EXECUTIVE SUMMARY

Competitiveness is a term that is generally associated with productivity level, potential GDP, levels of prosperity etc. As defined by the World Economic Forum, competitiveness is the set of institutions, policies, and factors that determine the level of productivity of a country\(^1\). Limits of productivity are significant for the prosperity that can be reached as the competitiveness levels determines the return on investments and the overall growth rates.

The first competitiveness report that was published by EDAM in 2009 made important contributions to the literature of competitiveness in Turkey from a regional perspective. In our 2009 report regional competitiveness was defined as follows:

The idea behind regional competitiveness is the productivity levels of firms in a specific geographical location. On a more general level, it shows the ability of a region to attract and sustain companies with increasing market share as well as providing higher living standards for all the stakeholders of these same companies.

Within regional competitiveness, local specialization and capacity to utilize external economies of scale are critical factors as they contribute directly to the per capita GDP levels. Yet, given both dynamic and static factors contributing to the competitiveness, it is important to acknowledge wide array of factors that can sustain and create advantages of an economy, including quality of human capital, social capital, education, infrastructure as well as creativity capacity and environment.

EDAM Competitiveness index, which was first published in 2009 with the 2008 data, used primary component analysis method and ranked 81 cities within Turkey under six sub-competitiveness indices: Economic, infrastructure, human capital, social capital, labor, creative capital competitiveness indices. In the new EDAM Competitiveness Index, in order to capture different aspects of competitiveness, the data set has been enlarged, sub-indices have been increased to eight and indices have been re-calculated for both 2008 and 2014. Instead of one index on economic variables, indicators have been categorized into market size, economic efficiency and financial depth, in order to reflect various aspects of economic competitiveness.

Some of the key findings from the comparison of updated 2008-2014 indices are as follows:

1) Macroeconomic policies and developments have direct impact on the performance of some of the competitiveness indicators. The growth of banking sector credits influenced competitiveness at the city level and initiated differentiation. Additionally, the changes in compulsory education caused the education scores to rise in all cities in Turkey. Establishment of new universities and airports in several cities also differentiated performance of some cities in human capital and infrastructure indices\(^2\).

2) In order to assess the change in competitiveness gap between cities between 2008-2014, we looked at the sum of difference of each city’s competitiveness score with that of the median of 81 cities. The increase in this sum signifies a deterioration of competitiveness gap between the cities while a decrease points out to an improvement. Even though the median score of the competitiveness index (at 30) did not change between 2008-2014, the fall of this figure from 147 in 2008 to 137 in 2014 points out that there was an improvement in the overall competitiveness differences between the 81 cities in Turkey.

3) Despite differentiation of performance in some of the cities, there was no meaningful change in competitiveness from a regional perspective between 2008-2014. The gap in all of the competitiveness indicators between east and west regions of Turkey did not significantly decrease between 2008-2014.

4) Istanbul leads almost in all of the competitiveness indices both in 2008 and 2014. More importantly, the gap between Istanbul and second-tier competitive cities widened between 2008-2014 in sub-indices.

For a more in-depth analysis of the gap between the regions, it is essential to look at regional competitiveness from a different framework. A 2012 study by

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1 Global Competitiveness Report 2014, Part 1

2 Data regarding quality of education and female labor force at the city level were lacking in the dataset and their addition would enable further in-depth analysis and result in important policy implications.
Turk Konfederasyonu (TÜRKONFED) study, coined the term ‘middle-income trap’ for Turkey’s development after 2010 and analyzed it from a regional perspective. Middle-income trap is largely defined as an economic development situation, where a country or region is trapped at a certain income level. In the 2012 study, it was argued that middle-income trap is a growth problem related to a country’s or region’s production structure; and hence it was necessary to focus on different aspects of the production to overcome the middle-income trap. It was also concluded in the same report that Turkey was not a uniform block in terms of income levels as well as production structures; and it was necessary to prescribe each region with different policies in overcoming the middle-income trap. In the report, Turkey was divided into three groups in terms of middle-income trap:

1) Regions with no risk of middle-income trap: Cities with no risk of carrying their income beyond a certain level

2) Regions with risk of middle-income trap: Cities that reached a middle income level; but under the risk of not being able to increase it further

3) Regions with low-middle income

Grouping the competitiveness scores and rankings of 81 cities in EDAM’s competitiveness index according to the middle-income trap classification of the 2012 TÜRKONFED study, the below policy implications can be drawn:

- Macroeconomic and sectoral policies enabled certain components of competitiveness to improve; but the remaining gap between the regions’ competitiveness during 2008-2014 calls for further attention in regional policies.

- The attractiveness of Istanbul in making use of economies of scale creates a disadvantage for the other big cities in Turkey, given the limits of resources both financial and human capital.

- The weakest competitiveness indicators in the regions with middle-income risk are social, creative capital and labor. The causalities between the competitive weaknesses of these regions and difficulties in raising the GDP/capita levels beyond 10,000 USD should be investigated from a regional perspective.

- The weakest competitive indicator in the low-middle income group is labor market due to low participation rates to both work force and employment. Such low figures may be a sign of a broader structural issues, which again calls for appropriate regional policies. Especially low female labor participation rate and poor educational level of the workforce at certain regions may necessitate specific measures.

- Regional incentives are important for real sector investments. Given Turkey’s development path, it is necessary to increase the quality of growth and channel to more value-added technology intensive production in areas where there is no risk of ‘middle-income trap’. In regions with middle-income risk, competitiveness indicators in infrastructure should be improved upon as well as mid-technology intensive production. Within low-middle income regions, industrial production should be incentivized with demand-side policies. In overcoming middle-income trap and carrying the Turkish economy to the production of more value-added goods, policies tuned in with different levels of competitiveness in different regions would enable a more efficient use of the limited resources.

The analysis made in this report shows that competitiveness structures at the city level differ significantly in regions of Turkey. When used in explaining dissimilar production structures and income levels, the competitiveness indices give the opportunity to make regionally differentiating policies. It is hoped that EDAM’s updated Competitiveness Index, conducted in collaboration with TÜRKONFED, will be a useful tool for the policy makers in formulating these policies.