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TURKEY'S 2023 ECONOMIC GOAL IN GLOBAL PERSPECTIVE

by

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Turkey's 2023 Economic Goal in Global Perspective*

The Republic of Turkey will celebrate its centenary in 2023. Its economic goal is to rank among the world's 10 biggest economies. To move from its current 17th position, Turkey will have to grow on average 8% per annum.

This paper assesses Turkey's challenge and prospects from a global perspective, in light of present international conditions and trends, and possible lessons to be drawn from previous examples and experiences of fast growth, notably in East Asia.

The paper raises questions regarding not just the benefits of high growth, but also its costs. Successful economic growth can be very costly in social terms. Hence Turkey's aspirations for economic growth must be accompanied by visions and goals of social development.

Turkey's Ambitions – Turkey's Condition

The Ottoman Empire, which lasted over 600 years, had in the late 19th and early 20th centuries declined, becoming the "sick man of Europe". Its economic and political structure, exacerbated by a failure to reform, could no longer manage its extensive empire. As the Empire imploded over the course of World War I, the Allies sought to establish their presence in Turkey, as they did in vast swathes of the Middle East and North Africa. Following the Turkish War of Independence (1919-1923), the Republic was established and internationally recognised by the Treaty of Lausanne on 24 July 1923. Under the leadership of Kemal Mustafa Pasha, later known as Atatürk, a radical programme of political, economic, social, cultural and religious reform was undertaken; perhaps one of the most radical the world has ever seen.

While the Ottoman Empire was European, Middle Eastern and North African, the Turkish Republic hung its sail firmly on the Western mast. The reforms corresponded to a process of "westernisation", since which Ankara has consistently adopted pro-West policies.

Turkey joined the Council of Europe in 1949 and the newly established North Atlantic Treaty Organisation (NATO) in 1951. It became a member of the GATT (General Agreement on Tariffs and Trade) in 1951. It was a founding member of the

* In writing this paper I have benefited from being invited to participate in a number of conferences in Turkey and also from interviewing Turkish government, business and thought leaders, as well as expatriates living in Turkey, including journalists, officials and business executives. I am grateful to all of them for the insights they shared. I especially want to express thanks to Zeynep Dereli of The Atlantic Council and Trade Policy Forum, Sinan Ulgen, for his guidance and for inviting me to the very enriching 6th Bodrum Roundtable convened by EDAM (Centre for Economics and Foreign Policy Studies and CER (Centre for European Reform) in September 2010, and to Yavuz Caneví also for inviting me to the 10th anniversary Forum Istanbul in April 2011, from which I learned a great deal. Thanks also to my IMD colleagues Sophie Coughlan and Suzanne Rosselet for their comments and corrections. Of course all errors and shortcomings in this paper are mine.

Organisation for Economic Cooperation and Development (OECD) in 1961. It became an associate member of the European Union in 1963 and first submitted its application for full membership in 1987. Turkey was also a founding member of the Organisation for Security and Cooperation in Europe (OSCE) in 1973. On 31 December 1995, Turkey and the EU formed a customs union. In 1999, Turkey was recognised as a candidate for full membership by the Council of Europe; official negotiations began in October 2005. The time of accession, however, has become more than a moveable feast, as the EU leaders have repeatedly changed the goal posts and some, such as Nicholas Sarkozy of France and Angela Merkel of Germany, have voiced outright opposition.

The Republic of Turkey has had a somewhat turbulent political and economic history. While economic reforms were adopted in the 1980s and output per worker more than doubled in the ensuing two decades, the Turkish economy has lagged behind most of Western and Central Europe. Its GDP *per capita* is 30% of the EU average. In aggregate GDP Turkey ranks as the world's 17th biggest economy, but in GDP *per capita* at $10,400 it is in 57th position. This is half that of Portugal, one of the EU's "poorer" countries, at $21,600 in 32nd position; though it is well ahead of the two most recent EU members: Romania (70th position, $7500) and Bulgaria (74th, $6350)[*]. Similarly to the economically weaker EU member states, the agricultural sector remains very big, accounting for 25.2% of employment, but only 9% of GDP.

In 2001, Turkey experienced a massive financial crisis and stock market crash. Following emergency reform measures, the economy re-bounded: between 2002 and 2010 it grew at a healthy compound annual growth rate (CAGR) of 4.8%. The economy registered negative growth in 2009 as a consequence of the global financial crisis. However, in 2010 its real growth rate was 8.9%, third only after China and India, well ahead of the average for emerging economies of 7.5% and leaving the EU 27 members in the distant dust at 1.8%.

Turkey is buoyed by recent developments and confident about the future. The optimistic energetic atmosphere is palpable. From having been in the EU's economic shadow for decades, Turkey now sees the EU in a state of depression. Though the EU remains by far Turkey's biggest market, many of the country's businesses are increasingly turning their attention to the former Ottoman space – especially the Middle East North Africa (MENA) region, but also the Balkans and the Caucasus. The rise of the "Anatolian Tigers" has been driven by a surge in entrepreneurship and expansion into new markets. Exports have risen from $36 billion in 2002 to $117.5 billion in 2010; the target for 2023 is $500 billion. It is currently the 30th biggest exporting nation, between Norway and the Czech Republic. Since the reforms Ankara has pursued a prudent fiscal policy. Inflation is currently running at about 5%, which is significantly down from the runaway inflation figures of the 1980s and 1990s at 65%.

Turkey has distinct demographic advantages. It is young: the current median age in Turkey is 28.5, in contrast to 38.5 in Poland and 40.5 in Spain. It is one of the youngest, if not in fact *the* youngest population in Europe. Its current population of 70 million is due to increase to 90 million in 2050, thus making it also the largest

[*] All data are from the IMF.

population in Europe after Russia. (Russia's population in the same period will decrease by some 17 million, from 143 to 126 million.)

While the economic indicators are, on balance, quite solid - indeed impressive - the social indicators leave more to be desired. Turkey ranks 83rd in the UN Development Programme (UNDP) Human Development Indicators (HDI), in between Jordan and Algeria. It finds itself just within the "high human development" category, but only three places away from falling into the "medium human development" group. It is weak in gender equality. According to the World Economic Forum 2010 Global Gender Gap Report, Turkey ranks a dismal 126th out of 134, falling behind Iran, Syria and Egypt. Turkey is also somewhat of a laggard in education. The average Turk has only 6.5 years of schooling, in contrast to an average of 11 years in the EU.

There are other potential social and economic obstacles to achieving Turkey's goals. Though expenditure in R&D has doubled in the last decade from 0.4% of GDP to 0.85%; it remains comparatively very weak – the average in OECD countries is 2.5%. Ankara's target for 2023 is 3%, which will demand a great scientific leap forward. Internet penetration as a proportion of the population is also relatively low at 45%. Unemployment is high, especially youth unemployment. At 25% Turkey's youth unemployment rate is twice the world average[*]. Youth unemployment is a world-wide scourge, with Turkey particularly affected. This includes a high rate of graduate unemployment.

Another major issue that could hamper future growth is the current account deficit, which is the highest since the founding of the Republic.

As Turkey's goal requires the ability to attract significant flows of inward foreign direct investment (FDI), this could be jeopardised by the fact that Turkey does not do too well in the World Bank Doing Business Index, standing in 65th position, between Antigua and Barbuda and Montenegro.

In the IMD World Competitiveness Yearbook (WCY) scoreboard, Turkey is in 39th position out of 59 economies. The impressive thing about Turkey's performance is its move from the high 40s (47th, 48th) in previous years, thus shooting up almost ten places. On that basis the Turkish economy does indeed seem to be on a roll, though some observers do express concern about a possible bubble in the making.

The main driver for this success has been the "dynamism of the economy", illustrated by the recent high growth rates. Growth in turn has been mainly driven by the domestic economy, where Turkey is ranked 20th, while international trade is a weakness, with the country in 54th position. In stock of inward investment Turkey is 45th, though the situation of current flows is improving, with Turkey 23rd (with $8.9 billion in 2010). It is unemployment (50th) where Turkey scores especially badly.

Turkey gets good grades in "government efficiency", with a strong position in public finance (23rd), though weak in societal framework (54th). Infrastructure lags- in particular technological infrastructure (46th) and education (52nd).

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[*] Data from the ILO

Turkey is in 30th position in "business efficiency". The economy has greatly benefited from an aggressive reform programme of privatisation in key industry sectors, as well as banking, transport and communications. Respondents to the WCY opinion surveys remarked on and emphasised the dynamism, adaptability and flexibility of enterprises. High scores are also noted for the competence and credibility of managers. In areas related to finance, including "financial risk factor", "finance and banking regulation" and "financial institutions' transparency", Turkey ranks in the top 10.

Finally so far as indices and rankings are concerned, in the Transparency International Corruption Perceptions Index, Turkey comes out respectably at 56th out of 178, in between Namibia and Latvia; but it is well ahead of all the other G20 developing countries– Brazil 70th, China 78th, India 87th, Mexico 98th, Argentina 105th, Indonesia 110th – and also ahead of a good number of EU countries, including Italy (67th), Romania (69th), Bulgaria (73rd), and Greece (79th)!

Of course all such rankings need to be taken with more than a grain of salt. They provide photographs from particular angles. Still, when aggregated they give a reasonably incisive view of the state of the country's economy and society. And they also provide policy makers with guidelines on areas for attention and reform. Education, employment - especially youth and female employment, gender issues generally, innovation, R&D, infrastructure, and the overall business environment clearly require the government's urgent and prioritised attention.

Turkey's current economic situation is dynamic. While textiles and garments still account for some 30% of industrial employment, in exports construction, food processing, steel, automotive and electronics represent a bigger and growing share. Turkish business is focusing on a number of key sectors, including aviation, defence, materials technology, medical equipment, environment and renewable energy. Services correspond to 65% of GDP and 45% of employment.

Turkey's "soft economic power" is reflected in its booming television and soap opera exports. It currently sells 38,000 hours to 40 countries amounting to $60 million per year. Turkish TV soap series have a 65-70% of market share in the MENA region. Turkey's goal is to reach 80 countries and $500 million sales by 2023. The TV series and soap operas business has a positive linkage effect with Turkey's booming tourism industry. Turkey also counts a growing number of globally present and competitive firms and is in the active process of developing brands – notably, for example, Turkish Airlines.

A key feature of Turkey is its geostrategic position. This is an asset with respect to energy, illustrated by the opening in 2005 of the 1768- kilometre Baku–Tbilisi–Ceyhan pipeline drawing oil from the Caspian Sea to the Mediterranean, expected to reach one million barrels per day. Plans include the development of gas pipelines from Central Asia through Turkey to Europe.

Turkey is a big, beautiful and highly diversified country, with magnificent scenic sites, coastlines and cities. And in that context it goes without saying that the city of Istanbul is a huge asset. Istanbul regularly features among the world's ten favourite cities. Istanbul provides not only the proverbial (and real!) bridge between

East and West. It is also the hub of the Eurasian continent; in less than four hours flight from Istanbul one can reach 1.5 billion people in over 50 countries.

There is a buzz in Turkey today. There is an air of energetic optimism. There are of course problems, notably unemployment, but overall Turks today are proud to be Turks and confident they will be even prouder in the future.

As the EU economies languish and Turkey's booms, there is also a rather elating sense of liberation. Turkey is not, contrary to what some say, turning its back on Europe. Many Turks still see considerable benefits in continuing to use the EU as a benchmark for the rule of law, social justice and democracy, even if they are resigned to the fact that the prospects of full membership have receded.

Failure to extend membership to Turkey will be a great loss for the EU; it provides another illustration, if one were needed, of the myopia of Europe's leadership. But the European benchmark remains important especially to liberal and secular Turks. It has to be said that while the economy has indeed done very well under the rule of the Islamist AKP (Justice and Development Party), there are more than a few Turks who worry that the Republic's secular traditions and freedom may be in jeopardy.

Taking all things into consideration, Turkey, *a priori*, seems reasonably well poised to achieve its 2023 goals to become one of the world's ten leading economies. In pursuing this goal, however, Turkish leaders should concentrate not just on domestic developments, but also take into consideration global trends and lessons from other high growth nations' experiences.

Growth: Perspectives and Lessons

In order to be one of the top ten leading economies by 2023, as things currently stand, Turkey will have to overtake (in ascending order) the Netherlands, South Korea, Mexico, Australia, Spain, Russia and India. In nominal GDP terms the current number 10 (India) is roughly twice the size of Turkey: $1.5 trillion to $750 billion.

In assessing Turkey's trajectory, there is also a critical point that needs to be made in respect to the current international economic dynamics. If we look at the second half of the 20th century, the challengers to the status quo powers have been limited. Thanks to the International Bank for Reconstruction and Development (IBRD), the Marshall Plan and a number of other initiatives, within a few years following the devastation of World War Two the erstwhile bigger West European economies resumed their places as major international economic powers. Economic developments were complemented by geopolitics. The Cold War brought Western Europe and North America together in a tight coalition that acted as a major foundation for the post-war era.

Then came Japan. In fact, Japan had been present on the global economic scene for a few decades before the war, but it was generally reckoned that it had been totally defeated – not just militarily, but also economically – and that it posed no threat. General Douglas MacArthur, the Supreme Commander of the Allied Pacific

in Japan during the American occupation, wrote to the then CEO of Westinghouse informing him that Westinghouse should renew relations and technology licenses with the Mitsubishi Group (GE was "allied" to the Mitsui Group); he added that in doing so, it had absolutely nothing to fear as the Japanese were so far behind the Americans in technological know-how and management that it would take them decades to catch up, if ever[*]! Furthermore, Japan was not taken seriously due to the bad reputation it had acquired in the 1930s for producing shoddy products. The label "Made in Japan" conveyed cheap price but poor quality. Within a few decades Japan would become a global leader in quality. The country's current travails notwithstanding, the narrative of Japan's steep ascension from low to very high quality is one that deserves to be assiduously studied.

What was referred to as the "Japanese economic miracle" erupted over the course of the 60s and, by the end of that decade, Japan had overtaken Germany in size of GDP. Japanese industry wreaked havoc on the Swiss watch industry, the British motorcycle industry, the German camera industry, and the American television industry. Then over the course of the 1970s, Japanese industry took the driving seat, so to speak, in the world car industry.

Trade tensions developed in the 1980s between Japan and its trading partners, especially the US. The US and the EU resorted to various forms of protectionism, including "new protectionism", notably what were referred to as "VERs" ("voluntary" export restraints): Japan undertook for example to restrict its exports of automobiles to x number of units or y market share in specific countries. This was of course in violation of the principles of the GATT, but it is not the first time nor the last that global governance principles and rules are violated by the world's leading powers. Trade friction between Japan and the Western industrialised nations was in good part behind the eventual launching of the GATT Uruguay Round in Punta del Este in 1986.

Another earlier effect of the Japanese challenge was to lead then-US President Nixon to unilaterally terminate the convertibility of the dollar to gold in 1971, thereby putting to an end the Bretton Woods system of fixed exchange rates. The yen which had been set at 360 to the dollar shot up. During the next decade, as the US trade deficit with Japan continued to mount relentlessly, the administration of then President Reagan convened the New York Plaza Hotel meeting, as a result of which the yen was re-valued. Within two years, by 1987, the Japanese yen went from 240 to 120 to the dollar in a process Japanese termed "*endaka*" – yen rising". While the yen rose, however, so did the US trade deficit with Japan, contrary to what had been expected.

Japan-US trade friction led to some quite vitriolic disputes and the two countries seemed occasionally to hover close to the precipice of a trade war. Trade between the US and Japan, however, at the time had to be put in a broader geopolitical context. As an ally of the US, Japan was an important pillar of US security policy in Asia Pacific during the Cold War. Although no Japanese troops fought in

[*] When I was doing some work with Westinghouse in Pittsburgh in the early 1980s, this letter was read and shown to me, but as a confidential Westinghouse document I was alas not permitted to copy it. I have however remembered its contents well.

either the Korea or Vietnam wars – as they were barred from doing so by the so-called “peace clause” in the Japanese constitution dictated by the US after World War Two – Japan did provide important logistical support, repair and maintenance facilities for American war equipment (including planes and ships) and R&R (Rest and Recuperation) for American soldiers. On virtually any foreign policy issue, Tokyo could be expected to toe the Washington line. Only after Nixon had visited Beijing did the Japanese government enter into diplomatic relations with the People’s Republic of China.

By the time the cold war had ended, though President-elect Clinton had vowed to “fix Japan”, the Japanese economy tanked and Japan was no longer a threat.

So, for the initial decades of the second half of the 20th century, the established Western powers had to deal with Japan alone as an economic parvenu. At the time of the Japanese challenge, the country’s population stood at some 100 to 115 million people. It created a lot of tension and ill-will, but ultimately was restrained by the country’s tame foreign policy, its significance as an ally in the cold war, and perhaps the fact that Japan is a democracy – another gift from Uncle Sam.

The next challenge to the established order came in the 70s from what initially seemed a bizarre collection of four quite minor peripheral economies, which came to be known as NIEs (newly industrialising economies) or in more familiar terms the “Four Dragons” (or Tigers): Hong Kong, (South) Korea, Singapore and Taiwan.

One contextual point that should be made is that the West was caught off-guard by the challenges emanating from East Asia in good part because the region was not considered capable of proper economic governance, let alone achieving prosperity. The words “poor” and “Asian”, especially “poor” and “Chinese”, were synonymous. For example, in 1968 the influential Swedish Nobel Economics Prize Laureate Gunnar Myrdal published a three volume work entitled *Asian Drama: An Inquiry into the Poverty of Nations*, purporting to show why Asia was poor and would remain poor. Much literature in the last couple of decades falls into a genre that might be categorised as “*Asian Miracle: An Inquiry into the Prosperity of Nations*”. Things have indeed changed!

Hence the four Asian dragons/tigers were not on Western radar screens; their combined population amounted to less than 70 million. They initially focused on labour-intensive industries, notably textiles and garments, which they exported to the US and Europe. In response, the Western industrial powers once again side-stepped the GATT and established the Multi Fibre Agreement (MFA) in 1974; the MFA imposed quotas on the amount of textiles and clothing the developing economies could export. The regime remained in place until 31 December 2004. The four little dragons’ roar was enough to send the industrialised powers into a frenzy of protectionism.

Another key effect was that the four dragons, especially Taiwan and Hong Kong, provoked China into embarking on what has perhaps been the most dramatic and radical economic revolution the world has ever seen; at least in terms of the timeframe in which it occurred. There was no preparation for this. Two years after

Mao Zedong died in 1976, with the embers of the Cultural Revolution still burning, the Chinese leadership undertook a programme of economic metamorphosis – “reform” is much too tame a word – that has transformed China and transformed the world. In 1978 Beijing made a 180° turn from having rejected globalisation to embracing globalisation. The rest is the most marked feature of recent history.

Just over a decade later, the Berlin Wall was torn down, the Soviet Union imploded, India launched its own reform programme, Brazil undertook unilateral market liberalisation, Mexico joined NAFTA, apartheid was ended in South Africa so it was able to join the global market economy, the erstwhile Vietnamese “boat people” were welcomed back with open arms as they transferred their knowledge and capital to the rapidly reforming Vietnamese economy, etc. The flood gates of globalisation and global growth opened.

The quest for growth and global challenge is no longer ”simply” the affair of 110 million Japanese or the 70 million people of the Four Dragons. The world economic race counted relatively few runners until then. Now one has to picture a huge marathon where almost every nation aspires to run and win – or at least significantly improve its position. The earlier paradigm of dividing the planet into three worlds – First World, Second World and Third World – has been relegated to the dustbin of history. There are still very poor countries that are too handicapped – for whatever reason – to be in the race – at least for now. Out of a global population of some 7 billion, perhaps some 2 billion are either too poor or live in countries where conditions are extremely harsh and restrictive – such as the LLDCs (the landlocked least developed countries). Still it is estimated that the number of persons engaged in the global market economy increased from less than a billion in 1990 to over 5 billion by 2000. Virtually all the “giants” – China, India, Indonesia, Russia, Brazil, Mexico, Pakistan, etc – are in the race. Nigeria may be joining in the decade ahead.

In the growing emerging economies there are an ever-increasing number of people who the late CK Prahalad described as the “aspiring classes”. These are people who are rising above the poverty level and are strongly motivated to improve their standard of living and that of their children. This is an extremely powerful social force driving economic growth and competitiveness. The revolutions sparked in the Arab world are in good part driven by the fact that the “aspiring classes” were prevented politically and economically from being able to achieve their aspirations. The rising social expectations of the aspiring classes are a potential political powder keg, thus forcing governments to prioritise growth.

Three specific questions arise in respect to Turkey’s goal of being among the ten leading economies by 2023.

The first is whether global economic governance will be able to survive these transformations. As we saw, though the challenge in the 60s came initially “only” from Japan and then in the 70s “only” from the small dragons, still the Western powers did not accommodate or adapt to the changes but resorted instead to protectionist measures. If they could not adjust to the challenges emanating from Japan and the dragons, how will they be able to do so in the face of the current

massive challenge comprising billions of people from all four corners of the planet? The failure of the WTO Doha Round is a key element behind the question.

Turkey's chances for success depend on a reasonably benign global environment. There are, however, mounting forces of de-globalisation, especially among the developed countries, that could upset the global economic governance apple-cart. Emerging economies, including Turkey, need to be more active and provide more leadership in global economic governance; if not, the risk could very well be that the international trade and investment environment will deteriorate, thereby jeopardising Turkey's prospects of achieving its goals.

The second question refers to the fact that when Japan and the dragons were embarked on their hell-for-leather growth, there were no major environmental concerns, no talk of climate change, and no sense of imminent resource limitations. The situation today is different. Japan and the dragons just had to grow – and madly polluted as they did so; today "sustainable growth" is the name of the game and it is significantly more difficult to play.

The third is that unlike in the 60s, 70s or indeed even 80s, Turkey is in a very crowded field – or, as suggested above, a very crowded marathon. Turkey is not alone in dreaming of gaining greater economic power. The Indian government aims to be the 3rd leading economy (from its current position of number 10) by 2030. So while Turkey contemplates possibly dislodging India from its 10th slot, the Indians are looking to replace Japan from 3rd place. Countries that are currently behind Turkey, such as Indonesia, Thailand and Vietnam are also in the starting-blocks and they have been limbering up for a while. So it is going to be very tough. Competitiveness will clearly be key.

II

Recognising that it may be tough, what then is the "magic formula" for growth? Unfortunately the reality is that we do not know. The quest for growth, in the words of the title of a book by a former member of the World Bank, William Easterly, is elusive – very, very elusive. The Commission on Growth and Development in its 2008 *Growth Report – "Strategies for Sustained Growth and Inclusive Development* – found that over the course of 1950-2005 out of the entire planet comprised of some 190 countries, the number that achieved an average sustained growth of 7% per annum for a period of 25 years or more number only thirteen. Not all of the suspects are the ones one would expect. Below is the list containing the names of the economies, the period of sustained high growth and the per capita incomes at the beginning and end of the period[*].

[*] The Growth Report, p. 20

Country	Period of High Growth	Income pc at the beginning	Income pc at the end
Botswana	1960-2005	210	3800
Brazil	1950-1980	960	4000
China	1961-2005	105	1400
Hong Kong	1960-1997	3100	29900
Indonesia	1966-1997	200	900
Japan	1950-1983	3500	39600
Korea	1960-2001	1100	13200
Malaysia	1967-1997	790	4400
Malta	1963-1994	1100	9600
Oman	1960-1999	950	9000
Singapore	1967-2002	2200	25400
Taiwan	1965-2002	1500	16400
Thailand	1960-1997	330	2400

The membership of the Commission was composed of a select number of policy-makers, business leaders and academics from all continents; it included the Turk Kemal Dervis in his then-position as Administrator of the United Nations Development Programme (UNDP). All individuals involved in seeking to make Turkey achieve its 2023 goal should read the report!

The editors note that a few other countries would soon be in a position of joining the ranks of the 13, notably India and Vietnam. Even so, the number remains infinitesimal.

The quest for growth is all the more elusive in that realities contradicted theories! The view of development economists in the 60s – at a time when I was at university – was that in order to grow countries needed to be rich in natural resources and have a reasonably sized market. The Philippines and Burma (now Myanmar) in Asia were seen as great growth potential narratives! Other favourites included Iran, Mexico and Nigeria. Indeed, just as Asia was pretty much written off, as indicated earlier, Africa was seen by many academics and policy makers as full of potential riches and promise.

Japan is poor in natural resources, though it does have a quite sizeable market. Hong Kong, Korea, Singapore and Taiwan, on the other hand, were neither rich in resources and their markets were from small to tiny.

The Korean and Taiwan "models" are especially relevant to Turkey. (The narratives of Hong Kong and Singapore, which I have also been privileged to know

for decades, are equally fascinating. However, by virtue of being small city-states unencumbered by a large rural hinterland, they are less relevant to Turkey.)

Following the cessation of conflict on the Korean peninsula in 1953, of the two Koreas, the North appeared far more promising than the South. The North is rich in minerals, including coal, and it was the region of Korea in which the Japanese colonisers had invested in infrastructure and industry. The North therefore had considerable advantages. Fast forward to today: South Korea is the world's 15th biggest economy and 33rd in GDP per capita; North Korea is 89th in aggregate GDP and 145th in GDP per capita[*].

I first visited South Korea and Taiwan in 1967. They were dirt-poor. There was certainly no visible indication that one day they would astound the world by performing what the World Bank itself described as a "miracle"[±]! I was fortunate to continue going regularly; especially during the 1980s, when I was in Korea and Taiwan a few days every month, as the economies grew at double-digit rates.

On page 22 of The Growth Report there is a diagram describing the "common characteristics of high, sustained growth". These include: openness, knowledge and capacity to exploit global demand; macroeconomic stability and sustainable public finances; an orientation towards the future, reflected, *inter alia*, in high investment and high savings; sensitive market allocation where prices guide resources and resources follow prices; and last, but not least, sound leadership and governance, a high level administrative technocratic capability, with a credible commitment to growth.

All of these apply to Korea and Taiwan and may be considered as the minimal but insufficient key factors for successful growth. A few additional points must be made.

As in every successful human endeavour, there is a strong element of intelligence and effort, but also of good fortune. Both Korea and Taiwan received massive US aid. The key to success, however, is to exploit these fortunate circumstances. Many countries have received massive aid, which did them no good as the money fed corruption and grandiose projects devoid of meaningful returns. The huge amount that Egypt received did not in any way generate an "Egyptian economic miracle". On the contrary, the country's stagnation can in part be attributed to these massive hand-outs and the way in which they were wasted. So while the Koreans and Taiwanese were "lucky", they were also very bright in knowing how to make best use of the luck.

What distinguishes a number of the key successful East Asian economies – China, Hong Kong, Japan, Korea, Singapore and Taiwan, which add up to almost half (6)[◊] the total number (13) – from most others has been the immense effort and investment put into education. These societies did not become educated once they were rich, but became rich because they were educated. Furthermore, unlike

[*] Data from the CIA World Factbook 2000-2010

[±] World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (1993)

[◊] In fact if Indonesia, Malaysia and Thailand are included, the total number comes to 9 out of 13. These three however provide different models from Japan and the NIEs in respect to investment in education and human resource development. They are also resource rich.

countries such as India and Brazil where most investment in education has been at the top elite tertiary level while neglecting the lower primary and secondary levels, in these East Asian societies the entire educational structure is strong, from primary to tertiary.

The emphasis on education had as one of its most positive outcomes the fact that East Asian societies have the most educated work-force in the world. This provided a great competitive advantage in manufacturing, in the ability of the labour force to read and understand instruction manuals, to handle complex machinery and to participate in management processes such as quality circles. Furthermore, the high level of education meant that the NIEs could climb up the value chain quite rapidly as they lost the advantage of cheap labour and their currencies appreciated. Taiwan went from making flip-flops to becoming a regional and global high-tech power-house.

As the NIEs moved up the value chain, they became significant foreign direct investors in the less developed economies of South East Asia and, of course, China. Taiwan's trade and investment ties with China are big and close – something that plays a significant role in assuaging political tensions. The result of these movements of capital has been the creation of an East Asian regional supply chain that serves global markets and has spurred growth and technology in all economies that participate. No other continent has developed anything comparable.

The NIEs, especially Korea and Taiwan, also drew great benefits from the phenomenon now defined as "brain gain". Korean and Taiwanese students went en masse to the US, many to its best universities. The presence of Taiwanese studying engineering was such that MIT (the Massachusetts Institute of Technology) was jokingly referred to in Boston as "Made in Taiwan". Through their studies and subsequent employment in leading corporate R&D centres, Taiwanese and Korean engineers and entrepreneurs gained invaluable knowledge and networks.

In the 1980s it was calculated that for every ten Taiwanese who went to study in the US, only two returned. During the course of the 90s, however, as important reforms were instituted in Taiwanese economy, society and politics, the overseas Taiwanese returned in droves and set up their own firms, benefiting hugely from the knowledge they had gained in the US and the networks that they were able to transform into customers and strategic partners. (Many US educated, trained and employed Taiwanese now work in the Chinese mainland.) Providing an attractive environment to generate reverse brain-drain, or brain gain, may be one of the most critical competitive challenges.

US educated economists also played a key role in Korea's growth and development. The Korean government established a number of think tanks to guide government economic, industrial and technological policies. The Korea Development Institute (KDI), founded in 1971, had an impressive number of highly qualified economists, all with PhDs from leading US universities. They held forums, undertook research, produced papers and shared knowledge and perspectives with Korean government and business leaders on all matters related to economic policy and development. KAIST (the Korea Advanced Institute for Science and Technology), also

founded in 1971, performed a comparable role in respect to science, technology, research and development. There were a number of other such think tanks in Korea.

Taiwan had a number of governmental and semi-governmental think tanks and institutes, including the Taiwan Institute of Economic Research (TIER), founded in 1976, and the Chung-hwa Institution for Economic Research, founded in 1979, which were also staffed by persons who had gained their PhDs in leading US universities.

The key point about the Taiwanese and Korean growth narratives is that both economies were guided by a highly capable and knowledgeable meritocratic technocratic administrative elite. Knowledge was recognised as the absolutely key competitive strategic imperative.

Taiwan and Korea are by no means mirror images of each other. The differences lay especially in the national corporate structures. Korea followed the Japanese model of "*zaibatsu*" (big financial groups and cartels subsequently known as *keiretsu*) by providing favours, subsidies and subventions, direct and indirect, to a privileged number of industrial groups known in Korea as "*chaebol*". Like their Japanese counterparts (eg the Mitsui or Mitsubishi groups), the Korean *chaebol* tend to be in many different sectors – real estate, finance, trading, construction, textiles, chemicals, automotive, electronics, etc. Better known *chaebol* include Samsung, Hyundai and LG (formerly known as Lucky Goldstar). The small-and-medium (SME) sized sector is comparatively underdeveloped and exists to serve their *chaebol* overlords. This is a Korean weakness.

Though Taiwan has a number of big firms, notably ACER and Taiwan Semiconductor Manufacturing Company (TSMC) – the world's biggest semiconductor foundry – the economy is largely composed of SMEs. Recognising that SMEs have fewer resources to put into R&D, in 1980 the government established the Hsinchu Science and Industrial Park. Small and big companies engage in research at the park, which, among other things, played an important role in bringing about the reverse brain drain – or, as stated earlier, the brain gain.

Turkey is Turkey and there is of course no way in which it can become a replica of Korea or Taiwan. Nor should it wish to. However, there are clearly lessons to be derived from these two successful cases, especially in comparing their strengths to Turkey's weaknesses, specifically in education, science, and knowledge.

The Benefits and Costs of Growth

The benefits of growth are plenty and obvious. Growth has lifted hundreds of millions out of poverty, thereby providing them with minimal human dignity and hope. Returns from growth can permit investments in improving lifestyles, environment, healthcare and research. Especially for countries at very low income levels, growth is a *sine qua non* to healthier societies. There is a correlation between growth and life expectancy. Very poor countries are more prone to implosion and further devastation.

Turkey is a middle-income country. Still, with 8.2% of the population living on less than $2 a day and 27% below the national poverty line, clearly Turks stand to benefit considerably from growth – so long of course as the fruits of growth are shared with the poor.

And that is one of the many nubs of growth. The process of growth has its downsides and the outcomes are by no means obviously equitable.

On an occasion of visiting a chip factory in Korea in the mid-1980s, I was told that the young female workers (aged 16 to 19) worked 14 hours a day, 28 days a month. This comes to roughly 98 hours a week – considerably more than the working hours in Turkey which range, I am told, from 49 to 59 per week.

The point is this: no country has succeeded in achieving growth without exploiting its workforce and polluting the atmosphere. In many cases, there has also been widespread destruction of nature. Japan's high economic growth during the "miracle years" resulted in possibly the worse case ever of mercury poisoning, causing what became known as the *Minamata* disease; while the pristine beauty of the Inland Sea (among other sites I was fortunate to visit before the "miracle"), which had served as a source of inspiration for generations of Japanese poets, was forever destroyed for future generations by the installation of petro-chemical plants.

This is not to say that it is impossible to achieve high growth without exploiting labour – whether one's own or migrant labour – or causing pollution, but it is to say that there are not many models from which one can draw. Countries that are achieving sustainable growth, for example in Scandinavia or Switzerland, are ones that have already industrialised and in any case whose growth rates are much more moderate – at a third or less of the Turkish goal of 8%.

A quick look at the Growth Report list of "successfully sustained growth economies" reveals that most of them are authoritarian states or were during an extensive time of their growth period. Brazil's miracle story occurred during the decades of military dictatorship. Indonesia's corresponds to the years of Suharto's reign. Taiwan and Korea have become thriving democracies, but both were under military rule (and martial law) during the initial decades of growth.

The notion that is sometimes derived that growth and development require dictatorship is absurd. Against the few "successful" cases of dictatorship-driven sustained growth, one can point to masses of examples where dictators wreaked havoc on their economies and societies. However, with the "democratic" economies, the EU, Japan and the US, currently in the doldrums, the authoritarian model may be gaining in legitimacy.

China is obviously to the front of everyone's minds at the moment. Its current impressive growth is in good part driven by investment, including investment in infrastructure. These investments often require massive physical eviction and reallocation of people, numbering in the millions. It is certainly "easier" to do such a thing in a dictatorship than in a democracy. Though note should be taken that the difference may often be one of degree rather than essence. In India, the world's biggest democracy as we are constantly reminded, some 200,000 slum dwellers were forcefully evicted in order to make room for construction projects for the

Commonwealth Games. 18 people are said to have died during and in the aftermath of the forced evictions[*].

Combining economic growth with political democracy is what Turkey aims to achieve. It is indeed an imperative. But recognition must be given to the fact that it is more difficult and may take more time.

Whether in democracies or dictatorships, there is a strong risk for growth to become an obsession, obscuring other social dimensions and neglecting the interests of those for whom the growth should have been intended in the first place: the poor and downtrodden.

The Indian Nobel Economics Prize Laureate Amartya Sen has recently strongly criticised the Indian government's obsession with growth and the race with China. Sen expressed the view that an obsession with growth might be detrimental to social development. In other words, in the worse case scenario, economic growth may hinder social development rather than enhance it, and thus create more social injustice.

Sen's intervention has caused great debate in Indian policy and intellectual circles. This is healthy.

In most of the fast growing economies, inequalities have increased, in some cases significantly. China now has a Gini coefficient (which measures inequality of income distribution) equal to that of the US! The only major rapid growing emerging economy that has succeeded in narrowing the inequality gap, though it started from a very high base, is Brazil. Its social family educational programme known as *bolsa familia* has succeeded in significantly decreasing illiteracy, raising educational levels and hence skills of young men and women entering the workforce.

There is a correlation between high rates of economic growth and high levels of social stress. High growth entails high social dislocation, the most visible of which is massive migration from rural to urban areas. The increased levels of social stress caused by rapid rates of economic growth are reflected in the high suicide rates that many fast growing countries suffer from. These suicides may occur among those who are left behind and have difficulty surviving in a volatile and highly competitive world, such as poor indebted farmers in India. But there are many other cases. The suicides at the Foxconn factories in China that gained international attention in May 2010 are but the tip of an iceberg of loneliness, depression and suicide among migrant workers, who have to work long hours in harsh conditions far from their loved ones. The managerial class in these countries is also afflicted by high suicide rates. High growth leads to high pressure to perform. Managers under stress and who feel they may fail to meet their goals are prone to suicide. Of course suicides of this nature occur in low-growth societies as well. Nevertheless, high growth economies are social pressure cookers.

Even when the peak has been reached, however, the question then arises: what was it all for?

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[*] Figures drawn from the report of the Indian NGO Housing and Land Rights Network (HLRN).

Singapore is undoubtedly one of the world's most successful economies. When I first visited in the 1960s Singapore was a rat infested seedy port. The transformation has been remarkable. Much of it can be attributed to the vision and determination of its political leader Lee Kwan Yew and the party he created, the People's Action Party (PAP). Though opposition parties are moderately tolerated, for all intents and purposes Singapore has been a one-party state.

In a study of the recent elections where the PAP got its worse ever results, Singaporean former civil servant and academic Donald Low poses and answers a number of key questions. His main contention is that a growing number of Singaporeans are unhappy. He writes: "the economic policies aimed at maintaining GDP growth were mostly successful but came with an unusually high number of negative externalities"[*].

As Turkey seeks a higher place in the economic universe, policy- makers and thought leaders would do well to study closely the experiences of other high growth economies. There are lessons to be learned and some to be applied: notably in areas related to education, social development, science, research and policy making. But there are also warnings to be paid attention to.

The perfect economic growth/social model does not and will never exist. An obsession with growth targets, at the possible expense of society, could prove dangerous and harmful. In developing its growth and social development path, Turkish policy-makers and thought leaders should ask many questions and especially the most fundamental: "what kind of society do we want?" Economic growth should be not an end, but a means to achieving a healthier, happier, more just society.

[*] Donald Low, « What went wrong ? » a manuscript essay written on 10 May 2011 given to me by Andrew Sheng.