

# COMPETITIVENESS AGENDA FOR THE GAP REGION

GAP Entrepreneur Support Centers Project  
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## SECTION 1 EXECUTIVE SUMMARY

### ***Danger of Stagnation***

The GAP region has been the subject of a decades-long effort to “normalise levels of development, income, and living standards between the southeastern region and other regions of Turkey.”<sup>1</sup>

Significant efforts have been undertaken, most notably via the hydro-electric and irrigation system projects; \$19 billion out of \$35 billion has been disbursed over the past 25 years. This project, in addition to other infrastructure, and more recently, economic and social development programs, has not managed to close the gap between the region and the rest of Turkey. Such a situation cannot continue – the economic, social and political stakes are too high.

There are two fundamental reasons for the failure to “normalize” income and living standards: the delays in completing the GAP infrastructure projects, and the overall approach to economic development. The delays in completing the infrastructure projects, while understandable in terms of the economic challenges facing Turkey during this period, have had a devastating impact on the reasonable expectations for the GAP region’s economic growth. The hydro power components of the project are 74% complete. The irrigation system, which was to cover 1.82 million hectares, is only 14% complete. Availability of irrigation on more of this land could have a substantial impact on productivity, job growth, and average incomes, particularly if it is combined with a more ambitious economic development program.

This report lays out a Competitiveness Agenda, pointing out policies and programs that could contribute to the impacts of past policies in the region, and transform it economically. Bold new strategies and actions, based on regional distinctiveness, are required to catalyze regional growth. The infrastructure investments (1980 – 2000) and social program investments (1995-2005) of the past are necessary but insufficient to stimulate the region’s economic growth for the future.

### ***New Vision and Strategies***

Strategic economic development planning recognizes the need for a guiding light - a shared vision among the region’s leadership that is best articulated in terms of those core values and characteristics that are central to key development goals and the aspirations of the community. And as the GAP region strives to articulate this clear vision, it finds itself at a critical juncture: confronted by rapidly changing international economic trends and the increasingly globalized marketplace, yet in possession of several unique natural, economic and cultural assets that offer significant economic potential if leveraged appropriately.

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<sup>1</sup> GAP Master Plan

## 1. EXECUTIVE SUMMARY

The GAP region's new economic potential is possible first of all due to the considerable public infrastructure investments (dams, roads, electricity) made during the past three decades. But the new potentially transformative element is that the GAP region is willing to create a new "value proposition" upon which to distinguish itself from other regions in Turkey and elsewhere.

The GAP region today stands poised to undergo a transformation from a region mired with low productivity, unemployment, rural emigration, internal strife, and poverty to a region based on new competitive advantages. After decades of public investment, the GAP region now has many of the basic foundations for creating a successful new economy. It has the strategic location, water, land, people, leadership and historical and cultural "authenticity" upon which to grow a unique, distinctive value-added economy to compete in the global economy. After decades of lagging behind the rest of the nation, the GAP region must now seize the opportunity to establish itself as a leader in strategic areas and distinguish itself as a leader both in Turkey and among developing regions.

In the next decade, the GAP region can become a new, value-added economy-based on reengaging its identity as the "cradle of sustainable civilization" - thereby both renewing the region's cultural and economic distinctiveness and establishing the region as a new role model for developing regions in Turkey and worldwide. The new GAP economy will be based on a dynamic mix of sustainable agriculture, productive and "clean tech" manufacturing, and innovative service industries that create jobs and a rising standard of living for all its people.

GAP regional distinction will be based on becoming the premier testing ground for environmentally and socially sustainable, clean tech-based growth among emerging economies worldwide. By aligning the infrastructure and social investment of the past with a "clean-tech" approach, the region has what it takes to establish regional distinction in global markets. While the current strategy does not leverage the major accomplishment of the GAP Project - the hydroelectric power - it becomes a cornerstone of the new strategy. The region is already well on the way to becoming the region with the highest proportion of renewable energy in local consumption - by complementing this asset with appropriate policies to incentivize additional solar, wind, and bio-fuel investments, this goal could become a reality. This strategy is one of five cross-cutting strategies that, taken together, can fundamentally transform the region's economy:

**Sustainable production strategy.** A bold realignment of key productive sectors (e.g. agriculture, tourism and textiles) around a common strategy of sustainable production - featuring organic products, produced by largely renewable energy resources, under fair market labor practices. This combination of techniques is not only sensible in itself all along the production chain, but is in high and increasing demand in world markets (particularly OECD countries). Thus, by carving out a leading position among emerging regions worldwide, the GAP region can attain a "re-branding" of its international image that is positive and completely the reverse of its current image.

**Entrepreneurship development strategy.** A regulatory framework and business climate that is far more entrepreneurial and promotes innovation (not all "high-tech" but including high tech where appropriate), catalyzed by a "Co-investment Fund" that can kick-start this new economy. One area where private sector co-investment can be crucial is in privatizing major elements of the secondary and tertiary canal system, thus accelerating the expansion of irrigated land area in line with GAP's original goals.

**An internationalization program** that will aggressively expand the mastery of foreign languages, especially English, and raise by an order of magnitude access to foreign study tours, exchange programs, and trade fairs.

**Applied technology strategy.** Strong expansion of the region's applied technology resources, making it far easier for companies in all key sectors to access appropriate production technologies and marketing resources. These can range from organic fiber production centers to renewable energy to a Culinary Institute - across a broad range of sectors and applications.

**Clustering and networking strategy.** A comprehensive application of clustering and networking techniques, fostering higher levels of coordination, collaborative strategy development and resource sharing. This program will fulfill the need for a greater number of public-private partnerships and institutions for collaboration (IFCs).

While these five strategies will be effective across all sectors, and are in essence aimed at enhancing the underlying productive capabilities of the region, the team has explored in some depth the three largest existing export sectors of the economy, since it is clear that they will have a major role to play in the region's future.<sup>2</sup>

**Agriculture:** combining the region's water, land, and people to create sustainably produced food products, cotton, and other fibers, maximizing the use of renewable energy sources and organic farming methods;

**Textiles and apparel:** accelerating innovation, international market linkages and "clean tech" to establish a competitive edge in textiles and apparel; and

**Tourism:** coordinating the region's people and historical/cultural authenticity to excel in creating an "Cradle of Sustainable Civilizations" tourism brand.

As shown in Figure 1-1, the three sectors chosen for more in-depth treatment are not the only sectors that will be impacted by the strategy. While the figure is illustrative, and the size of the bubbles is not proportional to employment, it indicates directions in which the region's economy can evolve.

<sup>2</sup> It should be emphasized that this in no way constitutes a suggestion that these are the only sectors with potential. Their selection for this study was more a pragmatic issue, based on limited time and manpower.

1. EXECUTIVE SUMMARY

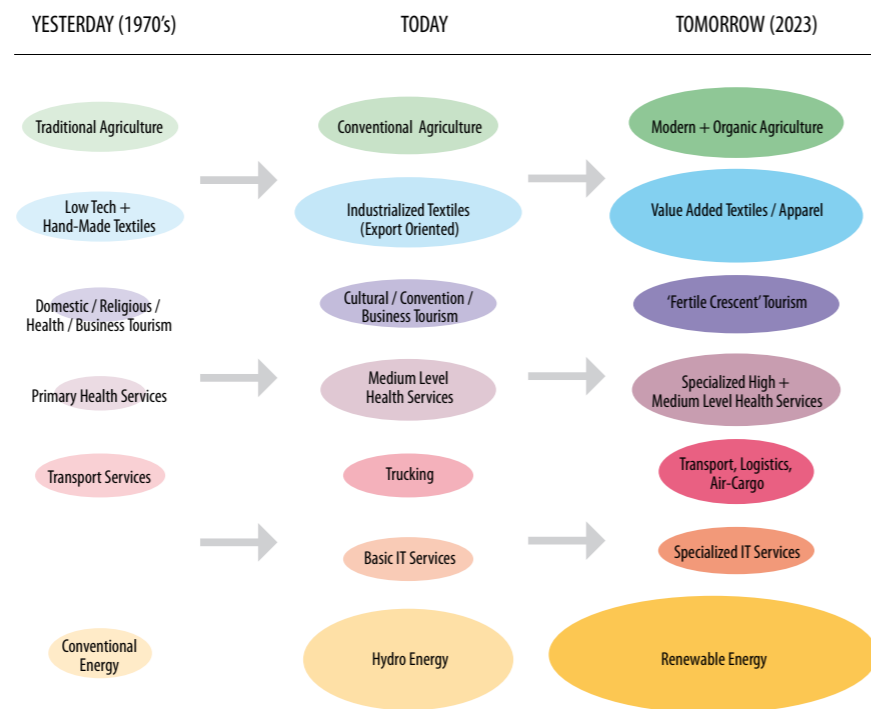


Figure 1-1: The Gap Region of Tomorrow

**“Dashboard for Development”**

Progress toward the goals for 2023 need to be monitored regularly in order that priorities future investments and policies in the region can be tracked and occasionally re-evaluated. The lack of up-to-date and well-organized data in the region is so serious that policy makers are practically “steering blind” currently. The Competitiveness Agenda should consequently be supplemented by a *Dashboard for Development*. The Dashboard can show whether or not the large investments suggested in the strategy have the desired effect on everyday life in the region. Furthermore, it can bring the attention of policy makers to areas, where the development is lacking in the region or where further investment is needed. Some data already exist and are presented in the current strategy, but much further work is needed in other areas. Funding for the future development of the Dashboard is an essential part of the overall budget for the strategy. The Dashboard is described in Annex 1.

**Why So Much Attention to Environmental Issues?**

It is worth mentioning that the most innovative element of this strategy – the ambitious upgrading of sustainability-related capabilities – emerged as a hypothesis to test from the first round of regional reconnaissance and was initially greeted with some skepticism by team members and counterparts alike. However, by ground-truthing the strategy sector by sector, the team was able to verify that it is not only sound, but the optimal strategy for a region with resources like the GAP region has.

For example, in meetings with top executives in major global corporations like Marks and Spencer, the team learned the crucial role of pro-actively establishing on-the-ground capabilities to provide investors with ready-made solutions on energy use, green building, organic inputs, and fair market labor practices. While major investors from companies in that sector appreciate having good applied

technology centers focusing on product development and production management, for example, such capabilities are necessary but no longer distinctive – while talented staff and strong organizations with capabilities in sustainability can save the investors considerable time and uncertainty as they map out their new global value chains based on higher and higher levels of sustainable production.

Such research led to a variety of innovative concepts that could be woven into the detailed sectoral strategies. For example, again in textiles, while the region obviously will seek to develop a high degree of expertise in production of organic cotton, our sectoral expert also deduced that a winning strategy would be to also develop local organically produced supplies of other fibers, such as flax, hemp, silk and wool. Even though the region may not be the lowest-cost producer of these products, the structure of the textiles industry is such that international buyers will want to be able to source all their production in one region. Thus, by becoming the “go-to” location for the full range of organic fibers, the region becomes more attractive for location of large, fully-integrated facilities, which are becoming more popular recently.

**Boosting Competitiveness**

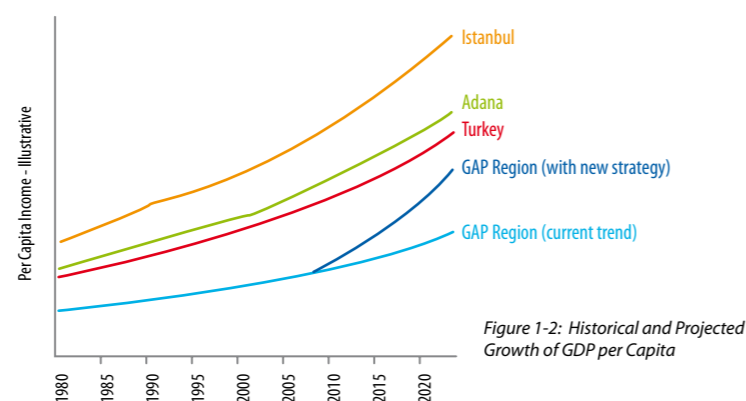
The international competitiveness environment is strongly affected by a country or region’s ability to convert comparative advantages to competitive ones. To become a value-added economy, the GAP must learn to compete nationally and internationally on the basis of higher productivity by adding value to products and services, not simply on the basis of low cost. The GAP region traditionally has seen low costs and basic exploitation of its natural resources and labor as its competitive advantage, but in the new global economy, economic advantage comes from higher productivity and added value, and regional distinctiveness. A coordinated set of bold strategies and action must shape this distinction by focusing both externally at branding the region and establishing markets beach-heads, strategic alliances with companies and regions internationally and internally, by creating awareness and supporting companies, public agencies, universities and citizens throughout the region to shift to “clean tech” activities and behaviors. Clustering will provide a mechanism to make these internal shifts. Linking with and mobilizing Turkish expatriates, creating highly visible strategic alliances and partnerships with “clean-tech” companies, regions, international agencies, NGOs, etc. around the “clean-tech” concept will help the region create its external linkages in establishing regional distinction.

**Reversing Current Trends**

The above strategy is implementable, and should finally begin to move the region’s economic and social indicators in the direction sought by the GAP project a quarter-century ago: eliminating regional development disparities by raising people’s income level and living standards. Figure 1-2 illustrates the anticipated impact of the Competitiveness Agenda on GDP per capita.

One of the key tasks in the coming 12 months should be to dis-aggregate the components of GDP in the region, testing how much needs to be spent to achieve specific changes in productivity, output, and incomes necessary to achieve this degree of convergence. While the price tag will come to several billion dollars, the return on this investment should be excellent, since it leverages the previous investments totaling \$35 billion, finally completing the “last mile” that actually makes those investments pay off for the local population.

## 1. EXECUTIVE SUMMARY



Implementing the Competitiveness Agenda will require expenditures on incentives for solar and biofuels investments, the Co-investment Scheme, ambitious expansions in funding for English language training and study tours abroad, a variety of applied technology and marketing centers of excellence, and similar investments. However, not to allocate these funds would be to reduce the likelihood of success significantly.

Equally important, however, would be the exercise of political will to change policies, procedures, and regulations that currently shape the business climate. By offering salaries high enough to attract talented people to the region during the crucial launch stage, by allocating funds to set up the Co-investment Scheme, by exploring innovative methods of using private sector funding for the accelerated completion of the secondary and tertiary irrigation canals (necessitating some privatization of the system), policymakers can ensure that most of these funds will truly generate returns, as with any good investment. The Co-investment Scheme is modeled on a similar practice in other countries, which eventually repays the government's entire investment with interest. Similarly, the cost per hectare of new lands under irrigation, given the existing infrastructure already built, is quite low, and government expenditures will be recovered through tax revenues on the direct and indirect economic activities that are generated on that land.

### Implementing the Competitiveness Agenda

Adopting a bold new concerted effort to step-up to a new level of competitiveness will generate new jobs, new and stronger industries, and enable the region to close the income gap.

Achieving this vision will not be easy.

The region must make the case for establishing itself as the world's premier testing grounds for "clean tech" development in the developing world, and garner the necessary national and international support, not only from governments (i.e., Ankara, Brussels, and Washington D.C.) but also from domestic and international private investors with vision and a sense of mission.

Urgent strategic actions must be taken in specific areas to accelerate development. New risk-taking behavior will be required. New public-private partnerships and new agile institutions and action teams will be needed to implement key actions. This will require bold leadership, concerted action and collaboration at all levels

### Next Steps

– local, regional, national, EU and other international partnership. But together, a bright future for a charming, historical, and physically beautiful region — an integral part of Turkey — can be forged.

Over the next 12 months, the government and private sector leaders will need to evaluate the recommendations in this report, determine a course of action, and begin implementation. Clearly, it takes some time to adopt a new strategy and allocate funds. However, during this coming year, it is important that momentum not be lost, particularly in the region itself.

One way to move toward implementation without making major commitments that are premature is to move forward vigorously on the clustering and networking agenda. By engaging public and private leaders in the GAP region in a serious collaborative strategy development process, the national government will be able to test the assumptions in this document, while engaging in a participative, broad-based detailed planning that will assist in refining and fine-tuning the Competitiveness Agenda and its budget. At the same time, a well-executed clustering process generally starts to yield benefits from "low-hanging fruit" so that some early wins from the new strategy can immediately be seen. Such early wins often derive from the business brokerage aspect of the process, such as joint study tours and marketing trips to target countries, which allow new products to be introduced and deals to be made. Similarly, several potential investors in the new concept have already been identified, in sectors ranging from renewable energy to apparel manufacture to irrigation technology.

By providing funding for a clustering initiative in the GAP region, associated with a separate budget that can quickly disburse funds for study/marketing trips, rapid feasibility studies, and other activities that can accelerate the transformation process in the short run. In this way, by the time the national decision-making process has had an opportunity to consider the far more costly aspects of the program, considerable progress toward the necessary alignment toward these goals will already have been made.