A Commentary on Turkey’s Growth Strategy

By David Hoffmann with Nancy Alexander,
Heinrich Boell Foundation-North America
About the Authors:

David Hoffmann is an Intern at the Heinrich Boell Foundation-North America who is also currently enrolled in a Master's program in Global Political Economy at the University of Kassel. Nancy Alexander is Director of the Economic Governance Program at Heinrich Boell Foundation-North America.
A Commentary on Turkey’s Growth Strategy

Note: For the 2014 G20 Summit, member countries prepared growth strategies and employment plans. This commentary focuses on Turkey’s growth strategy. Policy prescriptions for G20 strategies and plans can be found in The World Bank’s Staff Assessment of the Growth Strategies of G20 Emerging Market Economies and the IMF’s “Global Prospects and Policy Challenges”. The IMF has also attempted to Quantify the Impact of G20 Growth Strategies.

At the 9th G20 summit in Brisbane, Australia, all member states presented their individual plans to promote “stronger economic growth and employment outcomes”. As G20 President this year, Turkey may consider its growth strategy and employment plan as models for other G20 countries. Its approach may also shape the G20 agenda. To explore these possibilities, this paper presents and comments on some highlights of the Turkish plans.

Turkey’s growth and employment strategies are based on its 10th Development Plan of 2013 and its Medium Term Programs of 2013 and 2014.

Figure 1

Turkey’s Growth Strategy

The country aims to increase its growth rate from 4.1% currently to 5.5% from 2014 to 2018 (on average).

According to the growth strategy, “Increasing savings and investments in the Turkish economy to strengthen the productive capacity and establish a sustainable growth performance is the main target of medium and long-term macroeconomic policy and the Tenth Development Plan.” It would achieve these goals, including accelerating levels of output and industrialization, by:

1. Enhancing productivity in manufacturing;
2. Improving public infrastructure;
3. Enhancing technology and innovation;
4. Increasing labor participation of female and youth; and
5. Improving domestic competition.

The country aims to increase its growth rate from 4.1% currently to 5.5% from 2014 to 2018 (on average).
Below, some aspects of Turkey’s plans are presented:

**Climate Change and Energy.** Turkey included the topic of climate change on the G20 agenda, which is significant because the G20 Summit is scheduled for November 15-16, 2015 – just two weeks before the negotiations of the 21st Conference of Parties (COP) of the UN Framework Convention on Climate Change in Paris from November 30-December 11, 2015. Action or inaction by the G20 will send significant signals to the COP, which aims to negotiate a legally-binding global climate deal.

Turkey’s growth strategy for the energy sector strives for diversification and greater dependence on domestic rather than foreign sources of energy. Specifically, the country would increase the percentage of domestic resources in total primary energy demand from 27% in 2012 to 35% in 2018. Although the government paid about $60 billion for imported fossil fuels in 2013, the drop in prices provides greater fiscal space.

Turkey plans new investments in coal-fired and nuclear power plants as well as renewable energy and increased energy efficiency. Construction of 10 lignite coal-fired power plants with about 3,000 MW capacity has begun. In addition, a coal-fired power plant with 11,000 MW installed capacity is being planned in the Afsin-Elbistan region. Construction has also begun on the Akkuyu and the Sinop Nuclear Power Plants with 4,800 MW and 5,000 MW capacity, respectively. Coal-fired plants cause high levels of greenhouse gas (GHG) emissions and the nuclear power plants of Turkey may be built in the vicinity of an earthquake-prone region (Huffington Post 2011; Daily Sabah 2014).

Turkey is employing new feed-in tariffs, which boosted the renewable energy installed capacity (mostly hydro and wind) from 17,300 MW to 27,200 MW between 2011 and 2014. While this is promising, much more could be done.

Turkey’s strategy could be used to challenge its credibility in the environmental safety and climate change discourse.

**Infrastructure investments** are featured in Turkey’s growth strategy, especially large-scale Public Private Partnerships (PPPs) in the energy, transportation, health and education sectors.
To crowd in private investment and boost growth, Turkey aims to raise the savings rate from 14.4% in 2013 to 19% in 2018 and achieve a primary surplus target of 2% of GDP until 2016. Turkey also plans to increase its investment rate from 20.3% of GDP in 2013 to 24.4% of GDP by 2018 as well as introduce new financial instruments tailored for institutional investors, such as pension funds. Specifically, in order to attract long-term investors, the country is implementing regulations on private pension funds, venture capital/private equity investment funds, and real estate investment companies and funds. As of last year, incentives, including tax breaks, are being offered to real estate investment companies investing in infrastructure. “Angel” investors, which provide backing to entrepreneurs, can now deduct 75% to 100% of the capital that they invest in certain SMEs from their annual tax base.

It will be important to assess the impact of Turkey’s approach to infrastructure investment on areas such as macroeconomic stability; climate change; and access to services, since mega-PPPs may expand the use of dirty coal and create cost overruns and benefit shortfalls (Flyvbjerg 2014, p.11). In addition, it will be important to monitor how this strategy engages small and medium-sized enterprises.

Figure 2

The gender gap declines as educational attainment goes up

Employment. Turkey features reforms within the employment sector as crucial for enhanced growth and productivity. Among persons between the ages of 15-64, only 44.9% had a paid job (December 2012), far below the OECD average of 66%. Moreover, gender disparities are highly significant (Inan 2013). Female labor force participation, which currently stands at only 30.8%, lags the participation rates of 71.5% in advanced nations. (See Figure 3.) Turkey’s plan includes a pledge to raise female participation in the labor force to 41% by 2023.

Figure 3

Female labor force participation, which currently stands at only 30.8%, lags the participation rates of 71.5% in advanced nations.

Günes Asik of TEPAV notes the need for stronger efforts to boost this rate. (2013, p.2) According to Asik, planned measures to outsource child care are ineffective because mothers who earn low wages cannot afford it. Furthermore, a general skills mismatch between labor supply and demand further complicates the inclusion of disadvantaged groups such as women, the youth and long-time unemployed, who need enhanced basic and occupational skills. A higher level of education increases the probability of employment. (See Figure 2.)

Education and Training. Access to education is problematic as only 33% of adults between the ages of 25-64 have the equivalent of a high school degree compared to the OECD average of 74%. (See figure 3.) Far fewer women than men complete high school. Indeed, only 26.7% of women reach the secondary education level compared to 42.4% of men. Women in rural areas are at a major disadvantage.
While falling into the high human development category on the human development indicators (HDI), poor access to education is one reason that Turkey is behind the average HDI for European and Central Asian countries.

Through better education of unskilled workers, another problem could be tackled: informal employment. The percentage of workers in the informal sector is quite high: 36.7% in 2013 – with a major difference between unregistered females (52%) and males (30%).

Turkey’s growth strategy pledges to improve the education and vocational training system.

Social Insurance. Turkey believes that the social benefit system can encourage people to be dependent on the state and remain in the informal, shadow economy. Hence, the social benefit system will be revamped by the Ministry of Family and Social Policies.

According to Inan, among Turkey’s 73 million population, 22% contribute to the social insurance system; 83% of the population is covered by health insurance. With regard to coverage, the gender disparity is glaring with 24% of women and 76% of men being insured. Meanwhile, the unemployment insurance system provides low coverage compared to the number of unemployed.

Trade and Competition. To achieve a higher employment rate, Turkey’s growth strategy aims for a competitive market environment to attract investment and increase the rates of employment and productivity and, thereby, growth.

Turkey will launch negotiations for at least 10 Free Trade Agreements (FTAs) by 2018. Statistics show that total exports are higher with FTA than non-FTA trade partners. At the same time, however, the value of domestic content is high, but falling, i.e., the value was 78% in 2009 – 11% lower than its share in 1995. Therefore, FTAs and Global Value Chains (GVCs) may not always benefit Turkish workers.

FTAs and Mutual Recognition Agreements (MRAs) are important to the government because any country that signs an FTA with the EU automatically gets access to Turkey’s internal market, while Turkey
Since the services sector is the so-called backbone of the Turkish economy (60.5% of the GDP), Turkey wants to further engage in the Trade in Services Agreement (TiSA) negotiations. This agreement is controversial due to claims related to a range of prospective negative impacts on, for instance, access to and affordability of services, including sensitive basic services (e.g., health care, education, water) as well as the question of whether foreign firms would have preferential access to procurement of services compared to domestic firms. Various mechanisms to protect certain sectors within the framework of TiSA are weakened (e.g., through standstill clauses) (Keller 2015).

Pursued by 21 states\(^1\) around the world, TiSA is negotiated outside of the WTO framework and, thereby, promotes the trend towards plurilateral instead of multilateral agreements. In plurilateral processes, a group of negotiators can reach an agreement which affects all other WTO members. Furthermore, Turkey aims to include the liberalization of services as a component in all Free Trade Agreements (FTAs).

In the trade arena, Turkey also aims to strengthen its role within Global Value Chains (GVC) by overcoming structural constraints. For instance, to move out of the lower segments of the production chain, the capacity of SMEs to contribute to higher value-added activities (such as research and development) must be strengthened. In addition, Turkey plans to cluster production strategies in key geographic areas and provide upgrading of skills to workers.

GVCs represent a segmentation of production processes across borders which, in theory, are ordered on the basis of comparative advantages and quality of production. ‘Research and Development’ and other high value-added activities are based in advanced countries, whereas lower segments of the production chain are based in emerging and developing countries. In the theoretical model, everyone gains from this specific mode of production - Transnational Corporations (TNCs) accumulate profits, the customer enjoys cheap

---

\(^1\) EU, USA, Canada, Mexico, Australia, Japan, Chile, Chinese Taipei, Costa Rica, Hong Kong, China, Iceland, Israel, Colombia, Republic of Korea, New Zealand, Norway, Pakistan, Panama, Paraguay, Peru, Switzerland and Turkey.
prices for high quality products, all participating economies grow and workers get new jobs along the production chain. However, empirical evidence challenges such a rosy view because competition can wither in the presence of monopolies or oligopolies. Moreover, precarious working conditions, exploitation along the production chain, and harmful or inferior goods can be consequences of profit-hungry GVCs. Accordingly, it is crucial to implement GVCs in a responsible way.

An UNCTAD report to the G20 (2013, p.25) introduces the conditions to help all countries climb the GVC “ladder.” Hence, such conditions could be embedded in the overall development strategies and participation of countries, including Turkey. Meanwhile, it is crucial that the dislocation of low skilled workers be eased through training and other active labor market policies. If this strategy fails, epidemics of jobless growth could spread.

Productivity. Finally it is been emphasized that an innovative production structure is necessary to achieve the envisaged growth. In accordance with its 10th development plan, Turkey is pursuing its “Program for Enhancing Productivity in Manufacturing” and almost doubling expenditures on R&D activities.

In summary, the Turkish growth and employment strategies are diverse and comprise many important sectors of the economy. However, although Turkey has a high rate of inequality, the word “inequality” does not appear in the country's growth strategy. For instance, levels of income distribution are very uneven among regions - with greater prosperity in the West and higher poverty levels in the East and Northeast of the country. The income tax system as well as the indirect tax system (taxes on goods and services) is regressive, meaning that the poor pay a larger share of their incomes in tax than the rich (Inan 2013). As discussed above, although the gender disparities are very significant, the government’s main aims are to increase access to education for girls and women’s participation in the labor force. However, these disparities should be tackled throughout all aspects of the growth strategy.

Will Turkey fulfill its own ambitious goals? Will the country's leadership be persuaded to modify its goals in ways that more actively promote ecological sustainability; equality; human rights; and gender rights? By so doing, Turkey could help facilitate more promising
outcomes in UN processes, such as the Financing for Development Conference (July); the Post-2015 Development Summit (September); and the UN Climate Change Conference (December), which parallel the G20 events in 2015. Will Turkey “lead by example” in its G20 Presidency? Time will tell.

Bibliography

AŞIK, Güneş A. (2013): The Tenth Development Plan and an Old Question: Can Women Boost Turkey’s Growth?

Daily Sabah (2014): Turkey’s first nuclear plant’s environmental report approved.


Huffington Post (2011): Turkey Coastal Nuclear Plant To Be Built Near Earthquake-Prone Area Draws Fierce Opposition

Inan, Feride (August 2013): Civil G20 Turkey Report.

