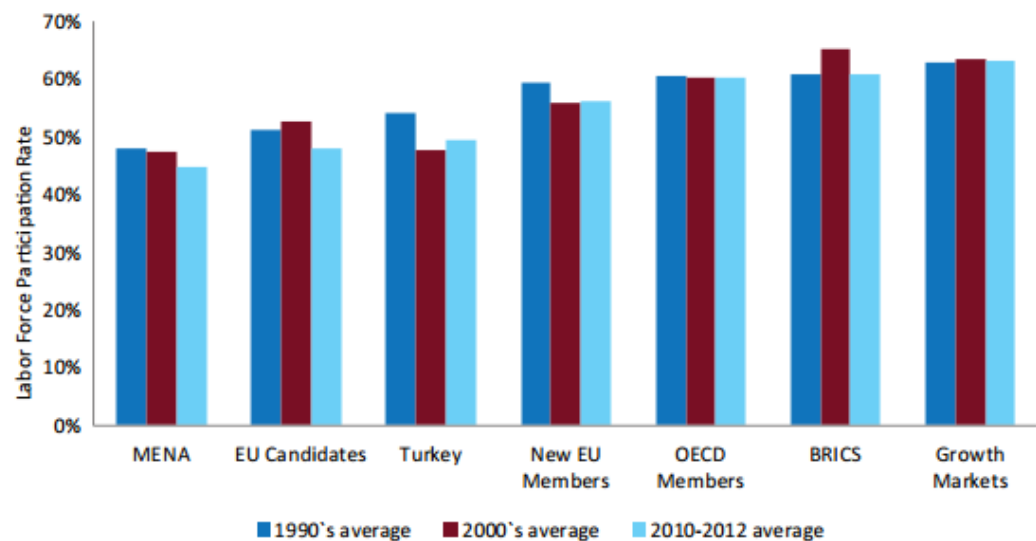
A different problem of diversification

- 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

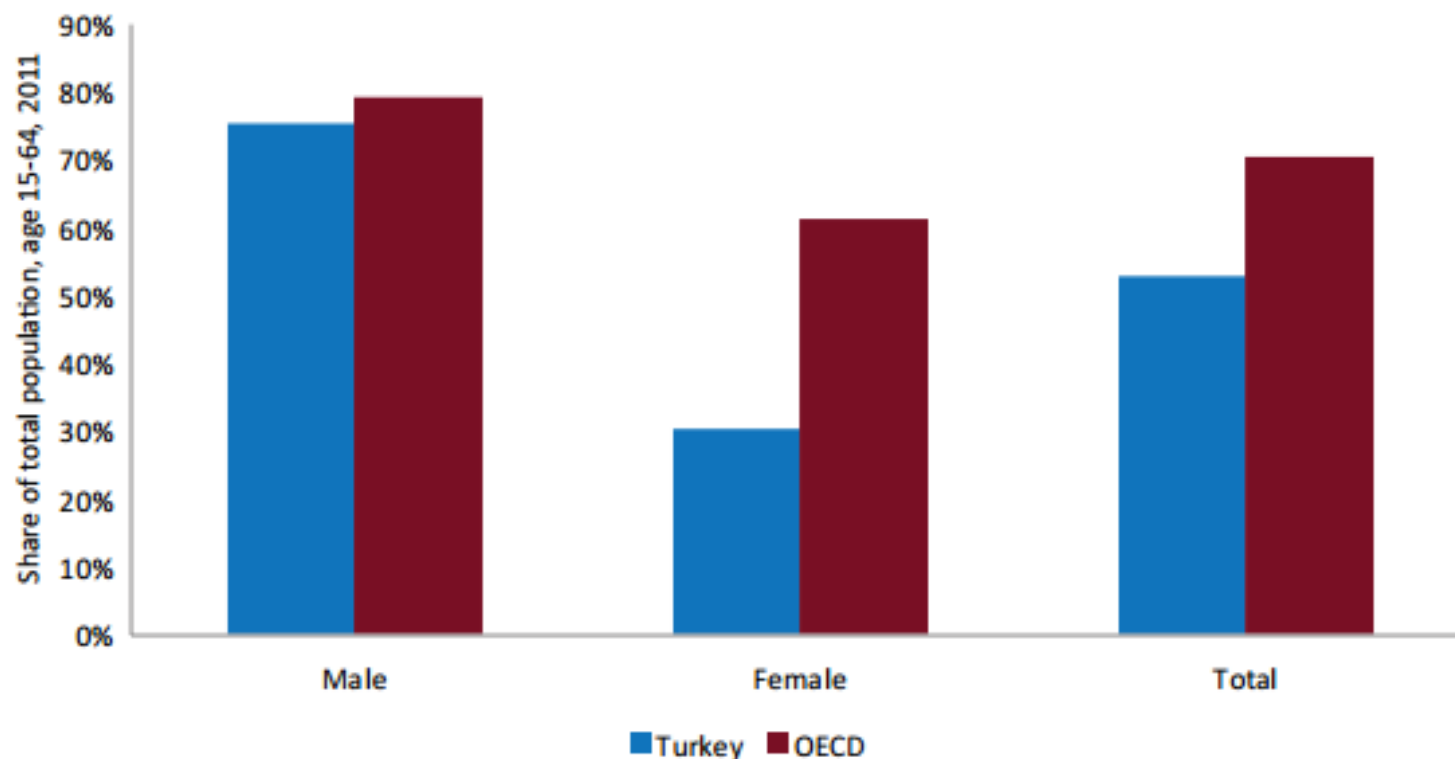
Figure 6.1: Labor force participation in Turkey is lower and unemployment higher than in most peers



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.