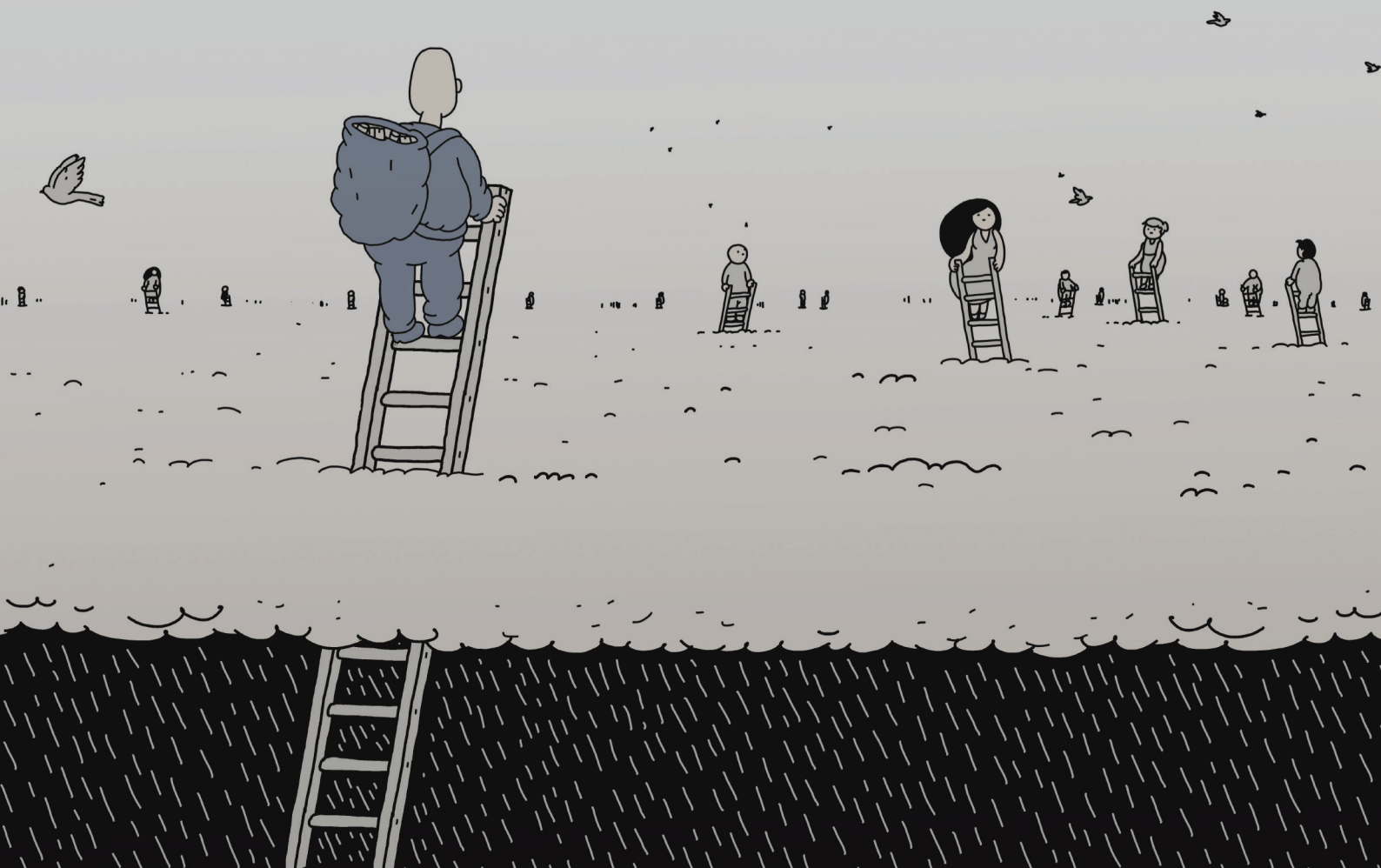


# **BUILDING THE FUTURE**

WITH A NEW MINDSET

PEOPLE  
SCIENCE  
INSTITUTIONS



**TÜSİAD** 50



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# **BUILDING THE FUTURE**

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# Presentation

This study is a call to all segments of society to build a developed, reputable, fair and an environmentally friendly Turkey.

This project is a call to work towards building Turkey's future with a new mindset.

Today, the main determinant of welfare is neither underground resources, nor physical capital or unskilled labor. Although there are countries that have become rich thanks to their underground resources, this is not sufficient in and of itself to become a developed country.

Today, the most important determinant of welfare is intangible resources. Three essential elements of development in developed countries are:

- 1) HUMAN DEVELOPMENT AND COMPETENCY**
- 2) SCIENCE, TECHNOLOGY AND INNOVATION**
- 3) POLITICAL, ECONOMIC AND SOCIAL INSTITUTIONS AND RULES**

We can build our future by achieving developments in these three elements: "human development and competency", "science, technology and innovation" and "institutions and rules." An educated, healthy and content individual is both the subject and the aim of development. Growth that is not based on science, technology and innovation cannot be sustained in the long run and there can be no amelioration in our competitive power. The quality of political, economic and social institutions and rules is essential for ensuring the rule of law, democracy, economic stability, co-existence and co-development. These three basic elements interact with each other as well. What is more, these three elements are also necessary for the physical investments to be efficiently realized.

The econometric analysis covering the 105 countries we included in this study shows that: If we take the necessary steps to elevate our position in these three elements to the OECD average, within 20 years we will be able to increase our per capita national income to USD 30 thousand, which is three times its current level. In the event that the current trend in these areas continues, we will only be able to achieve the USD 14 thousand level.



## What we aim to achieve by taking the steps in these three elements is:

- **A developed Turkey** with economic stability, a predictable investment environment, low inflation and strong macroeconomic balances, employment creation and having high per capita income with sustainable growth,
- **A reputable Turkey**, acting as a role model with diplomacy and cooperation in the international arena, strengthening its relations with the Western world, starting with integration with the European Union (EU) and adhering to international laws and contracts,
- **A fair Turkey** that provides equitable income, eliminates regional disparities, ensures gender equality, where everyone lives equally and freely without discrimination as to language, religion, sect, race, and origin, and does not leave any segment of society behind during the development process,
- **An environmentally friendly Turkey** that observes the balance of the ecosystem, achieves carbon neutrality and offers the next generations a governance system that internalizes green economic transformation.

Establishing an environment of trust based on the institutions and rules will play a critical role in the success of this entire process.

The achievements of the Turkish Republic in the past century shed light on our next century and give us hope.

We open the “call for building the future” set forth in this study for discussion among all political parties, opinion leaders, the academic community, non-governmental organizations representing different segments of the society, the media and our citizens; and we believe that we can build the common future of Turkey through cooperation and consultation.

**TÜSİAD Board of Directors**  
October 2021

*We would like to thank the many experts and academics who contributed to the preparation of this report, “Building the Future with a New Mindset: People, Science, Institutions”, including: project coordinator Hüsamettin Onanç, who proposed the idea of a new mindset to TÜSİAD; Associate Professor Ümit İzmen, the project advisor who wrote the report; project advisors Bekir Ağırdir and Zafer Ali Yavan; project director Ebru Dicle; Dr. Cem Çakmaklı and Dr. Muhammed Ali Yıldırım, who contributed to the econometric analysis of this report; Mehmet Soytürk, who assisted in the development of this report; Hale Hatipoğlu, Dr. Nurşen Numanoğlu, Melda Çele, Gizem Öztok Altınsaç, Atty. Serkan M. Ersöz, Ceren Aydın Ergün, who contributed to the report’s content; Hazal İnce and Ezgi Çelik, for the preparation for publication of the report, and the TÜSİAD General Secretariat staff and representatives, who all contributed.*

## A new conception of development is necessary to build the future.

Reviews on economic growth performance occupy the minds of policy makers. However, what is important for the prosperity of countries is not cyclical developments, but long-term trends. No matter how painful the current problems are, we need to have a roadmap for the destination we want to reach in the long run.

Our goal in the long run is not just to get rich because we know that aiming to get rich in the short run will not actually produce sustainable results. Obviously, the environmental, social and cultural aspects of development are at least as important as economic growth in the long run.

The recipe for development has long ceased to be a magic formula. The analyses made utilizing the experience of different countries since the industrial revolution provide important clues as to how we should envisage where to go from here.

**Today, the main driver of development is no longer underground resources and physical capital, but intangible capital elements such as “human development and competency”, “science, technology and innovation” and “political, economic and social institutions and rules”.**

Historically, natural resources played a critical role in the development of humanity. These resources, however, are exhaustible over time, and have today become limited. In its place, the importance of the human mind and human skills has come to the forefront. This can also be observed in the difference between the economic structures of developed and developing countries in today's world.

In the economies of poor countries, labor and natural resources play a major role, but during the development phase physical capital begins to gain importance alongside these factors. There is a flurry of construction of factories, bridges, roads and dams in order to augment prosperity. During the next stage of the development process, the human mind, skills and thus the science and technology become critical. It is critically important that the institutions support development.

Studies on this issue indicate that the main determinant of welfare for today's modern societies is neither underground resources nor physical capital, but intangible capital assets. Therefore, intangible capital assets will be decisive in the development of Turkey. These include:

- 1. Human development and competency,**
- 2. Science, technology and innovation and**
- 3. Political, economic and social institutions and rules**



As a matter of fact, they constitute the three essential elements of development in the advanced countries of the world.

Undoubtedly, these three elements of development interact with each other. The emergence of scientific and technological development and innovation and the use of technology require the human mind, knowledge and skills. Individuals lacking the appropriate skills may feel victimized as they suffer the impacts of technological change. Scientific and technological development and innovation, as well as human development and competency, require inclusive and reliable institutions and rules. Such institutions and rules mean the capacity to enact policies, make economic decisions and resolve conflicts. The prevention of such social conflicts mobilizes society towards common goals.

That said, it is up to people to create these institutions and rules. The intensity of social relations between people, as well as the norms, values, traditions, culture, people's trust in each other and in their institutions affect how efficiently the available resources can be utilized and can impact the economy.

We will discuss these three elements separately, but for now we should emphasize that the disruption and slowdown in the development of one of these elements will have a negative effect on the others and vice versa.

## Turkey's potential should be mobilized with an approach that focuses on intangible capital elements.

Turkey is a member of the G-20 with a GDP of 760 billion dollars and a population of 83 million. It is Europe's third largest workforce with 33 million. It is one of the emerging economies with its high industrial capacity, over 24 million households, a large middle class of 32 million, home ownership reaching 59 % and credit card users exceeding 66 million.

Turkey's has an important geographical position located at the most eastern point of the West and the most western point of the East with its strong historical and cultural legacy, its many years of strong relations with the international system based on rules and values, its secular and democratic structure and its perspective of full EU membership. It is an important regional hub for international corporations and global trade because of its ease of accessibility and communications infrastructure. Turkey has a strong potential given its young population of 12 million and its robust entrepreneurial culture.

Turkey's future is promising if its strong assets in many areas such as young population, advanced infrastructure, high industrial capacity, unique geographical location, rich history, vibrant civil society, and vibrant entrepreneurial spirit are mobilized with supportive policies.

With a development approach that focuses on the interaction between "Human development and competency," "science, technology and innovation" and "institutions and rules", Turkey can put into action all the experience that it has accrued in the best possible way.



# Human development and competency

## The human is both the subject and the aim of development.

Development is primarily for humans. The purpose is for the Turkish people to be educated and healthy, create value, secure a decent job and a comfortable life, trust their future, be confident of their children's future and to be content and free. People are not only the aim of development, but also one of the three elements that will ensure the development of Turkey.

## Education is the cornerstone of self-improvement and development.

Turkey has made progress in certain areas in education. Overall, enrollment rates have greatly improved over the years and have reached the level of OECD countries. Significant progress has also been made in gender equality in access to education.

Noteworthy progress has been achieved in indicators such as the number of students per teacher and the average class size. Over the years, expenditures on education have increased dramatically. After 2006, the number of universities and their capacities have expanded. However, progress in human development and competency has been insufficient to accelerate economic and social development.

## Despite the progress achieved, the education system is not at the level it needs to be to instigate development.

Early childhood is the most critical period for education and development. In Turkey, pre-school education is not compulsory and accessible pre-school education services are limited. For this reason, although the enrollment rates in early childhood education have improved in recent years, Turkey still ranks low among the OECD countries.

The ratio of higher education graduates in the population is lower than the average of the OECD countries.

Turkey is behind the OECD averages in PISA scores, which are regarded as one of the most important indicators of the quality of education.





Spending per student remains lower than the OECD average at all levels of education, from pre-school to higher education.

Education levels of teachers are below the OECD average. The ratio of teachers with a master's or PhD degree among primary and high school teachers is 45 % on average in OECD countries, while it is 9 % in Turkey.

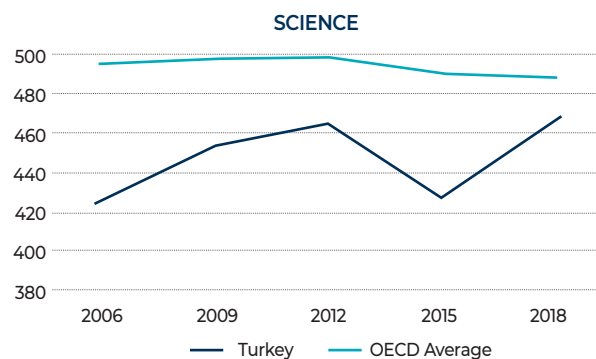
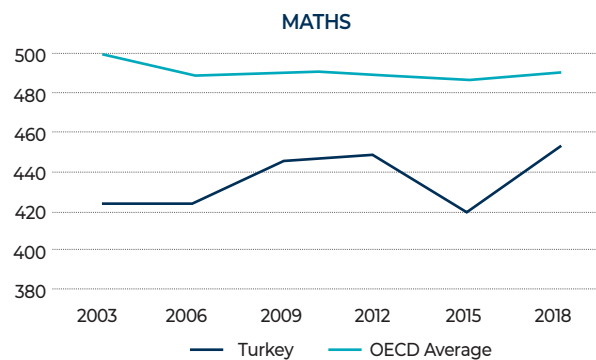
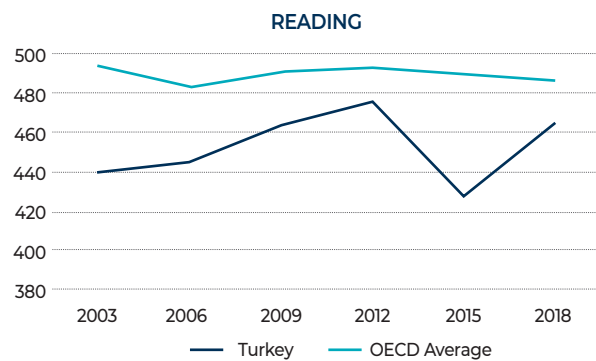
There are disparities in educational opportunities, especially in access to quality education, with regard to income levels and social groups. People with disabilities and Syrian migrant children and youth in particular may face difficulties in accessing education.

Enrollment rates in the east of Turkey are low compared to other regions. Gender-based differences in access to education in the East and Southeast regions have not been eliminated. Although the number of students per teacher has improved by regions, disparities still exist.

Turkey has an education system based on public schools. However, it is the country with the highest rate of private expenditure among the total expenditures on education among OECD countries. This high level of private expenditure, which is a reflection of many problems in the education system, makes it difficult for those with insufficient financial means to access a decent education and thus a good job given the inequality it creates.

OECD research points to a positive relationship between the increase in people's education levels and their level of health, their participation in governmental decisions and their sensitivity to the environment. Progress in education will thus affect all aspects of development.

### PISA scores, 15 years old, average



Source: <https://pisaexplorer.oecd.org/de/depisa/dataset.aspx>, date accessed: May 18, 2020

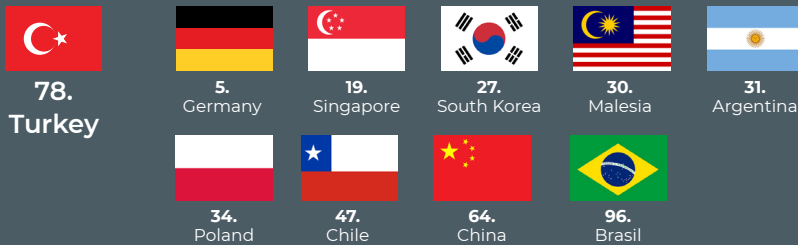
## Individuals must be equipped with competencies and skills suitable for the 21st century.

Digitalization is causing a rapid and radical transformation in labor markets. In the face of automation, some existing jobs run the risk of becoming obsolete. This risk mostly threatens the low skilled labor force. While it is true that technology is creating millions of new jobs, some jobs are being eliminated. Jobs and the current working models are changing. New working models such as self-employment (the Gig Economy), working on platforms and greater flexibility in terms of both time and location are expected to become increasingly common. These changes and transformations, which have accelerated after the Covid-19 pandemic, require both young people and adults to be equipped with the technical, digital and socio-emotional competencies and skills pertinent to the 21st century.

However, Turkey is not up to par in its preparation in this area. According to the 2019 Eurostat data, the rate of participation of adults in education and training is only 6 % in Turkey, which is lagging behind developed countries.

The main function of education for mass production of the industrialization era was to equip the labor force with a standard set of skills. This was achieved through a centralized system. In our age, an updated education system is needed for the creative people of the digital economy and information society. This brings to the fore the necessity of a governance model in education in which resources are channeled towards the development of 21st century skills, such as critical thinking and creativity. Furthermore, power needs to be decentralized to the local educational authorities and schools.

### WEF RANKING OF SKILLS (141 Countries)



Each dot on the graph represents the score of the selected countries for the relevant component!  
 ▲ Indicates Turkey's score and position among other countries for the relevant component

### WEF Global Competitiveness Analysis, Selected Subcomponents for Skills



Source: World Economic Forum (WEF) Global Competitiveness Report 2019. The sub-headings of the index were evaluated out of 100.



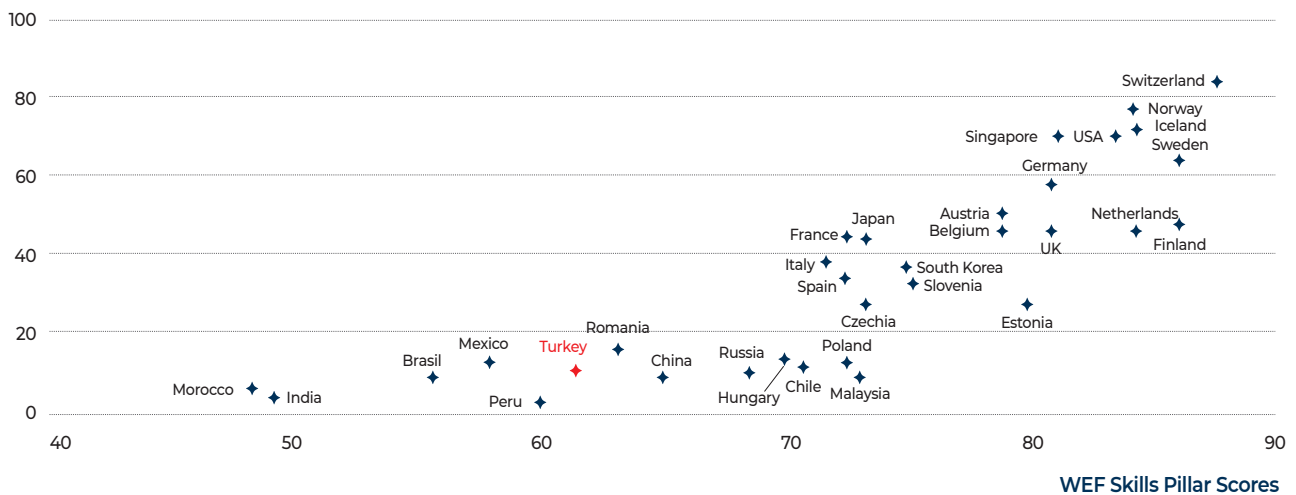
## Employment is riddled with skills mismatch, low labor force participation, high unemployment and informal employment.

Labor force participation rates in Turkey have been around 50 % for years. The unemployment rate, on the other hand, has never permanently dropped below 10 %. Structural factors, especially a skills mismatch, play a major role in unemployment.

The labor force participation rates of women, youth and disadvantaged groups lag behind OECD countries. Informal employment is intertwined with many problems such as social security, occupational health and safety, loss of tax revenue and the problems companies face in access to finance.

### There is a strong relationship between human resource competencies and GDP per capita.

GDP per capita, thousand US Dollar



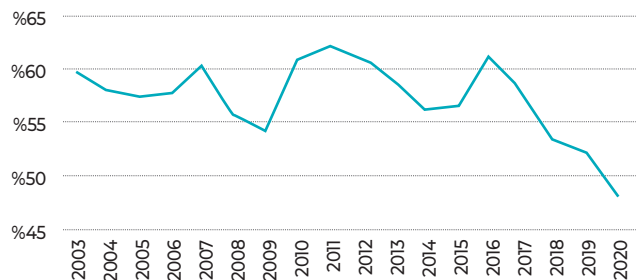
Source: World Economic Forum Global Competitiveness Report (2019)

## Problems in human development and competency reduce life satisfaction.

Although there has been significant progress in the field of health, the distance to be covered is still long. The ratio of health expenditures to GDP is 4 % and below the OECD average of 9 %. Despite the significant increase in the last 15 years, the number of physicians and nurses is well below the OECD average. There are also regional differences in access to health care services.

Turkey is the country with the lowest life satisfaction among OECD countries. The number of people migrating abroad from Turkey is increasing. Young people between the ages of 25-29 constitute the largest part of the immigrants.

### Very happy-happy



Source: TURKSTAT Life Satisfaction Survey, 2020

# 2

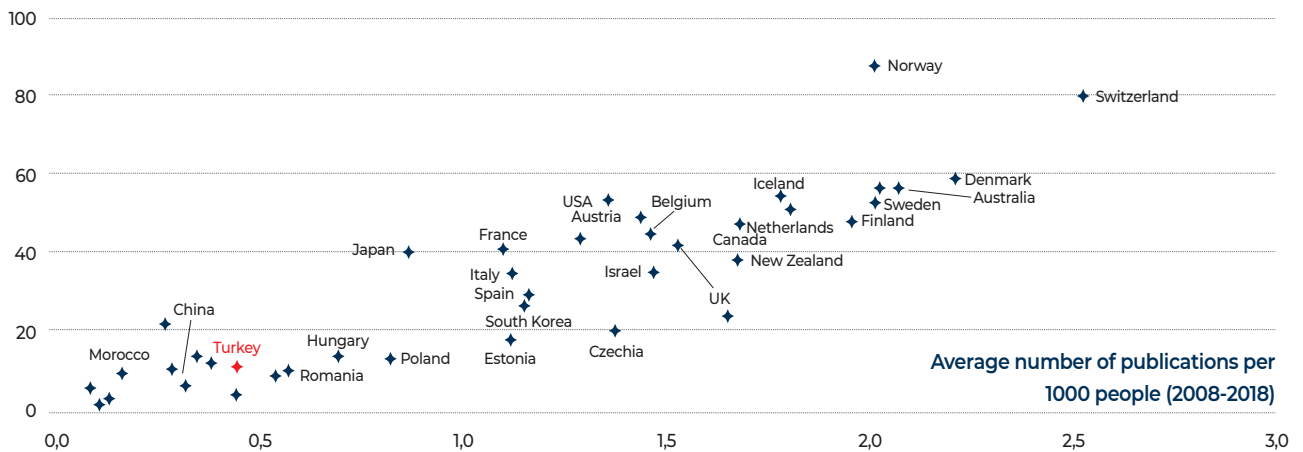
## Science, technology and innovation

One of the most important determinants of Turkey's sustainable development will be progress in science, technology and innovation.

At present, the dynamism of economies is determined by the changes in technology. Enhancing science, technology and innovation capacity and adapting to the digitalization process, which is the locomotive of technological transformation, will determine Turkey's competitiveness and growth potential both today and in the future.

There is a strong correlation between scientific research and GDP per capita.

Average GDP per capita, thousand US Dolar (2008-2018)



Despite capacity increases in science, technology and innovation, Turkey's performance is not optimal.

Turkey ranks 41st among 132 countries in the World Intellectual Property Organization's Global Innovation Index. According to the Global Competitiveness Index prepared by the World Economic Forum (WEF), it is 49th among 141 countries in the Innovation Capability ranking.



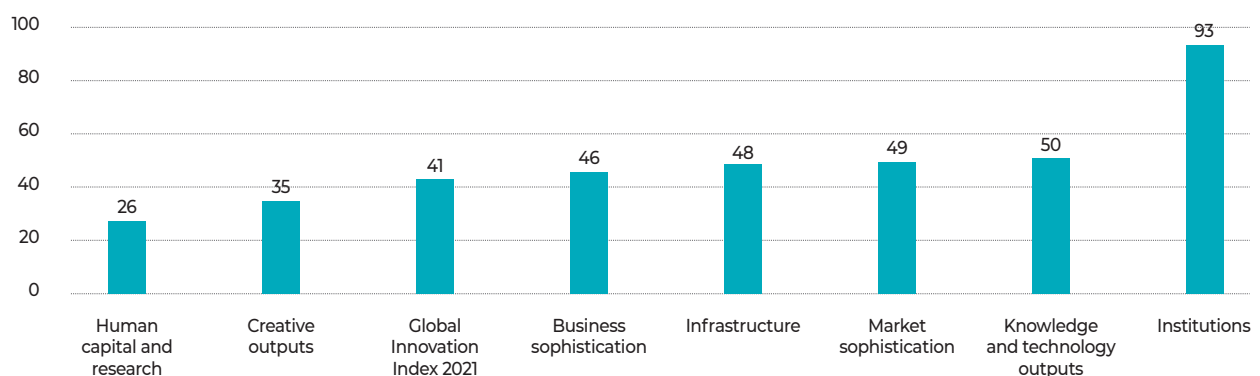
The share of medium-high technology sectors in the value added of the manufacturing industry in Turkey increased rapidly in the 2000s, when the reforms and the EU membership process accelerated. Turkey's performance increased with respect to the volume of the manufacturing industry production and the level of sophistication of the products it could produce. However, this upward trend could not be sustained after the 2008 global crisis. Turkey is still not prepared in terms of its digital transformation which will shape the future of production.

On the other hand, Turkey managed to produce five unicorns (a privately held start-up company with a value of over \$1 billion) in 2020-21 despite the Covid-19 process, which has negatively affected many of the world's leading entrepreneurial ecosystems. It is possible that this performance will increase with the developments in the field of technology.

## Although the percentage of R&D expenditures in GDP is rising steadily, Turkey lags behind the OECD countries' average in key indicators such as the level of R&D expenditures, exports of high-tech products, patents and the number of researchers.

Resources allocated to scientific development, R&D and innovation activities are still limited and university-industry-public collaboration is not diversified and efficient. The number of patents is low, as are the numbers of scientific studies. Although Turkey is one of the few countries among the OECD countries that provides the highest tax incentives for R&D activities, R&D expenditures of the private sector are low compared to other countries.

Innovation rankings, Turkey (among 132 countries)



Source: Global Innovation Index 2021, [https://www.wipo.int/edocs/pubdocs/en/wipo\\_pub\\_gii\\_2021/tr.pdf](https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2021/tr.pdf)

Turkey is not listed among the countries ready for digital transformation nor does it have a proper say in terms of technological standards.

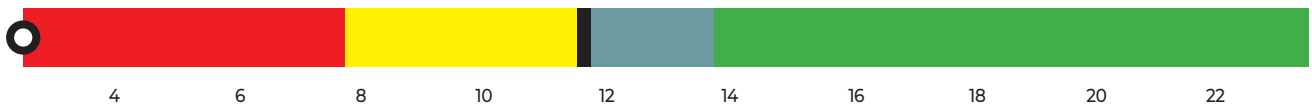
Due to the inadequacies in technology and developing high value-added products and services, an import-dependent structure emerged in Turkey not only in investment goods, but also in high-tech consumer products.

### Turkey's fundamental R&D indicators

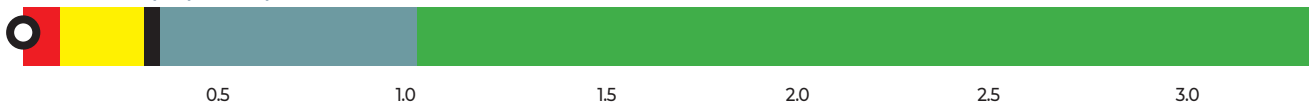
Gross domestic R&D Expenditure as a percentage of GDP



High-tech exports as a percentage of total exports



Number of triple patents per billion dollars of GDP



Number of researchers per one thousand employment



0% - 25%      25% - 50%      50% - 75%      75% - 100%      Median

Source: <https://stip.oecd.org/stip/countries/Turkey>

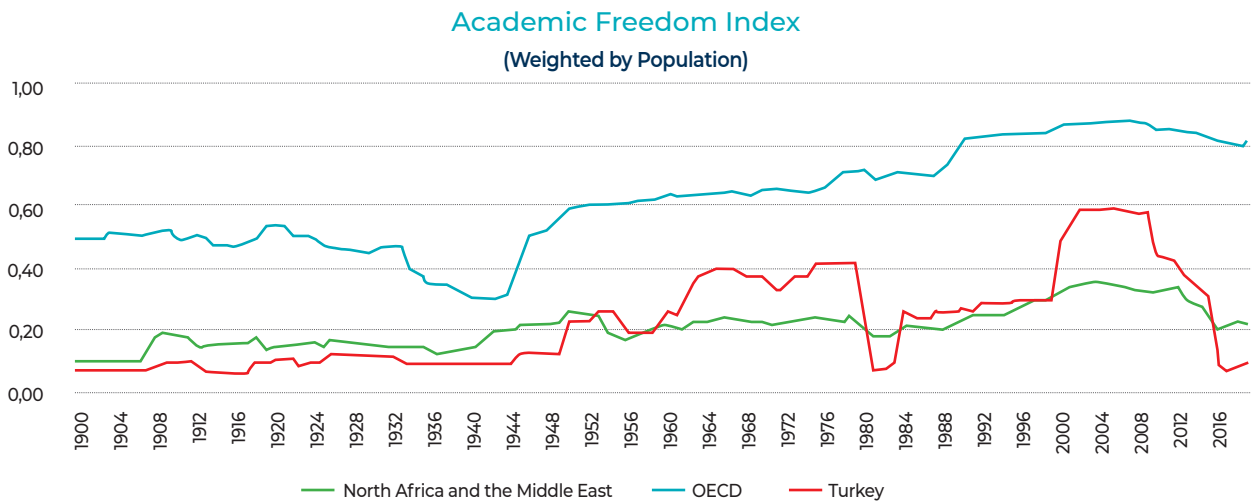


## Among the reasons for the technological lag are the handicaps in the institutional framework, especially in academic freedoms and the design of support systems, as well as the lack of qualified human resources and finance.

If a major determinant of the acceleration of technological progress is the resources allocated to this area, another one is the institutional framework. In general, innovative ideas develop in a liberal, pluralistic and inclusive intellectual and cultural environment.

One of the preconditions for the development of innovative ideas is academic freedom. According to the Academic Freedom Index compiled by the Varieties of Democracy, Turkey is behind the world average in academic freedom, including the North African and Middle Eastern countries.

Other institutions and rules are also needed for technological progress and innovation. The protection of intellectual and industrial property rights is important in this respect. In situations where the protection of inventions, trademarks and copyrights are not effective, the judicial system does not operate quickly and effectively, and the sanctions are not deterrent, R&D and thus technological sophistication are adversely affected. In such environments, it would not be possible to achieve the economic benefits from the results of R&D activities, which are usually long, rather arduous and costly.



Source: <https://www.v-dem.net/en/data/data/v-dem-dataset/>

## In all aspects of innovation, there are significant disparities between different segments of society and the economy.

A very important precondition for increasing the creativity and innovation potential is the inclusion of different segments of society in the process. In many indicators, such as resources allocated to digitalization, R&D and innovation activities and patents, there is a gap between different segments of society and economy with respect to sub-distributions such as the size of enterprises, gender, region, disadvantaged segments and age groups. These gaps prevent Turkey from taking advantage of the opportunities that diversity can afford.

# 3

## Institutions and rules

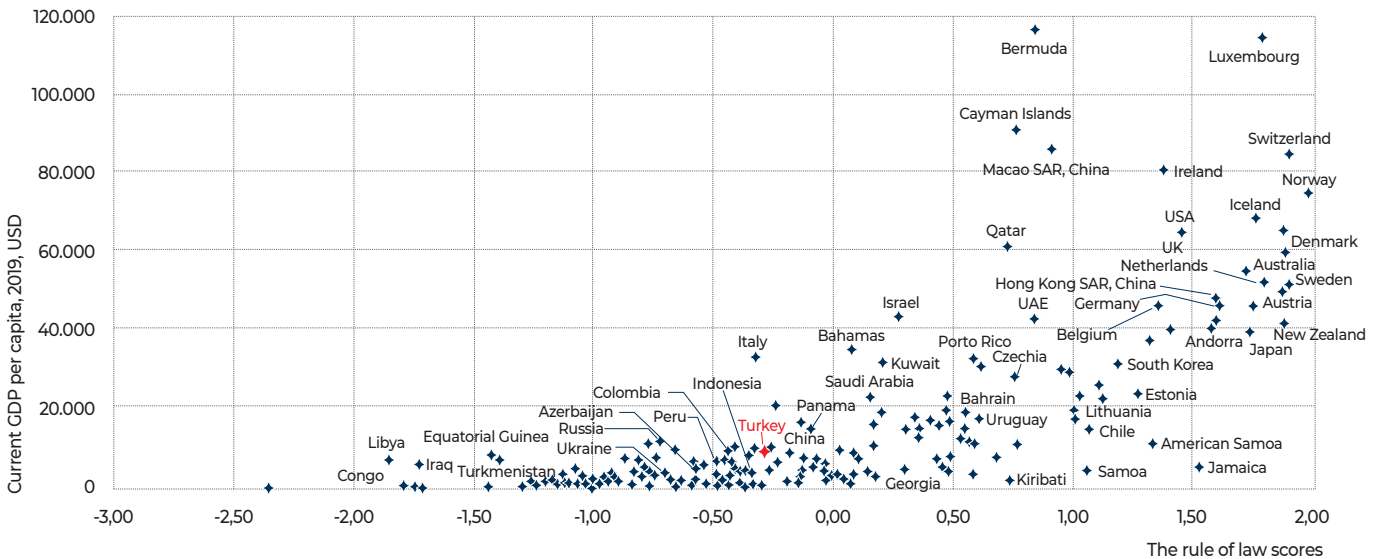
Institutions and rules are indispensable for Turkey's sustainable development.

Institutions are defined as the rules and norms that people establish to shape political, economic and social interaction.

Institutions provide economic stability, social trust and peace, facilitate decision-making in consensus and ensure the effective implementation of the decisions taken. Institutions and rules regulate the rule of law, fundamental rights and freedoms, democracy and public administration, economic life and social trust and cooperation.

Therefore, the quality of institutions and rules is indispensable for ensuring the rule of law, democracy, economic stability, co-existence and co-development.

There is a strong correlation between the rule of law and GDP per capita.



Source: World Bank, WGI & WDI

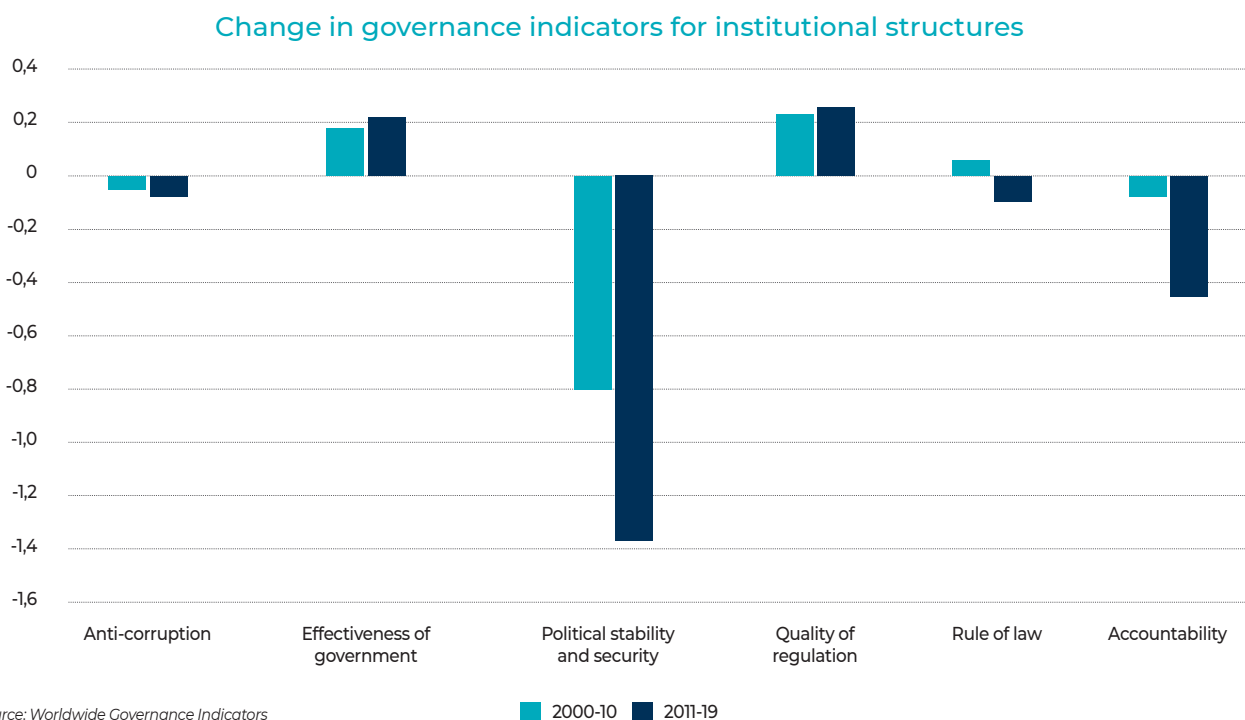




Relations with global institutions are also effective in shaping national institutions. In addition to the Customs Union and the EU membership process, relations with multilateral organizations such as the WTO, IMF, World Bank, OECD, Council of Europe, and NATO have been influential in the development of institutions in Turkey. Since the second half of the 1990s, the integration process into the global economy, which has accelerated especially with the effect of the Customs Union, has had a positive impact on institutions in Turkey, especially on the quality of regulation.

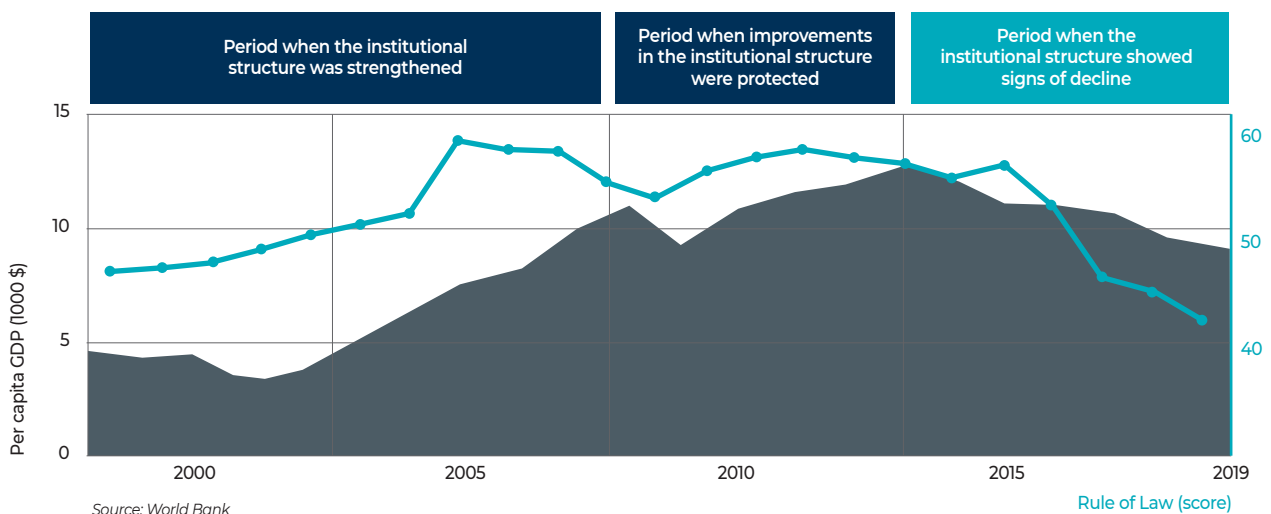
Since the establishment of the republic, Turkey has made significant progress in building institutions that are important for development. Further development of institutional capacity will take development to a higher level.

**Although there had been an initial improvement in institutions and rules in Turkey in the early 2000s when the EU membership process gained momentum, this progress has stalled.**



Transparency and accountability make it possible for the public administration to manage the resources entrusted to it on the basis of public interest, fiscal discipline and merit. For this reason, it is important to establish a strong regulatory and supervisory structure, to establish independent institutions and to provide the necessary autonomy and human resources for the operation of these institutions.

Turkey is no exception. In the period when compliance with EU criteria had accelerated and institutional structures had been strengthened, per capita income growth had accelerated. Conversely, income growth stalled due to the stagnation in the improvement in institutional structures and per capita income decreased parallel to the regression in institutional structures.



**Structural Reforms**

- Stability with public finance and banking reforms after the 2001 crisis
- Lowering inflation
- Enabling supervisory and regulatory bodies

**European Union Reforms**

- Implementation of effective reforms in different fields with the acceleration of the EU candidacy process
- Thanks to these structural reforms, Turkey's predictability and prestige will increase in the international arena
- FDI increase in Turkey

- The slowdown of the EU integration process
- Even though there are certain setbacks, efforts to preserve the improvements related to the lack of supervisory and regulatory institutions
- The negative impact of the global crisis on growth

- Failure to continue the gains implemented with determination in the EU integration process
- Decreased effectiveness of balance and control mechanisms
- Decreased public confidence in the impartiality of the judiciary and the rule of law

## An environment of trust based on institutions and rules is critical.

Strong political and social trust is one of the important determinants of achieving economic and social development goals.

Research on the perception of trust in Turkey reveals the need to strengthen the environment of trust and to establish the future together in order to accelerate economic and social development. In order for the future of Turkey to be determined through a collective process with the participation of different groups that make up the society, it is necessary to look at the problems from the perspective of "all of us," not from the perspective of "you-us." Inclusive and reliable institutions and rules play an important role in ensuring this environment of trust.



## In the 2000s, Turkey had achieved a significant increase in welfare thanks to the progress it made in “human development and competency”, “technology” and “institutions” in line with adherence to EU criteria.

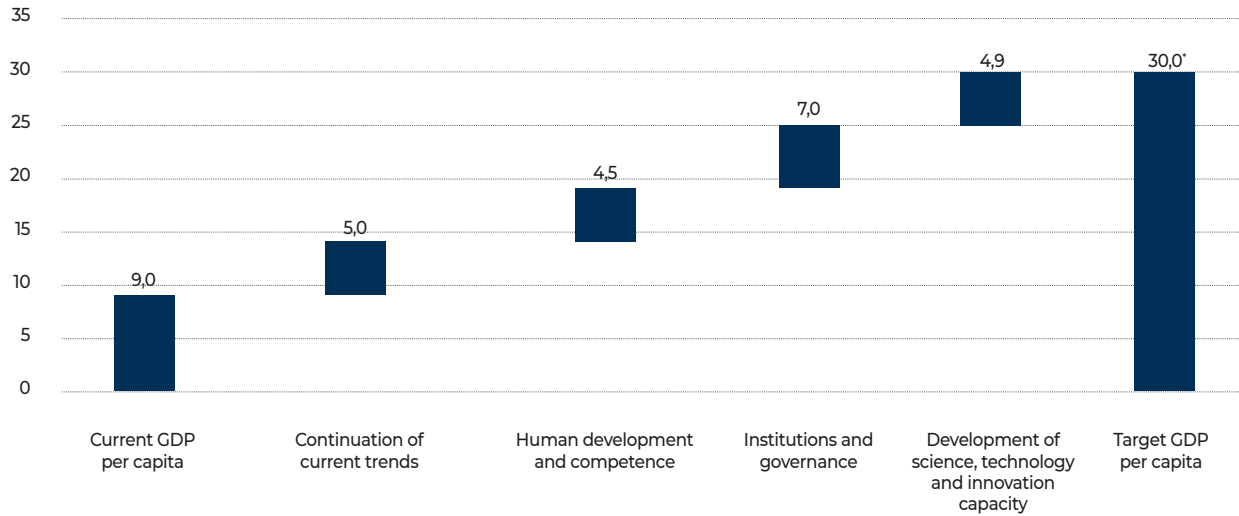
Turkey used its economic potential in the best way in the 2000s, when its full membership process to the EU gained momentum. Thanks to the economic and political reforms made, it has come a long way in getting out of the middle-income trap. With the initiatives taken in human development and competency, technology and institutions, per capita income in current dollar prices increased three fold in just 6 years and the income gap with OECD countries narrowed. During this period, the average years of education increased from 6.2 to 7 years, the share of medium and high technology products in exports increased from 32 % to 40 % and improvements took place in the rule of law and democracy scores. In the following years, however, the reform momentum could not be sustained and consequently the growth rate slowed down.

## Improvement in these three elements can create new momentum in welfare gains.

We conducted a regression analysis with a data set of 105 countries using the 1995-2019 time frame and subsequently conducted a scenario analysis. These studies show to what extent the developments in these three elements would be effective in accelerating the increase in per capita income in Turkey and closing the income gap with the OECD countries .

In this analysis, the initial value of Turkey’s GDP per capita was taken as USD 9,000 . According to the analysis, if current trends remain the same (no change in the capital structure in production, institutional and human capital structure, ratio of medium and high technology products in exports), then GDP per capita will be USD14,000 (with 2010 constant dollar value) after 20 years. However, with the contribution of progress in human development and competency, institutions and rules, science, technology and innovation, Turkey’s per capita income could rise to approximately USD 30,000 in a 20-year period.

**Growth projection**



\*According to calculations made without rounding, the target GDP per capita is 30.3 thousand dollars.

<b>Human development and competence</b>	<b>Institutions and effective governance</b>	<b>Science, technology and innovation</b>
Achieving the OECD average in 20 years at average education level	Achieving the OECD average in 20 years in terms of democracy and rule of law	Achieving the OECD average in 20 years in the share of medium-high technology products in exports

In the first quarter of the twenty-first century, per capita income in Turkey had rapidly increased under the development policies based on the economic and political reforms made following the acceleration of Turkey's EU membership process. With a new development approach based on "human development and competency", "science, technology and innovation" and strengthening "institutions and rules" Turkey's per capita income has the potential to triple in the second quarter of the twenty-first century. Turkey could enter the class of wealthy countries with an increase in per capita income from USD 9,000 today to USD 30,000 in 2040.



**We can build a developed, reputable, fair and environmentally friendly Turkey through a total mentality change, by taking simultaneous and coordinated steps in the elements of “human development and competency”, “science, technology and innovation”, and “institutions and rules”**

Thanks to its assets, it is possible for Turkey to take a new development initiative in the second quarter of the twenty-first century. However, the development approach cannot be limited to enrichment only. In our new understanding of development, we should pay more attention to the environment and social justice, in other words, aim for sustainable development while getting wealthier and having a respectable status in the global system. This requires a holistic and long-term perspective. As a matter of fact, the conditions of the second quarter of the twenty-first century are different from the first quarter. In the coming period, the global economic policy trends that could affect Turkey are the following:

- The expansion of the scope of digital transformation and its accelerating economic and social impacts,
- Intensification of the pressure on natural resources due to the increase in demand, and replacement of an economic model that does not take into account environmental effects by a green economy model,
- Persistence of global geopolitical tensions at least in the near term.

If we can manage the social risks that these changes and transformations may pose, we will be able to make the best use of the opportunities that will arise.

Development is a multidimensional process. Turkey has already set various targets, made preparations and set aside assets with the goal of development in mind.

The most important success factor in building a developed, reputable, fair and an environmentally friendly Turkey is to design strong connections between these targets. Otherwise, the development process faces the risk of stalling. For example, if the objective of becoming one of the wealthy countries by increasing per capita income overtakes other targets, then the social injustices growing over time lead to social and political tensions. Likewise, the depletion of natural resources increases production costs and disrupts the balance of the ecosystem and social welfare. Meanwhile, the erosion of soft power in the international system makes it difficult to attract the financing needed for growth and the growth process becomes clogged over time. Similar risks apply when another target overtakes. The steps to be taken for each target vis-à-vis each of the other targets will be explained below and will create a strong multiplier effect in total. Thus, the negative spin-off that can happen in the event of a target taking the lead will be replaced by a positive spin-off by observing all four targets in unison.

Achieving these four targets requires simultaneous and coordinated policy steps in all three key elements (“human development and competency”, “science, technology and innovation”, “institutions and rules”).

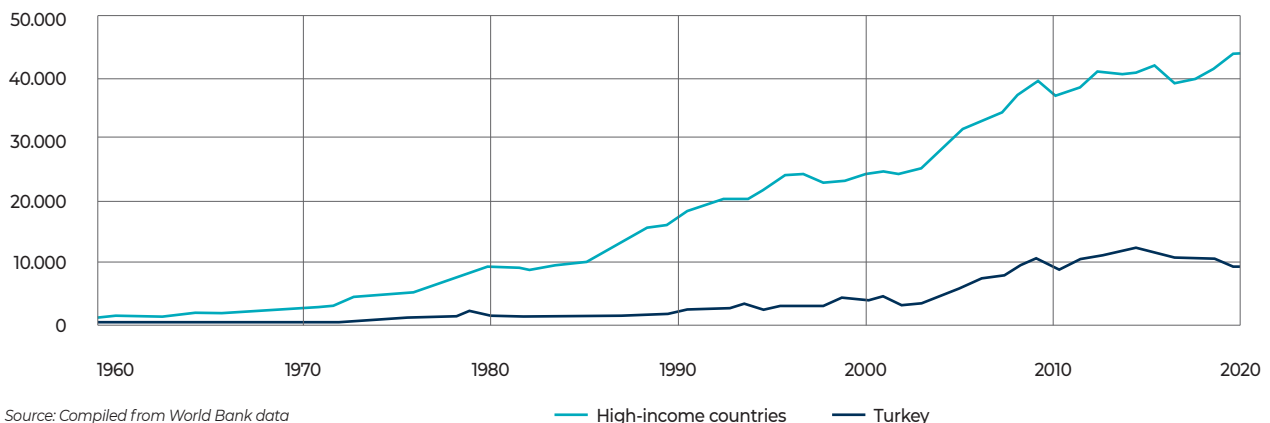
**Goal: A developed Turkey with economic stability, a predictable investment environment, low inflation and strong macroeconomic balances, creating employment, and having high per capita income with sustainable growth**

It will not be possible to sustain high growth in the medium and long term without providing macroeconomic stability, increasing the resilience of the economy towards shocks and establishing an appropriate investment climate for long-term investments.

Per capita income in Turkey rose from USD 3,100 in 2001 to USD 12,500 in 2013. While a high rate of growth was achieved between 2002 and 2007, inflation, the public deficit, interest rates and debt burdens decreased and the Turkish Lira (TL) appreciated. This strong economic performance was accompanied by the acceleration of the EU process and structural reforms. In the 2002-2007 period, substantial structural reforms contributed to the strengthening of the economic performance. Some of these reforms include increasing the powers of the regulatory authorities in economic management, ensuring the independence of the Central Bank, adding the extra-budgetary funds into the general budget, reinforcing financial accountability and the prevention of waste and corruption in the public sector via the public procurement law. In this period, Turkey improved its reputation in the international system, its access to international funds increased and this facilitated the financing of growth.

Parallel to the weakening of economic and political institutions, rapid economic growth first stalled and then began to decline. Turkey was unable to realize a productivity increase nor could resources be used in low productivity areas. The composition of growth changed and its quality deteriorated. Per capita income, which was 18 % of the OECD average in 2000, had increased steadily, reaching 34 % in 2013, with an exception for 2001. However, this rate has decreased every year since 2013, falling to 22 % in 2020.

**Per capita GDP (current US dollars)**



Source: Compiled from World Bank data



## Macroeconomic stability must be ensured. Turkey's knowledge and experience in this field is rather rich.

The most important indicator of macroeconomic stability is price stability. The stability and predictability of exchange rates and having interest rates conducive for investments are closely related to price stability.

By ensuring price stability, the investment environment in Turkey will improve and predictability will increase. Thus, the production and investment horizon will expand and it will be possible to attract new high value added technology investments.

To ensure economic stability in Turkey, it is necessary to permanently reduce inflation below the 5 % target. Although high inflation is caused by various factors such as global conditions, the rise in international food and other commodity prices, exchange rate shock, domestic demand conditions and inertia, the way to reduce inflation is primarily through the Central Bank's independence and prudent monetary and fiscal policies.

In order for FDI to once again become an important source of financing, it is necessary to strengthen the institutional structure and improve the investment environment, together with macroeconomic stability.

To ensure macroeconomic stability, it is necessary to narrow the foreign trade deficit, which is one of the long-standing structural problems that has yet to be solved. For this reason, it is necessary to reduce the dependence of production on imported inputs and investment goods through science, technology and innovation policies. It is also necessary to increase productivity in all sectors and to increase the share of high-tech products in exports by reducing the share of low-tech products where world trade increases slowly.

In order to increase productivity in every sector, productivity improvement is needed on an enterprise basis. For this, it is necessary to increase the productivity of SMEs and to develop the entrepreneurship ecosystem. In order for SMEs to create more added value, many programs had been implemented by the government in the past in areas such as finance, training, R&D and innovation. However, the need for greater productivity, growth and institutionalization of SMEs continues. The transformation of SMEs is important in terms of the social dimensions of development such as income distribution, employment and regional development, as well as supporting the economic growth process.

**Goal: A reputable Turkey, becoming a role model in the international arena through diplomacy and cooperation, strengthening its relations with the Western world, beginning with integration with the EU and adhering to international law and agreements**

The goal of becoming a reputable country in the global political economy as a member of the liberal and democratic system, complements the development targets that give priority to economic development and catching up with the rich countries, social justice and the environment.

After the Second World War, countries built their development strategies increasingly on an open model. Turkey also took important steps in the direction of integration with the global economy as of the 1980s and in the direction of the rule of law and democratization as of 2000. Thus, it became an effective actor in the global economic system. Thanks to the EU membership process, it became more integrated into the rule-based international liberal democratic order and was able to consolidate its place in the global architecture by showing strong economic growth in this system. It has increased its share in global trade and FDI and has become a rising power with its role as a bridge between the East and West, Europe and Asia, developing countries and developed countries. However, as the momentum for international cooperation weakened in the 2010s, the momentum for reform at home declined, institutions regressed, and Turkey's rise in the global order also came to a halt.

It is true that protectionist tendencies emerged in some countries in the post-2008 period, but still, the national interests of Turkey require adopting a policy to be an active player in the international system rather than focusing more on internal dynamics. Due to the fact that Turkey is a medium-sized country in terms of population, it has a savings deficit and is dependent on imported energy.

As in the past, the policy to become a reputable member of the global system and to become one of the rich countries of the world, will be two processes that will support each other in the future.





## **In order for Turkey to increase its share in the global economy, it is necessary to update the Customs Union in line with the objective of integration with the European Union and to strengthen economic and political relations with the United States.**

More than 25 years have passed since the Customs Union was established. During this time, the World Trade Organization was established; countries such as China, Russia, India and Brazil have become important global economic actors. There have been great leaps in information technologies and the digital economy has emerged. That said, the 2008 global crisis and the Covid-19 pandemic have had deeply negative effects on the world. Therefore, although it works relatively well, updating the Customs Union, which has fallen far behind the needs of the present time in terms of form and content, constitutes an important target for Turkey to maintain its strong position in the global economy. Of course, any such revision should be carried out in such a way as to not prejudice its accession negotiations with the EU nor its status as a negotiating country.

An important aspect of the Customs Union update will be environmental sustainability, which is a critical topic in the EU's new generation trade agreements in the coming period. The EU is implementing a carbon border adjustment mechanism as part of the Green Deal. With the updating of the Customs Union, these issues should be covered in Turkey-EU trade. Otherwise, Turkey's exports may suffer from the environmental sustainability regulations in the EU's foreign trade policy.

In terms of increasing Turkey's share in global trade, it is also important to strengthen existing economic and political relations with the United States. The revival of transatlantic cooperation and the adoption of a supra-political and inclusive approach emphasizing the importance of strategic relations between the two countries is a necessary step for the long-term national interests of both countries.

## **In addition to the close economic, political and social relations established with the Western world, mutually beneficial relations with other countries should be developed.**

Adopting a long-term and predictable approach to foreign policy, based on alliances, historical experience and on values and principles will also strengthen Turkey's weakened relations with many neighboring countries.

Increasing Turkey's economic and political influence in the surrounding geography by observing international law will be a complementary element of the Turkish story in the years to come as was the case in the 2000s. With its historical and cultural heritage, Turkey has a high potential to become an influential and respected power in the Middle East, North Africa and Central Asia.

Its historical and cultural ties with its region can turn into a sphere of influence in the period when Turkey's position in the global system gets stronger.

**Goal: A fair Turkey** that eliminates income inequality and regional disparities, ensures gender equality, where everyone lives equally and freely without discrimination on the basis of language, religion, sect, race, origin, and does not leave anyone behind in the development process

The fact that Turkey is the country with the lowest life satisfaction among the OECD countries clearly shows that a high growth rate alone is not enough.

The aim should be to spread welfare to all segments of society, that is, inclusive development. Resources must be mobilized to reduce existing injustices.

Turkey has gained substantial experience in terms of social development since the establishment of the republic. Extending this even further in line with the principle of leaving no one in society behind will be an important component of the new development story.





## Income and wealth inequality goes along with other social inequalities.

Different types of inequality in a society often intertwine and feed each other. Wealth and income inequality creates problems in accessing quality education and inequality in education is reflected in the labor market and again increases income inequalities.

Although income inequalities in Turkey tended to decrease in the reform period after 2002, they started to deteriorate again as of 2007.

The deepening of the inequality of opportunity, the inability of different social groups to have access to welfare and poverty create political tension and interrupt the growth process. Therefore, inequality indicators are closely related to the deterioration of many other social welfare indicators such as the crime rate, trust, economic performance and happiness.

Elements such as income justice, balanced regional development, the effectiveness of the education and health systems and a clean environment, together with democratic institutions increase social trust. This, in turn, reinforces the will to live happily and peacefully together, makes it possible to overcome the difficulties encountered and to establish a prosperous future.



## Ensuring gender equality is pivotal to building a fair society.

Strengthening the position of women in society will not only lead to more equitable development, but could also play a role in accelerating the growth process.

Raising compulsory education to 12 years in Turkey has been important in providing equal opportunities for girls in education. However, gender-based differences still persist in the Eastern and Southeastern Anatolian regions, especially in access to secondary education.

Turkey ranks last among the OECD countries in terms of women's participation in the labor force. In addition to the inequality of opportunity in higher education, other factors such as skills mismatch, social norms, expecting women to take care of children and elderly in the family, lower wages for women and the glass ceiling syndrome reduce women's participation in the labor force.

Violence against women, a crime against humanity, remains a serious problem. Women are exposed to violence under the guise of various pretexts both globally and in Turkey and their right to life is taken away from them. Cases of murder, rape, abuse, forced and early marriages that darken the lives of women and children, are the indications of the mentality that exposes women to discrimination because of their gender.

One aspect of gender inequality is that there are large disparities between regions. This is an example of how different inequalities feed off each other. The biggest obstacle in eliminating gender inequality and making changes in favor of women in the laws stems from the very low female representation in politics.

### WORLD ECONOMIC FORUM (WEF) GLOBAL GENDER GAP INDEX

 **SCORE**  
0,638 / 1

 **RANKING**  
133 / 156

#### Economic participation

- Labor force participation
- Wage equality for similar work
- Estimated earned income
- Legislators, senior officials and managers
- Professional and technical workers

140 / 156

#### Educational attainment

- Literacy rate
- Enrollment rates

101 / 156

#### Health

- Sex ratio at birth
- Healthy life expectancy

105 / 156

#### Political empowerment

- Women in parliament
- Women in ministerial positions
- Years with female head of state

114 / 156

Source: WEF Global gender gap index, 2021



## Reducing regional disparities is a goal of the near future.

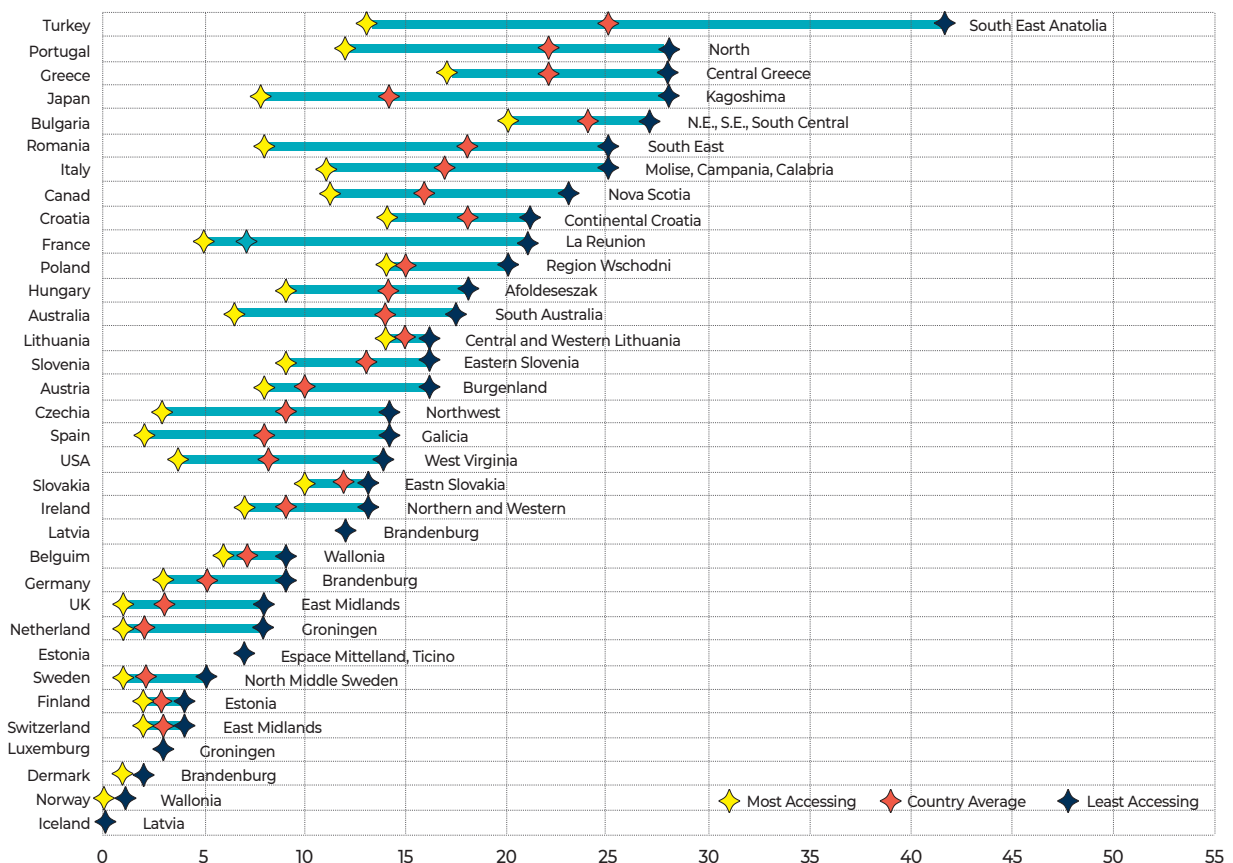
Turkey is one of the few countries with the deepest regional differences among the OECD countries in many areas of human and social development such as education, broadband internet access, quality of housing, unemployment rate, youth unemployment rate, air pollution, healthcare, cultural and artistic activities and gender equality.

Transformations in technology, climate change, possible shifts in the manner of integration with the global economy and demographic developments bear the risk of further exacerbating the already deep regional inequalities.

The fact that some regions lag behind in socio-cultural indicators such as healthcare, education, culture and artistic activities and gender equality makes it difficult for these regions to attract qualified employees and young entrepreneurs despite generous investment incentives. Thus, a self-reinforcing vicious circle emerges between economic underdevelopment and socio-cultural underdevelopment.

The scope of regional development differences or the inability to close them despite all policy measures are primarily related to the institutions in this field. Historically, a central approach to development was dominant in Turkey. Producing policies only at the country level does not provide the desired result in increasing the competitiveness of regions and reducing regional inequality.

Percentage of people not using the Internet or who do not have a computer in 2019 or the latest available year, large regions



Source: OECD Regions and Cities at a Glance 2020, figure 2-7

**Goal: An environmentally friendly Turkey that observes the balance of the ecosystem, achieves carbon-neutral development and offers to the next generations a governance system that has internalized green economic transformation**

The aim must be to ensure green growth that preserves the balance of the ecosystem for future generations, utilizing the opportunities provided by technological change and the green economy perspective.

Environmental problems and policies are directly related to the economic growth model. Production activities should not pollute the ecosystem and should not adversely affect biodiversity.

The contribution of the rich biological diversity and agricultural product pattern of Turkey's geography to green economic growth will be possible through effective climate change and resource efficiency policies.

## **Turkey's future economic model should be built on sustainable development.**

Perspectives on the relationship between the economic system and ecosystem are changing. Studies show that the self-renewal capacity of our planet is insufficient in the face of the pressure created by the current linear production and consumption patterns.

Scientific studies reveal that climate change is widespread, rapid and intense and without doubt a result of human activities. Some impacts such as changes in the global sea levels, ice cover and oceans due to past and future greenhouse gas emissions are irreversible. Agricultural and ecological drought is being observed in the Mediterranean Belt, where Turkey is located; under all scenarios, the 1.5 degree limit will be exceeded between 2012-2040.

An approach that does not expose future generations to environmental risks does not have to conflict with the pursuit of growth and welfare. On the contrary, today's technologies and global policy trends indicate that growth based on environmental sustainability also offers very important economic opportunities.

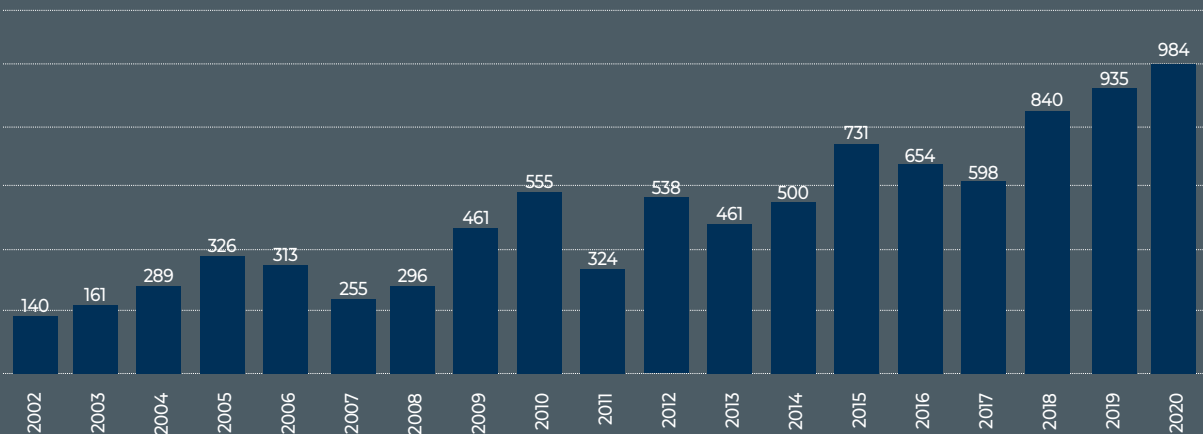


## Combating climate change is also important for Turkey's development and competitiveness.

Turkey ratified the Paris Agreement on October 6, 2021. It is critical to support the Nationally Determined Contribution with a roadmap for becoming carbon neutral by 2050.

### WITH THE EFFECT OF CLIMATE CHANGE, EXTREME WEATHER EVENTS IN TURKEY INCREASED 7 TIMES

Number of extreme weather events in Turkey



### CLIMATE CHANGE PERFORMANCE INDEX (SELECTED COUNTRIES)

					
	Turkey	Sweden	Poland	Germany	France
Climate policy ranking	58.	5.	42.	18.	20.
GHG emissions ranking	37.	4.	46.	18.	15.

Source: General Directorate of Meteorology <https://mgm.gov.tr/FILES/iklim/yillikiklim/2020-iklim-raporu.pdf> and CCPI, <https://ccpi.org/download/the-climate-change-performance-index-2021/>

## Although posing a risk, the European Green Deal presents a brand-new opportunity for sustainable development in Turkey.

The European Green Deal, announced as the new growth strategy of the EU, implements regulations that will completely transform the European economy towards the goal of becoming climate-neutral by 2050. This transformation process is discussed within a very broad framework under many headings such as access to clean and low-cost energy, direction of industry towards a circular economy, renovating buildings to reduce carbon emissions, accelerating the transition to sustainable and smart mobility, fair, healthy and environmentally friendly food systems from farm to fork, a “zero pollution” target for an environment without toxic waste, and the protection of biodiversity. The European Green Deal has been the trigger of a transformation process not only in the EU, but also in all countries with which it has trade relations. This is also true for Turkey.

Many regulations within the scope of the Green Deal may lead to an increase in the cost of Turkey's exports to the EU if harmonization is not achieved. On the other hand, if Turkey can move quickly on the path of transition to a green economy, the European Green Deal may also offer brand new opportunities as a tool for transformation.

In this process, the integration of elements related to climate change, especially the transformation of energy, and circular economic practices should become fundamental elements of Turkey's industrial policy.

## Steps to be taken in a number of fields, from the circular economy to energy efficiency, and from the use of renewable energy sources to increasing resource efficiency, will support sustainable development.

Although Turkey's greenhouse gas emission per capita is low compared to the OECD countries (OECD: 12 tons, Turkey: 6.4 tons, 2017), the rate of increase is much higher comparatively (while Turkey's greenhouse gas emissions increased by 49 % in the 2005-16 period, there was an 8 % decrease in the OECD region in the same period).

Although the share of renewable energy in Turkey's primary energy source is above the OECD average (OECD 11 %, Turkey 16 %, 2019), its potential in renewable energy is much higher.





Increasing energy efficiency, which is one of the policies that will facilitate Turkey's transition to a carbon-neutral and resource efficient economic structure, also contributes to various goals. These include reducing energy costs in production, meeting the increasing energy demand, reducing the current account deficit stemming from energy imports and ensuring energy supply security.

The adoption of the combined transportation approach, which offers a more environmentally friendly transportation opportunity instead of a structure that centers on road transportation, will also strengthen Turkey's potential to become a logistics center. This will also provide advantages such as increased security, speed, reliability, service frequency, cost reduction and the facilitation of foreign trade.

Even optimistic climate change scenarios show that temperature increases will create production and export income risks in the agricultural economy and there may be productivity losses of up to 40 % in some products.

The “buy-use-throw” economic model, which is being applied today and known as a linear economy, is not sustainable as it continuously and rapidly increases the use of natural resources. In the model defined as the circular economy, the “resilience-recycling-reuse-repair-waste reduction” cycle is established and the disruptive effect of industry and service production on the balance of the ecosystem is reduced.

## **The investment and financing needs of the transition to a carbon-neutral and resource efficient economy should be met through long-term policies.**

No meaningful success is achieved in reducing the environmental impact through higher taxes. In order to ensure transition to a carbon-neutral development model and increase the predictability for the investments of the business community in this area, long-term policies should be adopted and the process should be accelerated by reorganizing public procurement and incentive policies. In this context, green financing instruments offer significant advantages.

As sustainability issues gain importance, many financial institutions are reducing fossil fuel investments in their portfolios and facilitating investment in green sectors. Easier access to funds created at the global level and the allocation of these funds to investments with better terms than those of local financial institutions will create a driving force for the real sector. It is important that the public and business community cooperate in all kinds of negotiations regarding access to these funds and that a common communication strategy be developed to use at the relevant international platforms.

# BUILDING THE FUTURE

WITH A NEW MINDSET

In order to build a developed, reputable, fair and environmentally friendly future, holistic steps must be taken in three elements of development.

The four goals and the three elements of development are closely interrelated. Therefore, a holistic perspective is needed for their implementation. **If all of the following are achieved in the coming period, it will be possible to build a developed, reputable, fair and environmentally friendly Turkey.**



## With respect to the “Human development and competency” element, we should

1

Increase the resources allocated to education and use these resources more effectively, in a way that will eliminate inequalities based on regions, socio-economic background and gender, focus on improving the quality of education at all levels and support the development and empowerment of teachers

6

Provide widespread mechanisms that support the work-life balance to ensure women's participation in the labor market

2

Restructure the curriculum to develop critical thinking, creativity, and high level cognitive, social and emotional skills required by 21st century

7

Provide the necessary digital skills training programs and the technological infrastructure required by the remote working method to ensure the adaptation of employees to the new working models in the labor market with the digital transformation; and develop a legal framework that guarantees the rights and flexibility of employees through an effective social dialogue mechanism

3

Develop a governance model in line with more authority and autonomy at all levels of education

8

Establish support mechanisms that will ensure that workplaces are suitable for the people with disabilities, as well as holding skills development programs to increase employment opportunities for them

4

Design vocational education and lifelong learning programs in collaboration with the public, education and business community taking into account the disappearing and emerging jobs

9

Improve the regulations regarding the elimination of the informal economy and the safety of the physical work environment for employees, especially in the mining and construction sectors and strengthen the control mechanisms

5

Make early childhood education compulsory, integrate Syrian and other migrant children into education and completely prevent child labor

10

Ensure that quality healthcare services are accessible to everyone in all regions, expand preventive health services, increase hospital capacities and the number of physicians and nurses, increase per capita healthcare expenditures and implement the necessary planning in the field of healthy and active aging

**In “Science, technology and innovation” element, we should**

- 1** Design a holistic program to increase the efficiency of SMEs and facilitate their access to finance and global trade networks, and implement it by bringing together stakeholders such as public institutions, private sector companies and non-governmental organizations
- 2** Design the education system in such a way that it will be able to foster knowledgeable, free thinking and creative researchers and develop the university governance model in a way that guarantees academic freedom, autonomy and accountability
- 3** Allocate resources to qualified scientific research and innovation activities and increase private sector R&D expenditures, especially in the field of ICT by effectively using these resources
- 4** Increase the effectiveness of the incentives by simplifying their complex structures and ensure that the R&D support provided is transformed into production, commercialization, branding and product sophistication
- 5** Establish the relationship between industrial policy, science and technology policies, and within this framework develop university-industry-public cooperation in the most effective way
- 6** Focus on developing national capacity for scientific research and innovation in the areas of digital and green economy
- 7** Improve the infrastructure to accelerate digital transformation, extend digital literacy to all segments of society and adapt the existing legislation and supports to the specific structure of the software industry, which is the most important driver of digital transformation
- 8** Adopt a liberal approach to internet access, while taking precautions regarding the privacy and security of personal data
- 9** Strengthen the data transmission infrastructure and develop the cooperation between private and public sector and R&D centers in the most effective way in line with the smart cities objective
- 10** Develop an entrepreneur-friendly regulatory framework, diversify and deepen financing resources, support innovative entrepreneurs and ensure effective coordination between the main industry, auxiliary industry, universities, consultancy companies, SMEs, start-ups and other stakeholders in technology development and production processes

## In “Institutions and rules” we should

1

Establish the rule of law and the independence of justice by ensuring that the state is bound by law and subject to judicial review in all its actions; and ensure that individuals have the opportunity to seek their rights at all levels

6

Improve participation in regulatory preparations and the regulatory quality, increase the autonomy of supervisory and regulatory institutions in order to improve the investment environment, and work in cooperation with the public and private sectors to create an investment strategy by taking into account new technologies and sustainable development

2

Strengthen pluralist and participatory democracy, develop all areas of rights and freedoms for all individuals in accordance with the European Convention on Human Rights (ECHR) standards, combat marginalization in politics, discrimination and hate speech

7

Review tax policies to combat poverty and reduce income inequalities at different levels and apply in-kind and cash transfers for social purposes

3

Strengthen the separation of powers, strengthen judicial control through checks and balances and establish a transparent, accountable, less centralized and effective public administration approach

8

Balance the interregional distribution of qualified workforce, health, infrastructure, technology, clean environment, culture, arts and sports opportunities, determine regional development strategies with participatory consultation mechanisms that will involve all stakeholders in the process and expand the local authority on issues related to regional development

4

Take a foreign policy approach based on principles and rules instead of bargaining for results, act together with countries working to eliminate the existing problems of the global system based on cooperation and rules and to reinforce it, maintain adherence to international law and continue with the EU integration process with determination

9

Rapidly activate the institutional mechanisms that will ensure the equal participation of women in economic, political and social life and management positions, support women's entrepreneurship, including access to financial resources, return to the Istanbul Convention, which is one of the most important legal instruments in the prevention of violence against women, and continue to apply Law no. 6284 (Act No. 6284 to Protect Family and Prevent Violence against Women) with determination

5

Ensure macroeconomic stability to initiate the sustainable growth process, and to this end, strengthen the institutions and rules of the market economy and ensure price stability by establishing, irrevocably, the independence of the Central Bank

10

Prepare, together with the participation of all the parties, the “Green economy roadmap” that is compatible with the European Green Deal, is scientifically based, built on impact analyses, ensures consistency and integrity between policies, supports sectoral green transformation targets, internalizes the green transformation of energy and the circular economy, and sets the target of becoming carbon-neutral for 2050 and establish the institutional structure that will ensure committed implementation in synergy

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