



TURKISH DEVELOPMENT EXPERIENCE AND PROSPECTS FOR FUTURE

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AGENDA

- Development Policy Chronology
 - o 1923-1960
 - o 1960-1980
 - o 1980-1989
 - o 1989-2001
 - o 2001-Present
- Recent performance and key indicators of development
- Turkey-European Union Relations
- Development lessons and future agenda

DEVELOPMENT POLICY CHRONOLOGY

1923-1960

- Poor initial conditions
- Liberal policies and Institution building (1920s)
- Etatism (1930s)
- Public sector leading industrial development
- 1950s
 - Liberal approach
 - Agricultural expansion
 - Lack of planning and coordination
 - Rising budget deficits and balance of payments problems

DEVELOPMENT POLICY CHRONOLOGY

1960-1980

- Introduction of a comprehensive planning approach (1960s)
- Industrialization through import substitution
- Domestic demand: large force behind industrial expansion
- More vigorous involvement of private sector in industrial activity
- Semi-closed trade regime
 - Protection through quotas, tariffs and prohibitions
 - Inward-looking development strategy, low level of exports

Exports/GNP: 4.3 % in 1970

DEVELOPMENT POLICY CHRONOLOGY

1960-1980

- First and second oil shocks (1973, 1979)
- Increasing imports accompanied by expansionary policies
- Massive external borrowing
Current account deficit/GNP: 4 % in 1974-1977 period
- Growth and inflation performance (*% per year*)

	<u>1960-1972</u>	<u>1973-1980</u>
<i>GNP Growth</i>	5.8	3.0
<i>Inflation</i>	6.8	38.3

DEVELOPMENT POLICY CHRONOLOGY

1980-1989

- New development strategy: outward orientation

	<u>1980</u>	<u>1988</u>
<i>Exports/GNP (%)</i>	4.2	12.8

- Gradual evolution towards a market economy

- Trade liberalization

- Large real devaluations

	<u>1982</u>	<u>1988</u>
<i>Real Exchange Rate</i>	100	77.7

- Capital account liberalization (1989)

- Shift in public investment towards infrastructure

DEVELOPMENT POLICY CHRONOLOGY

1989-2001

- Period of macroeconomic imbalances
- Rising fiscal deficits and increasing domestic borrowing

	<u>1989</u>	<u>2001</u>
<i>Domestic debt stock/GNP (%)</i>	18.2	69.2
<i>PSBR/GNP (%)</i>	5.3	16.4

- Volatility in growth and inflation (*% per year*)

	<u>1980-1988</u>	<u>1989-2001</u>
<i>GNP Growth</i>	4.3	2.7
<i>Inflation</i>	46.4	69.7

- High real interest rates
- Adverse external conditions (*Crises in Asia and Russia, Earthquake in 1999*)
- Collapse of exchange rate-based stabilization program in 2001

1989-2001

- Other major developments
 - Customs Union with the EU (1996)
 - Establishment of regulatory boards (*competition and banking*)
 - Extension of basic education from 5 to 8 years
 - A partial reform in Social Security System

2001-Present

- Exit from crisis: A new program supported by IMF
- Debt reduction
- Structural reforms
 - downsizing the public sector through privatization,
 - forming a robust banking system to channel resources to the real sector,
 - developing an efficient and transparent public administration, and
 - adopting a more rational support policy in the agricultural sector.

RECENT ECONOMIC PERFORMANCE (%)

	2001	2002	2003	2004
GNP Growth	-9.5	7.9	5.9	9.9
Inflation	68.5	29.7	18.4	9.3
Budget Deficit / GNP	16.2	14.6	11.3	7.2
Net Public Debt / GNP	90.5	78.5	70.4	63.5
Labor Productivity	100	109.8	118.2	128.6
Unemployment Rate	8.4	10.3	10.5	10.3
Gini Coefficient	0.49 (1994)	0.44	0.42	...
Social Expenditures / GNP	16.4	17.3	18.1	18.4*

*Estimate

BASIC DATA ON TURKEY

	2004
Population (mid-year) *	71.3 million
GDP	302.6 billion \$
GDP per capita	4187 \$
GDP per capita (PPP)	7736 \$
Exports	63.1 billion \$
Imports	97.3 billion \$
Share of 0-30 age group in population *	57.4 %

•*Estimate*

	2004	
Sectoral Structure (%)	GDP	Employment
- Agriculture	11.3	34.0
- Industry	25.0	18.3
- Services	63.7	47.7

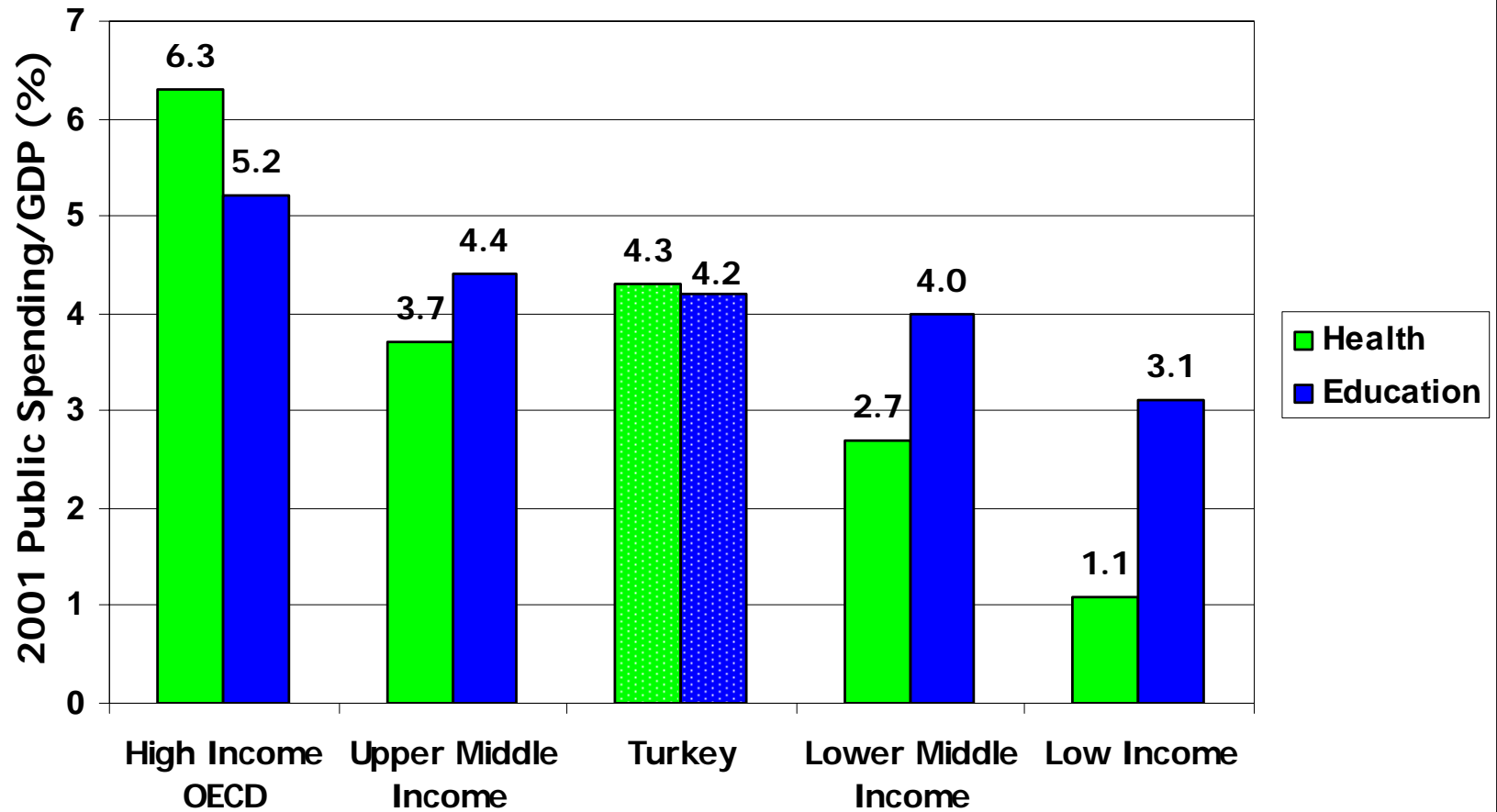
KEY INDICATORS OF DEVELOPMENT

	Average Annual	Value Added/GDP (%)			Manufactured Exports	Under 5 Mort.Rate	Adult Lit. Rate
	GDP Gr. Rate %	Agriculture	Industry	Services	% of Tot. Merch. Exp	per 1000	% 15+
	1990-2003	2003	2003	2003	2002	2002	2002
Turkey	3.6	12	25	64	84	37	87
Middle Income	3.3	11	38	51	60	38	90
Lower Middle Income	3.4	12	40	48	60	40	90
Upper Middle Income	3.0	7	32	61	60	22	91
High Income	2.5	2	27	71	82	7	..
World	2.6	4	28	68	78	81	79

Source: World Development Report 2005

PUBLIC SPENDING /GDP

(HEALTH and EDUCATION)



Source: WB, SPO

MAIN SOCIAL INDICATORS

Year	Indicator	High Income OECD	Upper Middle Income	Turkey	Lower Middle Income	Low Income
2001-2002	Primary Gross Enrollment (% of relevant age group)	102	104	100	112	94
2001-2002	Secondary Gross Enrollment (% of relevant age group)	106	81	74*	75	46
2000	Average years of schooling, Female	10	7	4	7	3
1995-2002	Births attended by skilled health staff (% of total)	99	92	84	78	41
1995-2002	Hospital beds (per 1000)	7	3.4	4	3.7	..
2002	Infant Mortality Rate (per 1000 live births)	5.4	18.7	28.5	32	78.6

*For 2003-2004, 96.4 %

Source: WB, SPO

(1963-Present)

- A long-term policy choice
- Ankara Agreement (1963)
- Additional Protocol (1970)
 - Reduction of tariffs in 12 and 22-year periods
- Customs Union (1996)
- Helsinki European Council (1999)
- Accession Negotiations (October 2005)
 - Implications (institutional, political, economical, social)

WHAT DID WE LEARN? (1)

- Trading in world markets
- Coping with external competitive pressures (*Customs union with the EU, WTO process*)

	<u>1995</u>	<u>2004</u>	
<i>Imports from the EU countries/total imports (%)</i>	47.2	43.5	(EU-25, 46.6)
<i>Exports to the EU countries/total exports (%)</i>	51.2	51.6	(EU-25, 54.6)

- Progress in service sectors (*banking, tourism, construction*)

	<u>1995</u>	<u>2004</u>
<i>Tourism revenues (billion \$)</i>	5.0	15.9

- Creation of a dynamic and strong private sector (*accounting about 80 percent of manufacturing sector*)
- Creation of organized industrial zones (*synergy, cooperation, spillover effects*)
 - # of Organized Industrial Zones: 77 (42,000 enterprises; 609,000 workers)
 - # of Small Industrial Estates: 386 (86,666 workplaces)

WHAT DID WE LEARN? (2)

- Macroeconomic and political stability
- Openness / Trade orientation
- Growth and equity: no trade off
- Complementarity between markets and the State
- Key role of public institutions and governance in implementing good policies and strategies
- Creation of adaptively efficient institutions (to changing circumstances)
- Social and individual participation enhances development

FUTURE DEVELOPMENT AGENDA (1)

- Maintaining macroeconomic stability
- Making the whole public spending system more efficient
 - Public administration / finance reform
 - Reform social security system
 - Restructuring public finance towards pro-growth (physical infrastructure) and pro-equity expenditures (human capital: education, health)
 - Reform tax system to improve the investment climate (rationalize taxes, simplification of the system, improved tax administration)

FUTURE DEVELOPMENT AGENDA (2)

- Proceeding with the EU Accession Process
 - Adapting to EU's legislation
 - Implementing EU programs
 - Restructuring the institutions, training public employees
- Investing in human capital and social services
 - System-wide reform in education: improving service delivery; reforming secondary and higher education system (more emphasis on vocational training)
 - Further effort to reduce the gender gap in education
 - Address regional imbalances in educational / health services
 - Systemic reform in health sector towards expanded primary services
- Enhance Regional Development
 - Establish Regional Development Agencies
 - Bottom-up approach in development process
 - Empowerment of social groups / local authorities
 - An instrument for rural development



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