The challenge of developing private sector in the Middle East

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Framework

- Why regional integration is important?
  - Private sector development is the key

- How to deal with the challenge?
  - Only private sector itself could foster private sector development (PSD)
  - Seizing the opportunities of globalization

- What role for Turkey?
  - Turkish private sector is ready for the task
Economic Policy Research Foundation of Turkey (TEPAV)

- Established in 2004, with the support of the Union of Chambers and Commodity Exchanges of Turkey (TOBB)
- Independent, non-partisan think tank in Ankara
- Focuses on economic policy, competitiveness, regional integration, governance and stability.

www.tepav.org.tr
TEPAV and regional integration

- Permanent dialogue mechanisms
  - Business association networks
  - Ankara Forum (Palestinian, Israeli and Turkish)
  - Istanbul Forum (Afghan, Pakistani and Turkish)

- Private sector development projects
  - Tarqumia and Erez Industrial Estates
  - Joint industrial area in Syrian-Turkish border
  - Trade facilitation in Central Asia – Silk Road

- Capacity building projects
  - Palestinian chambers, SMEs, industrial estates, customs
  - Syrian chambers

- Various EU-related projects and activities
What do we mean by integration?

- **global economy**
- **local economy**

energy

+ ?
What do we mean by integration?

- global economy
  - energy
  - financial services
  - manufacturing
  - agriculture
  - services
  - labor force

- local economy
Private sector development (PSD) is needed to foster the linkages between local and global economy.
Looking at the big picture from Turkey

- 3 hour flight
  - 1.2 Trillion $
- 2 hour flight
  - 2.6 Trillion $
- 1 hour flight
  - 9.4 Trillion $
Ongoing conflicts and the post-conflict rehabilitation are the key constraints

1. Conflicts mean closed borders, blockades and damaged infrastructure
   - Conflicts create barriers against trade: Unpredictability increases costs
2. Conflicts cause too much emphasis on the past & limits cooperation
   - Bounded rationality theory
3. We cannot wait for a comprehensive peace treaty. Need for confidence-building…
How to think outside the box?

- Perfect rational decisions are often not feasible due to…
  - Bounded rationalities and closed minds
  - Historical animosities & stereotyped perceptions
  - Lack of trust and communication channels

- No confidence-building process without trust →
  Need for third-party involvement

- Need to design incentive compatible contracts
  - Doing business with ‘the other’ contributes to the confidence building process
  - Need for a new mechanism for trade and business cooperation
How are we approaching the issue at TEPAV?

- PSD should be the key policy perspective
  - Private sector actors as the vehicles of partnership
  - Political support matters
  - Need for an incentive compatible concrete project

- Two different approaches to PSD
  1. Big and ambitious projects. Aimed to resolve root-causes and allocate big resources
  2. Profit-seeking. Creative shortcuts for doing business. Finding political support
     - Well-functioning public-private dialogue mechanisms
     - Concrete and local projects. Interim solutions. (Save the day, create hope for tomorrow)
     - Engage in “transformational diplomacy”

Approach of international organizations

Our Approach
Business association networks as a confidence building measure

- Ankara Forum as a permanent private sector dialogue mechanism
  - Establishing and running a network of businessmen for cooperation
  - Bringing together Palestinian, Turkish and Israeli businessmen for the first time
- Aim is to hold trilateral meetings regularly and establish working groups
  - Each meeting is a new confidence-building step.
- Focus on concrete projects
  - Revitalization of the Erez Industrial Estate
  - New Estates in the West Bank (Tarqumia)
  - Capacity building projects
Island Concept: Creating a micro-cosmos...

- Maybe it’s not possible to turn all Gaza and the West Bank into attractive investment & production centers overnight.

- But, how about certain designated zones?
  - Border industrial estate
  - Free zones as re-exporting facilities
  - Privileged access facilities

- Pro-active investment promotion for Turkish companies
  - Necessary to bring in the investors at the outset
Incentive compatibility is the basis

- **Turkish stake:**
  - Creating opportunities for Turkish firms

- **Palestinian stake:**
  - Job creation
  - Spillovers (vocational training, sub-contracting)
  - A well functioning border system
  - Capacity building

- **Israeli stake:**
  - Security in Northern Gaza
  - Increased stability due to job creation
  - Logistics and other services
Why Turkish interest in the region?

- Turkey’s industrial transformation and adjustment process; many labor intensive sectors go through hard times due to Chinese competition
  - e.g. textile, apparels, furniture
  - Relocating some parts of the value chain to the region
  - Simply moving machinery & equipment

- The only industrialists in the world who would see investing in Palestine as corporate social responsibility
Turkish private sector is a great asset for PSD in the region (1)

Total Export Volume Excluding Energy Related Commodities*, billion US dollars, 2006

*Petroleum (Raw petroleum, Petroleum products etc.), Gas (Natural, Manufactures), Electricity, Coal, Coke, Briquettes are excluded for calculation

Data Source: COMTRADE, TEPAV
Turkish private sector is a great asset for PSD in the region (2)

Breakdown of number of export destinations by export volume (million US dollar, 2006)

Data Source: COMTRADE, TEPAV
Turkish private sector is a great asset for PSD in the region (3)

Number of export items with an export volume more than 1 billion US dollars, 2006 (SITC rev3, 2 digit)

Data Source: COMTRADE, TEPAV
Turkish private sector is a great asset for PSD in the region (4)

Rankings in Business Competitiveness Index, 2007/2008

Data Source: WEF
The Turkish private sector is a great asset for PSD in the region (5).


Data Source: WEF
Turkish private sector is a great asset for PSD in the region (6)

Rankings in Quality of Business Environment Index, 2007/2008

Data Source: WEF
Turkish private sector is a great asset for PSD in the region (7)

Total Outward FDI Stock, million US dollars, 2006

Data Source: UNCTAD-ITC
Conclusions

- PSD is the key for diversified economies in the region.
- The private sector cannot develop through grand designs; it is a practical, gradual process with concrete steps.
- Turkish private sector can contribute to private sector development by expanding its operations in the region.
  - Turkish private sector has relevant know-how to share.