

Competitiveness and Innovation in Turkey: Key Challenges

Interview with international economist and CEO of EFD-Global Consulting Network, Augusto Lopez-Claros, for *Bilgi Çağı Magazine** on 20 November 2009.

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What are the contributions of competition to economy?

Competition is seen to be a positive force in the operation of an economy because it leads to gains in efficiency in production and to lower prices for consumers than, for instance, when you have a monopoly producer who is able to charge much more for his products because there are no competitors offering the same good or service. Experience has shown, for instance, that in those countries where there is only one mobile telephone provider, prices are higher and the quality of services is lower, than in those countries where you have several providers who have to compete with each other for the same clientele. Competition is good for lower prices and for better quality products or services.

What are the detrimental effects of competition on economy?

There may be contexts in which cooperation is better than competition, but I think that these are generally in relation to human relationships and certain types of activities. Students at a university, for instance, may find that cooperation in learning may be a better motive than competition, particularly if competitive behavior is not guided by some ethical principles. Sometimes people may think that competition might involve sabotaging the activities of your competitors. If they do poorly you do better. But I find this philosophy a perversion of the term "competition". I think what is important is the pursuit of excellence. In a competitive environment in which companies behave ethically,

* *Bilgi Çağı* is a monthly magazine of Turkish Informatics Foundation. It is distributed to 7500 top-level decision makers in Turkey. The mission of the magazine is to lead Turkish companies to grow with innovation and extensive usage of IT capabilities. The readership includes executives of various companies, universities and technoparks, members of technology-related committees of Turkish parliament, owners of leading SME's, and selected members of the press.

they will endeavor to produce the best goods and services possible and earn the respect and the loyalty of their clients, without competing in a way that will undermine the other participants in the market. Because competition can be abused, there is sometimes a need for government regulation, so that one will abuse the rules of the game.

What do you think about the Turkish market in terms of competition?

There is a difference between “competition” (as discussed above) and “competitiveness” which refers to those factors, policies and institutions that contribute to enhance productivity and economic efficiency. Turkey has a large private economy and a well-established entrepreneurial class. With few exceptions, I am convinced that there is a fair amount of competition for the provision of goods and services in the Turkish economy. However, in terms of competitiveness, Turkey has a few weaknesses which need to be addressed, so that the country will be more prosperous and have a more even pattern of economic growth.

What measures does Turkey have to take to improve its competitiveness?

More and more, I believe that education is the key to get started in virtuous cycles of development. Investment in education is turning out to be the key driver of productivity. As the global economy becomes more complex it is increasingly necessary to upgrade the level of training of the labor force, to ensure that its members can adopt easily the latest technologies and avail themselves of the opportunities existing in a rapidly integrating world. The returns to investment in education and training are extremely high and governments that have given appropriate attention to this are now reaping rich rewards. Korea, a country without natural resources and a difficult political geography has become a global industrial power. Taiwan has practically cornered the market for the production of the dozen or so most important pieces of ICT hardware for the modern office environment, and Israel has close to 150 high tech companies listed in the Nasdaq, more than any other country save the US and Canada. In all cases, high levels of collaboration between the business community and the universities and strong government support for higher education have played an absolutely essential role.

A second, often neglected aspect of development—and it may surprise you to hear me say it—has to do with the integration of women in society. There is well established empirical evidence that the most profitable investment a country can make is to educate its women, particularly its girls. Female education, employment and ownership rights greatly empower women and allow her to shape her environment. Literacy helps reduce fertility rates, including the bias against female child mortality. Competitiveness is about efficient resource use, including human resources. Where women are empowered to participate in the economy and the political process, productivity and growth will benefit. It is not a surprise that the most competitive economies in the world are also those where women have had the greatest success in joining men at the highest levels of decision making, whether in government, parliament, corporate boards and society at large; the examples of countries like Sweden, Norway and Finland is particularly relevant.

So, Turkey needs to invest more in the education and training of the labor force, with particular emphasis on the young and women.

What are the weak side and powerful side of Turkey's competitiveness?

On the weak side we mentioned above the need to strengthen education and training. There is also a need to improve the quality of public institutions, including the effectiveness of the government bureaucracy, the workings of the judicial system and the police. Greater openness and transparency in their operations are needed, so that they can play a positive catalytic role in facilitating the development of the private sector. We tend to forget that, ideally, the role of government is best seen in terms of the rule-setter that establishes the rules of the game for the private sector, which produces jobs and wealth. Very often, however, governments see themselves not as impartial arbiters of intelligent rules, but as regulators of complex and inconsistent rules which unduly complicate the life of the business community.

I think that one of the more powerful advantages in Turkey is its long history of entrepreneurial activity. Unlike the countries of central and eastern Europe, which had the misfortune of living under several decades of Marxist-inspired central planning, Turkey has been a relatively free society in which the business community has been operating for several centuries already in an atmosphere of relative economic freedom. How old is the Bazaar in Istanbul? There is nothing like it in the former Soviet Union. So, the country has an enterprising and active business community which has a recognized ability to do business and produce goods and services that people are willing to pay for. It also needs a public sector that will nurture these innate capabilities to take Turkey to a higher path of economic growth.

What are basic elements for being a competitive company?

You need to be integrated to the rest of the world. You need to broaden the focus of your activities from the local markets to the world. You need to train your labor force in the use of the latest technologies and make sure that they are fully conversant with the latest processes and developments in your field of activity. You need to value diversity in the workplace. There is increasing recognition among top executives that diversity in the workplace matters and may contribute in important ways to higher worker productivity. Several factors have contributed to transform the nature of the global economy during the last 30 years. The continued opening of national borders has led to a remarkable expansion of international trade and resulted in important efficiency gains in resource allocation. The coming down of barriers to the flow of goods and services, capital and labor has not always been orderly, has proceeded at different speeds in different parts of the world but, by now, has become virtually universal in its scope. Not only has it emerged as an important driver of global economic growth, but greater openness and stronger links with the world economy have imposed on domestic producers everywhere the valuable discipline of international competition and contributed to attract much needed capital and expertise, thus enhancing the prospects for growth through increased efficiency. In parallel to the quickening pace of global economic integration, we have

seen acceleration in the pace of technological and scientific progress. Advances in information technology, in particular, have created new opportunities for businesses against the background of an increasingly complex global economy. Reductions in the cost of communication are facilitating the shift of backroom operations to the developing world. As noted by Harvard's Richard Cooper, the multinational corporation, already operating with a global outlook as regards the location of its markets and the sources of supply, is also operating globally in terms of sources of finance and physical location. With reduced transport costs, location is becoming less important and political and economic stability, a well-trained labor force and strong institutional underpinnings are emerging as the key drivers of prosperity.

Turkey has a well developed, sophisticated business community, with a considerable capacity to adapt to the challenges of an increasingly complex global economy.

How is the relationship between innovation and competitiveness?

Innovation is the creative use of knowledge to allow individuals, corporations and nation states to go farther, faster, deeper and cheaper. It is a key driver of economic development and is likely to increase in importance as a result of the relentless progress we see in science and technology. Competitiveness is an attribute of countries which is acquired when there is a good institutional environment, when policies are intelligent and coherent, when there is enough investment in education and, of course, when efforts are underway to develop a capacity for innovation.