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Hakan Yurdakul, Head of Economy Monitoring and Coordination at the Presidency Office of the Republic of Turkey, elaborates on the strategic importance of the pharmaceutical and healthcare industries for the Turkish economy, while providing insights into the governmentâ??s vision for the sector as well as Turkeyâ??s collaborative, outward-looking, and holistic approach to localization.

What rationales have led the government to prioritize the pharmaceutical industry as a strategic sector for the Turkish economy?

The Turkish economy is one of the biggest in Europe and our country proudly stands as a member economy of the G20. We have been strongly and constantly growing over the past decade and will continue expansion by leveraging two of Turkeyâ??s most crucial assets: our human resources and location. We deeply believe that these two strategic factors can also nurture the development of Turkeyâ??s healthcare sector in general, especially that of our countryâ??s pharmaceutical industry â?? this is why the latter has been prioritized by the government as a strategic sector for the Turkish economy.

From a purely economic standpoint, the healthcare industry makes up around ten percent of the global GDP. Despite holding a relatively medium sized population in comparison to some emerging countries, Turkey emerges as an eye-catching pharmaceutical and healthcare market, where over 99 percent of the population is covered by a nationwide social security system. This structure also means that the government stands as the number one enabler of all health industry players.

In this vein, Turkey has enacted localization policies in the pharmaceutical sector over the past years. Could you share with us the vision of the government with regards to these policies?

There is no doubt that the global economy has changed over the past decades and multinational companies nowadays increasingly operate beyond national borders, bearing in mind the need to generate economies of scales to be globally competitive. This model falls within the approach of classical economists like Adam Smith and David Ricardo, who conceptualized that international trade would imply exporting products for which a given country holds an absolute or relative advantage and importing those which cannot be efficiently produced domestically.

However, we estimate that multinational companies will face increasing difficulties in sustaining this model moving forward â?? in all industries â?? as emerging countries want to more largely participate in the development, production and thus profit sharing. Some of the multinational companies will agree with these notions and others will not. From a conservative point of view, reluctant multinational companies will eventually be confined to their home countries. Other multinational companies will agree with the emerging countriesâ?? agenda to partake in the possibilities of the market trade â?? these are the companies that will remain in Turkey to work with the government on putting our localization model into motion.

Although localization has gained momentum in the agenda of almost all emerging countries, it is a very broad concept that does not have the same meaning across markets. In some cases, localization entails manufacturing products in a given country by exclusively leveraging its resources and human capital â?? a 100 percent domestic model. On the other hand, the second common model of localization is to mandate that multinational companies in the market locally manufacture products while still using their own IPs and procedures â?? and just outsource low added value manufacturing to local companies while completely blocking the latterâ??s development, presales and sales functions that would enable growth potential. These are the two models of localization typically enacted across the world, but we do not believe either option can satisfy the needs of the Turkish ecosystem.

In the grand scheme of things, we believe that balance is achievable only through extensive collaboration and coordination between local and multinational companies, under the guidance of the government. The crucial aspect at hand is however to identify the key competencies a country needs to nourish localized production: there must be a strong base of market resources, a close partnership with already existing, local entities, and â?? finally â?? strong trade relationships with other countries to meet the scale of size needed to sustain localization from an economic perspective.

All of these aspects Turkey has available: in terms of human resources, we know how to build our economy, develop our industries, enhance our production capacities, and bolster trade, because these have always been our main options for growth, given Turkeyâ??s lack of natural resources and â??thankfully â?? of â??Dutch-diseaseâ?? problems. In the meantime, Turkey has historic ties with many surrounding countries and it holds a strong geographic and cultural significance from a location point of view. By leveraging these assets and a balanced localization model, we are therefore aiming to become a hub for the pharmaceutical and healthcare industries.

You just mentioned the necessary â??outward looking perspectiveâ?? of localization, in order to generate the scale of size that a single market alone could not absorb. What potential export markets for Turkey-made pharmaceutical products will make Turkeyâ??s localization process sustainable?

Some Gulf countries, which used to essentially rely on original medicines, are now looking to increase the penetration of high-quality generics products as part of their vision to reduce oil dependency and because of budget constraints. The same trend is gaining traction in many European economies battling with austerity measures as well as in CIS countries. This creates abundant collaboration opportunities for Turkey, and our Ministry of Health has already entered in discussion with some of these countries regarding joint production, strategy, and research.

These alliances empower our positioning to become a hub nation for surrounding countries and nurture our belief that Turkey can be one of the very rare emerging countries to be successful in both pharmaceuticals and medical devices.

Does the localization agenda of the government go beyond manufacturing?

While R&D activities used to be conduct in-house by large multinational companies, the latter have been increasingly outsourcing this part of the value chain to partners or proceeding through the acquisition of innovative start-ups. This creates a global push for R&D localization, where multinationals and local SMEs are sharing knowledge, creating joint ventures, and owning IP together. However, it also implies that the government must support these local, entrepreneurial breakthroughs with financing tools, and this is exactly what Turkeyâ??s Ministry of Health is doing through a dedicated organization, TUSEB (Health Institutes of Turkey), whose main role is to support R&D activities in the pharmaceutical and healthcare industries.

Still on the R&D side, technology transfer typically transpires as another common feature of many emerging countriesâ?? innovation drive. However, this is not a simple process, and we believe that new technology can only be learned through practice because of its tacit character. Technology transfer via documents and theories is not the way to achieve tangible results â?? such crucial developments must be done hands on. In this regard, the government prefers to encourage R&D-driven endeavors that will result in open, active collaboration between local and multinational companies.

Another crucial aspect concerns talent acquisition: the expatriate policy of emerging countries is absolutely crucial when it comes to acquiring the technological ability to push a comprehensive localization program. Nevertheless, allowing fresh talent to come into Turkey and spur the industry should not be limited to experts from Western countries but include neighboring countries as well. Overall, we place a strong importance on diversity because it is engraved in the culture of our country: historically, 50 percent of the Turkish population has roots from other countries, which were â?? for most of them were â?? created after World War I.

With regards to R&D activities, domestic pharmaceutical companies also need to generate enough resources to invest in this field and climb up the innovation ladder. In this context, does the government see the stringent pricing context of the Turkish market as sustainable in the long term?

There is a trade-off that exists between low and high market prices. Low prices support a countryâ??s health budget and nurture the access to quality healthcare products for all Turkish citizens, which is absolutely crucial to all stakeholders of the Turkish ecosystem, including pharmaceutical companiesâ?? executives. In many countries, it is necessary for citizens to have their own private insurance or face the possibility of death; in Turkey, citizens have full access to a wide range of health services and products â?? and this is only possible through a strict control of pharmaceutical productsâ?? prices.

On the other hand, it is true that low prices create a gap in the available budget allocation for the R&D activities of companies. Again, this is why the government is leveraging budgets to support the R&D efforts of the industry, either through government agencies or by propelling the rise of entrepreneurial start-up companies, which could join forces with larger companies at some point of their development.

What would be your final message to our international readers?

Turkey is a great market to produce in, to collaborate with, and to buy from. Come alive, discover the potential, youâ??re in Turkey.

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