

# Business Association Networks and Private Sector Development in MENA countries

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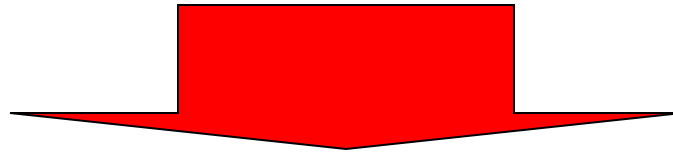
# Outline

- Changing Global Outlook & the Need for Transformation
- Private Sector Development
- Chamber Movement
- Regional Economic Integration
- Concrete Projects

# Global Outlook

## ■ Globalization means:

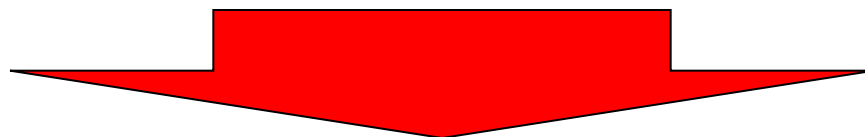
- Increasing Trade Flows
- Increasing Foreign Investment



- Increasingly interlinked value chains
- Rising waves of competition (especially from Asia)
- Competitiveness as the only means to survive

# Risks for All Emerging Economies

- Production processes are Global
- Accounts are National



- Hence currently vulnerabilities are still national
  - Dependency on intermediate good imports
  - Rising imbalances
  - The necessity to move up the global value chain
  - Industrial policy is ever more important

# Rising Competition Waves: MENA is not the only transforming region!

- East Asia: Threats, Lessons, Opportunities
  - China has grown 10 % annually for the last 20 years
  - Every year 20 million Chinese workers move from rural areas to the industrial sectors
    - = a middle sized industrial country joining the global competition!
  - There are still 300 million Chinese workers to be reallocated from rural to industry
    - = 15 countries!

# Common, well-known problems in MENA Countries:

- There is a need to generate jobs:
  - Labor force grows 4% annually = twice as large in all other developing countries
  - Young Population: A demographic window of opportunity
    - Age structure of the population can raise the GDP by 2.5% per year provided that new entrants to the job market are productively employed
- Current economic structure (public sector + oil industry) is saturated; falls short of generating adequate employment opportunities and income
- Inadequate cooperation between MENA Countries

# Common, well-known solutions:

- Obvious Solution: Private Sector Development
  - Non-oil trade diversification is the major way out for a more sustainable growth trajectory
  - Economies need to undergo a serious transformation
  - Governance Structures (rule of law, rule enforcement) need to be in support of private sector reform agenda
  - Reform Agendas vary across countries:
    - Trade Liberalization
    - Privatization
    - Private Participation in infrastructure provision
    - Access to Finance
    - Corporate Governance

# Problems and Solutions are not news...

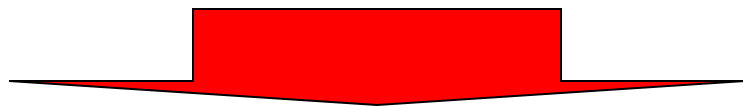
## What is the missing link?

- Necessity to integrate the MENA countries into the global economy is already spelled out in several platforms
- Questions
  - Why can't we move on?
  - How can we establish institutional mechanisms to initiate reform?



# Two approaches to transformation

- Government-led transformation (top-down approach)
- Private sector-led, market-based transformation (bottom-up approach)
  - Stemming from society
  - Building on existing structures
- These two are not mutually exclusive, rather they're complementary



How to institutionalize the private sector participation?

- Mobilizing Chambers and Business Associations

# Mobilizing Chambers and Business Associations for Reform

- Chambers can facilitate domestic ownership of the transformation process
  - Acting as catalysts for the market-based and gradual economic reform process
  - Initiating internal problem solving device
- Chambers are designed by the direct participation of businessmen who have the direct experience and knowledge of the problems
- Chambers can realign reforms, policies, and programs to directly target binding constraints to doing business

# Chambers and Local Investment Climates

- Emphasis on local needs = innovative solutions
- Chambers facilitate mechanisms for public-private partnerships and addressing local investment climate problems:
  - An example: Organized Industrial Estates in Turkey
  - Local chambers took the initiatives for establishing industrial estates
  - Goal has been to create superior investments climates at the local level (superior infrastructure, business development services, licenses and permits)
- Turkey is willing to transfer its know-how on organized industrial estates through the capacity building programs for the chambers
  - Pilot project: Revitalization of an Industrial Estate in Gaza (PIFZ)

# The Estate Project in Gaza

- We started with the most difficult area
- Idea came at one of the Ankara Forum meetings
  - Forum first started as a network of businessmen for cooperation
  - A concrete project was needed to monitor and test the words of politicians
- An opportunity to leverage the know-how of Turkish Chambers in:
  - public-private dialogue
  - Industrial park management
  - Doing business under extraordinary circumstances
- A microcosm of all political and economic problems

# A Unique & Exemplary Project

- It is not an ordinary business project.
  - requires effective coordination among the two not-so-friendly sides – PA and Israel
  - private-public dialogue is key throughout the entire process
- But, it is still a business project.
  - If we want it to be sustainable, it must generate profits. Under appropriate security conditions.
  - If there's fresh air for the investors, business prospects don't seem too bad (especially, given the resources ready to flow into the region and generous FTAs.)

# Progress Recap

- Political decisions certified, Joint Declarations signed with both Palestine and Israel
- Investment Promotion Activities started
- Task Force established for trade facilitation and security arrangements
- Engineering Team on the ground, projects to be completed by March 2006
- Constructions to be finished by July 2006
- March 2006 elections in Israel ?

# Our approach

- We are learning that there are two types of approaches to private sector development
  - Approach of international organizations: Problems are big. Too many impediments to doing business. So develop big projects, target big problems, allocate big resources.
  - Our approach is different. Making profits is key for sustainability of any endeavor. Finding creative **shortcuts** for removing the big impediments to doing business. (Save the day, create hope for tomorrow)
    - Well-functioning public-private dialogue mechanisms
    - Concrete and local projects. Interim solutions. (often times, interim is eternal)
    - Engage in “transformational diplomacy”

# Lessons being learned for economic integration

- This is a region where ideal options are rarely feasible. (confidence gap and a whole range of political, ideological, historical reasons).
- Small steps are essential instead of long range plans.
  - Thinking through stages makes you focus on technical issues. (less political etc.)
  - Local solutions are essential.
- The ideal, then, is to look for interim solutions agreeable to all parties at every stage.
- Interim solutions strengthen confidence and bridge the gap.



thank you

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