

tepaV

Economic Policy Research Foundation of Turkey

Turkey's regional integration: Is it economic transformation or shift of axis?

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Overview

- **What is TEPAV?**
- **How Turkey is changing?**
 - 1980s, 1996, 2001.
- **Is there a shift of axis?**
 - Turkey being aware of her neighbours
 - An era of rapprochement everywhere?
- **What TEPAV has been doing for regional integration and cross-border cooperation ?**
 - Israel-Palestine; Afghanistan-Pakistan; Border Management; Capacity building in Central Asian Republics.
 - Strengthening connections between Turkey and South Caucasus?
 - Georgia, Armenia
- **Conclusions**

Economic Policy Research Foundation of Turkey (TEPAV)

- Established in 2004, with the support of the Union of Chambers and Commodity Exchanges of Turkey (TOBB) as an independent, non partisan think tank in Ankara
- Assistance to decision-makers by contributing to evolving political, economic and academic debates shaping Turkey's future orientation
- Establishment of regional platforms and dialogue mechanisms

www.tepav.org.tr

TEPAV's interdisciplinary approach

■ Three major disciplines:

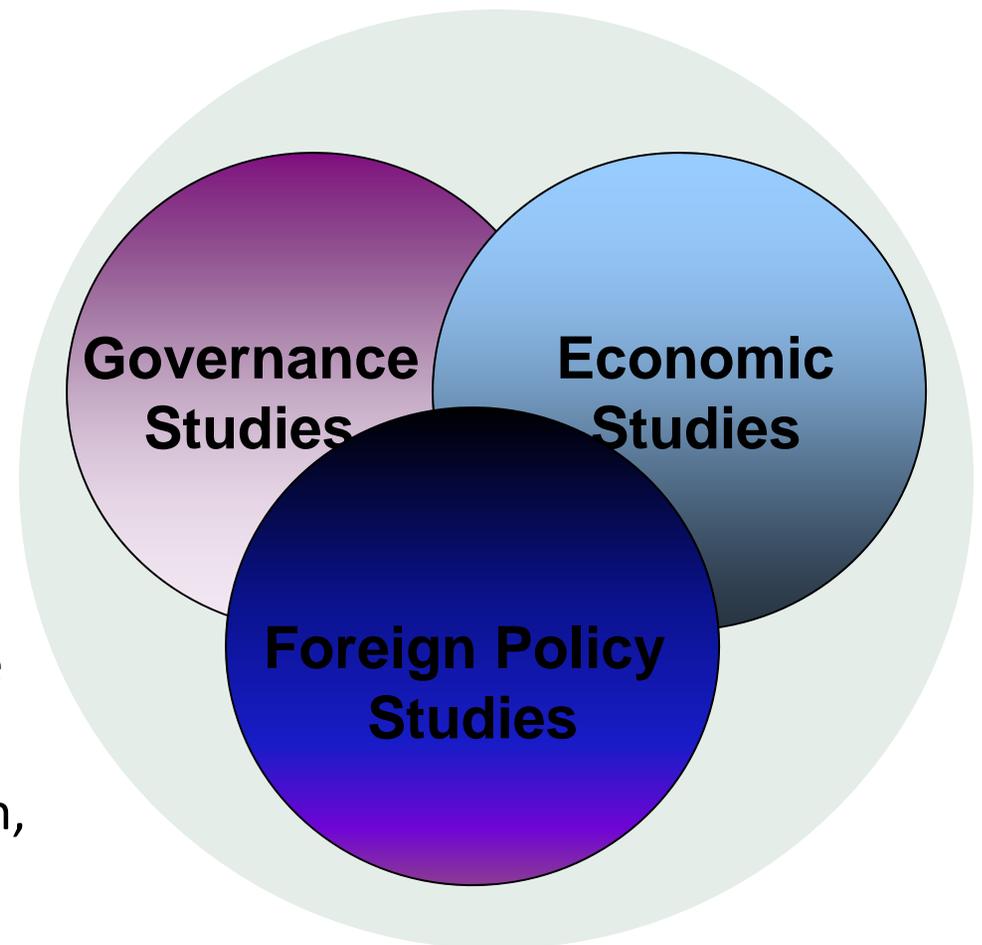
- Economic policy
- Governance
- Foreign policy

■ Cross-cutting themes:

- Competitiveness
- Regional integration
- EU accession process

■ Modus operandi:

- Policy oriented research, issue based advocacy
- Project design implementation, capacity building
- Needs analysis



What makes TEPAV unique in Turkey and surrounding region?

■ Knowledge production

- A strong in-house research capacity (35+15)
- An extensive network with academics and experts (based in the campus of TOBB Economics and Technology University)
- Strong ties with the international organizations (The EU Commission, World Bank Group, OECD, GMFUS, Brookings, CSIS)

■ Knowledge distribution / dissemination

- Close contact with TOBB's grassroots organizations (364 chambers all around Turkey)
- Network with the public administration
- Strong impact on the media (daily columns, press releases and briefings)

■ Diversified financial resources to sustain activities

How Turkey is changing?: Transformation of Turkish economy after 1980

**Liberalization and increasing role of
the private sector transforms Turkey
into a regional economic power**

An overview of the recent progress of Turkish economy

	<u>1980</u>	<u>2008</u>
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

Post 1980s transformation as a result of economic reforms

■ Before 1980s:

- Import-substitution industrialization
- Major industrial centers: İstanbul, İzmir, Adana, Bursa
 - Peripheries: Kocaeli, Manisa, Mersin, Eskişehir

■ After 1980s:

- Export-oriented industrialization
- New emerging industrial cities (Anatolian tigers): Denizli, Gaziantep, Kayseri, Konya, Ankara

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

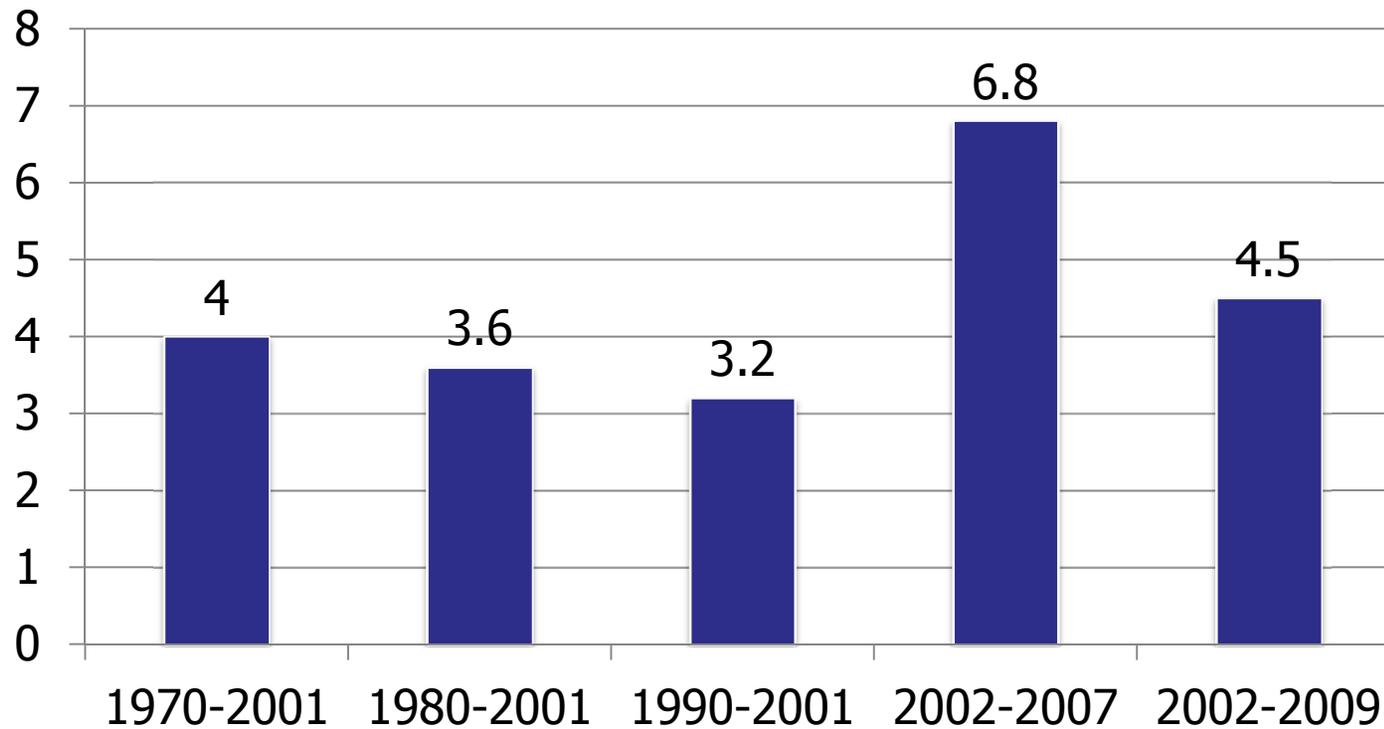
	1999	2003	2006	2008
Automobile Sales (in thousands)	-	359	622	494
White Good Sales (in millions)	4	3	5.5	5.2
Airline Passengers (in millions)	30	34	59	75
Mobile Phone Network Subscribers (in millions)	-	26.6	51.4	64
# of People Getting House Loans (thousands)	14	43	268	237
Consumer Credit + Credit Cards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

It is a process of total transformation: “Still under construction”

- 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 important for a smoother transformation.
- It is not shift of axis but being aware of your geography due to growing business interests.

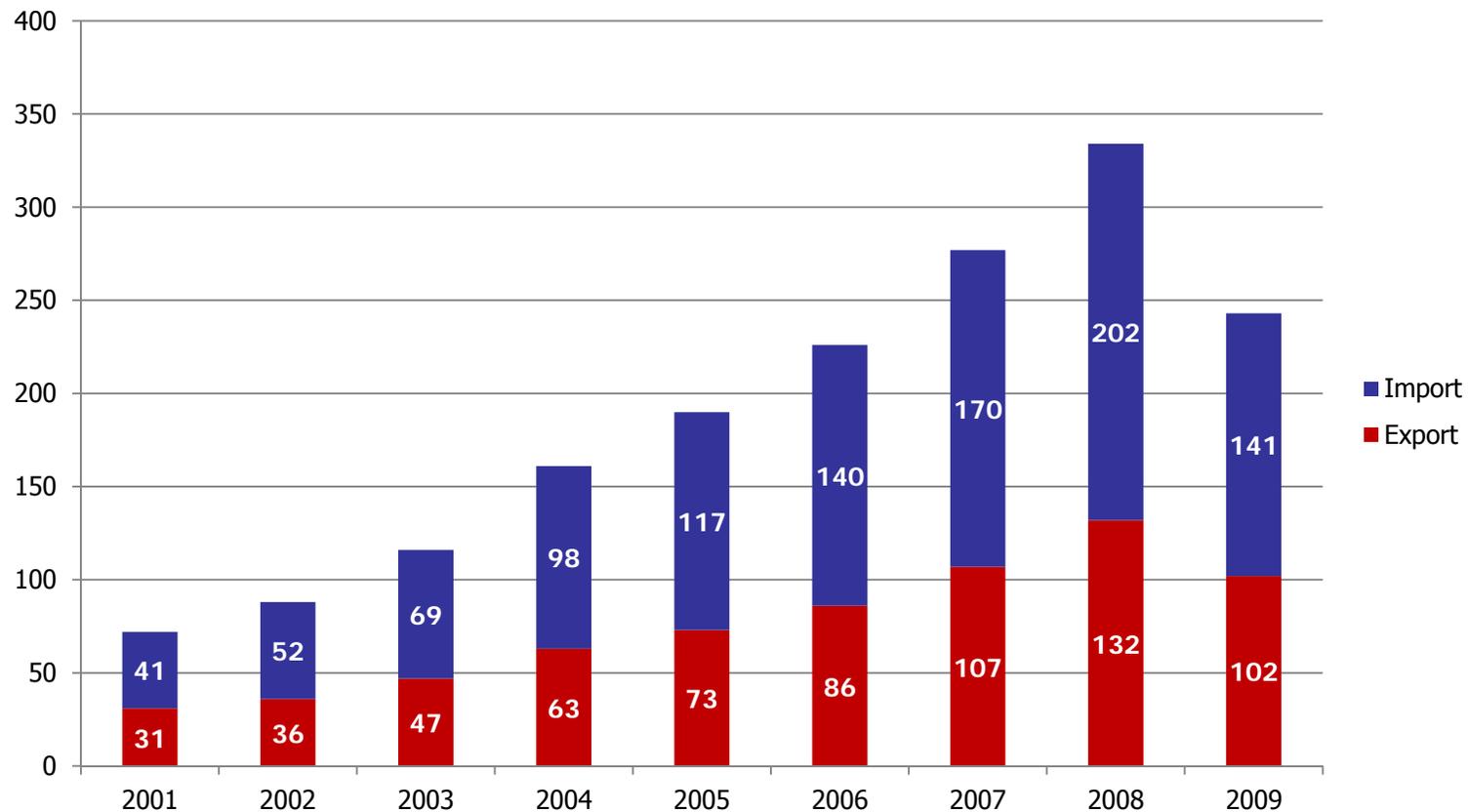
Turkey's growth performance

Average annual GDP growth rate for selected periods, 1970-2009, %



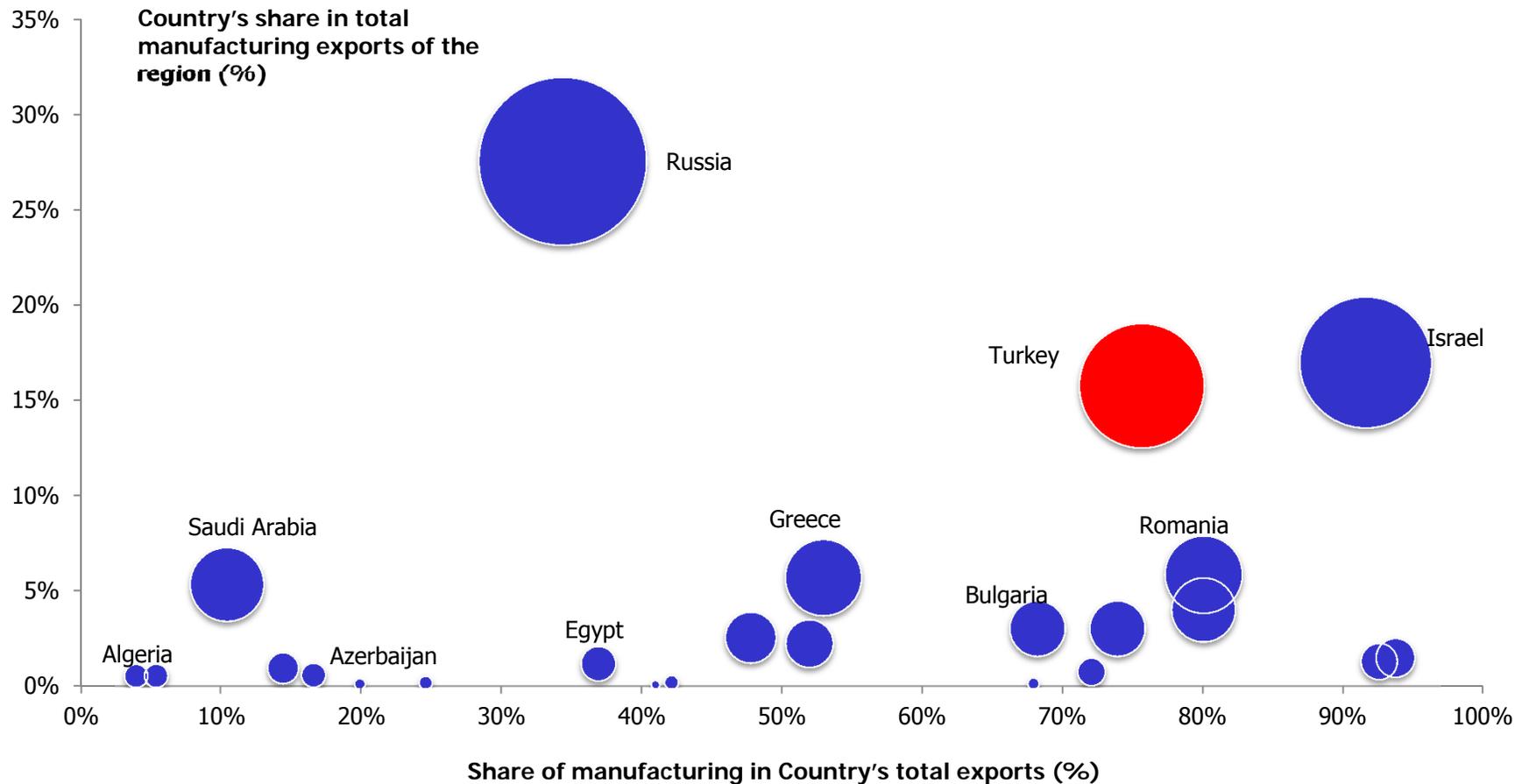
Integration into the global economy: EU Customs Union met political and economic stability

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



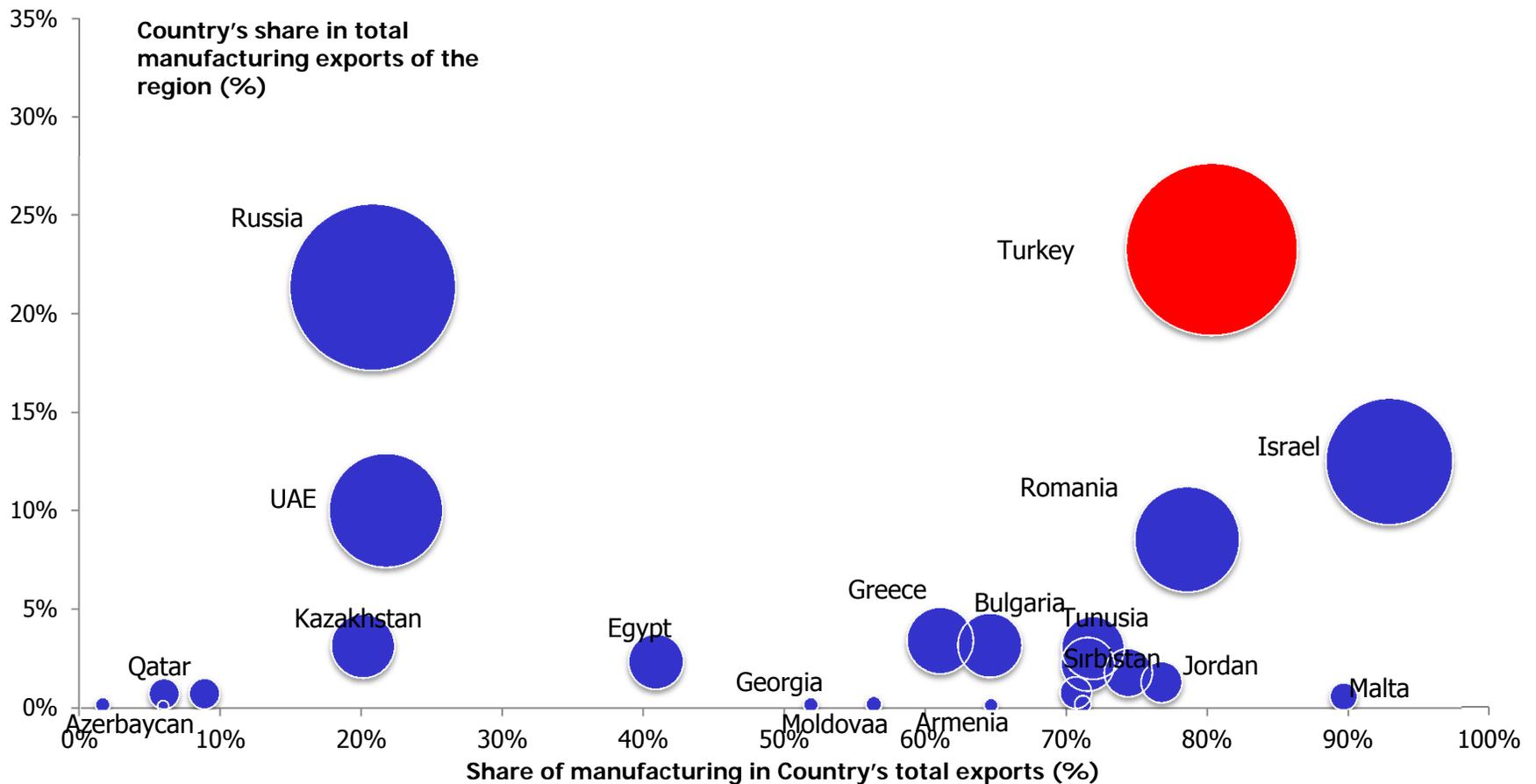
Rapid growth in manufacturing after mid-90's

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)



Rediscovery of neighbours: economic impact of political rapprochement?

■ Improvement of political relations with neighbours, 2000-2010

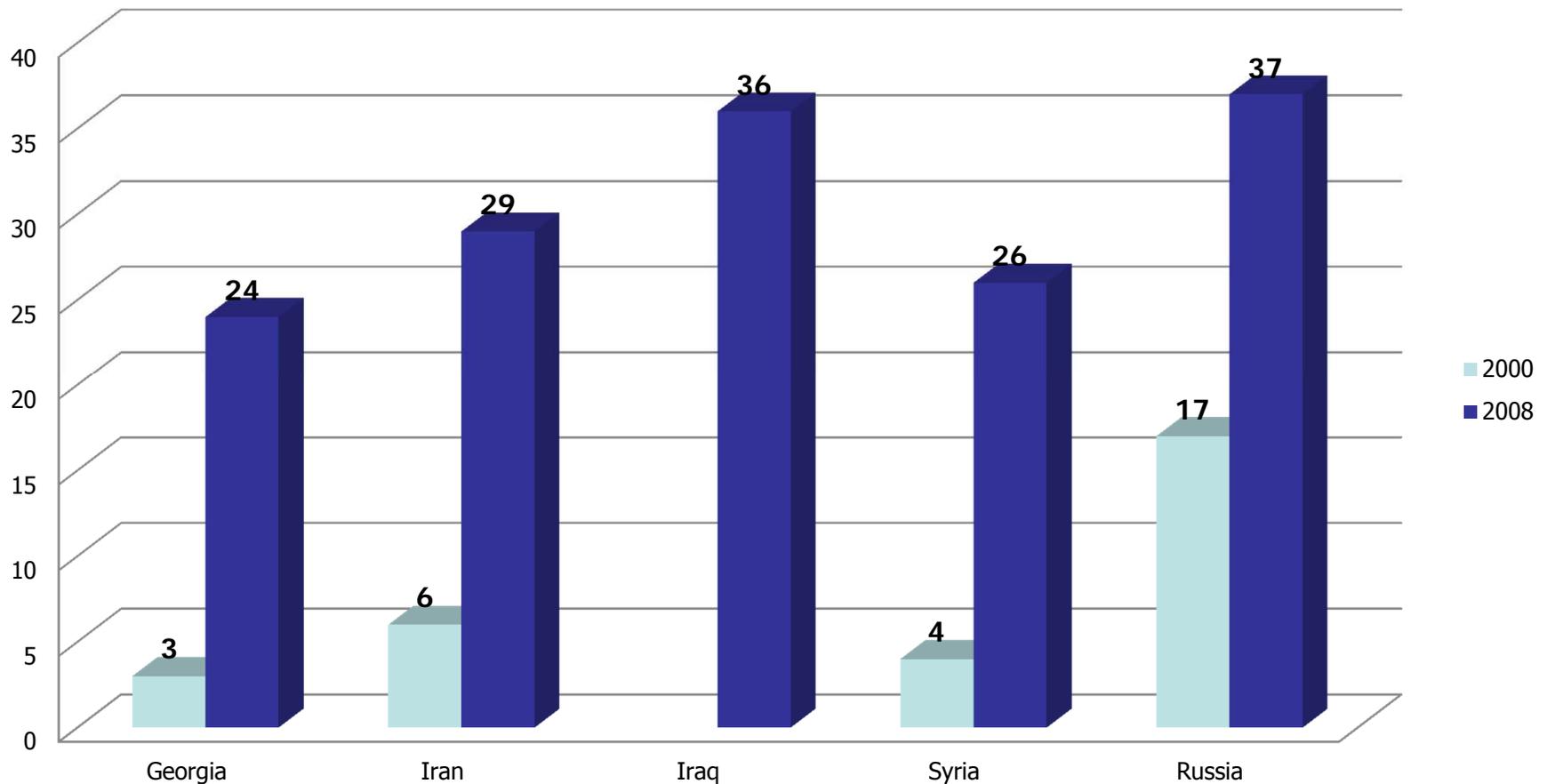
- EU dimension: Greece and Bulgaria
- Russia : bilateral rapprochement sustained by energy cooperation
- Syria : better understanding on security related issues

■ Practical effects of the 'zero problem with neighbours' approach

- Trade follows the flag? To a certain extent but mostly...
- Trade facilitation and border crossing improvements
 - Lifting of the visa : ie. immediate impact on cross-border tourism with Syria
 - Modernization of border crossings
- Importance of the neighbourhood in period of crisis

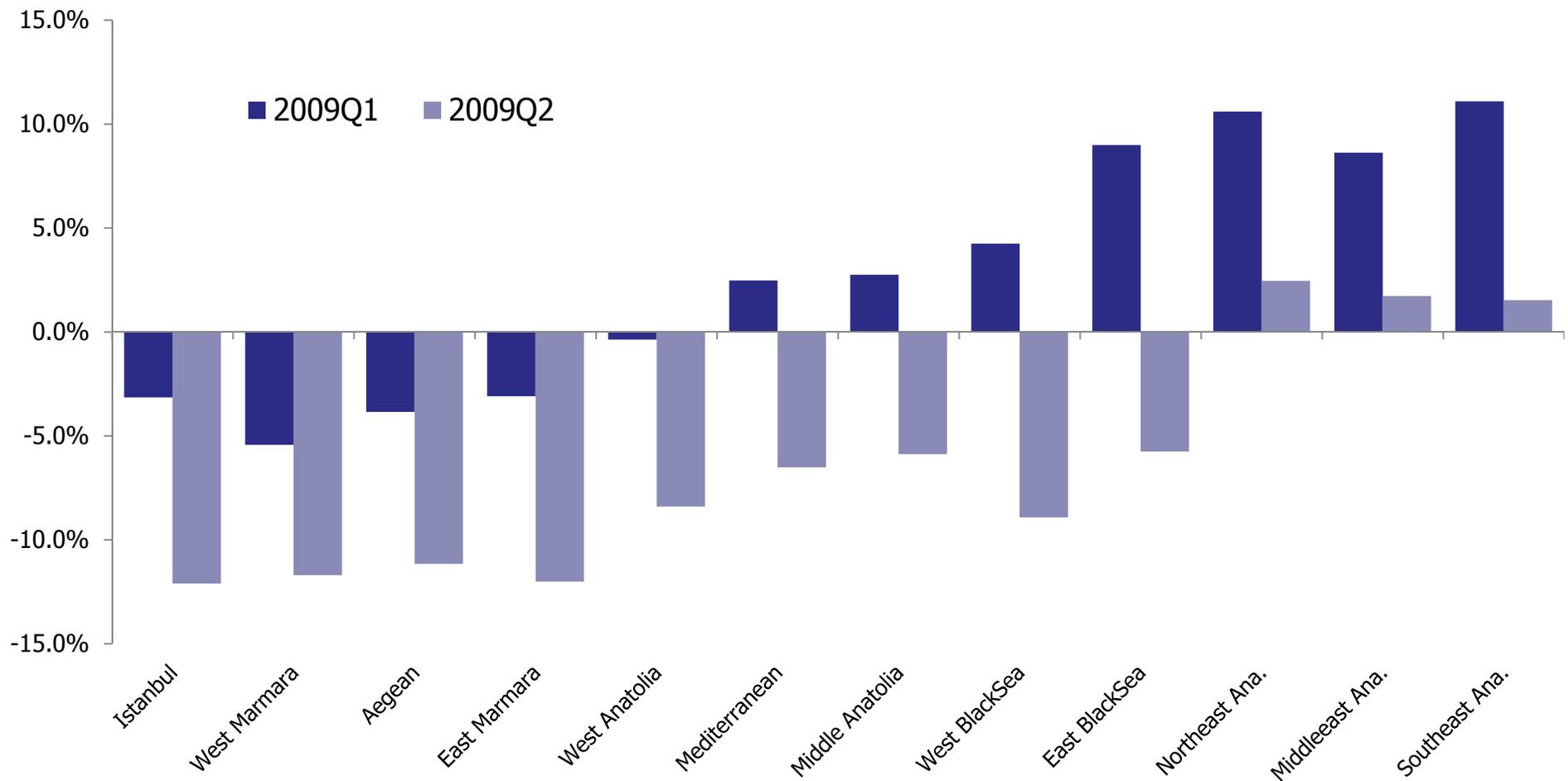
Sectoral diversification of exports to bordering countries

Number of sectors above \$10 million exports



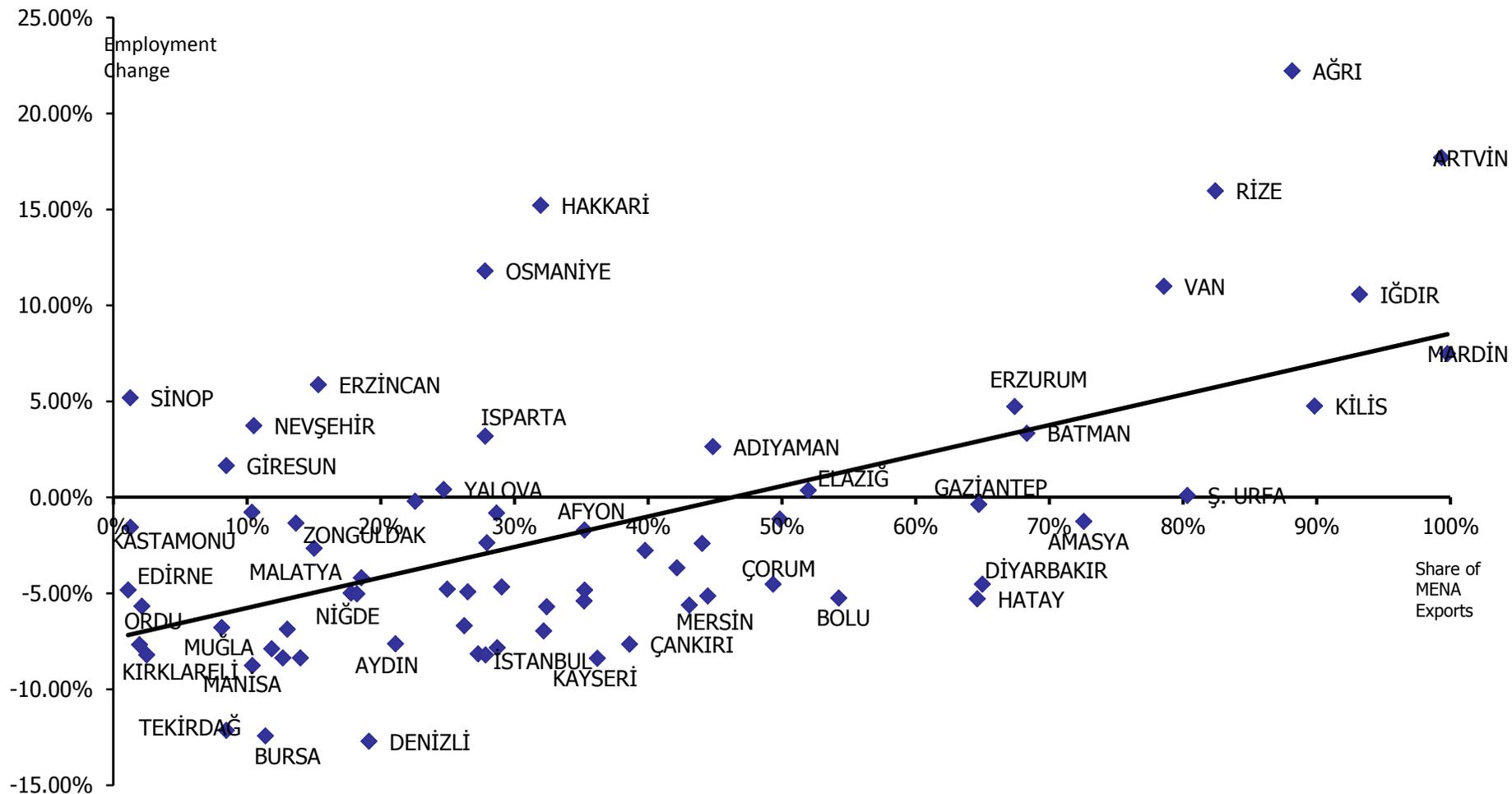
Regional employment trends during the crisis

Change in registered employment in different regions of Turkey, y-o-y, 2009 Q1-Q2

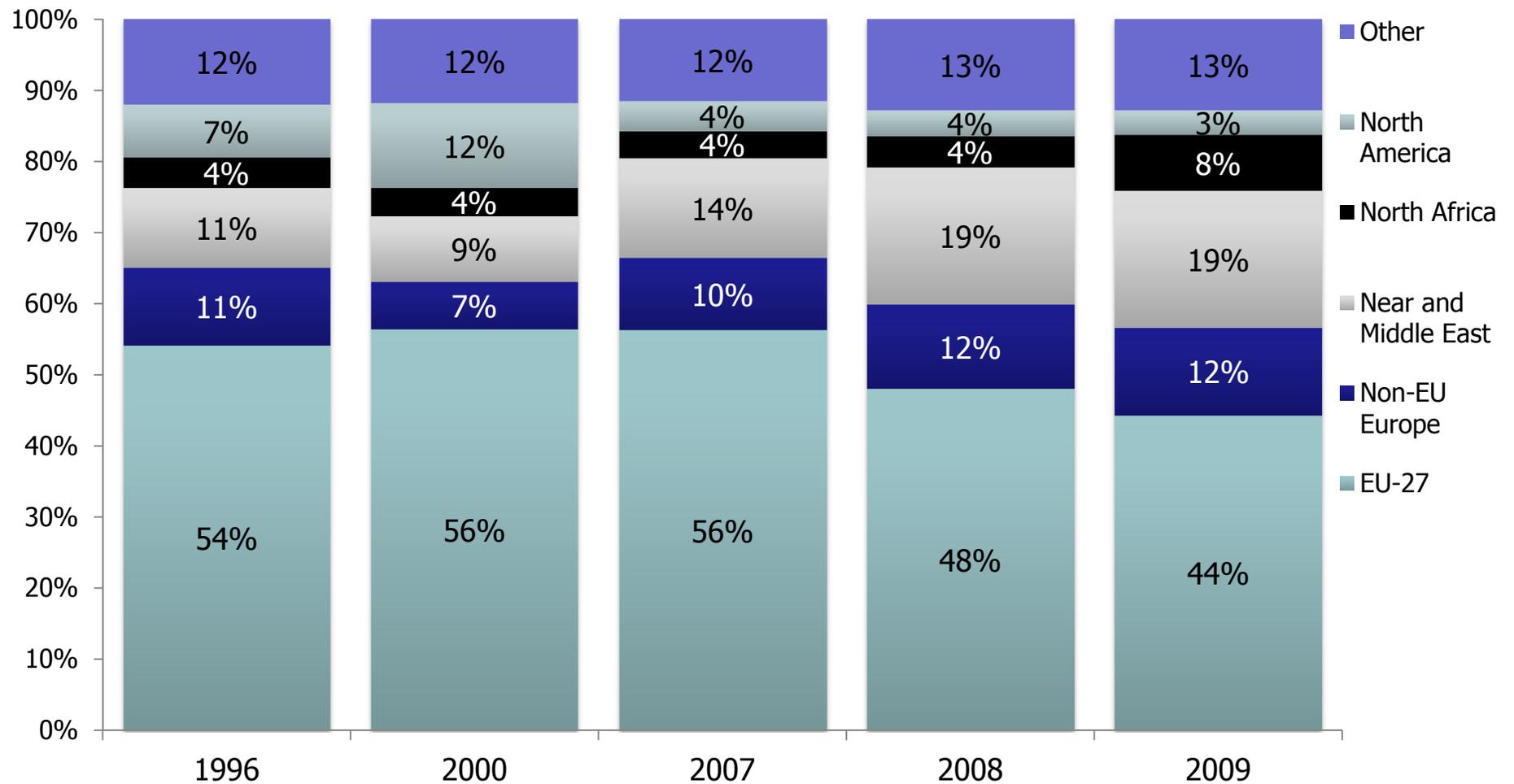


Growth in region-focused Turkey's cities: role of the border trade

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



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



TEPAV's support to regional integration and cross-border cooperation

- Monitoring and supporting the Turkish private sector in reaching out to neighbouring countries
- Design private sector driven regional development projects
- Establishment of business dialogue mechanisms
- Confidence-building devices
- Capacity building mechanism at the local level
- Development of joint initiatives to support regional development and cross-border cooperation

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**

Meaning of border opening

■ Why good for TR?

- Increased penetration to the CIS market: complementarity
- Transport routes to Russia and Central Asia
- Regional development problem tackled.
- Short term impact: more trade from border provinces; job creation

■ Why good for Armenia?

- Increasing the feasible set of economic operations is good.
- Competition brings welfare enhancement

**Still need for confidence building steps?
Preparing the Road for the Restoration of the
Medieval Bridge at Ani**

**Cultural Corridor across Arpaçay/Akhourian
River for Rebridging Turkey-Armenia Divide**

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

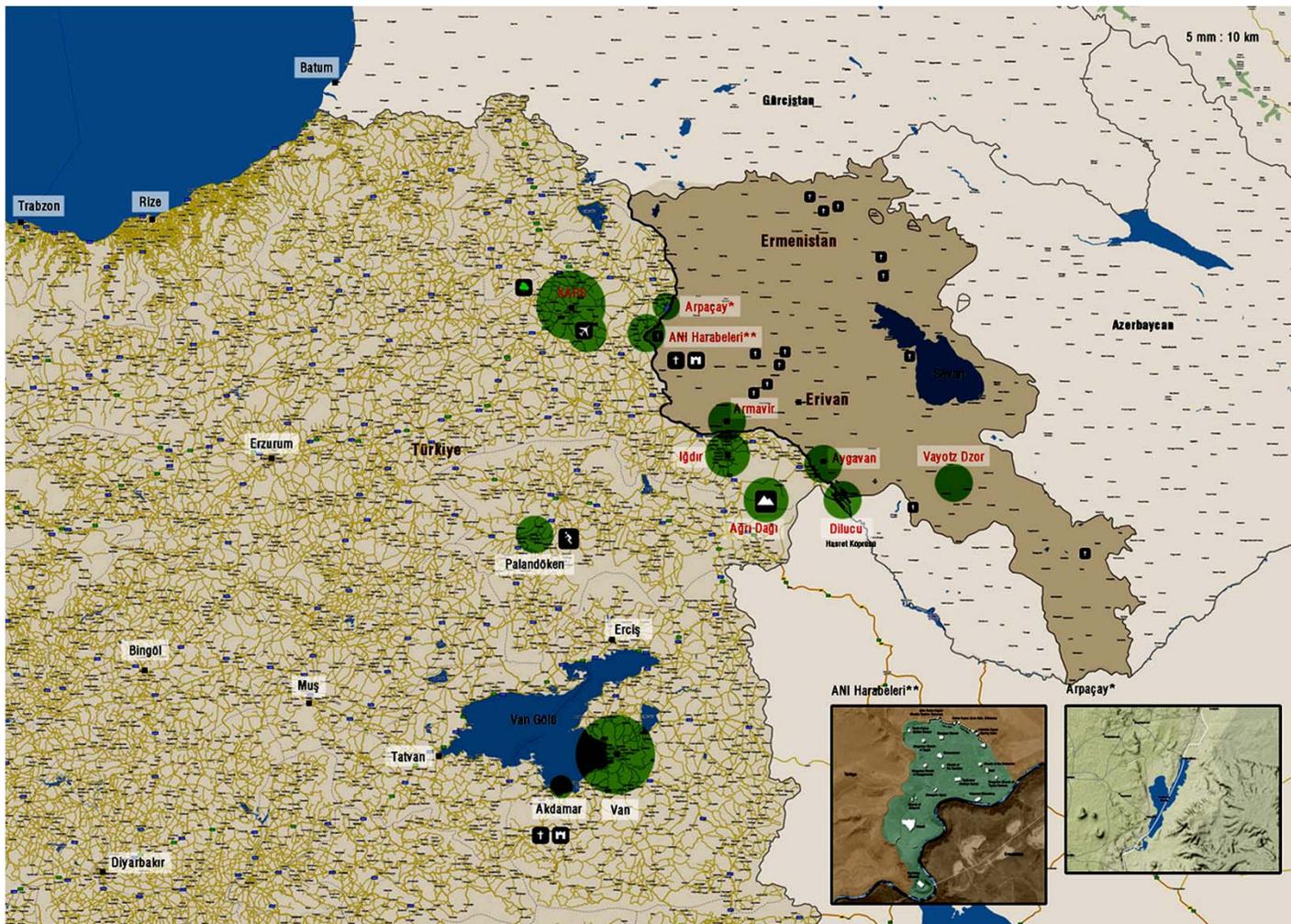
- Raise awareness for the need to protect the cultural heritage, to develop a cross-border political willingness for the renovation of Ani Silk Road Bridge, defined as a cultural corridor between the two nations.
- An advocacy with the participation of officials, experts, business communities and civil 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

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Cross-border tourism cluster



Conclusions

- Private sector development in the region should be considered as a key component of the regional transformation process
 - It is not only about governments but direct communication among peoples to do business
- Linkage between cross-border economic relations and regional development
 - Regional disparities among provinces could be tackled through development of cross border economic clusters: Good for everybody.
 - The more the value chain divided between the two sides of the border, the more the complementarity: Solid basis for regional stability.
- Turkish-Armenian border opening and regional integration
 - A new opportunity and a new challenge for us all.