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THE POLITICAL ECONOMY OF INDUSTRIAL POLICY IN TURKEY IN AN AGE OF "WEAPONIZED INTERDEPENDENCE"

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The trajectory of few policies has shifted as dramatically as industrial policy. Industrial policy peaked in popularity in the 1960s, then fell out of favor in the 1980s, and has recently made a strong comeback. With the rise of free-market economics in the 1980s, industrial policy became a byword for corruption, rent-seeking, and inefficiency. Academics denounced it, suggesting "the best industrial policy is none at all."[1] Media commentators discredited it, arguing "governments that bet good money on their favourite industries usually lose their shirts."[2] And policymakers dismissed it, claiming "government is not the solution to our problem; government is the problem."[3]

Yet industrial policy reemerged after the 2008 global financial crisis as the limits of free-market economics became apparent. The COVID-19 pandemic accelerated this trend. The state took a more central role in safeguarding supply chains, addressing cost-of-living challenges, tackling food and energy crises, and supporting the green transition. Furthermore, industrial policy often has a geopolitical aspect, as it is closely tied to national security concerns. China has long implemented state capitalism with an active industrial policy component. The growing great power rivalry also prompted American and European policymakers to pursue more active industrial policies. The Biden administration's CHIPS and Science Act and Inflation Reduction Act and the EU's Industrial Accelerator Act are clear examples of active industrial policy. Responding to what has come to be called "China Shock 2.0," the deindustrialization that accompanied the globalization of supply chains has prompted governments to adopt a more interventionist economic policy, reversing the fortunes of neoliberal globalization in the early 21st century. In an age of geoeconomics, as a result, the benign interpretation of economic integration gradually gave way to "weaponized interdependence," fueling economic protectionism, tariff and technology wars, and mounting concerns about supply chain security.[4]

Turkey is one of several countries attempting to adapt to this new trend, with varying degrees of success.[5] Multiple contradictions characterize the contemporary Turkish political economy. Since 2020, Turkey has had to contend with not only the COVID-19 pandemic but also a devastating earthquake in Southern Anatolia, highly contested elections, and domestic political instability—all combined with a regional context of ongoing wars in the Black Sea and Middle East. The country has also experienced its highest inflation rate since the 1990s. At the same time, however, Turkey's first unicorns (privately held startup companies valued at over USD 1 billion) emerged in 2020, the automotive industry achieved record exports over the past few years, and indigenous defense technologies have advanced. Despite these achievements, the Turkish economy continues to face structural challenges, marked by a decade of declining investment and productivity growth, persistent external trade deficits, and high inflation in recent years.

Since 2010, Turkey has adopted an active industrial policy to address these challenges (Table 1). The initial industrial strategy framework aimed to reduce Turkey's dependence on imports in critical domains, reaffirming the importance of the manufacturing industry. This was followed by measures for a tech upgrade, culminating in the 2019 Tech-Driven Industry Initiative, which was further developed in 2021 to include a Green Agenda and a National Artificial Intelligence Strategy. In early 2025, an increased focus on innovation was accompanied by the 2030 Industry and Technology Strategy, supporting the Ministry of Industry and Technology's HIT-30 initiative (High Tech Türkiye Investment Incentive Program) announced in 2024.

Table 1. High-tech initiatives in Turkey launched since 2010

National Science, Technology, and Innovation Strategy (2011–2016)	2011
Incentives Law	2012
11th Development Plan (2019–2023)	2019
Tech-Driven Industry Initiative	2019
National Artificial Intelligence Strategy (2021–2025)	2021
12th Development Plan (2024–2028)	2024
High Tech Turkiye Investment Incentive Programme (HIT 30)	2024
2030 Industry and Technology Strategy	2025

Source: Authors' compilation

Unlike the old industrial policies that operated behind tariff barriers, Turkish industry's connections to global supply chains ensure that the new policies remain mainly export-oriented. However, rising global protectionism makes export growth harder amid U.S.-China tensions. Since 2025, the erratic tariff policies of the second Donald Trump administration in the United States have further exacerbated this situation. At the same time, the emerging international pragmatism regarding state intervention in the economy also offers opportunities for middle-income countries like Turkey to implement high-tech-oriented industrial policies. Since 2010, Turkish industrial policies have sought to combat deindustrialization, set thresholds for tech-led enterprises, and support breakthrough sectors, such as indigenous electric vehicle (EV) and defense technologies. Turkish firms are active in various regions worldwide, with significant diversification of exports in both products and markets. The country has become one of the cases in which product and market diversification occurred simultaneously, placing Turkey at the top, alongside India and China.[6]

As seen from the examples above, there are two sides to Turkish industrial policy. As in many countries, strategic blueprints often face institutional bottlenecks, making effective implementation a challenge. In Turkey, this has manifested in weakening institutions and rising macroeconomic instability, driven by the centralization and variability of policymaking. These conditions have diminished the transformative potential of industrial policies, which are already overshadowed by short-termist, counter-cyclical, and electoral measures that reinforce rentier coalitions. As a result, the impact of policies on overall productivity and technology adoption across the broader Turkish manufacturing sectors has been limited, with some suggesting that the Turkish economy is caught in a "middle-of-the-road-innovator trap."[7]

Blueprints: Tech-Oriented, New Industrial Policy in Turkey

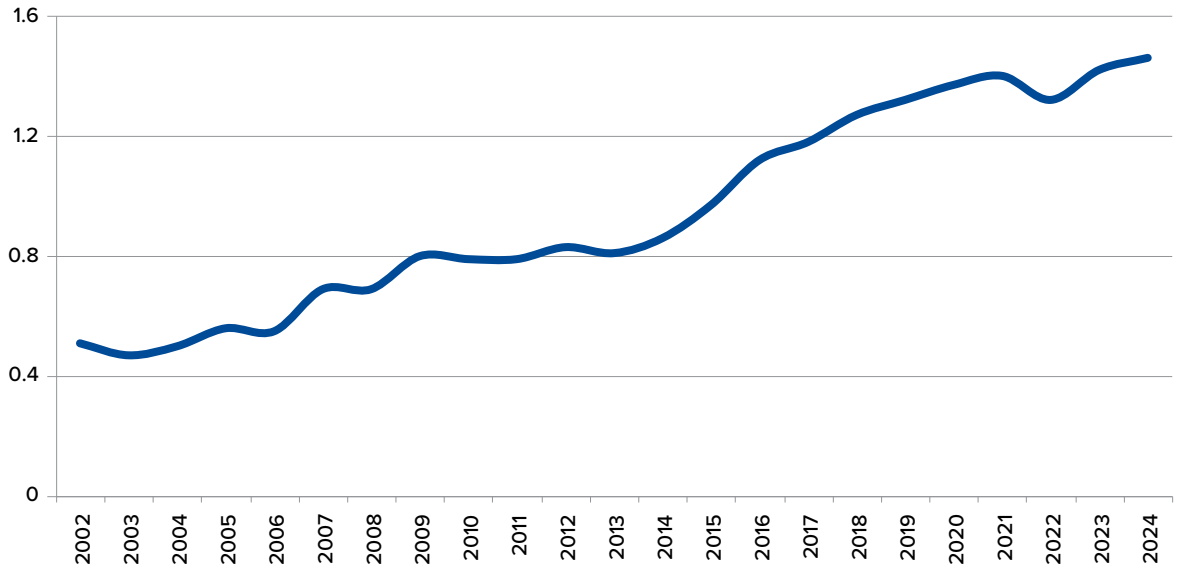
In our book, *Industrial Policy in Turkey: Rise, Retreat, and Return*, we argue that the history of industrial policy in Turkey is a story of missed opportunities. For example, in the 1970s, during the height of import-substituting industrialization (ISI), which targeted domestic production behind high-tariff barriers, Turkey successfully produced durable consumer goods. However, the country was late to transition to capital-intensive products and export-oriented industrialization. Similarly, Turkish governments and corporations largely missed the global shift toward high-tech-oriented information and communication technologies (ITC) in the 1990s and early 2000s. Turkey managed to establish regulatory institutions and stabilize its fiscal and financial situation following the devastating 2001 crisis, aligning with post-Washington Consensus policies. But the country did not pursue effective industrial strategies to develop globally competitive companies in strategic sectors. Despite high growth rates in the early 2000s, productivity in the manufacturing sector was not robust, except in a few sectors, including white goods, motor vehicles, metals, and textiles.

After the 2008 global financial crisis, the government finally began to show an interest in active industrial policies to address structural problems, with industrial policy seen as a viable option to reduce excessive reliance on imports, boost the country's high-value-added production capacity, and mitigate exposure to fluctuations in international capital flows. Admitting that the past decade had seen low levels of research and development (R&D) activity, the Minister of Industry and Trade promised change through a series of measures to incentivize R&D in private firms.[8] Accordingly, Law No. 5746, passed in 2008, provided incentives to the private sector to establish additional R&D centers. The Ministry of Industry and Trade's 2010 document, Industrial Strategy for Turkey 2011–2014, provided an initial framework for industrial policy, but it was not a transformative strategy focused on cutting-edge technology, as seen in China's "Made in China 2025" targets. It primarily reiterated the importance of the industrial sector to the Turkish economy. The policy instruments were primarily horizontal, targeting sectors where import dependence exceeded 50 percent, and projects had 40 percent domestic value added.

A shift toward a sector-based approach began with the "National Science, Technology and Innovation Strategy: 2011–2016." The Strategy was supported by an incentives law in 2012, with an explicit emphasis on "strategic investments." In 2016, the Supreme Council of Science and Technology (then reporting to the prime minister) made additional decisions to develop a model for smart manufacturing, with R&D focused on pioneering digital technologies.[9] However, it was not until the 11th Development Plan (2019–2023) that a comprehensive high-tech focus became a central feature of policies aimed at tackling the productivity problem. The plan set a clear target, seeking to raise the share of medium- and high-tech exports from 39 percent to 50 percent. Also, in 2019, a Tech-Driven Industry Initiative aimed to reduce Turkey's reliance on imports of intermediate goods, thereby reducing the current account deficit by USD 30 billion. Parallel to these high-tech-oriented strategic blueprints, gross R&D spending increased in the 2010s (Figure 1).

One tangible outcome of these initiatives is Turkey's indigenous EV project, TOGG (*Türkiye'nin Otomobili Girişim Grubu*). Echoing other well-defined, project-based industrial policies, this state-sponsored domestic EV production program began producing models as scheduled in 2022.

Figure 1. Gross R&D spending, % of GDP



Data source: TÜBİTAK and TÜİK. Authors' figure.

The project benefited from generous tax exemptions, investment site allocation, and public purchase guarantees. However, like other EV producers in Europe, the Turkish automotive sector faces challenges, including competition from much lower-priced Chinese imports and increasing regulatory barriers to exporting to the EU market.

Chinese investments to produce EVs in Turkey create additional challenges. In 2024, BYD, China's premier EV producer, pledged USD 1 billion to produce EVs in Manisa, Turkey—the most significant inward foreign direct investment (FDI) in the Turkish automotive sector since the late 1990s—seeking to take advantage of Turkey's big domestic markets and the EU Customs Union. However, the project has sparked controversy due to extensive incentives for BYD (including tariff-free imports of 100,000 BYD EVs during the investment phase) and concerns about the EU's protectionist turn, as seen in the Industrial Accelerator Act, which is currently under debate and includes increased domestic content requirements.[10] As of June 2026, the project has stalled following BYD's decision to suspend the planned investment.

In response to these challenges, auto producers have been taking several measures. Ford Otosan has led the EV initiative by producing electric commercial vehicles in Gölcük since 2022, making it a major hub for commercial EV production and export in Europe.[11] Zorlu Holding has entered the EV charging station business in a joint venture with Samsung. Some Turkish producers have begun investing abroad, including Ford Otosan's USD 500 million investment to produce EVs in Romania. Other plans include the expansion of Renault/OYAK's hybrid/EV production, with the hybrid engine to be "localized"; plans by Anadolu Isuzu to design and produce a light commercial truck named "Big-e"; and Tofaş's establishment of an EV software R&D center.[12]

Turkish defense industry is a leading high-tech sector, incorporating the country's few custom-

ized microchip production facilities into its supply chain. In 2021, the first domestically produced microprocessor, Çakıl, was unveiled, with support from the defense electronics firm Aselsan. In 2023, YITAL, a niche chip producer for the Turkish defense industry since 1983, began mass production of silicon-based chips with broader industrial applications at the Gebze campus of the Scientific and Technological Research Council of Türkiye (TÜBİTAK). The campus, located in Kocaeli, is considered the Turkish technology hub and is close to the country's rare earths deposits in Eskişehir. In 2025, defense and aerospace exports increased to more than USD 10 billion, up from USD 1.9 billion a decade earlier. Armed unmanned aerial vehicles (UAVs) constitute the most significant export item, but Turkey also exports armored vehicles and naval vessels. The sector is highly integrated with the EU defense industry, with Italy, Germany, and Spain as the main trading partners. For example, among the several transactions with Spain in recent years was a USD 3.06 billion agreement to export Turkish-made trainer jets (Hürjet) to the Spanish Air Force.[13] Long-term budget support, along with generous investment incentives, has helped increase the domestic content of defense manufacturing, making it a leading export sector.[14]

Then, there is Artificial Intelligence (AI). Governments and corporations worldwide have been rushing to utilize AI in recent years. In 2021, Turkey adopted a National Artificial Intelligence Strategy (2021–2025). Within this strategy, the Presidency of Science, Technology, and Innovation Policies Council (STIPC) identified several related priority areas, including 5G and beyond, AI, UAVs, nanotechnology, and others.[15] TÜBİTAK, the Ministry of Industry and Technology, and various specialized councils in the Office of the Presidency, including STIPC and the Digital Information Office, are the key entities coordinating these policies. In addition, given the all-encompassing nature of AI technology, the services sector has become a major focus, involving ministries responsible for health, education, and transport and logistics. The services sector, which accounts for around 60 percent of GDP (2024 figures in current USD prices), is expected to be a primary beneficiary of increased productivity from AI applications as it continues to grow rapidly.

These objectives are incorporated into the 12th Development Plan (2024–2028). The latest development plan was published in 2023, during a closely contested election and amid rising inflation rates of 60–70 percent, figures not seen since the 1990s. The Plan has been regarded mainly as an electoral exercise, with very long-term targets: 2053 is the year by which the Turkish economy is to achieve net-zero carbon emissions, at which point—assuming GDP growth in purchasing power parity (PPP) terms of five percent annually—the Turkish economy is expected to be among the top five economies in the world. Other targets include increasing the share of high-tech exports in total manufactured exports from around 3–4 percent to 5.5 percent by 2028 and 17 percent by 2053. Although many previous governments have missed their development plan targets, these unrealistic figures appear to be setting new records. One widely announced but missed near-term target was to increase exports to USD 500 billion by 2023, the 100th anniversary of the Republic. The outcome was about half of that. This prompted public debate, with many arguing the target could not be achieved solely by increasing the volume of products sold abroad; the value added in higher-technology products also had to be boosted.

Consequently, the tech upgrade and decarbonization of the economy have become central challenges for Turkey, prompting the promulgation of the latest 2030 Industry and Technology Strategy

to accompany the HIT-30 investment program. The HIT-30 plan provides incentives to last until 2030 to support four investment programs: digital transformation, green transformation, tech-focused industrial investments, and frontier industries. EV production, battery and chip technologies, and solar panel and wind turbine production are highlighted and supported by another ten R&D centers.

A Green Deal for Turkish Industry?

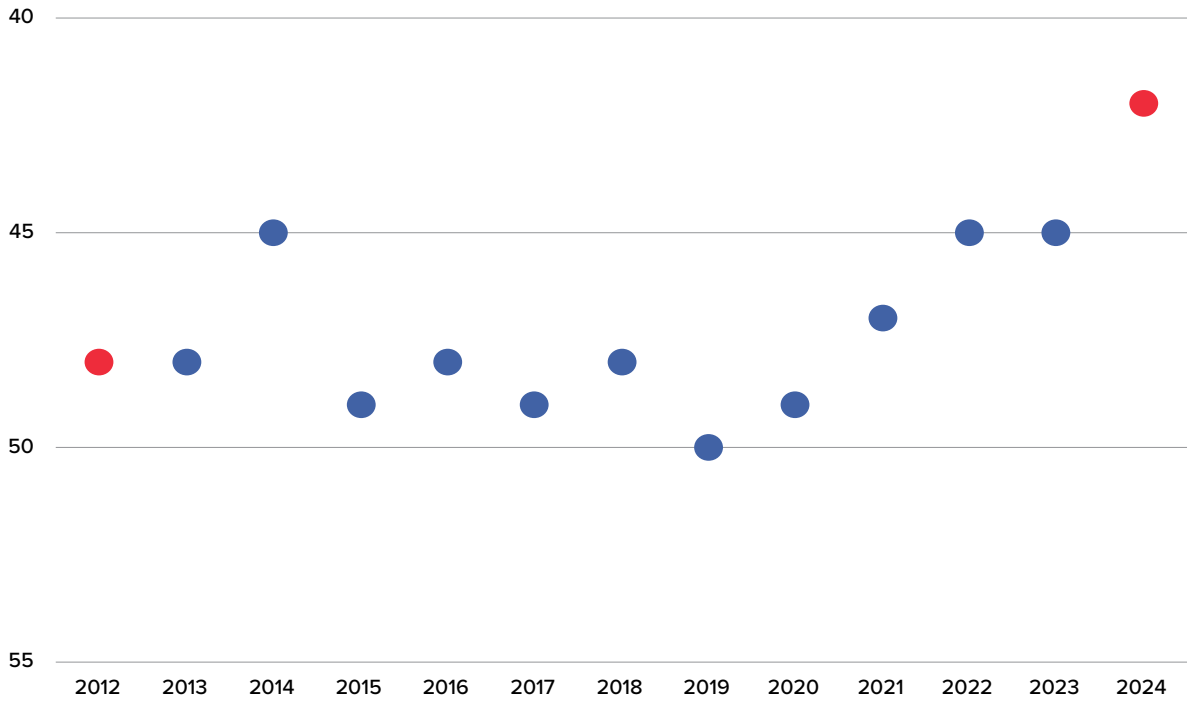
A notable aspect of many states' new industrial policies is their emphasis on green transformation. The EU, China, and other key stakeholders implementing industrial strategies aim to promote decarbonization. However, the transition to an environmentally sustainable growth model poses significant challenges for developing countries, including Turkey. In October 2021, Turkey ratified the Paris Agreement. The government and entrepreneurs also face compliance targets under the EU's carbon regulations, such as the Carbon Border Adjustment Mechanism, which is especially relevant for sectors like cement, fertilizers, iron and steel, and aluminum. In July 2021, the Turkish Ministry of Trade extended existing industrial policies to better align with the EU Green Deal, aiming to maintain the competitiveness of high-carbon sectors closely linked to European markets. In the same year, the government established the Ministry of Environment, Urbanization and Climate Change and designed a national-level emissions trading system to align with the EU Green Deal. In its latest climate change initiative, the Turkish Parliament passed the long-debated Climate Law (*İklim Yasası*) in July 2025. Although lacking a roadmap for implementation and assessment, it provides the legislative framework for an emissions trading system, introduces new climate regulations, and establishes a Climate Change Commission.

The green agenda also matters for Turkey because the country has traditionally sustained chronic current account deficits. Since energy accounts for a significant portion of the country's import expenses, the green transition target ticks several boxes in facilitating the necessary structural transformation. In 2023, 42 percent of electricity was generated from clean sources (e.g., wind, solar, hydroelectric), placing Turkey ahead of the world average.[16] Yet an assessment by the Technology Development Foundation of Türkiye (TTGV) rated policy measures on the greening of energy as relatively strong but support for "sustainable industry and eliminating pollution" as weak.[17] It recommended more substantial incentives for industry to reduce carbon emissions, greater support for essential EV infrastructure, improved coordination, and a more "effective governance model." These points were similar to those in the recent OECD Turkey country report, including its proposal for "higher effective pricing of greenhouse gas emissions and transitioning away from coal," to provide a more practical roadmap for achieving the net-zero target.[18]

Assessing the Effectiveness of Turkey's Industrial Strategy

How successful has Turkey's industrial strategy been since 2010? To start with, Turkey's economic complexity index score has increased over the last decade. For example, Turkey ranked 50th in 2019 on Harvard Growth Lab's Economic Complexity Index (ECI), rising to 42nd in 2024 (Figure 2). The ECI measures "how diverse a country's export basket is, and how ubiquitous are those products across countries."[19] Accordingly, Turkey's export portfolio has become more sophisticated over the years, suggesting that the country has increased its know-how in production processes relative to others.

Figure 2. Turkey's ranking in the Economic Complexity Index



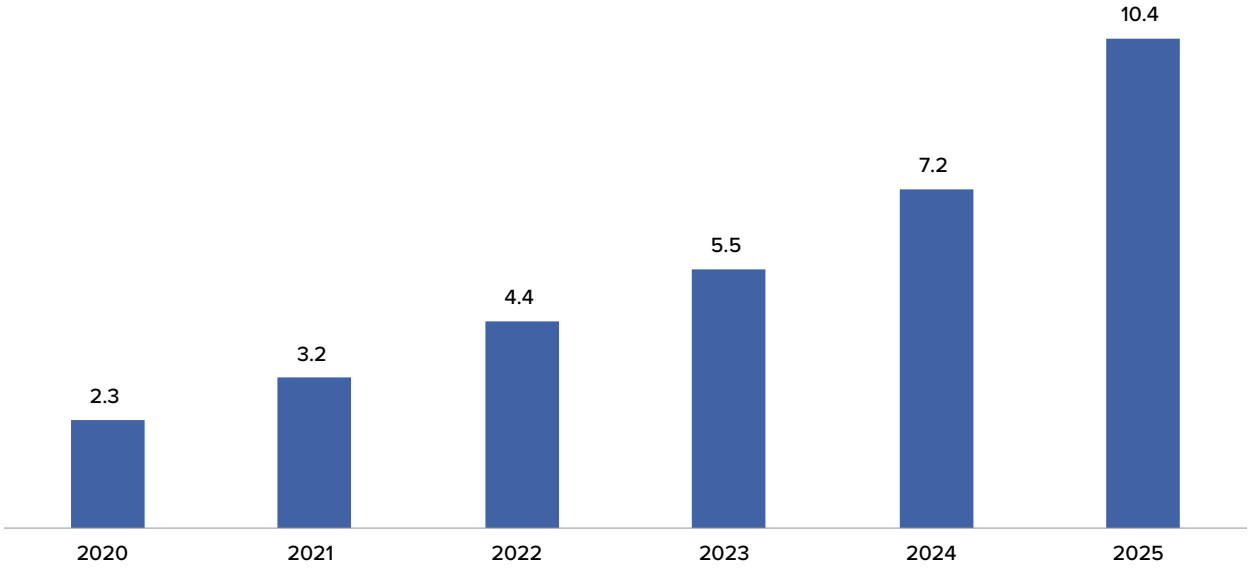
Data source: Harvard Growth Lab. Lower ranking means less complexity; higher ranking means more complexity. Authors' figure.

The indigenous defense industry is the most notable and strategic among the sectors where industrial policies have paid off, contributing to Turkey's improving economic complexity scores. Turkish drones have been exported to various countries, supporting the country's export performance. For example, Turkey's defense exports increased from USD 2.3 billion in 2020 to USD 10.4 billion in 2025 (Figure 3). The geopolitical conflicts in Turkey's neighborhood and negative security externalities compelled Turkish policymakers to invest more in indigenous defense technologies at a time when critical infrastructure, supply chains, and security-sensitive natural resources are increasingly weaponized. A few "pockets of efficiency" also emerged in the domestic EV sector (e.g., TOGG) and certain start-ups (e.g., gaming).

Despite these advances, Turkey is far from replicating the success of East Asian developmental states, such as South Korea, or converging with other European economies. A recent UNESCO Science Report warns Turkey faces the risk of being dragged into the previously mentioned "middle-of-the-road innovator trap."[20]

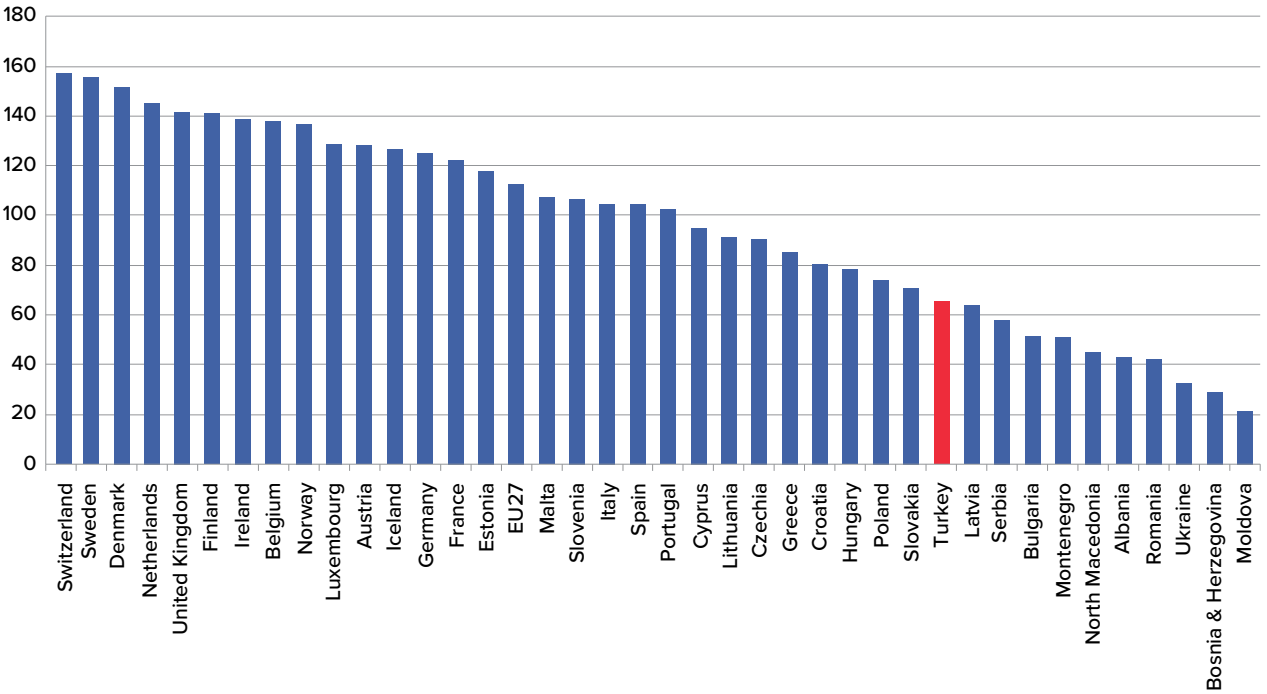
Turkey's innovation indicators are above average for developing economies overall but below those of OECD and EU economies.[21] The European Innovation Scoreboard evaluates the research and development performance of EU member states and their neighboring countries. The 2024 scores indicate that Turkey's overall innovation score lags significantly behind those of most EU members, including peer states such as Poland, Greece, Spain, or Portugal (Figure 4). The challenge of maintaining a positive trend and promoting the

Figure 3. Turkey's defense exports (in USD billion)



Data source: Defense and Aerospace Industry Manufacturers Association. Authors' figure.

Figure 4. European Innovation Scoreboard, Summary Innovation Index



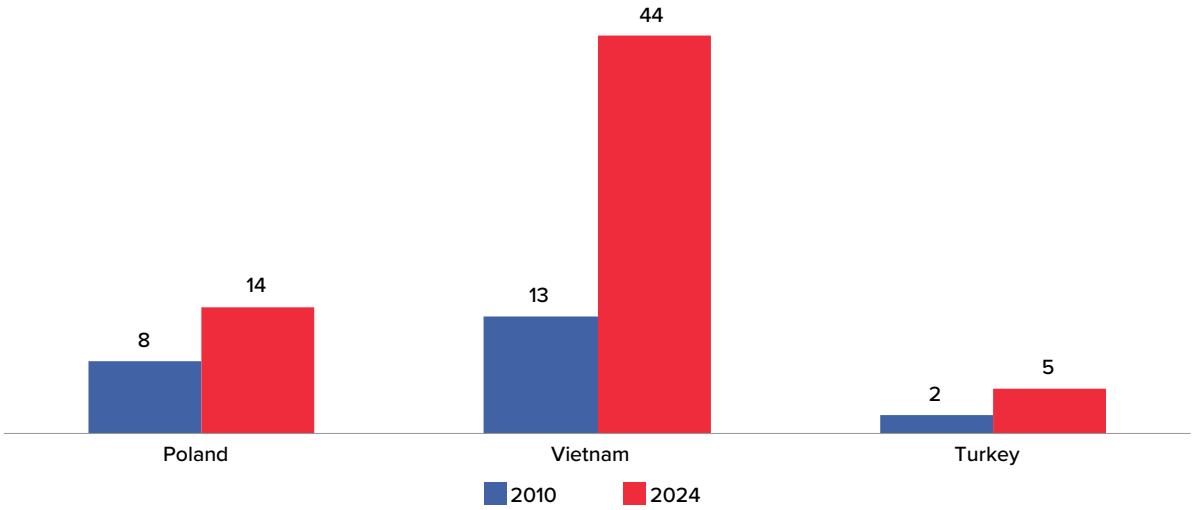
Data source: European Innovation Scoreboard, 2025. Higher scores refer to more innovative economies. Authors' figure.

diffusion of advanced technology across the broader manufacturing sector is evident in the stagnant share of high-tech exports in total manufacturing exports, which stood at 5 percent in 2024, falling short of the 5.8 percent target set by the 11th Development Plan.

Turkey's share of high-tech exports, such as computers, electronics, and optical goods, has stalled at around 3-4 percent for a long time. Driven by defense industries and larger conglomerates, and benefiting from integration with EU supply chains, value added by the Turkish manufacturing sector has gradually shifted from low-tech to medium-tech production. However, after missing out on early-mover advantages since the 1980s—e.g., in sectors such as semiconductors, which could have laid the groundwork for a broader transformation toward a higher-technology structure—a significant shift in Turkish manufacturing toward high-tech production has yet to materialize. During the same period, other "connector economies," such as Poland and Vietnam, significantly improved their capacity to produce high-technology products. Vietnam, in particular, has benefited from the trade and technology wars between the United States and China, increasing the share of high-technology exports relative to manufactured exports from 13 to 44 percent between 2010 and 2024.

Turkey has made considerable progress in diversifying into new product groups and markets in the 21st century. However, this diversification into new export products has not focused on the high technology sectors that drive new industrial policies. Between 2009 and 2024, Turkey's export portfolio expanded by 30 new products. This is slightly less than Poland (35) and Vietnam (32), and more than Malaysia (22) and Taiwan (7). However, these products have contributed to USD 62 in income per capita in Turkey. This is significantly lower than Poland (USD 310), Vietnam (USD 681), Malaysia (USD 408) and Taiwan (USD 3,490).

Figure 5. High-technology exports (% of manufactured exports)



Data source: World Bank, World Development Indicators. Authors' figure.

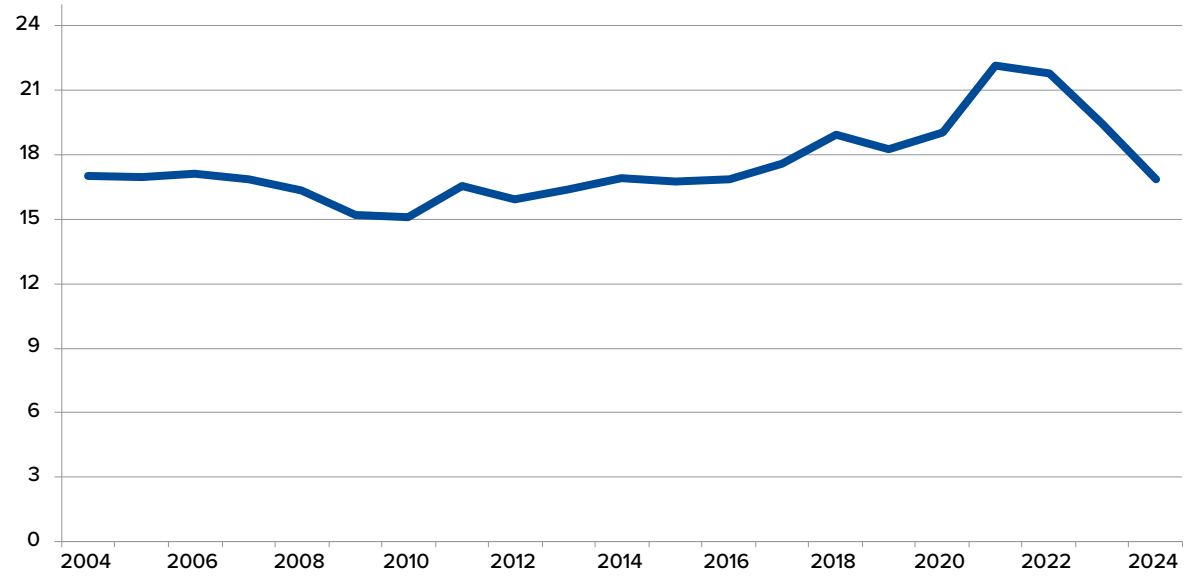
Table 2. Product diversification and value-added in selected countries (2009–2024)

Country	New products	USD per capita	USD total value
Poland	35	310	11.3 billion
Vietnam	32	681	69 billion
Malaysia	22	408	13.6 billion
Taiwan	7	3,490	81.7 billion
Turkey	30	62	5.34 billion

Data source: Harvard Growth Lab. Authors' table.

One of the major determinants of the effectiveness of industrial policy in Turkey has been the country's macroeconomic stability (or instability). The macroeconomic difficulties the country has experienced since the early 2020s also affect Turkey's industrial performance. Figure 6 shows that manufacturing value added in Turkey, as a share of GDP, trended upward into the late 2010s, peaking at 22 percent in 2022. The manufacturing value added as a share of GDP, however, began to decline over the last few years due to rising inflationary pressures, soaring input costs, and weaker external demand. Turkey's industrial base, as a result, suffered from erosion of macroeconomic stability and geopolitical uncertainty.

Figure 6. Manufacturing value-added in Turkey (% of GDP)



Data source: World Bank, World Development Indicators. Authors' figure.

Institutional Bottlenecks, Old and New

No matter how well-designed blueprints and documents are, any industrial policy is only as good as its implementation. In the Turkish case, a set of institutional bottlenecks has hindered the effectiveness of industrial policies. Two challenges form fundamental constraints: funding problems and weak institutional capacity.

The funding for industrial policies in Turkey has been generous but not well directed. The growing complexity of incentives makes monitoring and assessment difficult. The 2012 Incentives Law, complemented by a Super Incentive Scheme in 2016 and additional incentives for new technology projects in 2019, encompassed a wide range of state support for industrialization projects, including tax exemptions, interest-rate support, and land allocation. Responding to criticism of the vast array and complexity of past incentives, the latest HIT-30 investment plan attempted to rationalize the incentive programs. Of the four major components of the incentive policies (general incentives, priority sector incentives, strategic sector incentives, and regional incentives), the largest—general incentives—is proposed to be scrapped.

Since 2010, several industrial strategies have been adopted, although public investment as a proportion of total investment has declined. For example, the Türkiye Wealth Fund (TWF) has played an instrumental role in restoring state ownership of previously privatized enterprises, such as in the telecom sector. State banks have been heavily used to provide credit to private-sector firms. Meanwhile, the role of private finance has remained limited, with institutionalized long-term capital market finance failing to become a major source of long-term investment, given its erratic availability, and in the context of macro-instability, its high cost. Equity financing remains low, and venture capital funding is among the lowest in Europe relative to the country's GDP.

The productivity problems of Turkish firms require a nuanced analysis. The limited diffusion of R&D from research institutions into the private sector is particularly challenging among small and medium-sized enterprises (SMEs), which comprise the bulk of industrial firms and account for 70 percent of the sector's employment. SMEs supply a wide range of products, from furniture to automotive and defense industry suppliers. This point is highlighted in a policy report on the automotive supplier industry, pointing out the challenge of technology adoption by SMEs in transitioning from combustion engines to EVs. The report notes that government-backed funding, such as tax incentives, has not been sufficiently effective in fostering innovation. It suggests that more skills training and better coordination with R&D centers are needed.[22] Insufficient R&D has trapped SMEs at the low end of global value chains. In 2022, manufacturing value added by SMEs (factor cost) remained focused on low- and medium-low-technology sectors, accounting for 74 percent of total SME production, a slight decrease from 77.8 percent in 2009.[23] Despite various KOSGEB (Small and Medium Enterprises Development Organization of Türkiye) incentive programs, access to long-term funding and export finance through Turk Eximbank (Export Credit Bank of Türkiye) remains a significant challenge for SMEs.[24]

A more fundamental challenge for the effective implementation of pro-development policies is the persistence and deepening of institutional problems. The political economy literature on development underlines that the "sterile debates about 'how much' states intervene" miss the point.[25] As Evans points out, "The appropriate

question is not 'how much' but 'what kind.'"[26] At a time when geopolitical concerns, supply chain security, and trade and technology wars dominate governments' agendas, state intervention has become more pronounced. States shape the market environment through tax incentives, customs tariffs, subsidies, and numerous other instruments. What distinguishes successful state intervention from other forms of intervention is a careful combination of "carrots" and "sticks" to shape the preference functions of market actors. Governments provide incentives (or carrots) to encourage national corporations to invest in high-technology production. The Turkish state has designed comprehensive and generous incentive schemes since 2012. Turkey's signature industrial policy project, the domestic EV brand TOGG, is an illustrative example. Mordue and Sener estimate the "total value of the state package" to be around "US$3.5 billion" for this project, which "is very generous [...] richer than any other automotive plant-level manufacturing incentive package ever proposed in Europe or North America."[27]

It is not just carrots, however, that distinguish successful development-oriented industrial policies from less effective state interventions. "Sticks" are also important. State support and subsidies should be linked to carefully designed and mutually agreed-upon performance targets. In successful East Asian cases, states have not only provided macroeconomic stability and supported private companies with lucrative subsidies but also established clear performance-measurement criteria, withdrawing state support when recipient firms fail to meet preset targets. Maintaining a delicate balance between carrots and sticks is essential. In the Turkish case, the incentive schemes are not closely linked to clear performance criteria. They have largely functioned as counter-crisis support amid ongoing macroeconomic shocks. As a result, the technology-enhancing impact of those subsidies is likely to remain more modest than expected. For example, existing studies demonstrate that corporations use employment incentives to expand the use of low-wage labor rather than to upgrade workers' technological skills.[28]

The "new" industrial policies are more about governing state-market relations and establishing institutionalized mechanisms for deliberation between the state bureaucracy and market actors. As industrial policy experts emphasize, it is not only about outcomes but also about the policy process:

> The right model for industrial policy is not that of an autonomous government applying Pigovian taxes or subsidies, but of strategic collaboration between the private sector and the government with the aim of uncovering where the most significant obstacles to restructuring lie and what type of interventions are most likely to remove them.[29]

The effectiveness of industrial policies is determined by the institutional structures within which they are framed and implemented.[30] This, in nature, is a political economy issue, not a technical optimization problem. The institutional context of industrial policy in Turkey is fragmented and fragile. This leads to high policy variance, with regulations, strategies, and targets changing frequently, making long-term policy implementation and impact assessment a challenging task. Given that effective industrial policies require patience and strategic pragmatism, commitment problems pose a fundamental challenge. Hence, as we conclude in the *Industrial Policy in Turkey: Rise, Retreat, and Return*, the effectiveness of the current industrial policies "primarily depends on how domestic institutional structures will evolve in the coming years."[31]

Industrial Policy as Economic Statecraft

The early 2000s mark the heyday of economic globalization, characterized by an undue emphasis on economic liberalization, offshoring, and supply-chain efficiency. The 2020s paint an entirely different picture. Liberalization policies are being replaced by economic protectionism, "near-shoring," and supply-chain resilience. Great powers do not hesitate to weaponize economic instruments amid growing geopolitical rivalry. Many countries have been adopting their political economy paradigms to increase their resilience. In this context, industrial policy has been framed not as a technical issue but as a form of economic statecraft. Economic security and industrial policy have become integral to national security.

Given that the global geoeconomic environment is likely to bring more uncertainty in the years to come, industrial policy will remain a central issue for governments for the foreseeable future. At a time when infrastructures, flows, and resources can be easily weaponized amid rising geopolitical tensions, industrial policy is a crucial part of national economic statecraft. Systemic economic challenges, such as climate breakdown, food and energy security, and widespread poverty and inequality, also require effective industrial policies. Turkey has adopted an active industrial strategy in recent years, but its success and long-term outcomes depend on the institutional architecture upon which these policies are built.

Notes

1 | This phrase comes from Nobel Laureate economist Gary Becker. Quoted in Robert H. Wade, "Return of Industrial Policy?" *International Review of Applied Economics* 26, no. 2 (2012): 223.

2 | Reginald Dale, "Governments Fail at Picking Winners," *The New York Times*, April 22, 1994.

3 | Ronald Reagan, "Inaugural Address 1981," January 20, 1981.

4 | For more on "weaponized interdependence," see Henry Farrell and Abraham L. Newman, "Weaponized Interdependence: How Global Economic Networks Shape State Coercion," *International Security* 44, no. 1 (2019): 42–79.

5 | This piece is based on and summarizes some of the main points of our book on the evolution of industrialization and development in Turkey since 1923. See Mina Toksöz, Mustafa Kutlay, and William Hale, *Industrial Policy in Turkey: Rise, Retreat, Return* (Edinburgh: Edinburgh University Press, 2023).

6 | Selin Arslanhan, Sibel Güven, Güven Sak, "Rekabetin Yeni Dinamiği: Sanayide Teknolojik Dönüşüm," Yayın no. TÜSİAD-T/2025-03/645, March 2025, https://www.tusiad.org/tr/yayinlar/raporlar/item/11767-rekabetin-yeni-dinamigi-sanayide-teknolojik-donusum, 23.

7 | UNESCO Science Report, *The Race against Time for Smarter Development* (The United Nations Educational, Scientific and Cultural Organization, 2021), https://www.unesco.org/reports/science/2021/en, 338.

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