



A Background Note on

Regional Integration and Development in the Middle East:

The Role of Industrial Parks

Tuesday May 23, 2006

The need for regional integration in the MENA area and beyond

Despite the enormous importance to the world economy of the Middle East's oil reserves, many of the countries and people of the region have not yet been able to integrate themselves successfully into the global economy and as a result they are denied the prosperity, stability, and security to which they are entitled. From this comes a spiral of political and economic difficulties in many countries of which I am sure we are all well aware.

Other countries in earlier times have faced equally cruel dilemmas but managed to escape from them. In almost every case it has been regional integration which has enabled them to break out of the vicious circle, by taking advantage of trade opportunities with their neighbours and encouraging flows of investment and know-how from outside.

Regional integration was relatively easy to achieve in the core countries of Europe, but so far it is proving much more elusive on its periphery—the 'southern Mediterranean countries of the Middle East and North Africa' (MENA), the countries of the Caucasus, and of Central Asia. Many of the countries of this region are Turkey's neighbours or have close historical or cultural connections with us. So we are conscious of the risks and instabilities which come when countries are denied prosperity and economic progress. In the last generation, we in Turkey have become the 17th, and possibly soon the 15th, largest economy in the world, and the largest exporter by far in south eastern Europe, the Balkans and the Middle East, responsible for about 65% of the total exports of the MENA area, that we have lessons and skills to offer which may be of benefit to others. TOBB—the Turkish Union of Chambers of Commerce and Industry—has taken a particular interest in this issue. We are engaged in a

continuous dialogue with the business world, of Europe of course, but also in the Middle East and beyond. We know the challenges the business communities of these countries face and their determination to overcome them. We are also aware of their real sense of opportunity.

The prerequisites for successful regional integration

There are different paths to regional integration. To some extent each region and each country will find its own way. But there are always some common threads. Some of the most important of these are:-

- Facilitating the growth of trade,
- Creating attractive investment climates.
- Overcoming regulatory and administrative barriers to transit zones.
- Guaranteeing the physical security of trade routes, of course.
- Strengthening physical and institutional infrastructure.
- Promoting economic diversification to create vibrant self-assured public sectors with a wide range of skills and activities.

Late-comers to industrialisation enjoy one substantial advantage that previous generations did not. For the older industrial economies of the world, the industrialisation process was usually a slow journey in the dark. Today's economic policy makers have a much better understanding of the process of industrialisation. They possess detailed knowledge of the available microeconomic inputs and market opportunities. Policy makers can tap the wealth of knowledge and interconnections made possible by the rise of the global economy. And new candidates for industrialisation are entering a global world market in which different parts of the value chain can be split geographically from one another. Part of a company's production can be done in one country. Another can be shifted to another overnight to be carried out more effectively there. But this is an ongoing story: it is one whose ultimate end may be the transformation of the region.

Industrial parks a key tool for successful entrepreneurs

We know this particularly well in Turkey because our own industrialisation experience is recent. We know from our own experience in the last quarter century just what the mix of infrastructure is that entrepreneurs and investors need to succeed in competitive market conditions. And we have learnt all this in

a cultural, administrative, and physical environment which is remarkably similar to that of our Middle Eastern and Caucasian neighbours.

Countries and their leaders striving to encourage the emergence of entrepreneurs and industries will almost always have inadequate resources when trying to create a favourable investment climate. They cannot change all their macroeconomic conditions, public service delivery standards, and physical infrastructure at a stroke to give investors what they need. Or rather, they cannot do so on a nation-wide scale in the short or medium term.

Pockets of excellence—industrial parks

What we have found is that it is much easier to create pockets of excellence for investors, in the form of industrial parks. You can give an industrial park the superior infrastructure that a successful business needs, the enhanced regulatory capacity, and access to major trade routes. And once that has been done and industries have come to life, it is a relatively easy matter to increase the size of the park and bring in additional industries. So you create clusters of local industries which become a powerful driving force for the private sector development process.

This experience lies at the core of the economic transformation in one or two generations which has made Turkey the largest economy and the major exporting national in the Middle East and North Africa and far beyond.

It has also given our Turkish industries flexibility and the capacity to outsource some of their operations further afield when it became good business sense to do so. The Bursa Industrial Park was one of Turkey's earliest industrial parks and played a major part in the rise of Turkish textiles and the motor industry, for example. But today some of the biggest players in Bursa have outsourced part of their production as far away as the Republic of Georgia. Knitting work moves from Bursa to Tbilisi. Thus the process of industrial growth and transformation is inseparable from the process of regional integration and cooperation. "Beggars your neighbour" in the old mercantilist view of the world has been replaced by "Enrich yourself and your neighbour together by taking advantages of the opportunities of globalisation."

Industrial Parks and multilateral global industrialisation

What we are talking about in fact, is not bilateral trade facilitation. We are talking about a process of multilateral expansion of industry through the use of industrial zones. Investors, financial institutions, and companies from the world's frontline economies will have their part to play, a part which may be

limited in the earlier stages but will grow in scope and scale as the process of industrialisation deepens and consolidates. And of course much else will come with that. We will be helping create a mechanism for dialogue and mutual understanding.

We, at TOBB-BIS, believe that practical projects, ones which target micro-level problems offer an effective strategy for triggering gradual but deepening regional integration. We see microeconomics as an alternative way to coping with the grand and frozen insoluble conflicts which cast long shadows over the life of so many countries and their inhabitants.

In the wider Middle East

Our vision is to roll out the industrial zone model, on a joint venture basis to countries to our south which will cooperate with us. Our first project, the result of a partnership with all the countries involved, is the revitalisation of the Palestinian Industrial Free Zone—the former Erez Industrial Estate in the Gaza strip which has been standing empty since Israeli forces evacuated it in August 2005. While it stands empty, chances for businesses and for ordinary families to earn a decent living are being wasted. And so local problems and the potential for conflict are exacerbated. But with it up and running, we shall not only be creating a pool of employment and prosperity in Gaza, we shall also have created one of those ‘dialogue mechanisms’ which I already mentioned, a dialogue mechanism between Israelis and Palestinians—a dialogue based directly on a community of practical common business interests.

Future prospects

If we can revitalise the Palestinian Industrial Free Zone, we look forward to launching similar ventures in neighbouring countries in cooperation with local business leaders. Egypt and Jordan are obvious candidates. We hope that in due course it will become possible to plan similar ventures in Syria and other parts of the Arab world. The vicious cycle will be replaced by a virtual spiral of business development and progress. Each step will be small but it will be part of a transition to lasting prosperity in a wider area. What we have achieved in the last generation could be achieved by others in the next.