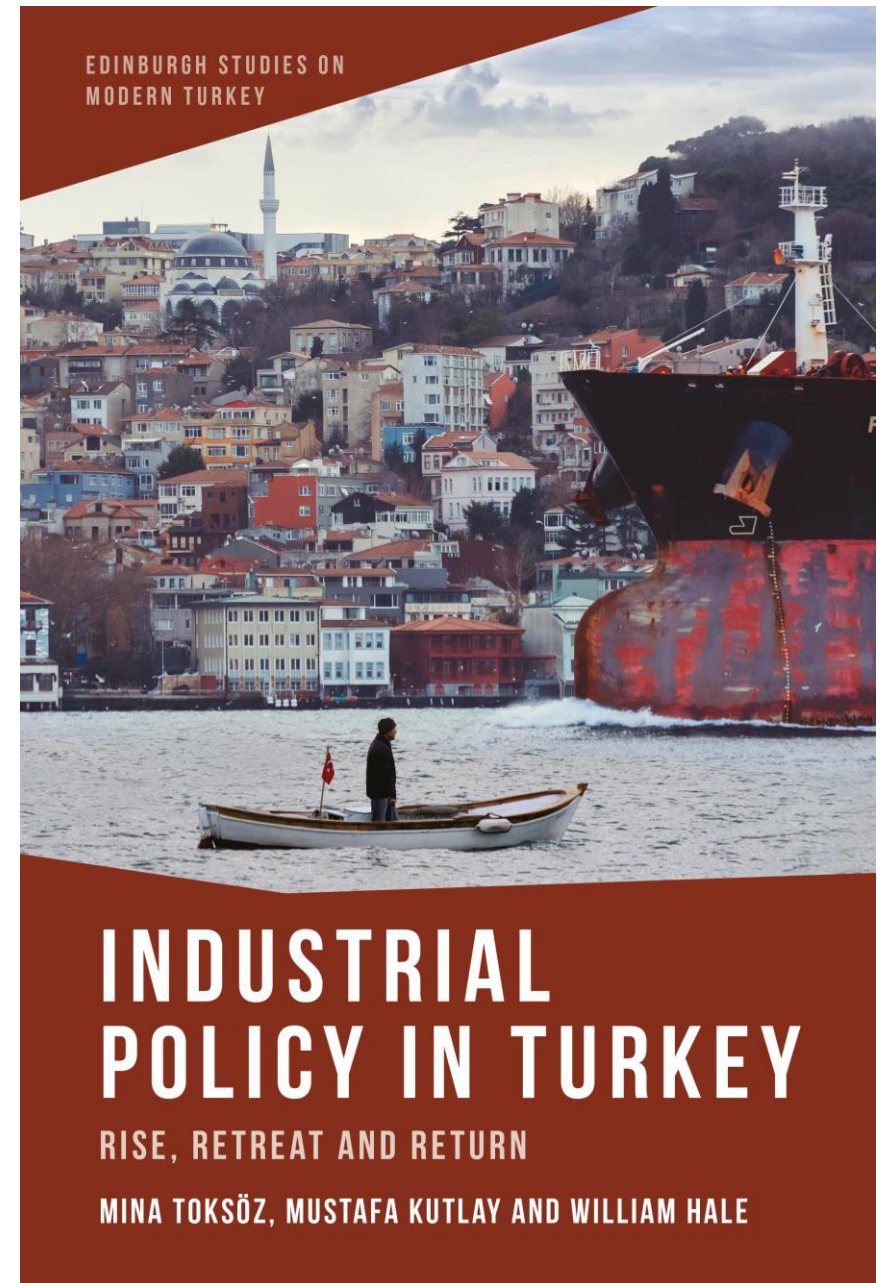


# Industrial Policy in Turkey

## Rise, retreat, and return

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# Main themes and conclusions

- **What is industrial policy?** Why do countries adopt industrial policies?
  - Today's Advanced economies – how did they get there?
  - Developing countries and late industrialisers – how to catch up?
- Main question not so much **“WHY”** but **“HOW”** ?
  - Big ideological debate on ‘free-market’ and ‘state role in the economy’
  - Dichotomies of export-led vs import-protection; horizontal measures vs vertical sector measures == need to utilize both.
- **Conditions for effective industrial policy**
  - Must have: state capacity, institutional ‘embeddedness’
  - Good to have: macro-economic stability; favourable global conditions

# Turkey's historical experience, 1923-80 (1)

- **1. 1923-30 Reconstruction and nascent industrialisation in market system.** Restrictions of Lausanne Treaty, 1923-9. Industrial Encouragement Laws of 1913, 1927, creation of 'national bourgeoisie'. Strong growth, 1923-6, but this mainly post-war recovery.
- **2. 1930-39 Birth of industrial planning.** Effects of great depression, economic and ideational. 'Etatism': 1<sup>st</sup> 5-year Industrialisation Plan (1934-8) – textiles, ceramics, paper, glass, cement, chemicals, steel. Disputed GNP growth (5%? 11%? p.a.). Significant import replacement. Parallel & state-dependant private industry.
- **3. 1939-50 War and transition.** WW2 produced economic contraction, runaway inflation and state control. In late 1940s ruling CHP proposed liberalization, but little achieved

# Turkey's historical experience, 1923-80 (2)

- **4. Failed Liberalisation, 1950-60.** Democrat Party government sought liberalised development with US aid. Steady growth 1950-55 but then stagnation – inflation, trade deficits, increasing but erratic state intervention.
- **5. Rise and fall of economic planning, 1960-80.** Following military rule (1960-61) series of 5-year economic plans, beginning in 1963. Justice Party governments under Süleyman Demirel were unenthusiastic, however plans helped to produce steady GNP growth (ca. 6-7% p.a.), 1963-75. But in late 1970s political and economic collapse, leading to 2<sup>nd</sup> military regime, 1980-83.

## Implications

- a. Significant effect of global ideational as well as economic shifts.
- b. Throughout, state retained powerful but erratic role – problem was not deciding how much state intervention, but methods and purpose.
- c. Import replacement behind protective tariff barriers increased industrial output, but internationally uncompetitive, entrepreneurs were risk-averse rent seekers, 'infant industries' failed to get up out of their prams.

# The “retreat” of Industrial policies: 1980-90s

- Major turn to **liberalization policies after 1980 crisis** and coup:
  - Liberalisation of finance, trade (from ISI to export-led), capital flows
  - Privatisation; cuts in real wages and fiscal support to agriculture; reduced state investment in industry (except defence post Cyprus crisis)
- **Marginalisation of the State Planning Organisation**; rise of Treasury
- **EU Customs Union/WTO membership** – limits Industrial policies
- **Still significant state intervention** in economy – but more personalized (under Ozal), leads to increased corruption with use of **ad-hoc measures and ‘off-budget’ funds**, eg Export incentives;
- Tk industry **integration into global economy** – some competitive sectors in consumer goods, automotive + rise of Anatolian SMEs

# Post-Washington-consensus after 2001 crisis

- Focus on **'Institutions'**: post-Washington-consensus – Independent Regulatory Authorities established, independent CBT
- Major **privatisations** – but many irregularities
- Industrial policy **limited to 'horizontal' measures**: business environment, regional development; helps AKP voters Anatolian SMEs
- **Rare period of macro-stability; Break-out sectors**, eg automotives, linked up with EU supply chains;
- But **missed opportunity in 'New Economy'** sectors– nascent ICT firms devastated by Dot-com, 2001 crisis – major restructuring of 'old' holdings shift out of telecoms, IT, textiles, into energy (privatization) and financial & construction services.

# Return of Industrial Policy since GFC

- **2010 Industrial strategy for Turkey**

- Aim: for Turkish industry to become a *'Medium and high-tech production base for Eurasia'*; reassert importance of industrial sector; reduce import dependence

- **2019: Tech Driven Industry Initiative**; aims for high-tech X % total m.X to reach 5.8% by 2023

- **2021: Green Deal Action Plan**

- **2022: National AI Strategy**: led by Presidential Digital Transformation Office Directorate & Ministry of Industry and Technology

- Progress in establishing defence industry with a wide domestic supplier base; success in project-based incentives; start-ups in gaming and e-commerce peak in 2022; 100 Techno-parks

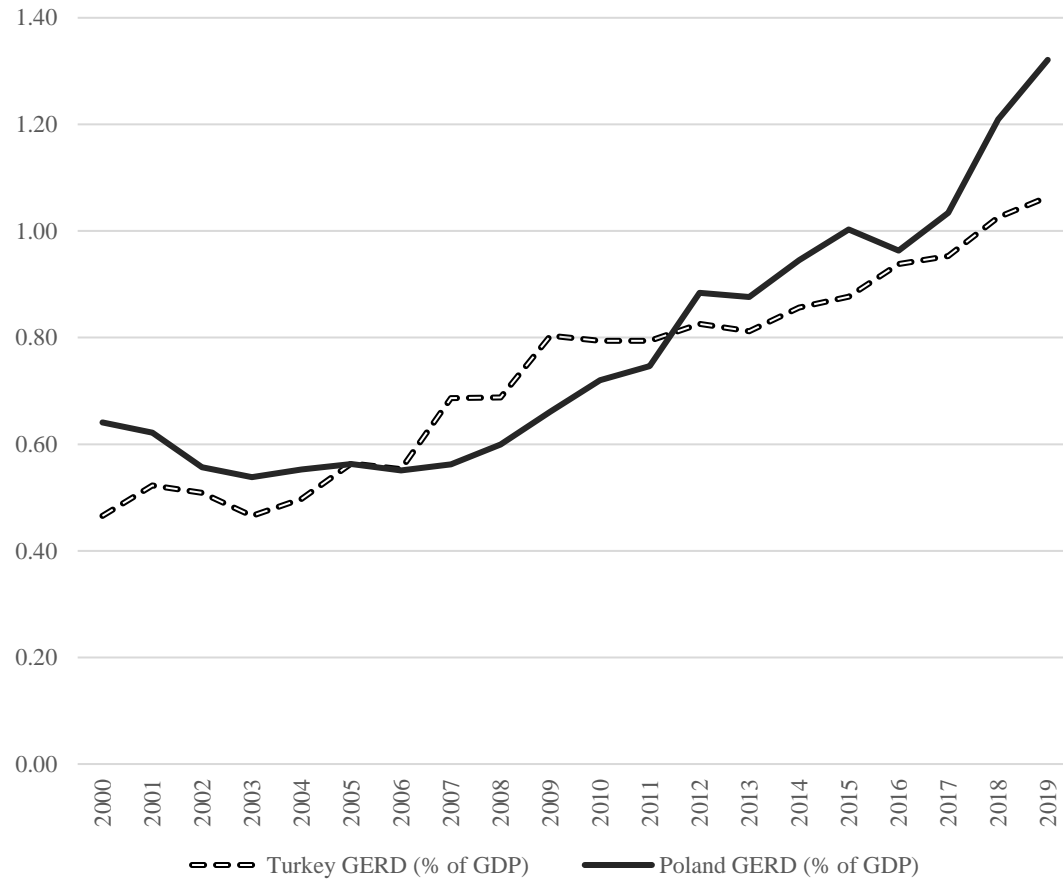
# ICT and R&D indicators Turkey vs Poland

(source: Authors own compilation from DEIK, UNESCO, OECD. \*2019)

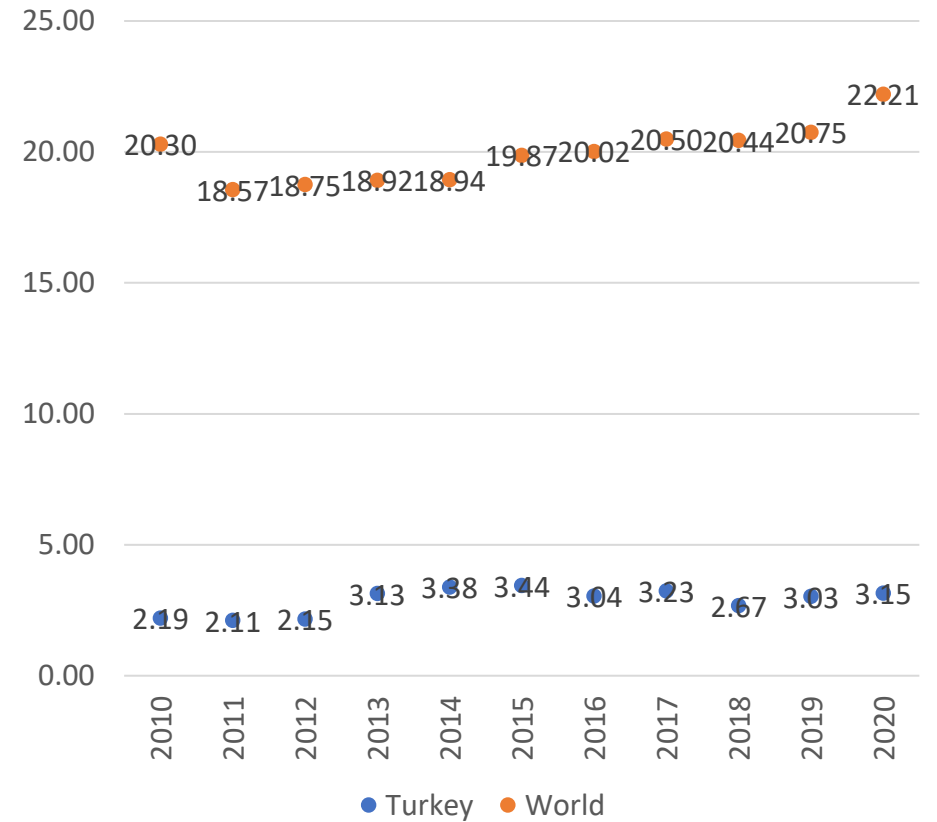
	2000	2010	2020
<b>Mobile phone subs (per 100 people)</b>	12.5	85.4	96.8
<b>vs Poland</b>	17.5	122.5	127.7
<b>Internet users (% of population)</b>	3.8	39.8	74.0
<b>vs Poland</b>	7.3	62.3	84.5
<b>High-tech exports (% of manufactured exports)</b>	4.0	2.2	3.2
<b>vs Poland</b>	3.0	8.0	10.1
<b>GERD (R&amp;D spending, % GDP)</b>	0.47	0.79	1.06*
<b>vs Poland</b>	0.64	0.75	1.32*



# R&D as a share of GDP lagging



# High tech-X % of total Manufactured X stagnating



# Declining Effectiveness of Industrial policies

- **Institutional weakening** since 2011, but especially since 2018  
centralization of policy/authority in the Presidency
- Many incentives but too complex & **macro-instability** and uncertainty  
undermining long-term private investment
- Deteriorating **global conditions**, decline of inward FDI, protectionist  
trends, regional conflicts
- Industrial policy become (a) a **countercyclical policy**, to offset impact  
of repeated crises – many incentives used for daily turnover; (b)  
channel for allocating resources to AKP periphery