Strengthening the Turkish manufacturing sector to rebalance growth

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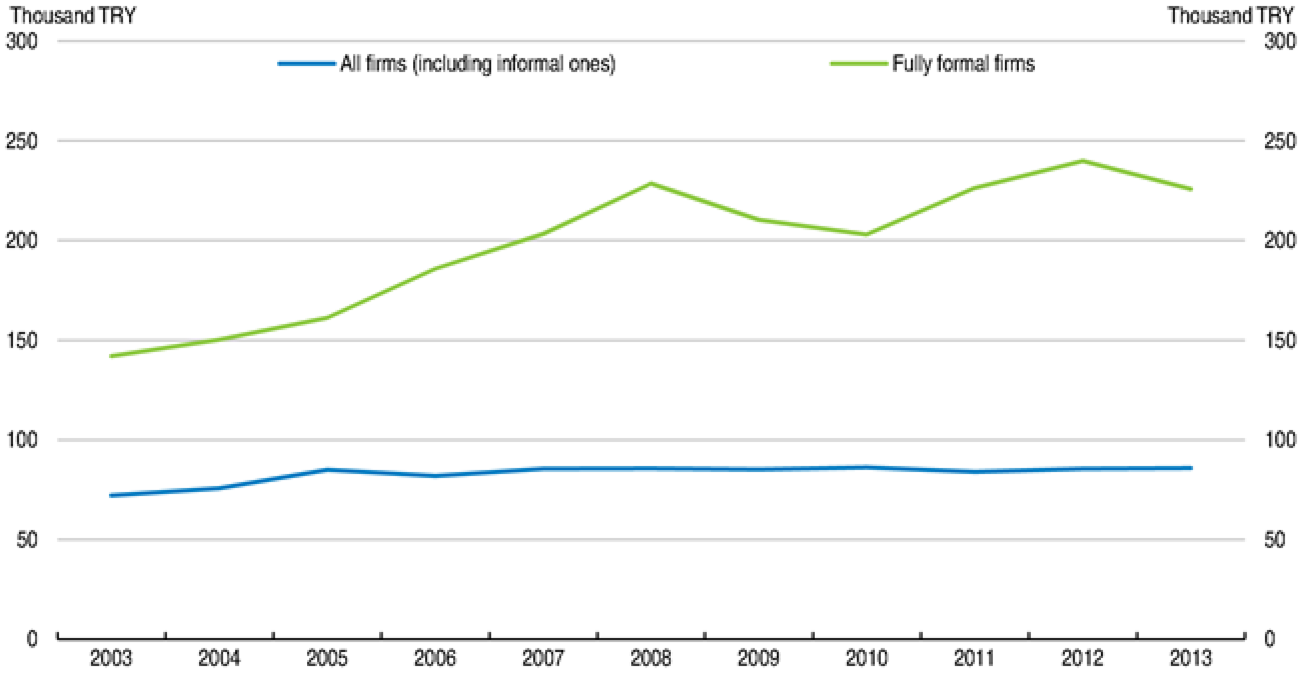
Turkey’s economy continued to grow strongly despite substantial domestic and regional headwinds. However, external imbalances have widened making the economy vulnerable to external shocks. The *2016 OECD Economic Survey of Turkey* calls for rebalancing to alleviate the enduring tension between growth and external sustainability. A more competitive manufacturing sector, with a heavier weight in the economy and higher net exports is key here.

The *Survey* documents drivers and bottlenecks for the growth and diversification of Turkey’s manufacturing sector. It suggests that the sector’s segmentation and the outsized tail of poorly performing firms undermine aggregate productivity growth. Indeed, low productivity eases job creation in the short term, but undermines it in the long run and holds back improvements in living standards because of competitiveness losses. A core of well-performing firms (“frontier firms”) is not growing at full potential because of shortcomings in the policy framework. Intermediary (“follower”) firms sustain competition and deliver jobs, but tend to fall behind in productivity. Lower productivity units (“laggards”), which employ a large share of the low-skilled majority of the working age population, survive mostly thanks to the incomplete enforcement of rules and regulations. The resulting stalemate requires a coherent strategy of “systemic upgrading” of the business environment.

Informality drags down productivity

Sales per worker, 2003 prices



Source: Turkish Statistical Institute; Central Bank of the Republic of Turkey.

A number of structural features entrench the deep segmentation between different types of firms, hinder productivity diffusion and curb higher-productivity firms’ share of total employment:

- Human capital falls behind reflected in weak general management know-how, foreign language proficiency and basic digitalisation knowledge of business owners, as well as limited access to vocational training for their employees.
- Lack of formalisation and transparency hampers firms’ access to banking and financial services, to the stock market and to international partnerships.
- Notwithstanding improvements in the 2000s, the credibility of governance institutions needs to be improved further. Young firms are particularly affected by pressures arising from illicit practices, non-level playing competition and political unpredictability.
- Turkey’s rigid employment regulations deprive law-abiding enterprises of the wide range of employment forms available in other OECD countries. More flexible

employment forms are accessible for informal and semi-formal businesses. These jobs, however, are precarious and lack social protection.

Removing these bottlenecks would allow Turkish firms to operate in compliance with the law and on a level-playing field, under supportive regulations, taxation and innovation incentives. They could then achieve stronger productivity gains and the most promising firms could grow faster. A credible flexicurity system needs to be put in place that facilitates adjustment in the labour market while protecting those affected by structural change.

Find out more:

OECD (2016), *OECD Economic Surveys: Turkey 2016*, OECD Publishing, Paris.