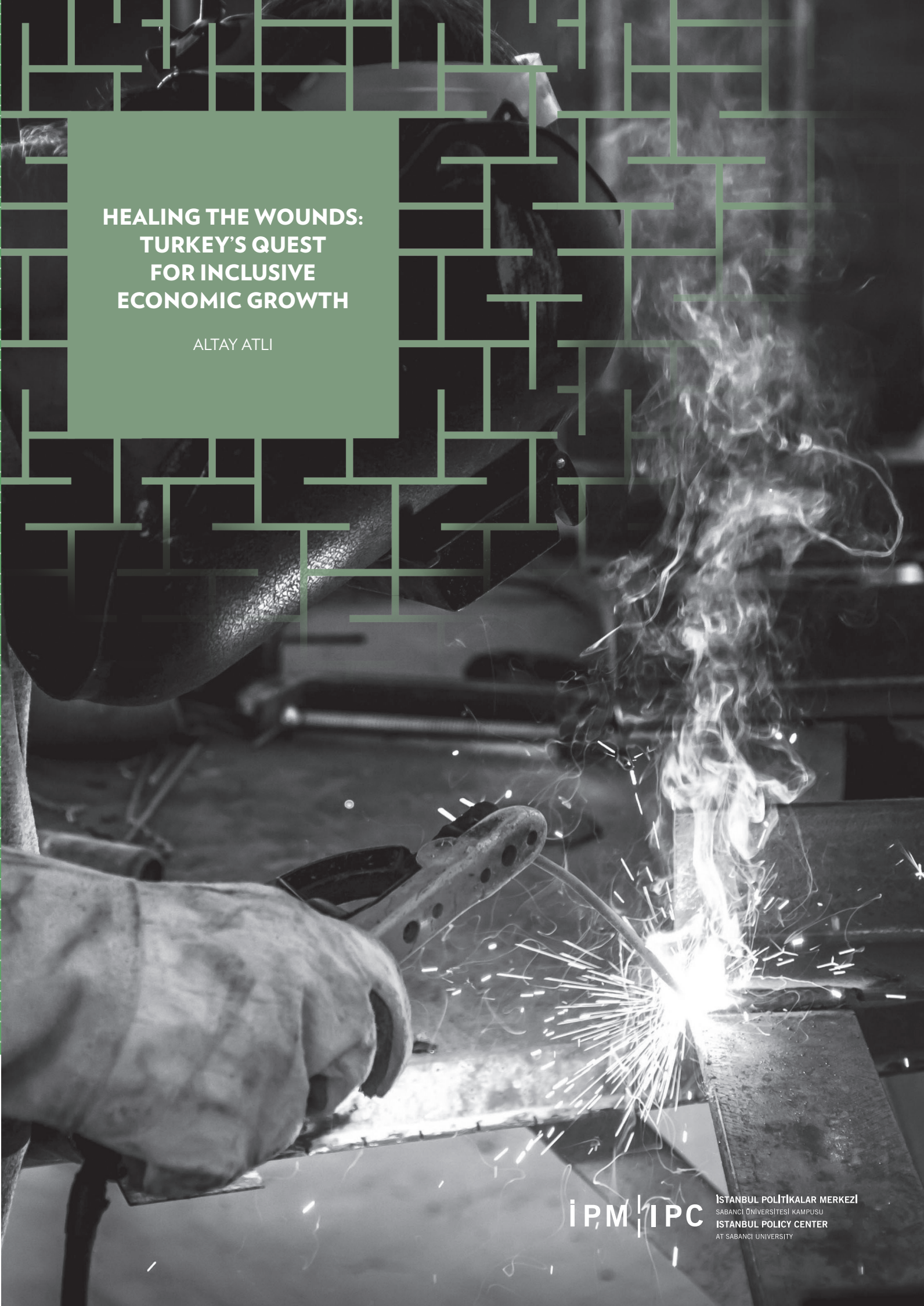


HEALING THE WOUNDS: TURKEY'S QUEST FOR INCLUSIVE ECONOMIC GROWTH

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Istanbul Policy Center (IPC) is a global policy research institution that specializes in key social and political issues ranging from democratization to climate change, transatlantic relations to conflict resolution and mediation. IPC organizes and conducts its research under three main clusters: The Istanbul Policy Center-Sabancı University-Stiftung Mercator Initiative, Democratization and Institutional Reform, and Conflict Resolution and Mediation. For over a decade, IPC has provided decision makers, opinion leaders, and other major stakeholders with objective analyses and innovative policy recommendations. As an essential part of Sabancı University, IPC strives to foster academic research. The Center extends intellectual and substantive support to young academics and policy researchers through its various programs.

EXECUTIVE SUMMARY

Turkey's East and Southeast Anatolian regions, which are the most economically backward parts of the country, find themselves in a vicious cycle of terrorism and conflict plaguing the region and hindering economic development.[1] Economic problems and lack of opportunities, in turn, further fuel terrorism and conflict by marginalizing individuals. Assertive development plans and large amounts of funds and incentives channeled by the central government into the region have so far done little to create a better business environment that would create more employment opportunities. At the same time, the escalation of terror attacks and clashes between the Turkish security forces and terrorist groups, as well as the descent of the neighboring countries of Syria and Iraq into lethal chaos, have led to a worsening of the situation.

This cycle, however, can be broken. Analyzing the economic situation in the East and Southeast Anatolia region at the macro level and combining it with insights from the field obtained through in-depth interviews and on-site workshops with local stakeholders, this paper argues that carefully planned, rational, and feasible economic programs formulated and implemented through the collaboration of the state and local actors, as well as the public sector and the private sector, can create a more productive environment where economic activities can flourish, helping to reduce security concerns, which, in turn, can be expected to prepare the ground for further economic improvement. Rather than aiming solely at increasing economic output and pulling up the gross domestic product numbers, the region needs to be approached within the logic of inclusive growth, meaning that in addition to expanding output, the objective should be to achieve greater quality through a broad-based approach across different economic sectors, thus aiming at inclusiveness in terms of equality of opportunity when accessing markets, resources, and an unbiased regulatory environment for all the economic actors in the region.

Problems in East and Southeast Anatolian regions in general—and terror and conflict in particular—are not only economic in nature. Economic underdevelopment is part of the problem; therefore, inclusive growth can only be a part of what needs to be a multidimensional solution. Nevertheless, although it is not a sufficient one, economic progress in the region is by all means a vital, necessary condition, and it can certainly help heal the wounds. As identified and discussed in this paper, there are a number of key objectives that are deemed to be vital components of a growth pattern that will bring about equality and participation in addition to growth as defined as an increase in output.

Increasing the institutional capacities of institutions that are stakeholders in the process of the formulation and implementation of development plans is deemed as one of the key objectives in this regard. It is crucial for not only the public institutions but also the private sector, particularly for the representative organizations of the business community. Institutional capacity building can also support improved public-private dialogue, which is needed to ensure that development and incentive plans are prepared by incorporating local feedback and taking into account the local dynamics.

Sectorial development in the region is another vital condition, and towards this end, increased employment creation in low value-added, labor-intensive industries needs to be accompanied by a gradual move to new, higher value-added, less labor-intensive and more capital- and technology-intensive industries. At the same time, investing in service industries that require medium-level skills, such as information technologies and the tourism sector, can pay significant dividends.

Since the lack of trade opportunities, mainly due to closed borders with neighboring countries, is a major problem hindering economic advancement, adopting an economically motivated foreign policy paradigm towards the region in the long run, and developing new mechanisms for increasing cross-border trade in the short run can be an appropriate policy mix under current conditions.

Finally, Turkey needs to make sure that inclusive growth in the region and elsewhere in Turkey is inclusive of Syrian refugees. Integrating Syrians into the regional economy as consumers, entrepreneurs, and a pool of labor carrying various degrees of skills will help to create conditions that are beneficial not only for the refugees themselves but also for entire communities.

1 This paper is written as part of the Post-Coup Opportunities on Conflict Resolution and Democracy Project conducted by the Conflict Resolution and Mediation Stream of Istanbul Policy Center.

INTRODUCTION

A major and long-running concern for Turkey's economy refers to persistent spatial disparities in economic development. The country's gross national product (GDP) continues to grow[2]; however, this growth has so far done little to help narrow the welfare gap between various regions. While the industrialized and globally connected Western and Northwestern parts of the country provide considerably higher living standards to their inhabitants, East and Southeast Anatolia, regions where the country's ethnic Kurdish population has a large presence, lie at the bottom of Turkey's regional development rankings.[3] Among the 81 provinces in Turkey, the 18 poorest ones in terms of per capita GDP are in East and Southeast Anatolia, and according to the latest figures available, per capital GDP in this region is 49.3 percent lower than the Turkish average.[4]

There are a number of reasons behind the economic backwardness of East and Southeast Anatolia. Outright discriminatory policies adopted throughout the entire history of the Republic of Turkey as well as poorly executed reform and incentive packages have certainly been important factors in this respect. However, similar, if not more important is the fact that this region has been engulfed in a spiral of terror and conflict for the last four decades. Terror, and conflict in general, take a toll on an economy by reducing the human and capital stock, inducing higher levels of uncertainty, and promoting increases in counter-terrorism expenditures by drawing resources from productive sectors for use in security and by negatively affecting specific industries such as tourism.[5] Turkey has faced this entire range of negative effects. Forty thousand people have lost their lives to separatist terrorism and armed conflict between Turkish security forces and the outlawed Kurdistan Workers' Party (PKK), which also led to massive waves of migration due to security-related reasons. This is a situation that has recently turned even more complicated given the negative spillover effects of war and conflict across the nation's borders in Syria and Iraq. According to the Turkish government, the economic cost that terrorism has had on Turkey has totaled 1.5 trillion USD since the early 1980s,[6] and while the entire country has suffered from terrorism and conflict, East and Southeast Anatolia have been the worst affected. According to a recent study, real per capita GDP in the region could have been 6.6 percent higher if there were no terrorism.[7]

What Turkey faces in its East and Southeast Anatolian regions is what many pundits, including scholars and practitioners, consider a vicious cycle. According to Fırat Bilgel and Burhan Can Karahasan who studied the economic costs of the conflict, there is a cyclic pattern between development and conflict:

> ... regions that were heavily exposed to PKK activities are historically less developed, deindustrialized, politically fragmented, less educated and economically isolated from the rest of the country, suggesting that underdevelopment is a source of the emergence of PKK terrorism. Given its additional detrimental effects caused by terrorism, this cyclic pattern makes the PKK conflict both the cause and the consequence of the entire process.[8]

For Nail Olpak, chairman of the Independent Industrialists' and Businessmen's Association (MÜSİAD), the

2 Turkey's GDP has grown by 6.1 percent in 2015 and 2.9 percent in 2016 according to data released by the Turkish Statistics Institute (TURKSTAT). "Dönemsel Gayrisafi Yurtiçi Hasıla," TURKSTAT News Bulletin Nr. 24566, March 31, 2017, http://www.tuik.gov.tr/PreHaberBultenleri.do?id=24566.

3 The term "East and Southeast Anatolia" as used in this paper covers three regions listed in the Nomenclature of Territorial Units for Statistics, namely the Northeast Anatolia Region (TRA), Central East Anatolia Region (TRB), and Southeast Anatolia Region (TRC). These three regions cover 24 provinces out of a total of 81 in Turkey. For a detailed list of regions, sub-regions, and provinces in Turkey, see, "Turkey," Eurostat, http://ec.europa.eu/eurostat/documents/345175/7773495/TR.pdf.

4 Regional and provincial per capita GDP figures stated in this paper have been calculated by the author using official population statistics (latest available TURKSTAT data being from 2014) and provincial GDP figures, because TURKSTAT itself has not released provincial level per capita GDP numbers since 2001. For population figures see, "Yıllara Göre İl Nüfusları," TURKSTAT, www.tuik.gov.tr/PreIstatistikTablo.do?istab_id=1590; for provincial GDP statistics see, "İl Bazında Gayrisafi Yurtiçi Hasıla," TURKSTAT, http://www.tuik.gov.tr/PreIstatistikTablo.do?istab_id=2520.

5 Alberto Abadie and Javier Gardeazabal, "Terrorism and the World Economy," *European Economic Review* 52 (2008): 1-27.

6 This figure was provided by Deputy Prime Minister Numan Kurtulmuş during parliamentary discussions on the central government budget for the fiscal year of 2016. For full minutes of the relevant sessions, see, "2016 Yılı Merkezi Yönetim Bütçe Kanunu Tasarısı ile 2014 Yılı Merkezi Yönetim Kesin Hesap Kanunu Tasarısı Birinci Tur Görüşmeleri," Turkish Parliament website, February 27, 2016, https://www.tbmm.gov.tr/develop/owa/genel_kurul.cl_getir?pEid=45067.

7 Fırat Bilgel and Burhan Can Karahasan, "The Economic Costs of Separatist Terrorism in Turkey," *Journal of Conflict Resolution* 61, no. 2 (2017): 457-479.

8 Fırat Bilgel and Burhan Can Karahasan, "Estimating the Economic Cost of Turkey's PKK Conflict," *London School of Economics European Politics and Policy Blog,* September 26, 2016, http://blogs.lse.ac.uk/europpblog/2016/09/29/economic-cost-pkk-conflict-turkey.

problem with regard to East and Southeast Anatolia has been a "vicious cycle between terrorism and lack of investment."[9] Conflict, in both its sheer reality and the way it is perceived from outside, dramatically deteriorates the business environment and scares off potential investors while resulting in underdevelopment, unemployment, and poverty, which lead to the marginalization of individuals, feeding into a fertile breeding ground for further violence. It would be far-fetched and misleading to suggest direct causality between poverty and terrorism; however, a correlation between the two certainly exists.[10]

Local actors are in consensus about the nature of the problem: Economic development cannot take off because of the security issue. "We are seen on international maps as a region that is not safe, a red zone," says a prominent businesswoman based in the region, "there is naturally a problem of stability. You cannot expect anybody to come here to invest. Even our own local investors have left the regions."[11] Local actors also point to the fact that in times of relative peace and low levels of conflict, economic activities can and actually do revitalize. Reference is made to the "solution process" between 2013 and 2015, wherein a truce between the Turkish security forces and PKK was supported by political efforts to bring the conflict to a lasting end. "This was a unique opportunity," says a lawyer based in Diyarbakır, "although there were no incentives, no packages in Diyarbakır, businesspeople were racing against each other to get their share from the Organized Industrial Zone. There was no support whatsoever. But still, the number of factories that were opened then—and I checked the numbers of the Chamber of Commerce—was remarkable." The truce period ended in July 2015 when terror attacks resurfaced as the situation across the country's borders in Syria and Iraq spiraled into chaos.[12] "Half of those factories had to shut down after July 2015. If things go as they do, in one or two years they will all be closed down."[13]

The question is then: How can this vicious cycle be broken? This study, which is based on an analysis at the macro level and insights from the field obtained through in-depth interviews and on-site workshops with local stakeholders, argues that this vicious cycle can be turned into a virtuous one where carefully planned, rational, and feasible economic programs formulated and implemented through the collaboration of the state and local actors, as well as the public sector and the private sector, can create a more productive environment where economic activities can flourish, helping to reduce security concerns, which, in turn, can be expected to prepare the ground for further economic improvement—hence creating a positive cycle. Such programs need to address the requirements of inclusive growth, rather than simply targeting numerical increases in regional GDP or average per capita incomes, both of which are blind to inequalities, which are in fact the main source of socioeconomic decay that nurtures terrorism and conflict.

Inclusive growth is defined by the Organization of Economic Cooperation and Development (OECD) as "economic growth that creates opportunity for all segments of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms, fairly across society."[14] This approach does not emphasize rapid growth per se but implies that growth is accompanied by a focus on greater quality, a broad-based approach across different sectors, inclusiveness in terms of equality of opportunity when accessing markets, resources, and an unbiased regulatory environment. Inclusive growth prioritizes productive employment for the entire labor force over income redistribution that favors certain groups within the community. It does not rely solely on industrial policies financed by public coffers, but it demands policies that remove constraints hindering growth and create level playing fields for investment from the private sector. In other words, inclusive growth is not only about the quantity but also, and more importantly, the quality of growth.

Inclusive growth can help heal the wounds of war, terrorism, and conflict in East and Southeast Anatolia. There is no single one-size-fits-all formula for inclusive growth, and every country, every region needs

9 Quoted in Sibel Atik and Aram Ekin Duran, "23 İlde Yatırım Akını," *Ekonomist,* March 26, 2017, 18.

10 For a theoretical discussion of this correlation see: J. Brian Atwood, "The Link Between Poverty and Violent Conflict," *New England Journal of Public Policy* 19, no. 1 (2003): 159-165.

11 Interview with Nevin İl, Chairwoman of the East and Southeastern Businesswomen's Association (DOGÜNKAD), conducted by Pınar Akpınar on January 27, 2017.

12 For an evaluation of the peace process and its failure, see, Galip Dalay, "The Kurdish Peace Process: From Dialogue to Negotiation?" *Al Jazeera Center for Studies,* April 22, 2015, http://studies.aljazeera.net/mritems/Documents/2015/4/22/20154221221893573 4Kurdish%20Peace%20Process.pdf; Michael M. Gunter, "The Kurdish Issue in Turkey: Back to Square One?" *Turkish Policy* 14, no. 4 (2016): 77-86; Cuma Çiçek and Vahap Coşkun, "The Peace Process from Dolmabahçe to Present-Day: Understanding Failure and Finding New Paths," Peace Foundation, April 1, 2016.

13 Interview with Ahmet Özmen, lawyer and Chairman of Diyarbakır Bar Association, conducted by Derya Berk on January 25, 2017.

14 "Inclusive Growth," OECD website, http://www.oecd.org/inclusive-growth.

to formulate its own model that accords with its own conditions and circumstances. This paper aims to contribute to the efforts of devising a roadmap towards inclusive growth for East and Southeast Anatolian regions by defining a number of key objectives that are deemed to be vital components of a growth pattern that will bring about equality and participation in addition to growth as defined as increase in output. These objectives are discussed under four headlines: i) Institutional capacity building; ii) Sectorial development; iii) Developing cross-border trade; and iv) Integration of Syrian refugees.

Problems in the East and Southeast Anatolian regions in general, and terror and conflict in particular are not only economic in nature. Economic underdevelopment is part of the problem; therefore, inclusive growth can only be a part of what needs to be a multidimensional solution. Nevertheless, although it is not a sufficient one, economic progress in the region is by all means a vital, necessary condition.

INSTITUTIONAL CAPACITY BUILDING

The quality of institutions matters for economic growth. As Daron Acemoğlu and James A. Robinson have shown through a vivid analysis of empirical cases, it is the man-made institutions of a country—and not other factors like culture, geography, or climate—that are the primary drivers of growth.[15] Institutions, and their capabilities, matter even more when it comes to inclusive growth, due to the challenging task of delivering strong growth together with a better and equal sharing of the benefits of this growth. According to the OECD, which draws attention to the multidimensional nature of inclusive growth, governments need the capacity to deal with complexity in policy making; offer enhanced policy coherence; assess policy impacts from broader viewpoints; coordinate policies; promote balanced participation through stakeholder engagement and mechanisms; align outcomes at different levels of governance to improve policy coherence; ensure implementation that seeks to maximize access, use, and responsiveness across social groups; and promote an inclusive policy implementation process.[16] In other words, inclusive growth requires institutions that are not only capable but also whose capabilities are geared towards inclusiveness.

Since poor structural capacity and lack of institutionalization are major problems for the Turkish state, an overall reform and restructuring process would certainly be beneficial for efforts towards inclusive growth in East and Southeast Anatolia as well as elsewhere in Turkey. A new institutional design, which, in Bülent Aras' words, "makes sure that it does not reinforce the ideological state perspective and rather builds on a functional and delivering state as novel ethos of public administration" is needed in this sense. A public administration that has adequate human and material resources at its disposal, increases its capabilities through education and training, relies on a merit-based recruitment system, consults with the public, and forms a working relationship between the government and bureaucracy is in this respect a *sine qua non*.[17]

Inclusive growth in East and Southeast Anatolia requires improved institutional capabilities and bureaucratic efficiency; this is essentially a vital condition for ensuring that development programs and incentive packages are implemented in practice with efficiency.

With respect to the development plans released by the central government, a major issue is suboptimal implementation. "Making decisions, declaring them is not enough. One has to ensure the implementability of these decisions too," says a businesswoman from Diyarbakır, "those who are supposed to implement the programs are public and semi-public institutions. Managing the development and incentive programs are no less important than formulating them. However, strong institutional structures that can efficiently implement the programs do not exist here."[18] A common critique of development programs launched for this region is that such programs are designed with populist concerns, therefore failing to achieve objectives in the field.

More capable and inclusive institutions can ensure that programs are efficiently put into practice and deliver results. This holds for incentive programs as well. Turkey's government has so far released a total of 140 billion USD in economic incentives for the region.[19] A recent package, announced by Prime Minister Binali Yıldırım in Diyarbakır on September 4, 2016, includes 10 billion TL in reconstruction support for seven subprovincial districts that are the worst affected by recent terror attacks and clashes between the Turkish Armed Forces and PKK, as well as an incentive program for 23 provinces in the region that will be grouped under five regions as "zones of attraction." This program aims to finance 80 new factories in these zones annually, creating a total of 40,000 new jobs.[20]

While these programs achieve a certain degree of success, there is much room to further increase efficiency through greater inclusiveness, giving greater say to local voices in the formulation and implementation of policies. According to a representative of a leading

15 Daron Acemoğlu and James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity and Poverty* (London: Profile Books, 2013).

16 "The Governance of Inclusive Growth," OECD https://www.oecd.org/governance/ministerial/the-governance-of-inclusive-growth.pdf.

17 For insights on how to reform the public administration in Turkey, see, Bülent Aras, "State, Institutions and Reform in Turkey after July 15," *IPC Policy Paper* (Istanbul: Istanbul Policy Center, March 2017).

18 Interview with Nevin İl, Chairwoman of the East and Southeastern Businesswomen's Association (DOGÜNKAD), conducted by Pınar Akpınar on January 27, 2017.

19 Robert Olson, "The Reconstruction of the Southeast and Turkey's War in Syria," *LobeLog*, September 9, 2016, https://lobelog.com/the-reconstruction-of-the-southeast-and-turkeys-war-in-syria.

20 "Gov't Outlines Massive Investment Program to Terror-hit East," *Hurriyet Daily News,* September 4, 2016, http://www.hurriyetdailynews.com/govt-outlines-massive-investment-program-to-terror-hit-east.aspx?pageID=558&nID=103568&NewsCatID=338.

regional business association, development plans and incentive policies have to be prepared "by incorporating the opinions of the regional NGOs and taking into account the local dynamics." [21] Such inclusion requires, first, what Vahap Coşkun calls "coordination to be established between the central government and local administration," because in their current shape, problematic and frequently interrupted relations between them affect the economy, like everything else, adversely.[22] Policy makers seem to agree, as Cevdet Yılmaz, former Minister of Development, explains:

> What we need to do is when we are shaping our policies and formulating them is to be inclusive; to ensure all the stakeholders participate in the process in one way or another, to enable them to make their own contributions, and to have a wide target audience when implementing the policies... These sound fine theoretically, but turning them into concrete policies requires capability and effort.[23]

Secondly, and perhaps more importantly, inclusive policymaking requires greater institutional capabilities on behalf of both the public and the local actors.

On the public side, regional development agencies (RDAs) stand out as the key institutions playing a facilitator role between the government and the local economies for the financing and implementation of development projects. RDAs were established in 2006 with the purpose of: i) supporting the formulation of regional development strategies; ii) facilitating the allocation of regional development funds; iii) supporting rural development and local development activities; iv) developing coordination, harmony and cooperation between the state, private sector, and the non-governmental organizations (NGOs); v) supporting and improving entrepreneurship; vi) facilitating entrepreneurs investment transactions; vii) assessing the potential and creating databases; viii) promoting the region's business and investment opportunities and attracting local and foreign resources; ix) providing technical support for the planning activities of local administrations; x) monitoring and evaluation.[24] There are currently 26 RDAs in Turkey, and seven of them are active in the East and Southeast Anatolian regions.

RDAs are not investors themselves, they are rather facilitators, and this position of the institution as a connector between the government and the local economies makes it a key player in the development process of East and Southeast Anatolia and elsewhere. Between 2008 and 2015, RDAs channeled resources totaling 2.6 billion TL to more than 14,000 projects in Turkey. In 2015, when 26 RDAs in Turkey provided a total of 472 million TL in project finance, 25.1 percent of this total, corresponding to 118.4 million TL, was channeled through the region's seven RDAs to projects in East and Southeast Anatolia.[25]

RDAs have contributed significantly to economic development in the region, and this fact is acknowledged by local actors. "I believe that they have seriously contributed to the region," says a businesswoman from Diyarbakır:

> ... around 70 percent of the companies who made an application did receive support. Development agencies are very important for the institutionalization of companies, increasing the volume of international trade, improving economic infrastructure, and having an impact in development initiatives. They need to be preserved, supported, and their budgets should be increased.[26]

Increasing RDA's capabilities by improving their human and material resources would certainly pay significant economic dividends, and these can be expected to matter most in their role of maintaining and strengthening dialogue between the public administration and local actors.

On the local side of this dialogue, civil society organizations representing the business community are the principal actors, and for them to have a productive role in this respect, institutional capacity building is of vital importance. These business organizations, including those with obligatory membership such as the cham-

21 A representative from a leading regional business association who participated in the workshop "Inclusive Growth and Political Consensus after July 15th" held by Istanbul Policy Center in Diyarbakır on March 3, 2017.

22 Interview with Vahap Coşkun, academic at Dicle University, conducted by Pınar Akpınar, Derya Berk, and Veli Aksoy on January 25, 2017.

23 From the remarks of Cevdet Yılmaz, former Minister of Development, at the workshop "Inclusive Growth and Political Consensus after July 15th" held by Istanbul Policy Center in Diyarbakır on March 3, 2017.

24 Ahmet Yaman and Murat Kara, "Türkiye'de Bölgesel Gelişme Politikasının Dönüşümü Sürecinde Kalkınma Ajanslarının Kuruluş Çalışmaları: Son Durum ve Değerlendirmeler," in *Bölgesel Kalkınma Ajansları* (Istanbul: Istanbul Policy Center, 2010), 49-50.

25 "Kalkınma Ajansları 2015 Yılı Genel Faaliyet Raporu," T.C. Kalkınma Bakanlığı, http://www.kalkinma.gov.tr/Lists/Yaynlar/Attachments/732/Kalkınma%20Ajansları%202015%20Yılı%20Genel%20Faaliyet%20Raporu.pdf.

26 Interview with Nevin İl, Chairwoman of the East and Southeastern Businesswomen's Association (DOGÜNKAD), conducted by Pınar Akpınar on January 27, 2017.

bers of commerce and industry, and the voluntary ones like businessmen's and businesswomen's associations are "making efforts, but they cannot really fulfill their roles because of their limited authority."[27] They are in many cases understaffed, underfunded, and seriously lacking in resources. To add to these handicaps, those organizations that have obligatory membership are facing the uneasiness of being equidistant to the state and the private sector as well. "Businesses think that we are representing the state, while the public authorities feel hesitant towards us because we represent the interests of the private sector. We can satisfy no one, we are liked by no one, we are truly the organizations in purgatory," says a high-ranking official of a local Chamber of Industry and Commerce.[28] Institutional capacity building for these organizations can be possible by enabling them greater access to resources, education, and training programs for the personnel and clarifying, and possibly expanding, their scope of authority.

Greater inclusiveness through institutional capacity building is relevant to the question of the public-private balance, which is not only limited to the issue of formulating and implementing development plans and incentives but refers to the entire development paradigm. What should be the roles of the state and the private sector in the efforts towards inclusive growth in East and Southeast Anatolia?

According to Cevdet Yılmaz, former Minister of Development, "regional development cannot be achieved through public investments only; it is not possible to generate jobs and meals for people, to increase exports like this... What is needed is to provide a favorable environment for the private sector, and pursue public investments together with private investments as a whole."[29] Local actors agree that the support provided for the private sector is important, but economic development in this region cannot be achieved without a leadership role played by the public sector, with the state being "not only an encourager, but a doer, personally on the field."[30] According to this view, public leadership is needed due to the multidimensional nature of inclusive growth, which is the ultimate objective:

> When there is a public investment somewhere, say a large enterprise is opened, you need to bring infrastructure there. Because you need to bring materials there, so you have to construct the transportation lines. You need to train skilled personnel, so you establish educational institutions. Or you need a strong services sector to provide consultancy to the newly opened enterprises. So you support this. This is a chain process.[31]

Regardless of the two sides' respective weights in this relationship, public-private partnership is crucial for inclusive growth, and a productive relationship can be established only through increasing institutional capabilities on both sides.

27 Ibid.

28 Mehmet Aslan, secretary general of Diyarbakır Chamber of Industry and Commerce, in correspondence with the author, April 21, 2011. Quoted in Altay Atlı, "Business Associations and Foreign Policy: Revisiting State-Business Relations in Turkey," Boğaziçi University (2013), unpublished PhD thesis.

29 From the remarks of Cevdet Yılmaz, former Minister of Development, at the workshop "Inclusive Growth and Political Consensus after July 15th" held by Istanbul Policy Center as part of the Post-Coup Opportunities on Conflict Resolution and Democracy Project in Diyarbakır on March 3, 2017.

30 Interview with an academic from Diyarbakır, conducted by Derya Berk on January 26, 2017.

31 Ibid.

SECTORIAL DEVELOPMENT

East and Southeast Anatolia are predominantly regarded as a source of low-cost, low-skilled labor, and development and incentive programs, as well as industrial clustering efforts prepared around this—what can be called the region's competitive advantage. For instance, the above-mentioned incentive package announced in September 2016 prioritizes labor-intensive and resource-based sectors, with a special emphasis on textiles, food, animal husbandry, and mining.[32] In another example, clustering analyses for economic development in the region had been conducted for organic farming in Şanlıurfa, marble industry in Diyarbakır, and apparels in Adıyaman.[33]

Capitalizing on the advantage of low costs, particularly in labor, is a rational choice for increasing industrial capacity, creating employment, and generating growth. However, in addition to those, inclusive growth is also about equality in access to productive job opportunities, inclusion of individuals from different socioeconomic and skill levels in the labor force, and creating value added for the economy. This is why for the economic development of East and Southeast Anatolian regions, sectorial development needs to combine expansion in conventional low-skill, labor-intensive industries such as textiles, mining, and agriculture, with capacity building in other areas, such as services.

With inclusiveness being the primary objective, development in the region's conventional, labor-intensive sectors needs to be pursued with the objective of incorporating larger amounts of the local population into the work force by providing them with equality in access to job opportunities and resources. In the meantime, develop goals should aim at increased productivity and higher value added.

In sectors that are already prioritized by development plans and incentives, such as textiles, mining, and agriculture, vocational training for unskilled individuals can expand the labor pool that is available. If incentives not only target large-scale investment but also provide loan opportunities for smaller scaled enterprises and even individual entrepreneurs—especially women—this can energize the manufacturing base by giving rise to small-scale production units. If one factory that will employ 100 workers would not invest in the region due to security-related or other reasons, micro-loans to 20 individuals, each of whom would employ four workers in their small-scale workshop facilities, would have the same employment and production effect and a much higher social dividend.

A gradual move from conventional industries to other areas that require higher skills is also needed. While education and training can increase the overall skill level, individuals will need to be employed in sectors that are appropriate for the skills they have gained. Educating individuals without creating opportunities of employment that match their skills would not contribute to growth; in fact, it would have a negative effect as it would lead to migration to other more developed parts of Turkey. Training locally and employing locally has to be the target. Development of new, higher value-added, less labor-intensive, and more capital- and technology-intensive industries is important, not only because it will add to the region's economic output but also because it will create value added that can benefit other industries, and it would help to keep semi- and highly skilled labor in the region. According to the representative of a local NGO, this is precisely what is missing in the region:

> When you consider the growth path of developed countries, you see that they first moved from agriculture to industry, and then from industry to services. If you look at Diyarbakır, you see a town that has jumped directly from agriculture to services. In the meantime, you also see how backward and how far the current industrial structuring is from bringing real development. Development plans and the medium- to long-term plans that we will be able to undertake can change this. Production of higher value-added products is important in this sense, and I could also add technology to this; however, technology is an area where the entire country and not just us is left behind. We are talking about an economic structuring where the idea of R&D has not taken root yet.[34]

Such an industrial upgrading can be possible through correct policies combining incentives with skill training within the framework of a close partnership between the state and local actors. The security situation remains a problem scaring off external investors

32 Sibel Atik and Aram Ekin Duran, "23 İlde Yatırım Akını," *Ekonomist,* March 26, 2017, 17.

33 "Clustering in Turkey," SME Networking Process, May 26, 2013, http://www.smenetworking.gov.tr/detay.cfm?MID=95.

34 A representative from a leading regional NGO who participated in the workshop "Inclusive Growth and Political Consensus after July 15th" held by Istanbul Policy Center in Diyarbakır on March 3, 2017.

from the rest of Turkey or other countries. Instead of waiting for these actors to come and invest in the region, such a model can help East and Southeast Anatolia to make the industrial leap by efficient use of public funding, local entrepreneurship, local education—for instance, through the universities in the region—and local manpower.

Service can be another area for such an upgrading. As quoted above, Diyarbakır's economy has been moving from agriculture directly to services: however, in this case—and for the entire East and Southeast Anatolian region—the services sector is dominated by low value-added services such as transportation, retail, and wholesale trade. A similar upgrading in the service sector would significantly contribute to the region's quest for inclusive growth, as it would encourage capacity improvements in the form of skill training and technological upgrading, creation of new employment, and decreasing poverty.

It is suggested that sectorial development in services should target a move from the conventional, low value-added services that are already dominant in the region to service sectors that are of medium-level sophistication, i.e., those service sectors that require more than low-skilled labor but without necessitating high levels of training and education. Certain fields of information technologies (IT) and tourism can be considered within this framework.

Following the Indian experience of development, which is in fact resembling Turkey's East and Southeast Anatolian region economically in the sense that it is dominated by a large agricultural sector and service sector, those subfields of IT requiring relatively lower skill levels can be a feasible target for the region. Supported by adequate funding, public-private partnership, and adequate training schemes, services like, for instance, call centers can help improve inclusiveness of growth in the region. The call center opened by one of Turkey's largest GSM service providers in Erzurum back in 2005 has been a good start; the center still continues to operate despite the security concerns that scare off other external investors, and it can be a model for other initiates to follow.

A large sector that carries significant potential for the East and Southeast Anatolian region is tourism. This sector, however, remains in between two strong and oppositely directed factors. On one hand, the historic and cultural assets of the region are a big advantage for tourism, and there is great potential for various kinds of tourism here, including sports tourism, faith tourism, culinary tourism, cultural tourism, as well as winter and outdoor sports. On the other hand, however, tourism by definition is the sector most directly and immediately hit by security concerns. According to Bayram Bozyel, author and local politician, security concerns totally kill off the tourism business:

> In Van there are beautiful hotels, but they are totally empty. A hotel opens up, and then two years later you see it is closed down. Van, Diyarbakır, and Mardin are the places where this region's historical and cultural values are concentrated. The entire world comes here, for example, to Van, Armenians come, Iranians come, too. Under normal conditions Iranians come for the weekend and spend their holiday in Van, but when there is conflict they do not come. The Mardin-Midyat line is a common route for all the religions, but when there is fighting nobody can enter there.[35]

Tourism, despite its high sensitivity to conflict and instability, can significantly fuel inclusive growth in the region, by employing semi-skilled labor, and supporting other service and product sectors, such as hospitality, construction, retail trade, transportation, food, and so on. In recent years, a certain level of progress has been made with winter sports and outdoor sports. Erzurum's hosting of Winter Universiade in 2011 and the European Youth Olympics Winter Festival in 2017 shows that under the right conditions and policies tourism in this region can be brought to international standards. Other areas of tourism, especially those linked to the region's millennia of history, can be developed in the same manner. It needs to be noted that there is a social dividend here as well, because, as Zümrüt İmamoğlu writes with reference to Kars, improving the tourism potential in the region requires preserving the past and embracing once again all the different communities who have lived on this land in the past.[36]

A major barrier against development of tourism in East and Southeast Anatolia is the closure of border gates between Turkey and the neighboring countries in the Middle East. This situation is also hindering the development of foreign trade.

35 Interview with Bayram Bozyel, author and deputy chairman of Hakpar (Party of Rights and Liberties), conducted by Derya Berk on January 26, 2017.

36 Zümrüt İmamoğlu, "Kapalı Sınırın Bölge Üzerindeki Sosyoekonomik Etkileri," in *Mühürlü Kapı: Türkiye-Ermenistan Sınırının Geleceği*, ed. A. Yılmaz (Istanbul: Hrant Dink Foundation, 2016), 209.

DEVELOPMENT OF CROSS-BORDER TRADE

Inclusive growth requires equal and efficient market access for all the actors in the economy. For the producers and consumers in the East and Southeast Anatolian regions, it is the neighboring countries—rather than the central and western parts of Turkey—that are the natural markets for trade due to geographical proximity, economic complementarity, as well as cultural and kinship linkages. The problem is that even though the region increases its production capacity, its ability to actually transport those goods to their destination markets across the borders is becoming increasingly limited due to a rapidly deteriorating geopolitical environment in the country's near neighborhood.[37] Almost all of the border gates that provide access for the East and Southeast Anatolian provinces to the neighboring countries in the region are either closed or extremely incapacitated: trade through Syrian and Iraqi borders is virtually impossible due to the war and terrorism in these countries. Iran offers an alternative route, but it is costly and subject to political volatility. The Armenian border is closed due to political reasons. For producers and traders of every scale on the Turkish side of the border, this is a major problem:

> Along such a non-peaceful border, how can you possibly increase the trade volume? Border peace needs to be established as soon as possible including with Armenia. Trade does not have language, religion, faith, or identity. Borders need to be opened so trade volumes can go up. It is only in this way that regional welfare can be supported.[38]

To add to the problem, border gates that are open under normal circumstances are also shut down temporarily due to the terrorist activities within the region. For instance, several closures of Habur border crossing between Turkey and Iraq, through which more than 40 percent of Turkey's exports by road is passing, due to the security situation on the Turkish side of the border have had a heavy toll on the regional economy. According to the Association of Turkey-Iraq Industrialists and Businessmen (TISİAD) losses caused by the most recent border closure in Habur in late 2015 and early 2016 were in the vicinity of 300 million USD.[39]

In addition to ongoing security threats, border closures are a major reason why the region cannot establish mutually beneficial economic links with the Kurdistan Regional Government (KRG) in Northern Iraq, which has a relatively prosperous economy thanks to oil revenues. According to a scholar based in the region, an economic link between Diyarbakır and the KRG's capital Erbil could not be established. The KRG preferred to work with the regional capital in Gaziantep, Kayseri, or even in Istanbul, but facing logistics problems—such as the need to fly to Istanbul from Diyarbakır, from where first another flight from Erbil had to be taken—the "region's financial and cultural capacity was also not adequate" to work with the KRG. "With a good perspective, and with the support of Ankara, this opportunity could be used better, and we could have made use of this growing market. This did not happen. But it does not mean that it won't ever happen."[40]

The closed border with Armenia poses a similarly serious problem. Turkey has two provinces, Kars and Iğdır, neighboring Armenia; and two others, Ardahan and Ağrı are only a few kilometers away from the border. These provinces correspond to one of the least developed parts of Turkey, and while they are far away from the major urban centers of the country, they are also not able to conduct cross-border trade, hence facing major barriers against economic development.[41]

Inclusive growth in East and Southeast Anatolia requires improved trade opportunities for all actors. The main markets for producers in the region lie across the border; however, trade is hardly possible or extremely difficult—and costly—due to border closures and other problems related to border gates. As pointed out by a local businesswoman, "a return to constructive, stable, and peaceful policies towards neighboring countries on the basis of zero problems would bring in

37 Altay Atlı, "Geopolitics Takes Heavy Toll on Turkish Exports," *Asia Times,* January 6, 2016, http://www.atimes.com/article/geopolitics-taking-a-severe-toll-on-turkish-exports.

38 Interview with Nevin İl, Chairwoman of the East and Southeastern Businesswomen's Association (DOGÜNKAD), conducted by Pınar Akpınar on January 27, 2017.

39 "Habur Kapandı, 300 Milyon Dolar Zararımız Oldu," *Dünya,* December 24, 2015, http://www.dunya.com/ekonomi/039habur-kapandi-300-milyon-dolar-kaybimiz-oldu039-haberi-302506.

40 Interview with an academic from Diyarbakır, conducted by Derya Berk on January 26, 2017.

41 Altay Atlı, "Open Borders and Trade as Doors to Turkish-Armenian Reconciliation," *Asia Times,* April 29, 2015, http://www.atimes.com/article/open-borders-and-trade-as-doors-to-turkish-armenian-reconciliation.

new hopes and open new horizons."[42] Political efforts would certainly help, but given the situation in the Middle East, this can only be a long-term vision. In the short run, while measures designed to cater to the needs of actors on both sides, such as the "export-for-import" scheme between Turkey and Syria—wherein Turkish producers in Hatay province export basic necessities such as foodstuff and textiles to Syrian customers, importing in return Syrian made products—can help,[43] another channel of trade, in the specific case of trade with Syria, is the Syrian entrepreneurs who migrated to Turkey due to the war in their home country.

42 An accounting professional who participated in the workshop "Inclusive Growth and Political Consensus after July 15th" held by Istanbul Policy Center in Diyarbakır on March 3, 2017.

43 "Suriye ile İhracat Başladı," *Milliyet,* July 14, 2016, http://www.milliyet.com.tr/suriye-ile-ihracat-basladi-ekonomi-2278050.

SYRIAN REFUGEES

As of April 13, 2017, the number of Syrian citizens officially registered under temporary protection status in Turkey was 2,978,995, corresponding to 3.73 percent of Turkey's population.[44] While Istanbul is a major destination for Syrians arriving in Turkey, it is the provinces of East and Southeast Anatolia that are hosting the highest number of refugees. In fact, Şanlıurfa hosts more Syrians than Istanbul, with 420,530 Syrians residing in the province, or 21.7 percent of the province's population. Hatay hosts 384,406, corresponding to 24.7 percent of the population, and Gaziantep 329,646 and 16.7 percent, respectively. Meanwhile, Kilis, a smaller province neighboring Syria, is now home to 124,742 refugees, and this figure makes up 95.4 percent of the population.

Syrian refugees, although being registered under the status of temporary protection, have already become integral parts of the local economy, first by having a positive demand-side effect on local production through their needs for housing, products, and services, and later as entrepreneurs. During 2016, a total 4,523 private companies with foreign capital were opened in Turkey, and 1,764 of these companies had Syrian capital, followed by 298 companies with Iranian capital, and 286 with Iraqi capital. Out of a total of 549.1 million TL of foreign capital that entered Turkey through these companies, 236.9 million TL—43.2 percent of the total—was Syrian capital.[45]

As Timur Kaymaz and Omar Kadkoy wrote, Syrian entrepreneurs brought not only their capital but also their web of relations when they arrived in Turkey, and this transfer is a significant factor in stabilizing Turkey's exports to Syria.[46] In 2016, Turkish exports to Syria totaled 1.32 million USD, lower than the previous two years, however, much higher than the figure in 2012, when it was 498,000 USD.

In addition to being consumers and entrepreneurs, 3 million Syrian refugees calling Turkey home today and for the foreseeable future are also offering labor at various skill levels, from manual workers to brain surgeons. As the majority of the Syrians are living in East and Southeast Anatolia, it is crucial for these regions to fully integrate these individuals into the local economy, making sure that they are working formally and that they complement the skills they brought from home with new ones they need in Turkey, such as knowledge of the Turkish language. Given the already high and increasing numbers of Syrian refugees; the demand, capital, and skills they bring; and the needs of the local economy, inclusive growth in East and Southeast Anatolia can only be possible if it includes Syrian refugees as well.

44 All the numerical figures related to Syrian refugees are either directly obtained from or calculated using data in "Geçici Koruma," Ministry of Interior Directorate General of Migration Management, http://www.goc.gov.tr/icerik6/gecici-koruma_363_378_4713_icerik.

45 "Kurulan / Kapanan Şirket İstatistikleri," Union of Turkish Chambers and Commodity Exchanges (TOBB), https://www.tobb.org.tr/BilgiEdinmeHizmetleri/BilgiErisimMudurlugu/Sayfalar/KurulanKapananSirketistatistikleri.php.

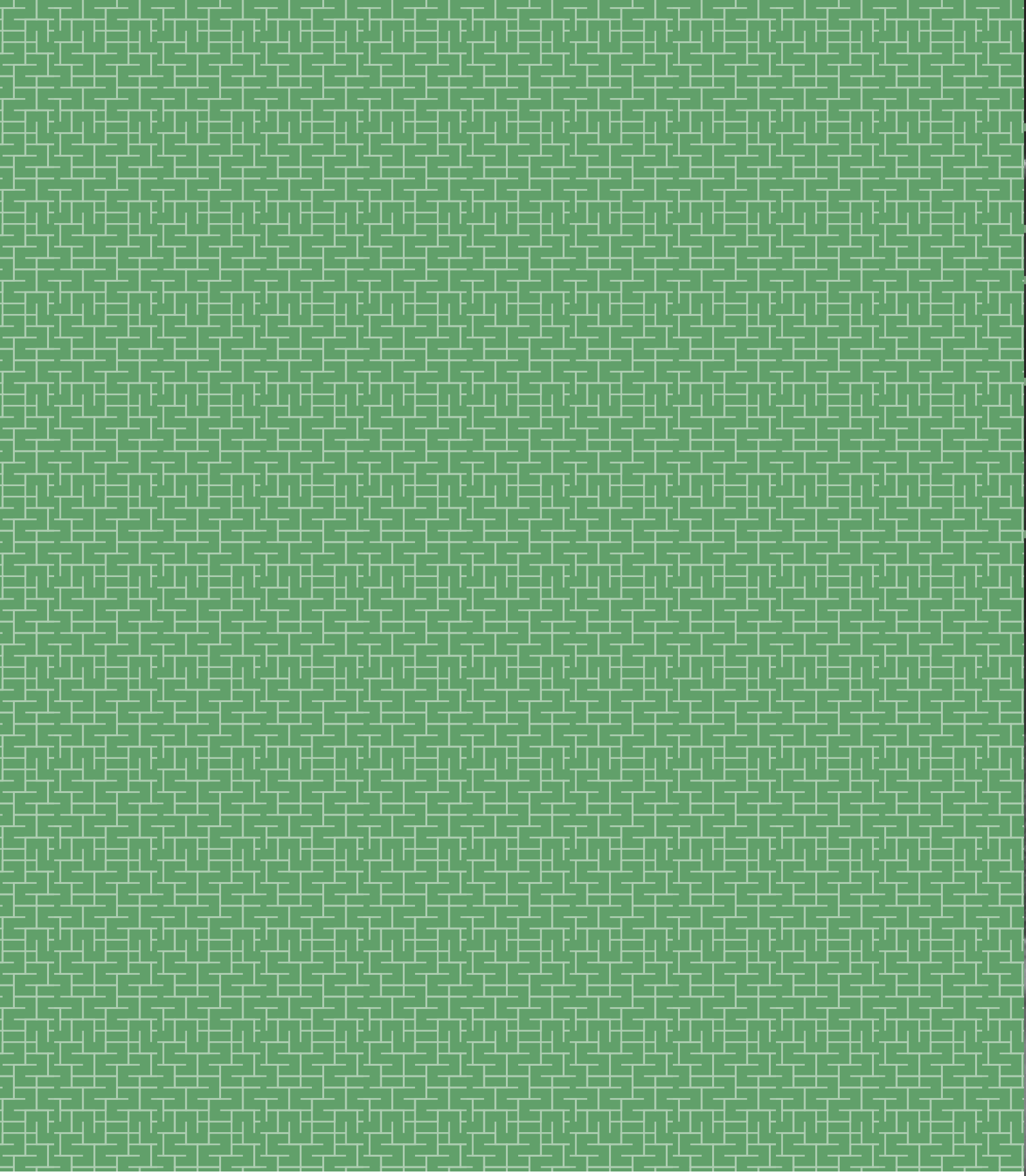
46 Timur Kaymaz and Omar Kadkoy, "Syrians in Turkey – The Economics of Integration," *Al Sharq Forum Expert Brief* (September 2016), http://www.sharqforum.org/download/3263.

CONCLUSION

Despite its economic backwardness relative to the rest of Turkey, the East and Southeast Anatolian regions have great economic potential in their human and natural resources. The region finds itself in a vicious cycle of conflict and economic underdevelopment; however, policies aimed at inclusive growth can help the region to break this cycle and make a leap forward. A summary of the proposed policy recommendations to that end is as follows:

- Increase the institutional capacities of institutions, both public and private, that are stakeholders in the process of the formulation and implementation of development plans. On the public side, place special emphasis on regional development agencies. On the private side, organizations that represent the private sector need to be improved.
- Improve public-private dialogue in a formal and institutionalized way, and ensure that development and incentive plans are prepared by incorporating local feedback and taking into account the local dynamics.
- Increase employment creation in low value-added, labor-intensive industries. At the same time gradually move to new, higher value-added, less labor-intensive, and more capital- and technology-intensive industries.
- Invest in service industries that require medium-level skills, such as certain subfields of IT and the tourism sector.
- Return to the idea of "Turkey as a trading state" and adopt an economically motivated foreign policy paradigm towards neighboring countries, keeping the border gates open and functioning. Develop new mechanisms for increasing cross-border trade.
- Make sure that inclusive growth in the region, and elsewhere in Turkey, is inclusive of Syrian refugees. Integrate them into the economy as consumers, entrepreneurs, and a pool of labor carrying various degrees of skills.

Inclusive growth can help heal the wounds of war, terrorism, and conflict in East and Southeast Anatolia. Problems experienced here are not only economic in nature. Economic underdevelopment is only part of the problem; and inclusive growth can only be a part of what needs to be a multidimensional solution. However, although it is not a sufficient one, economic progress in the region is by all means a vital, necessary condition.



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