The year 2023 will mark the centennial of the Turkish Republic. The government has set an ambitious economic goal for this date: for Turkey to become the 10th largest global economy. However, this is easier said than done. In this article, the challenges that Turkey may face in achieving this target are discussed and a perspective on the private sector’s contribution to this process is presented. The author argues that Turkey can only achieve its goals for 2023 and beyond if it emerges as a stable and mature democracy that provides the necessary background for a successful economy and a thriving business community.

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The year 2023 will mark the centennial of the Turkish Republic, founded in 1923 following the collapse of the 624-year-old Ottoman Empire. For this date, the government has set the ambitious economic target of Turkey becoming the 10th largest global economy.

Even though this target and related detailed projections have not been published in any officially approved development plan, they appear on the website of the Ministry of Finance, and have been repeatedly expressed by the Prime Minister and other government officials on various occasions.

The goal of becoming the 10th largest global economy is accompanied by an export volume target of 500 billion U.S. dollars, which is virtually triple Turkey’s present export performance. Within this time frame, the plan is to move from being categorized as a middle-income to a high-income country with a GDP per capita of 25,000 U.S. dollars. Another target is to make Istanbul one of the top-10 global financial centers, with at least 1,000 companies listed in the Istanbul stock exchange –now called Borsa Istanbul– which means roughly doubling the existing number. Furthermore, the government desires to enhance the economic image of Turkey abroad by supporting the creation and development of at least 10 globally recognized Turkish brands.

In addition to these aspired targets, the government also aims to complete accession negotiations with the EU, while becoming a leading manufacturer and a top notch service provider, both in neighboring regions and beyond. These political and economic projections are significant since they allude to the pro-Western attitude of the current Turkish government.
Naturally, the above mentioned targets are all very motivating for the Koç Group, which has continually and confidently been investing in Turkey for the past 87 years, believing in the country’s potential and future. As Koç Group, we hope and trust that Turkey will live up to its full potential so that these targets may be reached.

However, this is easier said than done. In this article, the challenges that Turkey may face in achieving these targets will be discussed and a perspective on the private sector’s contribution to this process will be presented.

The economic restructuring of Turkey over the past decade is one of the notable success stories of the global economy. Following the dual crisis in banking and public finances in 2001, Turkey embarked on a concerted path of structural reform. This included strong fiscal consolidation, strengthened banking supervision, reforms in the social security system, and a shift to a flexible exchange rate regime with an independent Central Bank responsible for inflation targeting. As a result of these efforts, per capita income increased from approximately 3,000 dollars in 2001 to 10,500 dollars in 2012 with a GDP of 800 billion dollars, securing Turkey’s place as the 17th largest economy in the world. Turkey also succeeded in improving the socio-economic well-being of its citizens through increased access to education, with almost universal enrollment at the primary level, and an increased number of universities and vocational schools. A similar trend has also resulted in the development of a higher quality health sector. These praiseworthy improvements have put Turkey in a more favorable position than many EU member states, in terms of market potential and business growth.

However, there are other countries that have also transformed their economies relatively successfully in the past decade, and that share similar aspirations of increasing their respective global economic standing.

In 2009, China surpassed Japan as the second largest economy in the world, and in 15 to 20 years it is expected to become the largest economy in the world – much earlier than previously anticipated. A study by PricewaterhouseCoopers (PwC)
suggests that the economies of the largest developing-emerging countries, or E7—which include China, India, Brazil, Russia, Mexico, Indonesia, and Turkey—will be as large as the economies of the G7 by as early as 2019.

PwC forecasts that the E7 economies will surpass the G7 economies due to continued higher growth rates. This is a remarkable achievement for the E7 countries, considering that in 2000 the total GDP of the G7 countries was twice as large as that of the E7 countries. By 2030, PwC expects China to be the largest economy in the world, followed by the U.S., India, Japan, Brazil, Russia, Germany, Mexico, France, and the UK. Turkey is forecasted to be the 13th largest economy in 2030, compared to its 17th place today.

Hence, it is very important to have a clear understanding of where the global economy is heading in order to remain on track with the rest of the world. When we, as Koç Group, conduct long-term planning exercises in the sectors we are in, one of the crucial components of the analysis is benchmarking ourselves with key local and global competitors. Likewise, Turkish policy makers will also benefit from continually engaging in global benchmarking analysis in order to better assess Turkey’s comparative strengths and weaknesses.

For instance, as of 2012, India is the 10th largest economy in the world, with a GDP of 1,947 billion dollars. Under the assumption that the current growth momentum of each country will be maintained for the next decade, our analysis indicates that France will be the 10th largest global economy by 2023 with a GDP of about 3,500 billion dollars. Hence, in order to increase its GDP from 800 billion dollars in 2012 to 3,500 billion dollars in 2023, Turkey needs to grow by an average of nearly 14.7 percent on an annual basis.

Over the last decade, Turkey’s average annual GDP growth in U.S. dollar terms has been around 13 percent. About five percent of this was real economic growth and the remaining eight percent was the result of the appreciation of the Turkish Lira (TL) against the U.S. dollar. This simple calculation shows that Turkey should increase its already high growth rates even further if it wants to achieve the aforementioned ambitious targets. This is obviously a very daunting task, but is not impossible.
Even if we may not be able to achieve these targets by 2023, striving to do so would mobilize the economy and would definitely contribute to the overall welfare of the country. To put it in other words, if after taking all the right steps we end up as the 12th largest economy in the world, this should not necessarily be perceived as a failure but instead as a success because it would be a sure sign that the country is on the right track.

To further enhance the Turkish economy’s potential over the medium-term and to reach high-income status, more structural reforms, particularly at the micro level, are required. This will also bolster competitiveness and boost private savings.

The most important structural problem Turkey faces is its excessive reliance on foreign capital inflows in its growth model, which makes it difficult to attain a sustainable growth path. The domestic household savings rate is very low. According to the IMF, gross domestic savings as a share of GDP in 2011 stood at 12.5 percent. As per this metric, Turkey ranks 130th out of 170 countries, according to the IMF data. Maybe more importantly, since the second half of the 1990s, the savings rate has been on a declining trend. Accordingly, savings as a share of the GDP declined from 22.4 percent in 1990 to 12.5 percent in 2011.

Considering that private sector investments are around 18-20 percent of the GDP, insufficient levels of domestic savings leave us in need of foreign capital inflows to finance growth. In order to achieve the higher growth rates necessary to put Turkey among the 10 largest economies in the world by 2023, the ratio of investments to GDP has to increase to 23-24 percent. Obviously, this necessitates an even higher savings rates in order to ensure sustainability of high growth rates.

The global crisis, which began in 2008, has made it clear that relying on a growth model too dependent on foreign capital inflows is clearly unsustainable.

Therefore, the priority of policy makers, business community members, NGOs, and academia in Turkey with regard to reshaping Turkey’s growth model should be to come up with new ideas that would help attain a sustainable growth trajectory.
Recently, both the government and bureaucrats have been working intensively on this issue in coordination with other stakeholders in the country. Last year, a new scheme aiming to promote household savings, mostly by encouraging participation in a private pension scheme, was introduced. Within this scheme, the government now contributed a substantial amount of 25 percent to private pension investments. Further efforts are needed to strengthen the financial markets in Turkey and improve financial literacy so that an increased portion of savings may be channeled into the financial system. This is also crucial to achieve the target of making Istanbul one of the top-10 global financial centers.

Although it is essential for Turkey to increase its savings rate, establishing a competitive manufacturing footprint should be another key priority for policy makers.

Made evident by the crisis in the euro area, it is very difficult and highly costly for a country to regain global competitiveness once it loses it. Therefore, Turkey has to implement a series of micro-reforms in order to enhance the global competitiveness of its economy.

Using the World Economic Forum (WEF) terminology, competitiveness may be defined as the set of institutions, policies, and factors that determine the level of productivity. This, in turn, sets the sustainable level of prosperity that can be earned by an economy. In other words, more competitive economies tend to produce higher levels of income for their citizens.

According to the WEF, Turkey is in the second stage of economic development, meaning that it is an efficiency-driven economy. Hence, it is essential to improve conditions in areas where there is a potential to enhance overall efficiency. The factors important for enhancing efficiency are higher education and training, quality and productivity in the labor market, improved financial markets, technological readiness, and market size. Obviously, promoting innovation and business sophistication are also important.

Turkey is already a large market; hence, market size is not a factor that hinders its competitiveness. However, according to a comparative analysis of global
competitiveness and productivity, it is apparent that further actions are needed in the areas mentioned below:

**Health and Education**

Although significant progress has been achieved in the health sector—in areas such as infant mortality, doctors per capita, number of hospital beds etc.—there is still significant room for improvement.

As evidenced by PISA scores in literature, mathematics, and sciences, on average the Turkish primary education system is not good enough to equip students with a proper knowledge base for their further academic studies. Continued focus is needed on improving the overall quality of education and expanding its availability.

The number of universities and vocational schools has increased in the last decade. However, university enrollment rates and the quality of education are still not at desired levels, as indicated by the low number of internationally acknowledged publications. In addition to this, the education system does not generate medium-level graduates who could be employed by the industrial sector. There is an urgent need to both increase the number of vocational middle schools and to improve the quality of education in these schools.

The private sector should share a part of the responsibility of raising the standard in education and vocational training. As Koç Group, we made it our mission to mobilize our resources around the issues of inequality in opportunities for education and youth unemployment. Accordingly, we initiated a project called: “Vocational Education: A Crucial Matter for the Nation”. This project was designed to raise awareness regarding the importance of vocational training, and to plant the seeds of cooperation between public and private sectors by showing leadership in this area.

**Labor Market Efficiency**

One of the areas where there is substantial room for development is improving efficiency in the labor market. Some of the most problematic issues are the very low levels of female labor force participation, rigidity of employment, high redundancy costs, and improper linkage of pay to productivity.
Low levels of female labor force participation also lead to low household savings rates. In most households there is only one breadwinner, which is typically the father. However, if we were to attract more women into the labor force, this could result in a higher income level for the household and an increased propensity to save.

**Institutions**

Since 2002, significant reforms have been implemented in order to align Turkey’s institutional framework to EU standards. However, Turkey still does not fully enjoy an institutional framework that can enhance productivity and hence, competitiveness. Some of the most important issues are as follows:

- Insufficient protection of property rights, especially intellectual ones
- The need to improve the general judicial system
- Unpredictable and volatile environmental regulations
- The continued presence of heavy bureaucracy and high levels of red tape, despite major improvements within the last decade

**Macroeconomic Environment**

As already mentioned, in the aftermath of the crisis in 2001, Turkey was able to implement policies that have been successful in promoting economic growth, improving infrastructure, strengthening the banking sector, disciplining public finances, attaining lower inflation and interest rates, and attracting foreign investors. Although the macroeconomic environment no longer hinders the competitiveness of the country, there is still room for further improvement. The areas where further progress is needed are listed below:

- Increasing the corporate and household savings rates
- Permanently bringing down inflation and interest rates below the 5 percent level
- Decreasing the share of Turkey’s unregistered economy in order to provide a fair playing ground for both domestic and foreign investors
- Promoting policies to support investments in high value-added products, especially in the industrial sector, in order to decrease dependency on imported intermediate goods
- Promoting policies to increase the share of high-tech exports
• Promoting energy efficiency in order to decrease dependency on imported raw materials, especially energy-related ones
• Implementing policies to ensure a sufficient and reliable energy supply
• Implementing policies to broaden the tax base, increase efficiency in tax collection, and decrease the share of indirect taxes in the total tax collection
• Implementing policies to substantially improve efficiency in the agricultural sector in order to shift some of the excess agricultural labor force towards the service and industrial sectors
• Promoting policies to increase investment in R&D

Contribution of the Private Sector Through the Lens of the Koç Group Experience

Up until now, suggestions on what the government can further implement to achieve Turkey’s ambitious targets for the next decade have been discussed. However, it is obvious that reaching those targets can only be possible with the cooperation of all other key players in the economy. Within this context, being the largest conglomerate in Turkey, the Koç Group has always assumed the responsibility of leading the change and has risen to the challenges our country has faced. In our 87-year history, on average we have grown faster than the Turkish economy. In the future, we hope to continue contributing to the growth of Turkey.

We believe that to reach this goal, our responsibility to ensure social and economic development and to protect and preserve the environment is as important as providing products and services of the highest quality. We identify this philosophy with the personal motto of our founder, Vehbi Koç: “If my country prospers, I prosper,” and consider this to be the guiding principle for our way of doing business.

Over the years, we have achieved what had been considered challenging: the development of globally distinctive products and services. Beyond that, we have been leaders in establishing the best working environments for our employees, creating the most environmentally friendly products, founding centers of excellence in the areas of health care, education, culture, and arts, while successfully serving large segments of the community.

Koç Group has always been a leader in research and development in Turkey. We have been listed among the world’s top companies by R&D investment according to the “EU Industrial R&D Investment Scoreboard” for six consecutive years, rising to 562nd place in 2011. Of the four Turkish companies on the list, three are Koç
Group Companies. Even more focus on R&D and product development is needed to realize Turkey’s goal of becoming a leading economic power in the world.

**Conclusion**

The efforts of the government and the business community can only bear fruit if Turkey can ensure political stability and social cohesion within a world-class democracy where individual rights are guaranteed through a properly functioning legal system. In order to achieve this, the culture of consensus among Turkey’s political elite should be improved, especially in regards to very crucial issues such as the new constitution, which is in the process of preparation. In conclusion, Turkey can achieve its goals for 2023 and beyond only if it emerges as a stable and mature democracy that provides the necessary background for a successful economy and a thriving business community.
Can Turkey Rebound to Achieve its 2023 Targets?

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