

# tepaV

Türkiye Ekonomi Politikaları Araştırma Vakfı

## **What we know about what make cities competitive?**

Ozan Acar  
29 April 2015, Ankara

# The myth of specialization for economic development

- Should cities, regions and countries specialize?
  - According to the conventional wisdom yes!
- The true answer is: People and firms should specialize; cities, regions and countries should diversify
  - Dentist and lawyer; Boeing and Cargill
- In the process of economic development, cities, states, and countries do not specialize; they diversify
  - İstanbul vs. Şırnak
  - Marmara Region vs. Southeast Anatolia
  - United States vs. Colombia

# Is the economic world made out of...

- Physical capital
- Human capital
- Labor
- Output (GDP)
- If this is the way of understanding the world then 85% of growth is explained by
  - .... none-of-the-above
- Total Factor Productivity = a measure of our ignorance (Abramovits, 1958)
- Maybe it is not that good a way to parse what the world is made out of

Output per capita

Physical Capital pc

Human Capital pc

$$Y = F(K, H)$$



=



# Why are some countries/cities poor and others rich?

- The traditional answer emphasizes factor accumulation and “aggregate” productivity
- Countries/cities are rich because they work with more:
  - Physical Capital (accumulated through investment)
  - Human Capital (years of schooling)
- ...and have more “total factor productivity”
- ...which lets them get more output per capita
- Policy implications:
  - More education and health
  - More savings to finance investment (and micro-finance)
  - More property rights to assure investors
  - More “productivity”

# You need more than capital and labor to make a product

Tradable Inputs

Public Inputs

Leather

Certifying Body

Tanner

Trade Agreements Roads

Leather Cutters

Technical Education

Ports

Power

Labor Skills

Tax Regulation

Leather

Norms

Pressers

trust

Sawing

teamwork

Sole Making

Manufacturing & Management Certifications

Shapers

Private Inputs



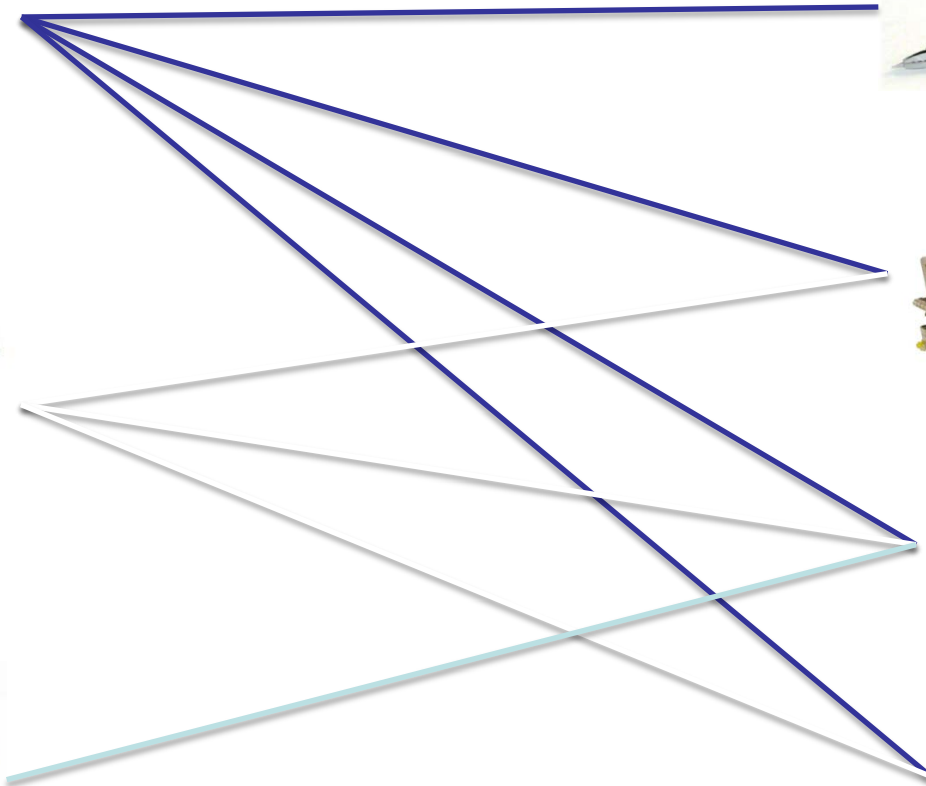
# An alternative view of economic development

- Some countries make few things, while others make many
  - Germany vs. Pakistan
- Some products are made by many countries, other products are made by few countries
  - Engine vs. shirt
- Countries that make few products, make products made by many countries
- Countries that make many products, also make products made by few other countries

## Countries



## Products

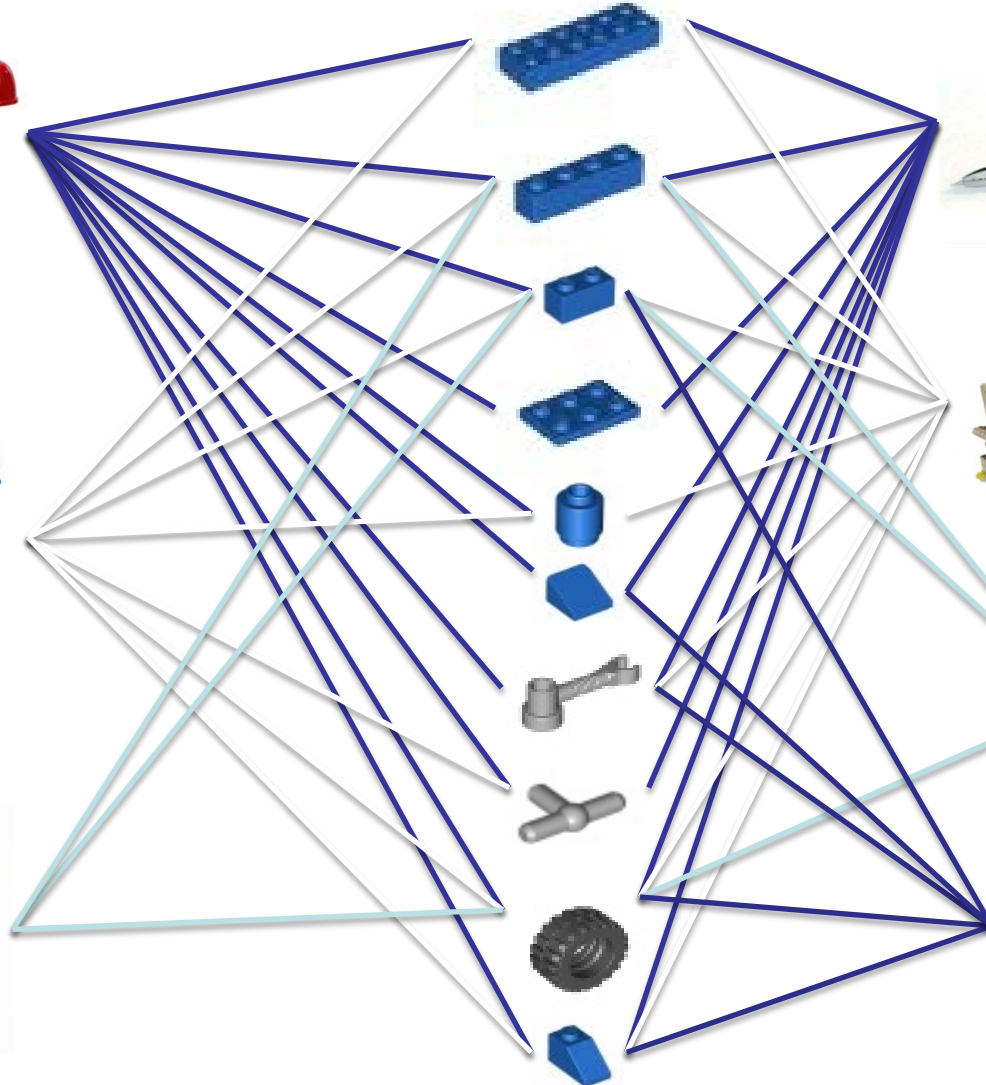




## Countries



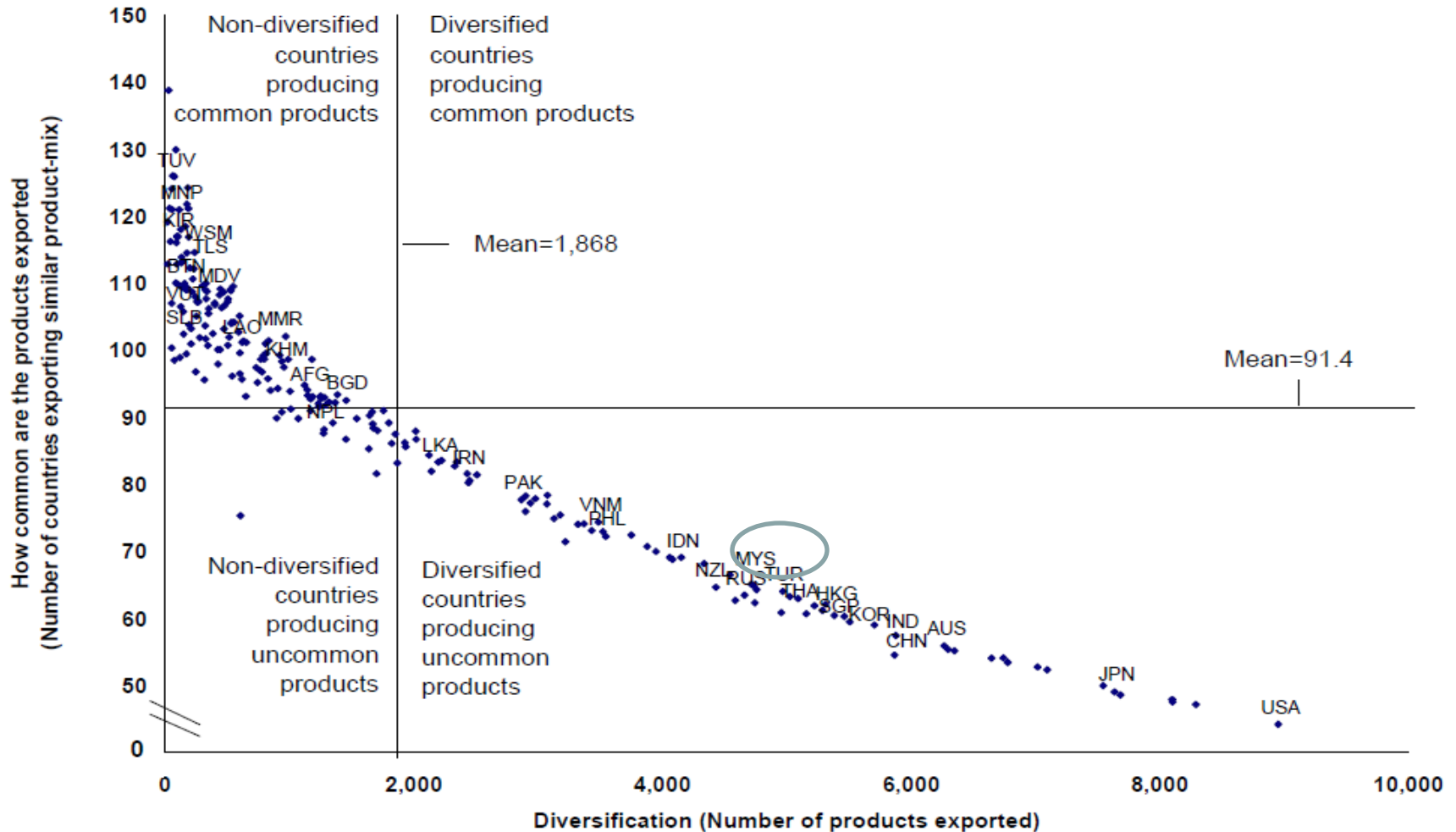
## Capabilities



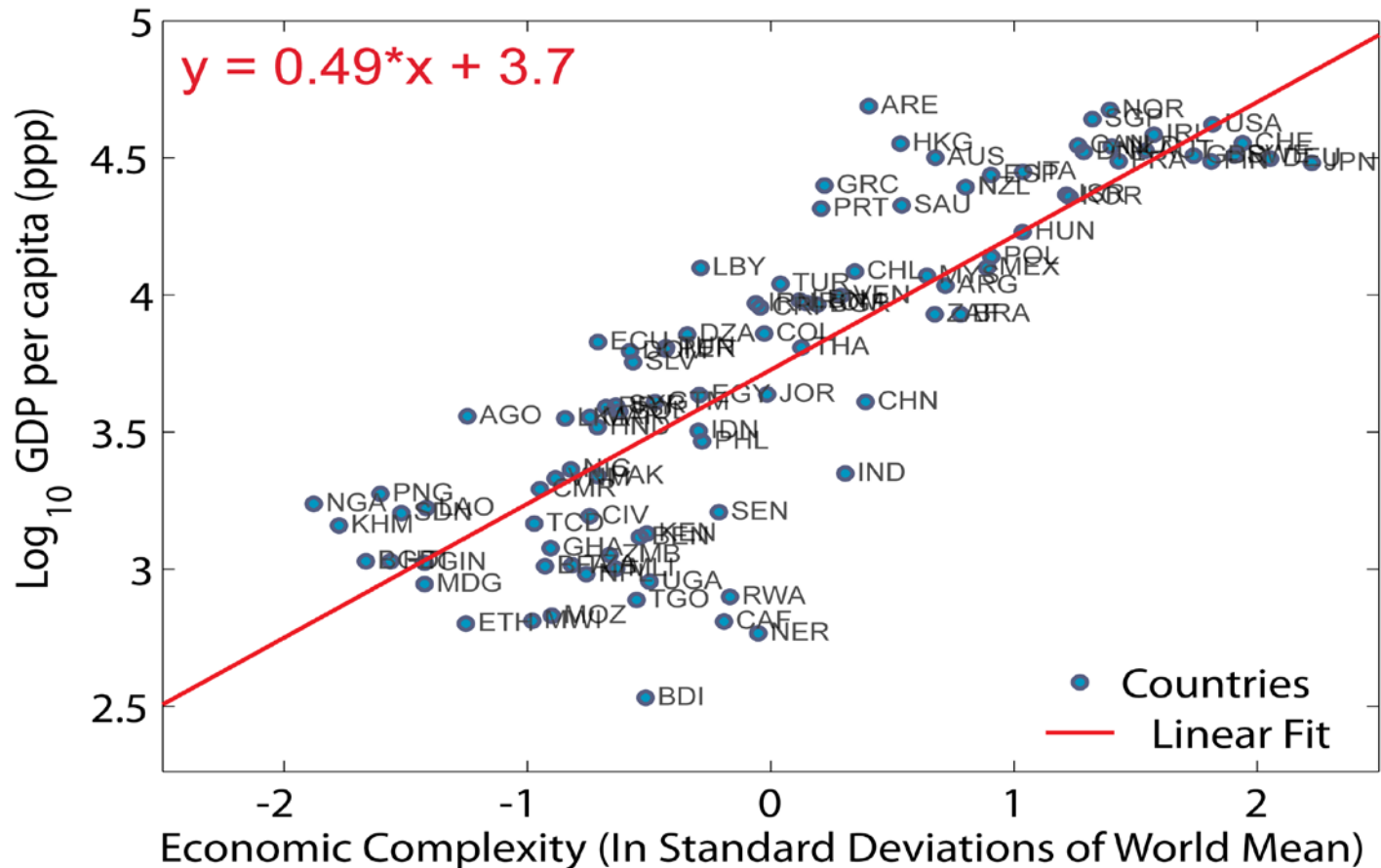
## Products



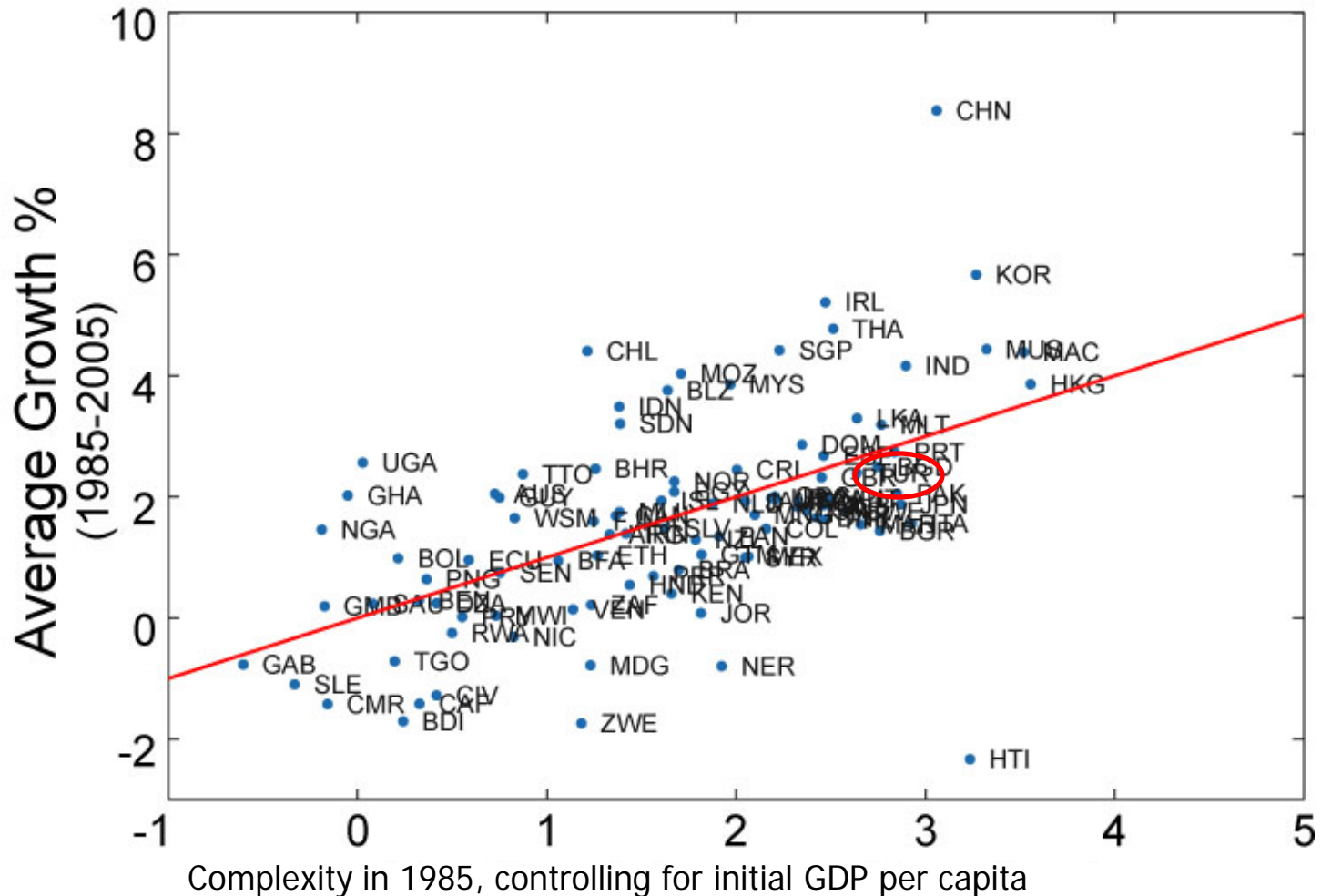
# Diversified countries produce non-ubiquitous products



# Economic complexity is associated with higher per capita income

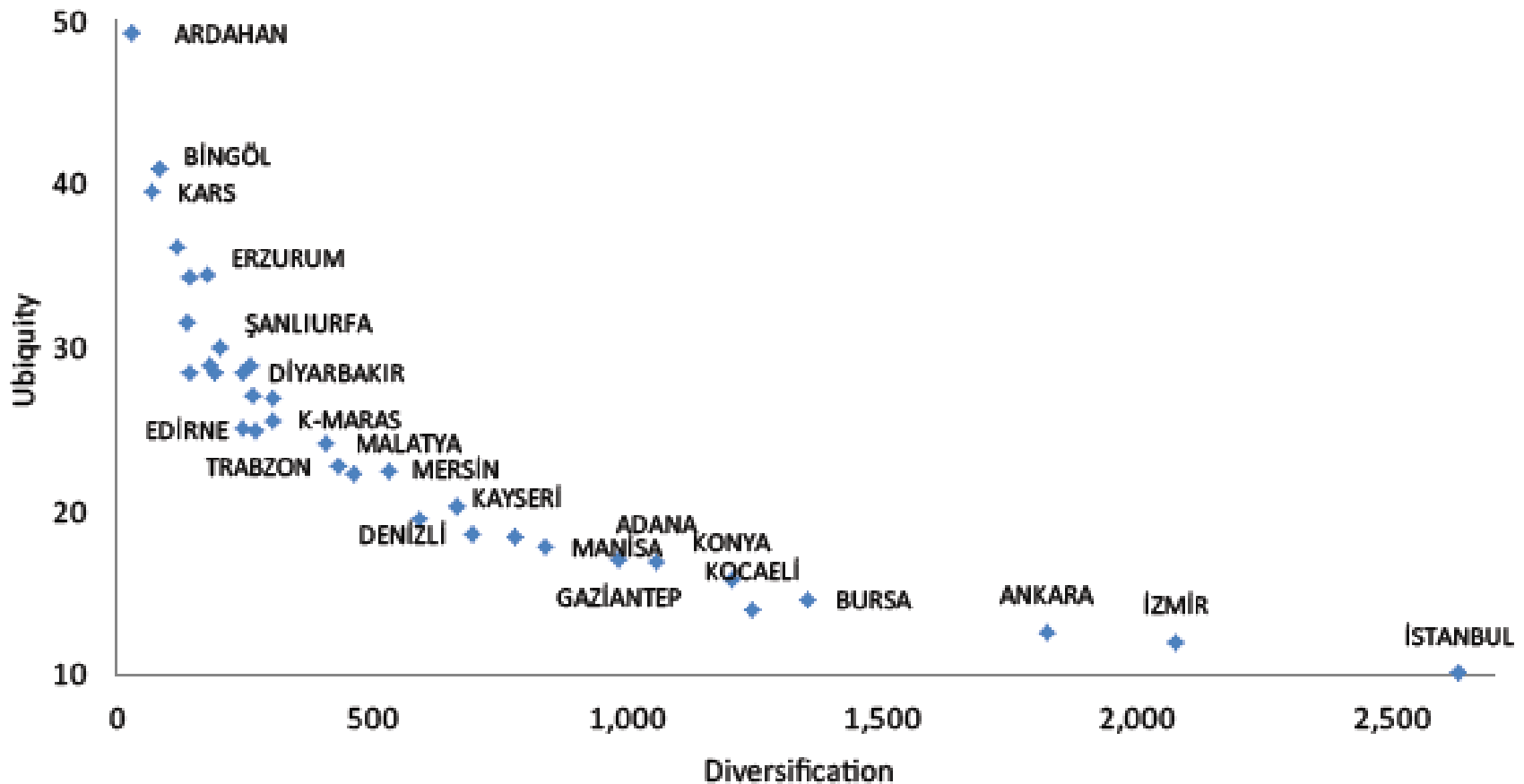


# Economic complexity is a good predictor of future economic growth across the countries



Complexity in 1985, controlling for initial GDP per capita

# The relationship between diversity and ubiquity holds for the Turkish cities





## Average years of schooling of the labor force and city population size are positively associated with the level of diversity

	Model 1	Model 2	Model 3	Model 4
Constant	-4.27 (-2.35)	-13.1 (-13.8)	-12.7*** (-11.8)	-12.84*** (-10.8)
Average years of schooling	4.87*** (5.37)	3.97*** (9.82)	3.91*** (9.47)	3.99*** (8.71)
Population size		0.81*** (17.43)	0.76*** (11.7)	0.75*** (9.7)
Population density			0.063** (1.8)	0.07 (0.74)
Distance to harbour				0.009 (0.27)
R <sup>2</sup>	0.28	0.86	0.86	0.85

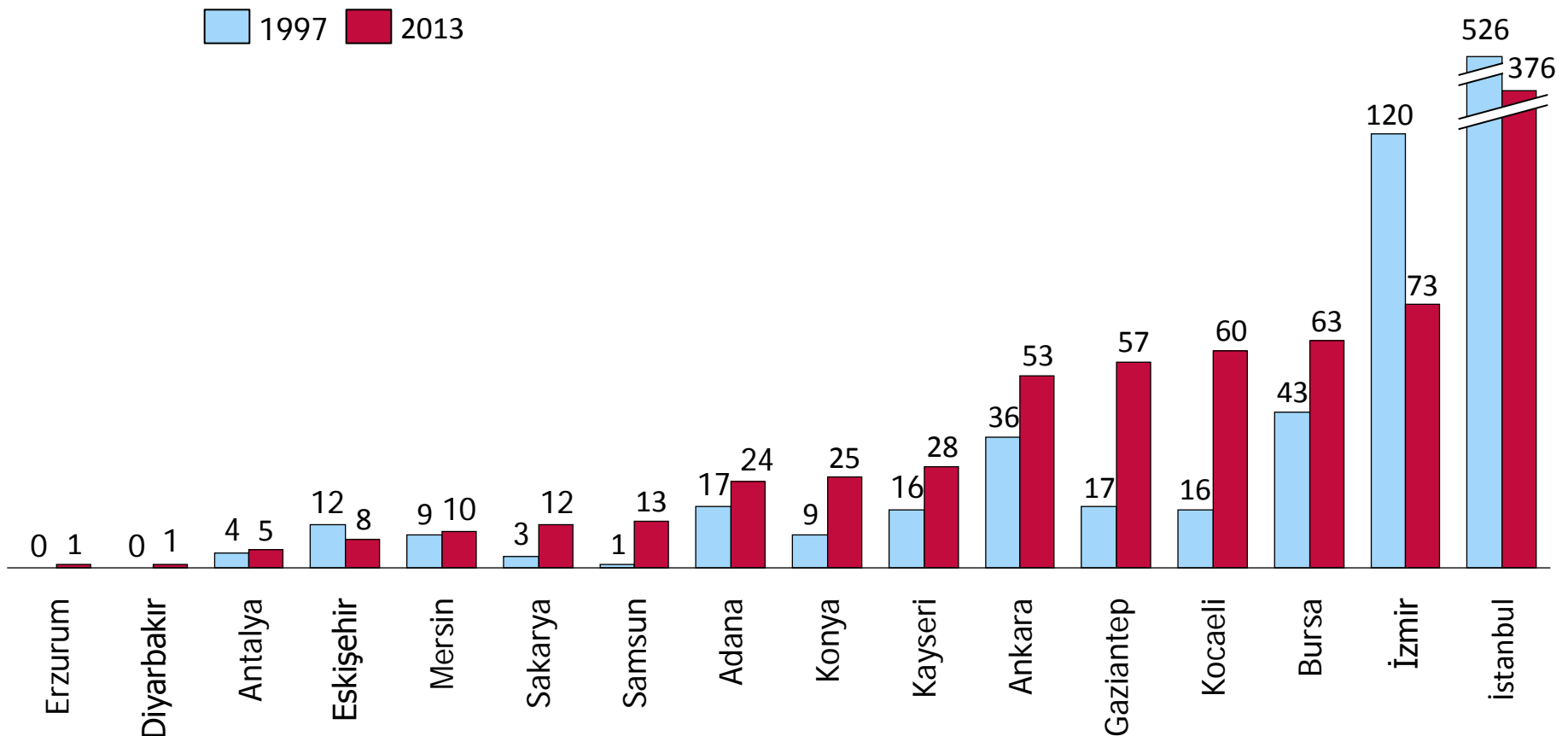
## Average years of schooling of the labor force and city population size are positively associated with the ubiquity of the production

	Model 1	Model 2	Model 3	Model 4
Constant	6.74*** (11.86)	9.44*** (28.46)	8.84*** (25.7)	8.61*** (21.64)
Average years of schooling	-1.73*** (-6.12)	-1.46*** (-10.38)	-1.37*** (-10.38)	-1.25*** (-7.32)
Population size		-2.45*** (-15.2)	-0.18*** (-8.28)	-0.19*** (-8.36)
Population density			-0.095*** (-3.79)	-0.09** (-3.49)
Distance to harbour				0.0008 (1.13)
R <sup>2</sup>	0.34	0.85	0.87	0.85



# Large enterprises have started to concentrate more in Anatolian Tigers

Number of companies in the ISO-1000 list



# Anatolian Tigers are hosting the fastest growing companies too

Number of companies in the Turkey 100 list

CITY	2013	2014
Istanbul	29	44
Ankara	17	14
Izmir	9	8
Kocaeli	8	8
Gaziantep	4	3
Adana	4	2
Bursa	3	2
Mersin	3	1
Manisa	3	0
Kahramanmaras	2	5
Eskisehir	2	0
Hatay	2	0
Kayseri	1	3
Antalya	1	2
Balikesir	1	2
Karaman	1	2
Sivas	1	2
Usak	1	2



# The fast growth companies perceive investment climate constraints as more binding

Investment climate constraints as perceived by the fast growth companies

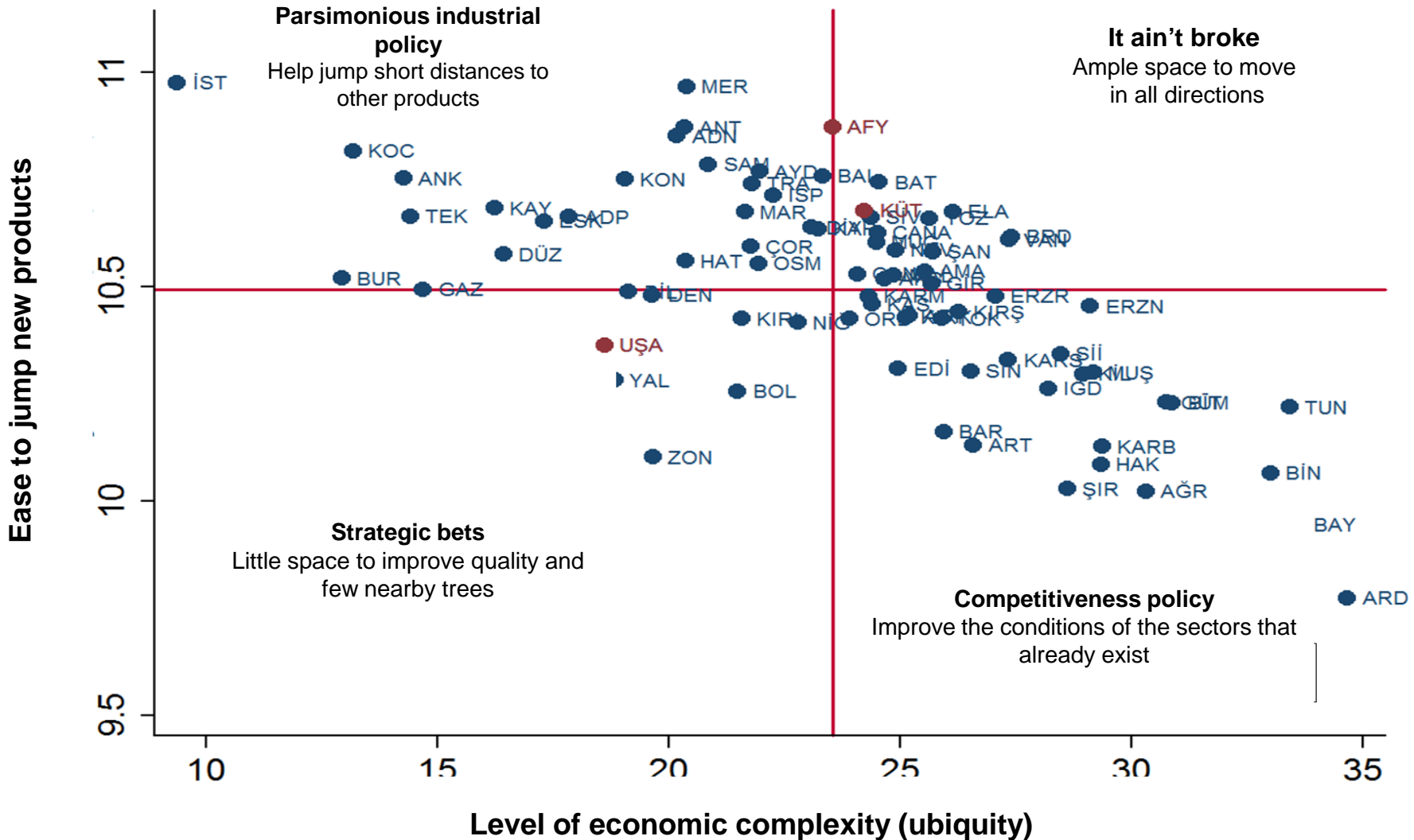
- regional
- national
- national
- national
- management
- national
- management
- management
- management
- regional
- national
- regional



# What makes growth difficult? The chicken and egg problem

- You cannot make new products because you lack the capabilities
- You don't want to accumulate the capabilities because the products that need them are not being made
  - Because of other missing capabilities
- How to deal with this problem? By moving towards "nearby" products
  - Products that require similar set of capabilities

# One size fits all industrial policy won't work in all of Turkey's cities



## Need for a diverse set of policy tools to address the developmental challenges of Turkey's cities

- The current Investment Incentive Scheme has regional and sectoral focus but
  - It is still just one policy tool
- Establishment of Regional Development Agencies is an important step in the right direction but
  - Governance issues and the problems with the formation of the regional groupings persist
- Regional Development National Strategy Document adds a spatial dimension to development planning but
  - Shyness in classifying the cities/regions

# Conclusion

- Need to start differently about the economic development at the city level
  - One size fits all policy won't work
- Local actors should become more involved in development policy making processes
  - Provision of public inputs
- Competitive and fast growth companies are key to make their cities wealthier
  - Focus on management quality issues