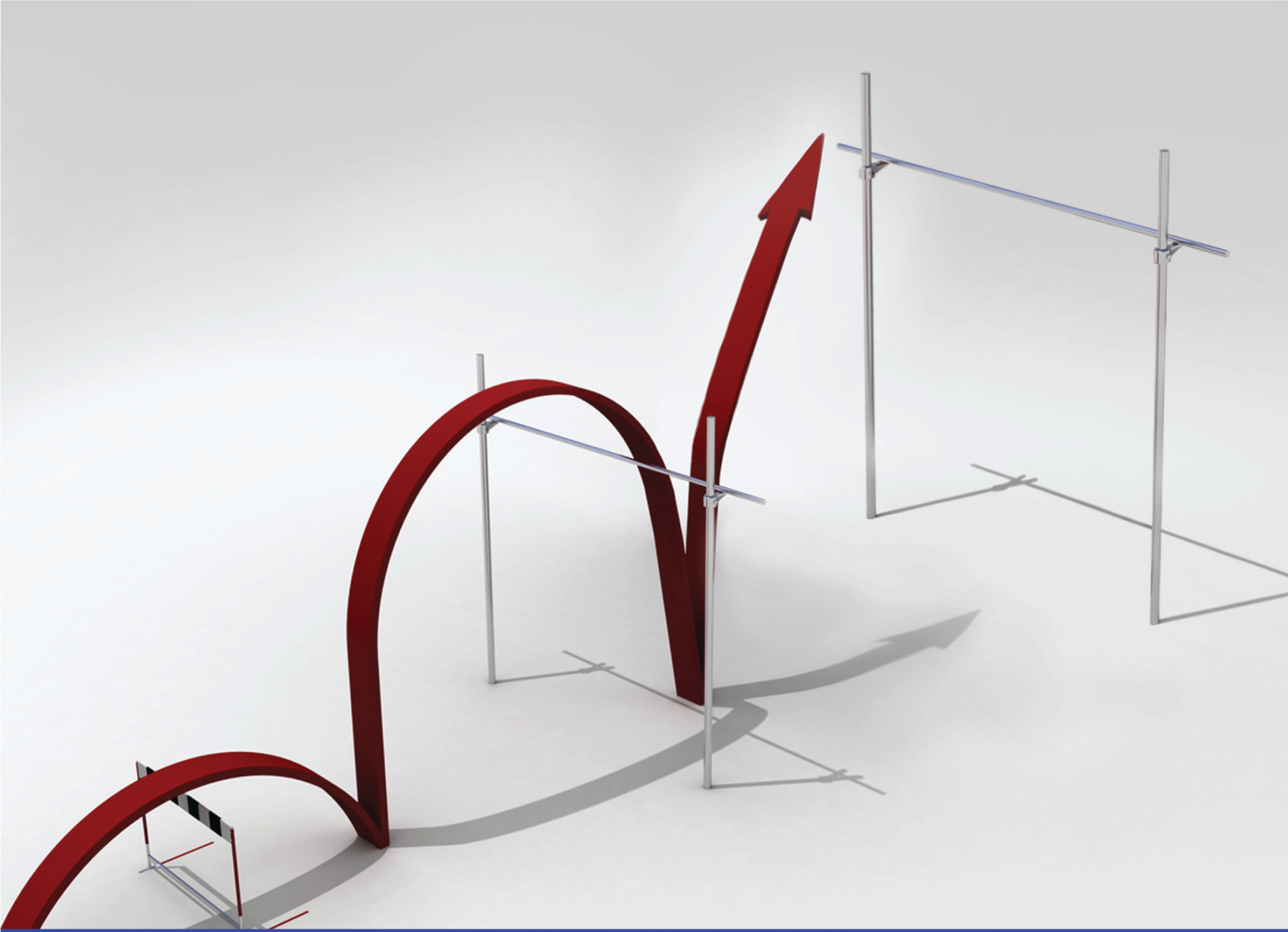




Research Reports

INDEPENDENT INDUSTRIALISTS AND BUSINESSMEN'S ASSOCIATION



THE NEW THRESHOLD IN THE WAY OF DEVELOPMENT

MIDDLE INCOME TRAP

FOREWORD BY THE PRESIDENT | MIDDLE INCOME TRAP | POLICY RECOMMENDATIONS

2012
TURKISH
ECONOMY
REPORT

TURKISH ECONOMY REPORT 2012
THE NEW TRESHOLD
IN THE WAY OF DEVELOPMENT:
MIDDLE INCOME TRAP

MUSIAD Research Reports: 79

**TURKISH ECONOMY REPORT 2012
THE NEW TRESHOLD IN THE WAY OF DEVELOPMENT:
MIDDLE INCOME TRAP**

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www.mavioffset.com

Pressed

Istanbul, October 2012

ISBN 978-605-4383-24-5

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Nail Olpak
President of
MUSIAD

FOREWORD

THE NEW THRESHOLD IN THE WAY OF DEVELOPMENT: THE MIDDLE INCOME TRAP

In the 2000s, both Turkish economy and global economic conditions changed significantly. While Turkey entered into a structural transformation process and exhibited differences from the past in many fields, it undersigned a successful performance in the field of growth, trade volume and capital movements in world economy. Thanks to its structural transformation, EU full membership agenda and the environment of trust and stability achieved, Turkey successfully kept up with this positive conjuncture in the globe and even benefited from this situation and entered into a period of convergence with the EU. Within this frame, as a result of economic reforms and well-directed policies, Turkey's economy recovered from the appearance of random drift which it demonstrated for a long time and took a road with a defined route.

In 2009, the global crises which penetrated into an exhausted domestic conjuncture where some problems were experienced in terms of democracy, constituted an obstacle against the growth venture which was continued since 2002. However, Turkey succeeded in getting over this ominous process and was able to make new moves by 2010 in both the economic and democratic fronts.

As a result of this, in a global environment where developed countries are still sick, Turkey's rising up, starting to run and being in the forefront in the race was a development which drew the attention of the entire world. On the other hand, in the category of developing countries which are in the ascendant with the attacks they made in recent years, Turkey succeeded in climbing to the top. Indeed, until just a few years ago, Turkish economy exhibited a performance that was below the growth average of developing countries but it

made up the difference by undersigning growth rates of 9,2 % and 8,5 % respectively in 2010 and 2011 and ranked among the fastest developing countries together with China and Argentina.

When the impressive growth which was achieved in 2011 is examined in detail, it is seen that private consumption and private investments played a role in this development, similar to that of the year 2010. Different from previous years, the fact that exportation proceeded to attack in the second half of the year and became one of the factors that gave impetus to development must be seen as a fairly pleasing development. When examined in terms of supply, in addition to the services sector which the sectors of commerce, transportation and construction gave impetus to, the industrial sector also had an important share in the increase in national income.

In addition to this, the extraordinary growth which was experienced in the Turkish economy since the aftermath of the crisis revived employment markets and the problem of unemployment started to be treated finally. Indeed, the employment rate which climbed to 14 % in the period of crisis dropped to single digit figures by reaching the rate of 9,8%. The rate of 8,8 % which was realized in September 2011, was the lowest figure seen in unemployment since 2002. In addition to this, financial policy was successfully managed and the rate of budget deficit to national income decreased to the level of 1,3 % in 2011, which is far below the Maastricht Criteria which EU countries cannot even imagine.

On the other hand, with the monetary policy which was managed during and after the crisis with a proactive approach, Turkey undersigned an achievement which was even envied by developed countries. Within this context, price stability as well as financial stability was realized as desired. However, by the last quarter of the year 2011, it must be noted that an inflationist pressure started to be felt with the effect of exchange rate transitivity and the price increases made in various product groups.

Within this context, when it is considered that coping with the pressure of inflation is possible in a short time with the measures taken, it is seen that in the year 2011 when a good macroeconomic table is achieved, the indicator which can be described as negative is current deficit. Therefore, the problem of current deficit, which is a side effect brought about by growth due to structural problems in the economy and which became even more evident in 2011, became the primary issue which must be coped with in terms of the sustainability of growth.

In addition to this, when it is kept in mind that in the past, Turkey was shaken easily and fell into balance of payments crisis with lower rates of current deficit and in periods when the external world was relatively better, it is a significant development that today, in an environment where external environment deteriorated even more and with much deeper current deficit, it does not have any financing problems. Within this frame, the fact that

Turkey achieved the ability of proceeding on its way without falling into a balance of payments crisis despite increasing current deficit indeed indicates an important change. Yet again, as emphasized in MUSIAD 2011 Economy Report entitled Strategic Transformation for Sustainable Growth, it is time to speed up strategic transformation in addition to maintaining a good conjuncture management.

Indeed, for a high and uninterrupted sustainable growth, Turkey needs reforms to carry its current potential growth rate from the level of 5 % to 7 %. Otherwise, Turkey will stay in the middle income country status for a long time which it was entitled to enter in 2004 by finally graduating from the class of low income countries and will not be able to enter the high income group, which is the next development target. Therefore, it is necessary to design and implement strategic policies to increase efficiency and competitive power without delay in order to abstain from being trapped in this cycle which is named as the “middle income trap” and which many countries were subject to in the past and to raise the bar with speed.

The most important approach to be adopted within this context is to take a position focused on the future world instead of trying to make up for what we could not do in the past. This is what needs to be done now to be able to have a word in the future’s world. Therefore, as well as the targets set until the 100th anniversary of the Republic, targets must be set for the year 2050 and the road map of the Turkish economy must be set with a calendar in a concrete way.

However, it must be remembered that such a high target as being among the first 10 economies of the world can only be achieved by having certain shares in the world economy in elements such as national income and foreign trade. Data shows that economies which can rank among the top 10 today constitute at least 2,5 % of the world’s gross product (GDP) and exportation. Therefore, although it is a significant success that our country increased its share in world GDP to 1,25 % and its share in global trade to 0,75 % by 2011 as a result of its superior performance in recent years, it is obvious that more effort must be exerted in the way to its targets.

On the other hand, there is a long distance to be covered ahead of us to be able to reach the status of a developed country, in addition to becoming one of the biggest economies. We have to find solutions soon for increasing national income per capita without being trapped in the cycle of middle income and raising our place in Human Development Index, which is an indicator of factors such as quality of life, education, etc. and in which we still rank 92nd, to fairly high positions which we can pronounce as among the first 50.

Therefore, we clearly see the necessity of making graded plans with the aim of achieving the 2023 targets which we believe we will achieve since the moment they were set and the high targets to be set for longer terms such as the year 2050.

In addition to all these, it must also be remembered that economic performance runs in direct connection with the level of democracy. In this respect, it is necessary to improve the democratic basis even further for the success of the economic policies to be formed in line with the development targets. This indicates the requirement of making a civil, libertarian constitution based on social agreement as soon as possible.

In this respect, we are glad to have speeded up our activities in the fields of democracy and economy, the two indispensable factors in the development of our country in recent periods as MUSIAD. Indeed, in our study named Turkish Republic Constitution Suggestion which we prepared with a big social responsibility awareness and intense labor and presented to the public in December 2011, we tried to contribute to the most important progress on the “democratic front”. Within the perspective of contributing to the development on the “economic front”, we are glad to have presented MUSIAD Economy Report, which has become a MUSIAD classic and which presents solutions for current problems by examining economy from all aspects in detail, in 2012 as always to the attention and service of decision makers.

We shaped the theme of our 2012 Economy Report within the frame of the “middle income trap” which we defined as the most important obstacle which Turkey must avoid in the way of development with the aim of emphasizing the significance of sustainable growth and strategic transformation, which we had underlined in our 2011 report. I wish that our report, which presents this phenomenon which is a very critical stage for being able to go further than this point we have reached today by combining it with macro, micro and meso level suggestions as a result of current economic status analysis, will be beneficial for our country and all interested parties. Also, I would like to extend my thanks to all those who contributed to this study, especially Dr. Hatice Karahan, who served as the editor of this extensive study and MUSIAD Economy Advisory Board.

CHAPTER 1

THE NEW THRESHOLD ON THE WAY OF DEVELOPMENT: THE MIDDLE INCOME TRAP

1.1. THE LAST STATE OF TURKISH ECONOMY

Although Turkish economy gave a break to its 27 quarters of growth adventure with the effect of the global crisis experienced in 2008 – 2009, this break lasted for about 1 year and left its place to a rise again from the last quarter of 2009 onwards. The negative effects of the crisis on both national income and employment were disposed of quickly and Turkey succeeded in ranking among the top three in world growth list two years in a row by realizing impressive growth rates in a global conjuncture where still a pessimistic table was dominant in the years 2010 and 2011.

Within this context, many macroeconomic variable also improved based on growth and by the end of 2011, the unemployment rate which peaked during the crisis decreased below the level of 10 % and the Budget Deficit/GDP rate below the level of 1,5 %. However, while this and many similar indicators continued to progress positively, there was a serious increase in the current accounts deficit depending on growth and the speeding up of importation. Therefore, the treatment of the crisis brought about its side effect in addition of improvement.

On the other hand, Turkey achieved today's success with the economy policies which it started to implement after the 2001 crisis but it must be acknowledged that the period of modification in economy has completed its lifespan. At this point, it is important to maintain the high growth which was achieved in the last 10 years because it is not suf-

ficient to trigger growth but sustaining it requires a difficult struggle. For this reason, the main reason from now on must be “sustaining high growth”, which forms the theme of MUSIAD 2011 Economy Report.

In the next period when progress must especially be made in line with 2023 targets, sustaining growth is also important to be able to avoid the danger named “the middle income trap”, as expressed by MUSIAD since 2010. Indeed, if growth cannot be sustained in the long run, Turkey might be trapped in what can be named as a vicious cycle and be destined to stay as a middle income country for decades.

1.2. THE CONCEPT OF MIDDLE INCOME TRAP AND WORLD ECONOMIES

The middle income trap is not a new concept in economy literature. It refers to economies’ staying at the level of middle income countries for a long time after reaching this stage and not being able to jump to the high income group level.



















Before examining the concept of middle income trap in more detail, it would be beneficial to understand what the expression “income trap” means. In fact, income traps can be encountered in the level of “low income” as well as in the level of “middle income”. At the same time, decreases in the income level can also be seen in high income countries due to structural problems.

This concept, which takes income per capita as data and measures income per capita in dollars according to Purchasing Power Parity (PPP), refers to the vicious cycle which a country enters at a certain income level. According to this, countries which fall into income trap stay at this level for a long time and cannot move on to an upper level. Table 6.1 can be examined to be able to understand the concept of income trap better.

As seen in the table, the best indicator determining income traps is the growth rates in the country which has reached a certain growth level. In this direction, economies which can maintain growth rate at a certain pace are healthy and look to the future with hope because a low income but stable growth economy will soon enter the category of middle income countries and such a middle income country growing at a stable rate will enter the category of high income countries.

In addition to this, alarming economies face the risk of not being able to exit the income level they are at. These economies demonstrated high growth for some time but lost this in time and were not able to spread it to the long run. Within this frame, if the level of middle income is taken, countries in this group exited the category of low income with a fast growth but started to slow down when they reached middle income level. The first reason why these countries entered the cycle of middle income is wages. Indeed, low income economies can climb up with fast steps by employing abundant and cheap labor at

Tablo 6.1. Income and Growth in Economies

	LOW INCOME	MEDIUM INCOME	HIGH INCOME
ON-GOING GROWING	  POOR, HEALTHY, HOPEFUL	  MEDIUM INCOME, HEALTHY, HOPEFUL	  RICH, HEALTY, HAPPY
DECREASING GROWTH	  UNDER THE RISK OF LOW INCOME TRAP	  UNDER THE RISK OF MEDIUM INCOME TRAP	  UNDER THE RISK OF HIGH INCOME TRAP
STANDING GROWTH	  POOR AND ILL	  MEDIUM INCOME	  RICH AND ILL

the beginning. However, this advantage is removed when the country enters the middle income category, which means higher wages and thus, these economies lose impetus by losing their competitive power. Therefore, if efficiency cannot be increased and technology developed, it is not possible to reach the next income level with humble growth rates and thus, countries find themselves in the middle income trap.

Many examples of countries falling into low, middle and high income level traps can be given from the past and present. Within this context, many Asian and African countries fell into poorness vicious cycle and today, they can still not make the moves to exit although they have the necessary potential.

On another extreme, it is possible to fall into the same trap on the basis of high income economies. Such an economy as Japan which completed its development process successfully by graduating from the middle income class and made up the difference with the forerunners could not continue this dynamic run. In fact, average growth of Japan is below 1% for the past twenty years and the country cannot exit this vicious cycle. Parallel to this, Japanese economy continuously gives an “industrial migration” due to high costs

and is entering into a de-industrialization process as experienced by England in the 19th Century. As a result, Japan is making no progress with its stagnant growth despite a high national income per capita and it is falling from favor.

Together with the 2009 global crisis, there are very strong pioneer indicators showing that the EU can fall under the effect of similar dynamics. As in Japan, growth in the EU is fairly low; economy cannot create new jobs and while the population ages, social security deficits, public debt and budget deficits increase uncontrollably. There is no sufficient agreement yet as to what the pushing factors to enable Japan and the EU to exit this high income trap are.

On the other hand, cases which fell into middle income trap are the majority over the globe. Countries such as Thailand, Philippines and Malaysia which were able to break the “low income” cycle by fast growth and entered the middle income group of countries could not grow at ideal rates after having reached this stage and could not enter the rich countries group by passing on to the next level. In other words, these countries are trapped in the middle income trap. Parallel to this, since 1987, that is, in the past 25 years, a group of economies the majority of which are comprised by Latin American and Southeastern Asian countries, did not find an escape from this trap cycle.

In addition to this, there are also countries which managed to climb to the next level without being caught in this trap. Within this frame, Vietnam can be given as an example to countries which broke the chain of low income. As Vietnam broke the poorness cycle, South Korea entered the group of high income countries without being caught in the “middle income trap” and is continuing without any sign of stagnancy. National income per capita (on PPP basis) in South Korea which was around 8.000 dollars in the beginning of the 1990s rose to 10.000 dollars by 1995, that is, to the level of middle income countries. Despite the Southeastern Asia crisis in 1996, South Korean economy, which evaluated 1990s generally as a “move period” without compromising on stable growth, passed to the category of high income countries in 2008, clearly showing that it was not caught in the trap.

1.3. MIDDLE INCOME TRAP AND TURKEY

In addition to examining the status of Turkey facing the middle income trap in the medium run after being in the middle income country status since 2004, it would be beneficial to touch upon the low income trap which it passed through before the 2000s.

1.3.1. THE STRUGGLE TO ESCAPE FROM THE LOW INCOME TRAP: BEFORE 2004

After the World War II, Turkey experienced two “lost ten years” experience – one in the 1970s and one in the 1990s. In fact, deteriorations in both the internal and external conjuncture were experienced in these two periods; instability and populism came to the forefront prominently; national will was damaged with military coup d’état or memorandums and macroeconomic balances were seriously damaged.

To take a short look, it is seen that Turkey entered the period before the 1970s, that is, the 1960s, with Import Substitution Industrialization (ISI) policies, parallel to the entire world. But unfortunately, the first decade which was relatively successful, left its place to a total collapse in the second decade. In fact, the period when Turkey missed the train in planned development and import substitution industrialization corresponds to the 1970s. The ISI model which Turkey started in the 1960s had many critical weaknesses.

The first of these weaknesses is that the model emphasized a static and awkward approach, rather than efficiency and a dynamic industrialization. Secondly, the model is protective and the competitive environment was not institutionalized. Also, in addition to the deficiencies in the system and the lack of vision and disconnection from the world in the Turkish economy, the lack of support/discipline/supervision to provide transformation of the industrialist based on a long term, strategic and entrepreneurship quality must be added. Therefore, this inefficient order which could not draw foreign currency and which was not subject to the positive effects of competition, completed its lifespan without success and put Turkey into the 1980s as a poor country.

Afterwards, Turkey entered into a process of moving in the 1980s but the necessary internal and external anchors for a take-off could not be put into effect; a global harmony mechanism could not be set up and thus, the system could not take any road in a decade despite partial improvements in the economic field. The 1990s devastated the economy with the political and economic instability and collapse created by coalition governments and ended with the 2001 crisis. Therefore, Turkey was trapped in the low income country cycle for a long time.

With the change and reform process which was finally entered after the crisis and the political stability and successful economic policies of the single party government, Turkey took a sigh of relief again after a long time. Within this context, the program of “Transition to a Powerful Economy” was successfully implemented and Turkish economy started to put many of its macroeconomic indicators in place. In fact in this period, the economy exhibited a fast and uninterrupted growth performance with the effect of the achievements in transition to industrialization and efficiency; took down the public debts which had reached record levels during and before the crisis and gained financial discipline. In addition to this, high and sticky inflation, which was the biggest problem of economy for years, was taken from 70 % to single digits.

Depending on all these, as detected in EU progress reports, Turkey achieved the identity of “working market economy” for the first time in its history since 2004 where the primary sectors of the economy started to work and risks became measurable, foreseeable and manageable.

And finally, Turkey managed to increase its level of national income per capita, which was 3.000 dollars at the end of the 2001 crisis the middle income level of 10.000 dollars in 2004. In this way, it was able to escape from the low income trap in which it was stuck only decades later.

1.3.2. ELEVATION TO MIDDLE INCOME COUNTRY STATUS: 2004-2011

After 2004, when it reached the level of middle income country, Turkey continued its growth incessantly but in the last quarter of the year 2008, it started to shrink with the effect of the global crisis. The economy started to recover again in the last quarter of the year 2009, reached growth rates envied by many countries and which can be accepted as a record in 2010 and 2011. While mature economies such as Europe, the USA and Japan could not make a move, Turkey differentiated positively in the world and rose as a calm harbor in the turbulent world.

In addition to this, it must be kept in mind that Turkey had to manage the process experienced since 2008 with the effect of the external world the fragility of which still continues. Achieving the figures in line with the determined 2023 targets cannot be possible without a strategy. In addition, the program which enabled Turkey to rise from the income level of 3.000 dollars to 10.dollars in short time will not be sufficient for making it reach the level of 25.000 dollars. In fact, as indicated before, this program enabled the repair of the already eroded economy basically.

On the other hand, Turkish economy gained the stability which it longed for since 2002 and put into operation the potential it had and its poorness advantages to the fullest extent. In the past ten years, asset prices were low, real wages were sufficiently competitive and credit costs decreased and all these supported growth by being reflected positively on Turkey’s competitiveness. In this environment, traditional sectors with low-middle technologies increased in Turkey. This situation refers to the situation of countries which have fallen into the middle income trap. The advantage of low costs and labor intensive sectors is lost when the country enters into the category of middle income and it becomes necessary to increase the competitive power.

Turkey achieved the middle income country status only 7 years ago. Therefore, the process of climbing the income steps is normal for now. However, it is necessary to be careful so that a vicious cycle is not entered into in the stage of passing to an upper level in the later periods. The fact that Turkey ranks in the lowest levels in the OECD league which is comprised of 53 countries, 62nd among 132 countries in world competition league and

82nd in the human development index of the United Nations must be seen as an obvious homework within the context of Turkey's deepening its development move.

When the fact that the high growth experienced in the economy in 2010 and 2011 and the presence of a current deficit problem which must be structurally solved is combined with this data, indicates that Turkey might pass through a “middle income trap” test in the future period. At this point, economy's being caught in this trap and becoming stagnant and becoming an open market at increasing rates can be overcome only with tight measures which must be taken today.

1.3.3. STRATEGY OF PROTECTION FROM THE MIDDLE INCOME TRAP: 2012 AND ONWARDS

As a result, in order not to fall into the middle income trap and to enter the high income countries group in an ideal period of time, two purposes must be taken into consideration in determining the development strategy of Turkey for 2012 and onwards: The first of these must be achieving ideal growth rates in the short run. The other one is ensuring that growth continues in the medium and long run. This can be realized with the establishment of a growth model where we cannot finance current deficit and not experience the situation present today in economies similar to that of Greece.

Therefore, a “double ended” growth strategy must be used as a tool in the future period. The basic element of this strategy is to draw a long term vision determining a graded growth rate on the way leading to 2023 and afterwards. At the same time, when the current situation is evaluated, in an environment where global economic stagnancy and partial slow down continues, it would be natural result that national development starts to lose speed. Therefore, it is apparent that Turkish economy needs a new good architecture so that this loss of impetus seen since it started to develop in 2012 does not become permanent.

Of course, there is no global recipe determined for economic development. In fact, the correct growth strategy differs from country to country and can even differentiate within a country due to changes that occur in time. Similarly, the content of development also differs among countries which grow at the same rates. One of the countries which have achieved the same growth rate might have reached that point with industry and the other with the services sector. Therefore, the road to be followed for a healthy economic development passes through a road map which the country will form in line with its own needs without overseeing the experiences of other countries.

For this reason, while growth is adopted as the main target in the design of the new architecture in the Turkish economy, the structural current deficit problem which needs a solution must also be given a hand. As production in Turkey is mainly dependent on importation, there has always been an increase in foreign trade deficit and therefore, current deficit in growth periods. As this deficit which increased recently can be financed, it did not carry a big risk but it is obvious that it is not sustainable.

It must be noted within this context that due to the high indebtedness rate of the household, national savings did not reach the desired level in 2011. The rate of private investments to GDP was realized as 22 % in 2011 while the rate of private savings to GDP was 13%. When it is taken into account that investments and savings must balance each other, it is seen that savings rates follow the ideal level from behind. This difference between investments and savings was achieved by way of external financing. However, it would not be a rationalistic approach to continue depending on external financing especially in an environment where there is a grey economy on a global scale.

In this situation, the new economic strategy must be constructed in a way enabling “breaking the connection between growth and current deficit” to be able to act in line with long term development targets.

Different development models have been put forward in the literature of economics from the past until today. On the basis of these theories which extend from factor accumulation to factor efficiency, different strategies implemented by countries are seen. The “import substitution” production strategy which was adopted by many world countries before the period of 1970-80 and which focuses on producing the products imported by a country inside the country, left its place to “export based” production later on. Turkey adopted a standard growth policy since the 1980s and left the import substitution growth model. In other words, instead of making production for the domestic market, it preferred to focus on foreign markets.

In addition to this, although exportation was adopted as the main dynamic of growth, the desired point could not be reached for a long time with the effect of the problems in foreign policy. Within this context, data indicates that the foreign market intensification in production which was the main target of policy was not fully realized and the growth in production is connected to the growth in “domestic demand” to a large extent. In the period of last 10 years, a significant increase was achieved in exportation with the zero problem policy and the maximum integration model which was implemented afterwards.

Parallel to this, it would be beneficial to look at the data of 2011 with the aim of seeing the level of the contribution of exportation to growth. Like in previous years, data shows that the two main components of GDP growth are private consumption and private investments. Consumption constituted a significant 70 % portion of national income as always and gained the biggest point of GDP growth rate with the 7,7 % growth rate it exhibited. Similarly, private investments formed the most important growth item in 2011 following consumption with 22,3 % of national income pie and a growth rate of 22,8%. These two consumption groups contributed by 5,3 and 5,1 points respectively to growth increase rate and exportation could only contribute by 1,5 points despite increasing its annual impetus.

As can be simply understood from these figures, although Turkish economy is in the effort of export-based growth, it rather implements a domestic demand based growth model without naming it so. Then, what kind of a road should Turkey take in this environment

where it must continue with a correctly defined strategy? Examination of this question is important for determining the sub-chapters of the ideal plan to be implemented.

Of course, there are advantages and disadvantages of both the domestic centered and exportation centered growth models. According to some economic researchers, domestic demand based growth is only appropriate for economies which produce an income equal to 2% of world's GDP. According to this view, in an economy in which sufficient saving rates are not provided, it would not be healthy to try to grow by taking solely domestic demand as a basis.

On the other hand, in today's world where exportation is an indicator which demonstrates the competitive power of countries, it is necessary to use this tool more intensively which leads the way for technological development and foreign investment. Exportation also enables production to be directed towards sectors where it has comparative superiorities and therefore, be efficient. Thus, it is highly necessary to put into effect exportation based growth model in a more efficient way in the future period.

Within this context, bringing the share of exportation in Turkey's development agenda is an non-negligible urgent need and when today's global economic conditions and uncertainties are taken into consideration, it is also important that domestic demand based growth must also be used effectively. A strong domestic demand must trigger foreign investments and make them more advantageous.

In this respect, Turkey's new growth model can be described as a non-traditional mixed solution package which will be shaped in line with its needs. In order to achieve a sustainable development in line with 2023 targets, a production policy which is based on high competitive power, which encourages exportation to all world markets without cooling the domestic market and which will also minimize the current deficit problem.

When the components of this policy are considered, handling the formation process of the national income in general might give a more clear idea. When the derived GDP is put forward with the simplest formula, it is seen that it is comprised of three multipliers. These are: the number of employed people, the number of hours spent by each employee and the number of products produced by each employee per hour.

The first two of these factors are related to the structure of labor markets. The product that is produced, though depended on the amount of capital, is in relation to efficiency to a great extent. Therefore, it is not sufficient to be only capital rich to be able to produce more but it is also necessary to use capital efficiently. For this reason, it is obvious that the strategy to be determined must be efficiency based. Within this context, sectors which have important effects by providing interim passages in the efficiency of sectors must be handled as the meso level of the economy.

As a result, it would be beneficial to handle the necessary dynamics for a growth model separately for micro, macro and meso levels. This approach will provide the advantage of

totality in policies by establishing a ternary model with a meso level analysis handling sectors, in addition to the macro view examining GDP dynamics and the micro view affecting the players of the economy. The success of the development model to be formed will be dependent on the strong relationship within these ternary policies.

MUSIAD presents its measurement suggestions which must be taken at these three levels within the frame of Turkey's development targets to the attention of decision makers and the public in Section 2.

CHAPTER 2

POLICY RECOMMENDATIONS

2.1. MACRO POLICIES

Measures taken in an economy on a macro dimension must provide the balanced and stable conditions for markets to continue to operate. Within this context, the monetary policies and financial policies to be implemented are very important so that no macroeconomic instability is experienced.

Many economic researches have detected that macroeconomic applications are not sufficient for ensuring efficiency which is the most important factor in succeeding in long term growth. In other words, a good macroeconomic policy is not a sufficient condition for growth. However, as a bad macroeconomic policy will lead to achieving pessimistic results in economy, arrangement of macroeconomic policies as appropriate for conditions and targets is the first condition of success.

Within this context, successful monetary and financial policies form the basis of the system. In addition financial arrangements must be taken as a part of macroeconomic policy.

2.1.1. PRUDENT MONETARY POLICY

- **Ensuring Price Stability**

The main target of monetary policy is ensuring price stability. What is meant by price stability is not only achieving the lowest inflation but being able to realize this for a long time without serious variations. The chronic high inflation in Turkey which could not be overcome for a long time was successfully brought to heel in the period of last 10 years and was reduced to one-digit levels by 2004. But in the year 2011, inflation rose to 10 %

again due to reasons such as high growth, increase in commodity prices and Exchange rate effect. Although this is not a very worrying development in the short term, the measures taken are important for returning to one-digit inflation levels in the following periods again.

In addition to this, the fact that the difference between the inflation realized and the inflation targeted grew and this became ordinary might negatively affect the credibility of the Central Bank of Turkey in the medium run. This might be an indicator of the fact that trust in inflation targeting will be damaged as the effect of the global crises is prolonged. In this case, it will be necessary to look for alternative strategies for ensuring price stability.

• Continuing the Pro-active Role

However, it must be acknowledged that especially the financial difficulties experienced in the EU and other global uncertainties indicate that for now, it is not possible to put forward a monetary policy with a defined frame. Deviations in inflation targeting are not specific to Turkey. In this case, it is important that the Central Bank of Turkey continues in pro-active role for a while with a flexible monetary policy which is shaped according to the situation.

2.1.2. PRUDENT FINANCIAL REGULATION

As underlined by the Central Bank of Turkey for some time, ensuring price stability is not sufficient for overseeing macroeconomic balances. For instance, situations such as the tendency to rise in the Exchange rate or contiguous variation lead to financial uncertainty and make the process of taking economic decisions difficult. In addition, such an uncertainty might make the situation serious by bringing about speculative movements. On the other hand, the fact that exchange rate is high; in other words, the decrease of the value of local money also triggers inflation. This and similar reasons clearly indicate that it is necessary to establish the conditions for providing financial stability in addition to classical inflation targeting.

• Ensuring Financial Stability

Within this context, reducing fluctuations by increasing depth (trading volume) in currency/TL markets and ensuring that actors of the market give more healthy decisions must be one of the issues which must be handled. With this aim, it would be effective by ensuring that banks give quotation for important amounts at certain margins by way of giving advantages to them such as reserve ratio and tender priorities and thus, ensuring that the prices to be formed in the market are realized within these margins.

In addition to this, credit lines formed for currency stores given by banks to abroad must be closely followed by Banking Regulation and Supervision Agency and decreased when necessary.

Also, interest discount aimed at reducing the share of short term speculative foreign investment funds in total foreign capital investments must be used actively.

• Decreasing Foreign Currency Position Deficits

In outward oriented economies, the difference between the currency assets and liabilities of sectors, more specifically, companies, is used as an important indicator in assessments. Net currency positions of the firms in the real sector in Turkey in the last quarter of 2011 were recorded as 93,5 billion dollars. On the other hand, short term net currency deficit was realized as 16,2 billion dollars. This short term currency deficit which is seen as not low constitutes pressure on the exchange rate. For this reason, activities aimed at removing the deficit with medium term financing are important in terms of financial stability.

2.1.3. DISCIPLINED FINANCIAL POLICY

In order not be caught by and/or affected negatively from the economic crisis, implementation of financial discipline is accepted as one of the indispensable conditions in addition to prudent monetary policy and prudent financial policy.

After exiting the crisis, it can be clearly seen in the light of data that Turkish economy did not compromise on financial discipline in 2010 and 2011. In fact, the rate of the budget deficit to national income was realized at the level of 1,3 % in 2011, which is far below the level of 3% which is the Maastricht Criteria. Therefore, it is obvious that the state is successful in the field of financial policy. Especially when EU countries such as Greece and Spain are struggling with financial crisis, Turkey's not compromising on financial discipline must be described as a development worth appreciating. What is important from now on is to continue financial discipline in the future because in order to have a strong economy in the future, a strong public economy is needed.

• Harmony with Monetary Policies

Sustainability of the financial discipline requires following financial policies that are in harmony with prudent monetary policies. Within this context, Turkish economy needs institutionalizations which will enable monetary and financial policies to work in harmony.

• Efficiency in Public Expenditures

Another important condition for a strong public economy is undoubted, increasing effectiveness in public expenditures. The importance attached to performance based expenditure method brought with 5018 must be increased to increase effectiveness in public expenditures.

• **Subsidiary Sources of Income**

As mentioned above, investment is a must for growth and savings for investment. In an economy where there are no savings, no sustainability can be mentioned because perpetual debt cannot be taken as basis for increasing the level of welfare. Therefore, the rate of savings must be increased in the Turkish economy. Savings are provided from two sources as public and private. Within this context, one of the main purposes of financial policy must be increasing public savings. This can be possible by creating strong subsidiary sources of income other than taxes.

• **Fighting against Informal Economy**

Increasing taxes is one of the most important factors for a strong budget. Measures must be taken with the aim of ensuring that the central administration budget which had a deficit that can be accepted as low as a result of the restructuring of tax debts and the increase of the taxes derived as a result of high exportation in 2011 does not weaken in 2012 when economic activities have slowed down.

At this point, it is significant to use tax collection as one of the important factors of fighting against informal economy so that it can be maintained at high levels not only in the current period but also in the long term. In addition to supervisions and incentives, uniting the regulations on business and work life and reviewing some fields in the tax system must be one of the most important steps which must not be neglected in fighting against informal economy.

2.2. MICRO POLICIES

Policies that are designed with the aim of providing competitive power to markets, in other words, to sectors and firms, by ensuring that resources are used efficiently are micro policies. Such policies are of critical importance in that they contain many dynamics in the development model to be adapted from production to education, workforce to technology.

2.2.1. PRODUCTION POLICY

As mentioned above, exportation must have a significant place in the growth model to be adopted by Turkey in the future period. Exportation which is targeted to be increased will make a great contribution to development with the income it generates and the positive externalities which it will bring about such as technology, investments, etc. On the other hand, exportation will also play a critical role in the solution of the current deficit problem which is almost the only problem worth paying attention to of the Turkish economy which has been exhibiting a fairly strong stance by the year 2011. For this reason, it is important that a strategy that is aimed at exportation must be formed in production.

There is no doubt that the current accounts deficit in Turkey is a structural problem. Therefore, even if the budget is taken under control with monetary policies, the solution of the problem lies in a structural change.

• Encouraging Export-Oriented Production

Within this context, encouraging exportation in Turkey and making production in a way that will increase exportation are the primary conditions. For this reason, factors such as increasing exportation incentives, providing low-cost exportation financing, giving advantages in taxes obtained from exportation revenues will enable exportation to turn into a more competitive field.

In addition to this, with the aim of increasing of exportation with a higher impetus, activities must be continued in two different perspectives. One of these is product variety and the other is market variety.

• Product Variety in Exportation

What is meant by product variety is the starting to variety of products for exportation in the next periods by differentiating from what is traditional and this happening in terms of technology and innovation.

Therefore, the main target for foreign trade in 2012 and later periods must be exporting products that contain higher rates of technology and form additional value or bear innovative features with the aim of being able to compete in global markets and even making a difference. This can be achieved with the tools of technology policy, which is a micro policy that will be handled under a different heading.

• Market Variety in Exportation

Market variety is also an important factor in increasing export volume. The share of European countries which had approximately half of Turkey's exportation pie for a long time is decreasing due to the global crises and depressions continuing afterwards. Therefore, despite this level which fell below the level of 40 %, the increase in exportation is due to the success achieved in alternative markets. In other words, the fact that Turkish businessmen turned towards markets outside Europe in recent years yielded positive results and came to help in the problematic period of the region which is its most important exportation partner. Then, in such an age when global uncertainty is dominant, continuity of the success in the penetrated markets must be ensured and new markets must be sought so that exportation can have a strong stance.

Within this context, forming trade blocks with developing countries, especially with environment countries, must constitute an important part of the diffusion process. Parallel to this, trade with bordering countries must be strengthened and especially shopping made at the borders in TL currency must be brought to the agenda.

Also, restructuring of Eximbank in market conditions according to market and product variation and branding priorities is an important subject which must be touched upon for the encouragement of exportation.

• Solution of Structural Problems in Exportation

As known, Turkey is foreign dependant in production, especially in terms of interim goods as its resources are not rich. For this reason, in periods when growth moves upwards, importation climbs together with production. Therefore, importation, which forms the basis of the current deficit problem, is a structural problem of the Turkish economy. However, the purpose is to ensure a growth which does not bring current deficit. In this respect, ensuring that importation decreases while increasing the speed of exportation must be another base of the policy to be able to ensure maximum growth with minimum deficit.

When 2011 foreign exchange data is examined, it is seen that the biggest portion in total importation belongs to chapter of mineral fuels and oils with 22,5 %. To put it in other words, energy need constitutes the biggest source of our importation problem. The scarcity of resources such as oil and natural gas in Turkey is known and the share of products derived from these in importation is at incontrovertible levels. Therefore, increasing the number of refineries is considered as highly beneficial at least with the aim of making the domestic production of these products. In addition to this, activities related to alternative energy production must also gain speed. Suggestions about this subject will be handled in more detail within the frame of sectoral suggestions.

In addition to this, other important importation items as machinery and boilers, iron and steel, land motor vehicles, electrical machines and devices in the given order. It is important that these products, some of which requires technological advancement must be assessed with priority in production strategy within the frame of an import substitution approach and within the frame of relative superiority.

Input Supply Strategy (ISS) is an important step in relation to this issue but it is seen that the public factor is deficient in application. For this reason, formation of the public base of ISS must not be neglected so that the program can be holistic and functional.

Within this context again, shifting Turkish economy from a labor intensive structure producing consumption goods to the production of knowledge intensive products in the medium and long run must be one of the main targets of the production policy.

• Encouraging the Use of Domestic Goods for Domestic Production

The notice on the use of domestic goods ensuring the preference of goods manufactured in Turkey with priority in applications related to purchase of goods to be realized by public foundations and institutions which took effect by being published in the Official

Gazette dated September 6, 2011 was recorded as a very important and appropriate step. In fact, it is almost impossible to compete with the goods coming from the Far East in public tenders. In such an environment, the forcing for the use of domestic goods will prevent unfair competition in some sectors where goods coming from the Far East are widespread. At the same time, application of this approach which can lead foreign capital to production in Turkey must be effectively supervised especially in municipalities and public institutions.

2.2.2. TECHNOLOGY POLICY

Technology can be defined as one of the most important tools for development to feed itself and to ensure that gains are durable. Within this context, application of a serious technology policy will increase investment productivity and provide the production of export goods with high added value and enable economic growth without current deficit increase.

• Effectiveness of R&D Supports

Setting out from here, it can be mentioned that it is highly important to increase support for R&D investments and realizing it in steps within a strategic planning. Some measures taken for realizing these purposes have already been put into effect. KOSGEB's (Small and Medium Sized Enterprises Development Organization) R&D, Innovation and Industrial Application Support Programs, Thematic Project Support Programs, TUBITAK R&D supports can be given as example to these. The incentive program that was announced in April 2012 is also an important long-term step taken for solution in this respect. Presentation of this and similar tools to companies must be continued.

In the current situation, some of the supports are transferred to projects or sectors the return of which are uncertain or will take a long time without making a rational benefit-cost analysis. Within this context, with the aim of using resources effectively and increasing competitive power as soon as possible, it would be rational to provide supports more intensely in fields where relative superiority can be achieved and fast results can be obtained. In addition, incentives must be given with a prepaid model instead of progress method to make R&D process faster and more effective.

In addition to this, strong incentives and supports must not be limited to the research and development stage only and processes such as marketing, primarily commercialization, must be continued so that the results obtained are not wasted and the products achieved can be benefited. In fact, research and development activities which cannot be commercialized do not create value in economy.

Of course, it is also necessary to measure, that is, to detect how much benefit the supports provided will bring. For this reason, performance indicators model must be developed for assessing the effectiveness of incentives.

• **Developing Technological Infrastructure**

Physical infrastructure of techno parks must be strengthened and these parks must be turned into clustered science-technology-production parks. Also, current working and management conditions in these places must be reorganized. Training and counseling services must also be developed in these centers. It would be ideal to establish these new generation techno parks with the hand of the private sector or under the roof of public-private sector cooperation. For this reason, making the necessary arrangements in relation to giving the management of parks to the private sector will play an important role in proceeding faster in the field of technological development.

On the other hand, the number of business incubators must be increased. Within this context, including the establishment costs of business incubators into the scope of the incentives must be considered. In addition to this, widespread laboratories must be set up in universities with the aim of obtaining more efficient results by developing university-industry relationship.

• **Supporting Industrial Design and Technology Hunters Model**

The contribution of capital to production must be increased as much as possible in order to become stronger and more effective in global competition. The road to economic growth and giving added value to the product passes from technology and design. For this reason, SME's innovative, intelligence products and industrial design activities creating new jobs and employment areas must be technically and financially supported. These supports must be developed by KOSGEB, Development Agencies and Patent Institute and presented with a process management whereby effectiveness can be measured.

In addition to these supervisions, "technology hunters" must be developed. In many parts of Anatolia, many innovative products developed in line with needs cannot be presented to the public due to lack of knowledge and sufficient means. A model must be established to reveal such innovative approaches developed by SMEs and coordinated by all development agencies.

2.2.3. EMPLOYMENT POLICY

The problem of unemployment in Turkey continued for a long time and despite the high growth after the year 2001, had a stagnant course until the last few years. In other words, an employment friendly growth was not observed until the global crisis. However, with the effect of certain reforms that were made, the increase in economic activity in 2010 and 2011 was reflected on employment policies and a marked reduction in unemployment was observed. In this direction, the unemployment rate was realized as 9,8 % in 2011 and succeeded in falling to single digits.

In addition to this, increasing participation in the workforce, making activities on the compromise made on efficiency and quality in employment policies in addition to de-

creasing unemployment to low levels must form the main lines of the employment strategy to be followed in the future period.

• Increasing the Rate of Participation in the Workforce

One of the important indicators used in the evaluation of employment policies is the rate of participation in the workforce. The rate of participation in the workforce is calculated as the rate of employed or job-seeking people to the population at working age. Although the rate of participation in the workforce in Turkey has improved when compared to the past years, it is still at a very low rate. In fact, in 2011 this rate was realized as 49,9 %. In other words, only half of the individuals who can work in our society are working at a job or looking for a job.

However, when the labor markets in developed countries are considered, it is seen that this rate is around 70-80 %. Therefore, participation in the workforce in Turkey is at a very low rate and this means that potential labor remains unproductive.

When the dynamics of this situation in Turkey are examined, it is observed that gender discrimination is the main reason. In fact, while the rate of participation in the workforce in men was 71 % in 2011, this rate remained at 28,8 % in women. For this reason, the fact that women mainly prefer not to be present in the business markets lies at the foundation of the problem of unproductive labor in Turkey.

As a result of this analysis, it is important that women are encouraged to enter workforce markets. One of the bases of the subject which will bring a long term solution is increasing the schooling rate of girls. At this point, activities for raising public awareness and creating consciousness must continue.

Another base of the problem is the fact that the social culture related to the involvement of women in work life is not fully established yet. In this respect, social awareness-raising activities about the contribution of women to the economy with their different talents and productivities must not be neglected.

In addition to this, measures must be taken against the discrimination which can be made against women in workplaces and which cause women to move away from business markets. In connection with this, incentives must be developed so that employers consider woman employment with priority.

On the other hand, it would be beneficial to make encouraging activities with the aim of winning back individuals who have been discouraged because of not being able to find a job for a long time and withdrawn themselves from the workforce market.

• Removing the Rigidities in Workforce Markets

One element which leads to the presence of unemployment and thus, incomplete use of

human capacity, is the rigidities seen in workforce markets. To put it in other words, rules and costs for employing workers discourage employers especially in new employment and pose an obstacle to the formation of a competitive market. For this reason, it is indispensable that matters related to employment are reviewed and the current structure is made flexible.

Within this context, one of the biggest problems for employers is high nonwage employment costs. For this reason, reduction of social security Premium loads and tax loads will provide an effect in the direction of increasing employment. Especially the advantages in the new encouragement mechanism can be extended within this scope. In addition, a discount in the form of a general incentive can be given for employers who pay their SGK (Social Security Institution) premiums regularly.

Another factor which affects employment negatively is the fact that displacement costs are high. For this reason, employers have to think twice before they employ and employee. Therefore, reaching a solution which does not damage the employees must be reached in terms of displacement costs. Within this context again, it would be an important incentive for companies to write severance payments as expenditure.

Another rigidity present in the workforce markets in Turkey is in relation to work hours. Related conditions must be arranged and this system must be made widespread with “part time” employment which is known to provide an important contribution in periods when economic activity narrows and which will enable making use of a considerable workforce in the current situation. Also, it is important to put into effect the structuring related to flexible employment which is known to have similar benefits.

• Increasing Workforce Efficiency

The most important actor that plays a role in the background of production is total factor productivity which indicates how effective the production made is. What are meant by factors are capital, workplace and technology. Within this context, when considered in terms of workforce, it is of critical importance how much employees are efficient in addition to how much they produce per hour. When global efficiency indexes are considered, it is seen that productivity in workforce markets in Turkey is unfortunately at low levels.

The main way of ensuring efficiency and quality passes through education first of all. In addition to the education strategy which will be handled below as a separate micro policy, directions, incentives and supervisions must be made for efficient and quality product and service production.

• Revision of Occupational Security Laws

The occupational health and security system which is still applied has been changed for a couple of times, arrangements have been made but it could not keep up with time and lost its sustainability. In the current situation, problems must not be solved with temporary/

short-term solutions. The needs of both workers and employers must be provided in the fastest and cheapest way and the old supervision mind must be replaced with the double supervision based “supervision + service” system. For the management of this system, “occupational health and security councils” must be established in cities and cities with small industries. In such councils, trade unions, state, municipality, fire department, civil defense, work security specialists, workplace doctors, occupational chambers, OHS supervision firms must be represented in a fair and democratic way and local policies must be formed.

On the other hand, material fines must be arranged for work accidents but employers must be saved from being the principle and definite victim. Responsibility of employers must be limited by reducing to the minimum level and uncertainties depending on interpretation must be removed. In addition, SGK recourse cases must be removed because it is unreasonable for employers who make insurance payments for occupational health and safety on the one hand to make payments under the name of recourse after an accident or disease. In parallel to this, accident investigations must be made by a single department of the state. Indeed, the investigation of both SGK and the Ministry of Labor inspector only increases bureaucratic load.

In addition to this, supervision must be put in order and in this respect; the duty of supervision + service must be given to occupational health and security supervision-service firms the licenses of which have been given by the Ministry of Labor. The supervision authority-assignment of the Ministry must be permanent and also it must supervise supervision firms originally. Supervision firms must have the authority to “make suggestions” including temporary shot down. These institutions must serve regionally. A pool must be formed from the firms authorized in each region and the task assignments to workplaces must be approved by the Ministry of Labor.

The obligation limit for occupational health and security service and obtaining “operation permit” must be determined as 10 persons for a temporary period of time. However, the obligation of obtaining service and “operation permit” must be applied independent of the number of employees in works involving high levels of risks such as the chemical industry just as in the past.

Award-punishment, that is, chanciness must be taken as bases in SGK premiums. Calculation of SGK premiums must be rearranged as the resource of the payments to be made to OHS firms; firms with higher accident risk must pay higher premium and firms with lower accident risk lower premium. Premiums must be determined according to the OHS performance and state of the firm annually and an award-punishment system should be established so that those with lower work accident/occupational disease must pay less and higher work accident/occupational disease must pay higher premium.

Nuisance values must be provided from the occupational health and security fund. After the establishment of this system, compensation payments to be made to workers or their relatives-victims in all work accidents with death or injury must be provided from the oc-

cupational health and security fund to be established. This fund can be formed with the 20% share to be cut based on SGK premiums. Employers who fulfill the legal responsibilities they are responsible for must not be discouraged with issues such as imprisonment or paying millions of liras of compensation after possible work accidents.

2.2.4. EDUCATION POLICY

As mentioned above, human capital must also be high quality and productive in addition to technological development in order to have a competitive market. For this reason, the main condition for forming a qualified labor force is education. In fact, if the development of a country is seen a pyramid, it can be assumed that education lies on the basis of this pyramid which will affect the layers above to a great extent.

Education system in Turkey was interrogated for a long time in this respect and the issue of realizing the necessary arrangements was expressed many times. At this point, the Education Reform which was waited for a long time and expressed as 4+4+4 in the beginning of 2012 was the precursor of the start of strategic transformation by responding to some of the needs in this regard. Within this context, determination of when the changes of law will be implemented and informing the public about this subject in a clear way and in time must not be neglected.

The 4+4+4 Reform handles many problems in education and it is essential to indicate some of the elements which are important to be developed in the system especially for long term development targets.

- **Education must be directed at making students think**

Although Turkish education system underwent changes from time to time until today, it generally had a rote-learning based and competitive structure. This situation was unfortunately similar in the education given in early ages and in the university age. On the other hand, when the leading developed countries in technology and innovation are considered, it is seen that rote-learning system is avoided in their education system since young ages and thinking, producing ideas and examining is encouraged instead. Therefore, the education system must be restructured and purified from rote-learning system for a thinking, researching an interrogating system and as a result, a more efficient and dynamic economy.

- **Education must be Multi-faceted and Continuous**

Raising visionary individuals who can think in a multi-faceted manner, can view both social and business-related developments from a wide perspective is one of the most important step to be taken in the way of becoming a developed country. For this reason, subjecting students to an interdisciplinary education program especially in higher education levels is a subject which must be given consideration.

On the other hand, a system based on students' developing themselves not only in the academic field but also in social and artistic activities must be developed starting from the initial stages of education. In addition to this, life-long education programs must be intensified, encouraged and supported in order to have a society which continuously develops itself.

- **Education must be adjusted to Market Needs**

The curriculum followed in both vocational education institutions and universities does not qualify for responding to the needs of business life in general. For this reason, students cannot adapt to work life when they graduate and start working. This situation which is also defined as a negative factor for employers requires the curriculum to be made in harmony with the practical applications in business life and enriched. In addition to this, compulsory vocational internship programs can be prepared so that students can get to know occupational practices before they graduate.

In addition, the need for technical staff in many sub-sectors is growing increasingly as our industrial sector is developing fast. Therefore, renewal of vocational schools which raise intermediate staff in terms of image and content and their attracting more students must be one of the issues that are handled with speed. Within this context again, it is necessary to determine the strategies to increase the qualification of the managers and educators to serve in occupational educational institutions and to establish social supervision mechanisms.

In addition to this, when it is considered that economic development and thus, the growth in the sectors is in direct relationship with efficiency, it must be placed in minds what the concept of "efficiency" means and what kind of an importance it has starting from early education periods. In relation to this, it must be ensured that students understand the importance of the subject better in time by setting out from efficient studying methods.

2.2.5. INVESTMENT POLICY

Investments realized by the private and public sectors are among the most important factors of growth. In addition to this, activities must be speeded up to draw especially long-term foreign direct investments to the country.

- **Improving the Investment Environment**

Removing political uncertainties and making arrangements which will prevent investors from taking risks are among the top conditions for increasing investments.

On the other hand, some certain advantages to be provided for investors are also important for making investments attractive. Within this scope, bringing eases or flexibilities

related to VAT payment for large projects realized with the cooperation of the public and private sectors which comply with certain criteria will cause the private sector to be more inclined towards such important investments.

In addition to this, the current obstacles before investments in relation to regulations must be removed. In this respect, arrangements which discourage both domestic and foreign investments must be renewed. This must especially be handled within the frame of legal and tax applications and bureaucracy must be decreased.

Parallel to this, it is essential to develop intellectual property rights system for activities such as research, development, commercialization and investment in relation to innovative products and services especially and entrepreneurs must be ensured about this subject.

• **Making Effective Presentation**

In addition to improving the investment environment, country and sector presentations must be made effectively to be able to attract foreign investors. Even countries that have weaker resources and economy than Turkey can attract investors with a good and attractive presentation. Turkey's current investment activities are insufficient in terms of content and do not draw attention. Within this context, it is essential that a special importance is attached to the subject of presentation and a new approach is entered into. In relation to this subject, emphasizing that domestic market in Turkey is strong will be one of the most striking points.

On the other hand, development agencies and Investment Support Agency must be put into operation in a performance-oriented manner in the company of a strategy based on a long term vision.

• **Developing the Infrastructure**

One of the factors necessary for Turkey's reaching the desired figures in both national income and exportation after having set big development targets within the frame of the 2023 vision and for the later periods is to have a strong infrastructure to serve such purposes.

Within this frame, a strong logistic system must be established within the country especially for the purpose of supporting exportation. This is one of the most important deficiencies of growing Turkey. For this reason, the issue of connecting railroad lines to each other must be assessed soon so that transportation can be made more easily, faster and more effectively. In short, it is important that railway systems become widespread in the entire country. In addition, establishment of an air logistics center must be handled as a separate project.

Within this scope again, a strategy to enable the downward movement of transportation costs must be formed for a more effective transportation system.

• **Modernization and Activation of Institutions**

Institutions play an important role in the development of a country. Many underdeveloped countries in the history of economics implemented the economy policies adopted by developed countries but could not achieve the success they expected. The main reason of this was the institutional structure difference between developing and developed countries. In fact, the success demonstrated by institutions while implementing policies created and is creating efficiency differences.

Within this context, in addition to many policies which will create growth in the short run, institutional development which will provide a sustainable growth in the medium and long run also has a strategic importance. Therefore, the conditions necessary for a cultural transformation aimed at the formation of quality, modern and effective institutions must be provided as soon as possible. In addition to this, activities must be carried out for providing coordination and harmony between related institutions especially in strategic areas such as technology.

• **Attaching Importance to Regional Development**

Certain regions in Turkey are underdeveloped due to low worker quality and efficiency, as well as many infrastructure and capital deficiencies. Supporting investments in these regions leads to an increase in both production and employment. For this reason, regional tax advantages and investment incentives must be continued in the medium run as a system with proved benefit. In these regions, it is also important to increase schooling rates and ensuring equality of opportunity in basic education.

In addition to this, spreading micro finance applications in these regions with the aim of decreasing poverty will be a solution instrument which needs to be evaluated. Indeed, the unemployed population and especially women will be involved in the regional economy in this way. Within this context, opening micro credit branches especially in underdeveloped regions will bring about important benefits in terms of regional development.

• **Enacting Public – Private Sector Partnership (PPP) Law**

In recent years, Turkey started a big development move together with the successful economic performance it has exhibited. As a result of this, large infrastructure projects such as hospitals, bridges, airports, roads and tube tunnels started to be realized one after the other. However, finding foreign financing sources for such sizable projects is seen as an obligation in an environment where domestic investments are very low.

In addition to this, legal infrastructure must be completed for an effective use of the “Public – Private Sector partnership” (PPP) model which is mentioned extensively in recent periods. Both the size of the projects and the complexity of the contracts they contain necessitate the differentiation of the roles of the public and private sectors in a very clear and undoubted manner. Also, foreign investors that will provide a big financing must have

clear information about the investment environment and operation process. It would be a very appropriate step to complete the “Public – Private Sector Cooperation Law” which will clear all these grey areas, attract foreign currency more easily and make implementation processes easier.

• **Supporting and Realizing Exclusive Economic Zones**

Exclusive Economic Zones – EEZ – are known as a model applied in all developed and developing countries with the aim of increasing the quality of the opportunities provided by the state for firms. The importance of the firm network for the performance of the firms can never be overlooked. For this reason, establishment of exclusive economic zones enables rendering performance more effective in certain sectors and firm groups. Public private sector cooperation (PPP) approach must be prioritized in the development process of such regions. While regional management is made by the private sector, effective public supervision must be ensured and thus, a balance mechanism must be effectively established.

Also, not only industrial production but also commercial activities must be supported in these regions and the sectors to be owned by the region must be determined within the frame of a strategy by taking into account the domestic market, rather than only exportation. The most important point here is the implementation of an effective regulatory frame and regulatory rules accepted worldwide here.

• **Putting KOSGEB Support Payments into a Certain Calendar**

It is seen that KOSGEB gained a lot of effectiveness in recent years and transferred resources to SMEs within the scope of many different programs. The support of KOSGEB, which used to support only the SMEs of the production sector in the past, for sectors such as construction, energy, commerce, tourism, intelligence, logistics, services was a very important step in terms of making resources reach a larger number of enterprises. However, in a situation when the target audience of the institution is increased by almost seven times, problems are encountered in the distribution and implementation of supports. Especially the payment of enterprises the projects of which have been accepted and which have been entitled for support in a reasonable time period must be included in the project financing contract and thus, the firm using the support can know how much support it will receive in which periods and these periods must be observed.

• **The Public Sector’s creating a Center to Run the Tender Processes of Large Projects**

Many infrastructure project stocks have accumulated in Turkey in a period when almost all Ministries present projects requiring large investments on a global scale is experienced. However, each of the specifications process, tender process, financing process and implementation process of large projects at this level require different specializations. Completion of the targeted structures in time and with appropriate costs can only be possible with the enforcement of all these processes correctly. Setting out from the difficulties

experienced in the tenders of large projects, a central tender centre must be created to be responsible for infrastructural and superstructural tenders and this process extending from specifications to signature must be enforced by this centre. In this way, the experience derived from the projects will be gathered in a pool and the public will develop in a short time in this field. In addition to this, it will also be ensured that processes related to the tender will be enforced in a more transparent, sharable and accountable manner.

• **Extending the Financing Depth for SMEs**

Almost the number one problem of all small and medium sized enterprises (SME) in Turkey is Access to financing with an appropriate due date and cost. Especially in a period when the uncertainties experienced in the European Union region have peaked, credit appetites of banks have diminished and there is a marked slowdown in the credits for SMEs – the backbone of real economy. However, it is important to support investors with different instruments so that the New Incentive Code which was announced on April 5, 2012 and the details of which were shared with the public on June 8, 2012 makes the desired effect and speeds up investments. In such a period when a critical turning point is passed for our economy, it must be ensured that banks give credits especially to investors who will benefit from the opportunities created by the new law.

• **Use of Private Equity Model by Banks**

It must be ensured that the private equity model which is the model of supporting entrepreneurs who have investment and entrepreneurship targets and projects is actively applied by banks. In case the project owner can provide a cash flow to resource providers by which they can calculate credit payment and capital profitability, it must be ensured that he/she achieves financing resource for the project.

2.2.6. SAVINGS POLICY

• **Increasing Domestic Savings**

As seen in the example of Turkey, it can be said that if an economy can be generally financed without any problems, it is not important whether current accounts have deficit. However, although this perspective is correct for the short run, it is not a valid approach for the medium and long terms. Especially in today's world when capital movements have been liberalized, flexible exchange rate regime is valid and globalization is quickly reshaping economic life, this approach will lead to very problematic consequences. For today, it is disputable whether finance account finances current accounts deficit or leads to current accounts deficit. Especially for developing countries, findings are encountered showing that finance account leads to current accounts deficit as it causes the valuation of the exchange rate.

Within this context, one of the measures to be taken within the scope of the primary measures to be taken in relation to the problem of current deficit is increasing domestic

savings. Savings rate in Turkey is realized at very low levels and cannot provide for investments. And this brings about the need for foreign financing.

In addition to the trying to increase savings in the public section in extra-tax ways, savings must also be encouraged in the private sector. One of the reasons why private savings have decreased recently can be mentioned as the abundance of short-term credit facilities. Therefore, it is apparent that this system which triggers consumption and decreases savings must be arranged. Within this context, it would be beneficial to adjust the profit margin between savings interests and credit interests at a reasonable level and subject it to this regulation.

In addition to this, instead of a financial structure which makes consumption attractive, it is necessary to increase the number of investment tools and increasing efforts aimed at increasing the trust for the financial system. These activities must also serve for changing the investment philosophy in Turkey among the public which is directed towards real estate.

2.3. MESO (SECTORAL) POLICIES

The importance of meso policies cannot be denied which are aimed at sectoral and inter-sectoral effectiveness and efficiency with the aim of making enterprises grow in a competitive way in the economic system.

As a result of the consequences it reached after economic research and the close observations and evaluations it made in the business world it is in, MUSIAD believes that it is necessary to handle certain sectors with primary importance in terms of development and decreasing current deficit within the scope of the growth strategy to be developed in and after 2012.

These sectors and the importance they bear are indicated below:

1- Machine Industry: Its interaction with many sectors as a consequence of the investment goods it produces and its effect on foreign trade deficit

2- Information Sector: The effect of the goods and services it produces in the development of many sectors in the economy

3- Energy Sector: The feature of being the biggest importation item and the dominant effect on budget deficit

4- Automotive Industry: Feature of bearing high exportation potential

5- Construction Sector: Locomotive role in employment and effectiveness in external markets

6- Tourism Sector: Feature of being the most important dynamic of service exportation

7- Health Sector: Feature of being one of the primary indicators of social development

8- Food and Agriculture Sector: Feature of giving current surplus

2.3.1. MACHINE INDUSTRY

• Acknowledging the Machine Sector as a Strategic Sector

As nearly all of the products manufactured in the machine industry are used in many sectors, it constitutes the backbone of general manufacturing. For this reason, products manufactured in the machine industry are accepted as investment goods. Therefore, due to the high added value it creates and the contribution it makes to the development of all sectors, the machine industry must be determined as a strategic sector. Within this context, positive discrimination must be made for the machine industry in terms of state supports and the sector must be evaluated in a special status.

• Increasing the Competitive Power of the Sector

Without making R&D activities, it is not possible to ensure sustainable competitive power in our sector. However, many firms in the sector make contract manufacturing and put the products they manufacture into distribution with the title of contracting firm. As these firms work with low profit margin, they do not make long term plans and therefore, the infrastructure which is the basis of R&D activities cannot be established.

Within this context, it is difficult for the firms in the sector to spare money from their turnovers for R&D activities and spend this for establishing R&D infrastructure. However, by creating synergy in the sub-sectors of machine production industry, it must be ensured that these sectors start to operate in technology development regions where industrialists and universities form a common denominator.

• Encouraging the Purchasing of Domestic Machines

One of the most important items of the increase of importation in Turkey is the chapter of machines. An important part of the machines that are imported can be manufactured by the Turkish machine industry. By taking this important reality into consideration, domestic machines must be preferred in machine purchases, especially in public purchases and an encouraging arrangement must be made about this.

In fact, giving priority to domestic firms in public purchases, at least providing the chance of equal competition, will provide an important motivation and opportunity of increasing competitive power for domestic producers and will create saving opportunities for public institutions. Article 63 of the Public Tender Law numbered 4734 enables “providing price advantage up to the rate of 15 % in favor of all domestic bidders in public purchases”.

Setting out from here, regulation arrangements and applications to make implementation effective must be made as soon as possible.

• **Exportation and Market Supervision Observation regarding used Machines**

Used machine importation which is carried out within the scope of the Communiqué numbered 2010/9 affects the machine industry negatively. The high maintenance cost of used machines, their low production performance, difficulties in providing spare parts and high wastage rates lead to production losses and prevent the increase of efficiency by decreasing the development of new Technologies in our country. If it is considered that the related technical regulations must be observed in used machines just as in new machines, Market Observation and Supervision (MOS) activities must be intensified.

Within this context, the sector faces the unfair competition of low-cost machines that are imported from some countries by putting CE sign although they do not fully comply with the related regulations and arrangements. For this reason, more effective market supervision is necessary. It is required to activate preservation and unfair competition principles against the competition of the Far East, market observation and supervision mechanisms must be made operative for the benefit of the sector.

• **Solution of the VAT Problem**

VAT rate is applied as 8 % for some machine types in machine purchases and sales. This rate must be applied to all domestic machines and thus, purchasing domestic machines must be encouraged. VAT rate of domestic machines in machine purchases where leasing is used must be applied as 1 % just as in the past. Producers who make sales with 1 % VAT within the scope of leasing or incentive must be able to purchase the machines it uses with 1 % VAT again.

2.3.2. INFORMATION SECTOR

• **Being a Producer in Information**

Turkey imports many information and communication Technologies from abroad, primarily mobile phones and computers, and due to the high demand of the society, these products have an important part in importation. In order to take this situation which fuels current deficit under control, moves must be made for the production of some of these products in Turkey. For this reason, measures for the encouragement of domestic production in the information sector are urgent in Turkey.

• **Acknowledging Software as the Strategic Sector**

As information software is used in many sectors in the industry and services fields, it has an inter-sectoral role. In other words, the development of the information sector will also be effective on the development of other sectors. Therefore, it is important that the

information sector which has such a critical effect on the whole economy is accepted as a strategic sector. Within this frame, domestic firms must be supported so that Turkey can exit the status of importer firm in information software, the strategic importance of which is obvious.

• Support of the Public to the Private Sector

Within the frame of the above-mentioned issues, the fact that public institutions try to provide their needs regarding the information sector from domestic firms will be one of the most important parts of the action plan to support the development of the sector in Turkey. Within this context, the public sector must exhibit not a competitive but an integrating attitude against the private sector in the field of information.

• Spreading Technology Education

Activities to be carried out with the aim of showing individuals the relationship of technology with the social system are among the steps to be taken in the way of development. It is important that such activities which are defined as increasing technology literacy are started at early stages of education. Within this scope, activities must be made in schools for opening information Technologies classes.

In addition, infrastructure arrangements are required for making the spread of certificate programs in the information field widespread. At higher education level, information Technologies engineering must be touched upon which will play an important part in Turkey's development.

2.3.3. ENERGY SECTOR

• Establishing New Facilities

Moves must be made aimed at the domestic production of petro-chemicals which are one of the most important importation items of our country. Within this context, petro-chemistry facilities such as PETKIM must be established and the current refinery potential must be at least doubled.

• Evaluating Coal

The importation of coal products, though showing a reduction when compared to previous years, has an important part among energy items. However, our country has coal resources which can be accepted as rich. Only about 37 % of these resources is evaluated. For this reason, the detection, evaluation and most importantly, making efficient of current coal reserves must be one of the steps to be taken to decrease foreign dependency with the aim of decreasing coal importation and using coal as an alternative energy source.

• Establishing Hydroelectric Power Plants

Hydroelectric power plants (HES with the widely-used Turkish abbreviation) are among the important energy resources for Turkey. As our country has a rich hydroelectric potential to be used in electricity production, this power must be evaluated in a planned manner and energy production must be increased in this way. In addition to this, taking into consideration that dams have certain life spans, it is important that current resources are used by spreading to strategic time slots. In this respect, the legal mechanism about HES which are constructed with millions of dollars of investment and suspended with the decree of suspension of execution in the stage of commissioning must be solved.

• Establishing Nuclear Power Plants

The process for the establishment of nuclear power plants as continuous and environmentally-friendly energy sources must be speeded up. Nuclear plants are not an alternative but an indispensable source of solution for decreasing Turkey's foreign dependency in energy and providing energy security supply. For this reason, activities for the plants that are planned to be established in Akkuyu and Sinop must be speeded up.

• Establishing Geothermal Power Plants

As our country also has potential in terms of geothermal energy, with the aim of using more geothermal resources in electricity production, it is imported that the fields which have been detected with a strategic study are made ready for production in the next 10 years.

• Increasing R&D Activities in Energy

Within the frame of growth targets, the need for energy in the next periods will also grow. For this reason, in addition to increasing resources, it is necessary to have an information intensive energy sector.

In Turkey, the share spared for energy R&D from GDP is realized at such a low rate as 1,5 per hundred thousand. However, this rate is realized as between 30 and 80 per hundred thousand in developed countries. Therefore, it is obvious that the share spared for R&D activities must be increased. In addition to this, steps must also be taken for attracting R&D centers of foreign energy firms into Turkey.

• Using Energy Effectively

In addition to the plans to be made in relation to energy variety, consumers and producers must be made aware about how to consume current energy in an efficient and saving manner. Within this context, industrial quality standards must be developed and supervisory arrangements must be made.

In addition, awareness activities must be carried out to ensure that the energy obtained by way of importation or by producing from domestic resources is used in the most efficient way and saving is made in consumption and each individual must be raised with this awareness starting from early ages. At the same time, when it is considered that most of the buildings in our country do not have insulation, it must be kept in mind that encouragements to be applied in this field will both provide a source of employment and provide an important contribution to the reduction of current deficit with the saving to be made.

2.3.4. AUTOMOTIVE INDUSTRY

• Making Branding the Prioritized Target

Although the automotive sector of Turkey is developed, it is the only country which does not have its national brand. Market conditions and current sub-industry shows that there is sufficient capacity for producing branded vehicles. In this respect, Turkey can make a brand more easily in electrical vehicle production in which it is at the same level with the world today, instead of manufacturing conventional vehicles. This project must be adopted as a national project as done by other countries and all kinds of necessary support must be provided because this field is an opportunity for our country which must not be missed.

In addition to this, although the sector is highly developed in the field of not only vehicle production but also production of parts and equipment, it is far behind in branding. For this reason, importance must be attached to developing patented, branded and beneficial products in spare part production and directions must be made for brand and design registration in countries where exportation is made.

• Attaching Importance to R&D

In order for the sector to be able to increase its competitive power, industrial institutions and universities must make heavy R&D activities in the automotive field with the encouragement and direction of public foundations and produce original technologies.

• Raising Personnel for the Sector

Activities aimed at raising qualified personnel, which is one of the most important needs of the sector, must be intensified. Within this context, vocational training in line with the fast developing technology must be provided.

Even the establishment of special vocational educational institutions for the sector must be considered as a solution alternative.

• Follow-up of the Strategy Certificate

Automotive Industry Strategy Certificate has become an important move for increasing

competition in the automotive sector. In addition to this, the state of realization of the targets put forth in the certificate must be examined periodically and shared with the sector.

- **Tax Reductions**

The fact that the tax rates applied in the sector are high affects the sector negatively. For this reason, reducing taxes to more appropriate levels is important in terms of harmony with EU countries.

- **Second Hand Vehicle Sales Arrangements**

Job definition of car dealers who make second hand vehicle trade and authorization certificate must be given to these dealers by bringing certain criteria. Thus, thanks to some rights to be given, the informality in the sector will be decreased.

2.3.5. CONSTRUCTION SECTOR

- **Effective Implementation of the Certificate of Competence System**

Cheap and low quality buildings which emerged as an extension of the competition in tenders have been causing material damages and losses of life in Turkey all along, especially at times of earthquake. This situation makes it indispensable for firms which make quality construction to withdraw from the market in such an environment of competition, in addition to social costs. This arose from the fact that none of the terms in carrying out activities in the construction sector has been implemented for years.

Within this context, the arrangement which was put into effect in the beginning of 2012 and which requires contractors to obtain certificate of competence and masters master certificates is very pleasing. What needs to be done after this must be following the implementation of this important move effectively. Only in this way can Turkey have healthier and higher quality buildings.

- **Raising Qualified Personnel**

It would be an effective solution to open related departments or courses in vocational high schools with the aim of providing for the need of intermediary personnel which is required a lot in the construction sector, just like by many other sectors.

- **Removing the Problem of Letter of Guarantee**

Many Turkish firms providing contracting services abroad, despite winning many tenders, cannot realize their contracts as they cannot provide letters of guarantee. It is important that these firms are supported so that they can increase their effectiveness in foreign markets where they can succeed. In this context, the subject of making rate discount in the regulations must be handled with seriousness so that the sector can extend on global terms.

- **Supporting Foreign Contracting Services**

Turkish insurance sector is signing many successful projects and grows in many of the countries it operates in with its deep knowledge and experience. In addition to this, it is known that construction firms with an entrepreneur spirit operate densely in countries which bear political risk or which are underdeveloped. For this reason, it would be very meaningful if these firms which take risks for investment were protected and supported by the state. In this context, designing an insurance system to take these companies under protection is among the issues which must be considered.

2.3.6. TOURISM SECTOR

- **Effective Use of the Tourism Inventory**

With the aim of using our tourism assets in the most effective way and thus, directing the investments to be made inland and abroad, special activities must be carried out to be able to attract tourism to regions within the inventory containing historical, cultural and natural assets.

- **Developing Domestic Tourism**

In addition to foreign tourists, activities aimed at making domestic tourists love the natural and cultural values of our country must be made intensively. Encouraging domestic tourists in this way and increasing domestic tourism will provide important contributions for the economy, especially in underdeveloped regions. For this reason, it is essential that both private and public institutions and NGOs work in cooperation about this subject.

- **Making Transformation Infrastructure Holistic**

With the aim of ensuring that tourists can transport within the country fast, comfortably and effectively, moves are necessary especially for developing passenger transportation in sea and railroad. In addition, giving totality to all transportation lines in connection to each other is also an issue which must be touched upon.

- **Encouraging Tourism Investments**

Policies aimed at attracting domestic and foreign investors to the tourism sector are among the critical steps which must be taken for the sector to have a strong future. Within this context, in addition to providing financial incentives and advantages to investors, bureaucratic obstacles must also be removed.

- **Intensifying Tourism Education**

Increasing the tourism education to be provided at every stage, especially in higher education, in terms of quality and quantity will increase the quality of the people working in this sector and thus, is important for the development of the sector.

2.3.7. HEALTH SECTOR

- **Encouraging the Private Sector**

The private health sector is a very valuable asset for our country with the employment it provides, and the potential and advantages it presents for the covering of the current deficit with facilities in international standards and health tourism. Doctors and nurses working in the sector also exhibit important achievements in their branches in the name of Turkish medicine and the science of health. For this reason, the importance attached to the private health sector must be increased. In this context, prices within the scope of current Health Application Notification (HAN) which have decreased to levels which can weaken quality health service production of hospitals and medical centers must be increased or it must be ensured that the sector does not compromise on its service quality by providing alternative financing methods.

- **Reducing Health Expenditures**

In order to keep health expenditures in balance, the public must be enlightened about making effective use of the health system and conscious use of drugs. In addition, with the cooperation of the public and private sectors, health service providers and health personnel must be made aware of preventing unnecessary health expenditures.

- **Encouraging Domestic Production and Health Valley**

In our country, importation of drugs and medical devices are realized at non-negligible levels. For this reason, drugs and medical devices must be accepted as strategic products and their domestic production must be supported and joint ventures must be encouraged for strengthening investment in this field. Activities should even be made to enable Turkey to become the regional production base in this field. In this context, the most important step to be taken will be putting into effect the health valley which was considered to be realized in Çatalca as soon as possible.

- **Making Innovation and Technology Dominant in the Sector**

Turkish health industry is an important source of demand for innovative products and services in terms of its proximity to world markets geographically, in addition to the gradually increasing health services demand as a result of the spreading of the scope of the health insurance as well as population increase. For this reason, experienced human labor is needed in the fields of medical, bio-medical, nano-technology, electronic, mechanical,

physics, material and software engineering for innovation in the sector. In this respect, sectoral knowledge and competency evaluation must be made for the detection of the required human force; undergraduate and graduate education and curriculum planning must be made in this direction and reverse brain drain must be encouraged.

• Encouraging Domestic Device Purchases

Especially within the scope of Health Cities Project, it would be an appropriate decision to include the issues which will prevent the private company which is the project partner of hospitals which will be established with the public private sector cooperation model in goods and services purchases from providing all medical device needs from the international market in the contract signed with the public.

• Protection of Medical Device Sector from the Danger of Monopolization

The public sector's issuing tenders which it realizes within the scope of frame agreements and the formation of health cities and hospital unions, together with the mentioning of central collective purchases in medical device provisions brings about the concern of monopolization in a market where international giant companies are at the forefront as an important actor. In this matter, it is necessary to make the necessary arrangements so that domestic manufacturers, distributors and dealers are not excluded in collective purchasing tenders and monopolization does not occur in the market.

• Removing Mouth and Dental Health Victimhood

The victimhood of patients who wait in the line for months for mouth and dental service procurement in state hospitals or postpone their treatment due to the delay in dental treatments is obvious. When the situation is so, exclusion of private mouth and dental centers, polyclinics and 12.000 clinics from this scope constitutes a serious wastage of resource. For this reason, preventing such victimhood by opening dental treatment service procurement without referral to private institutions will ensure full stability in the health policies of the state.

• Supporting Pharmacists

To ensure that pharmacy services are carried out efficiently in our country, especially private pharmacies must be supported so that they can continue to exist in a healthy way. The most important legal arrangement which the state can make in favor of pharmacists will be registration of pharmacists to the status of "drug consultant".

2.3.8. FOOD AND AGRICULTURE SECTOR

- **Putting the Endemic Plants which Have Medical, Nutritional, Taste, Aromatic or Spice Value in Micro Basins into the Economy**

To achieve this, Geographical Signs and Markets Law must be enacted and the micro basins containing qualified endemic plants such as Cırgalan pepper, Yamula eggplant, Hisar tomato, Kam melon and long apple must be taken under protection. In addition, special certification must be made for these products, special incentives must be given and a separate product concept must be formed under the name of “functional food” and a separate market place must be formed apart from the conventional market. This incentive will ensure the protection of biological variety, form new exportation items and prevent fast migration to cities even to a small extent.

- **Making Awareness and Training Activities for letting SMEs benefit from Incentives**

Recently, it is observed that there are transitions from other sectors to the agriculture sector due to the attractiveness of incentives and these transitions which are made without a healthy feasibility activity, when combined with lack of knowledge and experience, produces incentive victims. Therefore, awareness activities must be made by taking this situation into consideration and attention should be paid while providing incentive to enterprises which are not experts in their fields and incentives must be bound with certain conditions.

- **Purifying the Sector from the Negative Effect of GMO and Harmful Additives**

As known, Genetically Modified Organisms (GMO) and harmful additives cause a necessary/unnecessary concern on part of consumers. The presence of information pollution about this issue leads to negative effects on the sector. In this case, in order to save the sector from the negative effects of GMO and harmful additives, information activities must be made by taking the support of reliable stakeholders of the Ministry, authority institutions and scientists and NGOs and the public must be enlightened.

Within the same context, food must be subject to a tight control at every stage from seed to the plate such as production, transportation and storage. The application of imitation and adulteration is very important for the consumer but by making tighter controls in enterprises and stocks, that is, implementing the HACCP food safety system more effectively, taking the pre-consumption measures and ensuring deterrence will enable the sector to develop faster without damaging enterprises and damaging the value of brands.