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# The Secret Behind Turkey's Economic Miracle

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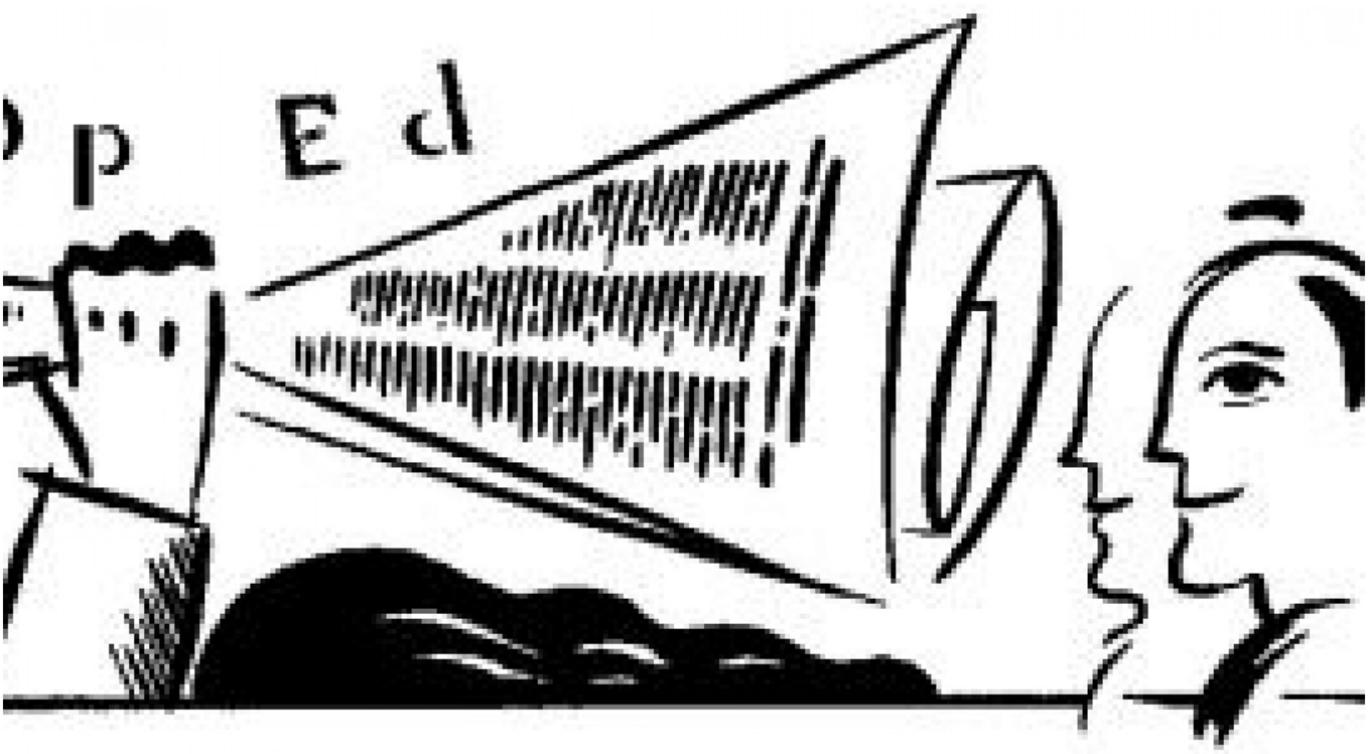

A recent visit to Turkey reminded me of its enormous economic successes during the past decade. The economy has grown rapidly, inequality is declining, and innovation is on the rise.

Turkey's achievements are all the more remarkable when one considers its neighborhood. Its neighbors to the west, Cyprus and Greece, are at the epicenter of the eurozone crisis. To the southeast is war-torn Syria, which has already disgorged almost 400,000 refugees into Turkey. To the east lie Iraq and Iran, and to the northeast lie Armenia and Georgia. If there is a more complicated neighborhood in the world, it would be difficult to find it.

Yet Turkey has made remarkable strides in the midst of regional upheavals. After a sharp downturn from 1999 to 2001, the economy grew by 5 percent per year on average from 2002 to 2012. It has remained at peace, despite regional wars. Its banks avoided the boom-bust cycle of the past decade, having learned from the banking collapse in 2000-01. Inequality has been falling, and the government has won three consecutive general elections, each time with a greater share of the popular vote.

There is nothing flashy about Turkey's rise, which has been based on fundamentals, rather than bubbles or resource discoveries. Indeed, Turkey lacks its neighbors' oil and gas resources, but it compensates for this with the competitiveness of its industry and services. Tourism alone attracted more than 36 million visitors in 2012, making Turkey one of the world's top tourist destinations.

Even a short stay in Ankara allows one to see these underlying strengths. The airport, highways and other infrastructure are first class, and a high-speed inter-city rail network links Ankara with other parts of the country. Much of the advanced engineering is homegrown. Turkish construction firms are internationally competitive and increasingly win bids throughout the Middle East and Africa.

Turkey's universities are rising as well. Ankara has become a hub of higher education, attracting students from Africa and Asia. Many top programs are in English, ensuring that Turkey will attract an increasing number of international students. And the country's universities are increasingly spinning off high-tech companies in avionics, information technology and advanced electronics, among other areas.

To its credit, Turkey has begun to invest heavily in sustainable technologies. The country is rich in wind, geothermal and other renewable energy, and the country will most likely become a global exporter of advanced green innovations.

Waste-treatment facilities are not typically tourist attractions, but Ankara's novel integrated urban waste-management system has rightly attracted global attention. Until a few years ago, the waste was dumped into a fetid, stinking and noxious landfill. Now, with cutting-edge technology, the landfill has been turned into a green zone.

The private waste-management company ITC receives thousands of tons of solid municipal waste each day. The waste is separated into recyclable materials — plastics and metals — and organic waste. The organic waste is processed in a fermentation plant, producing compost and methane, which is used to produce electricity in a 25-megawatt power plant. The electricity is returned to the city's power grid, while the heat exhaust is piped to the facility's greenhouses, which produce tomatoes, strawberries and orchids.

Turkey's diversified, innovative base of industry, construction and services serves it well in a world in which market opportunities are shifting from the U.S. and Western Europe to Africa, Eastern Europe, the Middle East and Asia. Turkey has been deft in seizing these new opportunities, with exports increasingly headed south and east to the emerging economies rather than west to high-income markets. This trend will continue as Africa and Asia become robust markets for Turkey's construction firms, information technology and green innovations.

So how did Turkey do it?

Most important, Prime Minister Recep Tayyip Erdogan and his economics team, led by Deputy Prime Minister Ali Babacan, have stuck to basics and looked to the long term. Erdogan came to power in 2003, after years of short-term instability and banking crises. The International Monetary Fund had been called in for an emergency rescue. Step by step, the Erdogan-Babacan strategy was to rebuild the banking sector, get the budget under control and invest heavily and consistently where it counts: infrastructure, education, health, waste management and technology.

Smart diplomacy has also helped. Turkey has remained a staunchly moderate voice in a region of extremes. It has kept an open door and balanced diplomacy to the extent possible with the major powers in its neighborhood. This has helped Turkey not only to maintain its own internal balance, but also to win markets and keep friends without the heavy baggage and risks of divisive geopolitics.

No doubt, Turkey's ability to continue on a rapid growth trajectory remains uncertain. Any combination of crises — the eurozone, Syria, Iraq, Iran or world oil prices — could create instability. Another global financial crisis could disrupt short-term capital inflows. A dangerous neighborhood means inescapable risks, though Turkey has demonstrated a remarkable capacity during the past decade to surmount them.

Moreover, the challenge of raising educational quality and attainment, especially of girls and women, remains a priority. Fortunately, the government has clearly acknowledged the education challenge and is pursuing it through school reforms, increased investments and the introduction of new information technologies in the classroom.

Turkey's successes have deep roots in governmental capacity and its people's skills, reflecting decades of investment and centuries of history dating back to Ottoman times. Other countries cannot simply copy these achievements. But they can still learn the main lesson that is too often forgotten in a world of "stimulus," bubbles and short-term thinking.

Long-term growth stems from prudent monetary and fiscal policies, the political will to regulate banks and a combination of bold public and private investments in infrastructure, skills and cutting-edge technologies.

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