

# tepaV

The Economic Policy Research Foundation of Turkey

## Strengthening the Connectivity and Business Synergies in the SEE

Session One  
Economic Diagnostics of SEE-6 and Turkey

Sarajevo, July 21, 2015

# Framework

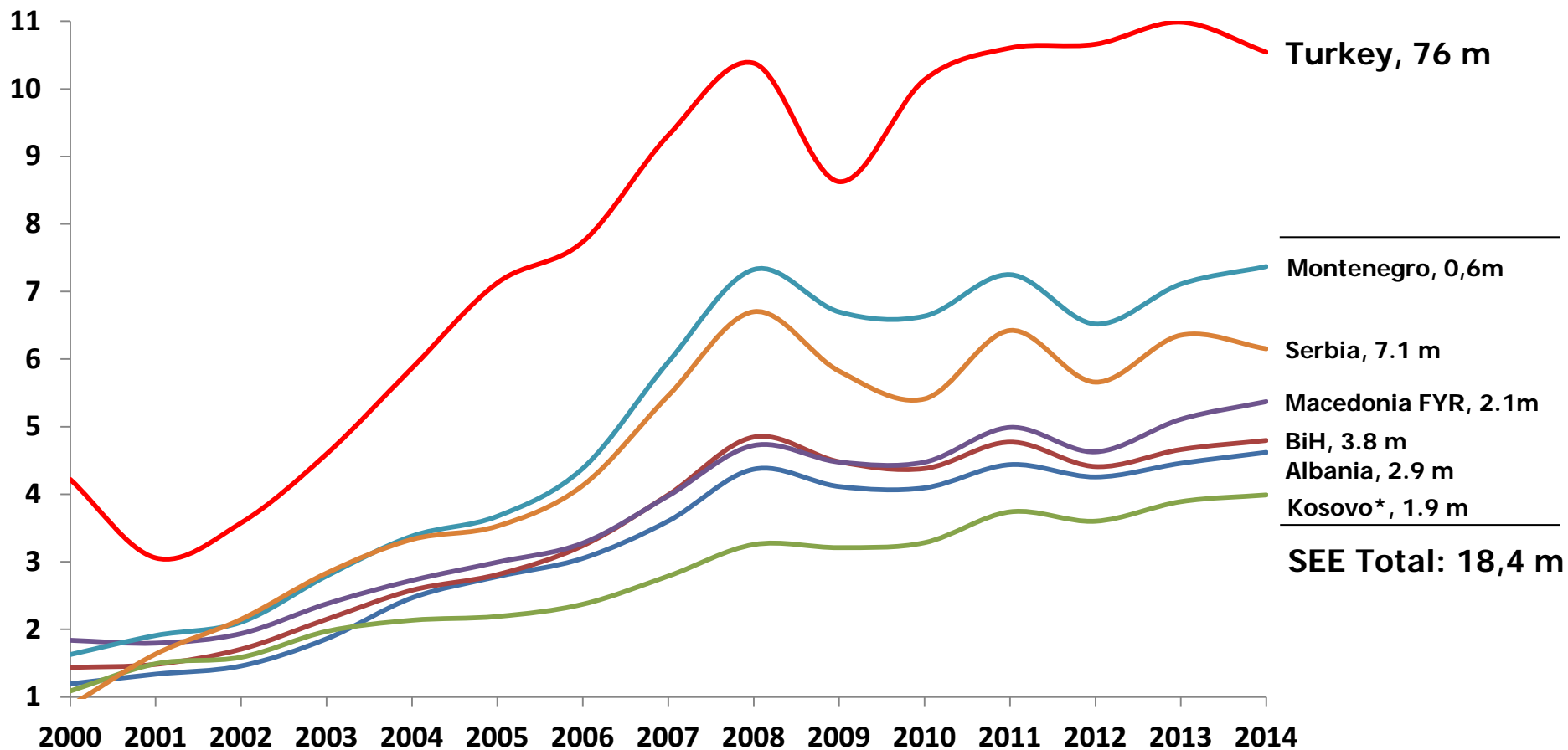
- What do we think of when we think of SEE?
  - Overall economic performance
  - Transformation story
  - Benchmarking (institutions, rule of law, connectivity, doing business etc.)
- Can the future be any different?
  - Where is the potential?
  - Any role for Turkey and Turkish private sector?
- Conclusions / Major patterns we identified
  - A sketch for regional taxonomy
- Discussion questions...

## Our main question – how to enhance..

Economic cooperation between two different regions, in terms of size, income and, partly, economic performance.

GDP per capita, 2000-2014, thousand current US \$

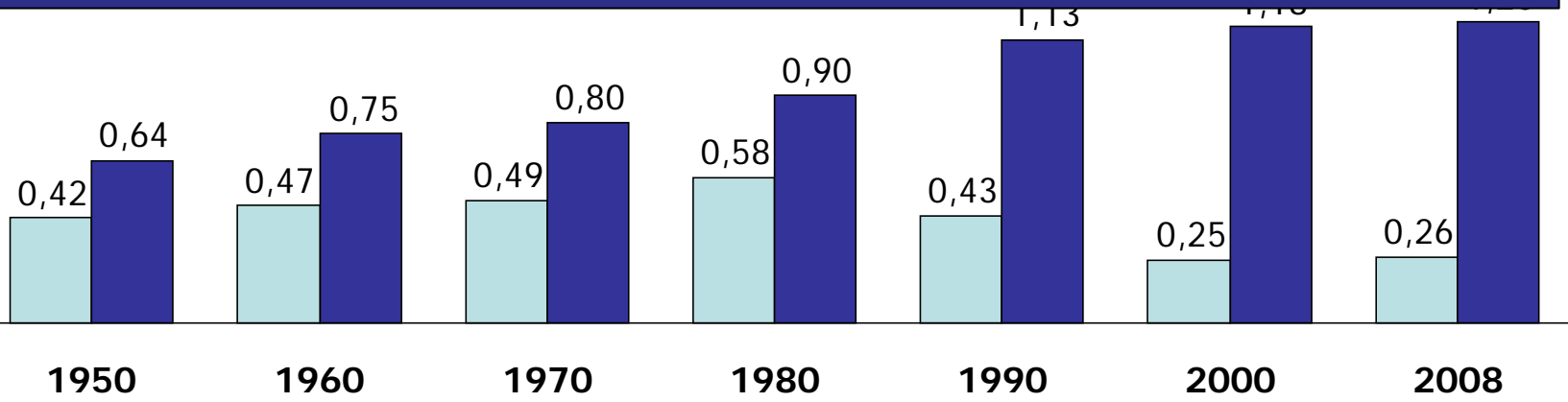
Population



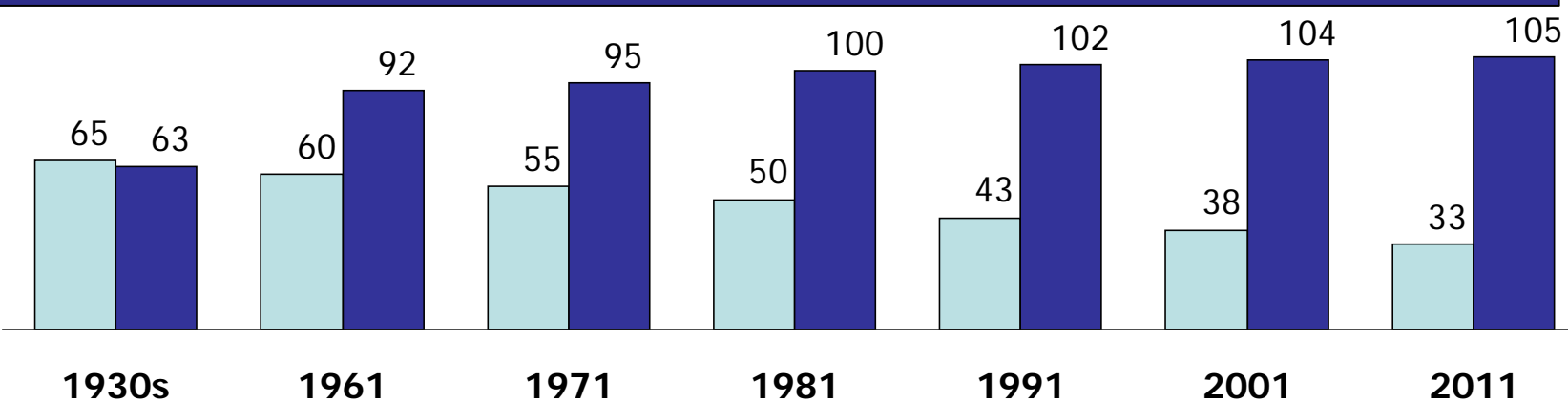
## SEE is not currently a growth region.

And its share in the world is shrinking

Share in world total GDP, %



Share in world total population, per 10,000

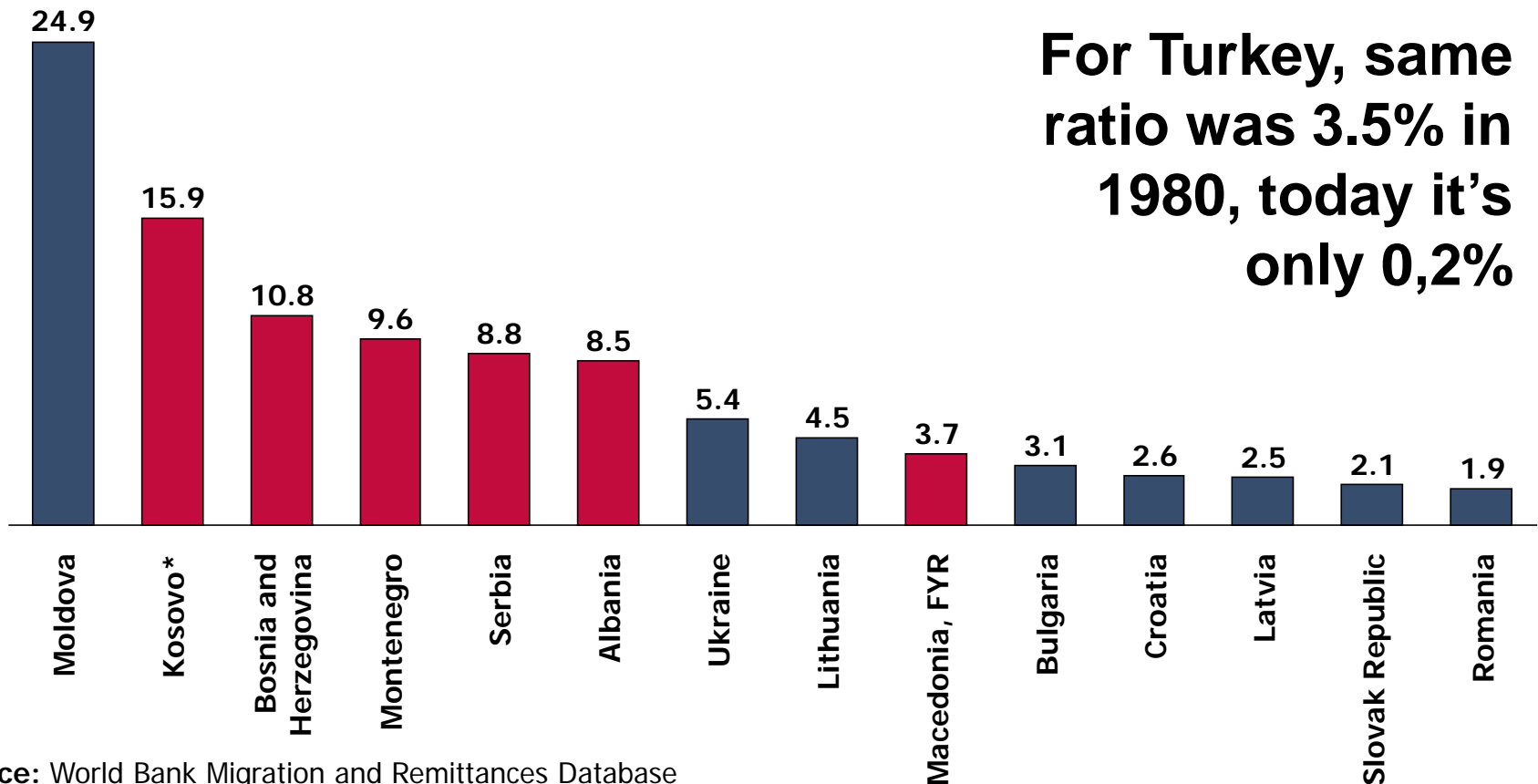


SEE  
Turkey

SEE: Albania, BiH, Croatia, The Former Yugoslav Republic of Macedonia, Montenegro, Serbia

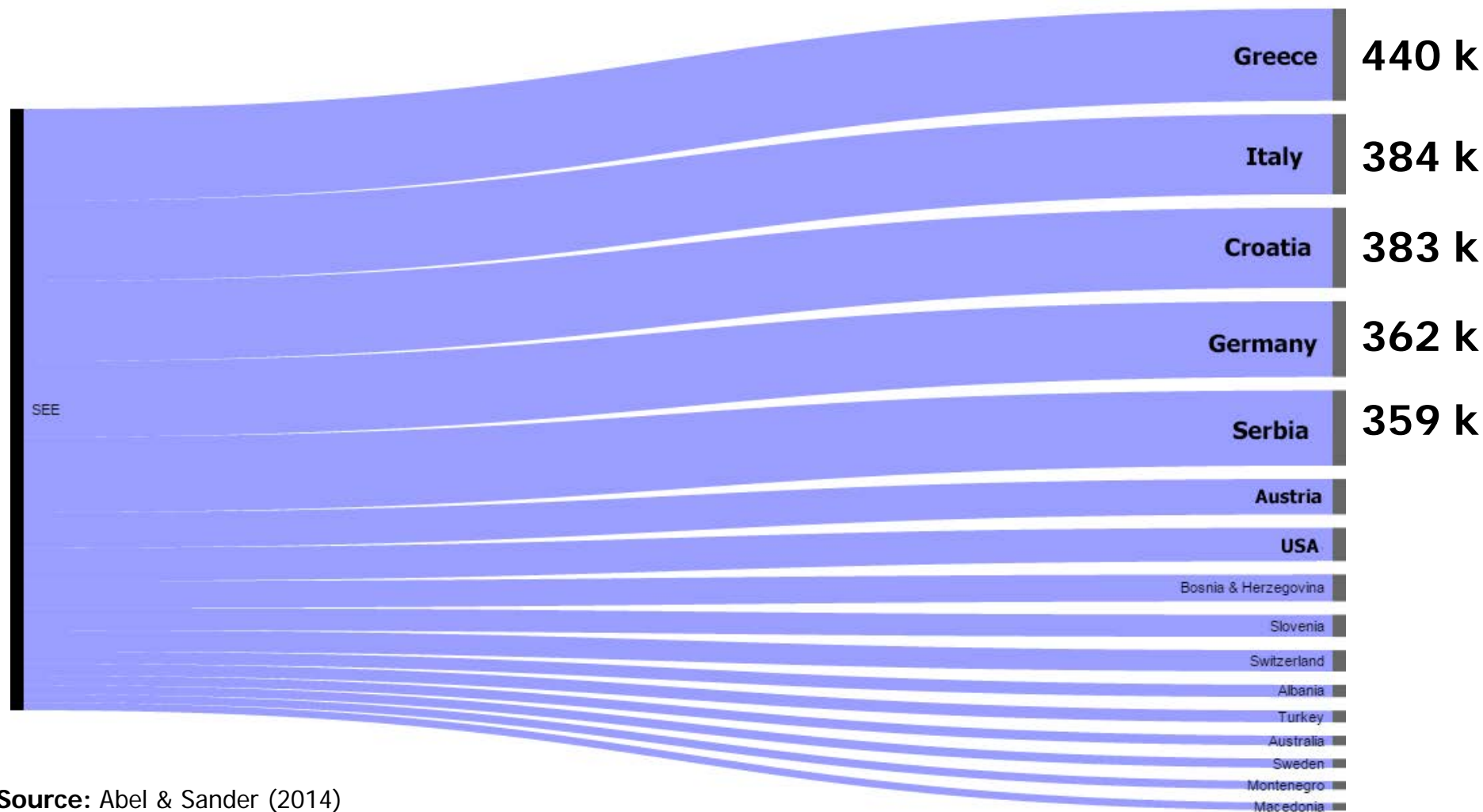
Today, instead of exporting sophisticated products, region, unfortunately, exports young people...

### Remittance inflows as % of GDP, 2013

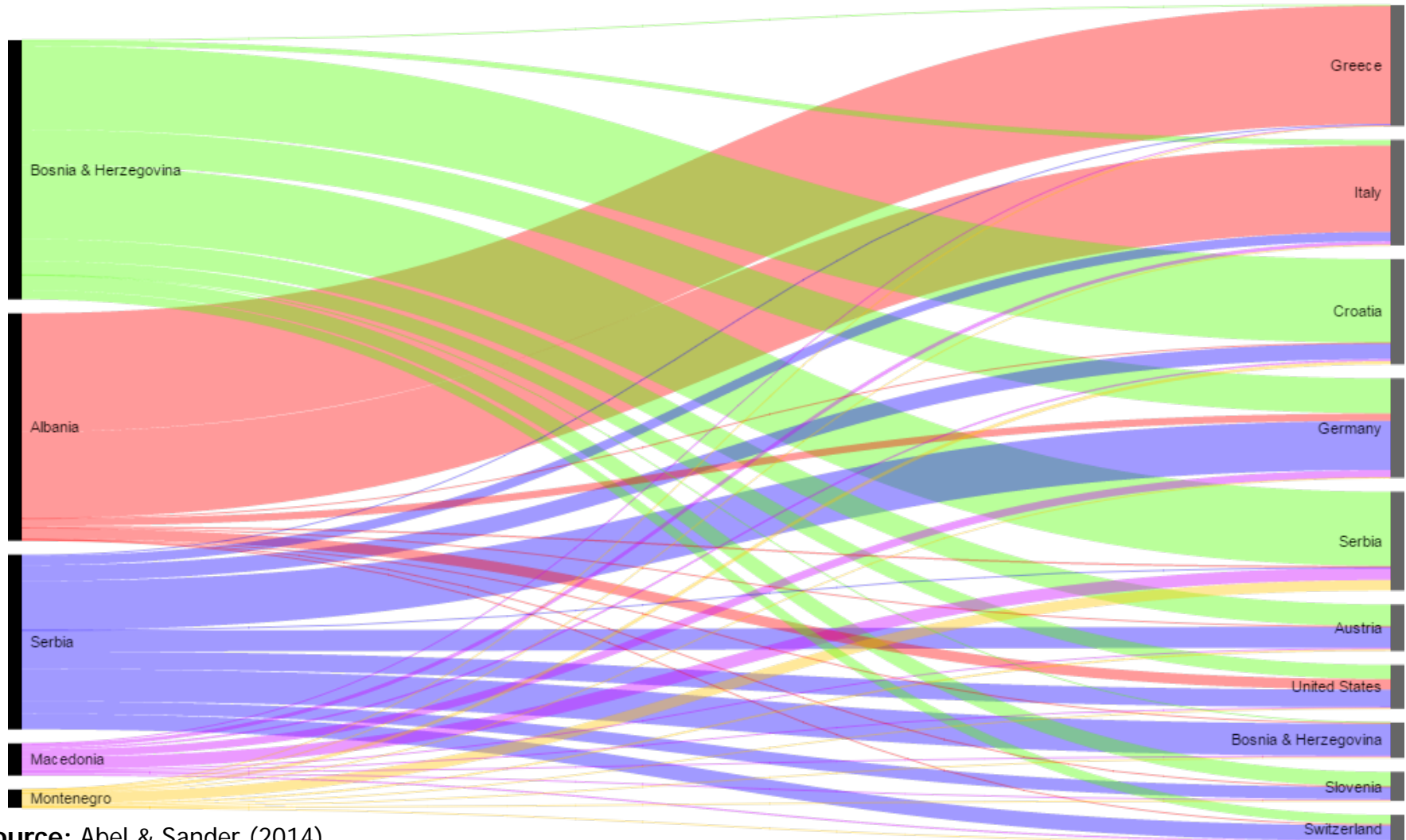


# Where have the people gone?

The region is estimated to have lost over 2 million people between 1990 and 2010



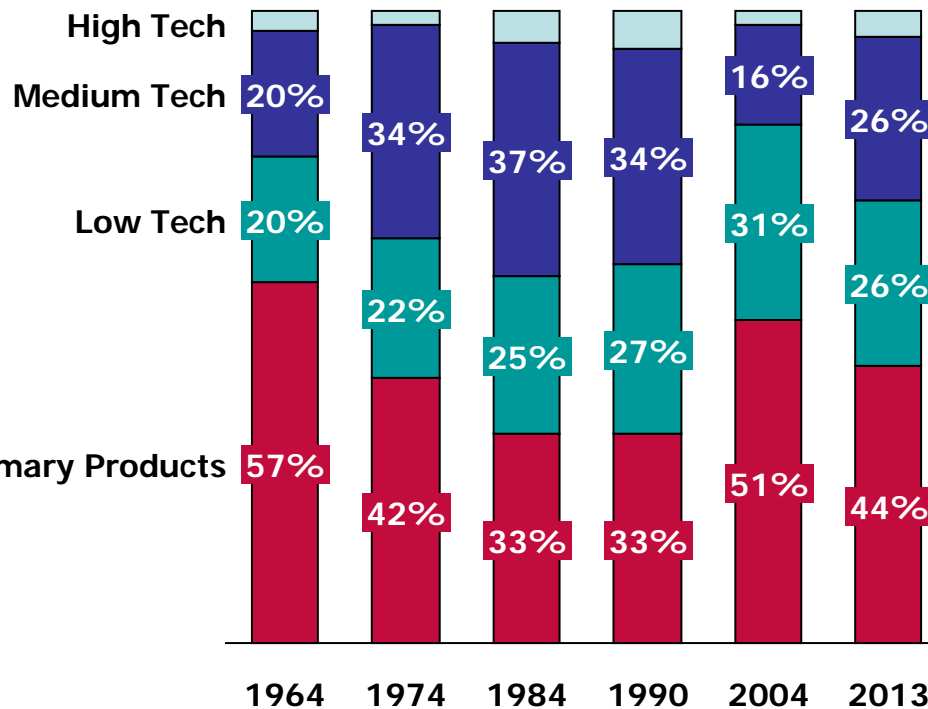
# Significant variation between source and destination countries



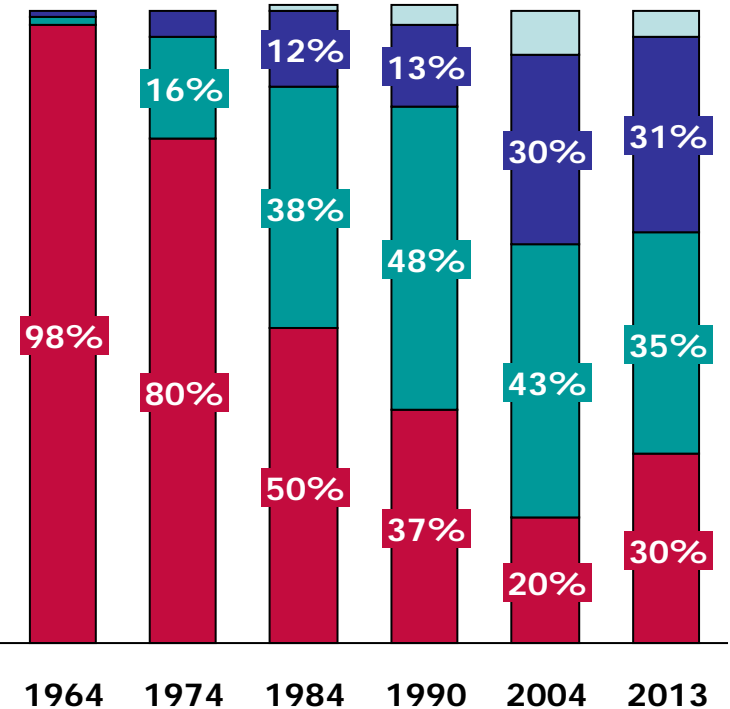
**A stagnant sectoral transformation process.**  
Lost decade – 1990s. Any capabilities from the past?

## Technology Classification of Turkey's and SEE's Export (1964-2013)

### Yugoslavia – SEE-6



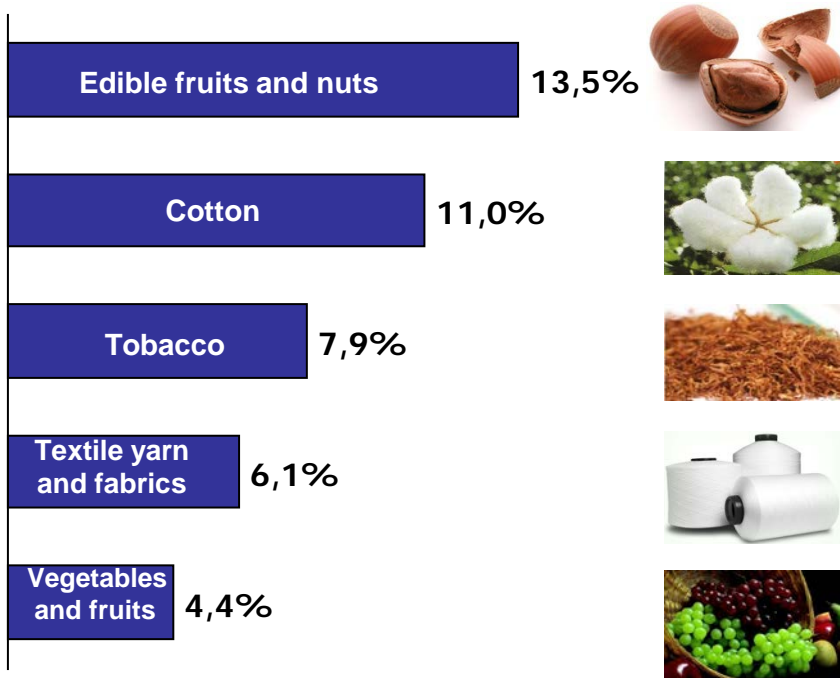
### Turkey



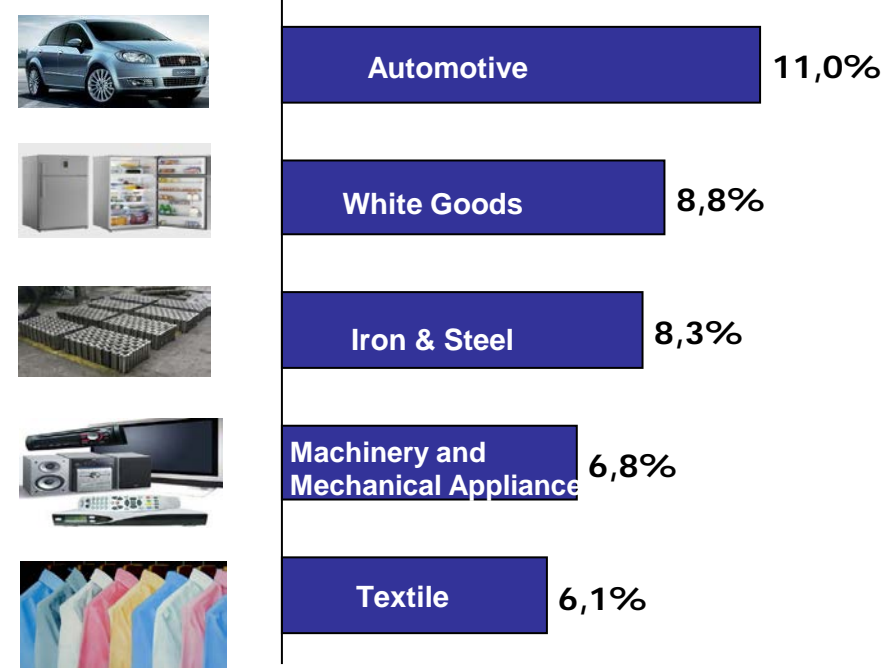


## Result of moving people towards density: From a sleepy agrarian country to a mid-tech player

### Turkey's Top 5 Export Items -1980



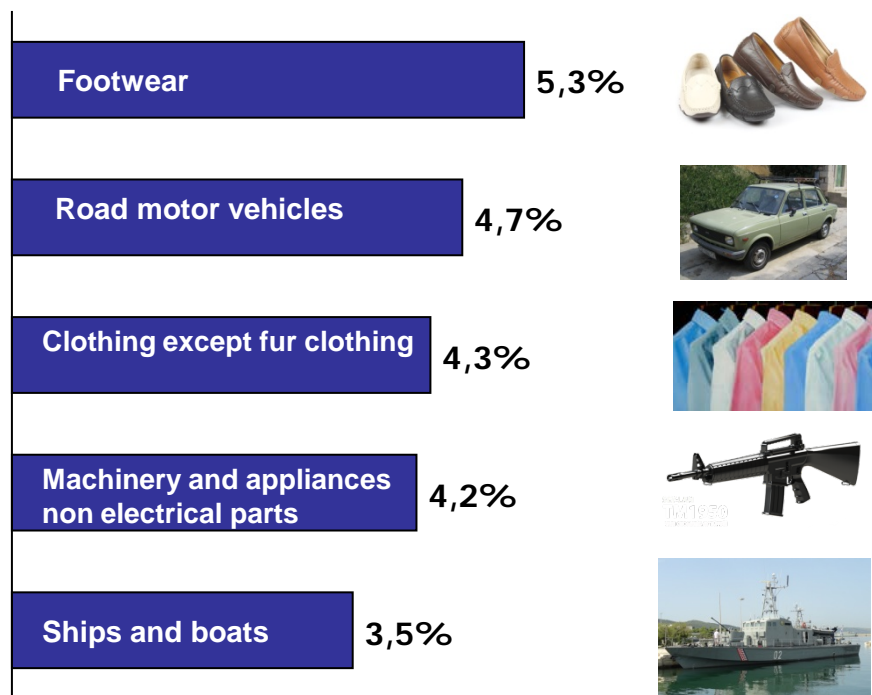
### Turkey's Top 5 Export Items -2013



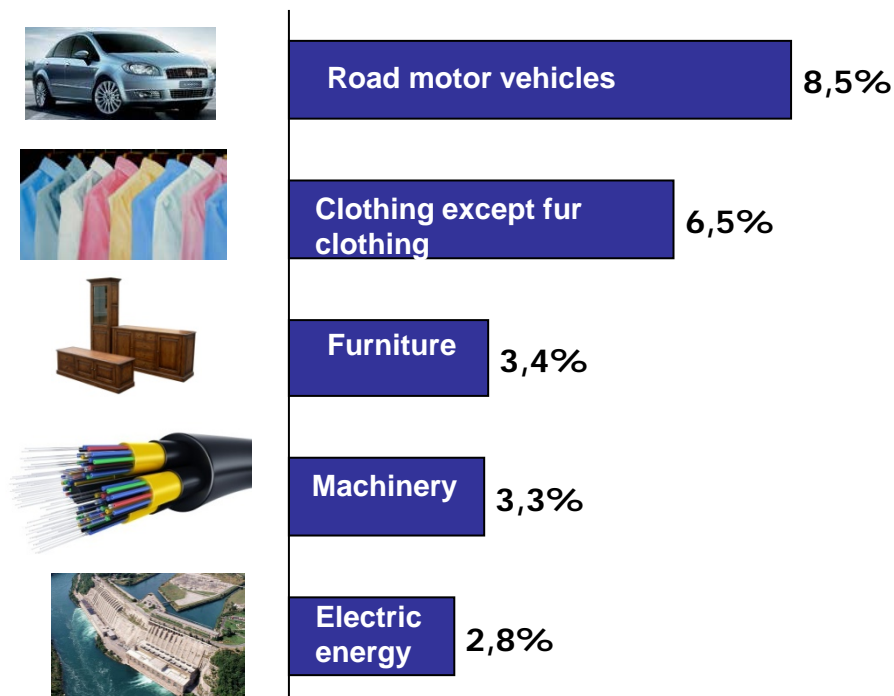
# No apparent transformation for SEE-6:

The region was just able to regain Yugoslavia's level of sophistication of 1980s

## Fmr Yugoslavia's Top 5 Export Items -1980



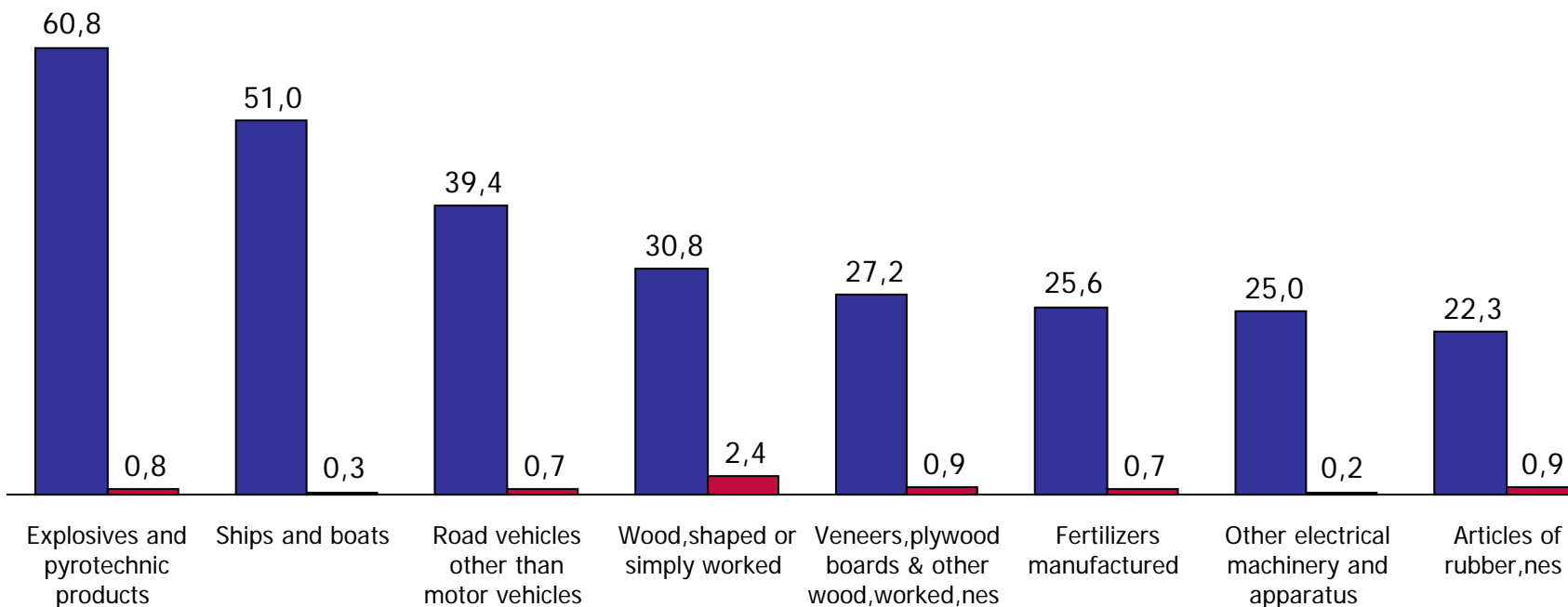
## SEE-6's Top 5 Export Items -2013



# A more detailed look at lost capabilities

Certain goods in which Yugoslavia was a major exporter

Products in which Yugoslavia was top exporter in 1980, % of global market



SEE-6's  
2013 Exports

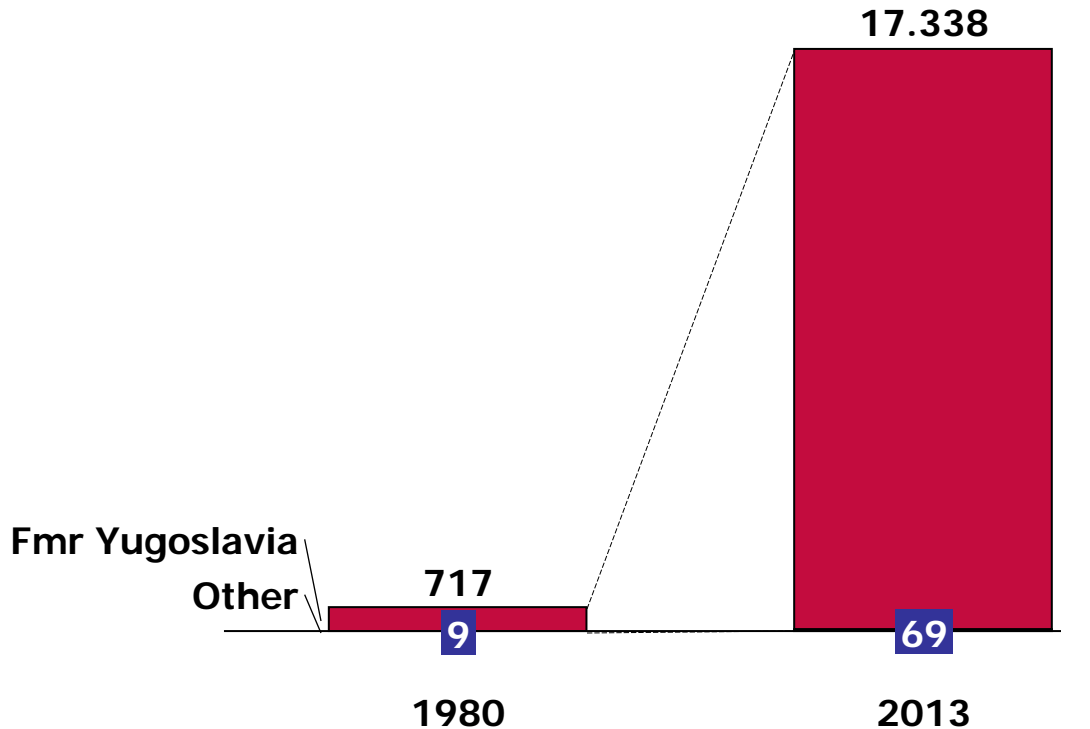
39m	482m	5,500 m	926 m	280 m	398 m	1,600 m	1,000 m
-----	------	---------	-------	-------	-------	---------	---------

Yugoslvia's  
1980 Exports

110m	320m	71 m	300 m	85 m	140 m	160 m	120 m
------	------	------	-------	------	-------	-------	-------

## The region's global market share shrank 70 percent in three decades

Total exports of Former Yugoslavia economies, billion \$ (1980 & 2013)

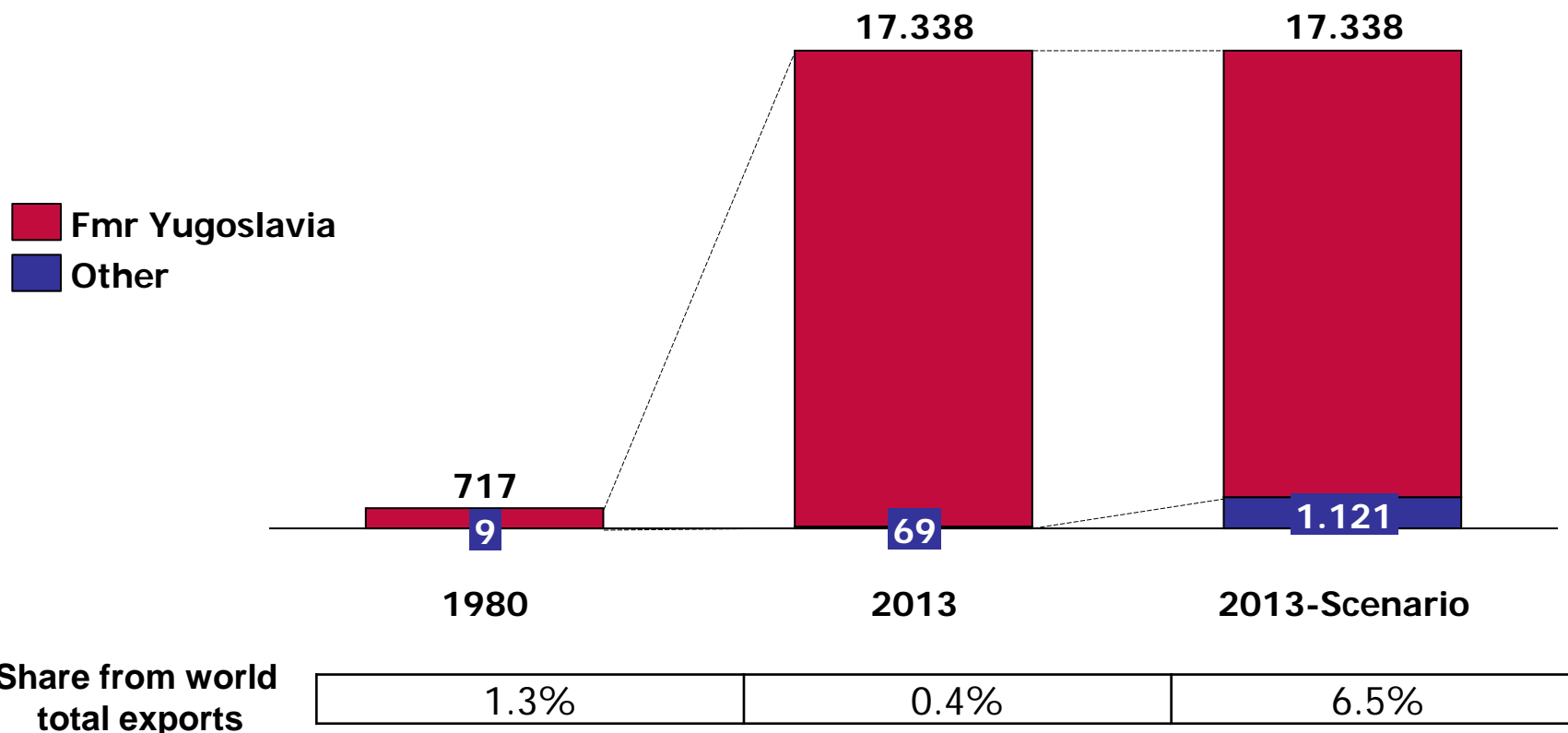


Share from world total exports

1.3%	0.4%
------	------

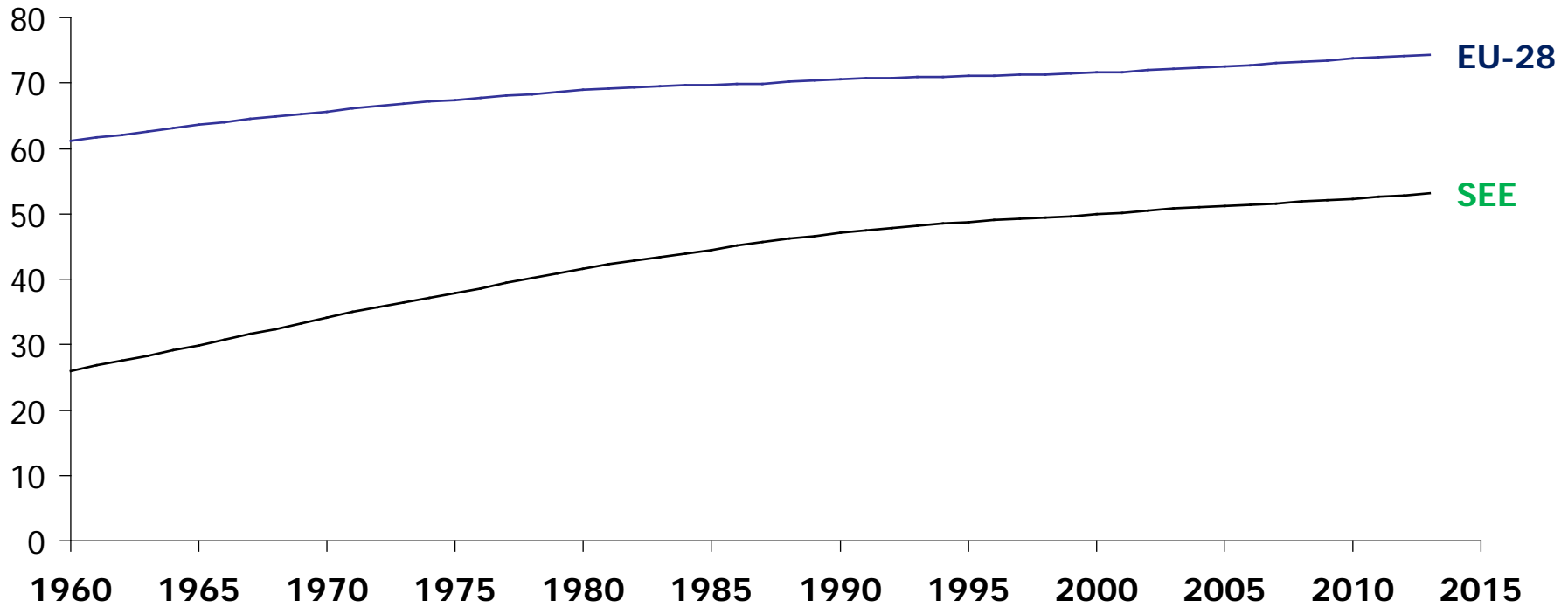
## What if SEE economies were still as competitive as Yugoslavia was in the same «sectors»?

Total export of Former Yugoslavia economies, billion \$ (1980 & 2013)



# Urbanization is not a transformative dynamic in SEE...

## Urban population, % of total, 1961-2013

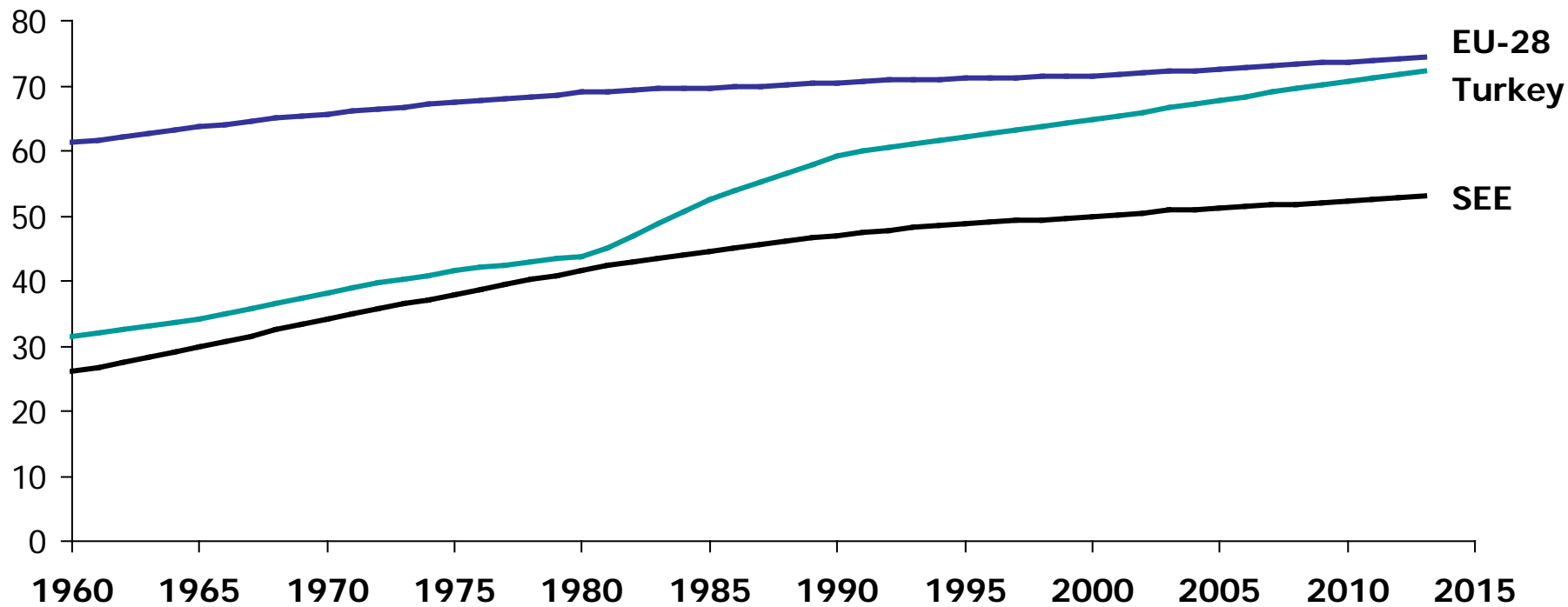


Source: WDI, TEPAV calculations

\*SEE- w/o Serbia & Kosovo\*

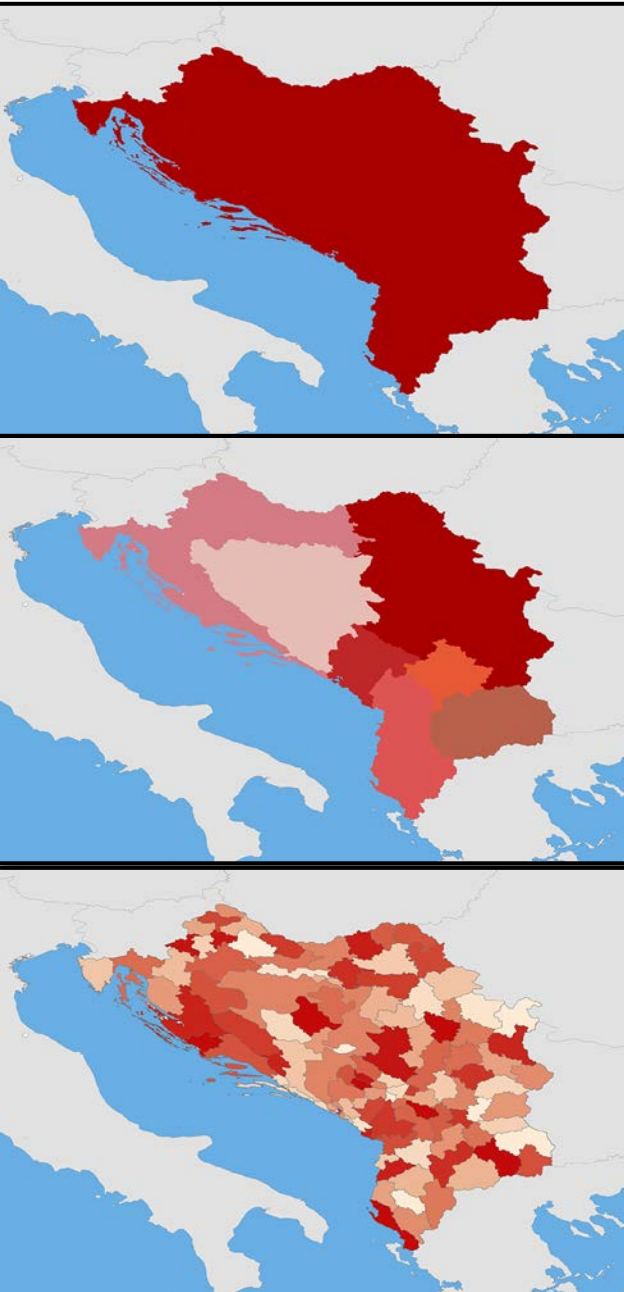
## ... as it was in Turkey

### Urban population, % of total, 1961-2013



Source: WDI, TEPAV calculations

\*SEE- w/o Serbia & Kosovo\*



## Levels and units of analysis

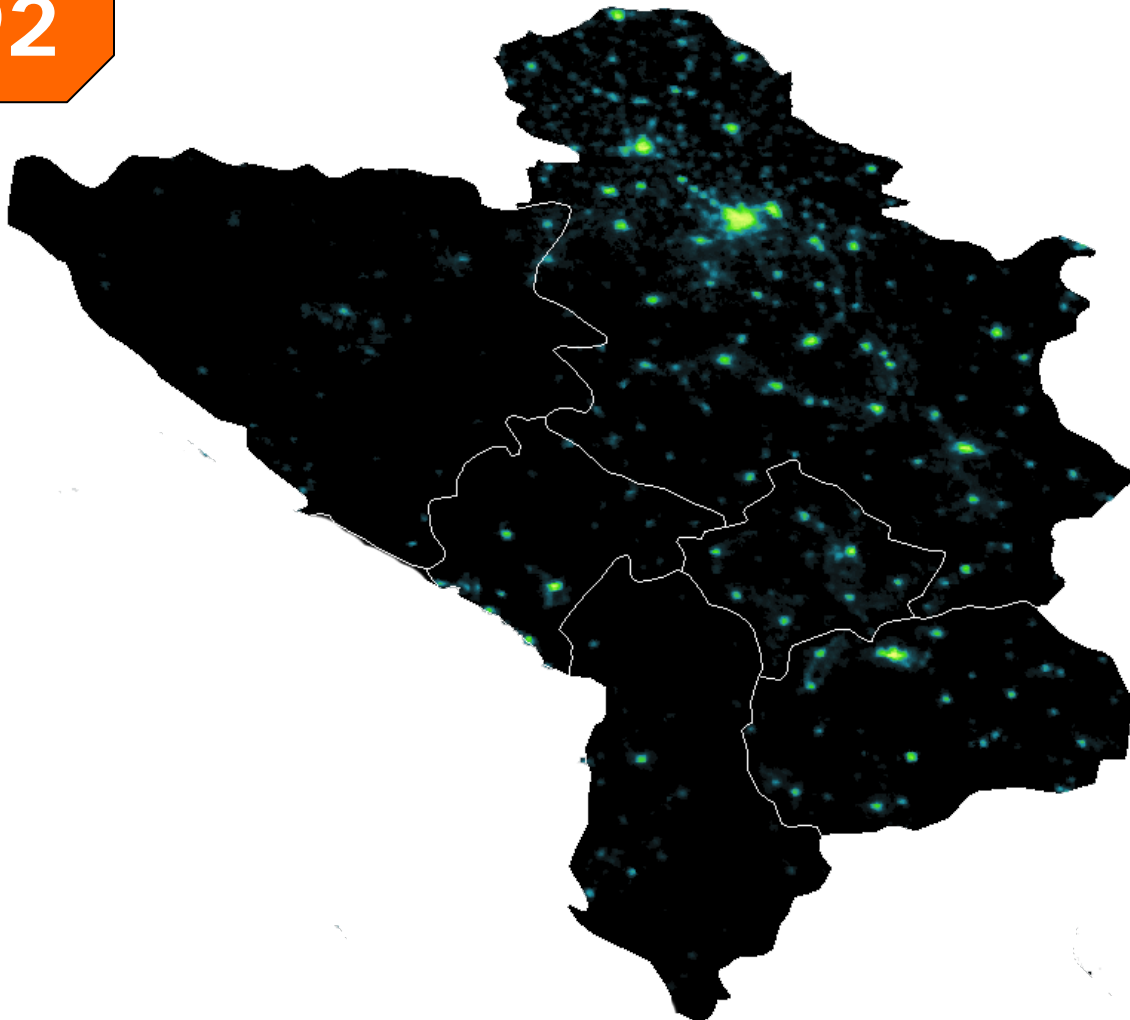
---

- **Macro Level // Region & Broad Sectors**
  - Regional performance, global interaction, main sectors' competitiveness...
- **Meso Level // Countries and Industries**
  - Country-wise competitiveness differentiations, national priorities, performance outliers...
- **Micro Level // Cities and Products & Services**
  - Geographic clusters, pockets of excellence, competitive advantages...

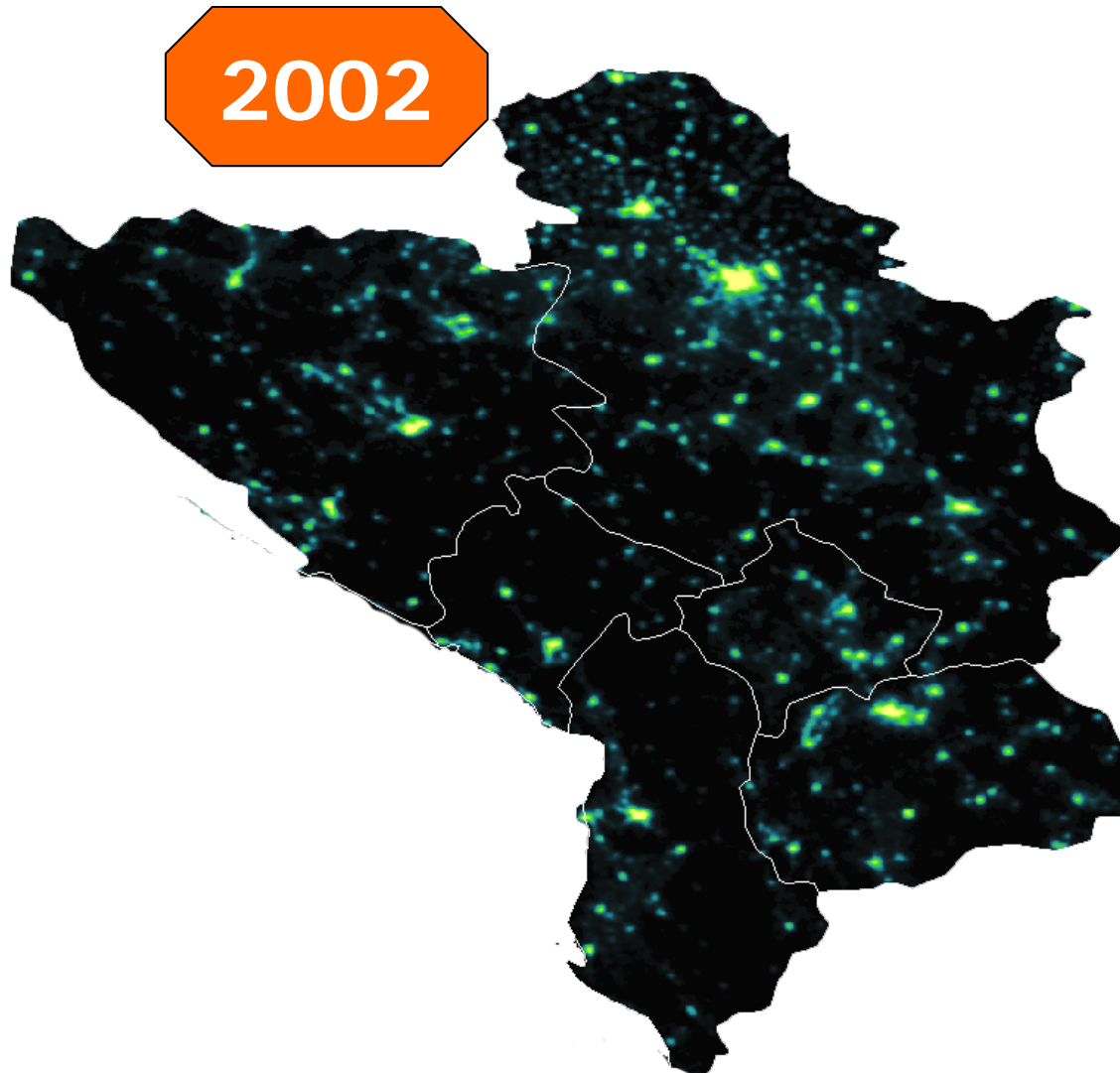


# SEE-6 at night from outer space

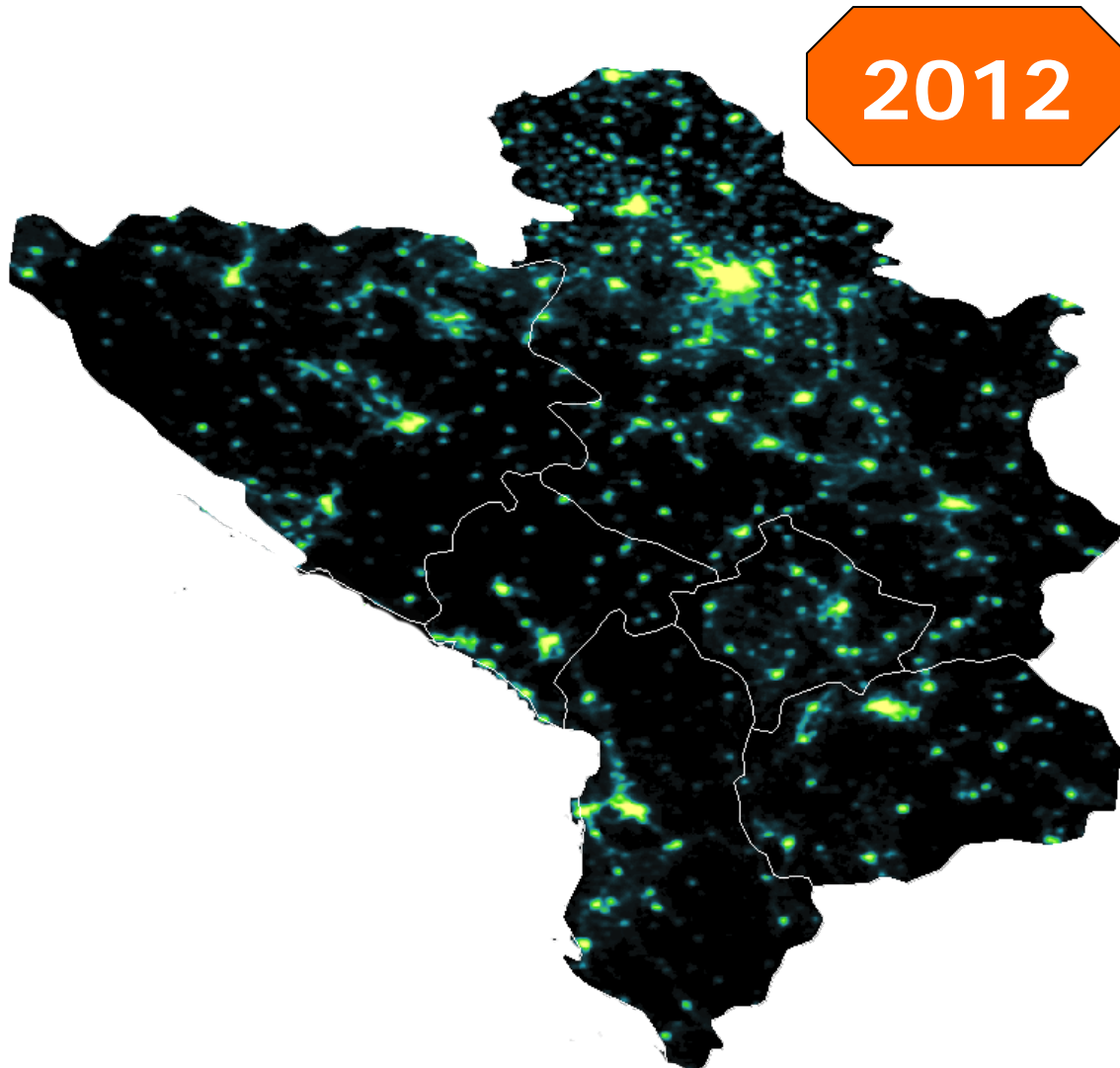
1992



# SEE-6 at night from outer space



# SEE-6 at night from outer space



# Turkey's spatial transformation

As observed from outer space

1992



# Turkey's spatial transformation

As observed from outer space

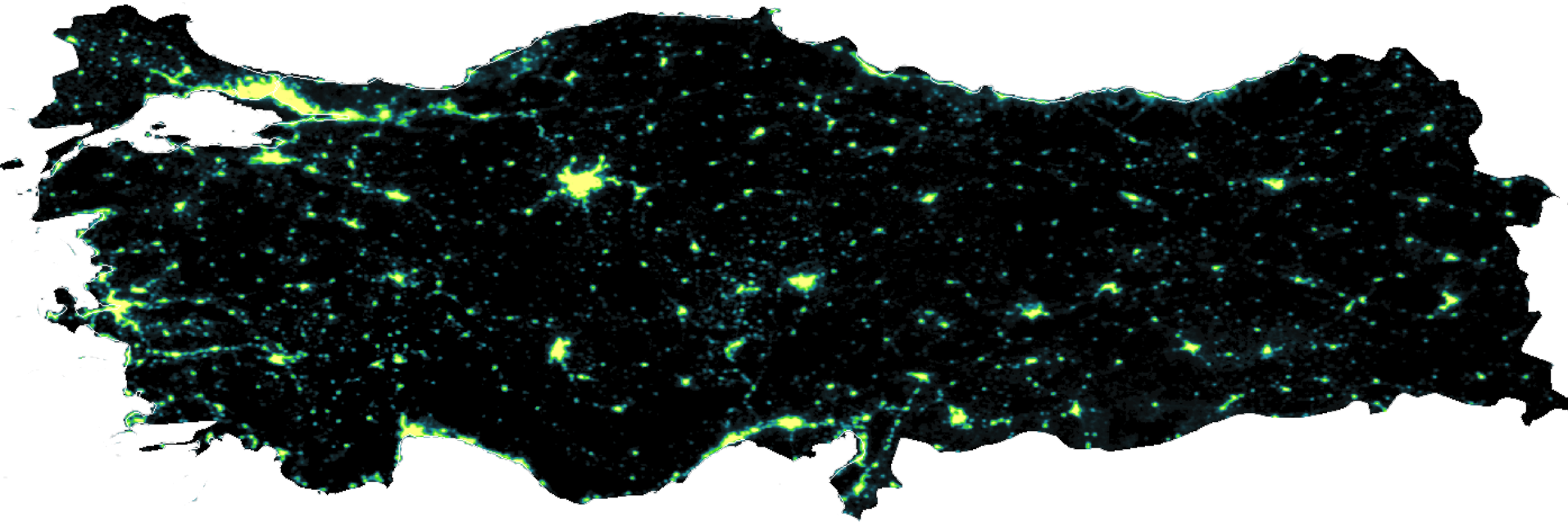
2002



# Turkey's spatial transformation

from centers to corridors?

2013



# The larger region at night from outer space

1992



# The larger region at night from outer space

2002





# The larger region at night from outer space

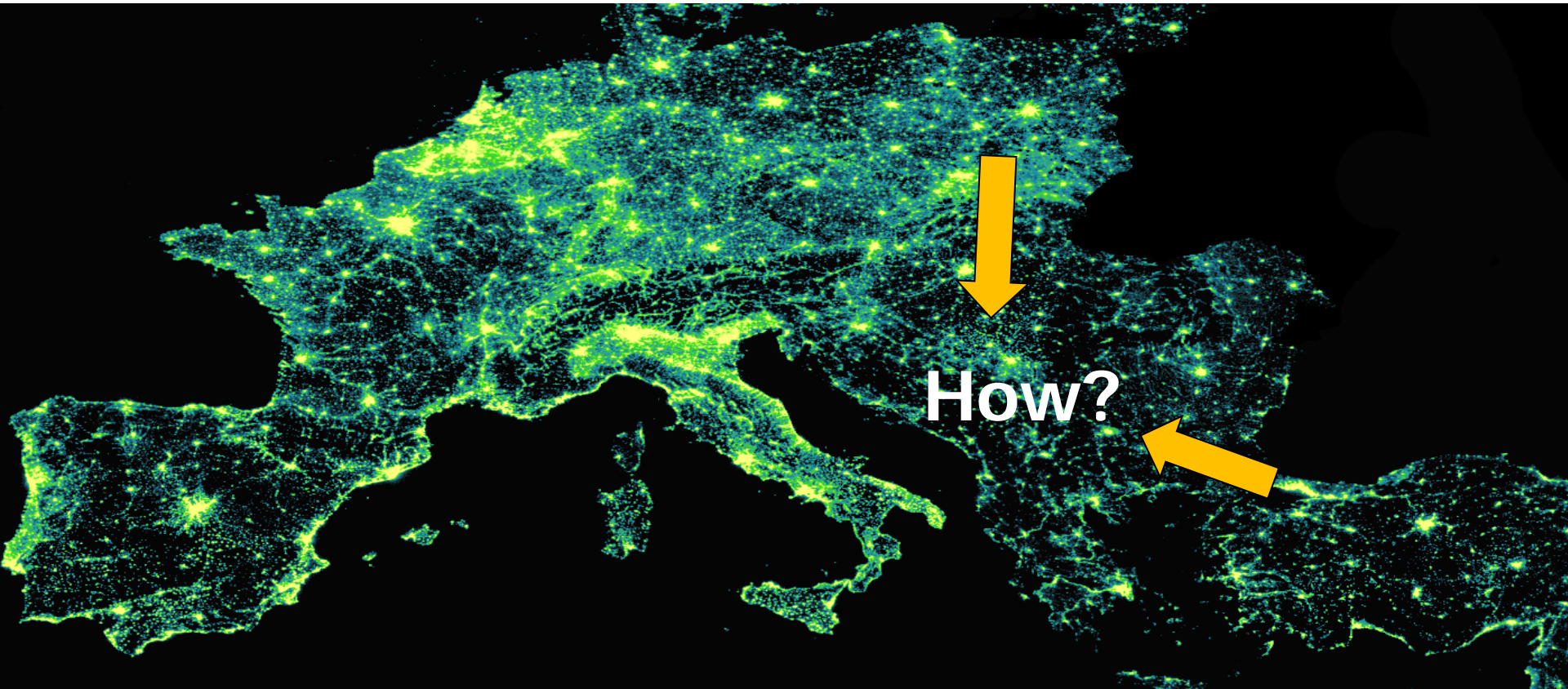
2012



# The larger region at night from outer space

Future integration. New corridor(s)? The new silk road? Eurasia link?

2012

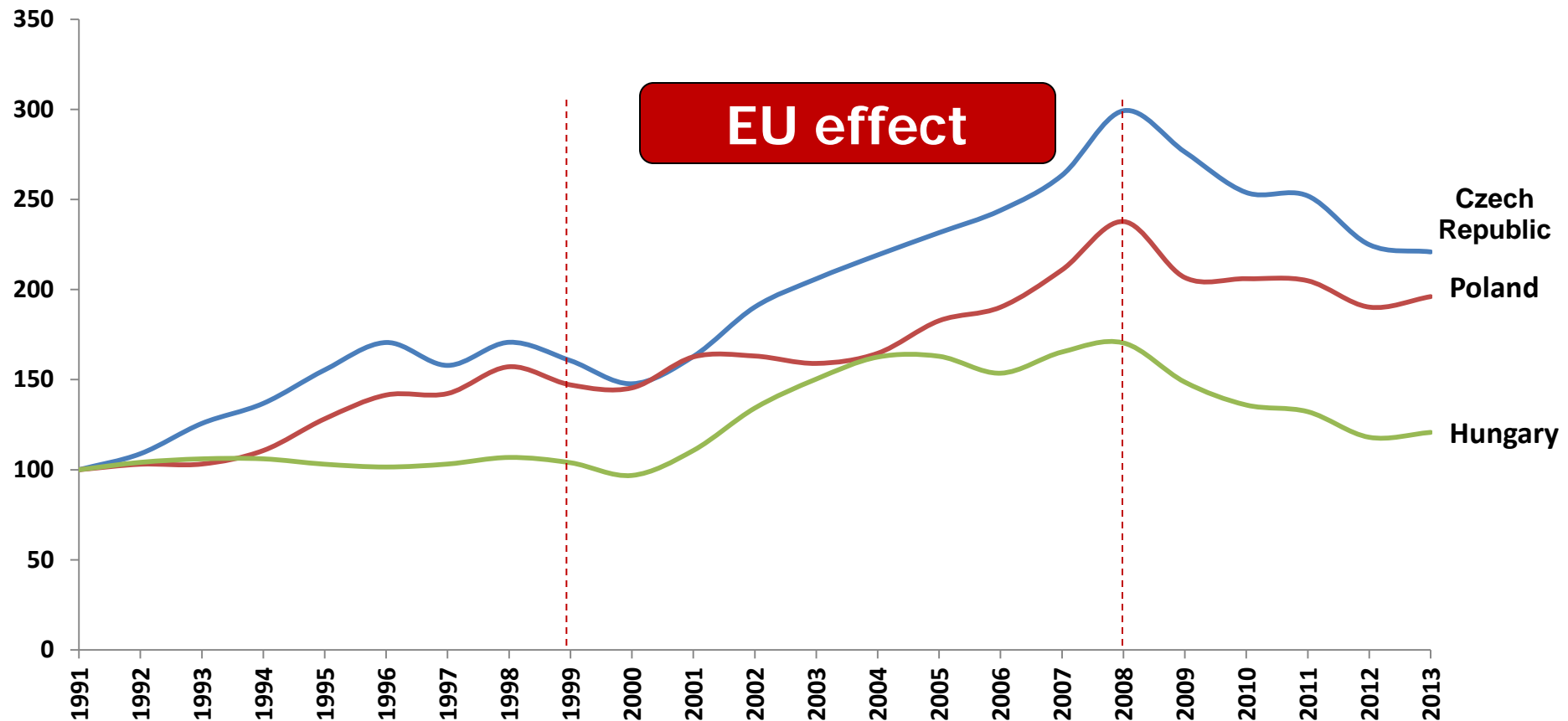


# What is the SEE's primary reform anchor?

A plausible EU membership horizon.

FDI inflows as a critical engine of growth?

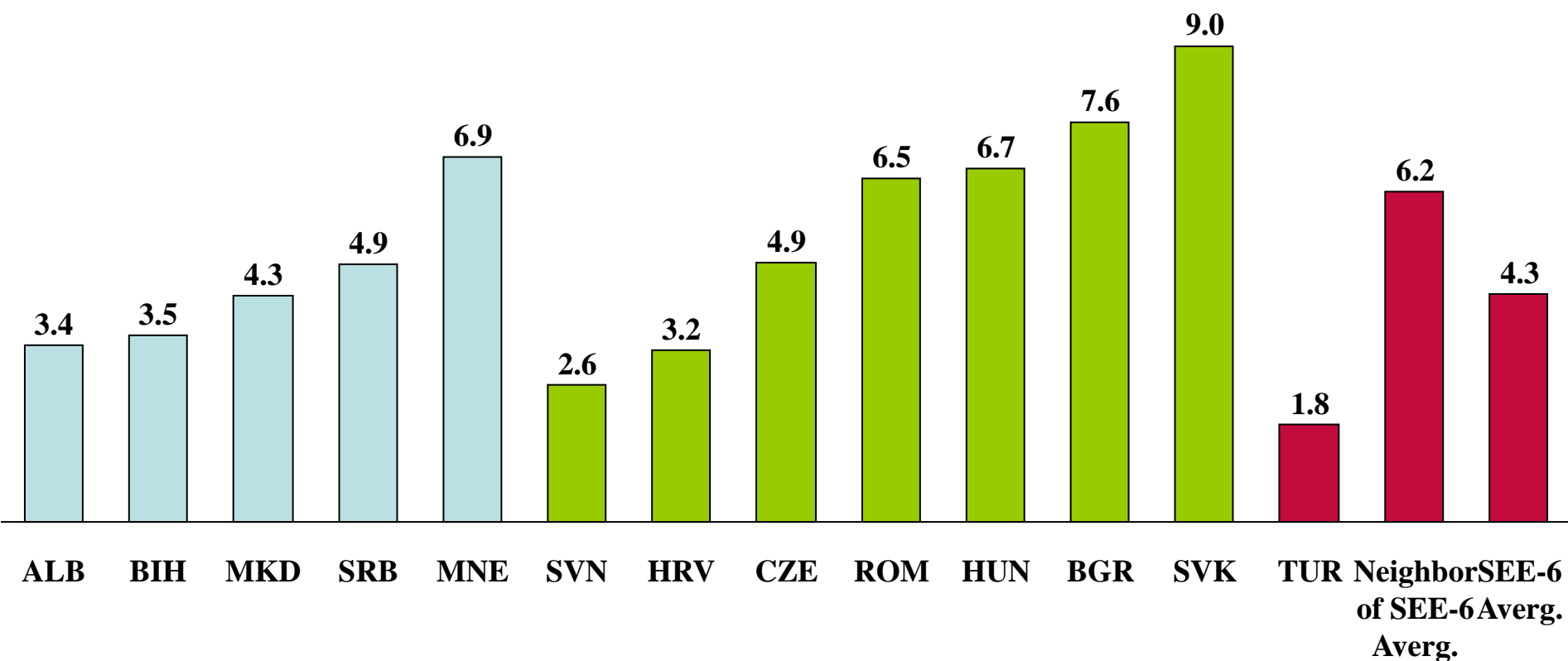
## Countries' share in world GDP, 1991=100



# FDI inflows is below potential

Western Balkans receive 35% less FDI than its neighbors

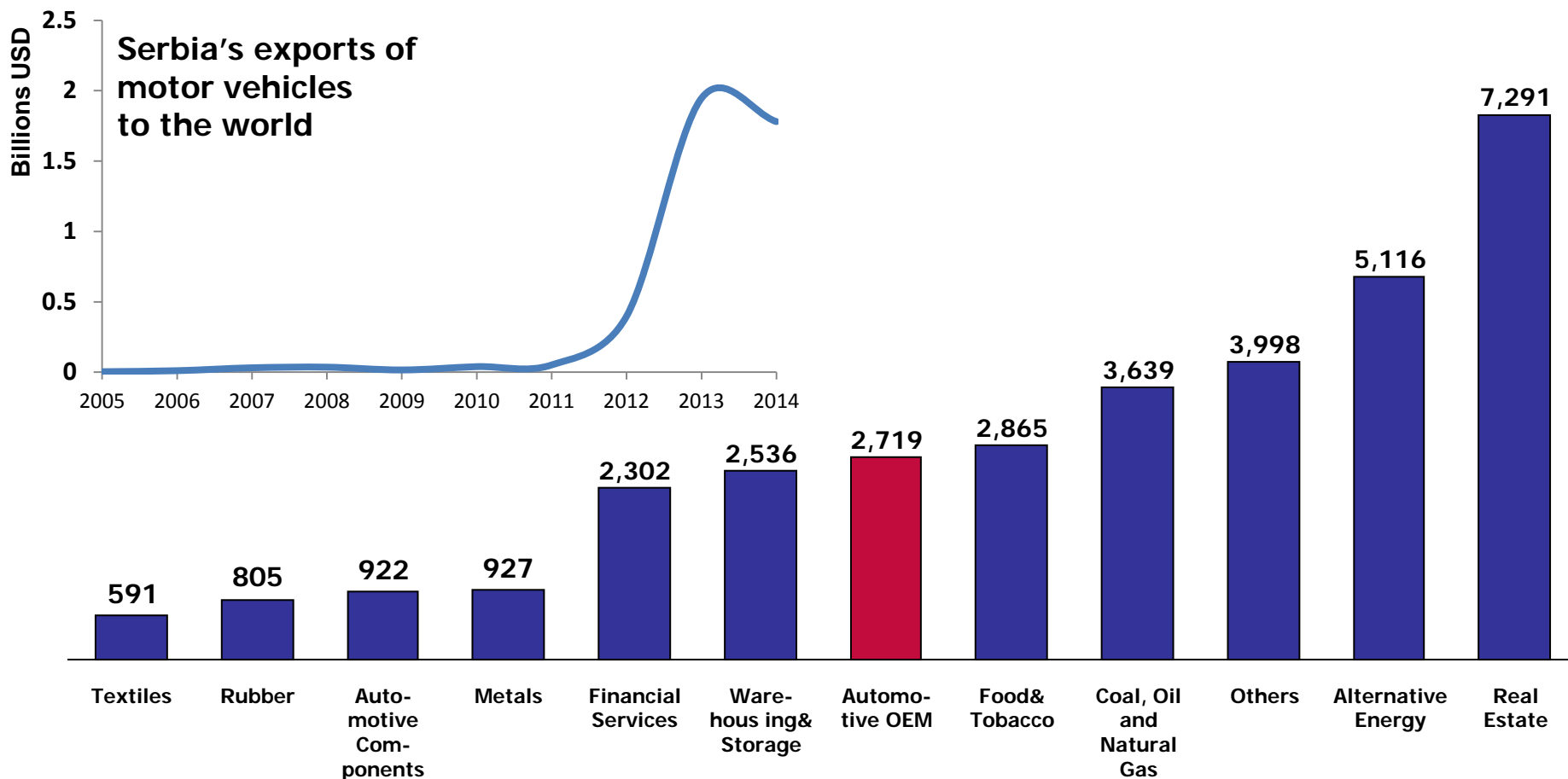
FDI inflows per capita, thousand USD, 2003-2014 total



# FDI's triggering effects on exports

## The case of Fiat in Serbia

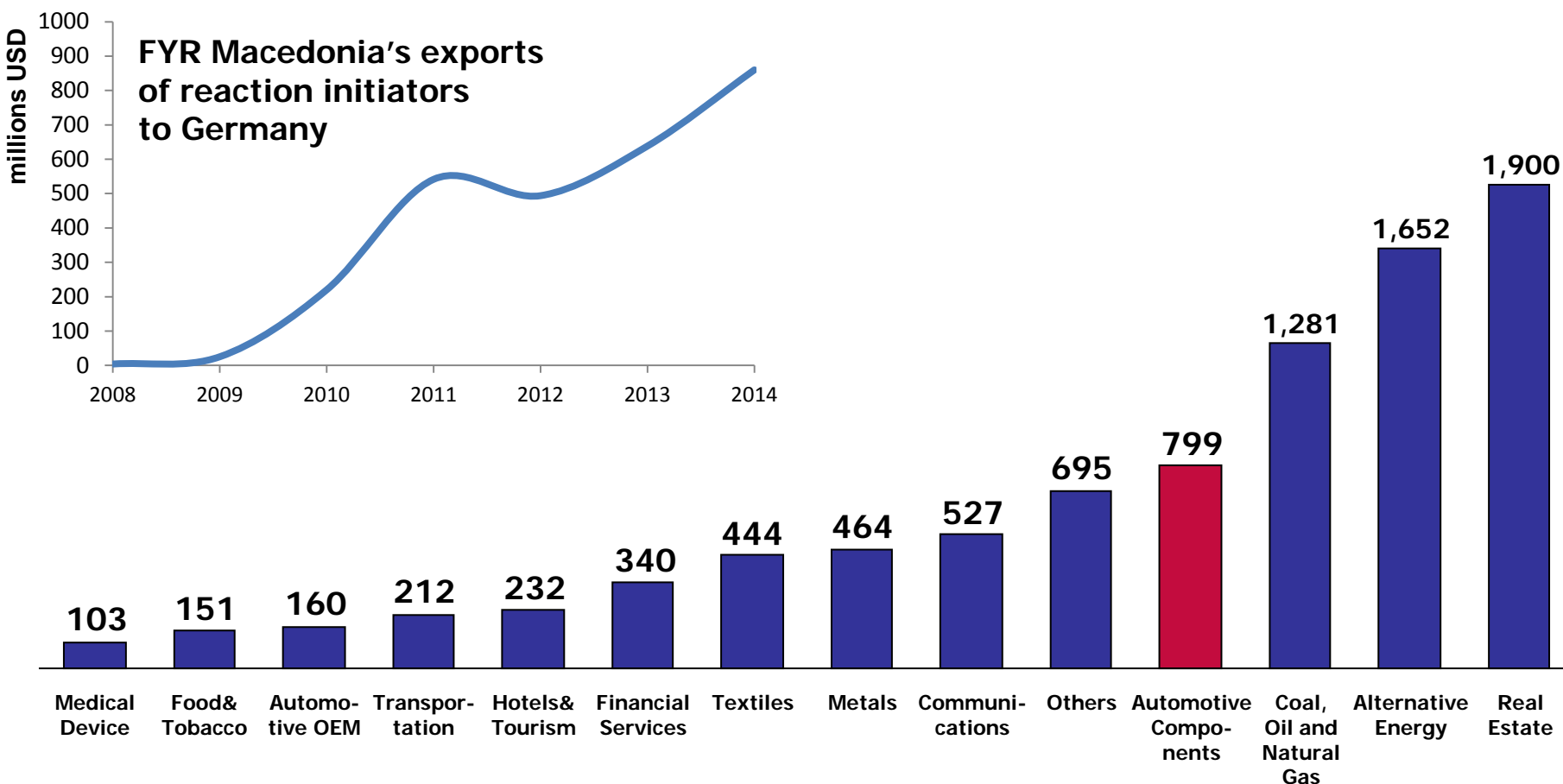
FDI Inflows to Serbia (Million US \$) (2003-2014)



# FDI's triggering effects on exports

## Case of automotive parts industry in FYR Macedonia

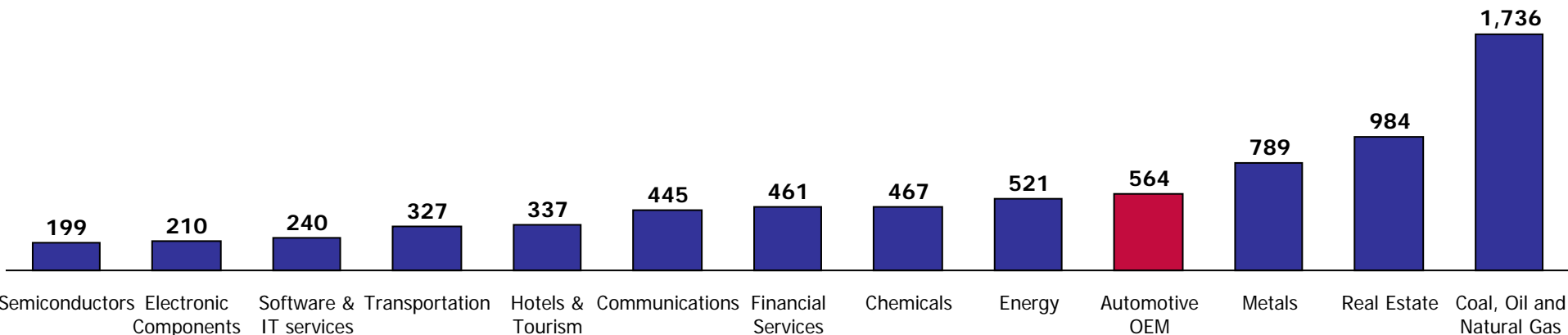
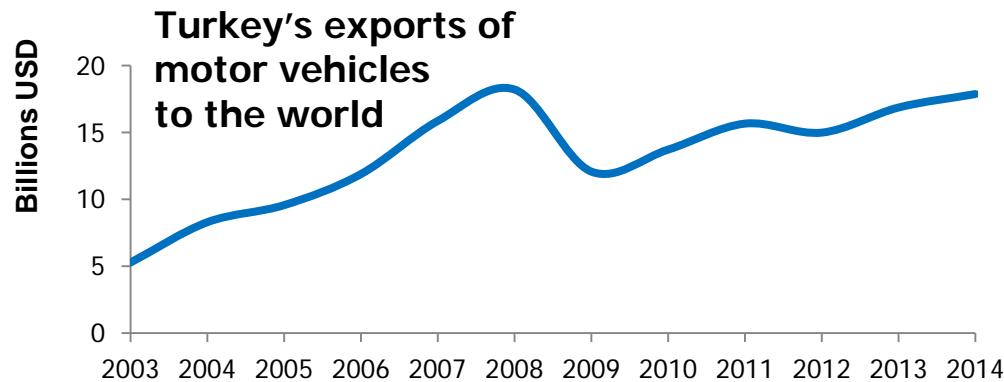
FDI Inflows to FYR Macedonia (Million US \$) (2003-2014)



# FDI's triggering effects on exports

## Case of automotive industry in Turkey

### FDI Inflows to Turkey (billion US \$) (2003-2014)



## Some interim takeaways

- Basing the analysis only on production/export data does not help us understand the full economic transformation potential
- We need to find more analytical ways to **connect** the reality on the ground **with** those who **can** change the reality on the ground (i.e. politicians, investors)
  - Tracing the links between export and FDI data
  - Previous transformation cases
  - Transformation visions of policy makers
  - Expansion plans of existing and potential investors



# How do investors think?

Five determinants of attracting FDI

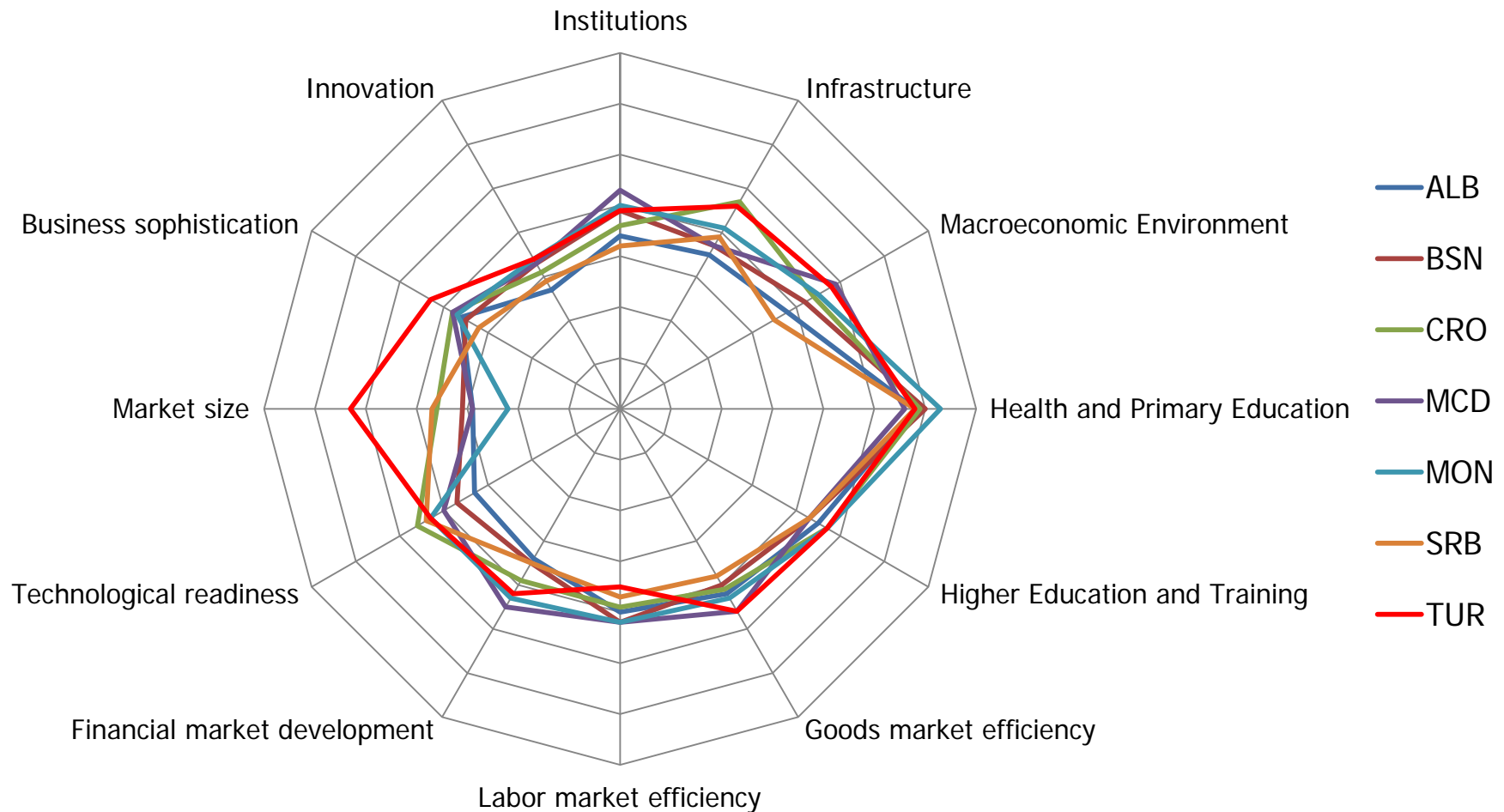
- Human capital
- Institutional quality
- Ease of doing business
- Rule of law
- Connectivity

How does SEE-6 fare?

*\*\* A long list of homework..*

# Competitiveness indicators

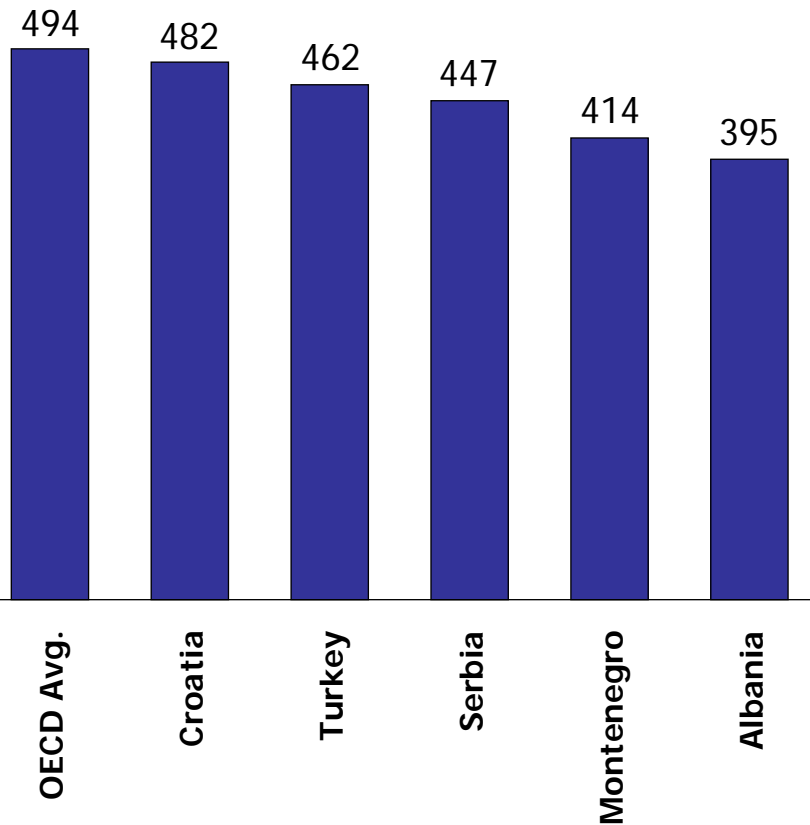
## TR and SEE are not much different.



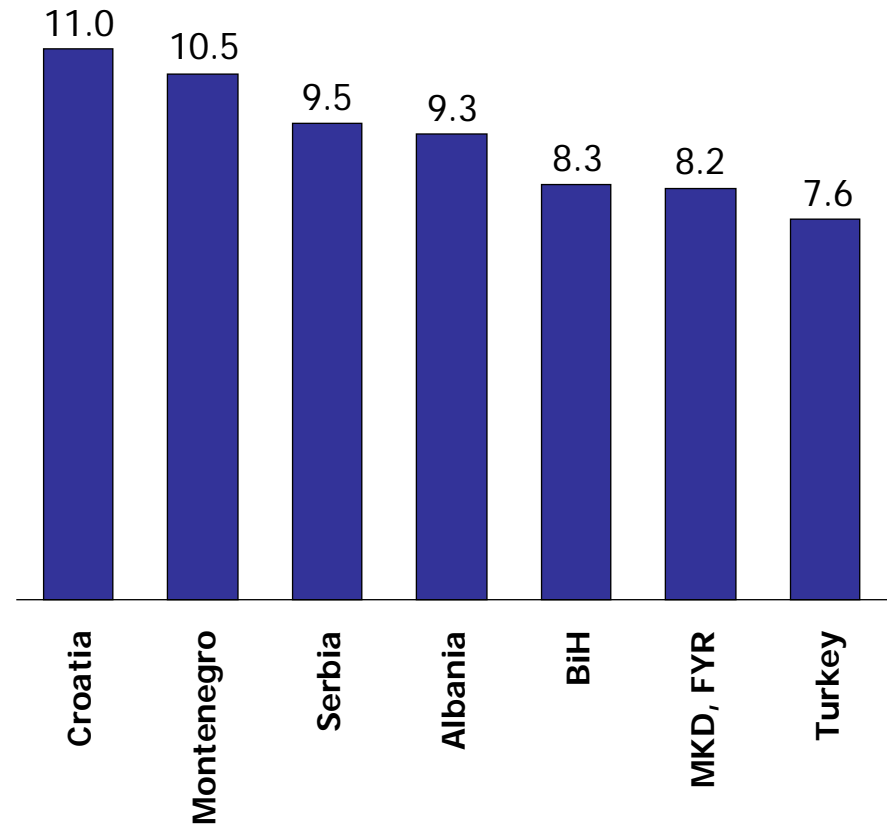
## Human capital: a mixed story.

- + Language and technical capabilities, low cost.
- Age, productivity, discipline?

PISA 2012 scores by country, MSR average



Mean years of schooling, adults, years, 2014



# A challenging reform process ahead.

But, «small economies, small problems...»

## Doing Business rankings (2015) of SEE-6 and Turkey

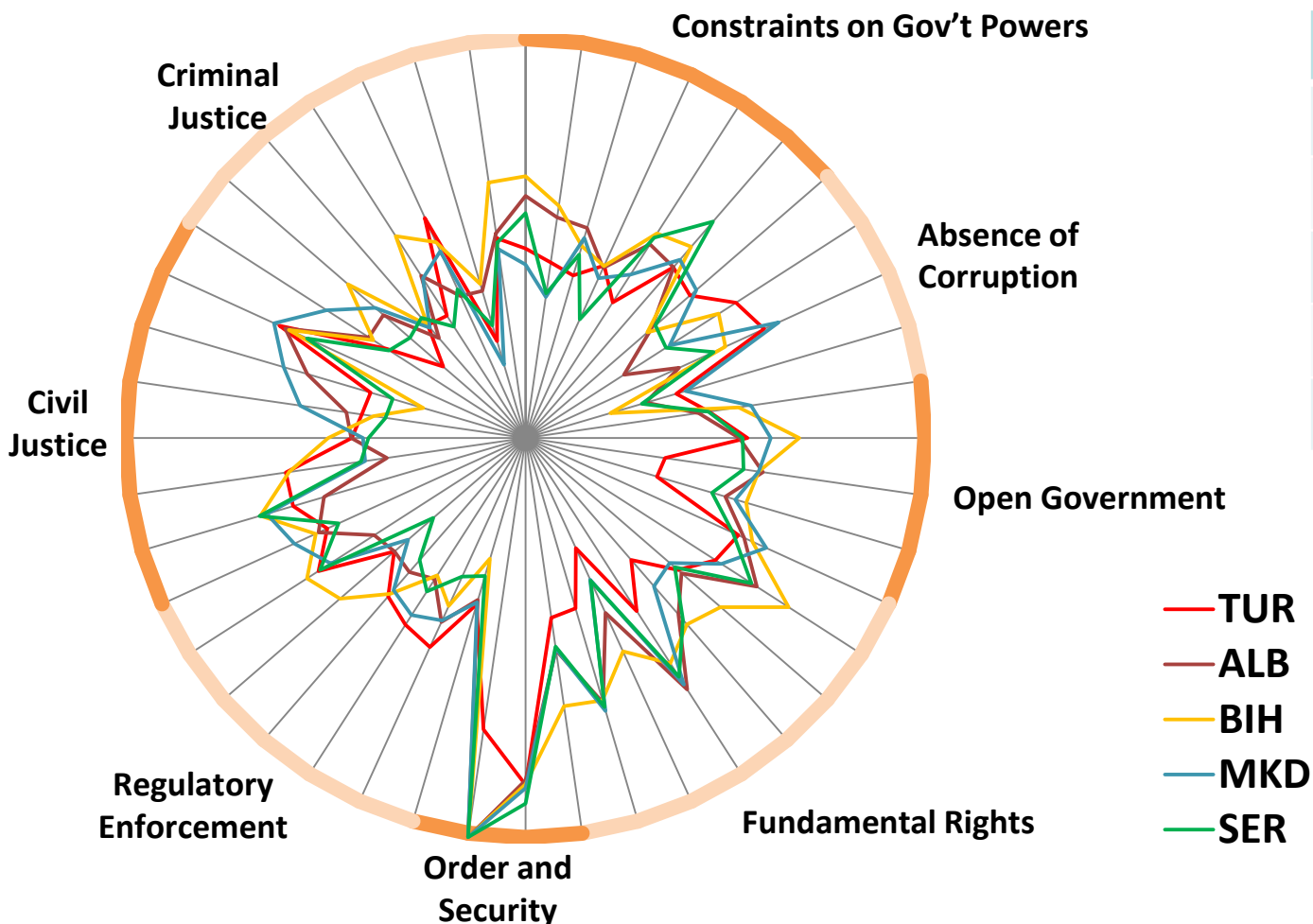
	Doing Business Rank	Starting Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit
ALB	68	41	157	152	118	36
BIH	107	147	182	163	88	36
KOS*	75	42	135	112	34	23
MKD, FYR	30	3	89	88	74	36
MNE	36	56	138	63	87	4
SRB	91	66	186	84	72	52
TUR	55	79	136	34	54	89

Source: WDI, TEPAV calculations

\* Legend: **GREEN** if in top ¼; **RED** if in bottom ½ of ranked economies.

# Rule of Law

## The “transition economy” radar



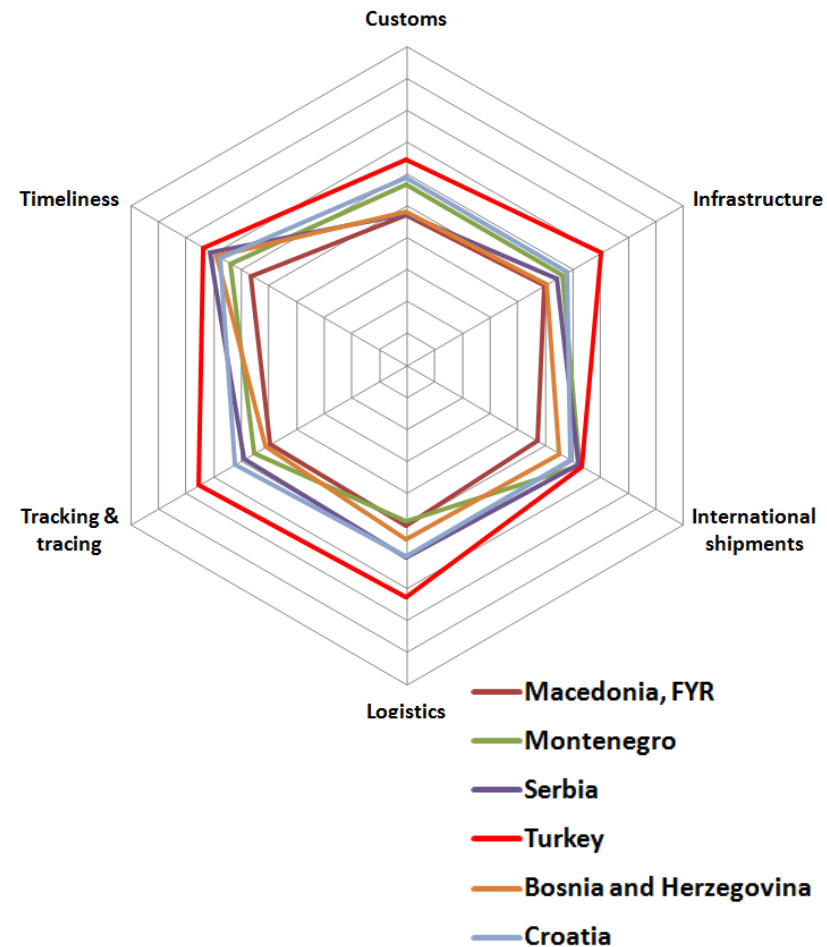
	Rank
ALB	53 / 102
BIH	40 / 102
MKD	44 / 102
SER	60 / 102
TUR	80 / 102

# Connectivity is lacking

## Planned corridors carry huge potential



Logistics Performance Index (2014) scores



# Turkey and SEE-6: Synergies in visions?

Indicator	SEE-6 2020 targets	Turkey 2023 targets
<b>GDP per capita</b>	44% of EU average	25.000 USD
<b>GDP</b>	-	2.000 billion USD
<b>Trade</b>	278 billion USD	1100 billion USD total trade 500 billion USD export
<b>Labor force</b>	44.4% employment rate	50% employment rate
<b>Investment</b>	11 billion USD inflow	100 billion USD outflow
<b>Tourism</b>	-	50 billion USD revenue
<b>R&amp;D</b>	2 million highly qualified persons in the workforce	R&D personals per thousand > OECD average
<b>Private Sector Ecosystem</b>	33,760 new business per year	2% of GDP, private sector R&D
<b>Governance Effectiveness</b>	2.9 WB Gov. Index	-
<b>Energy</b>	9% energy saving by 2018	30% increase share of renewables
<b>Transportation</b>	20% decrease in cost of transport	10,000 km high-speed railway

**Sources:** SEE-2020 Baseline Report, SEE 2020 Strategy, The Tenth Development Plan (2014-2018), TUBITAK, Republic of Turkey Ministry of Economy. Exchange rates are converted to USD with using European Central Bank and Central Bank of Republic of Turkey as sources. For converting targets, 2014 values are used.

## Conclusions / Patterns we could identify through our fact-finding missions (1)

### ■ Similarities and differences across country agendas

- Economics vs. domestic politics vs. regional conflicts.
- Traumatic collapse of Yugoslavia / complex relations with Turkey, EU, US, Russia
- Pre-crisis easy growth. Fueling domestic consumption through bank loans
- Reform anchors: IMF standby agreements and EU accession process
- Functioning free market economy, rule of law, property rights.
- Macroeconomic and political stability? currencies pegged to Euro
- Turkey's dual reform experience (and past mistakes!) highly relevant. 1980s + 2001

### ■ Limited domestic capital base

- Reliance on FDI (privatization waves), high potential for export oriented FDI.
- «Smart» industrial policy can make a big difference at this stage.
- SME development and role of banking sector + middle class.



## Conclusions / Patterns we could identify through our fact-finding missions (2)

- Human capital problems
  - Skills mismatch, vocational training, too many universities.
  - Brain drain, role of diaspora and remittances.
- Entrepreneurship ecosystem not yet a high priority.
  - Entrepreneurial spirit also appears to be lacking.
- Natural resources underutilized?
  - Agriculture, energy, mining, forestry, husbandry...
- Spatial characteristics
  - Challenging geography
  - System of cities (at least 10 key cities)
  - Lack of regional growth corridors, but this may change.
  - High standard of living in rural areas.

## A taxonomy? sketch...

	Serbia	BiH	Albania	FYROM	Kosovo*	Monte-negro
Political stability	High	Medium	High	High	Low	High
Macro stability	Medium	High	High	High	High	High
EU / IMF programs	EU + IMF	-	EU + IMF	EU	-	EU
Shared economic vision	Medium	Low	Medium	High	Medium	High
Engagement of TR private sector	Low	Medium	High	High	Medium	Low

## Discussion issues

- Shared economic visions?
- Growth centers and corridors?
- Strength of reform anchors?
  - EU, IMF, NATO
- Human capital quality
  - How to move from exporting youth to exporting goods?
- What is it that the region is great at?
  - Capabilities from the past?