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Economic Policy Research Foundation of Turkey

State Building Process in Palestine: Some Ideas from Industry for Peace Initiative

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Ankara, 15 July 2010

Glass is not empty; filling the glass is a process…

- Arafat’s resting in peace
  - ➔ from a tomb to a mausoleum
- Boycott against settlement products
  - ➔ from reactions to “policies”
- There is reason to be optimistic…
  - ➔ Two state solution is a capacity building process…
  - ➔ Fayyad’s plan is the only move in this direction

What was I thinking when I came to Palestine in 2004?

- Economic transformation in Turkey
  - Turkey and regional integration
- Push factor: Need for value chain integration throughout the region (building new partnerships)
  - Chinese competition, appreciating TL
- Pull factor: why Palestine?
  - Political engagement +
  - Access to US market, QIZ scheme
  - Labor skills
  - Infrastructure?
- Where are we now?

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 (60% to EU and US)
Number of exporters	1,000	47,000
Tourism revenue (billion $)	0,3	21
Ranking in the world (in terms of GDP)	25th	17th

Source: TURKSTAT

Where is Turkish industry now?

(as of Feb. 2009)

World

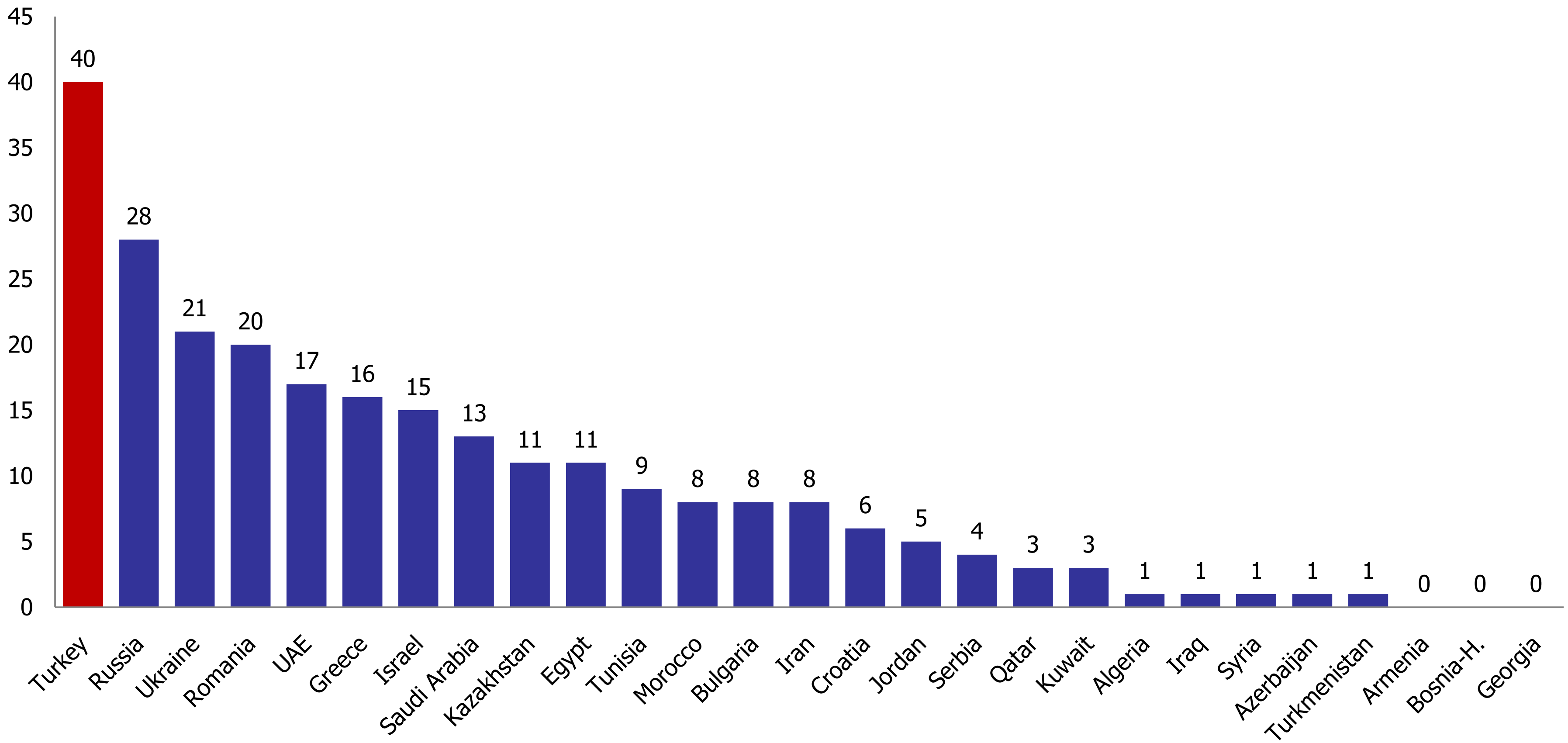
- 2nd largest producer of sheet glass
- 5th largest producer of jewelry.
- 6th largest producer of cement.
- 8th largest producer of ships.
- 10th largest touristic destination.

Europe

- Largest producer of:
  - ➔ Textiles
  - ➔ Television
  - ➔ Fertilizer
  - ➔ Socks
  - ➔ Sanitary ware
  - ➔ Casting/molding
- 2nd largest producer of mega yachts
- 3rd largest producer of: overcastting, iron-steel, and wheel rims
- 5th largest producer of refrigerators
- 7th largest producer of automotives

Sectoral diversification is increasingly a critical feature of Turkish economy

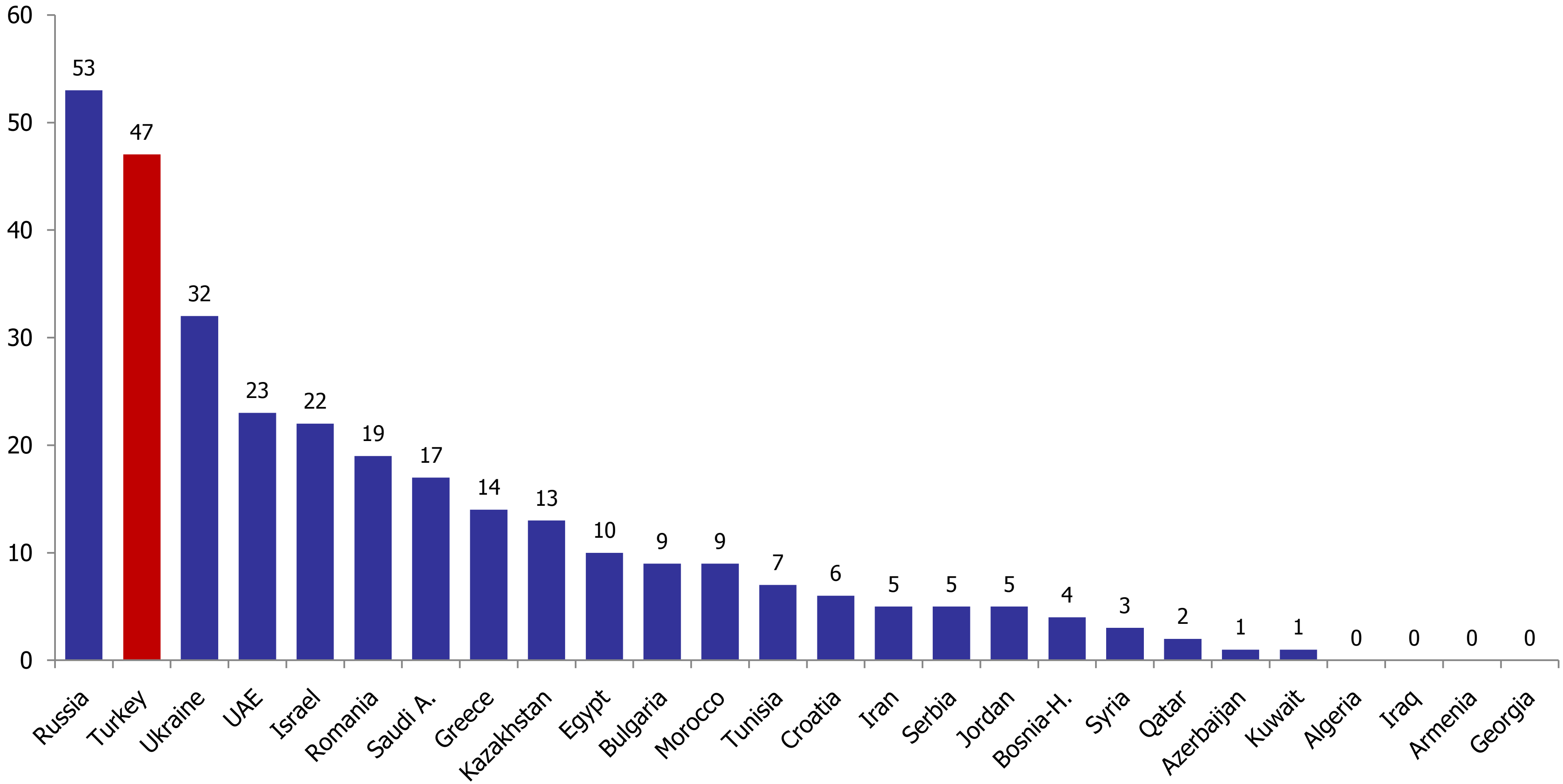
Number of sectors with above $ 500 million exports (HS4 classification, 2 digit, 2007-2008)



Source: UN COMTRADE, TEPAV Calculations

Geographically diversified export portfolio: presence in various different markets

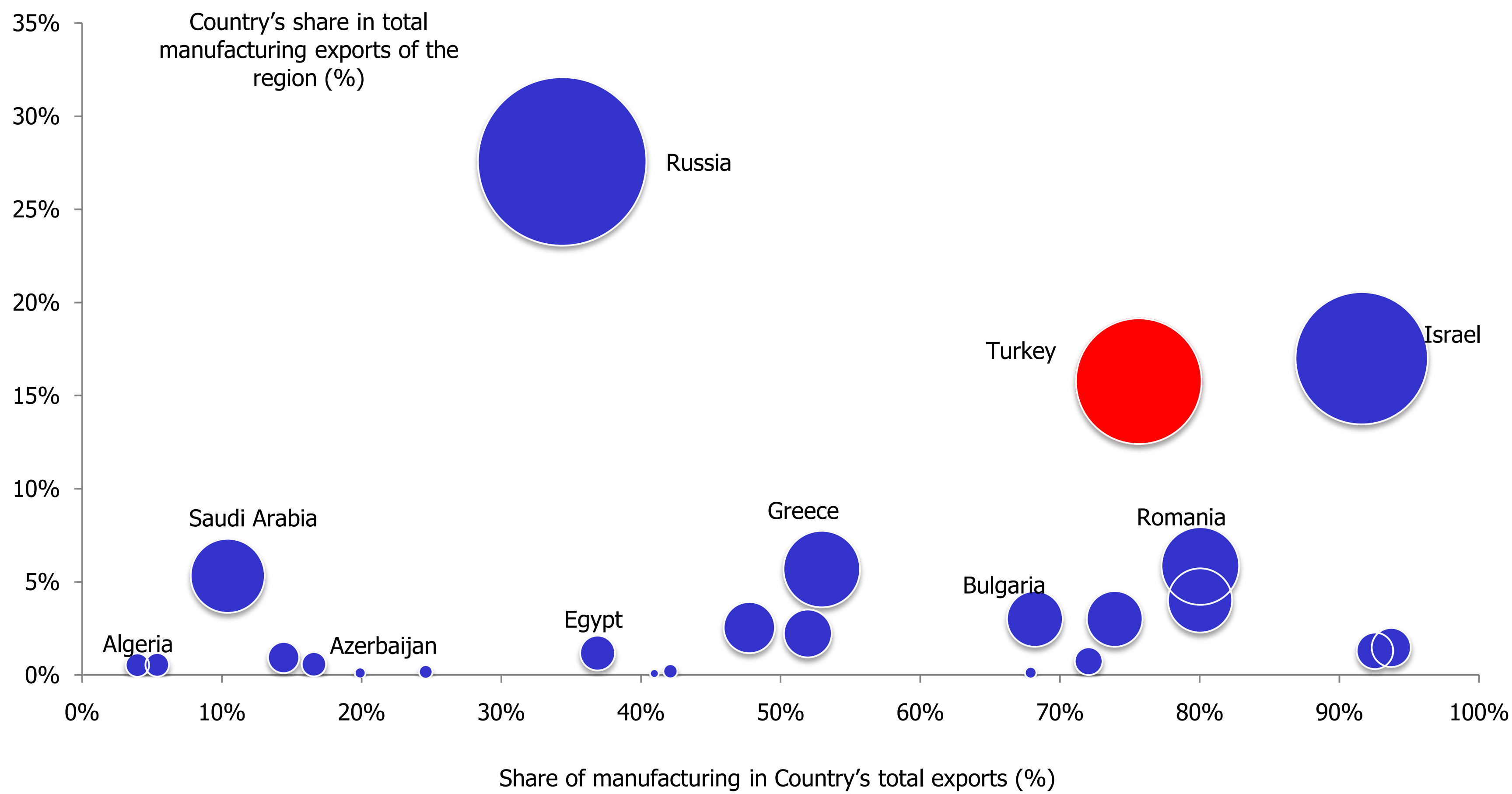
Number of export destinations (non-energy) over $ 500 million volume, 2007-2008



Source: UN COMTRADE, TEPAV Calculations

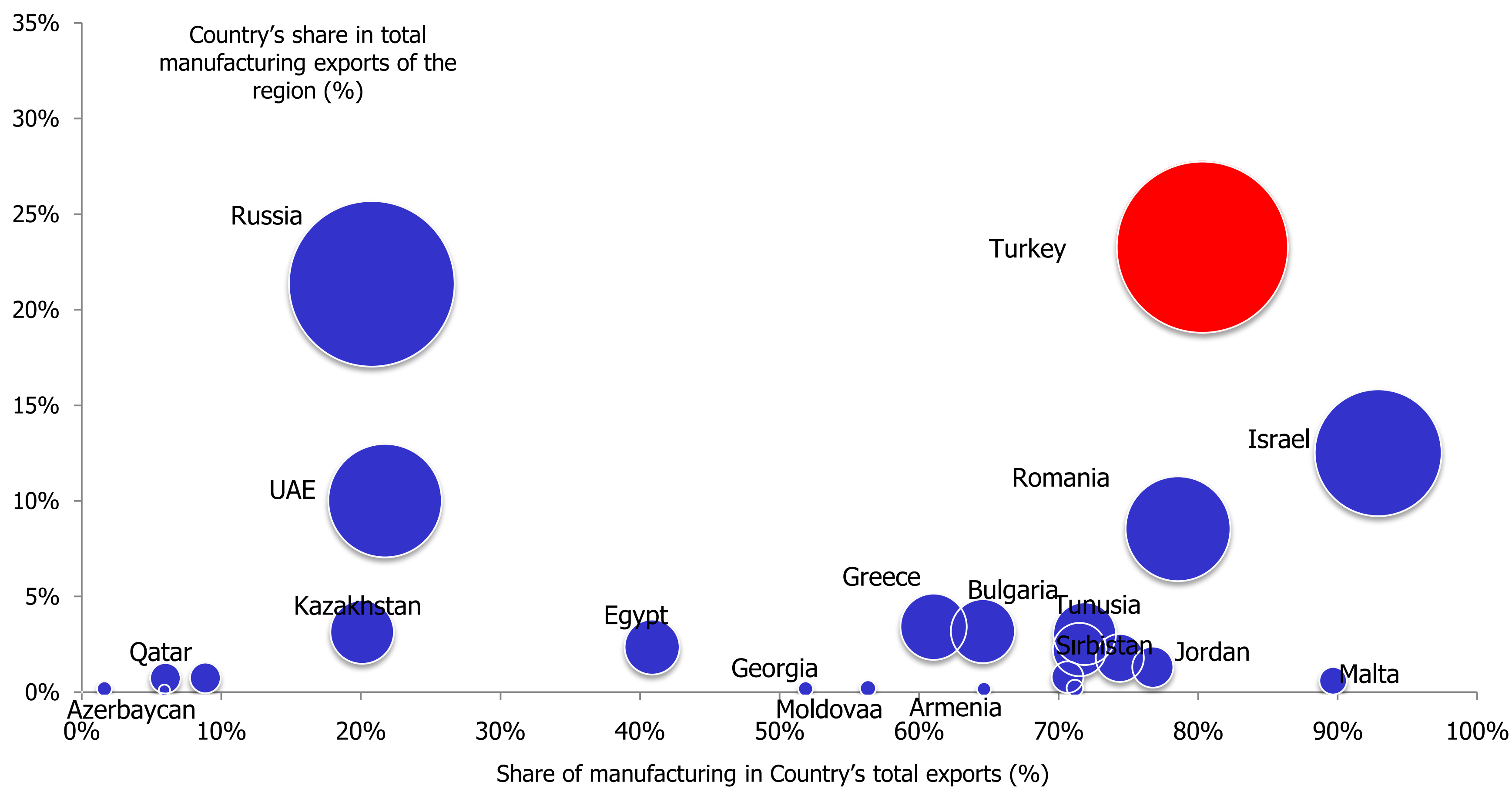
Rapid growth in Turkish manufacturing after mid-90’s

Export indicators of the countries in the region (1996)



Today Turkey is the largest manufacturer in the region; Turkish institutional know-how can be highly instrumental

Export indicators of the countries in the region (2008)



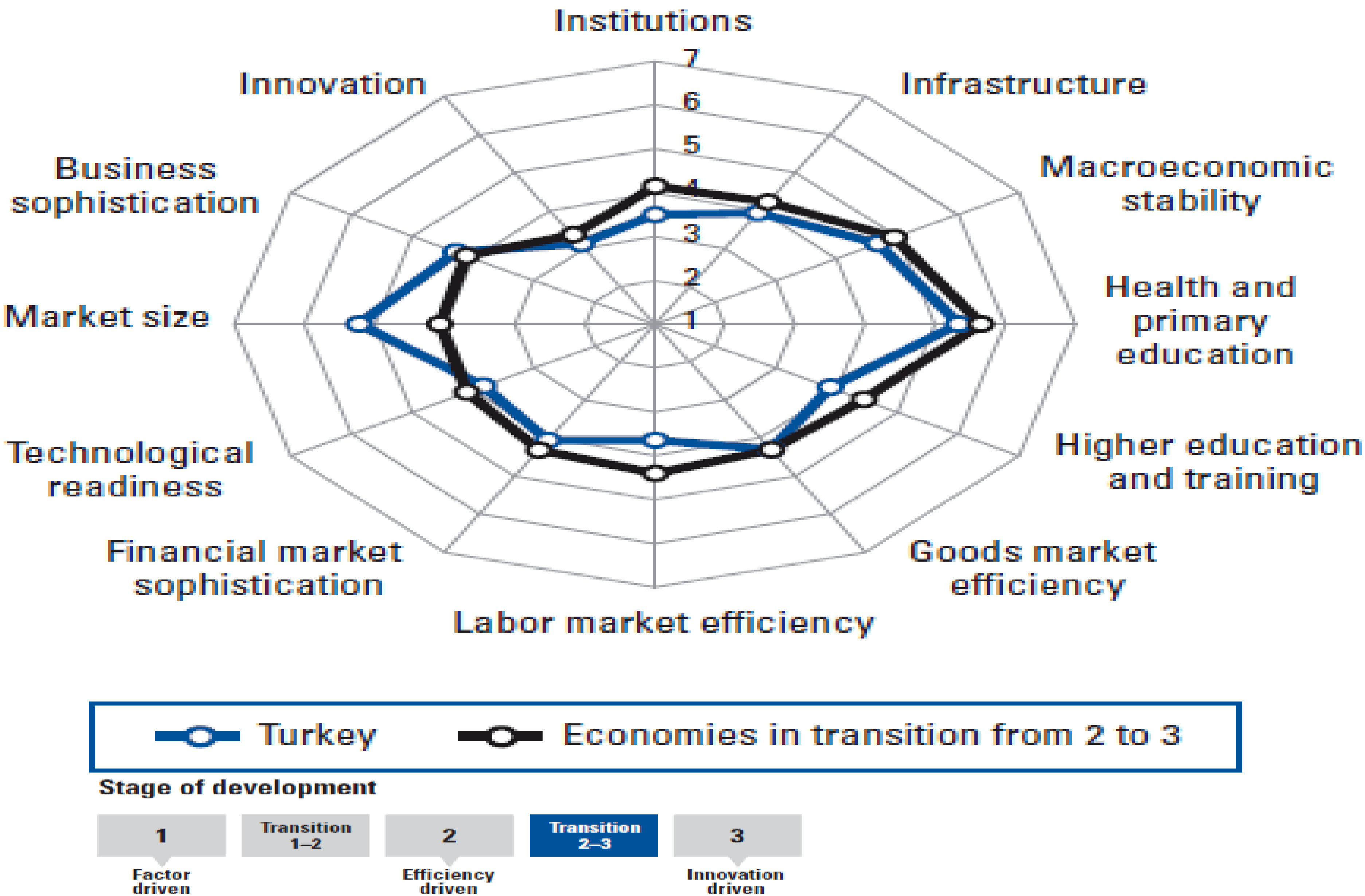
Changing structure of exports & changing opportunities and challenges

Technological Structure of Exported Goods, 2000-2005-2008-2009

	Technological Structure of Exports			
	2000	2005	2008	2009
HIGH TECH	8.4%	6.6%	4.2%	5.2%
MEDIUM TECH	24.0%	35.0%	39.0%	38.0%
LOW TECH	53.3%	42.7%	38.5%	39.0%
RESOURCE BASED	14.2%	15.7%	18.3%	17.9%

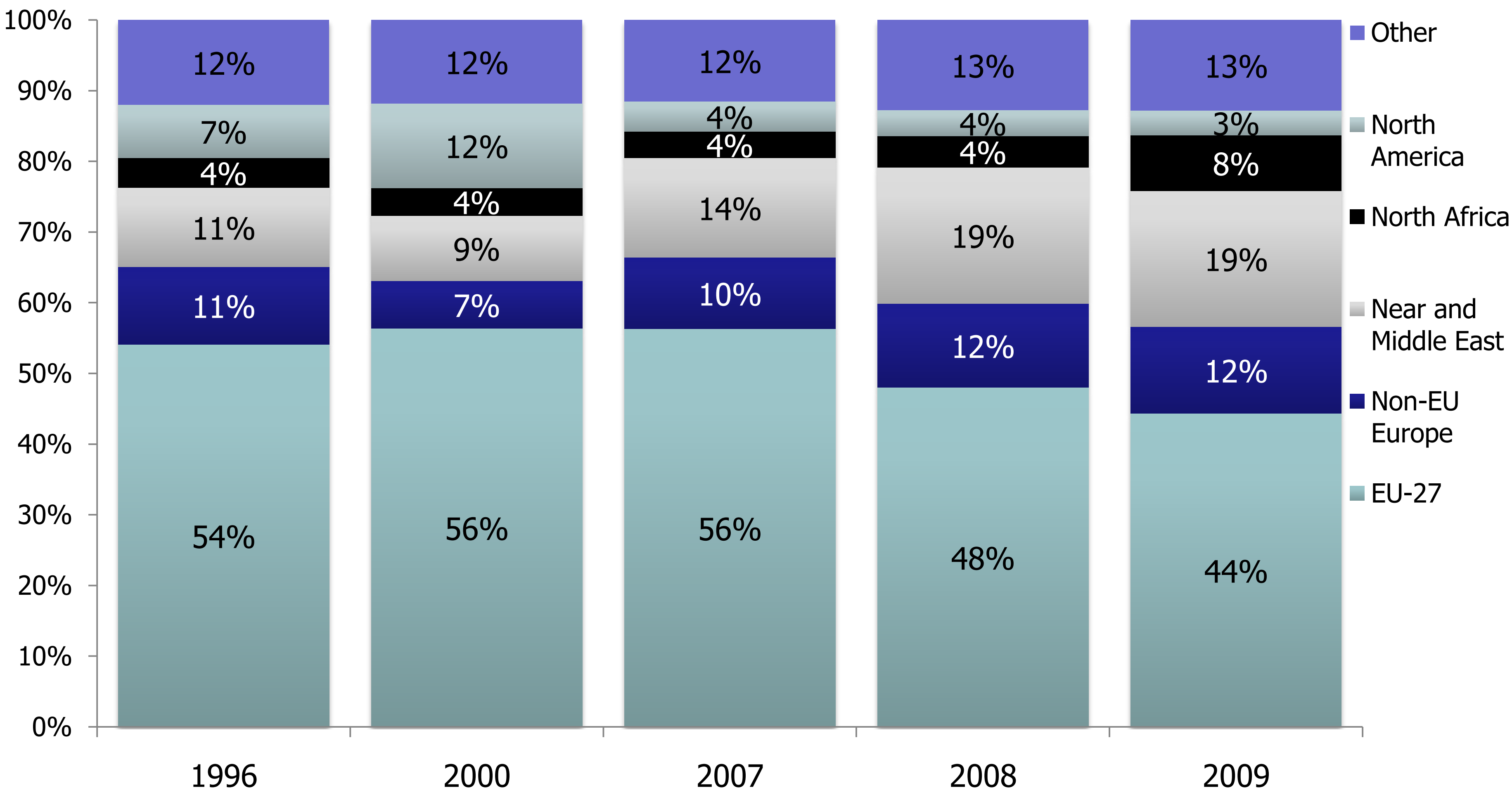
Analysis based on UNIDO Technological Classification of Goods

Source: UN COMTRADE



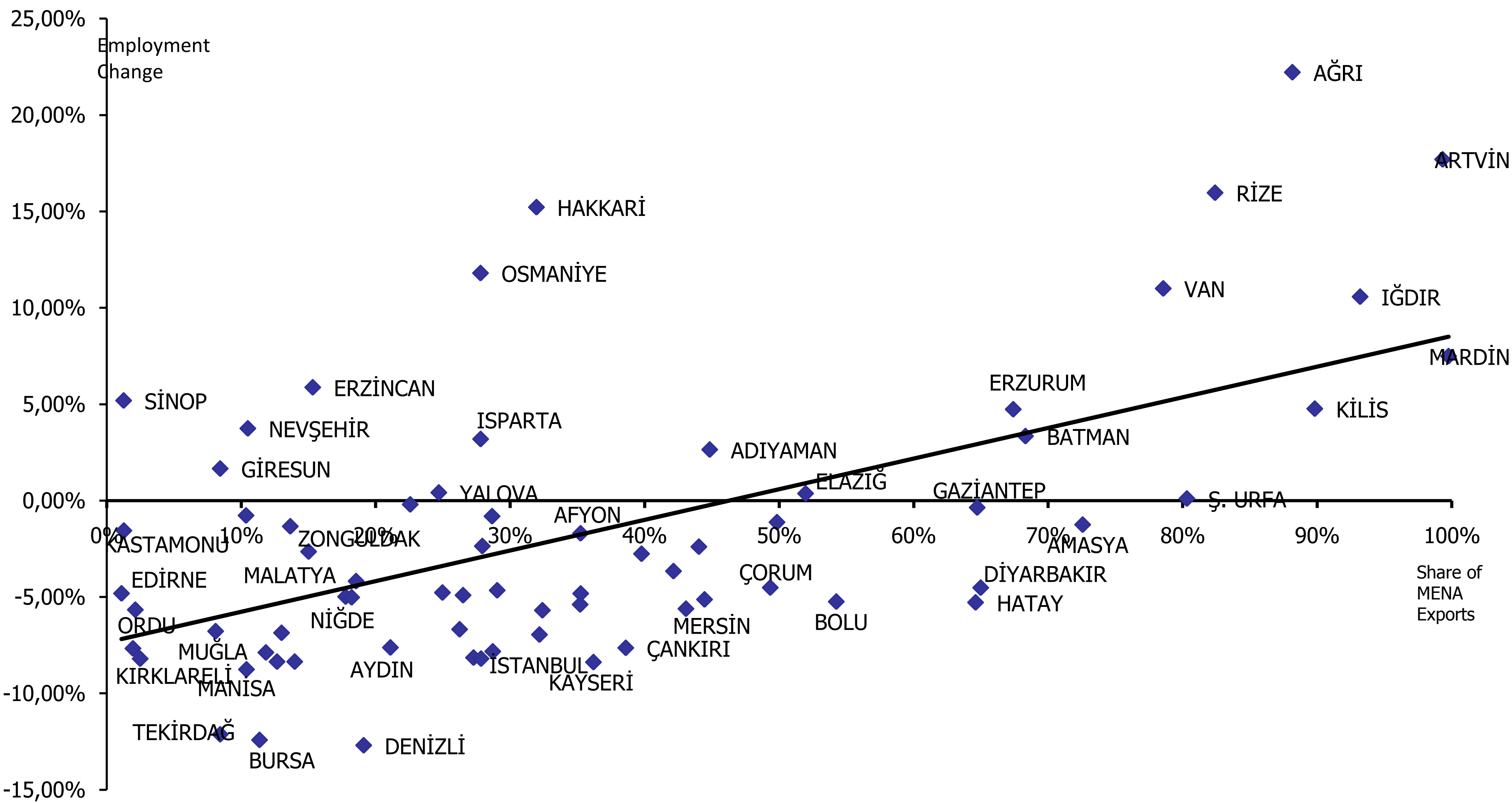
Source: The Global Competitiveness Report 2009-2010

Geographic composition of Turkey's exports: EU-Turkey Customs Union brings Turkey closer to her region



MENA focus was a big advantage for some Turkish cities during global economic crisis

Change in registered employment and share of cross-border exports in different cities of Turkey, 2009 Q1-Q2

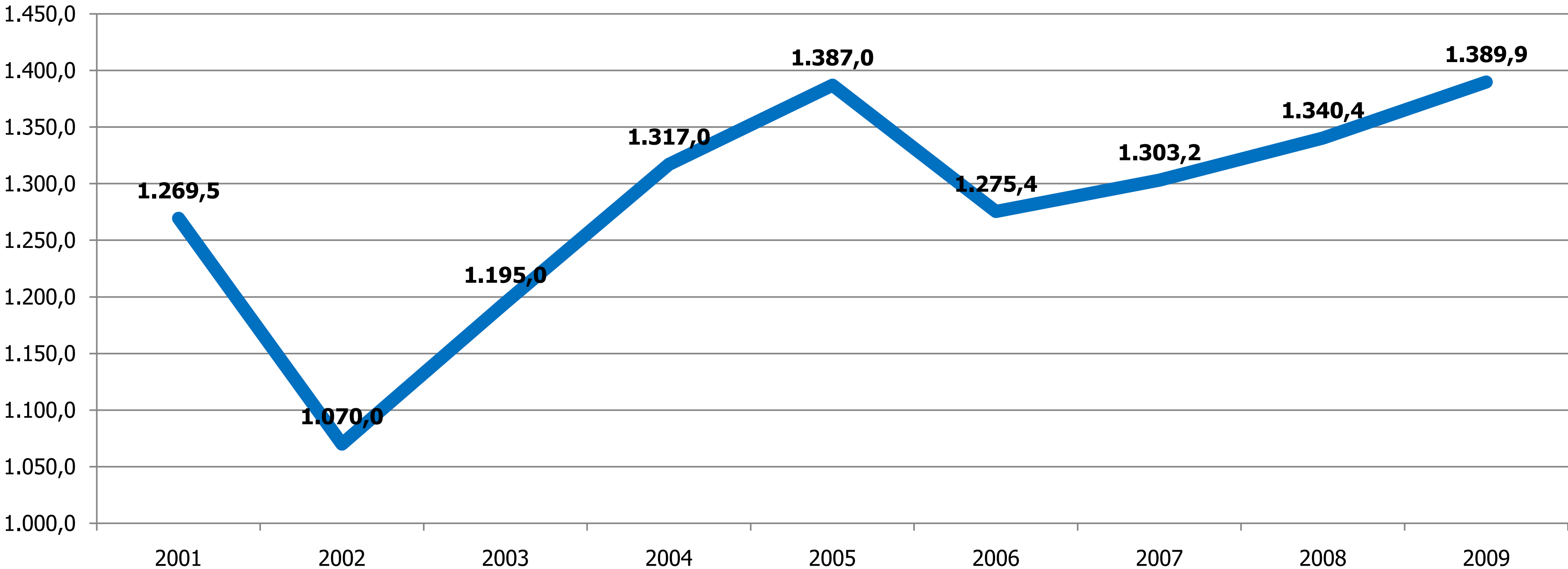


So, why Palestine now?

- Interest of Turkish industrialists from Anatolia
- Access to US market, QIZ scheme
- Access to MENA market; Gulf countries
- Labor skills, costs
- Physical infrastructure
- Efforts to build a solid instititutional infrastructure

Development potential is there; imagine what happens when stability comes…

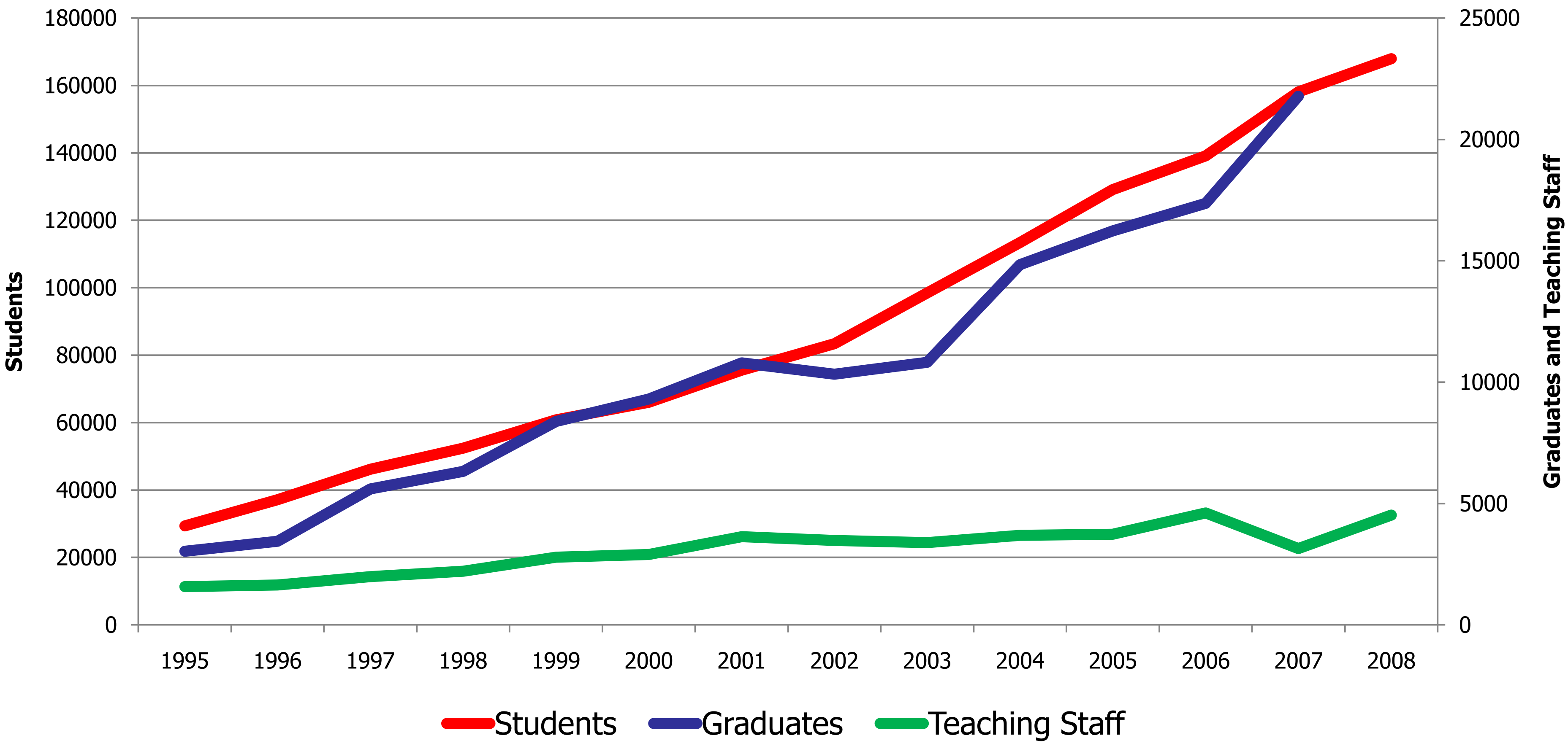
GDP Per Capita, US$, 2001-2009



Source: Palestinian Central Bureau of Statistics

Qualified young people and labor skills are quite impressive in Palestine

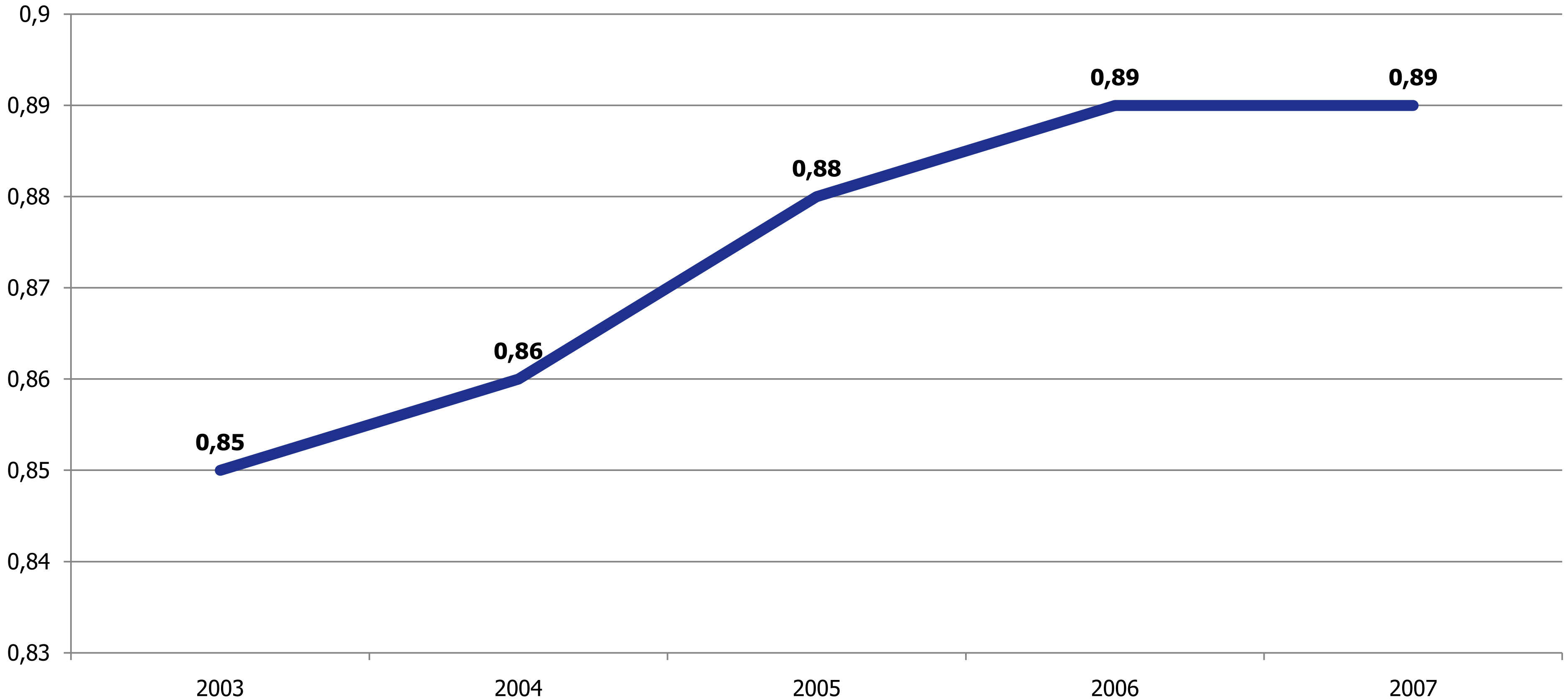
Number of Students, Graduates and Teaching Staff in Universities and University Colleges



Source: Palestinian Central Bureau of Statistics

Improvement in UNDP education index is promising..

HDR Educational Index, 2003-2007



Source: Human Development Report

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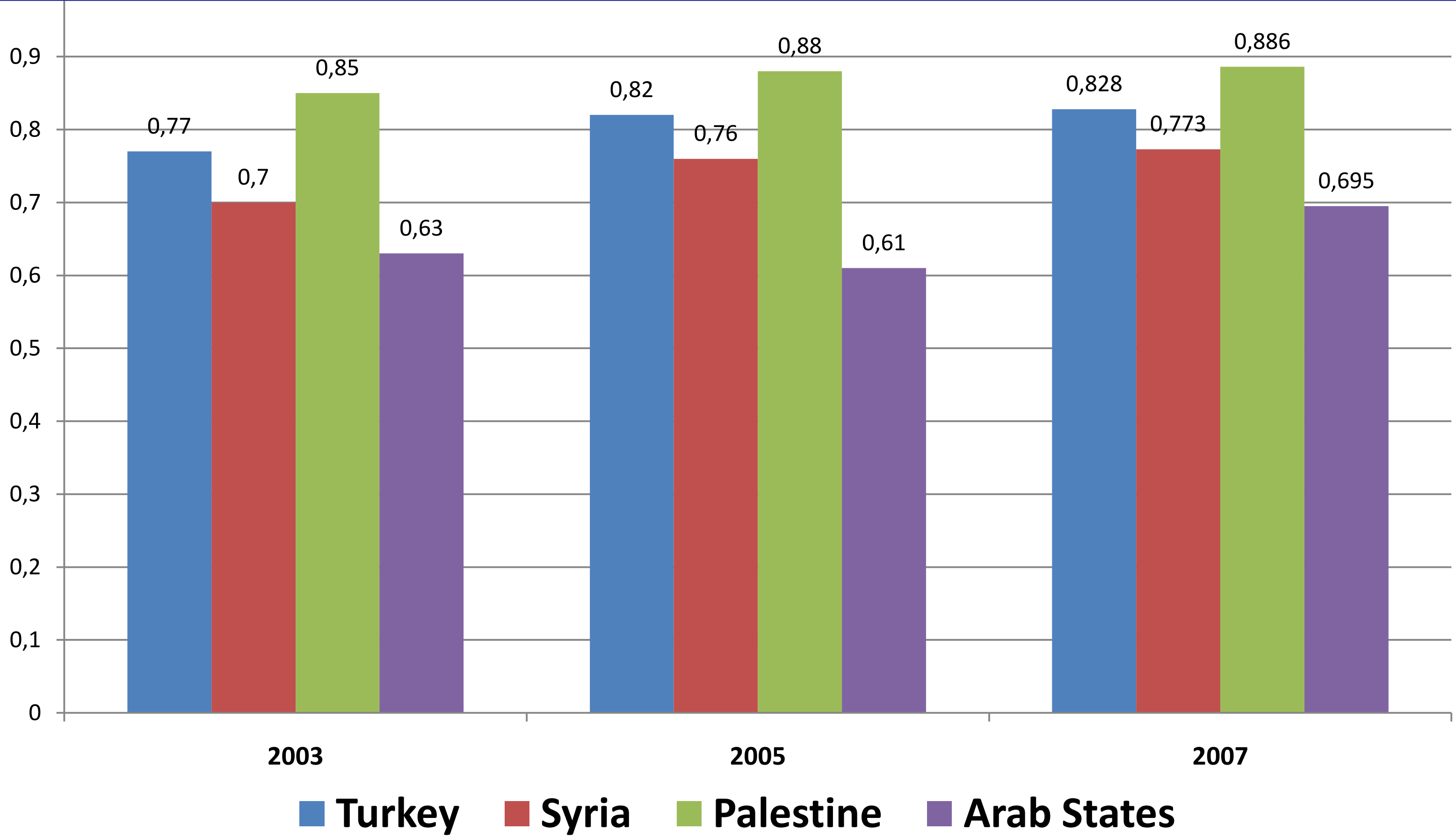
Compared to other regional countries, Palestine stands out in quality of labor

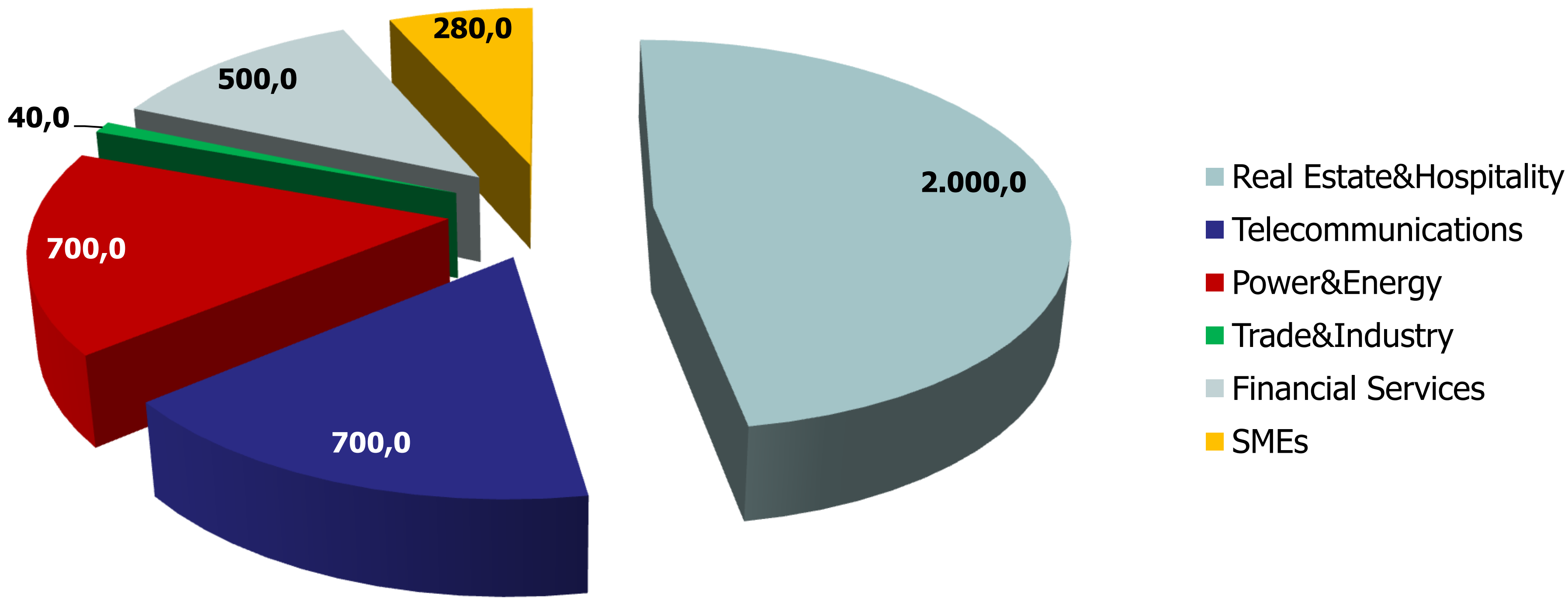
HDR Educational Index, 2003-2007, Turkey, Syria, Palestine and Arab States Average



Source: Human Development Report

Reconstruction can bring many investment opportunties

PIF Investments Projected for 2008-2011, million US $



Source: Palestinian Central Bureau of Statistics

We are closely following the PA plan for state-building in Palestine

- A two-year plan (2009-2011)
  - ➔ Physical infrastructure
  - ➔ Public institutions
  - ➔ Public services
  - ➔ Tax incentives for foreign investors
- Consolidating political support is a major challenge
  - ➔ Palestinians seem to be divided, as usual
  - ➔ International donor community is highly enthusiastic
  - ➔ Turkey could contribute more to the state building process on the ground

Overview – what our project has shown us?

- Our story and project in a nutshell
  - Objectives, concept, and incentives
- How does a private-sector led initiative contribute to state-building in Palestine?
  - Increased dialogue across private sector associations
  - Capacity building in PSD support institutions
  - Functioning border mechanism
  - Building blocks of industrial development

How did we first start?

- Ankara Forum:
  - Trilateral dialogue and problem solving mechanism
  - Palestinian, Israeli and Turkish businessmen
  - A plaftorm for discussion
  - Confidence building device
  - Focus on concrete projects
  - Regular meetings since 2005

Our first concrete project

- Revitalization of the Erez Industrial Estate
  - → MoU signed between then foreign ministers of Turkey and Palestine (Abdullah Gül and Naser Al-Qudah) in 2005
  - → 750 donums in Gaza, right on the border
  - → 200 Israeli and Palestinian companies before 2005 employing about 5000 Palestinian workers
  - → Production stopped as Israel withdrew
  - → Capacity to employ 10,000 employees
  - → Potential to provide livelihood to 7% Gazan people
  - → TOBB-BIS Co. established to undertake the project
  - → Political developments after 2006 led us to reconsider our location

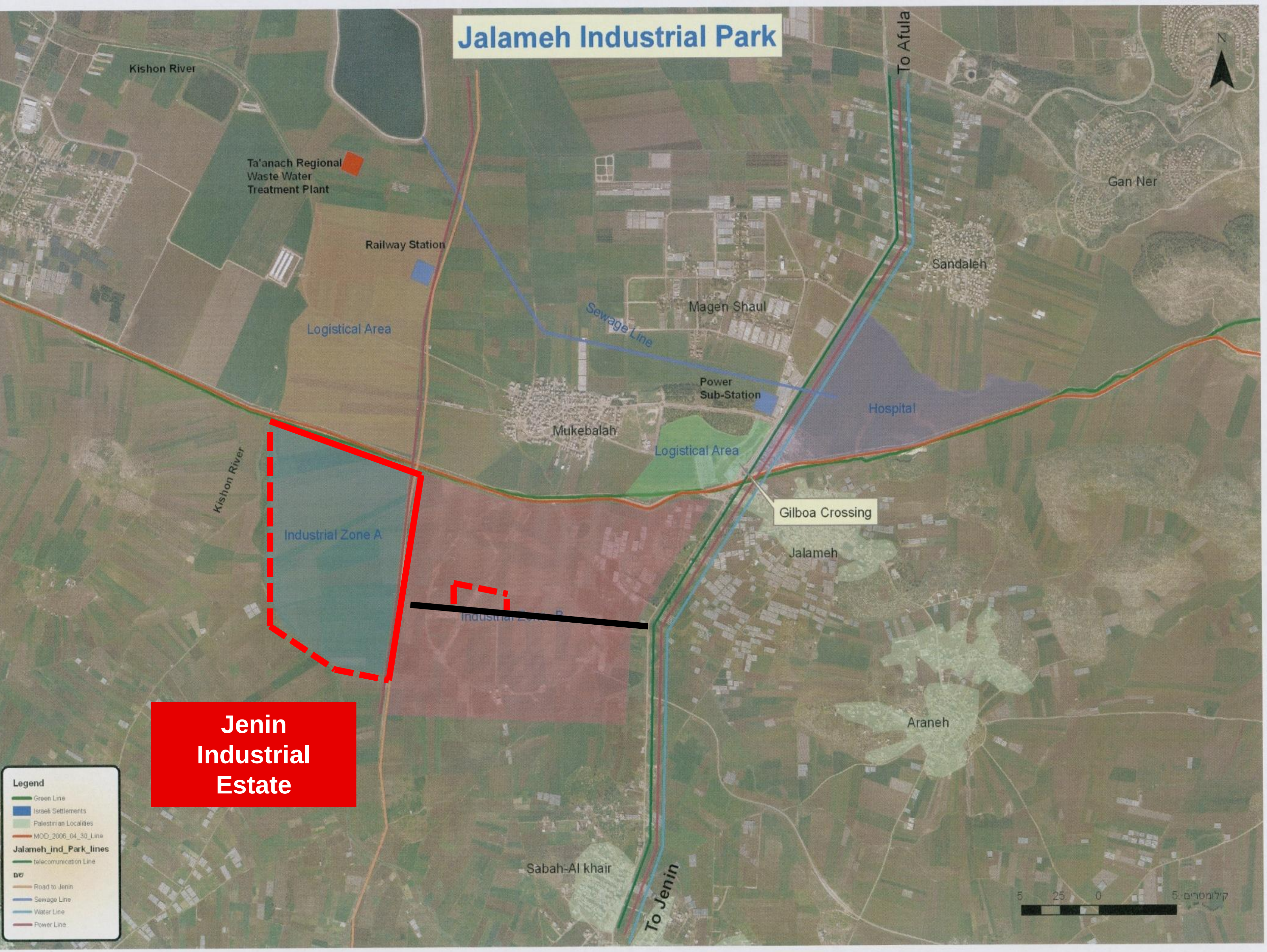

Jenin Industrial Estate
Erez Industrial Estate
Tarkumiya Industrial Estate
(Hayfa) Haifa
Jenin, İsrail
Netanya
(Tel Aviv) Petah Tikva
Holon
Rishon LeTsiyon
Batı Şeria
Amman
Naour
Ashdod
Jerusalem
Gaza
Gazze Şeridi
Be'er Sheva

Process of relocation 2007-2009

- After Gaza, we looked for opportunities in the West Bank
  - ➔ More stable but also more complicated
    - Land classification (A-B-C): IL/PA: who controls what and why?
    - Off-site infrastructure: no existing industrial activity
    - Land ownership: private vs. public
- First selected side was Tarqumia (Southern WB)
  - ➔ Impossible to move from C to B, Knesset decision
- Finally, starting operations in Jenin (Northern WB)
  - ➔ **Palestinian authority took two important steps:**
    - Cancellation of a previous contract; land confiscation

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
- TOBB-BIS signed a new concession agreement with PNA in February 2010


Jalameh Industrial Park
Kishon River
Ta'anach Regional
Waste Water
Treatment Plant
Railway Station
Logistical Area
Sewage Line
Magen Shaul
Power
Sub-Station
Hospital
Mukebalah
Logistical Area
Gilboa Crossing
Kishon River
Industrial Zone A
Jalameh
To Afula
Gan Ner
Sandaleh
Araneh
Sabah-Al khair
To Jenin
Jenin
Industrial
Estate
Legend
Green Line
Israeli Settlements
Palestinian Localities
MOD_2006_04_30_Line
Jalameh_ind_Park_lines
telecomunication Line
שם
Road to Jenin
Sewage Line
Water Line
Power Line
N

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.)
  - ➔ Good opportunities for garments, furniture, pharmaceuticals etc…

Major contributions to state building (1): fostering institutional dialogue

- Increased dialogue across private sector support institutions
  - ➔ From not travelling on the same bus to daily phone calls, by first name…
  - ➔ Ankara Forum showed that it can gain momentum, challenge is to resume the dialogue process
- Joint coordination committee for Jenin IE
  - ➔ Comprising Israeli and Palestinian officials related to customs, electricity, water, roads etc.
  - ➔ First between TOBB-BIS and Israelis, then plan is to include Palestinian officials (TOBB-BIS representatives include Palestinian consultants)

Major contributions to state building (2): Capacity building process

- Palestinian Industrial Estates and Free Zones Authority (PIEFZA)
  - ➔ Capacity building programs started in 2006
  - ➔ Industrial Estate Management and transfer of Turkish know-how
    - At OIZ management level
    - Macro policy planning level TR Ministry of Industry
- Capacity building at Chambers and Chamber Federation (2006-onwards)
  - ➔ Delivery of sustainable chamber services for PSD; transfer of Turkish chambers' know-how
- Project management unit at Palestinian Ministry of National Economy
  - ➔ An island of effective policy planning and coordination for PSD

Major contributions to state building (3): A well-functioning border

- Trade facilitation is highly central to the success of the project
  - ➔ Unimpeded, efficient and predictable access to and from the Crossing point
  - ➔ A trilateral security coordination framework
  - ➔ Security and trade protocol to be signed between TOBB-BIS and Israel
- An opportunity to test the goodwill of politicians and officials through a concrete experiment

Major contributions to state building (4): industrial development

- We do not only focus on “land development”; this is an “industrial development” – Turkish experience
  - 120 OIZs, 37.000 firms, 820.000 workers, +100 billion exports
  - Skills development (vocational training targeted towards investors’ needs)
  - Business development services (marketing, logistics, R&D)
  - Lowering cost of doing business (electricity, water, telecom)
  - Market access (making use of the QIZ scheme and FTAs)
- We aim to solve problems only for this 933 donums; technical project
- Scaling this project up will mean designing an industrial strategy and competitiveness perspective for Palestine

Conclusions

- Two state solution presupposes capacity building on the Palestinian side.
  - ➔ Building Palestinian institutions should start now.
- TOBB-BIS project is about capacity building in Palestine.
  - ➔ It is not only a business project
  - ➔ It is a business project
  - ➔ Hence it is sustainable
- First it was Palestinians and Israelis, now the ball is in the Turkish side.
  - ➔ It is getting difficult to cope with the speed of the Palestinian decision making
  - ➔ There is will and determination on the Palestinian side.