

# tepaav

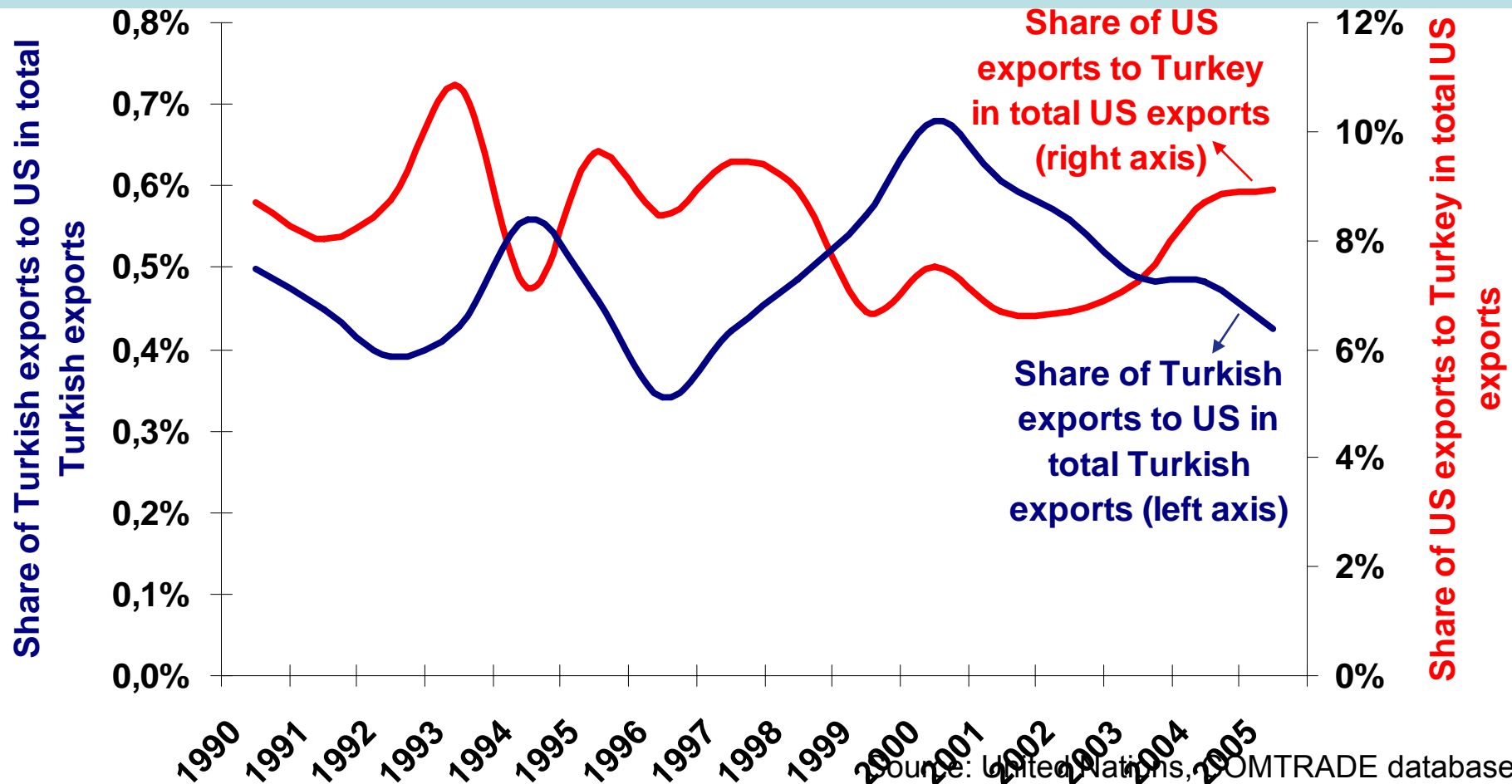
türkiye ekonomi politikaları araştırma vakfı

## Turkish American Economic Relations: How to design a private-sector based approach?

February 8, 2007

# How can we go beyond bilateral trade?

Share of Turkish Exports to US in Total Turkish Exports, (1990-2005)  
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# The emerging big picture



# Is there a sustainable solution to ensuring energy security?

- Current economic structures need to undergo a serious transformation
  - Dominance of large public sectors
  - Oil-dependent, undiversified economic activities
- Non-oil trade diversification is the major way out for a more sustainable growth trajectory
  - Private sector development (PSD) is the key pillar
- Reform Agendas vary across countries:
  - Trade Liberalization; Privatization
  - Private Participation in infrastructure provision
  - Access to Finance; Corporate Governance

# 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”

# Turkey's capacity can be a great asset for PSD in the region

- The only well functioning market economy in the region
- Integrated into the world economy
  - Customs Union since 1995
- Largest private sector from Italy to China
  - 65% of MENA region's industrial exports
- Institutional and physical infrastructure
  - a thriving services sector
- Increasing absorption capacity for foreign direct investments
  - USD 27 billion in the last two years



CENTRAL TASK: Devising a mutual strategy to leverage this capacity for the PSD in the region

# How can we get there?

- Target: Region's integration into the global economy
- Rationale: Ensuring energy security
- Task: PSD in the region
- Prerequisite: Completing Turkey's own transformation
- Mechanisms:
  - ➔ Business Association Networks and capacity building
  - ➔ Turkey-based regional investments
  - ➔ Industrial development
  - ➔ Trade facilitation issues

# Some thoughts for new roles (1)

- Facilitating Turkish investments in the region
  - ➔ Established QIZs can be a viable mechanism
- Incorporation of Turkish companies into the QIZ system
  - ➔ Domestic content requirement
  - ➔ Goods with Turkish origin can be included in the local content requirement.
  - ➔ A strong incentive for Turkish companies to invest in QIZs.
  - ➔ Increasing the number countries included in the network

## Some thoughts for new roles (2)

- Trade facilitation problems in the region
  - ➔ The US can help put these issues in the agendas of the countries
  - ➔ Border Crossing and trade facilitation know-how of Turkey
    - Customs modernization
    - Efficient and predictable movement of goods
- Industrial development
  - ➔ Turkish knowhow in industrial estates could be useful
  - ➔ Tackling big investment climate problems at the local level by creating local “centers of excellence”

## Some thoughts for new roles (3)

- Turkey as an investment hub servicing the region
  - ➔ Logistics, infrastructure, energy
- Business Association Networks
  - ➔ Important as public-private dialogue mechanism
  - ➔ Contribute to democratic development
  - ➔ Possible CIPE-TEPAV collaboration?
  - ➔ Capacity building programs
    - Chamber development programs
    - Starting with a chamber network?

# Our business plan for the GAZA project

- Creating an “island” in Gaza
  - ➔ Turkish security firm
  - ➔ Turkish developer company
  - ➔ 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 Ashdod port and Ben Gurion airport in Israel



**Concession Agreement TOBB-BIS and PNA**



**Security and Trade Facilitation Protocol; Turkey and Israel**

# Our business plan for the GAZA project

- 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
- Our unique position:
  - ➔ No other “third party” can bring in investors.

## Why the project is incentive compatible?

- Turkish stake:
  - Creating opportunities for Turkish firms
- Palestinian stake:
  - job creation (up to 10,000)
  - spillovers (vocational training, sub-contracting)
  - a well functioning border system
  - capacity building
- Israeli stake:
  - security in Northern Gaza
  - increased stability due to job creation
  - logistics and other services

# What could the US do to make the project more viable

- Erez Industrial Estate is already a QIZ and we are trying to invite Turkish companies
  - ➔ If their intermediate inputs from Turkey would be considered as part of the “local content requirement”, this would create a strong incentive.
- Trade facilitation and security are central issues
  - ➔ General Dayton’s team on the ground has already shown commitment to the project
  - ➔ Capacity building / training of Palestinian Presidential guards
  - ➔ Pressure on Israel to put trade facilitation on the government and security agendas
- Investment guarantees and loan insurances
  - ➔ Overseas Private Investment Corporation; Multilateral Investment Guarantee Agency

# Conclusion

- Region will have to change sooner or later
- Private sector development will be an essential component of the region's transformation process
- The US and Turkey can work together for mobilizing private sector's capacity
- Gaza project gives us inspiration on what the two sides can do together in other countries