

# Using OECD Regional and Rural Analysis to Help Inform Regional Development in Turkey

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# OUTLINE

- The nature of economic development
- The nature of rural development
- Two models of regional growth
- The OECD on promoting growth in all regions
- Mexico as a peer country
- Final thoughts on regional development in Turkey

# The Nature of Development

- **Agricultural Transformation**
  - Shift from subsistence to market driven agriculture
  - Substitution of capital and technology for labor
  - Increased output from a slightly shrinking land base
  - Bi-modal distribution of production - 80/20 rule (80% of output from 20% of farms)
  - Off-farm income becomes the main source of household income for the majority of farms
- **Rural Transformation**
  - Small increases in absolute rural population, but a declining share of national population
  - Diversification of the rural economy beyond agriculture
  - Continued reliance on exports to provide income and employment
- **Urban Transformation**
  - Inflow of migrants from rural areas
  - Increasing share of population and GDP
  - Main source of population growth
  - Decoupling of urban economy from rural economy
  - Shift to endogenous growth in largest cities

# The Nature of Rural Development

- Diversification of the rural economy beyond agriculture – rural development as risk mitigation with benefits for farmers, rural communities and the nation
- Concentration of farm production on the highest quality land
- At the community, or functional region, level an increase in economic specialization to provide competitiveness
- Increasing demand for skilled labor
- Increased demand for public services
- Falling fertility rate that eventually limits rural outmigration to cities and that can constrain future rural economic growth

# Two Models of Regional Economic Growth

## Urban Led



- Urban led growth, especially by large cities
- Rural regions benefit from trickle-down effects
- Limited national government role
- **Resembles a freight train** – cities as locomotives providing propulsion, global forces (tracks) dictate direction

## Spatially Balanced



- Urban led growth, especially by large cities
- Rural regions provide additional growth from their distinct capabilities
- National government coordinates
- **Resembles a convoy** – some ships are bigger, but all provide their own propulsion, national government (convoy manager) guides direction

# Common Elements

- Cities are the main sources of economic activity
- Investments in improving markets are good
- Investments in improving connectivity are essential – better roads and rail, better telecommunications
- Investments in human capital are vital
- Strong institutions are needed to underpin markets

# Main Difference

- Can rural be a source of independent growth?
- OECD argument – yes
  - Observe that some rural regions grow faster than most urban regions
  - Growth in rural regions is different – more focused on absolute advantage (resource base), innovation comes from individual firms and entrepreneurs, only small and medium firms
  - Rural growth is exogenous – external demand drives growth

# OECD: The New Rural/Regional Paradigm

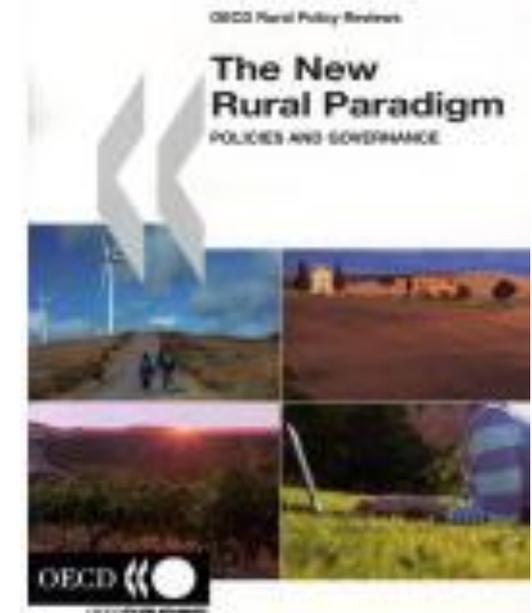
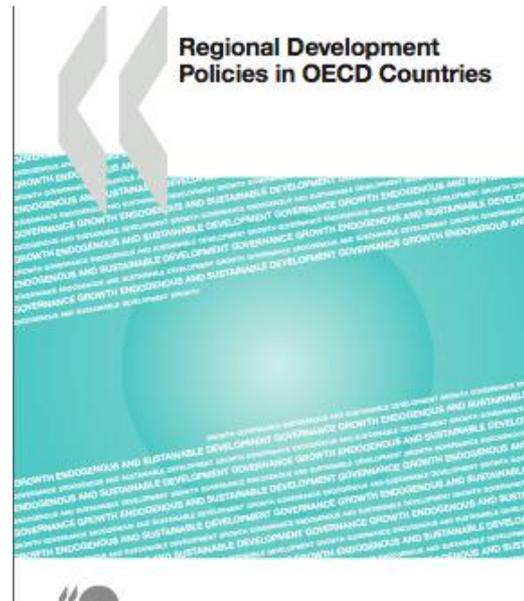
Focus on economic opportunity,  
not just reducing disadvantage

Investment oriented expenditure,  
not subsidies

Local involvement in development  
actions, not “top down”  
approaches

Integrated strategies, not  
unrelated projects

Participation by all sectors and all  
actors, not just elites and  
government



# OECD: Promoting Growth in All Regions

## Main Findings

Across OECD countries, less developed regions accounted for 43% of aggregate growth between 1995 and 2007.

Predominantly rural regions on average grew faster than predominantly urban or intermediate regions.

Barriers to growth vary widely across regions, so a “one size fits all” strategy will not work.

Investments in human capital – especially for low skill workers is the single common recommendation for improving growth.

Investments in infrastructure can be important in strengthening growth, but only when infrastructure is very weak.

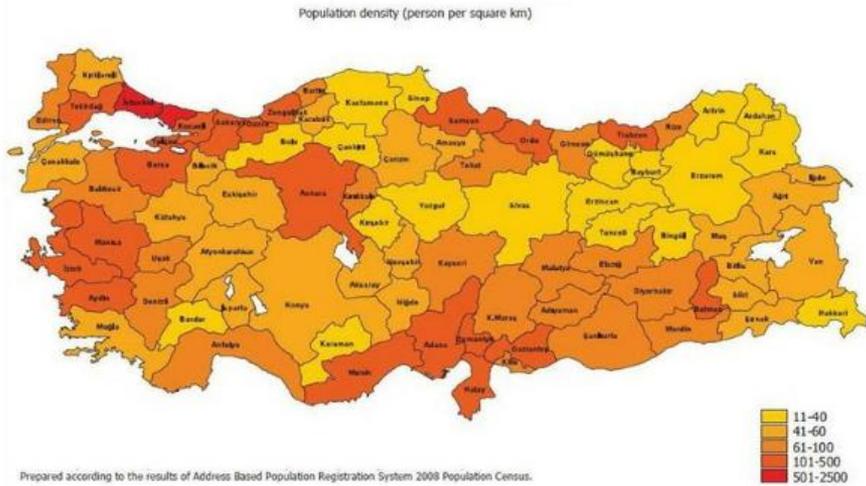
It is more important to have a coherent and durable set of policies than to have the precisely “best” policies.



# Peer Based Learning – Mexico?

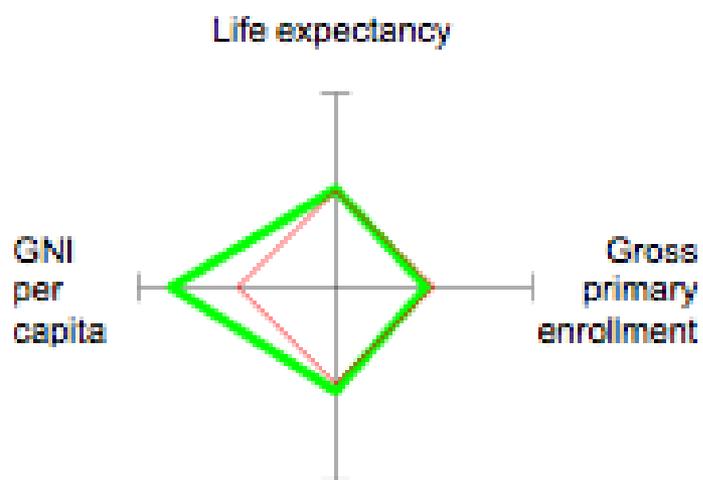
- The OECD relies strongly upon a peer based learning approach – members can benefit from observing conditions and policies in other member countries.
- Mexico as a possible peer for Turkey:
  - Both are upper middle income countries – World Bank
  - Both are OECD members
  - Both situated between a northern block of advanced economies and a southern block of less developed countries
  - In the past both used high rates of subsidy to agriculture as well as domestic price controls to keep consumer prices low
  - Both still face significant rural and agricultural adjustments
  - Both have very strong national governments and weak state/provincial governments
  - Both have pockets of ethnic turbulence in their rural regions

# High Variability in Population Density



# World Bank Development Diamond

Development diamond\*

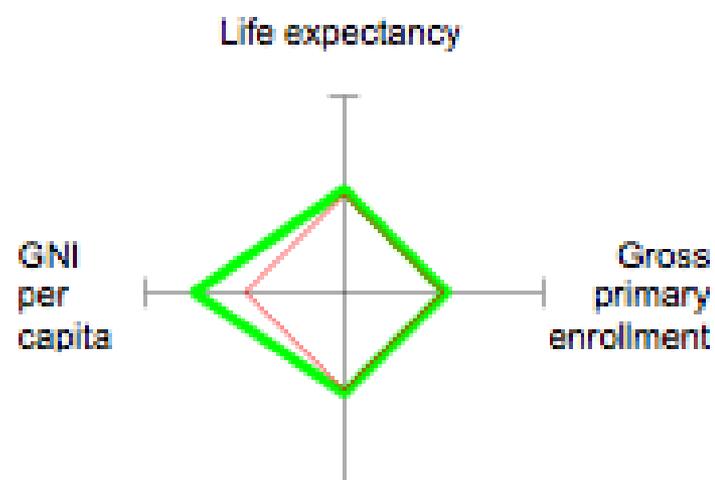


Access to improved water source

— Turkey

— Upper-middle-income group

Development diamond\*



Access to improved water source

— Mexico

— Upper-middle-income group

# More Comparisons

## Turkey

- Population - 72.8 million
- Population Density – 94.53 per sq. km.
- GNI per capita - \$9890
- Poverty – 18%
- Percent Urban – 70%
- Literacy – 91%
- Agriculture share GDP – 10%
- Manufacturing share GDP- 18%
- Agriculture share of exports – 9%

## Mexico

- Population - 113 million
- Population Density – 58.35 per sq. km.
- GNI per capita - \$8890
- Poverty – 51%
- Percent Urban – 78%
- Literacy – 93%
- Agriculture share GDP – 4 %
- Manufacturing share GDP- 18%
- Agriculture share of exports – 3%

# Mexico – Agricultural Transformation

- Transformation began in 1980s, due to fiscal pressure, and then accelerated after joining NAFTA in 1993
- Very bi-modal agriculture – world class, regional pockets of specialization in dairy, fruits and vegetables for export to US (labor intensive, full year production); and, semi-subsistence production of beans and maize (*edjitos*)
- Major land use reform needed – edjitos are not competitive
- Large agro-environmental problems – soil erosion and excessive water use
- Inadequate access to finance, technology and information, except for leading farms that use US and EU providers

# Mexico – Rural Transformation

- Slowing of rural outmigration to cities and to US, and falling fertility rates
- Inadequate access to services in many smaller rural communities
- Strong cultural differences in some regions among indigenous populations and majority Mexicans
- Increased reliance on remittances from men leaving villages to work in cities and in the US
- Increased rural manufacturing near regional cities in the north
- Increased rural tourism – nature and culture based

# Mexico – Urban Transformation

- Mexico City – still dominant, but economic growth has moved north to the states on the U.S. border
- Stronger regional cities – Guadalajara, Monterrey, Juarez, Puebla, Veracruz
- After NAFTA an inflow of foreign multinational manufacturing firms - *maquiladoras*
- Increased role of service sector in urban economy
- Continued increase in urban share of population but at a slowing rate
- Poverty becoming more of an urban problem
- High insecurity in some cities

# NAFTA Effects

- Greater economic integration with the US resulted in major regional structural change in Mexico and wider regional gaps.
- Only firms and sectors that were able to invest, increase productivity and match US quality had improved outcomes:
  - Northern states, which had been weak saw agriculture and manufacturing booms because of proximity to the US market
  - Southern states that had prospered when Mexico had a closed economy saw decline
- Initial increase in rural poverty as small, semi-subsistence farms were unable to compete with imported maize and beans from the US
- Freer trade caused major governance challenges for Mexico – rural land tenure, labor dislocation, water management, realignment of infrastructure, need for more investments in education and skills, increased rural outmigration

# Case Studies from *Promoting Growth in All Regions*

- All cases had below average GDP per capita in the first time period (1995), since then about half grew slower than national average and half grew faster
- Focus is on on trying to understand the factors that contribute to slower regional growth and that can allow growth to increase
- 6 of the 23 case studies are Mexican states
  - **Chiapas** – very large catching-up potential, slow growth
  - **Durango** – catching-up potential, rapid growth
  - **Estado de Mexico** – catching-up potential, slow growth
  - **Jalisco** – catching-up potential, rapid growth
  - **San Luis Potosi** – very large catching-up potential, rapid growth
  - **Zacatecas** – catching-up potential, slow growth

# Chiapas

4.46 million people, 61 persons per sq. km.,  
73% rural

Very rural state that is remote from major  
markets.

History of ethnic tension

Low productivity with no sign of  
improvement

Weak agriculture and weak manufacturing  
with service sector reliant on transfers

Fairly good infrastructure

Assessment:

Name has global recognition and there is  
potential for expanded cultural and nature  
tourism

Investment is needed in strengthening  
amenities to attract tourists

Human capital investments are needed

Weak federal state government  
cooperation



## Durango

1.54 million. 13 people per sq. km.,  
31% rural

Largely rural region with some strong  
agricultural activity and a growing  
manufacturing sector.

Has recently benefited from NAFTA –  
second round of maquiladora plants

Productivity and worker skills are  
improving, but low wages and high  
unemployment prevail

Good roads, especially northern routes

### Assessment

Modernization of agriculture can be  
extended but water and land tenure  
are constraints

Manufacturing development hinges  
on decisions of multinational firms

Weak value-added in mining and  
forest sectors

Weak federal state government  
cooperation



## Estado de Mexico

14.6 million, 655 people per sq. km., 8% rural

Highly urbanized region that mostly surrounds the Mexico City capital region

A large part of the state and its population is really part of the Mexico City agglomeration

Former manufacturing region that was oriented to serving a protected Mexican market but was weakened by tariff reductions in the 1980s and then NAFTA

High population inflows, but mainly low skilled – rural migrants or poor squeezed out of Mexico City

### Assessment:

- Requires ongoing investments in human capital to increase productivity

- Growing population requires new infrastructure investments

- Proximity to México City provides a large home market but also challenges in growth management

- Foreign investment offers the best opportunity for economic growth

- Weak federal state government cooperation



## Jalisco

7 million, 89 people per sq. km., 25% rural

Former manufacturing region that was oriented to serving a protected Mexican market but was weakened by tariff reductions in the 1980s and then NAFTA

Strong maquiladora activity focused on Guadalajara

Relatively low labor productivity, but improving workforce skills

Above average infrastructure and formal innovation (patents)

### Assessment:

Good location for logistics from Pacific to Mexico City, especially given good road connections

Guadalajara is a strong growth center

Good regional cooperation but weak entrepreneurship

Weak federal state cooperation



## San Luis Potosi

2.5 million, 40 people per sq. km., 55% rural

Inland location but at intersection of major rail and road corridors so go logistics

Benefited from maquiladora investment in manufacturing

Rapid urbanization, but retains a high share of employment in semi-subsistence agriculture

### Assessment

- Skills are increasing but productivity has not had a similar increase

- Dual economy with urban growth and rural stagnation

- Limited local business capacity and limited inter-firm cooperation

- Weak federal state government cooperation



## Zacatecas

1.4 million, 18 people per sq. km., 63% rural

Economic gap is growing between the state and national economies.

High rate of out-migration

Economy has traditional strength in mining, agriculture is weak as is manufacturing

Far from major domestic and international markets

### Assessment

Agriculture is highly exposed to international competition – beans, maize and has to modernize

Remittances from migrants provide an important source of income

Limited skill development and low productivity

Weak federal state government cooperation



# Regional Development in Turkey

- Continue the three transformations (using the ideas from *Promoting Growth in All Regions*).
- Develop distinct regional strategies that reflect local opportunities, but within a national development context.
- Recognize that large infrastructure projects require additional investments in human capacity to make them effective – for example farmers require training to use irrigation wisely.

# Regional Development in Turkey

- Urban Transformation
  - Recognize that major urban regions are key sources of productivity and economic growth
  - Continue to invest in skills development
  - Try to avoid decoupling of the urban economy from broader territory
  - Strengthen regional centers in rural areas: as locations for employment for small farm households, as locations for processing, and as input supply and service centers

# Regional Development in Turkey

- Rural Transformation
  - Improve connectivity to allow stronger market forces and better quality of life
  - Improve rural education as a way to increase opportunities for local growth and provide skills for potential migrants
  - Recognize the importance of environmental management as both an opportunity for rural tourism and for retaining skilled workers who may start new businesses

# Regional Development in Turkey

## **Agricultural Transformation** (Largely based on a 2011 OECD report)

- Turkey is already the 7<sup>th</sup> largest agricultural producer, but has the capacity to further increase production and exports.
- Currently agriculture is more advanced in the western regions of Turkey, but while agro-climatic conditions differ in the east there is the potential for similar improvements
- Completing the transformation will lead to a dual agriculture (80/20 rule) that will require enhanced off-farm opportunities for 80% of farm households and continuous improvements for the 20% of globally competitive farms
- In the short term Turkey has key strengths in labor intensive commodities ( fruits and vegetable, horticulture, dairy) and food processing. This is especially true for “off-season” supply to the EU.
- Key constraints for modernizing agriculture are: fragmented land holdings, weak farm management skills, poor environmental management (water use and soil erosion), inadequate funds for capital investment to replace labor with machinery, few investments in improving varieties and yields.



# Final Thoughts

- Returning to the OECD Rural/Regional Paradigm
  - Design and follow integrated development plans based on national priorities and local capacities
  - Ensure that local actors play a strong role in developing and implementing these plans
  - Focus on improving human capital, especially for lower skill workers
  - Adopt an investment oriented approach
  - Recognize the potential benefits and problems of foreign investment
- All OECD countries face the problem of uneven regional growth, especially highly variable performance across their rural regions. No country has a solution, but sharing experiences can offer ways to improvement.