



**V MEETING OF  
TURKPA COMMISSION ON ECONOMIC COOPERATION  
REPORT  
ON DIVERSIFICATION OF ECONOMY IN THE TURKPA MEMBER  
COUNTRIES**

**I. INTRODUCTION**

1. A strong, growing, diversified economy is the goal of every nation in the world. A diversified economy enhances a nation's standard of living by creating wealth and jobs, encouraging the development of new knowledge and technology, and helping to ensure a stable political climate. In this context TurkPA member-states have worked out their vision and strategies on the matter.

2. Shifting the economy from the resource sector is a big challenge for any country that is heavily dependent on it. Since economic and export diversification can bring visible benefits in terms of accelerated long-term growth, resource-dependent countries implement various policies to decrease their dependence on the extractive sector.

3. A successful diversification plan requires firm political commitment, consistent public policies and substantial financial resources. And creating such a plan could be easier now because of the established institutionalized cooperation between member countries, new technologies, knowledge and through sharing the best practices.

4. While natural resource wealth presents vast opportunities for development, countries that depend on natural resources for generating export earnings and fiscal revenues face peculiar challenges. While commodity exports bring enormous fiscal revenues for resource-abundant nations and fuel economic boom in good times, large foreign exchange inflows and volatility in commodity prices complicate macroeconomic management and make countries vulnerable to sudden price fluctuations.

5. Diversification of economy can significantly reduce the countries' vulnerability to external shocks and facilitate favorable conditions for reaping the rewards of resource wealth.

6. The Report is based on the contributions received from the national delegations of Azerbaijan, Kazakhstan, Kyrgyz Republic and Turkey as well as on the data of organizations dealing with economic issues.

## **II. DIVERSIFICATION OF ECONOMY IN MEMBER COUNTRIES**

7. Report provides information on main economic indicators and economic diversification policies in member-countries. The outcomes of diversification policies differ, reflecting variations in initial conditions, policy design and implementation.

8. In all TurkPA member countries, the government maintained a reasonably good macroeconomic environment and played a key role in designing and implementing economic diversification strategy. Government officials understood risks inherent in a resource-based development strategy. Furthermore, the government created special incentives and institutions to facilitate economic and export diversification.

9. The latest trends in the diversification of economies of the TurkPA member countries indicate that each country has own priorities in its national policy depending on the socio-economic basis and market potential. At the same time, all four member countries give importance to foreign investments declaring a policy of liberalization in order to ensure sustainable improvement of the investment climate. Certain countries even implement the policy of "open doors" for foreign investors.

## Azerbaijan

### Main Macroeconomic Indicators of the Azerbaijan in 2015 (as % of the corresponding period of the previous year)

	<i>January-March</i>	<i>January-June</i>	<i>January-September</i>	<i>January-December</i>
<b>Gross domestic product</b>	105,3	105,7	103,7	101,1
<b>Industrial production</b>	103,9	103,8	102,1	102,4
<b>Agricultural production</b>	103,4	107,3	106,7	106,6
<b>Capital investments</b>	103,0	103,7	100,5	88,9
<b>Freight carried</b>	102,6	101,5	100,6	100,2
<b>Retail trade turnover</b>	109,6	113,4	111,4	110,9

*Source: Interstate Statistical Committee of CIS*

10. On 10<sup>th</sup> January 2016, President Ilham Aliyev chaired a meeting of the Cabinet of Ministers dedicated to the socio-economic development in 2015 and discusses the challenges ahead in post oil era. He outlined the main challenges that the country is in its further economic development.

11. From the President's speech, it became clear that in 2016 the focus will be on the development of non-oil sector. To this end, the process of taking measures on minimizing of the country's economic dependence on oil is intensified. At the same time, the government tasked to protect the funds of the State Oil Fund (President of the Republic of Azerbaijan signed on January 19, 2015 the Decree approving budget of the State Oil Fund of the Republic of Azerbaijan for the year 2015 including 10 246 611.9 thousand manats in revenues and 11 813 909.2 thousand manats in expenditures), reduction of transfers from the Fund to the state budget. Formation of the budget is planned by broadening the tax base, ensuring transparency of customs clearance and import-export operations, as well as strengthening financial control.

12. As preventive measures Government of Azerbaijan have been instructed to extend the reforms in agriculture, to develop information and communication technology, to create an attractive and competitive tourism sector. In addition, Azerbaijan counts on successful functioning of transport corridors. Baku-Tbilisi-Kars railway was launched by government on October 30, 2017 in the context of the West-

East Transport Corridor project. Baku-Tbilisi-Kars means a restoration of a part of the historic Silk Road. This will benefit China, Central Asian countries, Azerbaijan, Georgia, Turkey and European countries. The aim of the project is to transport passengers and delivery cargo. The President of the Republic of Azerbaijan Ilham Aliyev and the President of Turkey Recep Tayyip Erdogan, the Prime Ministers of Kazakhstan, Uzbekistan, Georgia and the ministries of Tajikistan, Turkmenistan and representatives of other countries participated at the opening ceremony. The length of the railway is 850 kilometers and 504 kilometers of the railway is in the territory of the Republic of Azerbaijan. Baku-Tbilisi-Kars railway linking Europe and Asia, is the shortest and most convenient route. This road will serve stability and security. This road will also trigger the development of tourism and the number of tourists will increase. The successful operation of the Baku-Tbilisi-Kars railway will enhance the geopolitical significance of region countries and create additional opportunities for them. At the initial stage, 5 million tons of cargo is to transported with the further increase of 17 million tons.

13. During 2015, products and provided services in the industry reached to the amount of 26156.9 million AZN. This figure exceeds the indicator in the last year's same period up to 2.4%.

14. Oil industry constituted AZN 14 081,7 million decreasing by 0.7% compared to the same period of the previous year.

15. Non-oil sector reaches to 7660.3 million AZN and has increased 8.4% compared to the last year. This growth is observed, generally, in machinery and equipment installation and repair (2.7 times), chemical industry (43.2%), computer, electronic and optical products (2.1 times), fabricated metal products (54.1%), construction materials (6.3%) and food products (2.9%) and other fields.

16. Industrial products were produced in the fields of mining (61.8%), manufacturing (29.9%), electricity, gas and steam production, distribution and supply (7.3%), water supply, waste treatment and processing (1.0%).

## Kazakhstan

### Main Macroeconomic Indicators of the Republic of Kazakhstan in 2015

(as % of the corresponding period of the previous year)

	January-March	January-June	January-September	January-December
Gross domestic product	102,3	101,7	101,2	101,2
Industrial production	100,6	100,6	99,0	98,4
Agricultural production	103,0	103,0	103,1	104,4
Capital investments	102,9	104,4	103,5	103,7
Freight carried	102,3	102,4	101,1	99,7
Retail trade turnover	103,6	102,9	102,4	99,6

Source: Interstate Statistical Committee of CIS

17. In Kazakhstan implementation of the State program of forced industrial-innovative development (SPFIID) in 2010 - 2014 years has contributed to the launch of the process of diversification of the economy by accelerating the development of manufacturing industry

18. Due to SPFIID 2010 - 2014 started the process of diversification of the economy by accelerating the development of manufacturing industry, increasing of non-oil exports and attracting foreign direct investment in non-primary sector

19. The program made it possible to maintain employment in the manufacturing industry. During the first five-year plan various instruments of state and new policies were also tested, government created an effective system of institutions of development of the industry, supported by large projects, significant for the development of non-extractive industries

20. In general, during the first five years of industrialization, Kazakhstan completed implementation of 770 of 1042 planned projects for 3 trillion tenge of private investments. As part of the new projects 75 thousand permanent jobs were created. During the period of the SPFIID -1 the rapid growth of labor productivity in the industrial sector of Kazakhstan was observed.

21. According to forecasts, the contribution of projects until 2020 expected to be 1.2-1.8 percents in GDP growth by 5-6,4%

22. Since 2015 began a second five-year plan of industrialization, which will focus on the accelerated development of the industry with new opportunities. So, the main purpose of the second five-year plan will stimulate the diversification and competitiveness of the manufacturing industry

23. To achieve this goal, the followings are aimed: advancing development of the manufacturing industry; improvement of the efficiency and increasing of the added value in the priority sectors; increasing of non-oil exports; giving a new level of adaptability to the priority sectors of the manufacturing industry and the establishment of a framework for the future development of the sector through the formation of innovation clusters; promotion of entrepreneurship and development of small and medium-sized businesses in the manufacturing industry.

24. The program of second part of the five-year industrial policy of Kazakhstan is focused on the development of the manufacturing industry with a concentration of efforts and resources on a limited number of sectors, regional specialization using the cluster approach and effective industry regulation.

25. To perform all the tasks necessary to provide conditions for improving workers' skills to the level of mid-level professionals. So, it is planned that by 2030 will increase the proportion of middle-level and reduce the proportion of low-skilled workers in total employment in the economy. Experts predict that the number of employed in the economy in 2030 will amount to 9.4 million people, which corresponds to 11% growth. The number of mid-level professionals in Kazakhstan's economy in 2030 will grow by 680 thousand people.

## Kyrgyz Republic

### Main Macroeconomic Indicators of Kyrgyz Republic in 2015 (as % of the corresponding period of the previous year)

	January-March	January-June	January-September	January-December
Gross domestic product	107,0	107,3	106,3	103,5
Industrial production	120,9	123,6	117,4	95,6
Agricultural production	101,6	102,4	106,1	106,2
Capital investments	105,9	106,8	104,5	108,0
Freight carried	101,8	102,4	101,9	102,7
Retail trade turnover	104,8	105,0	105,6	106,0

Source: Interstate Statistical Committee of CIS

26. In the Kyrgyz Republic the National Sustainable Development Strategy for the Kyrgyz Republic for 2013- 2017 calls for the government to emphasize and focus its work on implementation of key reforms and development of strategic vectors. The Strategy will form the backbone for long-term dynamic development.

27. Within these five years realization of Strategy will allow major structural changes and implementation of large investment projects aimed at increasing output capacity of the national energy sector; by 2017 it will ensure energy security of the country. Energy will be supplied reliably, throughout the entire country and at fair prices. The domestic consumption will be met and enabling environment will be established to allow Kyrgyzstan to dominate energy experts in the region. At the same time, natural resources will be used in an environmentally prudent manner.

28. It is planned to create 350 thousand additional jobs during these 5 years – this means that each family should have at least one employed member. Average wages will increase from KGS 11.5 thousand to KGS 26 thousand by 2017. There will be a tangible reduction in poverty from 37% to 25% by 2017, i.e. a decrease by 12%. Reduction in poverty means massive improvement in the quality of life in the rural areas, where 60% of the country's population lives. Agriculture will become a reliable and guaranteed source of income and livelihood for rural population and will also ensure food security of the country.

29. According to the National Statistical Committee of the Kyrgyz Republic, economic growth in 2015 amounted to 103.5%.

30. In 2015 Economic growth is provided by almost all sectors of the economy, a positive contribution is estimated in agriculture 0.9%, construction - 1.1%, services - 1.7%. The manufacturing sector decreased by 0.7%.

## **Turkey**

31. Turkish GDP advanced 2.9 percent in 2016 compared to the previous year.

Second quarter of 2017 advanced 5.1 percent compared to the second quarter of previous year. Agriculture sector advanced 4.7 %, while industrial advanced 6.3% and construction 6.8%. Service sector, including trade, transportation, accommodation and food has advanced 5.7 %.

32. Exports expanded 1.7 percent after contracting 1.5 percent in the previous quarter while imports continued to fall (-5.1 percent from -0.6 percent in Q2). Year-on-year, the economy expanded 4 percent, the fastest pace since the first quarter of 2014.

33. Fiscal discipline and a tight fiscal policy continue to be the main pillars of Turkey's economic program, and both have contributed substantially to disinflation, as well as to the strong growth performance. In addition to its sound macroeconomic policies, Turkey has implemented a comprehensive and far-reaching structural reform agenda.

34. Compared with the experiences of other countries, Turkey's success has been remarkable, primarily on the back of its speed in carrying out structural and institutional changes. Indeed, Turkey has made great progress in restructuring its financial sector, as well as in improving public sector governance and its business environment.

The structural reforms that have been implemented are aimed at:

- increasing the role of the private sector in the Turkish economy
- enhancing the efficiency and resiliency of the finance sector



- placing the social security system on a more sound basis.

35. While the Turkish economy has been growing steadily, living standards have increased significantly. GDP per capita increased from the level of USD 4,565 in 2003 to USD 10,807 in 2016. In 2018, GDP per capita is expected to surpass 11,000 USD.

36. Turkey developed a strong manufacturing sector that is both technologically advanced and well connected with the global market, developed competitive agriculture industry and tourism.

37. Investments in human capital have been a major factor in encouraging export-oriented industries. Availability of literate, skilled and low-cost labor was critical in developing high-tech industries in Turkey. In general, human capital development increased productivity and enhanced competitiveness.

38. The government of **Turkey**, adopted approach to support small and medium-sized enterprises and facilitate their access to foreign markets. This policy initiative proved to be effective in fostering the development of competitive industries.

### **III. SUMMARY**

39. The experiences of TurkPA member countries stand out. At the beginning of their journey toward more diversified economies in terms of output and exports.

40. TurkPA considers development of economic cooperation among its members as one of the priority tasks in its activities. In this context, particular importance is attached to creation of favourable conditions for trade and investment policies of the member countries.

41. In its Bishkek Declaration adopted at the 3<sup>rd</sup> Plenary Session, TurkPA recognizes that economic cooperation is the main driving force of the regional integration of the Turkic-speaking states and in this regard calls on its Governments to intensify mutual trade and economic cooperation among the member countries.

42. In the light of the above mentioned, the development of institutionalized cooperation in the economic field could be a key mechanism in diversification of economies of the member countries.

43. The main message from this Report is that a supportive policy environment can enable member countries to successfully diversify their economies.

44. The overview paper clearly identify specific factors critical to the success of diversification. In sum, those factors are:

- a)** Maintaining a positive and conducive macroeconomic environment;
- b)** Designing a realistic diversification strategy that takes into consideration local conditions and geographic factors;
- d)** Creating well-functioning government institutions to aid the diversification process;
- e)** Adopting policies to mobilize financial resources and support the general public;
- f)** Building adequate infrastructures to support diversification efforts.