

The Last Twenty Years of Economic Growth in Turkey (2000-2020) Turkey-China Comparative Analysis¹

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Abstract

The Last Twenty Years of Economic Growth in Turkey (2000-2020) Turkey-China Comparative Analysis Book examines the differences in economic growth between countries and their causes, with 29 different indices under 4 main headings that try to explain their effects on economic growth. The study, which makes Turkey-China comparisons with the indices, offers a rich content with over 1000 literature reviews. The aim of the study is to reveal how Turkey and China have performed in terms of economic growth in the last 20 years (2000-2020) by examining 29 different indices, which are indicators of economic growth. After mentioning the concept of economic growth and theories in the introduction, the book makes a global and Turkey-specific analysis between 2000-2020. In the following sections, the authors examine the relationship between economic growth and public expenditures, public investments, public consumption, tax burden as well as exports and imports and analyze the situation in Turkey.

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1. Review

The book primarily seeks to answer the percentage of the share Turkey, which is in the developing country category, receives from within the total Gross Domestic Product in US Dollars created by Turkey together with Brazil, Russia, India, China, South Africa, and Mexico, Indonesia, Nigeria, called with the acronym BRICS+MINT. Simply, what percent of the 100-unit product these nine countries created during the year Turkey could get as a share. The first year in which the calculation was made was 2000, and while Turkey had 6.92 percent of the total wealth in this year, this rate decreased to 5 percent with the economic crisis in 2001. In the period between 2002 and after that, especially by the economic crisis in 2008 when the recovery started with the "Transition to a

Strong Economy Program" and the structural reforms implemented in May 2001, this rate was above 6-7 percent. However, the share of welfare created between 2002 and 2008 started to decrease continuously after the global financial crisis in 2008, and by 2020, this share decreased to 3 percent.

Comparing Turkey, which was exposed to the loss of welfare in the 2010s, with other countries, the authors witnessed the unstoppable rise of China when they investigated the country or countries that turned this loss in their favor. China, which had a share of 30-35 percent of the total welfare created by the nine countries between 2000 and 2010, turned the global crisis in 2008 into an opportunity, steadily increasing its share of total welfare after the crisis, and

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by 2020, showed a great success story by owning more than 60 percent of the total welfare created by the BRICS-MINT countries.

This book examines the factors behind China's unstoppable rise in the last 20 years and tries to determine what lessons Turkey should learn from this change. In this book, the authors examine many factors that contributed to the economic growth of both Turkey and China and try to show the sort of realities the changes in these factors have left the countries with.

In the book, the authors who examine the economic growth differences between countries and the reasons for this, models that try to explain with new factors as well as traditional models that support capital accumulation, new growth theories and research, examine the indices that affect economic growth under four main headings. These are as follows:

- I) **The Role of Geographical Factors:** There are studies suggesting that the geography of countries has effects on long-term economic growth in terms of health, population, food production, resource transfer and the mobility of production factors (Hall and Jones, 1999; Gallup et al., 1999; Diamond, 1997; Sachs, 2003; Porter, 1990). On the other hand, there are also studies suggesting that geographical factors do not explain the differences in growth, income and firm competition in countries with the same advantages Rodrik et al. (2004), Easterly and Levine (2003)
- II) **The Role of Human Capital:** Harrod (1939) and Domar (1946) linked supply-side growth and demand-side growth with physical capital and labor as the main determinants. Neoclassical economists Solow (1956) and Swan (1956) focused on labor growth and capital accumulation as drivers of economic growth and viewed technological progress externally. Lucas (1988), Romer (1990), Jones (1995) stated that human capital is the primary source of economic growth because it successfully attracts other factors of production such as physical capital. They also extended the neoclassical growth model by internalizing technological change. Gama et al. (2020) found that there is a positive relationship between the impact of education on the per capita growth of countries and economic and political institutions. Hanushek (2016) found that differences in cognitive skills—countries' knowledge capital—can explain most of the differences in growth rates between countries, but historically adding more years of education (university education) without increasing cognitive skills has had little systematic effect on growth. Wang and Yao (2001) argue that the

growth of total factor productivity (TFP) and human capital is necessary to accelerate economic growth. When we take a look at the studies examining the contribution of human capital to growth in the Turkish economy, Kuzören and Çeştepe (2019) found that the schooling rate and political freedom index have a positive effect on growth. Dursun and Yeşilmen (2021) found that qualitative growth in higher education has a negative effect on economic growth. Çelik (2021) determined a cointegration relationship between human capital and economic growth in the long run, and also stated that increases in human capital positively affect economic growth.

- III) **The Role of Institutional Structure:** Another theory of economic growth is that institutions play an important role in economic growth and that the convergence or differentiation between countries can be explained by institutional factors (North (1990); Murphy et al. (1993), Acemoğlu and Robinson (2010)).
- IV) **The Role of Total Factor Productivity:** According to Albeaik et al. (2017), the factors in these theories trying to explain economic growth could not fully explain growth even when taken together. Consequently, economic growth raises questions embodied in the idea of Total Factor Productivity (TFP), a measure of an economy's output that is not explained by the availability of factors. That is, he argued that it is a measure of how much output an economy can produce per unit of input. When we take a look at the studies examining the contribution of total factor productivity to growth in the Turkish economy, Yanar and Oğuz (2019) found that economic growth has a positive effect on total factor productivity in the short term, and that economic growth and foreign direct investments do not have a significant effect on factor productivity in the long term. Bakış and Acar (2021) determined that total factor productivity increases should be around 1 percent for a sustainable growth in the Turkish economy, but the average TFP increase rate was only 0.30 percent in the examined period. They claimed that this situation led to the fact that the GDP growth was not at the desired level despite the relatively high capital and employment increases.

After examining the concepts, methodologies and related studies related to 29 different indices under 4 main headings, which are indicators of economic growth in the book, the

authors compared the world rankings and values of Turkey and China between the relevant index values in the 2000-2020 period in terms of economic growth.

- I) **The Role of Geographical Factors:** Indices used to measure the role of geographical factors in economic growth; “Foreign Direct Investments % GDP”, “Globalization Index” and “International Trade Freedom Index”;
- II) **The Role of Human Capital:** Indices used to measure the role of human capital in economic growth; “Pisa Reading Performance”, “Pisa Mathematics Performance”, “Pisa Science Performance”, “Human Capital Index” and “Human Development Index”, “Gini Index”
- III) **The Role of Institutional Structure:** Indices used to measure the efficiency of institutions in economic growth; “Current Account Balance (Percent of GDP)”, “Public Size Index”, “Net Foreign Portfolio Investments”, “Exchange Capitalization Percent of GDP”, “General Government Gross Debt Percent of GDP”, “General Government Net Debt” Percent of GDP”, “Gross Capital Investment”, “Fragile States Index”, “Economic Freedom Index”, “Strong Access to Money Index”, “Legal System and Property Rights Index”, “Rule of Law Index”, “Regulation Index””, “Political Stability Index”, “Percent of Informal Economy GDP” and “GDP Per Capita”;
- IV) **The Role of Total Factor Productivity:** Indices used to measure the role of total factor productivity in economic growth; “Total Factor Efficiency Index”, “Economic Complexity Index”, “Global Competitiveness Index” and “Global Innovation Index”.

The most crucial point in the book is that, of the 29 indexes showing the development of the Turkish economy in the twenty-year period (2000-2020), 7 of them increased positively, 2 of them did not change, and 20 of them decreased negatively.

When the authors examined the 29 index values of Turkey between 2000 and 2020, they stated that the only index in which Turkey, a G20 country, is in the top 20 among the world's countries is Gross Capital Investment. In the index measuring Gross Capital Investment, Turkey's ranking in 2020 is 20/147, and the index consists of the additions to the fixed assets in the economy and the net changes in the stock level. Fixed assets measure investments in land improvements, purchases of plants, machinery and equipment, construction of highways, railways, bridges, tunnels and the like, including schools, offices, hospitals, private residences, commercial and industrial buildings

Among the 29 indices examined in the book, the G20 country China was respectively successful in the indexes of Pisa Reading Performance, Pisa Math Performance, Pisa Science Performance, Stock Market Capitalization Percent of GDP, Gross Capital Investment, Total Factor Productivity Increase, Economic Complexity Index, Global Innovation Index. The success factor of China is to invest in education, science, industrial production and technology that create high added value, develop innovation, increase Total Factor Efficiency, get rich by selling sophisticated products with high economic added value, and develop the country's infrastructure by making Gross Capital Investments with this wealth.

The authors state that Turkey's mistake is to finance the Gross Capital Investments realized in the last 20 years by borrowing (direct borrowing in private sector investments, indirect borrowing through Public Private Partnership Projects in public investments). They emphasize that Turkey, which allocates its capital use mainly to Gross Capital Investments for the development of infrastructure, unfortunately leaves education, scientific development, industrial production that create high added value, R&D and innovation-enhancing activities in the background.

The book also compares the ratio of total external debt stock to gross domestic product between 2000 and 2020 for Turkey and China. China's Total External Debt Stock/GDP ratio is observed to be the lowest in 2008 with 8.36% and the highest in 2020 with 16.07%. Looking at the same rates from Turkey's point of view, it is seen that the lowest rate is 34.66% in 2005 and 61.29% in 2020. The authors see that the resources created by Turkey's ever-increasing external debt stock from 2012 to 2020 are not transferred to technology-based production that provides high added value, but instead focuses on Gross Capital Investments.

The academic studies examined in the book show that economic growth can be increased by increasing the 29 index values under 4 main categories. In other words, increasing index values means increasing and strengthening economic growth. As a matter of fact, some index values are directly related to economic growth, while others are indirect and supportive. While the results of some indices have an impact on economic growth in the short run, the results of others are felt in the long run.

References

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