



COMPREHENSIVE GROWTH STRATEGY: TURKEY

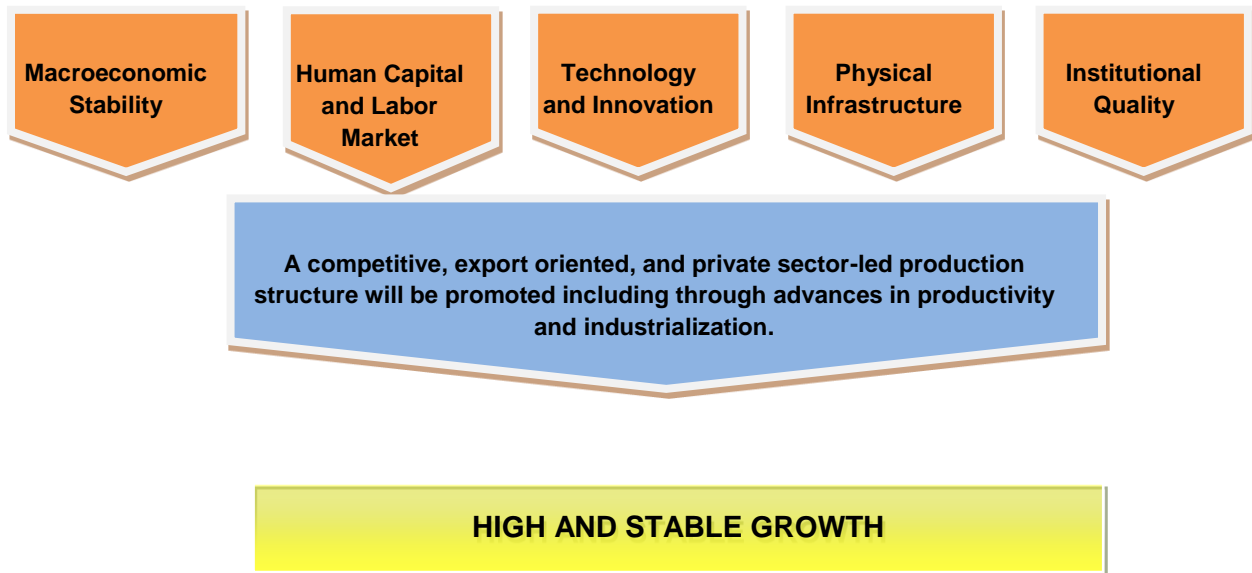
A. ECONOMIC OBJECTIVE AND KEY POLICY COMMITMENTS

Economic Objective

The elements of Turkey's medium term economic policies are set with *Development Plans* and *Medium Term Programs (MTPs)*. While development plans put a more holistic view of the social and economic priorities of the Republic, the MTPs –which are revised annually- set the specific actions and numerical targets/indicators leading to the overarching objectives of the development plans. The current Development Plan (i.e. the 10th Development Plan) covering the 2014-18 period was released in July 2013 and the MTP for the 2015-2017 period was published in October 2014.

Turkey's Growth Strategy set by the 10th Development Plan can be demonstrated as below:

Figure 1: Turkey's Growth Strategy



The overarching goal of Turkey's growth strategy is to achieve high, stable, sustainable and inclusive economic growth via ensuring a competitive and business friendly economic environment and improving international competitiveness. These will be achieved through various product and labor market reforms, and supporting technology and innovation oriented production structure.

Preserving and strengthening macroeconomic stability is a pre-condition in keeping these targets in scope. Within this context, price financial stability oriented monetary and macro prudential policies will be supported by prudent fiscal policies aiming to decline public debt to GDP ratio while improving the quality of public expenditures. In this vein, public physical infrastructure investments will be increased and conducted in an efficient manner and designed as to support private sector business and investment environment besides improving the well-being of the society.

Key Commitments

1. Enhancing productivity in manufacturing
2. Improving public infrastructure
3. Enhancing technology and innovation
4. Increasing labor participation of female and youth
5. Improving domestic competition

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

The Tenth Development Plan projects a 5.5% annual average real growth rate for the planning period; leading to a GDP of USD 1.3 trillion and a per capita GDP of USD 16,000 by 2018. The projections also envisage USD 277 billion of exports and the unemployment rate declining to 7.2% levels by 2018.

The baseline average growth rate per annum for the 2014-18 period is projected as 4.4%. The envisaged policy and reform framework will increase this annual growth rate by 1.1 percentage points to 5.5% in the plan period.

Key Indicators	2013**	2014-18 average (3)
Real GDP (% yoy)	4.1	5.5
Nominal GDP (% yoy)	10.5	10.2
Output Gap (% of GDP)*	-0.1 (1)	0.8 (2)
Inflation (% yoy)	7.4	4.5 (2)
Fiscal Balance (% of GDP)	-0.7	-0.7
Unemployment (%)	9.0	8.2
Savings (% of GDP)	13.4 (1)	19.0 (2)
Investment (% of GDP)	20.3	24.4 (2)
Current Account Balance (% of GDP)	-7.9	-5.8

* A positive (negative) gap indicates an economy above (below) its potential

** Indicators can be presented on a fiscal year basis, should they be unavailable for the calendar year.

(1) MTP 2015-2017, (2) End 2018, (3) Tenth Development Plan

Key Drivers

Our main macroeconomic strategy towards achieving high and stable growth is developing a private sector-led, open, and competitive production structure. The milestones of this strategy are increasing productivity and accelerating industrialization. To this end, the industrial policy will be geared towards generating higher domestic value-added and transitioning to hi-tech production schemes that will move Turkey up in the global value chain. The pillars of this transformation will be (i) innovation and enhanced firm capabilities, (ii) a more comprehensive network of related industries to capitalize on synergies, (iii) green technology and sustainable production, and (iv) export market diversification.

The growth will lean more towards investments, whereas the share of domestic consumption is expected to decline. In that regard, Tenth Development Plan envisages a rise in the ratio of investment to GDP from 20.9% to 24.4% and a decline in the ratio of consumption from 84.9% to 80.6%. The Plan also aims to increase national saving rate from 14.4% in 2013 to 19% in 2018. Concurrently, through relatively higher increases in exports, contribution of the net external demand is projected to be positive in the 2014-18 period, helping the re-balancing efforts of the Turkish economy. Furthermore, the share of medium-to-high and high-tech manufacturing industry products within exports is expected to increase, supported by concurrent increases in services exports and market diversification.

Assessment of Obstacles and Challenges to Growth

Low Domestic Savings and High Current Account Deficit:

Low savings rates mostly due to the rapid decline in private savings make the economy prone to risks posed by the global economic environment. Hence, increasing the domestic savings is of utmost importance. To serve this objective, structural policies have been formulated to improve the competitiveness and household savings. In the medium term, policies to overcome these challenges would ease the trade-off between the economic growth and current account deficit.

Investment:

In order to maintain a strong GDP and employment growth, Turkey needs further improvement in investment both in terms of quality and quantity. In that regard, we are planning to increase the investment to GDP ratio to 24.4% in 2018. Towards this end, Turkey embraces an ambitious agenda of large scale infrastructure projects in the fields of *inter alia* energy, transportation, health and education. Turkey will also extensively utilize the PPP model to mobilizing private sector resources into the infrastructure field.

One major setback the Turkish economy faces is the predominance of bank-based investment financing. Funds channelled through banks are generally of short-term nature, whereas the securities market lies with a huge untapped potential. Furthermore even the funds that are channelled through the capital markets are often short term, which significantly hinders the liquidity of long-term instruments. Therefore several policy measures have been taken to encourage long term investments, including through the introduction of new financial instruments that are mainly tailored for institutional investors.

Finally, promoting the development of SMEs is crucial in fostering entrepreneurship, competition, innovation and growth in Turkey, as they represent the backbone of the Turkish economy. Turkey has made substantial progress in promoting the access of SMEs to financing and plans to take further strides in this field.

Employment:

a) Supporting Labour Force Participation of Disadvantaged Groups, Particularly Women:

While men's labour force participation rates are close to the average of peer economies (i.e. with a rate of 71.5%), female labour force participation rate (i.e. 30.8%) significantly lags behind that of advanced countries. Low participation of women to labor force is a factor that besets the full utilization of economy's potential. This is a particular challenge for the regions of Turkey, where the relative weight of agriculture is rather low. The reasons that feeds into this challenge include the broad-based perception of gender roles within the society, the relatively low educational attainment of girls, and the deficiency of relevant work place facilities (e.g. for childcare).

On the other hand, participation of youth (age group 15-24) into the labor market and their employment rate are low. The youth have had difficulties in finding a job for the reasons that the internship opportunities are limited and they cannot acquire the skills that the employers require, during their education. For this reason, unemployment among the youth is significantly higher than the headline.

The situation of long-term unemployed, which can be described as "people with no job for a year or more", shows a lot about the structure of unemployment as their share in total unemployment is rising. As the unemployment duration increases, people's hope for finding a job decreases, as they lose necessary skills to meet the demands of the labor market and also due to the employers' lower tendency to employ long-term unemployed. For these reasons, unemployment becomes chronic.

b) Supporting Job Creation in the Formal Sector:

Informal employment is one of the long-standing structural problems of Turkey. Informality is more intensive in agriculture and construction sectors, in small-sized enterprises, and in temporary and seasonal work areas. The main reason leading to informality is the low value-added production schemes of certain sectors substantially hindering the businesses' ability to conform to the financial and non-financial burdens of formal employment.

The rate of unregistered employment has decreased from its level of 50% in 2004 to 36% as of end-2013. Yet, this rate is still high. Informality is also more common in female workforce (i.e. 52%), relative to male workforce (i.e. 30%). High rates of informality significantly hamper the actuarial balances of the pension system and limit the policy space on social protection nets.

c) Promoting Social Inclusion – Strengthening the Connection between Social Benefits and Employment:

Social benefit frameworks that disincentive people from participating in the labor force become a major hindrance that also lead to a vicious cycle of poverty and social exclusion. Very often, this is due to the lack of effective cooperation among relevant institutions and inadequate control systems. Therefore, there is an apparent need for strengthening the link between social benefits and employment.

d) Supporting the Feedback Loop between Education and Employment

While 60% of the labor force in Turkey has an educational attainment below high school level, approximately 21% has a high school degree and 19% has higher education. As gloomy as this profile initially looks, it also demonstrates a significant window of opportunity for economic growth through skill development. Besides, higher education yields other substantial benefits such as an increase in female labor force participation.

Vocational training is an area where significant improvement is needed. Measures to that end, need to start from the orientation of students to vocational training on a timely, accurate and effective manner. The curriculum needs to be updated to better reflect the qualifications demanded by the businesses. Finally, the theoretical underpinnings need to be buttressed by practical work experience. A coordinated strategy will facilitate a smooth transition from school to work place.

Competition:

In order to achieve its medium and long term targets, Turkey needs to transform the economy within a competitive market structure. This necessitates effective micro reform policies, which are already on the policy agenda. In that regard, it is of critical importance to make the competition regulations compatible with international best practices to strengthen business environment and to enhance legal certainty, transparency, objectivity and consistency in competition issues.

Trade:

Despite the significant strides taken towards market diversification including through an active agenda of Free Trade Agreement (FTA) negotiations, there is certainly room for improvement.

For Turkey, FTA policy is a continuous and dynamic one. With her unique position as a Customs Union Partner, Turkey has to follow the common commercial policy of the EU, including its FTA policy in general. Although, Turkey's FTA policy is broadly following that of the EU, this is not a process that kickstarts automatically. This often puts Turkey under strain because of the fact that any country that signs an FTA with the EU, automatically gets the same access to Turkey's internal market while Turkey does not gain equal/reciprocal market access to the counterpart. As a country, that considers FTA's as a policy tool to foster growth and employment, Turkey, no doubt will be addressing this issue with due attention in the coming period. A very similar case exists for Mutual Recognition Agreements (MRAs) and thus, Turkey will be following a similar policy response towards MRAs, as well. To supplement these efforts, in order to avoid different quality infrastructure and technical regulations to act as de facto trade barriers, Turkey also considers signing Technical Cooperation Agreements as an effective mechanism.

Domestic value content of Turkey's exports was 78% in 2009, above the OECD average but 11 percentage points lower than its share in 1995, illustrating Turkey's increasing integration into global value chains¹. Although, Turkey's presence in Global Value Chains (GVCs) is strong, there still exists a need of upgrading as it seems that Turkey mainly specializes in assembly and low value-added segments of production chains.² Definitely, services sector has a key role to play in enabling GVCs. In recent years, services sector has gained an

¹ OECD/WTO Trade in Value Added (TIVA) Indicators, May, 2013.

² In 2013 total exports of Turkey were recorded as 151.8 Billion Dollars, 141.3 Billion Dollars of which come from Assembly (Manufacturing Sector)

increased role in GVCs and made significant contribution to the growth of Turkish economy. In Turkey's gross exports, services accounts for 22%, but as the OECD TIVA indicators show, in value added terms, the contribution of services is over 40%. In other words, Turkey's exports of goods rely intensively on services input and Turkey intends to reach out to more open, diversified and competitive services markets, as a means to improving productivity in the entire economy.

Taking into account the SMEs' contribution to value-added and exports, increasing productivity and competitiveness of them is one of the main policy targets embodied in Turkey's priorities. Adoption of more efficient policies for SMEs would also help overcoming challenges that limit their participation into GVCs. Both MRAs and Technical Cooperation Agreements are believed to be instrumental for SMEs' participation into GVCs, as most of these businesses typically find it difficult to comply with international standards.

Energy:

Turkey, with a rapidly growing economy, was one of the fastest growing energy markets in the world in the last decade. However, because of the limited availability of domestic primary energy sources, Turkey's growing energy demand increased its dependency on imports, primarily on oil and gas. As of 2013, only 26% of the total primary energy demand is met by domestic resources, while the rest is satiated by imports and Turkey pays about USD 60 billion for fossil fuels each year.

Besides, as documented by the IEA, Turkey has a significant room for progress in improving energy efficiency in a number of sectors.

C. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses (including Reforms to Frameworks)

The fiscal policy stance has been broadly in line with the macroeconomic needs of Turkey. Having positive primary balances and declining the debt-to-GDP ratios are preserved as the key principles of the fiscal policy. In addition, public sector significantly contributed to the momentum of national investments –mainly through infrastructure projects– as allowed by the fiscal space.

After the global crisis, domestic demand rebounded rapidly despite the sluggish external demand. After two consecutive years of fast growth fuelled by domestic demand, pressures on current account and inflation have mounted. To address this challenge, macro-prudential measures were taken. The economy moved gradually towards the desired demand structure in 2012 with the increased contribution of foreign demand to growth and a moderation in domestic demand. Nevertheless, this re-balancing trend has somewhat paused in 2013 where the domestic demand rebounded.

Yet given the tighter global liquidity conditions essentially due to the tapering of monetary policies by the US Federal Reserve, the need for macroeconomic rebalancing has gained imminence. In addition to fiscal discipline, macro prudential policies such as confinement of limit increase and cash advances for credit cards, increasing the minimum monthly payment of credit cards, capping at the maximum instalment period in credit cards, capping at maximum maturity of passenger car loans, implementing minimum down payment ratio for auto loans and increasing risk weights on loans granted for goods and service purchases, loans provided in cash via credit cards and on vehicle loans are used to curb domestic

demand.

Fiscal Policy:

General government primary surplus is targeted to be kept above 2 percent of GDP till 2016 as projected in Medium Term Program (MTP) 2015-2017. A stable public savings rate will both create room for further spending on the areas which will further foster economic growth and *crowd in* private sector resources to investment.

The Tenth Development Plan also includes a “Rationalization of Public Expenditure Program”. Among the components of this Program, The Ministry of Finance is responsible for “Keeping the Current Expenditures under Control” and “Strengthening Program-based Budget Link”.

The actions contributing to “Keeping the Current Expenditures under Control” will cover:

- Increasing savings awareness in the public sector,
- Meeting the personnel requirement primarily by re-shuffling the existing personnel in favor of units with the highest need,
- Basing the service procurement on cost-benefit analysis,
- Reducing the cost of service by speeding up e-transformation in the public sector,
- Rationalizing the public sector real estate management,
- Containing the current expenditures (excluding those for personnel) with a “zero-based budget”³ approach.
- Directing public R&D spending to the industries especially where import intensity is high.

As per “Strengthening Program-based Budget Link” Turkey will take the following actions:

- Integrating the management information systems in the public financial management area,
- Strengthening the link between the fund allocation process and the strategic plans and performance-based budgeting system.

On the revenue side, ensuring that public revenues are collected from buoyant and permanent sources is the main objective. By means of broadening the tax base and addressing distortionary taxes, the barriers over potential growth will be mitigated. Additionally, the MTP 2015-2017 introduces a new taxation system, which enables public to levy on the value increases of real estate due to public investments or amendments on metropolitan zoning plans, will not only increase the tax revenues but also incentivize channeling of limited resources to more productive areas.

³ If an additional expenditure program is introduced, another current expenditure program will be cancelled.

Monetary and Exchange Rate Policy:

Main objective of monetary policy is to achieve price stability. While aiming at keeping inflation close to target, the Central Bank of Turkey (CBRT) also aims to safeguard financial stability and to contain the volatility led by capital flows on domestic economy. In this context CBRT closely monitors the growth rate and the composition of loans. Monetary policy framework involves the use of a set of new instruments alongside the traditional instruments to achieve price stability and financial stability. Moreover, communication of these new policy frameworks is also central to the success of the monetary policies. In addition to price stability CBRT provides support to balanced growth – in line with its mandate - through funding exports, lender of last resort facilities, supporting for core liabilities and contributing to sustainable credit growth.

Uncertainties regarding global monetary policies have grown since May 2013, which caused portfolio flows towards emerging economies to remain weak and financial assets to be re-priced in the second half of the year. Re-pricing of financial assets led the Turkish lira to depreciate significantly. As a reaction, CBRT delivered a strong and front-loaded monetary tightening in January 2014 to prevent deterioration in the inflation expectations and the overall pricing behavior.

In the second quarter, the risk sentiment improved across global financial markets owing to the significant decline in uncertainties about the Fed's asset purchases and the recovery in global growth. In this regard, market interest rates in Turkey declined across all maturities. These developments allowed the CBRT to start a measured decrease in the one-week funding rate in May-July period and this rate was cut by 175 basis points in total. However even after these cuts, the monetary policy stance continued to be tight with a flat yield curve.

The tight monetary policy stance has contained the potential adverse impact of the upside risks on the medium term inflation expectations and Turkish lira performed relatively well. The growth rate and the composition of loans evolved in the desired direction, which helped to contain medium-term inflation pressures and to support the improvement in the current account balance. In line with these assessments, in the third quarter the CBRT maintained the current monetary stance regarding short-term interest rates.

Growth in Turkey weakened in the second quarter, but exports made positive contribution. The private sector demand is expected to follow a mild and gradual growth path and exports are expected to support balanced growth. CBRT will continue to support exports through export rediscount credits and the contribution from the funding for exports program to official reserves is expected to reach 13 billion USD in 2014. It is believed that in the coming period demand developments will not pose an upward pressure on inflation, while supply-side factors will affect the course of inflation.

New Structural Policy Responses

Investment and Infrastructure

Increasing savings and investments in the Turkish economy to strengthen the productive capacity and establish a sustainable growth performance is the main target of medium and long-term macroeconomic policy and the Tenth Development Plan. In the Plan period and afterwards, domestic resources will be directed to investment expenditures, the investment environment will be improved by enhancing the administrative and legislative structure, and the public infrastructure will be strengthened.

Public investments will be concentrated on core infrastructure that will promote private investment:

One of the main objectives of the Tenth Development Plan is directing resources to productive areas in the economy. In this regard, public policy, especially public investment policies, are of utmost importance. High quality public sector infrastructure investments will increase production capacity by stimulating private sector investments and will also contribute to productivity based growth dynamic. To this end, in the Tenth Development Plan following policies have been designed:

- Infrastructure investments will be given priority within the public spending envelope,
- Public investments will be focused on infrastructure issues that cannot be fulfilled by private sector,
- For promotion of strategic investments that include critical technologies for Turkey, utilization of public infrastructure investments as a supporting factor will be given priority,
- A logistics infrastructure and freight transportation that will optimize the costs, shorten the production cycle and integrate transportation, storage, packaging and stock management are critical. Therefore, port-railroad infrastructures that will facilitate Anatolian “north-south trade corridors” and with due access to Central and Southeastern Anatolian regions will be strengthened.
- One of the priority transformation programs in the Tenth Development Plan is Transformation Program from Transportation to Logistics aiming to increase contribution of logistics to growth potential in order to achieve export, growth and sustainable development objectives of Turkey. The Action Plan (2014-2018) regarding aforementioned program has been prepared and will be finalized soon.

Turkey has successfully implemented Public Private Partnership (PPP) models as a means to attract private sector resources to infrastructure investments. PPPs have hitherto been utilized on the energy, airport, port and customs facilities projects. Recently, PPPs are used actively for transportation projects such as *Istanbul Strait Road Tube Crossing Project (Eurasia Tunnel Project)*, *Gebze-İzmir Highway Project*, *Northern Marmara Highway (including third Bosphorus Bridge)* and the *Third Airport in Istanbul*.

In order to promote long term investment by institutional investors, Regulations on Private Pension Funds, Venture Capital/Private Equity Investment Funds, Venture Capital/Private Equity Investment Companies, Real Estate Investment Companies and Real Estate Investment Funds are introduced with a view to finance long term projects. The number of pension funds increased substantially since the adoption of the relevant regulation. Thanks to the newly introduced incentives (i.e. direct state contribution to individual portfolios) to the pension fund system, the number of subscribers in the system and the portfolio volume under management has substantially increased. Furthermore, investment companies with variable capital, which will be introduced into the legal system in 2015, will support the development of institutional investors within a system that allows for adequate flexibility.

In addition to this, with the amendments in new communiqué on portfolio management companies which became effective in July 2014, the functioning of the portfolio management companies have been changed. By this renewed legislation the major types of collective investment schemes- investment funds- shall only be founded by the portfolio management companies in which their functions are unbounded from their bank conglomerates. This

regulation leads to important risk mitigation in the capital markets.

In order to increase the efficiency and attractiveness of products for financing infrastructure investments, the Capital Markets Board (CMB) has revised the previously existing model which is designed primarily for investments in infrastructure. With the revision of the Communiqué on real estate investment companies (published in January 2014) which is a well-functioning regulation, real estate investment companies with higher paid-in capital and sole purpose to invest in infrastructure can also be launched. In addition to enable the initial public offering, this model has also streamlined the concept of sale to “qualified investors” so as to facilitate access to foreign investors. Additionally this financing model is incentivized by tax regulations.

On the SMEs side, Turkey enacted a new legislation regarding the promotion of angel investments. In that regard; a licensing process for angel investors and an accreditation process for the networks of angel investors were introduced. Under the new legislation, licensed angel investors can deduct 75% of the capital that they invest in certain SMEs from their annual tax base. In case of business angels’ investments for R&D and innovation, this ratio goes up to 100%. This licensing mechanism will increase professionalism, make angel investments an institutionalized and trustworthy source of financing and also improve the business culture and ethics in this new market. Turkish Treasury has so far issued 254 licenses for angel investors. 10 investment applications were also successfully completed and 3 applications are being processed. There are also 4 business angel networks which have been accredited by Turkish Treasury.

In addition to this newly introduced business angles program, in order to further strengthen the financial ecosystem, another law regarding the capital contribution of Turkish Treasury to the fund of funds was enacted. With the facilitating role of the government, the volume of venture capital is expected to increase considerably. This will, in turn, greatly support early stage companies in terms of institutionalization, guidance and financing. This mechanism will encourage the establishment of innovative start-ups, increase the dynamism of the economy and contribute to stronger and more sustainable economic growth.

After the global financial crisis in 2008, crowdfunding is emerging as an alternative solution for start-ups and growth stage companies having difficulty in finding financing. By leveraging technology, crowdfunding can serve as an enabling mechanism for new venture formation, job creation and inclusive economic growth. We are planning to create an online platform which will instill confidence to entrepreneurs and start-up companies.

Employment

Increasing the labor participation rate of disadvantaged groups

Disadvantaged groups such as women, youth, people with disabilities, and the long-term unemployed, face distinctive problems in entering the labor market and also inside the labor market, thus they need specific policies. The main problems for them are: low education levels, low skill levels, lack of flexible working patterns, inadequacy of the mechanisms for harmonizing business and family life for women, difficulties faced in first time employment for youth and inadequate social living environment for disabled persons.

As a result, removing the obstacles for the participation of the disadvantaged groups in the labor market and for their employment has been one of the most important objectives in the National Employment Strategy of Turkey (October 2013).

The National Employment Plan envisages that:

i. Female participation rate will be increased to 41% by 2023. The following measures are foreseen in the National Employment Strategy;

- In order to reduce caring responsibilities of women, works for increasing the number of services for children and day care centers will be done. Moreover, in order to prevent women from disengaging from labour market, flexible working implementations will be arranged.
- Sectors providing opportunities for women employment will be prioritized as regards the training activities. Moreover, in order to increase women entrepreneurship, microcredit system will be carried out.

ii. Youth unemployment rate will be decreased to an approximate figure in relation to overall unemployment rate.

iii. The open vacancies for disabled person, which is 22,302 public sector officials and 28,864 for workers in public and private sector, will be filled until the year 2015.

iv. Long-term unemployment rate will be 15% from 24.9% in 2012 until 2023.

Enhancing the basic and occupational skills

In Turkey, education system has been insufficient in fully satisfying the needs of the labor market. Matching of unemployed and vacancies has been ineffective and decrease in unemployment rate of educated young individuals has been limited in the last decade. Ongoing rapid change in the business world requires individuals to attain both vocational qualifications and basic skills. These skills allow individuals to remain longer at work, to increase their productivity in work-life and adapt to changing business and living conditions more quickly. In this framework, with a perspective of developing human resources in Turkey, it is of utmost importance to ensure that individuals acquire basic skills required by work-life in addition to occupational skills, and strengthen the link between educational system and the labor market. Moreover, improving human capital and increasing the effectiveness of labor market will be important policy areas in the implementation of growth strategy in the forthcoming period.

Within this framework, in the Tenth Development Plan “Basic and Occupational Skills Development Program” is designed. This program aims to ensure that individuals have the basic skills required by the labor market such as ICT, foreign language, financial literacy, problem-solving, critical thinking, communication, leadership, career planning, job searching, in addition to artistic and athletic skills.

Along with the occupational skills, building the basic skills required by working life for individuals is of vital importance for the strengthening the link between education and employment. These skills enable individuals to stay longer in the working life, to increase their productivity and to support their adaptability to the changing conditions of work and life. The main purposes here are to improve the adequacy of the education system to match the needs of the labour market and to make education accessible for all in order to increase the employability of the labour force by lifelong learning. Within this context;

- Curricula of the vocational schools will be updated
- The effectiveness of the Active Labor Market Programs will be increased.

Supporting Job Creation in the Formal Sector

High unregistered employment, which is one of the main issues with regards to labour force market in Turkey, is targeted to decrease. With the approach of implementing disincentive and incentive measures together in combating unregistered employment, reaching an acceptable level is targeted. Within this context;

- A communication center is established for conveying denunciations and complaints related to unregistered employment. Moreover, at the transactions done with public institutions and banks, registered working status is queried. It is aimed to ease the proceedings of the insured by making the information exchange between institutions compulsory.
- The number of inspection staff of Social Security Institution (SSI) is increased and by restructuring inspection system, guidance approach at inspections is developed.
- In order to encourage registered employment, projects within the scope of European Union Instrument for Pre-Accession Assistance (IPA) are being carried out.

Promoting Social Inclusion – Strengthening the Connection between Social Benefits and Employment

In accordance with economic, social and financial policies, it is targeted to develop an effective and integrated social protection system which prevents individuals from becoming social benefit dependent and promotes working. Within this context;

- Among the social support beneficiaries, those who are able to work, will be directed to active labor force programs.
- Social benefits are redesigned by Ministry of Family and Social Policies in order to encourage receivers to participate in the labor market.

Competition

Considering the significance of effective competition policy for a sustainable economic growth, Turkish Competition Authority (TCA) has been put forward significant efforts in order to create a more competitive environment for undertakings. Within this framework, TCA put into effect several regulations in 2013⁴. With these new regulations, TCA aims to enhance legal certainty, transparency, objectivity and consistency for undertakings in their

⁴ These regulations include the Guidelines on the General Principles of Exemption, Guidelines on Cases Considered as a Merger or an Acquisition and the Concept of Control, Guidelines on the Assessment of Non-horizontal Mergers and Acquisitions, Guidelines on the Assessment of Horizontal Mergers and Acquisitions, Guidelines on Horizontal Cooperation Agreements, Regulation on Active Cooperation for Detecting Cartels (Active Cooperation/Leniency Regulation) and Guidelines on the Assessment of Abusive Conduct by Undertakings with Dominant Position (2014). Furthermore, there is an ongoing process for the revision of the effects of “Regulation on Fines to Apply in Cases of Agreements, Concerted Practices and Decisions Limiting Competition, and Abuse of Dominant Position” and “Communique On Group Exemption Regarding Distribution and Servicing Agreements in Relation to Motor Vehicles”. Also, efforts to amend The Act on the Protection of Competition are completed and the draft is currently on the agenda of the Parliament, which comprises significant reforms about De Minimis, settlement and SIEC Test.

comprehension of competition issues and also carries a step forward its alignment with EU competition legislation.

The Strategic Plan of TCA, covering the 2014-2018 period, aims to identify the markets or industries that have more propensity to infringe competition and establish a prioritization mechanism. In this context, TCA will give priority to these industries and allocate its resources to eliminate the anti-competitive and inefficient structure in these markets. In addition, with the increasing importance of effect-based approach in recent years instead of per se approach, TCA gives weight to the economic impact of conduct or enhancement and development of the effectiveness of the authority's interventions. By this way, it is planned to sustain a more competitive production structure and hence to increase productivity in these markets, that will all contribute to the growth of Turkey.

Scanning the legislation that is not compatible with the competition rules and ensuring a competitive point of view in the acts of government bodies that affects the markets, thus to minimize the restriction of competition are the two other objectives of the Strategic Plan. In accordance with these two objectives, the part of regulatory impact assessment process, "Work on the Guideline on Competitiveness Impact Assessment" is completed and the draft Guideline is prepared. Moreover, with the sector inquiries carried so far by, TCA informed different ministries, state institutions and organization about the elimination of regulations, procedures, legislations and implementations that were not compatible with competition legislation. The achievement of these goals and hence having a more appropriate regulations and policy would create better conditions for investment and increase productivity.

Both product market regulations and regulations for professional services have been examined elaborately in the 2nd Competition Report, which was released in 2013. In the Report, it is proposed to design a framework for regulations which should encourage a more viable and efficient competitive environment instead of inhibiting competition. Reduction in the level product market regulations and indirect effects of betterment in the service sector would contribute to the realization of competitive and productivity gains. Furthermore, improvements in bureaucratic and legal processes will decrease direct and indirect costs faced by investors, and hence would enrich the investment climate.

Trade

i) Specific actions that would promote Turkey's participation into global value chains (GVCs) and facilitating trade for business

With their number and large share of the workforce involved, SME's play a particularly important role in the Turkish economy. As of 2013, SME's constituted 99.9% of total number of enterprises and %76 of employment. Thus, designing and implementing various programs to support SME's has been a priority for the Government, as embodied in main economic policy and strategy documents, including 10th Development Plan covering the 2014-2018 period and the Medium Term Program for 2014-2016.

Indeed, promotion of a competitive, export oriented, and private sector led production structure is key to achieve high and stable growth in the Turkish economy and SME's with their indispensable weight in economic activities have a major role to this end.

Turkey's presence in GVCs is rather robust, yet this presence so far is essentially concentrated in the lower segments of production chain. One of the main reasons lying behind this problem is that SMEs in Turkey could not effectively participate and upgrade in the production chains due to their structural constraints. Therefore, we aim at implementing concrete actions in terms of improving SMEs' R&D capacity and human capital structure

while focusing on capital and technology intensive sectors and supporting clustering activities for them. These policy actions would help SMEs to transform their production schemes and take part in the higher value added segments of the production chain by improving quality and technological sophistication of products. Increasing productivity and technological upgrading in its export performance would allow Turkey to become more competitive in its exports markets.

Improving trade facilitation for business, including SMEs by reducing the impediments and transaction costs associated with trade is also considered to have a positive effect in enhancing participation to GVCs. In this regard, Turkey will be implementing a set of measures aiming to ease the customs procedures. Putting into force, in a timely manner, and effective implementation of WTO Trade Facilitation Agreement will serve to that purpose. Reducing cost of trading and unnecessary delays at customs, WTO Facilitation Agreement would help Turkish SME's in enhancing their abilities to participate in GVC's, thus seize the benefits international markets offer.

Without any doubt, for firms to upgrade in the Global Value Chains, technology dissemination and skills upgrading is important. In order to improve R&D capacity and human capital structure of the SME's supporting their clustering activities, certain actions are worked out as well. Among others, 10th Development Plan foresees to increase the share of SME's in the overall R&D expenditures from %17 in 2013 to %20 by 2018.

ii) Specific actions to liberalize trade in services sector

Taking into consideration the central role of the services sector in global value chains and global growth, Turkey has been in favor of services trade liberalization in a way that would enhance the export opportunities of all countries. Accordingly, Turkey will continue to actively and constructively engage in trade in services negotiations (TiSA) as well as including services trade in its FTAs.

Service sector has a prominent role in terms of economic activity, employment generation and trade at both domestic and international levels. By now, service sectors account for the largest portion of GDP for all country groups, either developed or developing. Services, covering a wide range of activities from health and education to transportation, distribution, financial services and telecommunications, constitute the backbone of Turkish economy. In 2013, services sector constituted 60.5% of the GDP whereas its contribution to employment was %52.2, as of April 2014. Turkey would like further improve and liberalize its services sector which would contribute to global growth by further increasing trade.

Having the advantage of a young and dynamic population, Turkey is increasingly channeling its resources at creating a highly efficient services economy, in order to reach its medium to long term growth objectives. Among others, further liberalization of services sector through number of initiatives, including Free Trade Agreements with enhanced market access opportunities for service suppliers and investors would enable functioning of the global supply chains in a more effective way by reducing barriers inhibiting trade in services.

The fact that the global production networks rely on logistics chains necessitates an efficient network infrastructure and complementary services. Without any doubt, malfunctioning transport, logistics, finance, communication and other business and professional services would damage moving goods and coordinating production along the value chain. Investment in physical infrastructure can facilitate the integration of new players into international supply chains.

With these in mind, Turkey plans to conclude an Intermodal and Logistics Master Plan by 2018 which aims to transform Turkey into a regional logistics hub. Once concluded, it is believed that it would decrease costs of companies in logistics. As infrastructural problems may hamper the physical connection trade routes, Turkey plans to build the hinterlands of its ports with railroad and container transport terminals as well.

Medium Term Program for the 2014-2016 period targets establishment of logistical centers abroad so as to diminish time and storage capacity scarcities. This, definitely, will contribute to improve trade through increased competitiveness. Re-construction of Turkish railway and port management system and elimination of logistic barriers would also help to improve and liberalize Turkish services sector in a way contributing to global growth by further increasing trade.

iii) Specific actions to reduce trade restrictive measures and traditional barriers to trade

Turkey's Customs Union with the EU necessitates her to follow the common commercial policy of the Union. This includes concluding FTAs with EU's FTA partners as well as aligning its technical legislation and quality infrastructure with the EU.

Further liberalization of trade through FTAs is one of the main policy goals of Turkish foreign trade. Taking into account the positive rates of change in Turkey's exports towards its FTA partners Turkey will do its part to conclude its existing FTA negotiations by 2018 as well as to launch negotiations with at least 10 countries/groups during this time frame. FTAs are proven to have direct and positive impact on trade. For example, throughout the 2000-2012 period, Turkey's total exports increased by 449%, while exports to the FTA partners increased by a remarkable 551%. Based on the objective of elimination of tariffs and non-tariff barriers as well as ensuring transparency and harmonization of trade-related rules, FTAs create a convenient and liberal environment that would support increased trade volume. Turkey has so far benefitted from FTAs in terms of trade generation and would like to continue on the same path, without leading to any controversy in terms of multilateral trade liberalization.

As a country that has aligned its technical legislation and quality infrastructure with that of the EU; Turkey would like to obtain equal market access facility with the signatories of Mutual Recognition Agreements (MRAs). In other words, Turkey believes that proper instruments related to the removal of technical barriers to trade ought to be utilized for the proper functioning of the Customs Union. In this context, Turkey intends to initiate the negotiations for MRAs once the necessary analyses are finalized. Turkey believes these agreements will facilitate trade with partner countries in the relevant sectors and the playing field will be levelled for Turkish exporters.

Through the signing of Technical Cooperation Agreements, Turkey intends to find swift and effective solutions to the technical barriers to trade-related problems that Turkish products face entering the partner countries' markets. This will be ensured through the "Consultation and Cooperation Mechanisms" established through the Technical Cooperation Agreements. In scope of these mechanisms, contact persons, who will be responsible for quick resolution of problems, will be identified and the removal of technical barriers to trade will be based on a bilateral legal footing. Technical Cooperation Agreements also foresee enhanced cooperation among the quality infrastructure bodies of the parties to the Agreement, which, in the end, will help to facilitate trade between two trade partners that are familiar with each other's system of technical regulations and quality infrastructure.

Other measures

Energy

In order to reduce the cost to the economy and to ensure the supply security, our primary objectives are;

- to increase the ratio of domestic resources in energy production
- to diversify the origins of energy supply in terms of countries, regions and sources
- to increase the share of renewables, lignite fired power plants and include the nuclear in energy mix,
- to take significant steps to increase energy efficiency.

The plan to increase the ratio of domestic resources in energy production aims to increase the ratio of domestic resources in primary energy production from 27% in 2012 to 35% in 2018. The components of the plan are: (i) using domestic coal resources for electricity generation, (ii) enhancing domestic and international oil and gas exploration efforts, (iii) using all potential water resources for electricity production and (iv) evaluating renewable potential other than water.

In this context, with the new feed-in tariffs, the renewable energy installed capacity in electricity generation has increased from 17.3 thousand MW to 27.2 thousand MW between 2011 and 2014. Most of this capacity comes from hydro and wind power plants.

Incentives for the domestic lignite-fired power plant investments were promoted (Coal fired power plant investments were supported by significant financial incentives). Increasing the share of the lignite fired power plants in our energy mix will contribute to the reduction of the current account deficit as well as to the energy supply security.

Inactive lignite fields belonging to the *Turkish Coal Enterprises* are leased to the private sector companies for electricity generation. By this method, construction of 10 power plants with approximately 3,000 MW installed capacity was started as of today.

A new power plant with 11.000 MW installed capacity is being planned to be constructed in the *Afsin-Elbistan* region, which has 4.3 billion tons of proven lignite reserves. Negotiations for this project between the line ministry and international investors are ongoing.

Turkey is also planning to build two nuclear power plants in near future. Construction of the *Akkuyu Nuclear Power Plant* with about 4.800 MW installed capacity was started and it is planned to be operational in 2019. Also negotiations with Japanese government for *Sinop Nuclear Power Plant* with about 5.000 MW installed capacity reached the final stage and it is planned to be operational in 2023. Nuclear power plants will help to diversify the electricity production mix.

The roadmap of the country about energy efficiency is determined in the *Energy Efficiency Strategy Paper*. In this paper, it is aimed to reduce the energy intensity by 20% until the end of 2023. In this context and detailed action plans were prepared for all sectors.

Enhancing productivity in manufacturing

Productivity gains not only contribute directly to economic growth, but also ensure effective use and sustainability of scarce resources. “Program for Enhancing Productivity in Manufacturing”, which was designed as a priority transformation program in the Tenth Development Plan, will contribute to enhancing productivity awareness, improving production process and increasing value-added sustainable economic growth.

The Program will be implemented by i) strengthening productivity awareness and implementation capacity to increase productivity, ii) enhancing governance in firms, iii) enhancing production processes, ensuring more efficient usage of non-energy inputs in production process, supporting job training programs to increase the quality of existing employees and iv) supporting economies of scale for firms, increasing market access opportunities, mitigating the problems of small and medium sized firms on access to finance and incentives. As a result of these policies, Turkey aims to increase the contribution of total factor productivity to growth in industry sector to levels above 20 percent.

Technology and Innovation

Turkey aims an innovative production structure which is considered as the basic condition for productivity based economic growth. Detailed and strong policies are set in the Tenth Development Plan to achieve this goal. In the Plan period, R&D activities towards producing clean technologies and green products with high value added, enabling the efficient use of natural resources and prevention of environmental degradation will be supported. Also, to increase the quality of human resources in production, the quantity and quality of researchers will be further increased, while the incentives for researcher employment in private sector will continue. Also, public procurement system will be improved in a way to encourage innovation, domestic production, technology transfer and innovative entrepreneurship. The Plan envisages increasing the ratio of R&D expenditures to GDP from 0.92% in 2013 to 1.8% in 2018.

To contribute to the transformation process in achieving innovative production structure, Priority Transformation Programs are designed and included in the Tenth Development Plan. One of the Priority Transformation Programs is the “Program for Commercialization in Priority Technology Areas” which aims creating globally competitive technological products and brands in the sectors important for the economy. Another one is the “Program for Technology Development and Domestic Production Through Public Procurement”, which is designed to promote innovation, domestic industry and technology transfer; and increasing FDI by policies implemented in public procurement, considering domestic R&D and innovation contribution requirement in public procurements.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

1. Medium-term projections, and change since last submission:

	Estimate		Projections				
	2013	2014	2015	2016	2017	2018	
Gross Debt	36.2 ⁵	33.1	31.8	30	28.5		
<i>ppt change</i>	-0.1	0.1	1.2	0.0	-		
Net Debt							
<i>ppt change</i>							
Deficit	-1	-0.7	-0.8	-0.5	-0.2	0.1	
<i>ppt change</i>	-0.2	0.3	0.3	0.3	-		
Primary Balance	2.5	2.2	2.4	2.4	2.5		
<i>ppt change</i>	0.2	0.2	0.3	0.4			
CAPB [*]							
<i>ppt change</i>							

* New MTP has been released in October 2014 and the details of Program figures will be released in months ahead.

⁵ Realization

2. Economic Assumptions, and change since last submission:

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

		Estimate	Projections				
	2012*	2013	2014	2015	2016	2017	2018
Real GDP growth	2.1	4.1	3.3	4	5	5	
<i>ppt change</i>	-0.1	0.5	-0.7	-1	0		
Nominal GDP growth	9.2	10.5	12.7	10.2	10.6	10.3	
<i>ppt change</i>	0.1	0.4	2.5	-0.1	-0.5		
ST interest rate							
<i>ppt change</i>							
LT interest rate							
<i>ppt change</i>							

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.

ANNEX 2: NEW POLICY COMMITMENTS

Macroeconomic Policy Responses

The New policy action:	High and stable general government primary surplus
Implementation path and expected date of implementation	<p>General government primary surplus is targeted to keep above 2 percent of GDP till 2017 as projected in MTP 2015-2017.</p> <p>Public saving rate on a stable path will both create room for further spending on the areas which will further foster economic growth and crowd in private sector resources to investment</p> <p>The implementation of the strategy has already begun with the release of the MTP and projected till the end of 2016.</p>
What indicator(s) will be used to measure progress?	General government primary balance is the main indicator.
Explanation of additionality (where relevant)	

Investment and Infrastructure

The New policy action:	Capital markets measures
Implementation path and expected date of implementation	<p>Real Estate Investment Funds, (01 July 2014)</p> <p>Venture Capital/Private Equity Investment Funds (01 July 2014)</p> <p>Venture Capital/Private Equity Investment Companies (09 October 2013)</p> <p>Real Estate Investment Companies (28 May 2013)</p> <p>Securities Investment Company With Variable Capital (The first half of 2015)</p>
What indicator(s) will be used to measure progress?	The number of applications, the total number of companies and funds, the total net asset value can be good indicators in determining the trends in the implementation of the new regulations.
Explanation of additionality (where relevant)	In the St Petersburg Summit it was committed to increase the number of the new developed financial products and the number of the domestic individual and institutional investors. As stated above the new products were introduced with regulations that became effective in October 2013 and July 2014. Moreover together with the increasing number of the products it is expected that the number of investors in the capital markets will be increasing in subsequent years.

Employment

The New policy action:	Supporting employment of disadvantaged groups
Implementation path and expected date of implementation	<p>The implementation of the policies for supporting the employment of disadvantaged groups is a comprehensive issue because of the multidimensional nature of the problem and thus requires action from various public institutions.</p> <p>Tenth Development Plan of Turkey (2014-2018) covers this issue and prescribes the action for boosting the participation rate of disadvantaged groups. In this regard, the Strategic Plan of the Ministry of Labour and Social Security (2014-2018), the Strategic Plan of Turkish Employment Agency (2013-2017), Strategic Plan of the Ministry of Family and Social Policies (2013-2017) includes certain objectives and thus related institutions implements specific programmes. In a broader context, National Employment Strategy includes clear indicators and time frame for these objectives.</p>
What indicator(s) will be used to measure progress?	<p>The progress can be measured through checking following indicators;</p> <ul style="list-style-type: none"> i. Female participation rate, ii. Informal employment rate of women, iii. Youth unemployment rate, iv. Availability of job vacancies for disabled persons, v. Lon-term unemployment rate.
Explanation of additionality (where relevant)	<p>This commitment may be related to the Saint Petersburg commitments of Turkey, since they also included increasing the employment rate of women. However, when compared to the previous commitment, the issue is now being handled in a more comprehensive fashion, and additionally included the groups such long-term unemployed, youth and disabled persons. To sum up, the commitments of Turkey for this year is built upon the last year's efforts and strengthened accordingly.</p>

The New policy action:	Increasing labour force participation of women.
Implementation path and expected date of implementation	<p>A balance between work and family will be created.</p> <p>Awareness will be raised to eliminate the obstacles for women to entrance into the labor force and the employment.</p> <p>Incentive regulations for women will be introduced.</p>
What indicator(s) will be used to measure progress?	Number of awareness raising activities.
Explanation of additionality (where relevant)	

The New policy action:	Supporting female entrepreneurship
Implementation path and expected date of implementation	In order to increase women entrepreneurship, microcredit system will be enhanced. There will be awareness raising programs continuously to support female entrepreneurship.
What indicator(s) will be used to measure progress?	Number of women benefit from awareness raising programs about micro credit
Explanation of additionality (where relevant)	

The New policy action:	Strengthening the Connection between Social Benefits and Employment
Implementation path and expected date of implementation	People with economic difficulty will be supported with regular and comprehensive social benefits. Those among them who are able to work, will be directed to active labour force programmes and works by benefiting from opportunities of job and vocational counselling. Measures would be possible in case of not participating in employment or employment acquisitive actions without a valid reason. Relevant legal changes will be completed by 2016.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	

The New policy action:	Updating the curricula of vocational schools
Implementation path and expected date of implementation	Curricula of the vocational schools will be updated to meet the demands of the labour market. On the job training will be added to the curriculum. - 2015
What indicator(s) will be used to measure progress?	Number of vocational schools/students influenced by updated curricula
Explanation of additionality (where relevant)	

The New policy action:	Increasing the effectiveness of the Active Labour Market Policies (ALMP)
Implementation path and expected date of implementation	<p>Labour market needs analysis will be done periodically and efficiently.</p> <p>A databank will be established to collect all the data from other relevant institutions on active labor market programs. – 2015</p> <p>Active labour market programs will be developed for the needs of target group. – 2015</p>
What indicator(s) will be used to measure progress?	<p>Number of institutions collected data from.</p> <p>Number of active labour market programs developed.</p>
Explanation of additionality (where relevant)	

The New policy action:	Basic and occupational skills
Implementation path and expected date of implementation	The Tenth Development Plan (2014-2018)
What indicator(s) will be used to measure progress?	<p>Duration of the transition from school to work</p> <p>Total number of employees working at jobs appropriate for their skill levels</p> <p>Number of young people who take basic skills training</p> <p>Youth long-term unemployment rate</p>
Explanation of additionality (where relevant)	

Competition

The New policy action:	The revision of the effects of “Regulation on Fines to Apply in Cases of Agreements, Concerted Practices and Decisions Limiting Competition, and Abuse of Dominant Position” and “Communique On Group Exemption Regarding Distribution and Servicing Agreements in Relation to Motor Vehicles
Implementation path and expected date of implementation	Currently, the study groups for the revision draft are constituted. It is expected to be concluded at the end of 2014.
What indicator(s) will be used to measure progress?	After new drafts are prepared, as a part of the revision process, they are put on the official web page in order to take views/contributions of industry players.
Explanation of additionality (where relevant)	

The New policy action:	Amendment of The Act on the Protection of Competition
Implementation path and expected date of implementation	The draft is currently on the agenda of the Parliament. Also TCA ensures participation to the sub-commission meetings in the Parliament. Depending on the agenda of the Parliament, it is expected to amend the act in the next legislative year.
What indicator(s) will be used to measure progress?	The following processes in the commissions will be pursued. Depending on the agenda of the Parliament, the amendment of the act will be announced.
Explanation of additionality (where relevant)	

The New policy action:	Scanning the legislation that is not compatible with the competition rules
Implementation path and expected date of implementation	Currently, a team is constituted for scanning the legislation and identify the most relevant and problematic areas. The aim is to list the regulations and legislations that may have a more propensity to infringe competition. It is expected to be finished in March 2015.
What indicator(s) will be used to measure progress?	Results of the study will be published in the next year’s competition report.
Explanation of additionality (where relevant)	

The New policy action:	Determination of the markets or industries that have more propensity to infringe competition and establish a prioritization mechanism
Implementation path and expected date of implementation	Relevant departments at the TCA are planning to organize workshops, public opinion researches, and consultation meetings and to make economic analysis. It is expected to be concluded at the end of 2014.
What indicator(s) will be used to measure progress?	Announcement of meetings and public opinion researches might be put on the official web page.
Explanation of additionality (where relevant)	

Trade

The New policy action:	Helping SMEs' participation in the GVCs and facilitating trade for businesses
Implementation path and expected date of implementation	<p>Turkey will improve the R&D capacity and human capital structure of the SMEs and support their clustering activities.</p> <p>The WTO Trade Facilitation Agreement will be put into force in a timely manner.</p> <p>It is firmly indicated in the 10th Development Plan of Turkey for the period of 2014-2018 that it is important to reach upper levels in the GVCs through creating a sustainable high technology product structure.</p> <p>In line with this policy vision, general R&D expenditures to the GDP ratio will be increased to 1.80% by 2018 from its current level of 0.92% in 2013. The share of SMEs in R&D expenditures will be increased to 20% in the same period from 18% as of 2013.</p> <p>Furthermore, technical trainings and consultation activities are planned for improving the human capital of the SMEs.</p> <p>In order to find joint solutions for joint problems, SMEs are encouraged to come together and establish joint procurement, design, marketing, production and services structures. Thus, the aim is increasing the capacity and competition power of the SMEs by acting together.</p> <p>The aim of facilitating trade for businesses, Turkey will be putting into force WTO Trade Facilitation Agreement, within the time frame as was agreed at Bali.</p>

<p>What indicator(s) will be used to measure progress?</p>	<p>Progress can be measured by calculating the increase in R&D expenditures and the increase in Turkey's participation in GVCs through the TIVA database.</p> <p>Progress can be measured by ratification of the WTO Trade Facilitation Agreement. The benefit from the implementation of this Agreement can further be studied by international organizations like the OECD.</p> <p>Putting into force the Agreement in a timely manner will be the most concrete indicator in measuring the progress achieved in implementing the commitment.</p> <p>No country-specific analysis is available to indicate the benefits of implementing WTO Trade Facilitation Agreement. However, OECD's quantitative analysis for the group of developed countries, which includes Turkey, shows that Turkey would see increased trade volumes and reduced trade costs from continued improvements in many areas covered by the WTO Trade Facilitation Agreement, including a full implementation of a Single Window.</p> <p>OECD findings suggest that the full implementation of the Agreement could reduce total trade costs by 13% in upper middle income economies and by up to 15% in other developing countries.</p> <p>According to the various studies, the benefits of the Trade Facilitation Agreement to world economy are calculated to be between \$ 400 billion- \$1 trillion by reducing cost of trade between %10-15. Reducing global trade costs by just 1% would increase worldwide income by more than US Dollars 40 Billion; 65% of which would accrue to developing countries.</p> <p>Potential benefits out of implementing this Agreement can be further studies by relevant international organizations in the implementation process as well.</p>
<p>Explanation of additionality (where relevant)</p>	<p>This is a new measure and is not additional to any past commitment.</p>

The New policy action:	Improving and liberalizing the services sector, especially in the logistics services area
Implementation path and expected date of implementation	<p>Turkey will continue to actively and constructively engage in trade in services negotiations (TiSA) as well as including services trade in its FTAs.</p> <p>Turkey intends to prepare a logistics master plan, re-construct its railway and port management system, eliminate logistic barriers restricting trade, and establish logistical centers abroad.</p> <p>In parallel of the developments in world economy, the importance and role of services trade in Turkish economy has been increasing. Services sector comprised 60.5% of the Turkish GDP in 2013 and has contributed to employment by 52.2% as of April 2014.</p> <p>Turkey aims to further increase the share it gets from global services trade, therefore favours liberalization efforts at every level.</p> <p>In line with this thinking, Turkey will continue to actively participate in TiSA negotiations and sustain her best to conclude ongoing FTA negotiations in a way covering services trade, including those with Ukraine, EFTA, Chile, Peru and Bosnia-Herzegovina.</p> <p>With an aim of determining policies to boost the competitive power of the services sector, Turkey plans to conclude the International Services Trade Statistics Project, by 2016.</p> <p>The average estimated growth rate for 2014-2018 period is 5.5% and services sector is expected to contribute to the value added by 61.9% in this period.</p> <p>The logistics master plan which aims to transform Turkey a regional logistics hub is expected to be concluded by 2018. Once concluded, it is believed that it would decrease costs of companies in logistics.</p> <p>As many infrastructural problems hamper the physical connection trade routes, Turkey plans to build the hinterland of its ports with railroad and container transport terminals as well.</p> <p>By the end of 2018, logistical centers are aimed to be established abroad so as to diminish time and storage capacity scarcities. The priority is given to Russia and Djibouti in this regard. But Central Asia, South Caucasia, China and the USA are also being worked on.</p> <p>Turkey has also been actively working on liberalizing transit passages and abolishing the road transit passage documents that hamper bilateral and regional trade flows.</p>
What indicator(s) will be used to measure progress?	<p>Progress can be measured by looking at the share of services sector in the economy, and Turkey's share in global services trade. OECD STRI index is also considered to be an indicator of liberalization in the services sector.</p> <p>In terms of logistics services, progress can be measured by the issuance of the logistics master plan and establishment of the logistic centers.</p>
Explanation of additionality (where relevant)	This is a new measure and is not additional to any past commitment.

The New policy action:	Reducing trade restrictive measures and traditional barriers to trade
Implementation path and expected date of implementation	<p>Turkey will conclude its ongoing FTA negotiations and start new ones.</p> <p>Turkey will increase the number of its MRAs and TCAs.</p> <p>Turkey aims to conclude FTAs with Ukraine, Colombia, Ecuador, Mexico, Japan, Singapore, Democratic Republic of Congo, Cameroon, Seychelles, Gulf Cooperation Council, Libya, MERCOSUR, Faroe Islands and Peru; and to initiate new FTA negotiations with more than 10 countries including the USA, Canada, Thailand, India, Indonesia, Vietnam, ACP Countries, and Algeria.</p> <p>It is important for Turkey to conclude MRAs with the countries the EU has similar Agreements, especially for the sectors that require CE mark; since this will even the playground for Turkish products. The EU has signed 7 MRAs so far with the USA, New Zealand, Australia, Canada, Japan, Israel and Switzerland.</p> <p>Besides, with the aim of eliminating technical barriers, Turkey aims to increase the number of its TCAs; drafts have been shared with Russia and Turkmenistan and consultations continue with Mexico.</p>
What indicator(s) will be used to measure progress?	<p>Progress can be measured by looking at the number of FTAs, MRAs and TCAs concluded.</p>
Explanation of additionality (where relevant)	<p>This is a new measure and is not additional to any past commitment.</p>

Others

The New policy action:	Enhancing Productivity in Manufacturing
Implementation path and expected date of implementation	<p>The Tenth Development Plan (2014-2018)</p>
What indicator(s) will be used to measure progress?	<p>Survey results of governance and productivity awareness for the small and medium-sized enterprises</p> <p>Difference in labor productivity based on firm size in manufacturing industry (ratio)</p> <p>Increasing rate of partial labour force productivity in industry sector</p> <p>Increasing rate of total factor productivity in industry sector</p>
Explanation of additionality (where relevant)	

The New policy action:	Public investments will be concentrated on core infrastructure that will promote private investment
Implementation path and expected date of implementation	The Tenth Development Plan (2014-2018)
What indicator(s) will be used to measure progress?	<p>Share of core infrastructure investment in public investment and GDP</p> <p>Share of private sector investment in GDP</p> <p>Average completion time of the projects in investment program</p> <p>Logistics Performance Index ranking of Turkey</p> <p>Containerization ratio and container handling capacity in ports</p> <p>Share of rail transport for freights handled in ports</p> <p>Share of private sector in railway freight transport</p> <p>Share of air cargo in total foreign trade volume</p>
Explanation of additionality (where relevant)	

The New policy action:	Technology and Innovation
Implementation path and expected date of implementation	The Tenth Development Plan (2014-2018)
What indicator(s) will be used to measure progress?	<p>Number of new products, brands and patents</p> <p>Number of researchers with Ph.D. degree</p> <p>Number of technology transfer offices, number of companies served by these offices, amount of license revenues of these offices</p> <p>Share of domestic production in public procurement</p> <p>Share of domestic production based on public purchase guarantee in total public procurement</p>
Explanation of additionality (where relevant)	