

tepaV

Economic Policy Research Foundation of Turkey

Turkey in the wider Black Sea

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Overview

- TEPAV: Who we are, what we do
- A snapshot of Turkish Economy
- Turkey in wider Black Sea and venues for cooperation
- Projects at TEPAV
- Conclusions

TEPAV:
Who we are, what we do

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, governance and stability.

www.tepav.org.tr

What we do at TEPAV

■ Three major disciplines:

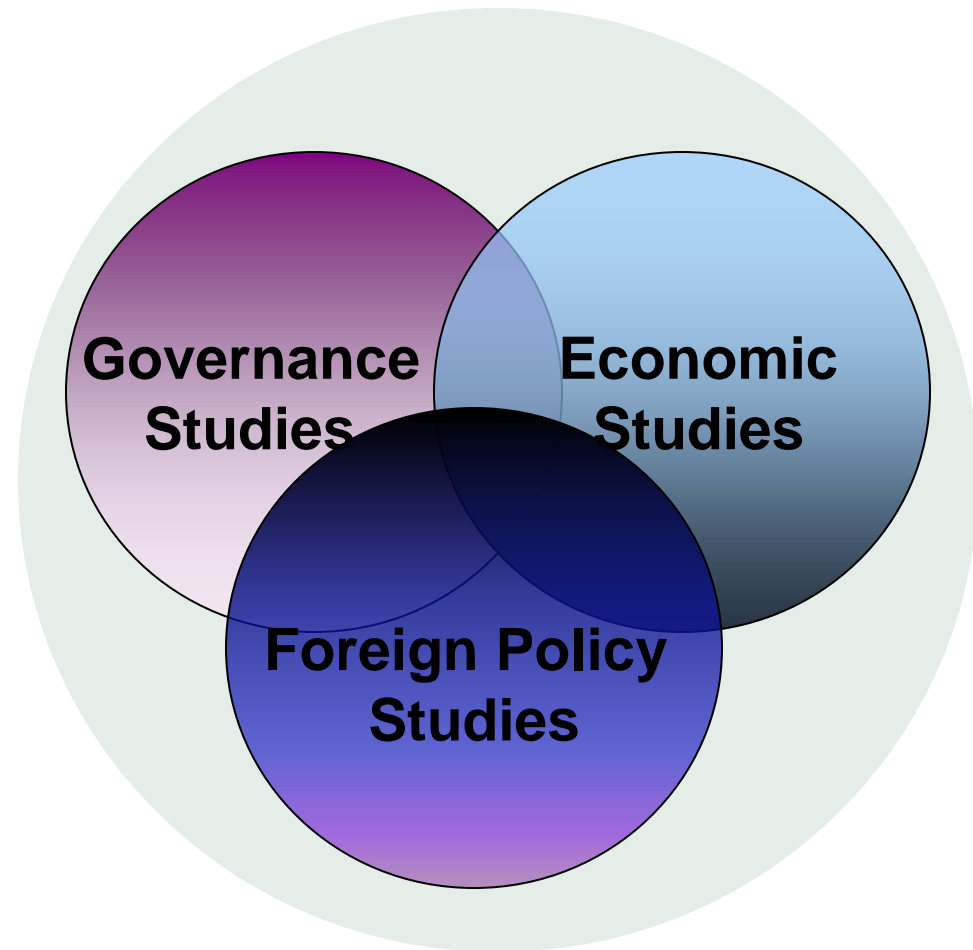
- Economic policy
- Governance
- Foreign policy

■ Cross-cutting themes:

- Competitiveness
- Regional integration
- EU accession process

■ Modus operandi:

- Policy oriented research, issue based advocacy
- Consultancy projects, capacity building
- Needs analysis



A sample of TEPAV's activities

- Developing policy tools for dialogues with the government
 - Investment Climate Assessment (*with the World Bank and Treasury*)
 - Industrial Policy Document (*with State Planning Organization*)
 - Secretariat of the Competitiveness Council of Turkey
 - Industrial Policy Design Project, 2008 (*for M of Industry & Trade*)
 - Competition Environment Assessment (*with the World Bank and FIAS*)
 - Higher Education Sector Project (*with the World Bank*)
 - Regulatory Impact Assessment Projects (*EU-funded*)
- Governance of economic development
 - Decentralization studies, regional development framework (*with The Ministry of Internal Affairs and local authorities*)
 - Fiscal monitoring and transparency
- Regional Integration
 - Industry for Peace Initiative (*with TOBB*)

TEPAV's regional integration activities

- **Permanent dialogue mechanisms**
 - Business association networks
 - Ankara Forum (Palestinian, Israeli and Turkish)
 - Istanbul forum (Afghan, Pakistani and Turkish)
- **Private sector development projects**
 - Jenin, Tarqumia and Erez Industrial Estates in Palestine
 - Joint industrial area in Syrian-Turkish border
 - Trade facilitation in Central Asia – Silk Road
 - Tourism cluster development (Armenia, Azerbaijan, Turkey)
- **Capacity building projects**
 - Palestinian chambers, SMEs, industrial estates, customs
 - Pakistani Competition Authority
 - Ministries of Finance project-IMF Institute
- **Various EU-related projects and activities**

Turkish Economy: A Snapshot

An overview of the recent progress of Turkish economy

	1980	2008
Number of companies	90,000	640,000
GDP (billion \$)	70	700
Per capita GDP (USD)	1,500	9,000
Exports (USD billion)	3	132
Exports per worker (USD)	65	1,800
Industry share in exports	10%	92%
Number of exporters	1,000	47,000
Tourism revenue (billion \$)	0,3	21
Ranking in the world (in terms of GDP)	25th	17th

It is a process of total transformation:

■ **Mass urbanization**

- Migration from rural to urban areas
- Reversal of 75 to 25 percent distribution

■ **Proliferation of industry in Anatolia**

- Gaziantep, Denizli, Konya, Kayseri, Kahramanmaraş

■ **Organised industrial zones experience**

- Gebze as the manufacturing base of Istanbul

■ **Transformation in retail sector**

- Shopping malls and new urban life

■ **An Unintended consequence: Political transformation**

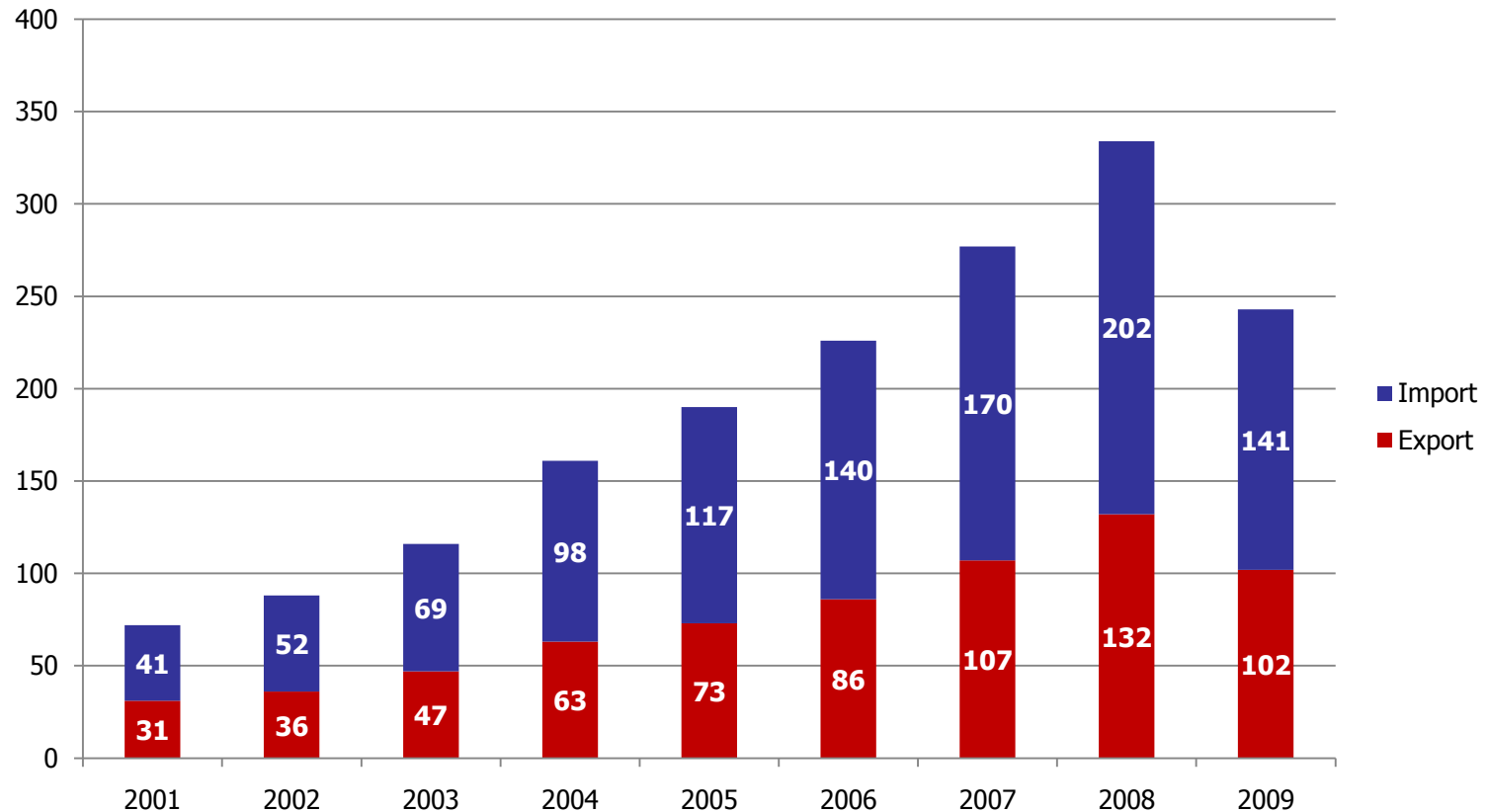
- “Look who is in power now!”

Emergence of a new(?) middle class

	1999	2003	2006	2008
Automobile Sales (in thousands)	-	359	622	494
White Good Sales (in millions)	4	3	5.5	5.2
Airline Passengers (in millions)	30	34	59	75
Mobile Phone Network Subscribers (in millions)	-	26.6	51.4	64
# of People Getting House Loans (thousands)	14	43	268	237
Consumer Credit + Credit Cards (billion TL)	-	12.8	67.7	114

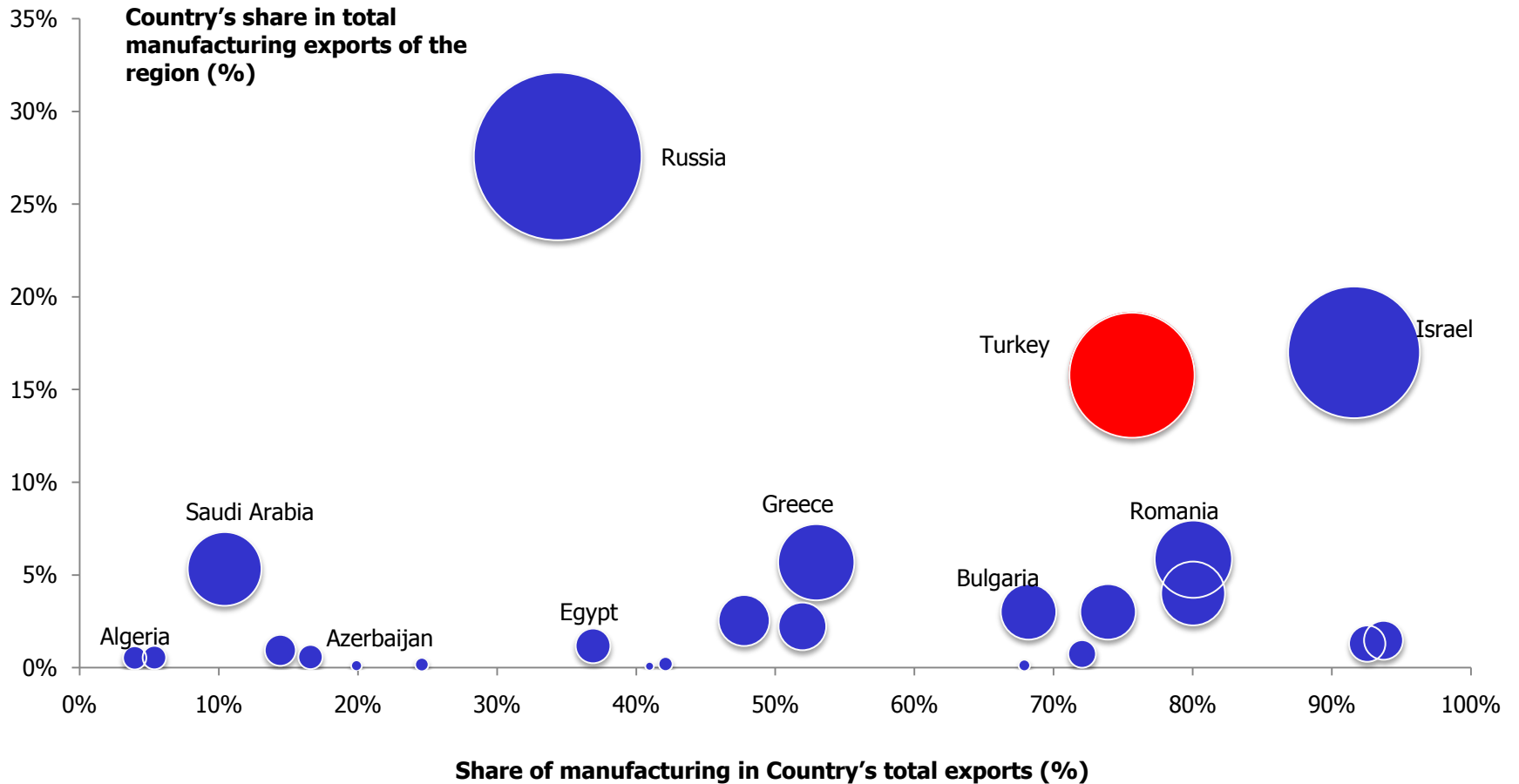
Integration into the global economy: EU Customs Union meets political and economic stability

Turkey's import and export volumes, 2001-2009, billion USD



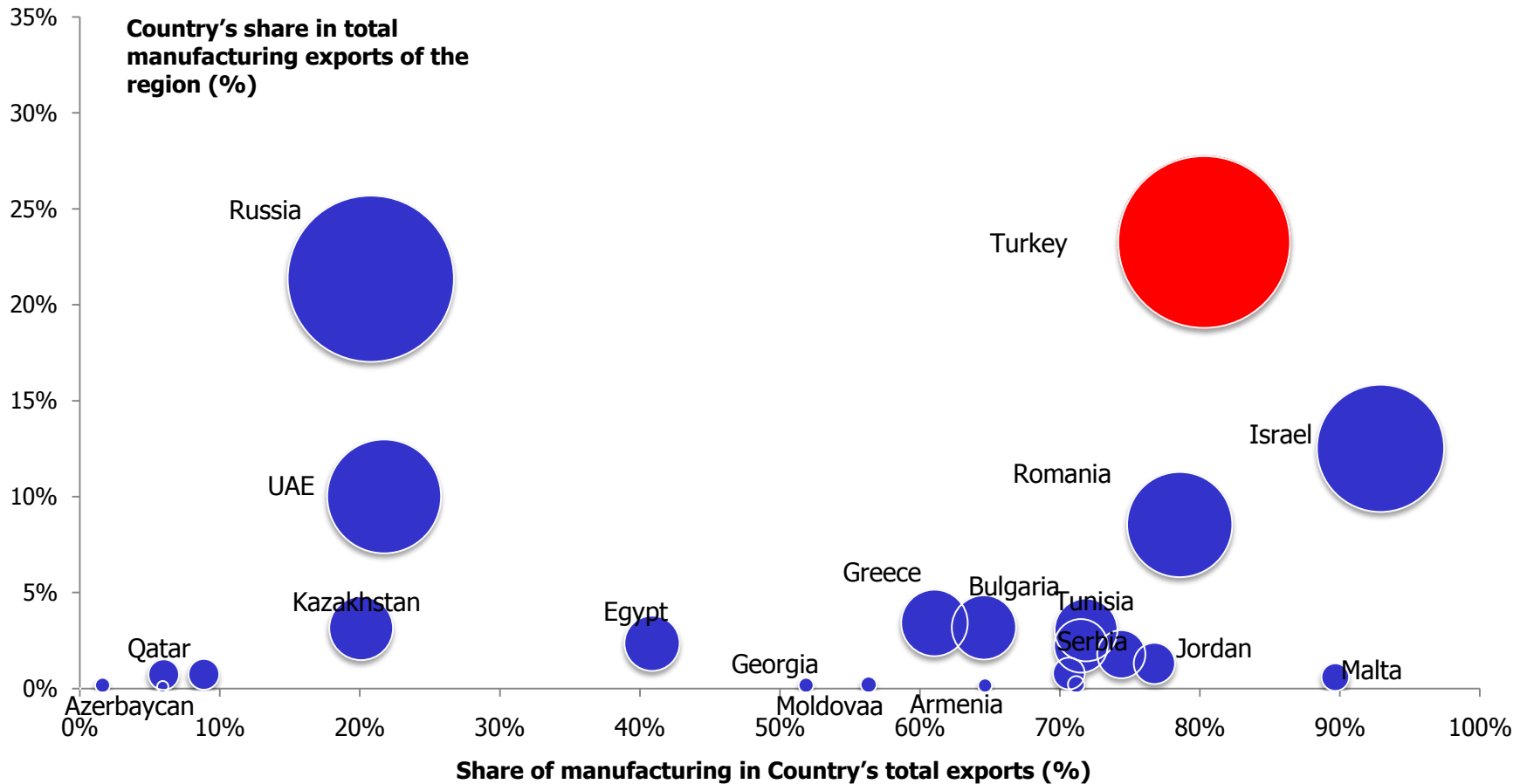
Rapid growth in manufacturing after mid-90's

Export indicators of the countries in the region (1996)



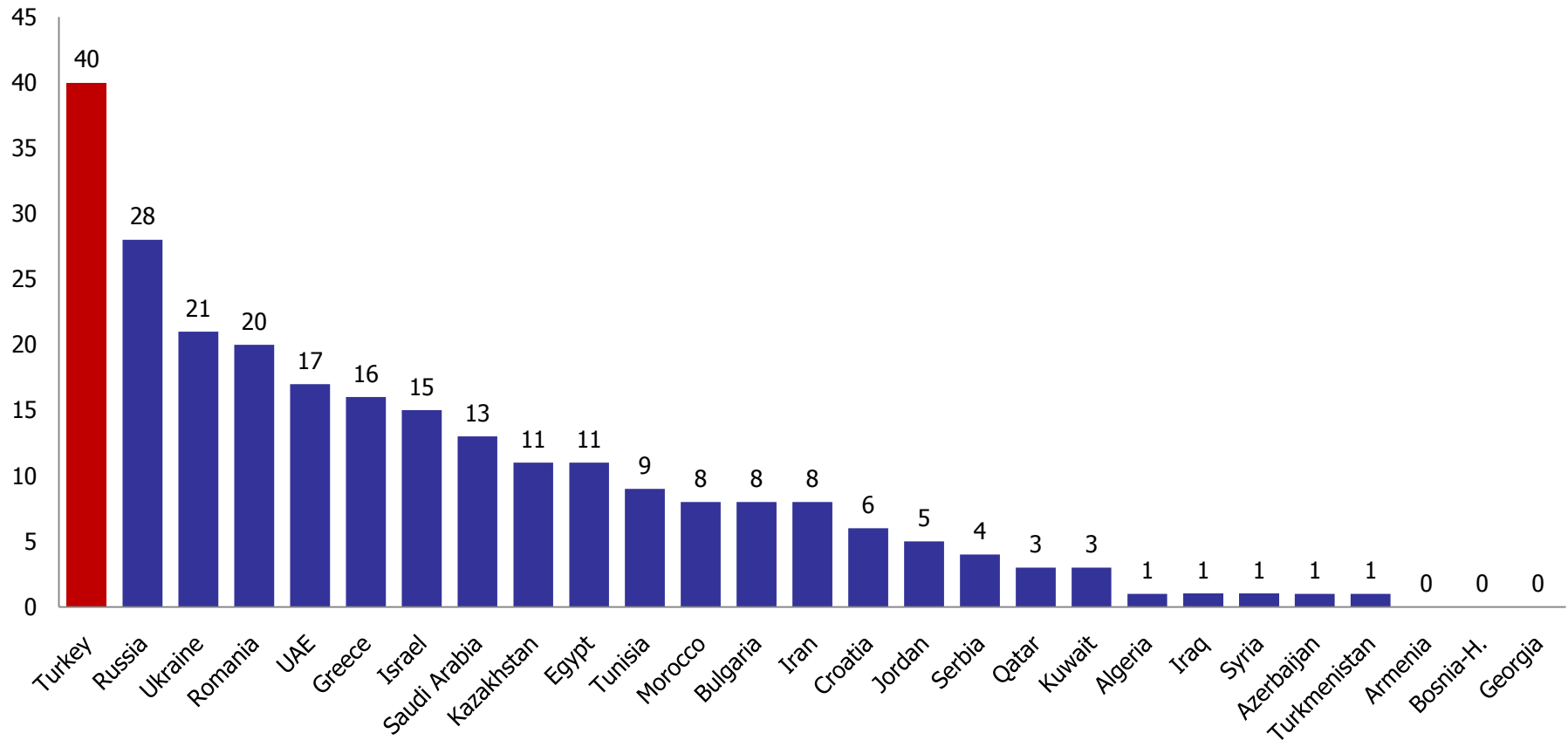
Today Turkey is the largest manufacturer in the region

Export indicators of the countries in the region (2008)



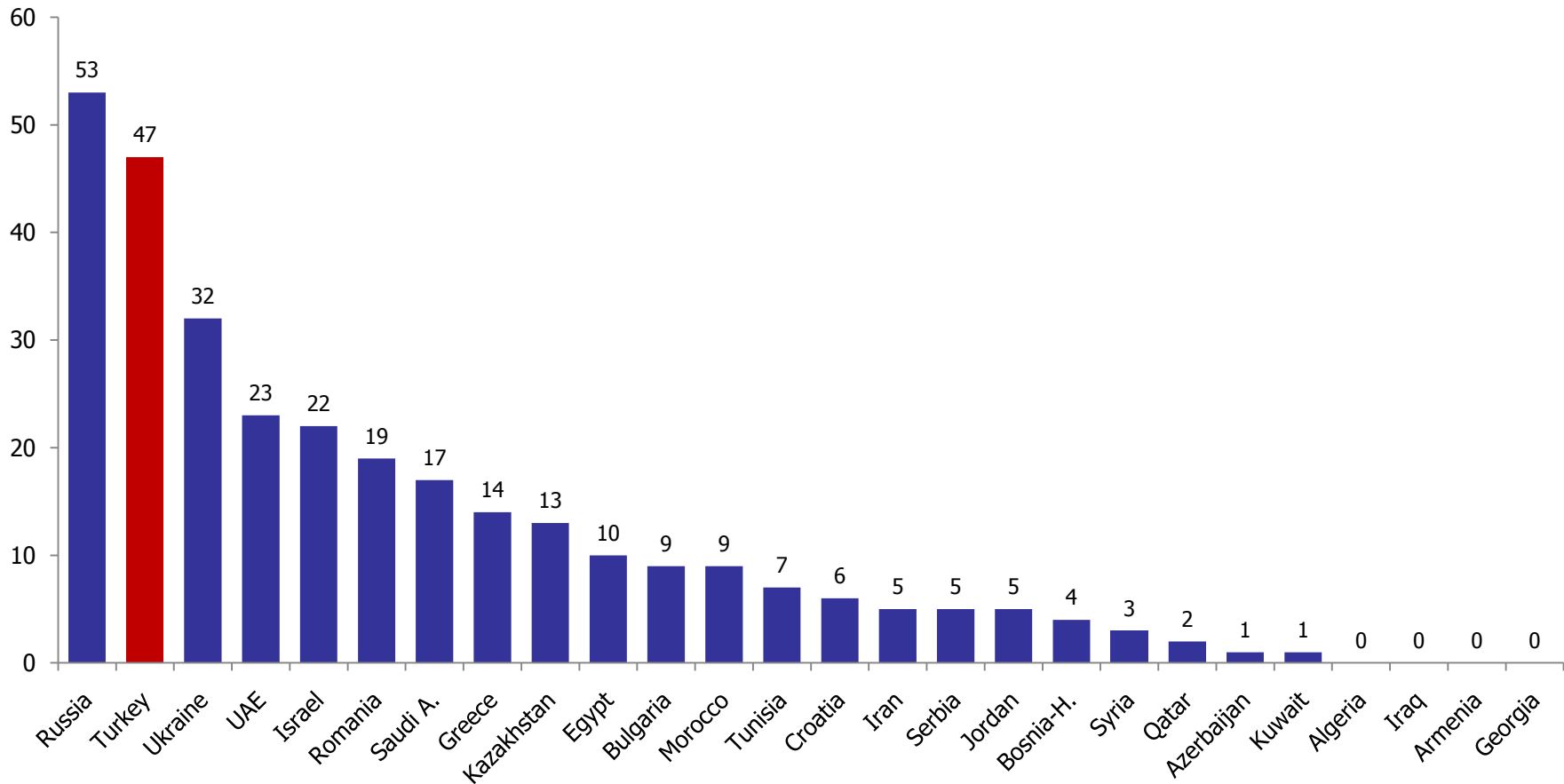
Sectoral diversification is increasingly a critical feature of Turkish economy

Number of sectors with above \$ 500 million exports (HS4 classification, 2 digit, 2007-2008)



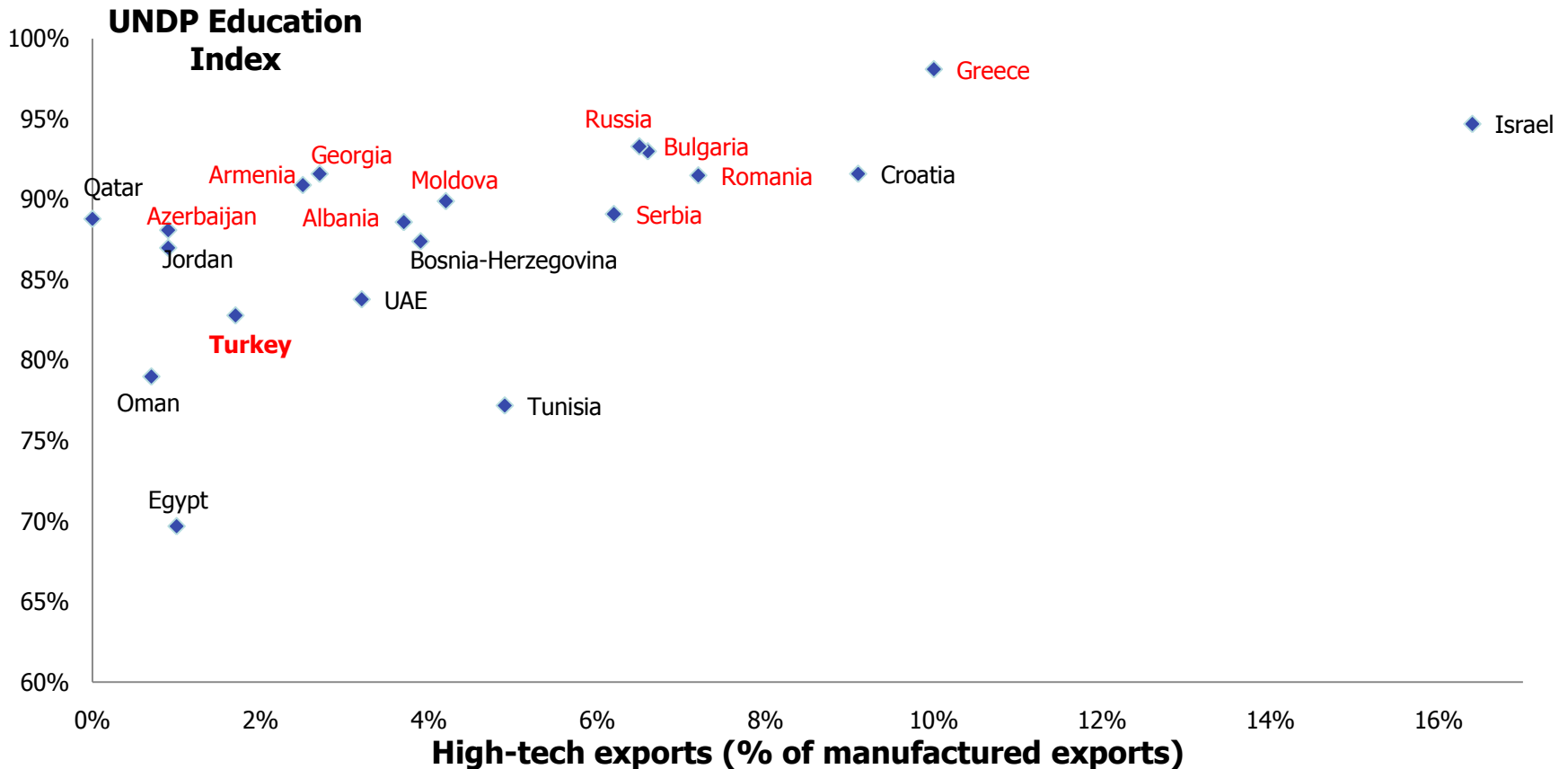
Geographically diversified export portfolio: presence in various different markets

Number of export destinations (non-energy) over \$ 500 million volume, 2007-2008



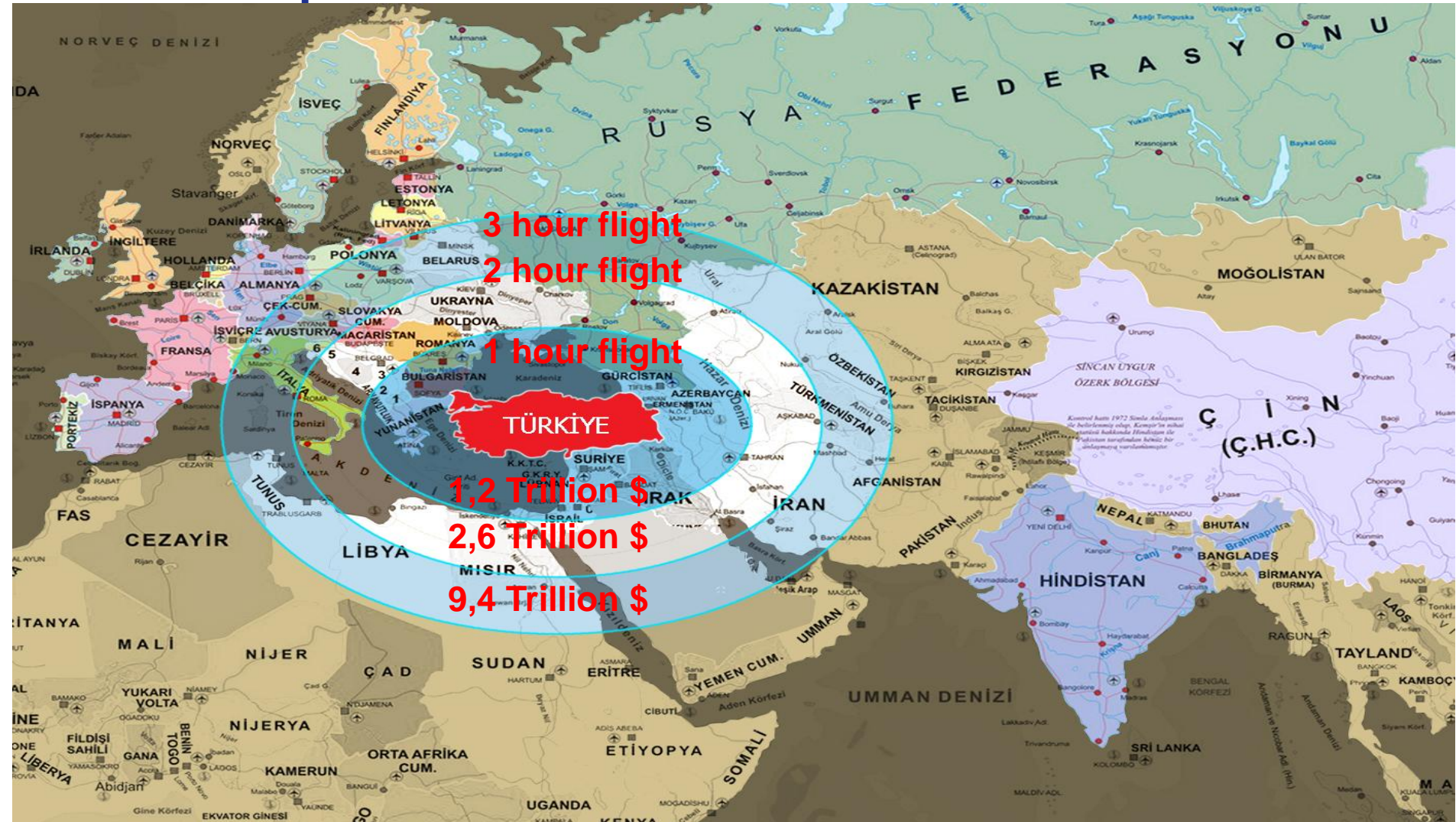
Turkey has become an industrial “giant”, but it still needs a boost in human capital

Education and high technology exports (2008)



Sources: HDR, WDI. UNDP Education Index is based on the adult literacy rate and the combined gross enrollment ratio for primary, secondary and tertiary schools.

Turkey's prospects: a large domestic market plus...



Domestic economic policy increasingly requires taking the region into account

- Transformation process in Turkey is yet to be completed
 - It should be seen as a process where Turkey has started to come to terms with her past history and her geography.
 - There is a long list of domestic items that are under intense discussion.
- EU process is important within this context for a smoother transformation.
- It is not shift of axis but being aware of your geography due to growing business interests.

Turkey in wider Black Sea: Possibilities to move forward

The big picture for us: Black Sea as the transit point between rising Asia and the EU

- Eurasia stretches between the EU and China, the engine of global growth.
- Black Sea is not fully integrated to the global economy yet, but will be the most significant trade bridge in 21st century.
- Black Sea will integrate to global economy one way or another.



Black Sea: A region of different structures

- Countries on EU track:
 - Greece, Bulgaria, Romania: Members
 - Turkey, Albania, Serbia: Prospective members
- Russia and "near abroad":
 - Armenia, Georgia, Ukraine, Azerbaijan, Moldova
- Economic structures are different
 - Some with highly developed private sector
 - Some undiversified economies based on energy and natural resources
- Given the heterogeneity of economic structures, it is difficult to envision one single Black Sea entity

Role of the Black Sea in global economy?

- The connection – energy and transport bridge between Asia and Europe
 - Aggregate GDP of almost \$2 trillion, population of 350 million. Foreign trade capacity of \$300 bn
 - Rising trade flows between East Asia and Europe, rising costs of trade from East Asian seaports
 - Rise of land transport option to Black Sea ports and to Europe as a significant alternative
 - Azerbaijan, Russia and non-members Iran, Kazakhstan and Turkmenistan major exporters of oil and gas

Opportunities arise, but...

- There seem to be cooperation and mutual action opportunities in the Black Sea
 - Foreign trade
 - Private sector development (PSD)
 - Improvement of the investment climate
- There are political realities standing in the way of materializing these opportunities, however.
- Need for a partnership strategy with Russia
- Need for a strategy for frozen conflicts

It all boils down to the question of...

- How to enhance cooperation in the Black Sea
 - Taking into account the limitations imposed by EU's relations with Black Sea countries
 - Not violating the interests of Russia as well as Turkey
 - Using global opportunities
- **Our response:** Via endorsing bilateral and trilateral cooperation within a framework that accounts for the areas in which countries need cooperation

How should we start approaching the issue?

- 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

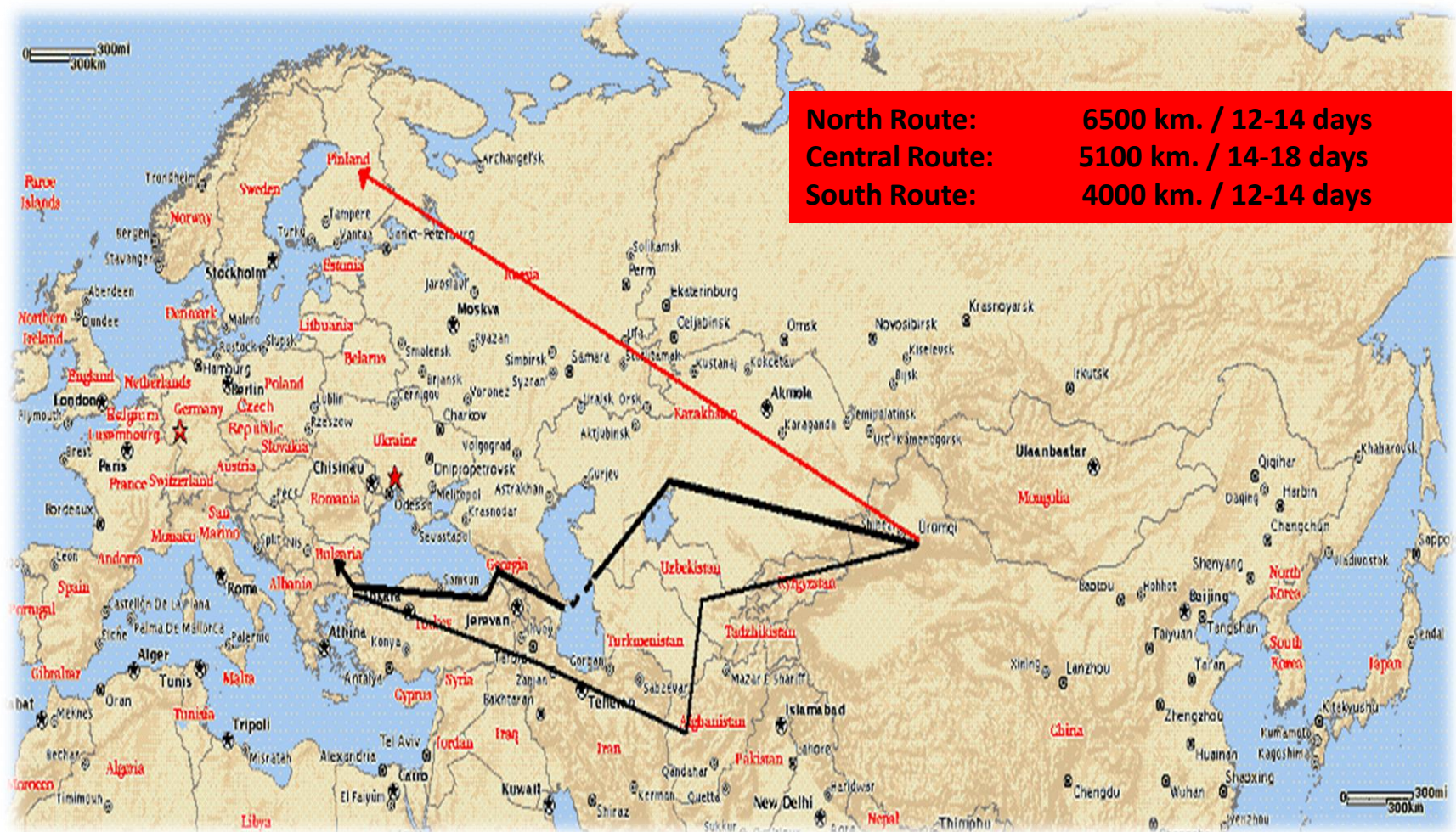
Our Approach

**Once again:
What does TEPAV do?**

Projects at TEPAV

- Transport corridor between China and Europe
 - How to transform Black Sea into a transport corridor
 - How to standardize border crossings
 - Agreements
 - Privatizing border crossings: Turkish experience
 - Sarp-Sarpi border crossing example

Two of the three routes are on the Black Sea region



Projects at TEPAV: Modernization of border gates in Turkey

- In collaboration with government and public institutions, modernization of 5 border gates
 - İpsala; Cilvegözü, Habur, Kapıkule, Sarp
- GTI Border Crossing Services Company
 - First project completed in 2003
- Goal is to improve trade facilitation through a PPP scheme

Benefits of the Joint Border Gate: Sarp – Sarpi Example

- Bolstering strategic partnership framework
- Increasing trade volume between Turkey and Georgia
- Improvement in the logistics sector – Khelvachauri to become a logistics center
 - ➔ Transportation: timeliness, easiness of trading across borders, efficient customs, modernization of border facilities, etc.
- A concrete step for revitalization of the Modern Silk Road in the big picture
 - ➔ Turkey & Georgia became a strategic gateway in Asia – Europe trade flows considering that there are alternative competitive routes
 - ➔ Sarp-Sarpi IBM Model can be a precedent for other countries on the Silk Road

Projects at TEPAV: Caucasian rapprochement

- Removal of the blockade against Nakhchivan
- Cross Border tourism cluster development between Armenia and Turkey
 - Regional economic development as the major objective
 - Joint restoration of Ottoman-Armenian heritage in Anatolia.
 - Ani at the center; the initial phase
 - Tourism cluster in Kars-Gyumru

Strengthening connections between Turkey and South Caucasus – *work in progress*

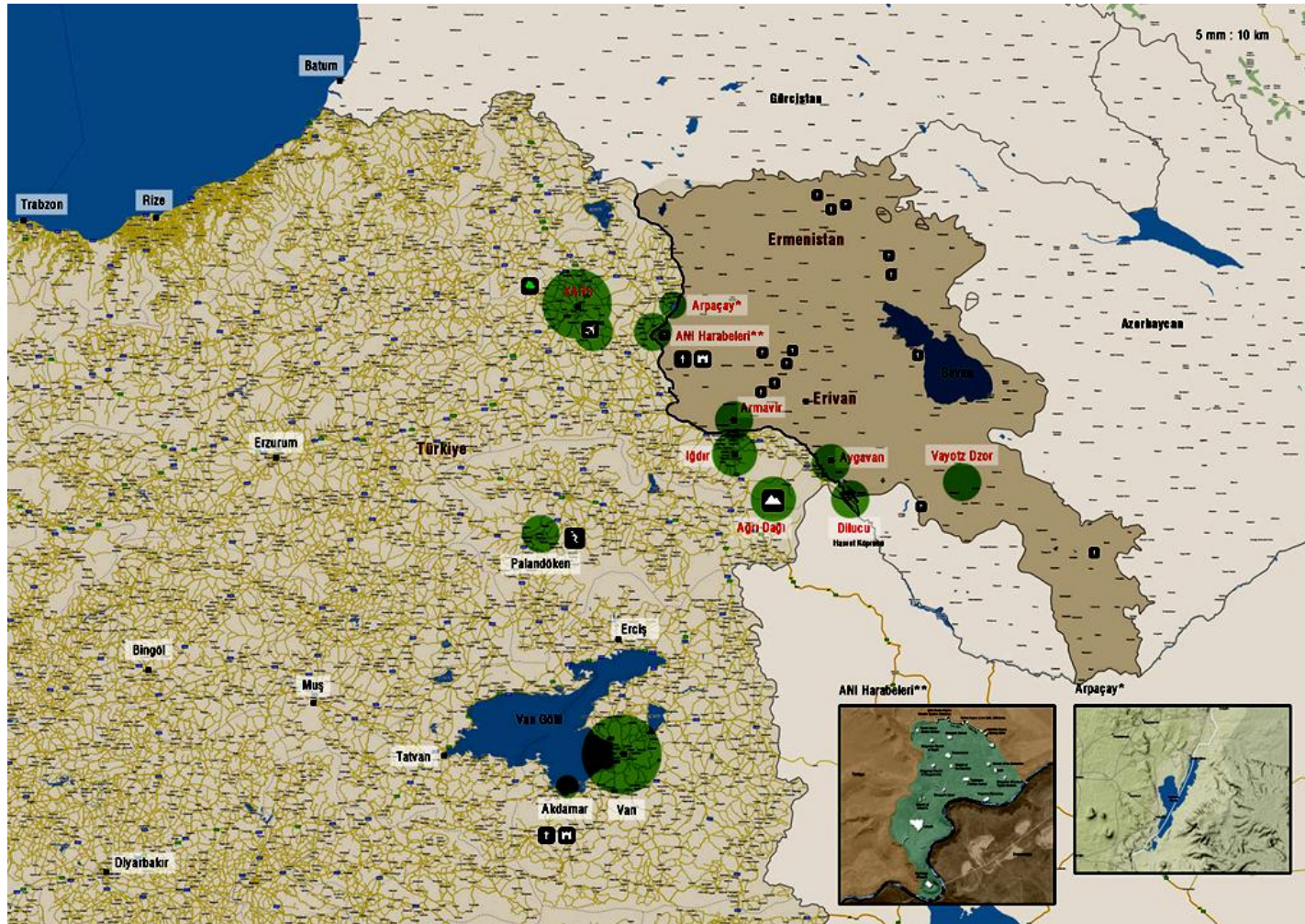
- **How to improve trade?: Improvement of physical movement of goods between Turkey and the South Caucasus**
 - Trade facilitation : modernization of border crossings with the Caucasian neighbours
 - Feasibility study on the rehabilitation of the existing transportation network as a practical business oriented confidence-building project
- **Feasibility study on cross-border economic complementarities to design private sector driven regional development projects**
- **Socio-economic impact of the opening of Armenian-Turkish border**
- **Rediscovering through economically relevant projects for the Turkish-Armenian borderland**

The project aims at preparing the ground for the joint restoration of the Ani Silk Road bridge

- Raise awareness for the need to protect the cultural heritage, to develop a cross-border political willingness for the renovation of Ani Silk Road Bridge, defined as a cultural corridor between the two nations.
- An advocacy with the participation of officials, experts, business communities and civil society actors to trigger a momentum supportive of the initiative.
- Channel resources for collaborative scientific research and investigation of international examples of multiple stakeholder restoration of the Ani Bridge
- Support the decision-making process by setting cross-border governance structure and the joint restoration task elaborate recommendations for the establishment of operational mechanisms for consultation and consensus-making
- Look for potential investors



Cross-border tourism cluster



Special Economic Zone experience of Turkey

- SEZs are important vehicles of industrial development
- Governments may fail to provide public services at the level of full efficiency all through the country, but they can create islands of excellence
 - In terms of infrastructure
 - In terms of regulatory framework
 - In terms of bureaucracy

Projects at TEPAV: Jenin Industrial Estate

- 933 donum land in Northern West Bank
 - A Jordanian-Palestinian company started the project 12 years ago and signed a concession agreement with PNA
 - German Development Agency (KfW) made a commitment for off-site infrastructure finance
 - Area was turned from C to B by Israel
- No activity since then
- TOBB-BIS signed a new concession agreement with PNA in February 2010

Practical nature of the project

- It's a private sector development project.
 - land development, skill development, infrastructure and regulatory services of industrial activities in West Bank
- 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.)

What is the project about?

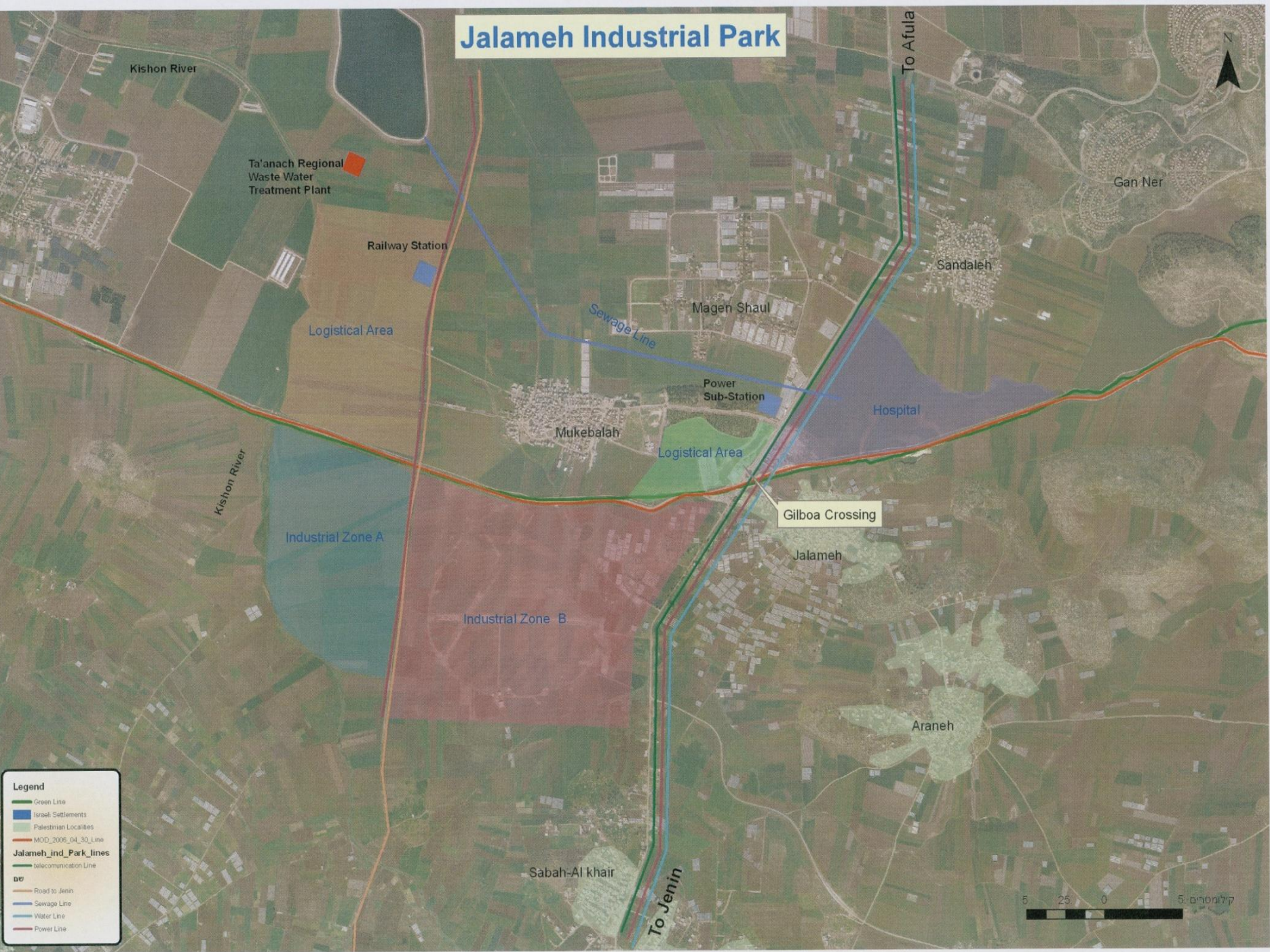
- Creating an “island” in West Bank
 - Turkish developer company (TOBB-BIS)
 - Turkish security firm
 - One-stop-shop, Turkish speaking regulatory environment for Turkish investors
- A well connected “island”
 - No security threat from inside and outside
 - Unimpeded and efficient access to Haifa and Ahsdod ports and Ben Gurion airport in Israel

Who will inhabit the “island”?

- Pro-active investment promotion for Turkish companies
- 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



Jalameh Industrial Park



Kishon River

Ta'anach Regional
Waste Water
Treatment Plant

Railway Station

Logistical Area

Sewage Line

Magen Shaul

Power
Sub-Station

Hospital

Mukebala

Logistical Area

Industrial Zone A

Industrial Zone B

Gilboa Crossing

Jalameh

Araneh

Sabah-Al khair

Gan Ner

Sandaleh

To Afula

To Jenin



Legend

- Green Line
- Israeli Settlements
- Palestinian Localities
- MOU_2006_04_30_Line

Jalameh Ind Park_lines

- telecommunication Line

DR

- Road to Jenin
- Sewage Line
- Water Line
- Power Line



Capacity building projects

- TEPAV hosts local authorities from **Wardak Province of Afghanistan** and offers training for governmental capacity building
- Goal:
 - to improve the relations between the province, districts and public;
 - coordination of the district officials with the province;
 - practical and judicial tools to improve the relations and to solve the issues.

Conclusions

- Political problems require political solutions, but economics can contribute to the political process.
- At BSEC, economic projects should be devised in a way to enhance bilateral-trilateral economic linkages between the countries
 - Hence the need for a case by case approach
- Economic integration is the way to move forward