

tepaV

Economic Policy Research Foundation of Turkey

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)

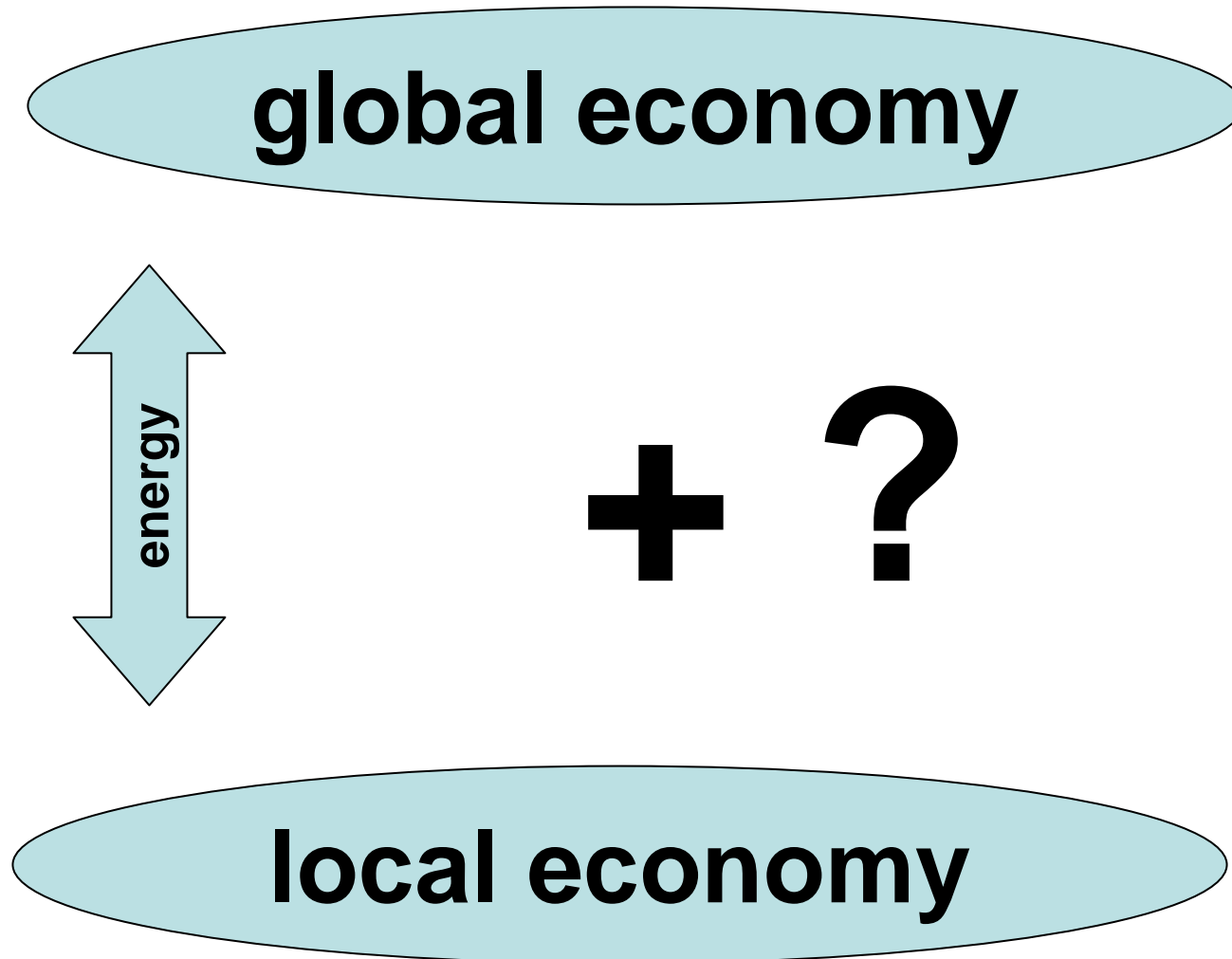
- Established in 2004, with the support of the Union of Chambers and Commodity Exchanges of Turkey (TOBB)
- Independent, non-partisan think tank in Ankara
- Focuses on economic policy, competitiveness, regional integration, governance and stability.

www.tepav.org.tr

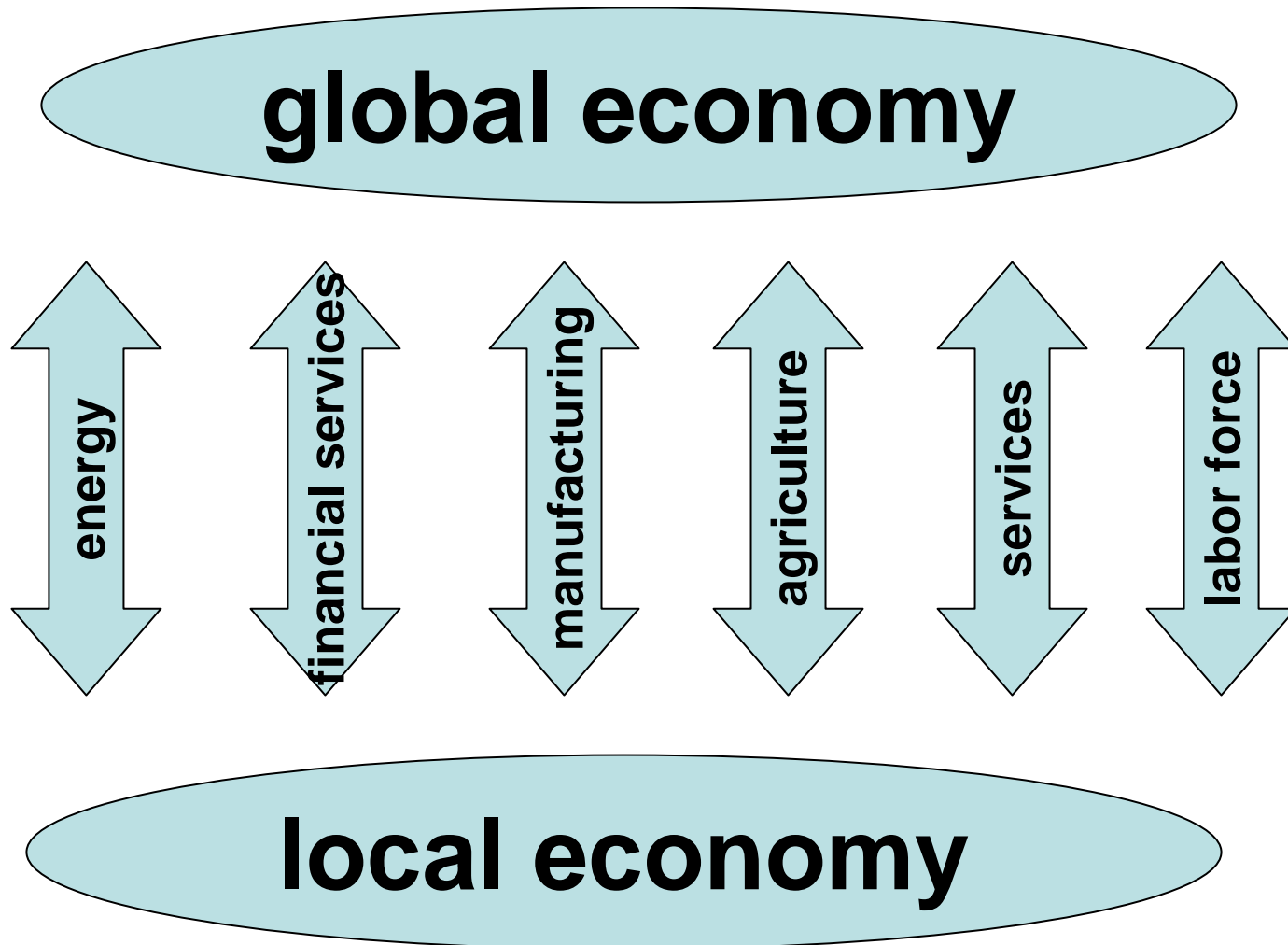
TEPAV and regional integration

- 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

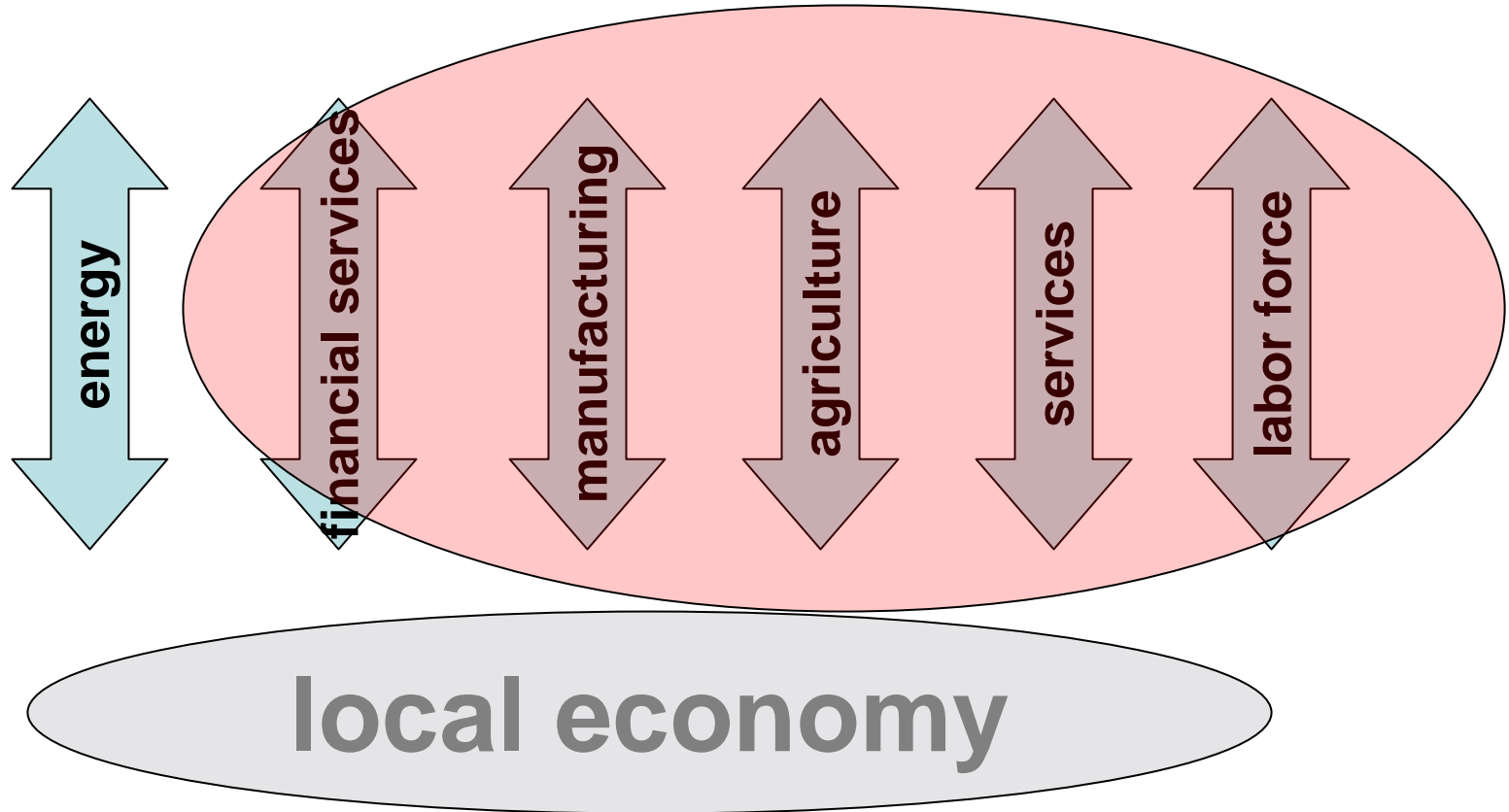
What do we mean by integration?



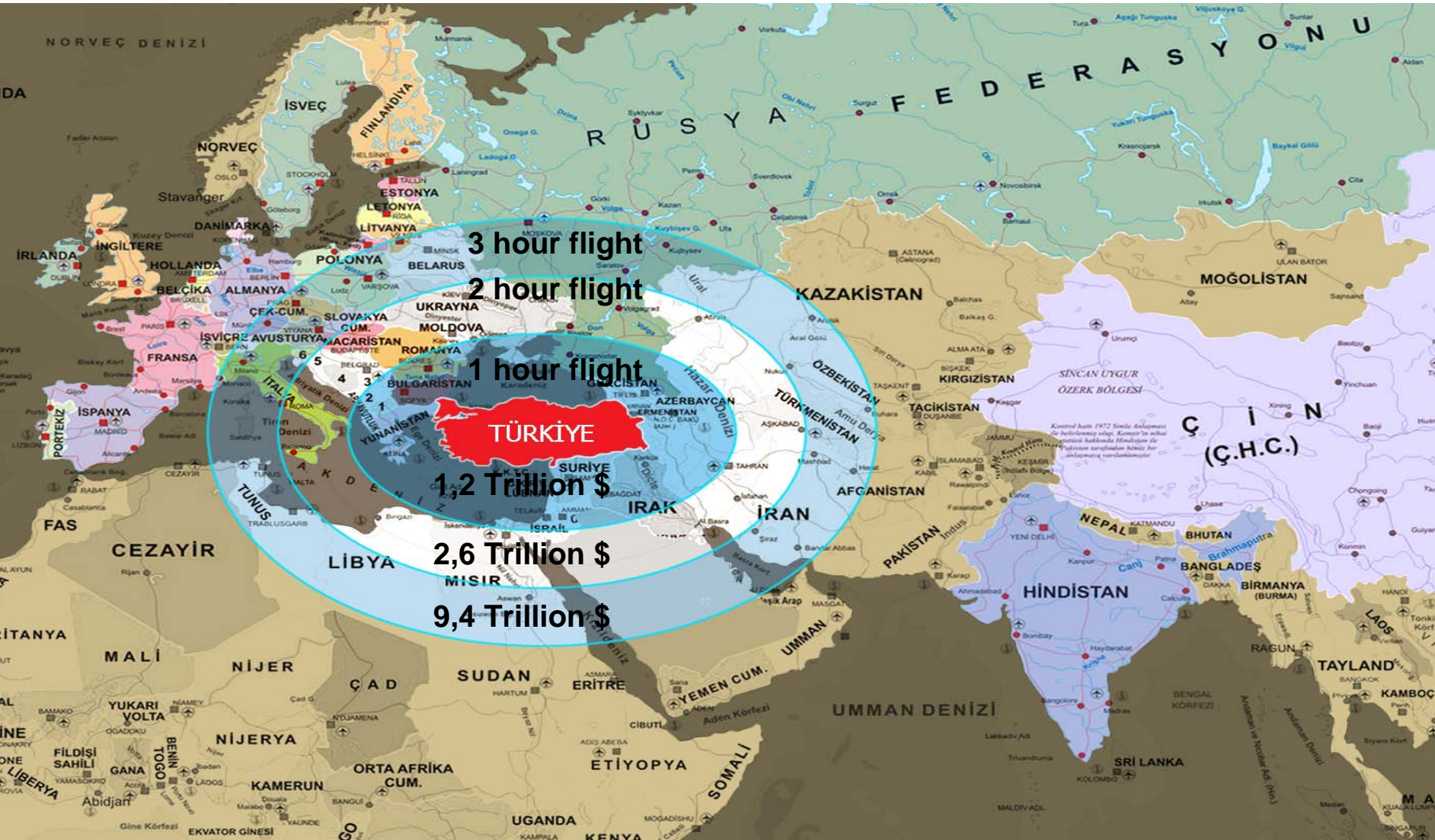
What do we mean by integration?



Private sector development (PSD) is needed to foster the linkages between local and global economy



Looking at the big picture from Turkey



Ongoing conflicts and the post-conflict rehabilitation are the key constraints

- ❶ Conflicts mean closed borders, blockades and damaged infrastructure
 - ➔ Conflicts create barriers against trade: Unpredictability increases costs
 - ❷ Conflicts cause too much emphasis on the past & limits cooperation
 - ➔ Bounded rationality theory
- 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

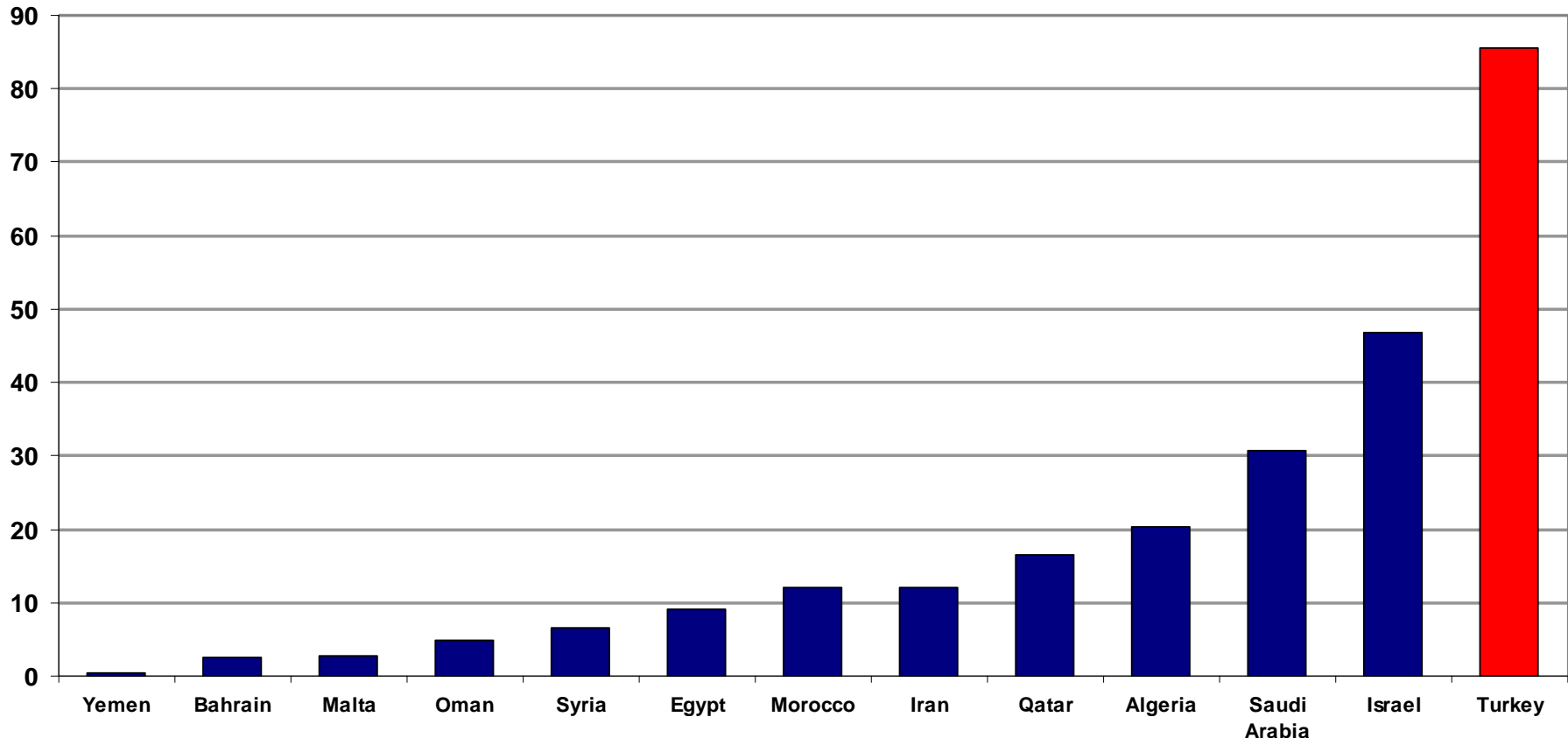
- Turkish stake:
 - Creating opportunities for Turkish firms
- Palestinian stake:
 - job creation
 - spillovers (vocational training, sub-contracting)
 - a well functioning border system
 - capacity building
- Israeli stake:
 - security in Northern Gaza
 - increased stability due to job creation
 - logistics 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)

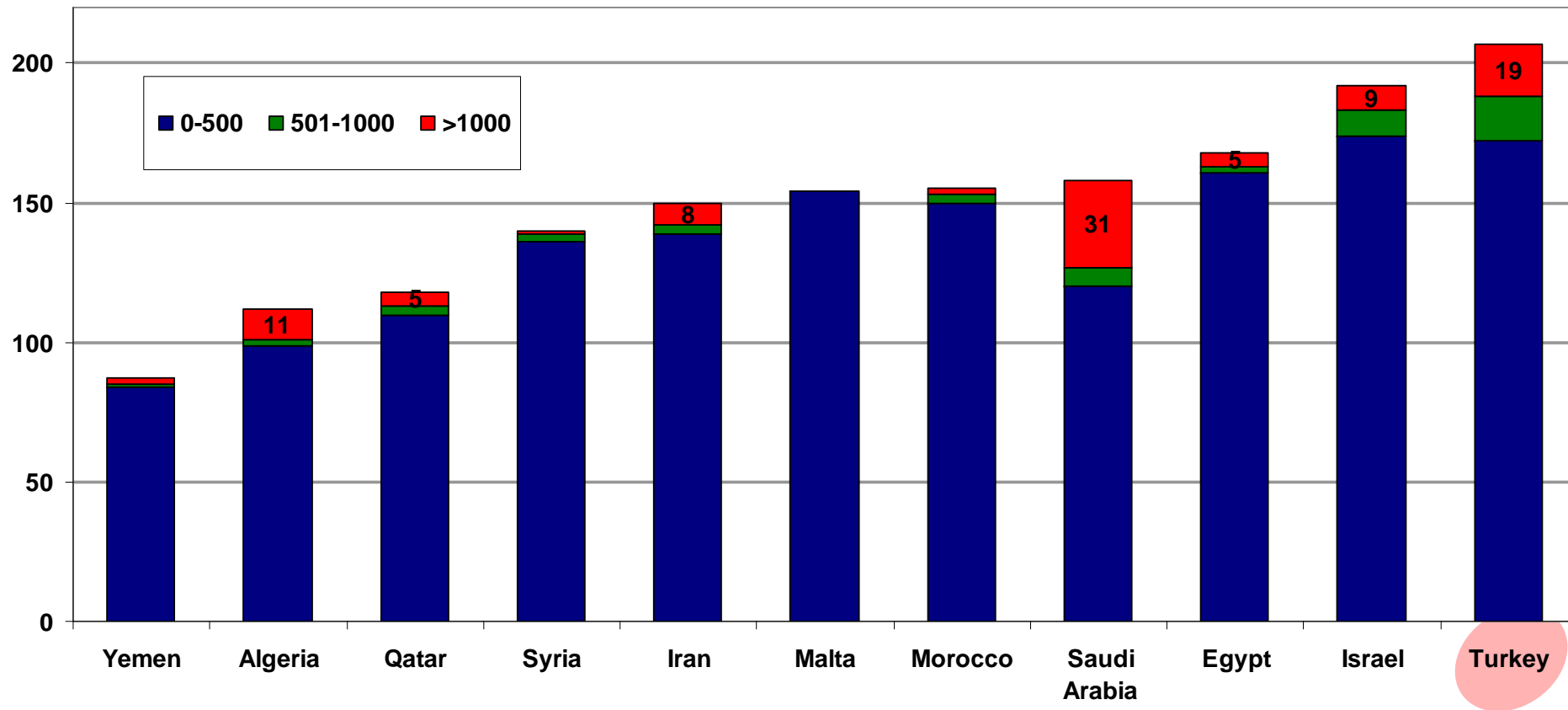
Total Export Volume Excluding Energy Related Commodities*, billion US dollars, 2006



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

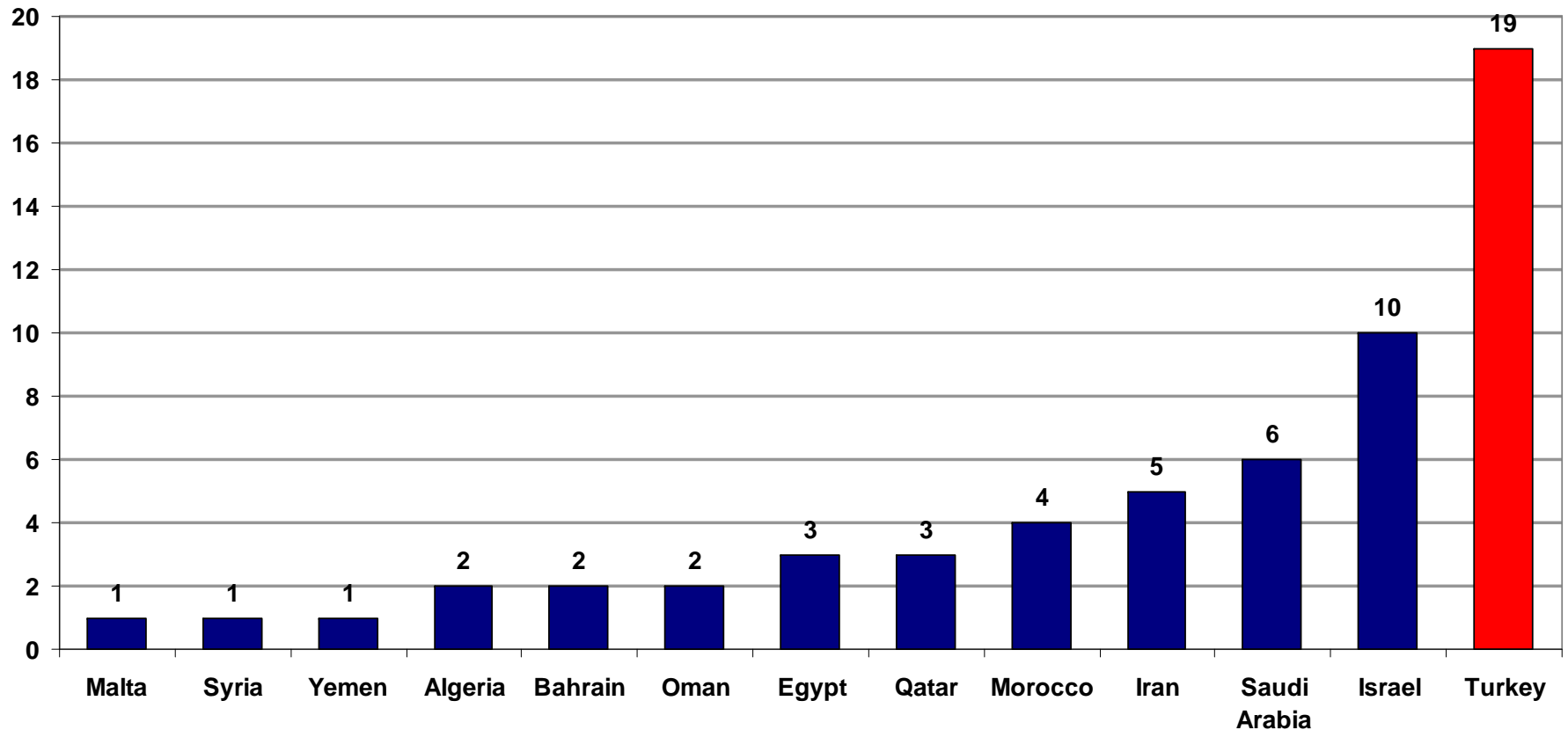
Turkish private sector is a great asset for PSD in the region (2)

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



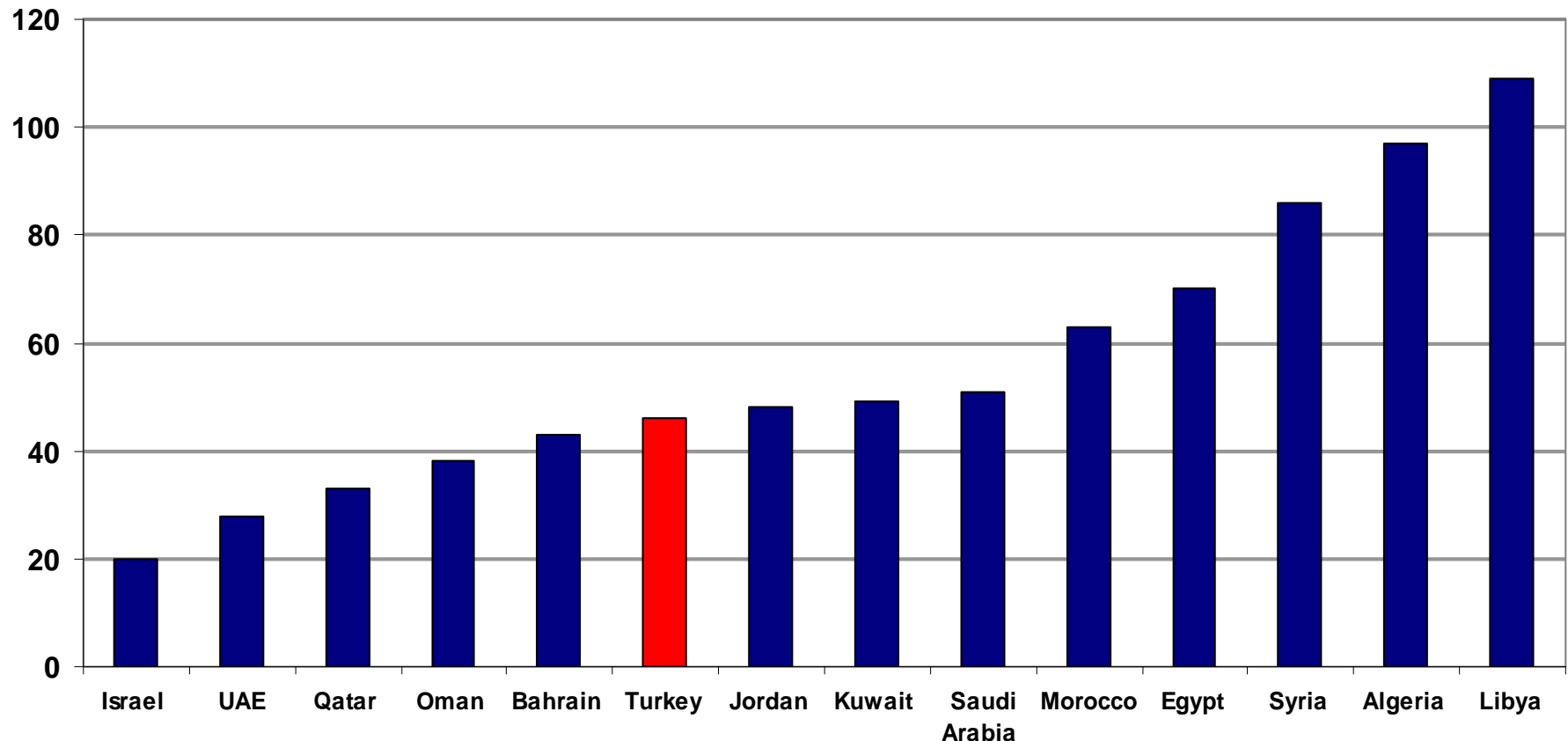
Turkish private sector is a great asset for PSD in the region (3)

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



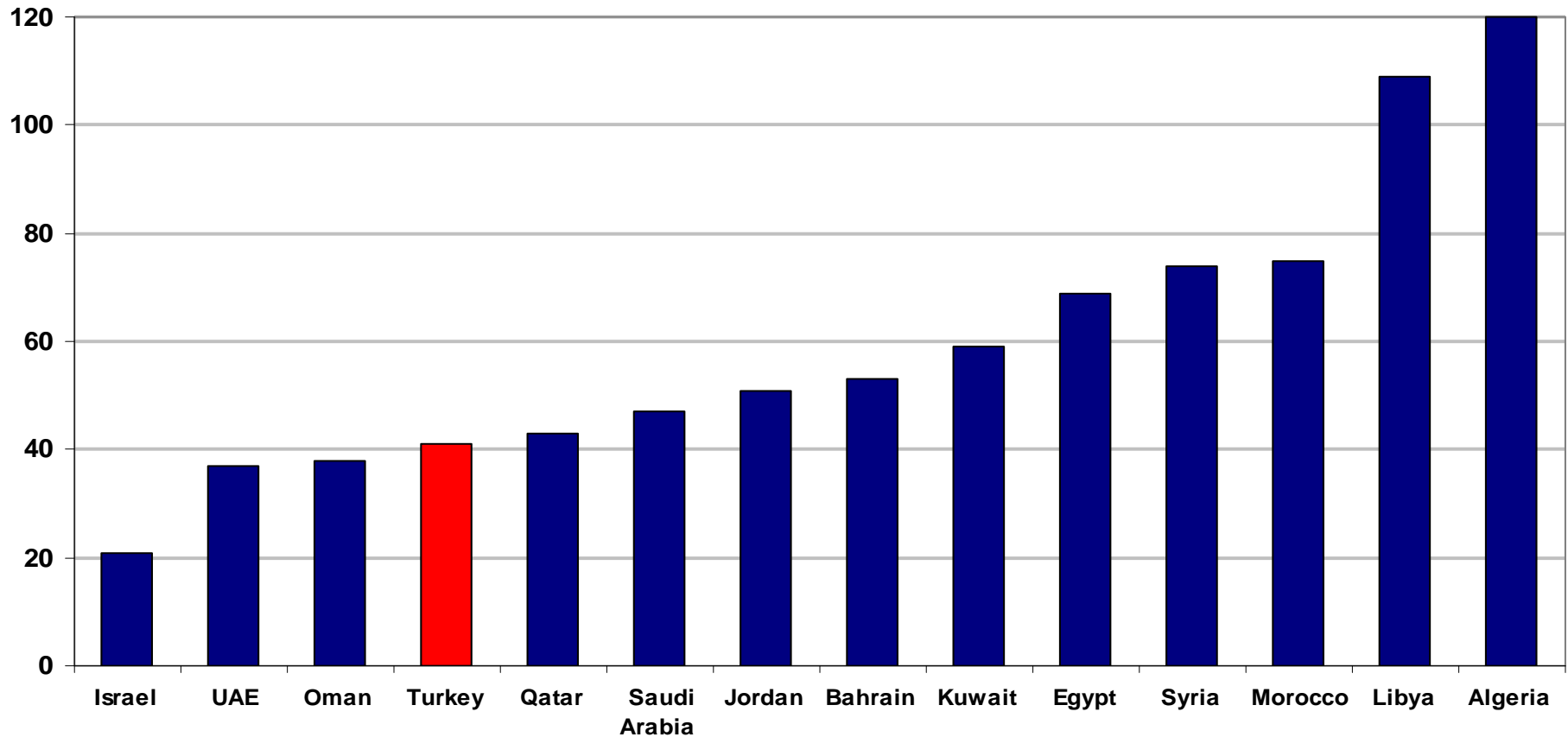
Turkish private sector is a great asset for PSD in the region (4)

Rankings in Business Competitiveness Index, 2007/2008



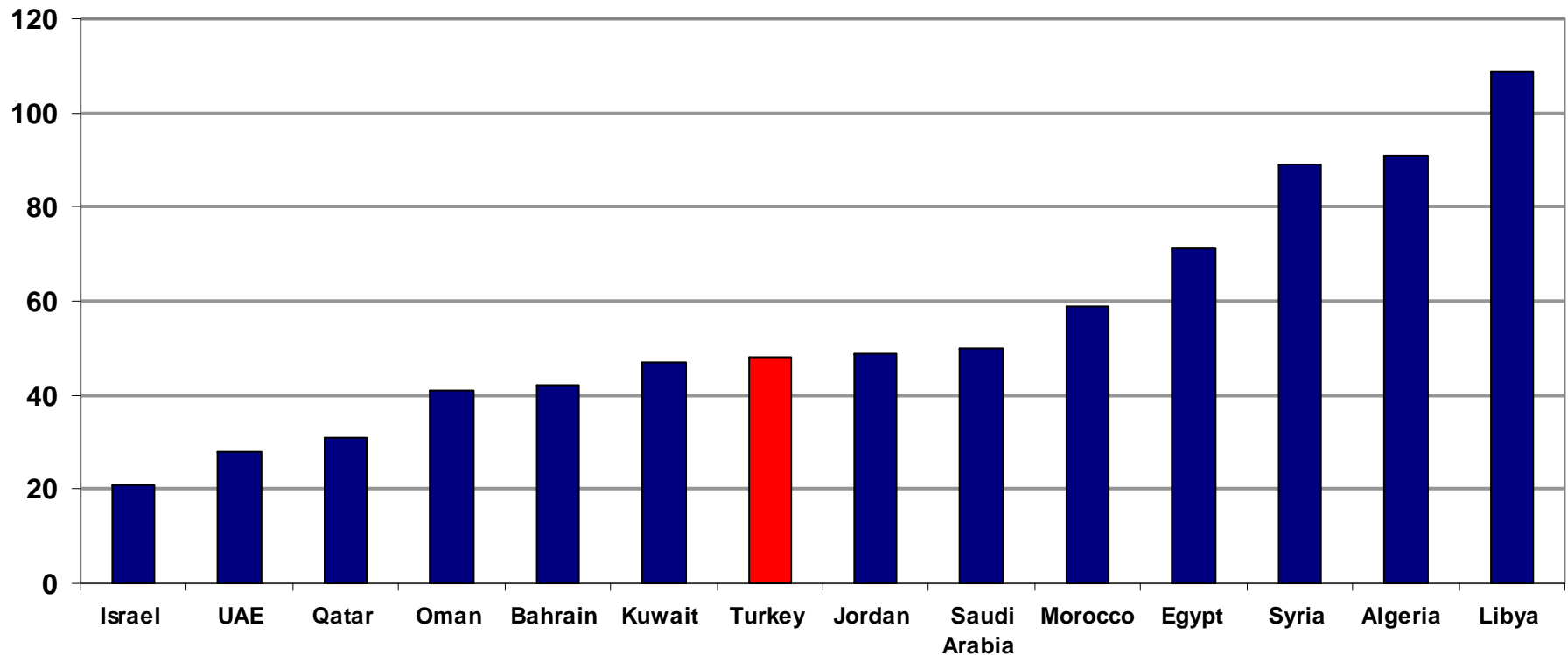
Turkish private sector is a great asset for PSD in the region (5)

Rankings in Company Operations and Strategy Index, 2007/2008



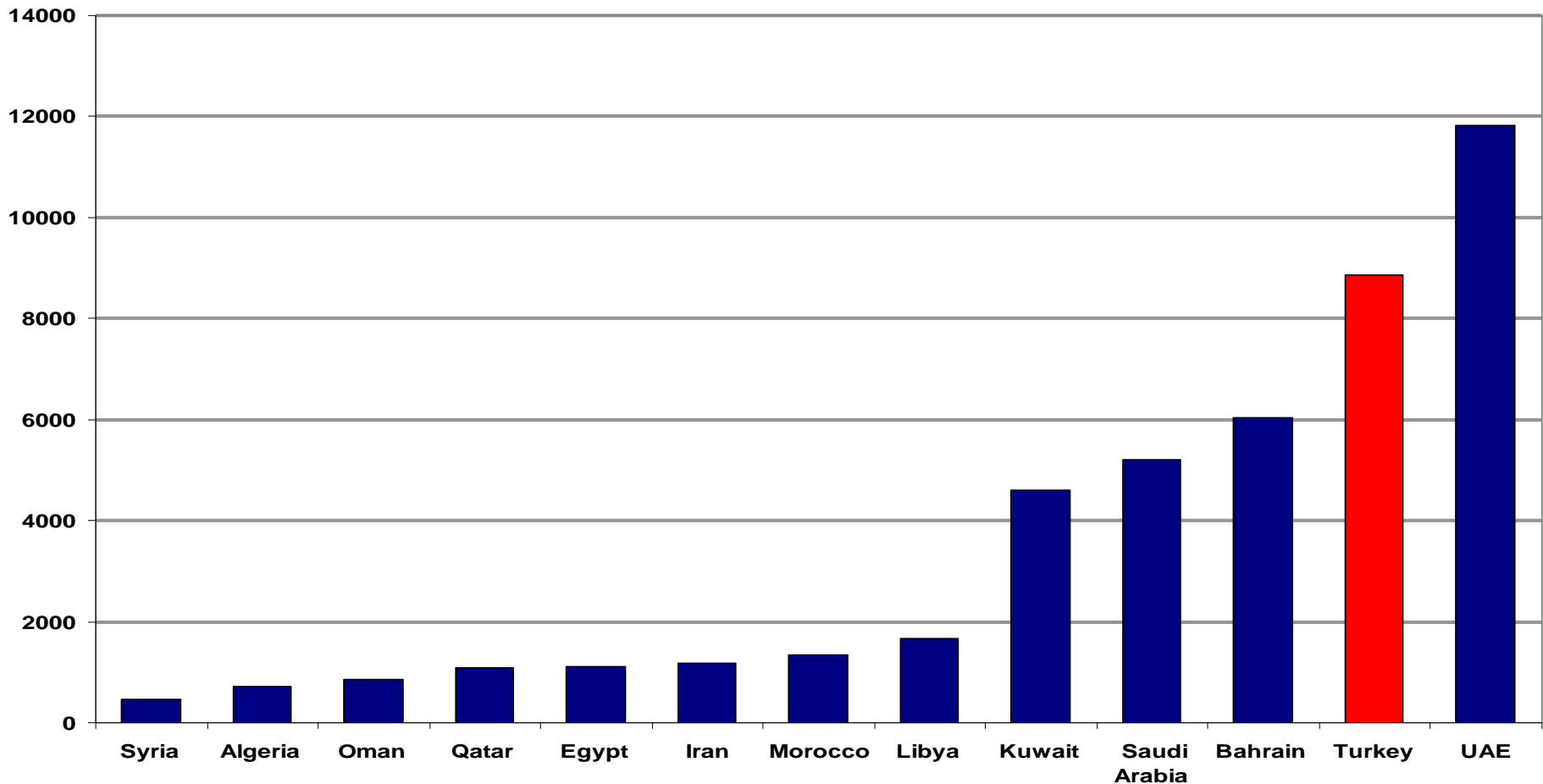
Turkish private sector is a great asset for PSD in the region (6)

Rankings in Quality of Business Environment Index, 2007/2008



Turkish private sector is a great asset for PSD in the region (7)

Total Outward FDI Stock, million US dollars, 2006



Conclusions

- PSD is the key for diversified economies in the region
- The private sector can not 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