COMPETITIVE CITIES FOR JOBS AND GROWTH

3

COMPANION PAPER 3

APPENDICES TO SIX CASE STUDIES OF ECONOMICALLY SUCCESSFUL CITIES

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Disclaimer

The case studies in this series are focused solely on what specific cities did well that subsequently contributed to high rates of economic growth during a particular period. These case studies should not be mistaken for investment climate reports, as the constraints, problems and flaws of cities are not covered. Studies should also not be considered an exhaustive list of all of the factors that contributed to growth in a city; because while some external or national level factors are highlighted, the studies were not intended to document or list every contributing factor. The studies focus on the local economic development actors within a city and address what these actors did well. Particular attention was paid to initiatives that were uncommon and/or carried out in a unique manner that could be of interest or assistance to other cities.

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Bucaramanga, Colombia, April 2014

Case Study 1

BUCARAMANGA, COLOMBIA

A Metropolitan Economy Reinvents Itself

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INTRODUCTION

This case study of the economic success of the Colombian city of Bucaramanga marks the first in a series of World Bank case studies of successful metropolitan economies around the world. The Bank's Competitive Cities Knowledge Base (CCKB) project aims to provide city leaders with the tools and knowledge for the successful formulation and implementation of effective economic development strategies at the city level. No single case study will provide a recipe for success for other city leaders, but each case study in the series will offer insights and strategies for cities faced with similar conditions, factors, and challenges. The CCKB team has conducted one case study of an economically successful city in each world region; Bucaramanga has been selected to represent the Latin America and Caribbean (LAC) region.

Bucaramanga is a landlocked, mid-sized city in an upper-middle income country, still recovering from decades of political instability and economic dislocation wrought by violence. Yet over the past decade, Bucaramanga has had one of the best performing metropolitan economies in the Americas in terms of GDP and employment growth, exceeding the growth of both the Colombian economy as a whole, and that of comparable cities in its region. Its surrounding Department of Santander is modestly endowed in natural resources, primarily oil, yet it is by no means a petro-state with an economy reliant on extractives. Faced with the challenges of globalization, Bucaramanga has helped its firms compete and succeed in the global marketplace, and in the process gradually been transitioning to a post-industrial economic structure.

Bucaramanga also provides an example of proactive economic development initiatives largely led by the local private sector, but including other key participants in a citywide "growth coalition", such as local and regional government agencies, the chamber of commerce and industry associations (sector guilds), other private-sector actors (e.g. the oil company Ecopetrol), and representatives of academia. Understanding not just what Bucaramanga did, but more importantly exactly how it did it, is the centerpiece of this analysis, and what makes it most interesting to decision-makers in other cities around the world.

This case study is based on primary and secondary research by the Bank's Competitive Cities Knowledge Base team, including two weeks spent in Colombia, in March and April, 2014, interviewing government officials in the national capital, Bogota, and in Bucaramanga itself, as well as members of the city's business community. The report also incorporates Bank staff feedback received at an internal review event in Washington, DC, in June 2014.

This report was prepared by Alexandra Cech and Z. Joe Kulenovic, with input and suggestions from the broader CCKB team. The co-TTLs of the CCKB project are Austin Kilroy and Megha Mukim. Overall guidance on the project has been provided by Stefano Negri, Sameh Wahba, and Somik Lall as senior advisors.

EXECUTIVE SUMMARY

Bucaramanga[1] provides an example of a successful transition to a post-industrial economy by a landlocked, mid-sized city in an upper-middle-income country, in which the private sector has played a leading role. Bucaramanga managed to turn an existential threat – the erosion of its traditional economic base – into an opportunity to reinvent itself, becoming a globally-competitive city with the fastest rates of GDP and job growth in Colombia, and one of the fastest in the Western Hemisphere. According to present growth trends, Bucaramanga may well be on track to become a high-income metropolitan economy within the next decade.

In the early and mid-2000s, Bucaramanga's economy was still heavily dependent on traditional manufacturing industries like garments, footwear, and agricultural products, largely made by small firms with low capital stock and limited export capabilities. While the Colombian market remained relatively closed, such a model was viable and supported numerous local jobs. However, with China's accession to the WTO, Colombia's conclusion of several free trade agreements with partner countries, and other market-opening measures, Bucaramanga's small firms found themselves unable to compete. While public safety and security in Colombia were gradually improving during this period, the movement of people and goods within the country still presented numerous challenges, not helped by the fact that there are no railroads, or by the country's famously rugged topography.

How exactly did Bucaramanga address the acute challenges presented by globalization, market liberalization, and ever-fiercer competition? In 2006, the Bucaramanga Chamber of Commerce convened leaders of Santander's business community, academia, municipal and departmental government, labor unions, and local officials of national agencies to discuss the economic challenges besetting their region, and try to devise some concrete solutions. Breaking out into multiple working groups, this forum worked to identify the region's key economic and developmental priority areas, assess the general growth potential of individual industry sectors, discuss the institutional composition of a new Regional Competitiveness Commission (RCC, or *Santander Competitivo*), and nominate prominent local individuals to serve on it.

Once established, Santander Competitivo became the driver of proactive economic development initiatives in the region, and the principal forum for systematic, highly effective public-private dialogue and stakeholder engagement. With senior officials from government, academia, and the private sector all represented on the RCC, this body had much clout, political weight in Bogota, and ability to ensure the effective implementation of strategies, despite having no statutory authority[2], and no dedicated funding of its own. Significantly, the RCC could rely on the support of the Bucaramanga Chamber of Commerce, on whose premises it is housed, and in particular on its highly capable professional staff, in carrying out its mission.

In consultation with various stakeholder groups, in mid-2007 the RCC prepared a Regional Competitiveness Plan for Santander. Based on robust analytics, the plan identified industries likely to be the drivers of Santander's future economic growth, and outlined specific measures needed to aid their development. It also analyzed market

1 A note about geographic coverage in this report – unless otherwise specified, "Bucaramanga" refers to the entire Bucaramanga Metropolitan Area (*Area Metropolitana de Bucaramanga* – AMB), which consists of four municipalities, each with its own mayor and local government structure: Bucaramanga, Floridablanca, Piedecusta, and Girón. Bucaramanga is the capital of Santander Department, one of 32 in Colombia. AMB accounts for approximately 54% of Santander's population, and an even higher share of its economic output, as well as 95% of its non-oil manufacturing activity. Outside of AMB, the only other sizeable city economy in Santander is Barrancabermeja, site of one of Colombia's two oil refineries and thus heavily reliant on the oil industry. Many of the strategies and interventions analyzed in this report were undertaken at the departmental level, not the municipal or metropolitan. Wherever an intervention was limited to only a specific municipality, this will be clearly specified in the report.

2 Santander was a pioneer in this respect; national legislation providing for the establishment of RCCs in all of Colombia's 32 departments was subsequently enacted in part modeled on Santander's experience. However, the RCCs are not government entities, and they don't have large operational budgets. Santander Competitivo's capacity for action and achieving meaningful results on the ground depends on its ability to influence other actors, getting them to commit to interventions and then follow through, as well as its influence on central government actions.

trends and identified what types of support might be needed by Bucaramanga's existing industries, to help them adapt to changing external conditions, and reorient their activities. [3] The strategic plan identified three "strategic pillars" of economic development: cluster development; formalization and entrepreneurial development; and internationalization. These pillars were supported by four cross-cutting "strategic lines" enabling them: infrastructure; the development of science, technology, and innovation; metropolitan integration and strengthening; and government transparency and efficiency. The appendices to this report provide a detailed overview of the planning process.

Why has Bucaramanga been so successful in managing this economic transition, whereas so many other cities have not? The following main factors of competitiveness stand out:

1. **High Levels of Human Capital:** Metropolitan Bucaramanga has some of the highest levels of human capital in Colombia – a crucial enabler of the city's ability to adapt to changing global conditions, and to transition into higher value-added economic activities. Bucaramanga has traditionally led the nation in education indicators, a fact attributable both to its inherited advantages, and to proactive policies to "skill up" as a city.

2. **Highly Effective Growth Coalition: The RCC's** effectiveness in mobilizing a broad growth coalition is one of the principal reasons for Bucaramanga's successful transition into a more knowledge-intensive economy. It brings together various stakeholder groups, enlisting them in identifying growth constraints and regional economic development priorities, formulating strategies to address challenges and market opportunities, developing detailed plans and responsibilities for their implementation, and monitoring progress being made. The private sector has provided significant funding support to Santander's economic development initiatives, and its corporate leaders have acted as the main champions for the region. In fact, Bucaramanga did not simply benefit from engagement by the private sector; it thrived because of its leadership and role in implementing the decisions made.

3. **Proactive Industry Targeting Based on Sound Analytics:** Bucaramanga has prioritized certain sectors as drivers of its future economic development, employing a rigorous analytical process to identify industries in which it has a competitive advantage, and to understand the global market trends and outlook for those industries. Proactive industry targeting has yielded strong results: today Bucaramanga boasts young, innovative ICT companies, a thriving agro-industrial sector, advanced know-how in the oil and gas industry, increased tourist visitation, and a healthcare industry that attracts foreign visitors seeking medical treatment. Though still not very numerous, Santander's exporters are succeeding in market niches like medical devices, precision mechanical parts, and higher value-added confectionery. Bucaramanga's cluster development strategy seems to be yielding results, contributing substantially to job creation and retention in the city.

4. **Favorable National Economic and Policy Context:** Bucaramanga has strongly benefitted from being part of the booming Colombian economy, increasingly open to the outside world (notwithstanding the competitive threats previously discussed). Dramatic improvements in national security and massive public investments in infrastructure have also been contributing factors. Significantly, Colombia's government provides policies and support tools which Bucaramanga in particular has shown much skill in utilizing; these include, for example, capital access programs, R&D funding, technical assistance for company formalization, export assistance, and customized worker training programs.

5. **Natural Resource Endowment:** Santander has successfully avoided the "resource curse", using its natural resource endowments to support local economic and

3 For example, while not all of Bucaramanga's apparel industry could survive low-cost foreign competition, some local firms were able to move higher up the value-added chain and compete on style, product differentiation, and other factors beyond just price. Specific support measures ranged from introducing better financial management and machinery to attending fashion shows overseas and training young fashion designers in creating innovative, unique products.

social development priorities, rather than squander it on grandiose projects (monuments, white elephants, etc.), or by lining the pockets of a small elite. The region has clearly benefitted from its oil wealth, yet it is by no means a "petro-state", nor can its recent economic success be primarily attributed to hydrocarbons. Oil royalties were used to support education, healthcare, and poverty-reduction programs, helping to build up human capital. The oil industry has also been a significant source of high-wage jobs, industry clustering, workforce skills and know-how, and technological innovation in Santander.

Lessons for Other Cities

Bucaramanga offers valuable lessons for other cities around the world seeking to grow their economies and create jobs, the main ones being:

1. **Mobilize economic development stakeholders into a citywide (or in this particular case, regional) growth coalition to work together for residents' shared prosperity.** Such a coalition can but does not have to be led by the public sector – capacity to undertake proactive interventions can rest in various types of institutions. In Bucaramanga's case, the growth coalition was private sector-driven, in the form of the Regional Competitiveness Coalition, though it included representatives of government. Bucaramanga demonstrates the value of building a strong growth coalition to champion its region's economic development and interests, with businesspeople and public officials successfully acting in concert with other stakeholders. Beyond financial resources, the business community may be able to provide valuable insights into constraints to company formation and growth, leverage their knowledge of products and markets, capitalize on global ties, and exert influence on higher tiers of government to ensure critically important interventions like infrastructure upgrades.

2. **In formulating a metropolitan (or regional) economic development strategy, prioritize among sectors to target for proactive efforts according to robust analytics and objective criteria, while also taking into consideration stakeholders' input.** Bucaramanga has avoided typical economic development pitfalls such as chasing industry fads, by employing an evidence-based approach to strategy development, along with a familiarity with global best practices (e.g. Michael Porter's cluster theory, etc.). Santander's regional competitiveness plan was also successful because these data were used to inform discussions of regional economic priorities within the RCC, ensuring buy-in from key institutional actors. This helped to ensure that decisions made would actually be carried out, even in the absence of formal implementation mechanisms.

3. **Embrace globalization as a strategic opportunity, not a threat from which to seek protection.** Bucaramanga's prior economic structure made it highly vulnerable to low-cost competition. Its leaders sought to help local firms in existing industries to cope by innovating and competing on quality and product differentiation, rather than primarily on price, and to leverage existing local strengths (R&D, human capital, business acumen, etc.) to expand into new industry segments. This approach appears to be yielding results, as Bucaramanga firms are becoming increasingly integrated into the global marketplace, while foreign companies are attracted to Santander as a suitable investment destination.

4. **Leverage national support programs.** National incentives and entrepreneurial assistance programs (e.g. financial, technical, information, market access, customized workforce training, etc.) can materially affect economic outcomes at the city level. Bucaramanga's firms have been highly adept at taking advantage of such programs, aided by their Chamber of Commerce and industry associations. Santandereanos have a reputation nationally for being incredibly effective and timely in submitting proposals for grants and other support from the central government, and have in turn enjoyed significant support from Bogota for various economic development initiatives.

5. **Use royalties from natural resources to strengthen public services and enable economic diversification, rather than just squander the proceeds.** Santander has used its oil revenues to bolster education, public health, and reduce poverty, instead of building mega-monuments or flagship facilities, or losing the funds to corruption. Far from turning Santander into a petro-state, hydrocarbons have helped the development of innovative technologies, companies, and know-how directly benefiting economic growth and diversification, while also alleviating pressure on public finances. The typical pitfalls were avoided through a combination of increased transparency, an improving security situation in Colombia, public "watchdog" activities by the Chamber and other actors, and closer scrutiny and demands by the department's citizenry at large.

National Context

Bucaramanga's growth has occurred in a highly favorable, and improving, national policy and macroeconomic context. Colombia has made major strides in the early 21st century, maintaining macroeconomic and monetary stability, prudent fiscal policies, low inflation, and steady exchange rates, and weathering the global recession in 2008-2009 without a single year of negative GDP growth. A comparatively young, highly urbanized society of nearly 50 million consumers, the country has been opening its economy up to the outside world, enjoying much success at attracting foreign investors and increasing its exports. Unemployment and poverty rates have fallen substantially, though more than a third of all Colombians (37.2%)[4] remain poor.

The nation's unique geography and traditions have resulted in decentralized decision-making structures and fiscal mechanisms. Colombia's rugged topography has fostered the emergence of distinctive regional cultures and economies, and the central government has traditionally had a less prominent role than in many countries of a comparable size and level of development. The difficulty of intra-country travel as well as national security issues meant that, in Colombia's individual cities and regions, local authorities and businesses often had to seek local solutions to various challenges, including economic development.

Colombia's institutional framework reflects the reality of a decentralized, unitary republic. Key measures bringing local decision-making closer to the citizen include:

- Since the passage of national legislation in 1988, mayors have been elected by popular vote (rather than appointed), improving accountability and local governance;
- Colombia's 1991 constitution substantially decentralized the country, devolving significant responsibilities and fiscal authority to the country's 32 departments. Some 45% of annual central government revenues are transferred to subnational governments through the *Sistema General de Participaciones* (SGP)[5], which allocates funds for the provision of basic public services like education, health, potable water, and sanitation.

Dismantling barriers to trade and fostering economic growth has been a priority for national policymakers, but in practice the need to improve security and ensure financial stability took precedence. Constitutional and legislative reforms in the 1990s were accompanied by a gradual liberalization of the economy. At the time, key industries like apparel and agribusiness were still heavily protected by trade barriers, and generally not globally competitive. It was apparent that market liberalization would have to be accompanied by a modernization of Colombia's economic base. However, severe internal security challenges and high levels of violence meant that restoring peace remained the top policy priority in the 1990s and early 2000s. Moreover, like other Latin American countries, Colombia was adversely affected by the 1998 financial crisis. Although the crisis was less severe in Colombia, it still led to an economic contraction in 1999. The crisis diverted the attention of national agencies, and limited the availability of funds for strategic initiatives designed to boost competitiveness.

As the internal security and financial situation in the country gradually improved, there was a renewed focus on market liberalization and strengthening economic competitiveness. Colombia has been a strong proponent of free trade agreements, successfully negotiating a range of bilateral trade and investment treaties with key global trading partners. Colombia has also made significant strides in improving its investment climate by relaxing rules on foreign direct investment, establishing investment "one stop shops", and working to address constraints like inadequate infrastructure and workforce skills. In parallel, the government has dismantled entrenched monopolies, like the state-owned oil company Ecopetrol (which still has a large presence in Santander Department) and opened up the country's telecommunications sector to competition, resulting in

4 "Colombia: Economy" ***globalEDGE*, *Michigan State University***: http://globaledge.msu.edu/countries/colombia/economy

5 Samad, Taimur, Lozano-Gracia, Nancy & Panman, Alexandra."Colombia Urbanization Review: Amplifying the Gains from the Urban Transition." *World Bank Publications*, November 2012.

the emergence of multiple providers.[6] These changes have had results: by 2013, FDI inflows reached $16.7 billion[7], not just into the extractives industry, but also in sectors such as banking, power generation, telecommunications, retail, and transportation.

Recognizing the ability of Colombian firms to compete in the global marketplace as vitally important, Colombia's government began to establish the foundation for a unified national system of economic competitiveness in 2006. The competitiveness and innovation framework formalized the division of economic development responsibilities. At the national level, the focus was on national security, market liberalization, fiscal stability, improving the business climate, and identification of priority "productive sectors" nationwide. National programs were put in place to support the growth of these priority sectors, while regional governments could apply for central government funding to support specific initiatives furthering these sectors' development.

Today, individual national government agencies are tasked with administering specific programs designed to strengthen the competitiveness of the Colombian economy. While each agency has a clear mandate and role in some aspect of economic development, there are inevitably some overlaps in their responsibilities. A detailed list of the national agencies and their specific responsibilities is provided in the appendices to this report.

To further operationalize the national competitiveness agenda, in 2007 Colombia's government enacted legislation enabling the establishment of Regional Competitiveness Commissions (RCCs) in each of the country's 32 departments. Designed to foster public-private dialogue and stakeholder engagement, the RCCs were to include representatives from governments, universities, and private-sector organizations like chambers of commerce. The RCCs were tasked with creating regional competitiveness plans which would complement the national competitiveness plan, including the use of support tools provided by the central government. As part of the planning process, each RCC was made responsible for identifying its own issues and development priorities, as well as specific steps needed to achieve them. Among all 32 departments in Colombia, Santander is widely recognized as having one of the most successful RCCs, both in terms of planning, and in the implementation of plans developed.

6 Officials interviewed by the Bank mission also credit the wider availability of inexpensive mobile phones with citizens' ability to phone in incidents of violence or suspicious activity to the authorities, in turn contributing to improved security and public safety in the country.

7 "World Investment Report 2014", UNCTAD, 2014

Local Context

History

Path dependency has been an important enabler of Bucaramanga's recent economic success, as evidenced by its comparatively high human development indicators, low levels of inequality, high quality of life, educational attainment levels, and entrepreneurial traditions. Bucaramanga is a mid-sized city located in Santander Department, a hilly agricultural region between Bogota, the Caribbean Coast, and Venezuela. It was chosen by colonists for settlement in 1622, and developed a middle class of merchants early on. The region's economy was initially based on smallholder farming and cattle ranching, so the region never developed the kind of inequality inherent to plantation-style farming along Colombia's Caribbean coast.

In the 20th century, two significant local industries emerged in Santander: the oil industry in Barrancabermeja, and the textile and garment industry in Bucaramanga. Under Colombia's protectionist policies at the time, the textile and footwear industries flourished in a closed market. Production initially consisted of simple knitting and assembly, but local firms were forced to innovate as early as the 1970s due to fierce competitive pressures from Medellin, the national leader in garment manufacturing, whose firms disproportionately benefitted from Colombia's protectionist measures[8].

One of the most transformative events came in 1948, with the establishment of the Universidad Industrial de Santander (UIS), an institution benefiting from a large influx of academics who had fled Europe during WWII. While many other Colombian cities established public universities, UIS stood apart because of the high quality of its curricula in engineering, science, and technology in particular, developed to support the national oil company, Ecopetrol, and its nearby refinery in Barrancabermeja.

Improved public service provision in the 1970s and 1980s resulted in an improving quality of life for Bucaramanga's residents. For example, Santander was one of the first regions to provide clean water to most of its population. The provision of quality public services, temperate climate, and relatively favorable security environment in Bucaramanga attracted new households, as workers from the refinery in Barrancabermeja frequently chose to settle their families in nearby Bucaramanga.

Bucaramanga's traditional economic structure, based on small-scale manufacturing, was ill-suited to an increasingly globalized economy. Successive attempts to adapt to changing circumstances in the 1990s generally failed to yield the desired results. Bucaramanga's economy was adversely affected by the gradual opening up of the Colombian economy starting in the 1990s, as its traditional industries lost market share to global competition. With a disproportionate share of small and micro enterprises, Bucaramanga had few large companies outside the oil industry capable of exporting. The few goods to be exported by its small firms, competing largely on price, were largely destined for the neighboring Venezuelan market.

With economic conditions worsening in the 1990s, the public and private sectors began, both individually and jointly, to focus on Santander's economic competitiveness. Early discussions centered on struggling traditional sectors, and the need to further develop more competitive industries. Plans, such as the "Metropolitan Tecnopolis", were formulated to foster the development of science and technology through educational programs, technology parks, and innovation labs. However, these strategies lacked long-term champions, concrete implementation plans, and the funding necessary to carry them to fruition. While these early efforts would influence future regional strategies, most actors in Bucaramanga concede that substantive, effective collaboration on economic development did not begin until the new millennium.

The start of the 21st century saw positive developments at the national level, and more productive collaboration among key local actors. Collaboration in Bucaramanga increased between the public sector, private sector, and academia; but unlike in the previous decade, this time the collaboration was more fruitful. Institutions[9] were crafted to formalize cross-sector engagement, and strategic approaches to local economic development were paired with concrete implementation plans and funding sources, improving the likelihood of long-term success.

Despite improved collaboration, one external development– deteriorating relations with neighboring Venezuela – had a particularly detrimental effect on Bucaramanga's economy. When political relations between Colombia and Venezuela soured, and the late President Hugo Chavez restricted market access for Colombian-made goods in 2008, many of Bucaramanga's small manufacturers were irreparably hurt. They had become strongly dependent on exporting to nearby Venezuela, and with access restricted, SMEs had to learn to identify export opportunities in other markets, in addition to trying to cope with increased global competition.

8 Pietrobelli, Carlo & Olarte Barrera, Tatiana. "Enterprise Clusters and Industrial Districts in Colombia's Fashion Sector." ***European Planning Studies***, Vol. 10, No. 5. (2002) Taylor and Francis Group.

9 One such new institution was Metropolitan ADEL. In 1999, the Metropolitan Corporation of Planning and Development of Bucaramanga (CORPLAN) was established to promote public- private sector engagement on local economic and social development issues. Led by the Mayor of Bucaramanga, CORPLAN included the mayors of nearby municipalities, the Chamber of Commerce, and university and industry groups. In 2000, CORPLAN wrote the region's first cross-sector collaborative strategic plan, Vision 2015. This plan would later influence and provide a "head start" to the creation of the first regional competitiveness plan by the RCC (Santander Competitivo).

The past few years have seen a gradual, successful transformation of Bucaramanga's economic structure. Innovation and increased productivity in existing sectors, along with a conscious shift towards new industries, has picked up pace in recent years. A small cluster of high-wage ICT companies began to develop, alongside growth in BPO and knowledge services, hydrocarbons, medical tourism (Fundación Cardiovascular de Colombia- FCV[10]), and adventure tourism. As Bucaramanga began to adapt and develop new industries, the service sector replaced manufacturing as its largest sector, accounting for 37.9% of local GDP in 2011.[11]

Key Local Actors

Department of Santander

Bucaramanga is the capital of the Department of Santander, one of 32 administrative units into which Colombia is subdivided. With a surface area of 30,000 km^2 and a population of 2.1 million, Santander is a mountainous region endowed with hydrocarbons and abundant water resources. Besides the Bucaramanga Metropolitan area, the only other sizeable city in the department is Barrancabermeja, on the Magdalena River, best known as the site of one of Colombia's two oil refineries. Santander is governed by a Departmental Assembly and a Governor, who is popularly elected by constituents for a single, four-year term.

The devolution of power from Colombia's central government since the early 1990s has resulted in the accumulation of significant administrative scope at the departmental level. Funding for departmental programs comes from levying local taxes, national government transfers, and oil royalties.[12] Colombia's departments have significant discretionary authority over spending decisions; however some national funds are specifically earmarked for investments in health, education, and other priorities. There is a dedicated planning unit within the government of Santander, which prepares a long-term regional development plan outlining key infrastructure investments and projects of regional significance. However, Santander's government does not have statutory responsibility for, or engage in, "core" economic development activities such as investment attraction, sector targeting, or industry-specific support programs. Instead, the departmental government focuses on creating a general enabling environment in which economic development can take place, and supports other institutional actors.

Bucaramanga Metropolitan Area and Its Municipalities

The Bucaramanga Metropolitan Area (AMB) accounts for approximately 54% of Santander's population (1.1 million people), and an even higher share of its economic output, including nearly 95% of Santander's non-oil manufacturing activity. AMB is made up of four individual municipalities, each with its own popularly-elected Mayor: Bucaramanga (with about half the AMB's population), Floridablanca, Piedecusta, and Girón. The Bucaramanga Metropolitan Area has a coordinating body with a small professional staff, responsible for ensuring integrated metropolitan development and coordination for projects of area-wide significance, such as transport and mobility, water supply and sewerage, housing, environmental sustainability, and select other public services. The AMB coordinating body's direct responsibilities do not include economic development, but they do enable it. The four individual municipalities focus on addressing select local economic issues, such as targeted assistance to low-income and vulnerable groups. Their involvement in proactive economic development is mostly indirect, through their participation in the RCC.

Regional Competitiveness Commission (Santander Competitivo)

Santander Competitivo is the creator of the departmental strategic plan for economic development, and the principal convening body for all entities involved in its formulation and implementation. Although established in accordance with national law, the RCC has little in the way of formal statutory authority or funding, instead relying on the relationship capital and prestige of its leadership to enact meaningful interventions.

Santander's RCC was the first to be established in Colombia, and is still one of the most successful. Bucaramanga's efforts to establish a regional competitiveness agenda actually preceded the national legislation enabling the formation of the RCCs (see sidebar), and served as a national model.

Along with the Bucaramanga Chamber of Commerce, on whose premises it is housed, the RCC is the principal conduit for public-private dialogue in the region. In addition to input from stakeholders, its strategy is developed based on sound analytics. Santander Competitivo was set up to promote engagement and collaboration between public institutions, academia, the private sector, and civil society, with the goal of improving public policy, developing sector diagnostics, and formulating a regional competitiveness plan. The Commission employed analytical tools like cluster mapping to prioritize among sectors to support,

10 In the early 1990s, Dr. Victor Raul Castillo and Dr. Franklin Roberto Quiroz established a non-profit medical research center to treat and prevent heart disease. With an excellent cardiovascular surgery program (performing the first open-heart surgery in Colombia), FCV is recognized as one of the top ten research centers in Colombia. FCV has both a corporate university training program and independent air transportation service. FCV is currently building a new International Hospital within the Health Free Trade Zone in Santander.

11 Aguilera Diaz, Maria: "Bucaramanga: Capital Humano y Crecimiento Económico", No. 180. *Banco de la Republica*, January 2013. www.banrep.gov.co/sites/default/files/publicaciones/archivos/dtser_180.pdf

12 Since 2011, oil royalties (*regalias*) have been distributed among Colombia's 32 departments according to a new formula. This has resulted in Santander's share being cut in half, from 6.5% to 3.2% of the national total.

Creation of Santander Competitivo

Seeking to address regional economic challenges, in August 2006 the Bucaramanga Chamber of Commerce convened some 70-80 leaders of Santander's business community, academia, municipal and departmental government, labor unions, and local officials of national agencies. Breaking out into 3-4 working groups/work-shops, this seminal gathering (later named the "Regional Competitiveness Forum") sought to identify the region's key economic and developmental priority areas, assess the general growth potential of individual industry sectors, discuss the institutional composition of a new RCC, and nominate prominent individuals to serve on it.

Santander's new commission gradually began to take shape, practically simultaneously with the development of a national framework for regional economic competitiveness. In February 2007, before the RCCs were established in the departments, the new commission was formalized by a voluntary agreement under the name of Santander Competitivo. As there was no dedicated funding for the development of the RCCs, the Bucaramanga Chamber of Commerce offered its assistance, and Santander Competitivo was established in the Chamber's office space. Martha Pinto de Hart, a former Minister of Telecommunications in the first Uribe government (2002-06), had recently returned to her native Bucaramanga and was unanimously selected to be the new organization's first Executive Director, agreeing to serve without compensation.

Non-governmental entities made up more than three quarters of the commission. Consisting of 30 members, the commission included:

From the public sector:

- The Governor of Santander
- President of the departmental legislature
- President of the Bucaramanga city council
- 3 City Mayors (Bucaramanga, Barrancabermeja, San Gil)
- Regional Director of workforce agency SENA

From civil society (or non-governmental entities):

- 13 businesspeople nominated by the Bucaramanga and Barrancabermeja Chambers of Commerce
- 3 representatives of industry guilds
- 3 members of academia
- 1 representative from the labor union
- 1 representative from the Santander Science & Technology Council,
- 1 representative from Ecopetrol
- 1 representative from the local development agency Adel

ultimately choosing health, oil and gas, and tourism as the top three sectors with the most development potential.

Santander's draft Regional Competitive-ness Plan was completed by August 2007. Santander's was the first RCC to develop a plan, and discussed it with stakeholders from both government and civil society. The plan's main vision was articulated as follows:

> *"In 2032, Santander will be one of Colombia's three most competitive departments, with a high quality of life and the highest per capita income in the country, thanks to the dynamism of its economy achieved through its productive sectors, producing innovative high value-added goods and services while respecting the environment, with a business climate conducive to local and foreign investment, while encouraging the region's comprehensive and equitable development."*

The strategic plan was a comprehensive, but also a living document periodically updated. In order to achieve its goal of becoming the third most competitive department in the country by 2032, three "strategic pillars" were identified to drive economic development: cluster development; formalization and entrepreneurial development; and internationalization. These pillars were supported by four cross-cutting "strategic lines" enabling them: infrastructure; the development of science, technology, and innovation; metropolitan integration and strengthening; and government transparency and efficiency. Progress was systematically tracked on an ongoing basis, and stakeholders materially involved in its implementation.

Bucaramanga Chamber of Commerce

The Bucaramanga Chamber of Commerce is the metropolitan area's principal private-sector champion of economic development. In Colombia, chambers of commerce play a semi-official role, performing select public functions while also acting as private membership organizations. The Bucaramanga Chamber of Commerce was established in 1915 in accordance with national law, to maintain a registry of local firms on behalf of the national government. Since then, the Chamber has taken on a number of other roles and responsibilities, including:

- Providing fee-based business services to private-sector firms, including market intelligence, entrepreneurship and management training, and technical advice.
- Serving as the advocate and organizing lead on a number of cross-cutting issues affecting the private sector, both locally and in the national capital, Bogota.
- Providing public oversight of municipal finances and government contracting processes.
- Developing its own in-house investment promotion agency, named Invest in Santander, as the central mar-

keting, recruiting, and site-selection service provider in the region.

- In close collaboration with ProExport Colombia, providing export information and local product/service promotion, helping to organize and partly subsidize company attendance at industry events abroad, staging conferences and exhibition fairs, and bringing guest speakers to Bucaramanga. Tellingly, the Chamber's motto is *¡Vamos a competir!*

In the 21st century, the Chamber has been a leader of public and private sector engagement on local competitiveness issues in Bucaramanga and Santander. In 2004, the Chamber of Commerce did a study on transportation and connectivity. In this study, access to markets was identified as a key competitive constraint, highlighting a clear need for increased investment in the sector. Since large infrastructure projects are the central government's responsibility, the Chamber lobbied based on the results of their study, putting pressure on national decision makers and ultimately getting new infrastructure investments in their region (e.g. Bucaramanga's new Palo Negro airport, ongoing construction of the Ruta del Sol highway through Santander, etc.).

In 2008, the Chamber created a dedicated business development unit to provide entrepreneurial assistance services to local firms. In line with the national *Rutas Competitivas* program and Santander's own Regional Competitiveness Plan, the Chamber identifies high-imapct sectors to support, then outlines steps needed to make local firms globally competitive in those industries. Bucaramanga's Chamber is one of few in Colombia to employ hard data and very rigorous analysis to identify the highest value-added activities and market opportunities. For example, the Chamber has identified health, education, and transport as key enabling factors for improving productivity, as well as infrastructure and English skills as two cross-cutting themes.

The Bucaramanga Chamber of Commerce is primarily funded by private resources, with some support from the national government. The Chamber continues to receive administrative fees from registering new firms, but has in recent years managed to triple its income by providing additional high-value business services to members. A key enabler of the Chamber's success has been its immense institutional capacity, relying on a highly capable, dedicated staff.

Universities and Research Institutions

Bucaramanga is one of Colombia's foremost educational centers, with academic institutions especially renowned for their applied research and technology. The Santander Department is home to 15 institutions of higher learning, 12 of which are located in metropolitan Bucaramanga itself, and one each in Barrancabermeja, San Gil, and Socorro. With a reputation as a "university town", Bucaramanga attracts students from all over Colombia and abroad.

Bucaramanga's universities and research institutions have actively promoted the development of high technology sectors, for which they are sometimes paid by national government agencies (through approved RCC proposals), or compensated by private businesses for their services. Examples of their involvement in economic development activities include:

- Ecopetrol designed courses at UIS and UNAB to improve local human capital
- Universities regularly partnered with SENA to improve worker training programs, including building accredited courses to train machinery operators
- Provided custom research for the oil industry, cacao industry, and agro-industry
- University support for dedicated research centers in petroleum and derivatives
- Biomedical research for Fundación Cardiovascular
- Provided support tools for businesses, and services for the Chamber of Commerce
- San Tomas partnered with ProExport Colombia to provide technical assistance to firms interested in exporting, but still lacking the technical capacity or market know-how

Established in 1948, Universidad Industrial de Santander (UIS) is Bucaramanga's flagship educational institution and a key player in regional economic development. For decades, UIS has been working with government agencies, the Chamber, and directly with for-profit businesses on competitiveness issues, especially in the areas of innovation and technology commercialization. It has enjoyed close research links to the hydrocarbons industry, but in recent years has also developed research excellence in a number of other, non-traditional areas. UIS plays a role in Santander's economy both through the development of technologies (which may find acceptance in the marketplace), and the formation of new workforce talent.

The Colombian Petroleum Institute (ICP) is the largest research institution in Santander, and for decades has a played an important role in the region's economic development. ICP is the research branch of the oil firm (and former state monopoly) Ecopetrol, and was the only such research center in Colombia as early as the 1970s. ICP has a strategic vision in sync with Ecopetrol's: to develop scientific potential aligned with business needs, and enable commercial applications of its technologies. Ecopetrol receives R&D tax credits, funded by Colciencias.

Guatiguara is Bucaramanga's technology park, which today plays a leading role in applied research and technology commercialization. UIS originally developed the park in collaboration with Ecopetrol, receiving some funding from oil royalties, as well as resources from national agencies (Colciencias) and other private-sector sources like CETICS, ICP, and FCV. The park formally opened in 2011 as one of only two in Colombia; by 2014 it already employed 240 people providing contract research services, including to firms in other countries. UIS conducts much of its research at Guatiguara, and encourages corporations to co-locate there.

Zona Franca Santander

Bucaramanga's free trade zone is the destination of choice for large investors in Bucaramanga, and has the potential to be a major catalyst for its future development. The Chamber of Commerce led efforts to establish this FTZ in 2011 as the "Santander Offshoring and Outsourcing Park", while its Invest in Santander arm has helped to attract firms to it. Zona Franca is privately owned and operated with funds from the Chamber and private firms, but its success has been aided by public-private collaboration, such as the dedicated bus routes established by local transit firm Metrolínea to serve the park. Zona Franca focuses on attracting companies in sectors like BPO, engineering, logistics, construction, and architecture. It allows only new investors or corporate expansions to locate there – there is no poaching of existing firms from the city. The FTZ offers security, an advanced telecommunications infrastructure, a business services center, and a flat 15% income tax rate. Its original goal was to attract five companies in its first five years in operation, but by early 2014 it already had 24 firms in industries like engineering, logistics, finance, consulting, energy, and precision manufacturing. Only one of them, Arvato, is a foreign firm, but it employs about a thousand people locally.

Example of a Foreign Investor: Arvato

European outsourcing firm Arvato Iberia (part of Germany's Bertelsmann group) set up a delivery center in Zona Franca in 2012, offering back-office services to several European firms (mostly in Spain). Arvato operates a call center for the Spanish market, including customer service, logistics and marketing services. Arvato has cited the following factors as having influenced their decision to locate in Bucaramanga:

- Flexible labor laws, which allow for work in off-peak hours
- Large number of students available to work
- Availability of professional and qualified talent
- Spanish speakers with little to no accent and a very neutral tone
- Physical office space (park)
- Proximity and accessibility of SENA and other Universities
- Favorable tax rate
- Livability, including a safe environment, good climate, nice people, presence of other foreigners.

More firms realizing the appeal of the investment environment and setting up operations at Zona Franca could increase competition over talent and possibly increase wages; however, Arvato understands that they could share more costs if there were more firms. Arvato had been at Zona Franca for 14 months and has had no large problems, only minor issues that need to be ironed out. For instance, they noted that transport has been rather irregular. Their plan is to extend their operations in Colombia, but they are still not sure if this will be in Bucaramanga, depending on timing and competencies. For Arvato, the environment mattered as much as costs.

Analysis

Factors of Competitiveness

As noted in the Executive Summary, Bucaramanga's economic success cannot be attributed to any single factor, but to a combination of them. The principal ones are listed below.

Factor 1: High Levels of Human Capital

Metropolitan Bucaramanga has some of the highest levels of human capital in Colombia – a crucial enabler of the city's ability to adapt to changing global conditions, and transition into higher value-added economic activities. Bucaramanga has traditionally led the nation across a range of quantifiable education indicators (number and quality of institutions, curricula, student enrollment, graduation rates, general literacy levels), as the combined result of inherited advantages and proactive policies to "skill up" in order to boost its economic competitiveness.

Bucaramanga's exceptionally high levels of human capital are, inter alia, attributable to the following:

- ***Adequate funding*** for education at all levels, in part funded by natural resource royalties, but strongly supported by both the public and private sectors.
- ***High-quality curricula*** at local institutions, with a strong focus on engineering (about a third of all graduates) and other applied fields like medicine, business, finance, accounting, and design (most others).
- ***Entrepreneurial capacity*** of local firms, including general business know-how, a knowledge of products and

markets, and a commitment to constant innovation and adaptation.

- ***Knowledge spillovers*** from existing clusters of expertise into related fields, e.g. UIS's initial training of engineers for the oil industry, who later diversified into new areas.

- ***Talent attraction*** (of students and working professionals) from all over the country, and from abroad, including the Colombian diaspora and entrepreneurs leaving Venezuela.

- ***Successful utilization of national support tools*** and workforce development programs, usually in partnership with the local office of the National Learning Service (SENA). This includes highly effective customized worker training programs, responsive to employers' immediate needs.

- A longstanding local tradition and ***commitment to prioritizing education***, and ensuring universal access to educational opportunities, even for the most disadvantaged segments of society (the extremely poor, disabled, internally displaced persons, and so on).

Factor 2: Highly Effective Growth Coalition

Proactive economic development initiatives in Bucaramanga were led by the private sector, with support from national and local government agencies. The city and its surrounding region did not simply benefit from engagement by the private sector; it thrived because of its leadership. In Colombia's decentralized system, the national government provides a general framework for regional economic competitiveness, along with some support tools like funding, training, and technical assistance programs; the rest is the responsibility of the regions themselves. Governments at the departmental and municipal level largely focus on the provision of enabling infrastructure like transportation and utilities, and are also represented on the Regional Competitiveness Commission in a consultative capacity. But proactive economic development efforts are led by private-sector actors, both within the framework of the RCC and through other, parallel tracks, such as the activities of the Chamber of Commerce.

The principal forum for public-private dialogue and stakeholder engagement in Santander is the Regional Competitiveness Commission; its effectiveness may be one of the principal reasons for Bucaramanga's successful transition into a more knowledge-intensive economy. The RCC brings together representatives of various government entities, as well as local universities, the two chambers of commerce (Bucaramanga's, along with the much smaller one from Barrancabermeja), industry associations (guilds), and other stakeholder groups from the private sector and civil society at large. Through a structured, comprehensive process, the RCC engages stakeholders in identifying growth constraints and regional economic development priorities, formulates strategies to address challenges and market opportunities, develops detailed plans assigning specific responsibilities for their implementation, and monitors progress being achieved towards set goals.

Bucaramanga did not just involve diverse stakeholder groups in formulating economic development plans, it actually relied on them to implement the majority of interventions. Private sector actors have provided significant funding support to Santander's economic development initiatives, and its corporate leaders have acted as the main champions for the region. The implementation of specific items in the strategic plan was assigned to dedicated task teams, made up of staff from the RCC, Chamber of Commerce, government agencies (national and/or local), universities, individual members of the business community, and various other stakeholders. Stakeholders used their capacity, resources, and relationship capital to advance the region's economic development priorities, and played a very active role in strategy formulation and implementation.

Santander's growth coalition does not have any dedicated funding, statutory authority, or means of compelling entities or individuals to honor commitments made through the strategic planning process. Although established in accordance with national legislation, the RCC has no dedicated sources of funding, and only a very small professional staff, co-located on the premises of the Bucaramanga Chamber of Commerce. Within the RCC, there are no formal mechanisms to ensure strategy implementation and follow-through on commitments, and no incentives or penalties for participants in the process – although RCC and Chamber staff do monitor progress on an ongoing basis. Inter-institutional cooperation and implementation are facilitated by the fact that Bucaramanga is a mid-sized city, in which key public and private-sector officials know each other, cross paths on an almost daily basis, and thus enjoy a web of strong informal relationships. Peer pressure and reputations within the local community are sometimes more effective than formal provisions in ensuring adherence to what has been agreed.

Factor 3: Proactive Industry Targeting Based on Sound Analytics

Faced with the erosion of its traditional economic base, Bucaramanga has proactively worked towards laying the foundations of its "next economy", by prioritizing certain sectors as drivers of economic development. This has entailed employing a rigorous analytical process to identify industries in which Santander has a competitive advantage, and to understand the global market trends and outlook for those industries. The RCC and its partners set about developing a strategic plan to aid these industries' growth locally, outlining specific steps, timelines, and institutional responsibilities for their implementation. On an ongoing basis, researchers at the Bucaramanga Chamber of Commerce monitor the progress made in each targeted cluster, and feed the results into new public policy formulation (shared with local government) and goal setting for the strategic plan's subsequent revisions.

Proactive industry targeting has yielded some impressive results: today Bucaramanga is home to young, innovative ICT companies, a thriving agro-industrial sector, advanced know-how in the oil and gas industry, numerous new (and well-visited) tourist facilities, and a healthcare industry that attracts visitors seeking treatment from all over Latin America and the Caribbean. Although still not very numerous, Santander's exporters are succeeding in market niches like medical devices, precision mechanical parts, and higher value-added confectionery – in markets beyond just neighboring Venezuela. In short, Bucaramanga's cluster development strategy seems to be working, and can be credited for at least a portion of the 85,000 new jobs created locally in the four-year period from 2008 to 2012.

Factor 4: A Favorable National Economic Context

Bucaramanga's economy has been helped by the fact that Colombia as a whole has been booming economically for a number of years. Bucaramanga is not a city that has done well in spite of the national economy to which it belongs; being part of Colombia has contributed its success. One of the world's better-performing economies, Colombia weathered the global recession of 2008-09 without a single year of negative GDP growth, and annual GDP growth has remained above 4% since then. Unemployment is falling, poverty levels have declined sharply, and the country's mineral wealth and rapidly growing middle class appeal to international firms. Bucaramanga has benefitted from being part of the broader Colombian economy in the following specific ways:

- ***A favorable national policy framework***. Colombian policies are pro-market and pro-growth, with a commitment to monetary stability, competitiveness, and globalization.

- ***Improved national security:*** The security situation nationwide has improved dramatically in the past few years. While sporadic incidents of violence do occur, they are no longer of a magnitude and frequency to substantially deter economic activity around the country. In turn, Santander is considered safer than most other parts of the country.

- ***Specific policy tools*** at the cities' and regions' disposal, funded by the national government. These include everything from funding R&D projects at universities and technical assistance for company formalization, to customized worker training programs and export assistance. Bucaramanga has been relatively more successful at tapping into these sources of national government support than many other Colombian metros.

- ***Massive public investment in infrastructure***, including construction of the *Ruta del Sol* highway linking Bogota with the Caribbean coast via Santander, expansion of the river port at Barrancabermeja and navigation along the Magdalena River, and a possible future rail link. In addition to creating construction jobs locally, this is lowering transport costs to market for Bucaramanga companies.

- ***A rapidly-growing domestic market***, with an expanding middle class, falling poverty rates, and increased demand for non-traditional products from Santander, such as poultry.

- ***More liberal trade and investment*** with various countries around the world, as a result of bilateral and multilateral free trade agreements and other market-opening initiatives supported by the Colombian government.

Factor 5: Natural Resource Endowment

Santander provides an example of a region successfully avoiding the "resource curse", using oil royalties to support economic and social development priorities, rather than squander it on grandiose projects (monuments, white elephants, etc.), or by lining the pockets of a small elite. While it has clearly benefitted from its endowments, Santander is by no means a "petro-state", nor can its economic success be primarily attributed to hydrocarbons. Oil revenues were used to support education, healthcare, and poverty-reduction programs, resulting in the highest levels of human capital and the lowest poverty rates of any metro area in Colombia.

The main specific ways in which natural resource wealth has aided Santander's economic development include:

- ***Employment:*** Historically, the oil refinery in Barrancabermeja has supported stable, relatively high-wage jobs for the region's residents, as well as professionals from other regions. This has supported incomes and consumption throughout the region.

- ***Skills:*** The oil industry's need for engineering talent has led to the establishment of high-quality educational programs at local institutions, in particular UIS, and the emergence of a more diversified skills base growing out of the oil industry's needs.

- ***Industry clustering:*** Over several decades, numerous small manufacturers specializing in tools and equipment for the refinery in Barrancabermeja emerged in Bucaramanga, over time diversifying into related industry segments needing similar capabilities.

- ***Technology development:*** Out of the oil industry, other innovative petroleum-based technologies have emerged, some with commercial applications (e.g. asphalt, bitumen, polymers, etc.), in turn strengthening the region's overall technological capabilities.

- ***Public finances:*** Royalties from natural resources[13] have augmented the coffers of both municipal and departmental governments, reducing the tax burden on residents while enabling the provision of quality public services, addressing infrastructure needs, investing in education and public health, and policies aimed at poverty reduction.

Lessons for Other Cities

Bucaramanga offers valuable lessons for other cities around the world seeking to grow their economies and create jobs. Ultimately, the main purpose of these case studies is to understand what cities did well, exactly how they did it, and which lessons might be replicable elsewhere. Though each city's circumstances are somewhat unique, Bucaramanga's experience provides an example of what can be done to boost a city's economic competitiveness, regardless of which particular actors undertake specific interventions. Key lessons for other cities from Bucaramanga's experience include:

1. **Mobilize economic development stakeholders into a citywide (or in this particular case, regional) growth coalition to work together for residents' shared prosperity.** Such a coalition can but does not have to be led by the public sector – capacity to undertake proactive interventions may lie in various kinds of institutions. In Bucaramanga's case, the growth coalition was private sector-driven, in the form of the Regional Competitiveness Coalition. In cities where the private sector is reasonably well developed, and where the law allows it, for-profit firms and their associations such as chambers of commerce or sector guilds can play a critical role in spurring economic development, from convening stakeholders and formulating strategies, to the implementation of plans, as well as various forms of tangible support along the way. Besides private-sector actors, effective growth coalitions can (and most often should) include government agencies, plus other stakeholder groups like universities, industry associations, and other elements of civil society. Bucaramanga demonstrates the value of building a cohesive growth coalition to champion its region's economic development and interests, with businesspeople and public officials successfully acting in concert with other stakeholders. Beyond financial resources, the business community may be able to provide valuable insights into constraints to company formation and growth in the city, leverage their knowledge of products and markets, and exert influence on higher tiers of government to ensure critically important interventions in the community, such as infrastructure upgrades. A strong local identity is a helpful but not necessary condition.

2. **In formulating a metropolitan (or regional) economic development strategy, prioritize among sectors to target for proactive efforts according to robust analytics and objective criteria, while also taking into consideration stakeholders' input.** Recent economic history is littered with examples of failed local strategies based on aspirations, unrealistic perceptions of external market trends, and strong "leadership" – a single-minded determination to stay the course even when the results expected do not materialize. Indeed, too many communities spend scarce resources chasing extremely unlikely prospects, rather than focusing their efforts in areas where they stand a realistic chance of being successful. Bucaramanga has avoided such pitfalls by employing a very evidence-based approach to strategy development, along with a familiarity with global best practices (e.g. Michael Porter's cluster theories). However, even the most lucid data-driven strategies may not succeed if there isn't also sufficient buy-in from those responsible for their implementation. Santander's regional competitiveness plan was so successful not just because it utilized cutting-edge diagnostic and market analysis tools, but also because those hard data were then used to inform frank discussions of regional economic priorities within the RCC. Sectors ultimately selected for proactive support measures enjoyed the full buy-in of key institutional actors, such as the Chamber of Commerce, industry groups, universities, and select government agencies. This went a long way towards ensuring that what was agreed would actually get done in practice, even in the absence of any formal implementation or accountability mechanisms.

3. **Embrace globalization as a strategic opportunity, not a threat to seek protection from.** While Colombia as a whole has been an enthusiastic proponent of free trade agreements and increased cross-border investment, Bucaramanga's economic structure (heavily reliant on high-ubiquity, commoditized manufacturing) made it particularly vulnerable to competition from low-cost imports. While some degree of economic dislocation was inevitable, Bucaramanga's leaders sought ways of adapting to new external circumstances over which they had little control. Strengthened global competitiveness of local industries was thus borne out of necessity. One way to cope was by helping local firms in existing industries (e.g. garments, footwear, agribusiness) to innovate and compete on quality and product differentiation, rather than primarily on price. Another was to leverage existing local strengths (R&D, human capital, business acumen, language, etc.) to make a concerted push into new, often highly tradable industry segments likely to drive

13 Until 2011, Santander received more in royalties than most other departments, based on its status as an oil-producing region. Since 2011, royalties have been redistributed more equally among Colombia's departments, with Santander's share greatly reduced. Along with this redistribution came earmarks on how the funds may be used, with set percentages set aside for water supply, healthcare, education, and scientific research. Bucaramanga did not seem to be much affected by this change, however: while receiving proportionally less than before, increased transparency and reduced corruption have helped to keep funding levels constant for vital public services.

tomorrow's economy – among them, ICT, healthcare, tourism, and business services. This approach appears to be yielding very tangible results, as Bucaramanga firms are becoming increasingly integrated into the global marketplace, while foreign companies are looking at Santander as a suitable investment destination in ways previously unimaginable. While internationalization is just one dimension of local industries' transformation, it is arguably among the most impactful.

4. **Leverage national support programs.** National governments often provide incentives schemes and other forms of entrepreneurial assistance – among them financial, technical, information, market access, customized workforce training, dedicated infrastructure, etc. – which can make a material difference to economic outcomes at the city level. Bucaramanga's firms have taken advantage of such help with much success and frequency, aided by the highly-skilled professionals at its Chamber of Commerce and industry associations – not just by raising awareness of such programs' existence, but also by assisting companies to access this source of support. An often-heard remark about Bucaramanga in the national capital, Bogota, was that Santandereanos are incredibly effective and timely in submitting proposals for grants and other forms of support from the central government. Anecdotal evidence suggests that, partly because of this, and partly because of the keen ability of Santander's representatives in the national government to act as a unified caucus when advocating on behalf of their department, Santander has enjoyed significant support from Bogota for a variety of initiatives directly enabling or affecting economic development in the region.

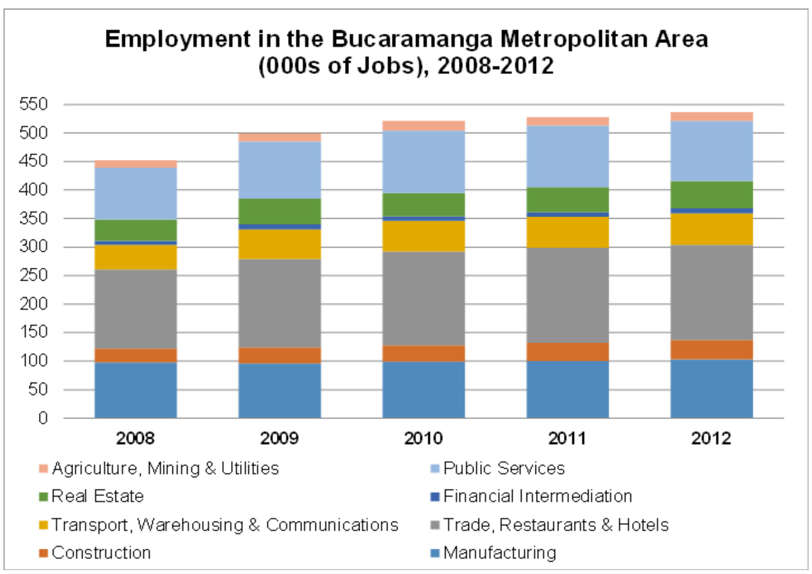
5. **If endowed with natural resources, use the proceeds to strengthen public services and enable economic diversification, rather than squander the funds on high-profile but ultimately lower-impact projects.** Santander has used its oil revenues to bolster education, public health, and reduce poverty, instead of building mega-monuments or flagship facilities. Far from turning Santander into a petro-state, hydrocarbons have helped the development of innovative technologies, companies, and know-how directly benefiting economic growth and diversification, while also alleviating pressure on public finances. The typical pitfalls were avoided through a combination of increased transparency, an improving security situation in Colombia, public "watchdog" activities by the Chamber and other actors, and closer scrutiny and demands by the department's citizenry at large.

Appendices

Bucaramanga: Key Facts and Figures

Population of Metropolitan Area, millions	1.1
Population growth over 6 years (2007-2012)	4.0%
Metropolitan GDP (USD billions)	12.8
Average GDP growth (2000-2010)	4.9%
Employment Growth over 6 years (2007-2012)	26%
Unemployment Rate (lowest in country)	7.7%
Of the Average National Per-Capita Income	170%
Reduction in Poverty Rate, from 33.7% to 10.3%	2/3
Gini Coefficient (second lowest in LAC region)	0.449

Source: Oxford Economics, World Bank staff estimates



Santander's International Trade

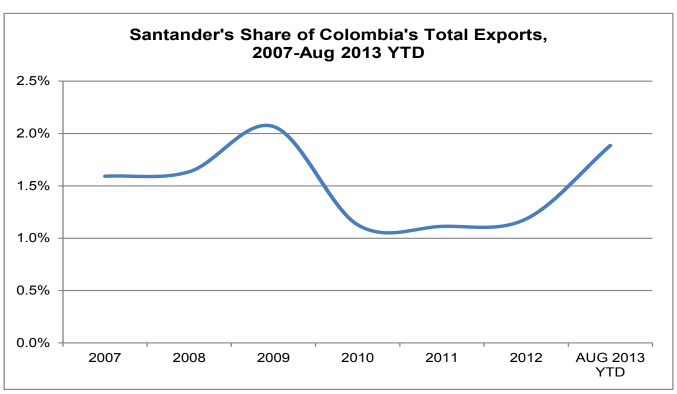
Santander Department, of which Bucaramanga is the capital, only ranks as Colombia's 11th largest exporter, despite having the country's 4th largest GDP. Santander's annual export volume, particularly to neighboring Venezuela, has fluctuated quite a bit in recent years. However, Santander's share of Colombia's total exports has held fairly constant.

Colombian Exports by Department

Rank	Description	Annual 2007	Annual 2008	Annual 2009	Annual 2010	Annual 2011	Annual 2012	Aug 2013 YTD	% change 2012 YTD - 2013 YTD
	Total Exports	29,991,332,000	37,625,882,065	32,846,326,710	39,713,336,400	56,914,939,110	60,273,618,168	38,918,204,185	-3.11
1	Antioquia	3,982,032,801	4,038,692,028	4,125,619,293	4,714,248,249	6,037,304,071	6,708,564,566	4,103,817,631	-4.89
2	Bolivar	1,139,406,966	1,397,665,143	1,263,515,194	2,445,175,450	3,759,789,935	3,599,028,737	2,484,606,293	5.25
3	Cesar	1,857,023,351	2,337,271,354	2,455,907,302	2,816,549,142	4,068,967,056	4,008,170,067	2,207,075,041	-22.25
4	Santafe De Bogota	3,003,390,082	3,585,827,600	2,878,727,733	2,822,321,792	3,275,536,414	3,289,802,507	2,173,131,709	-2.88
5	Meta	5,763,515	12,829,818	3,972,617	1,118,034,675	2,582,599,260	3,039,675,932	2,120,808,735	9.73
6	Guajira	1,544,652,768	2,343,923,638	2,865,590,394	2,578,166,701	3,699,713,462	3,544,755,920	1,855,887,751	-22.22
7	Casanare	635,860	482,317	306,983	4,141,645,108	1,885,343,066	1,988,425,379	1,579,909,389	12.24
8	Valle Del Cauca	2,144,398,947	2,286,842,833	2,072,561,349	2,206,819,407	2,466,761,581	2,283,051,473	1,391,954,902	-6.31
9	Cundinamarca	2,319,709,249	2,408,177,888	1,656,726,338	1,846,429,210	1,789,469,878	1,792,776,216	1,183,113,534	-2,53
10	Atlantico	1,178,227,624	1,313,058,130	1,088,232,971	1,050,241,772	1,107,402,321	1,241,930,010	909,666,288	14.02
11	Santander	477,469,183	615,196,978	678,949,432	448,020,789	633,534,109	713,726,447	734,017,970	52,86
12	Arauca	13,614,158	4,911,014	1,132,625	795,160,376	922,673,178	801,040,698	557,181,721	29.79
13	Cordoba	1,766,423,660	953,250,116	631,656,730	990,467,268	801,543,682	980,601,845	543,923,880	-18.64
14	Caldas	617,735,016	750,123,177	601,280,422	620,037,041	685,426,796	667,015,103	447,938,899	3.73
15	Huila	399,398,284	334,415,448	300,911,022	738,866,271	1,014,806,087	739,539,914	398,946,395	-21.34
16	Magdalena	350,011,819	344,906,388	379,535,073	375,778,772	486,623,888	558,388,831	394,100,312	18.87
17	Risaralda	404,855,511	457,481,924	470,365,500	568,427,318	680,011,123	566,280,956	301,326,767	-22.7
18	Norte De Santander	682,272,650	1,328,572,973	736,108,241	286,426,641	406,167,708	402,352,326	292,856,421	1.15
19	Boyaca	167,516,558	329,167,009	196,498,318	357,389,473	345,731,212	389,325,018	247,335,331	-19.43
20	Tolima	142,822,785	145,105,784	112,320,507	277,289,493	338,647,186	432,508,124	215,377,453	-36.13
21	Cauca	221,978,204	211,917,888	273,065,893	304,097,424	348,516,325	291,783,698	168,704,950	-12.63
22	Putumayo	11,745	75,263	122,940	1,484,301	16,141,363	4,321,217	157,423,550	n/a
23	Quindio	158,561,867	159,871,754	162,150,188	119,405,141	180,038,339	163,950,608	129,672,254	14.46
24	Narino	114,555,647	111,151,866	55,689,762	53,023,020	74,408,211	41,710,024	24,353,464	21.08
25	Sucre	90,232,379	126,756,999	86,602,072	47,839,452	47,007,668	28,400,399	16,563,503	2.93
26	Sandres Y Provid	830,591	823,607	1,434,243	3,796,65,	2,295,974	3,180,168	2,484,670	39.15
27	Choco	45,729,214	93,213,915	14,283,654	11,928,365	11,259,009	1,897,858	1,343,580	-11.46
28	Vichada	0	37,334	0	13,012	1,981,732	2,382,939	523,329	-57.54
29	Amazonas	1,200,297	80,844,720	23,958	133,465	26,594	20,775	170,211	719.29
30	Vaupes	114,312	906,084	208,577	104,531	20,677	6,973	153,039	3367.46
31	Guaviare	220,619	24,618	379	4,574	129,432	86,365	116,838	n/a
32	Caqueta	16,204	287,435	33,848	31,587	236,106	614,561	90,368	-78.64
33	Guainia	34,799	378,693	930,309	115,915	222,566	464,921	31,192	-92.68
34	Unknown	7,281,464,335	11,851,687,328	9,731,845,854	10,757,285,929	16,801,703,814	0	0	n/a

Source: Departamento Nactional De Estadística-Dane

Santander's Share of Colombia's Total Exports: 2007-Aug 2013 YTD



Source: Departamento Nacional de Estadística –Dane

Santander's Export Destinations

Rank	Description	2007	2008	2009	2010	2011	2012	Aug 2013 YTD	% change 2012 YTD - 2013 YTD
	Total Exports	477,469,183	615,196,978	678,946,432	448,020,789	633,534,109	713,726,447	734,017,970	52.9
1	USA	63,791,286	64,746,916	106,024,671	159,856,010	211,159,046	213,181,134	177,131,944	20.4
2	Spain	5,960,555	8,821,101	27,923,673	57,973,473	92,807,762	96,194,187	89,226,175	45.6
3	Venezuela	166,754,786	330,429,775	340,244,777	17,378,958	23,800,192	58,944,645	83,545,000	121.1
4	Trinidad and Tobago	58,430	59,951	649,178	119,687	335,089	98,858	67,652,292	786,906.0
5	Netherlands	4,751,591	1,319,441	721,872	346,796	1,202,859	961,607	33,594,849	3,713.0
6	Canada	5,181,756	13,264,621	8,820,725	13,385,425	16,404,644	8,532,585	30,567,877	394.4
7	Ecuador	19,229,020	17,240,603	25,059,549	31,466,087	43,031,485	54,147,417	30,359,640	-19.7
8	Peru	1,126,207	1,323,384	8,079,502	12,531,720	21,008,836	35,156,790	26,157,107	18.9
9	Brazil	1,526,953	1,159,955	5,085,257	8,023,952	20,270,489	28,008,268	24,170,810	35.7
10	Germany	29,811,716	15,115,203	8,906,461	6,795,735	33,112,436	26,469,109	22,359,800	30.8
11	Chile	274,585	221,629	4,459,088	7,441,857	18,943,614	31,023,326	20,708,697	-.29
12	Mexico	4,471,309	4,781,990	12,378,203	18,513,763	26,382,518	30,170,729	20,157,383	-8.8
13	China	3,323,254	2,313,821	610,845	9,284,703	26,917,078	30,490,102	13,883,850	-31.7
14	Dominican Republic	3,403,487	1,883,214	4,010,694	3,879,732	4,996,246	12,822,158	9,901,802	33.0
15	Argentina	88,281	1,049,236	3,620,736	7,122,167	12,637,890	14,982,424	9,657,910	5.1
16	Panama	5,321,428	6,931,858	9,053,192	6,427,092	5,607,184	2,896,187	7,705,566	333.5
17	Belgium	10,456,522	9,222,700	3,882,553	3,346,549	2,401,106	1,098,899	7,327,818	733.5
18	Japan	6,152,834	8,010,745	3,817,344	2,392,360	5,860,048	2,331,968	5,032,996	197.0
19	France	2,728,723	8,855,443	5,272,651	3,211,909	2,967,025	4,683,586	4,929,448	116.4
20	United Kingdom	5,339,764	5,776,721	8,642,425	15,123,366	14,293,069	2,251,558	4,800,091	210.0

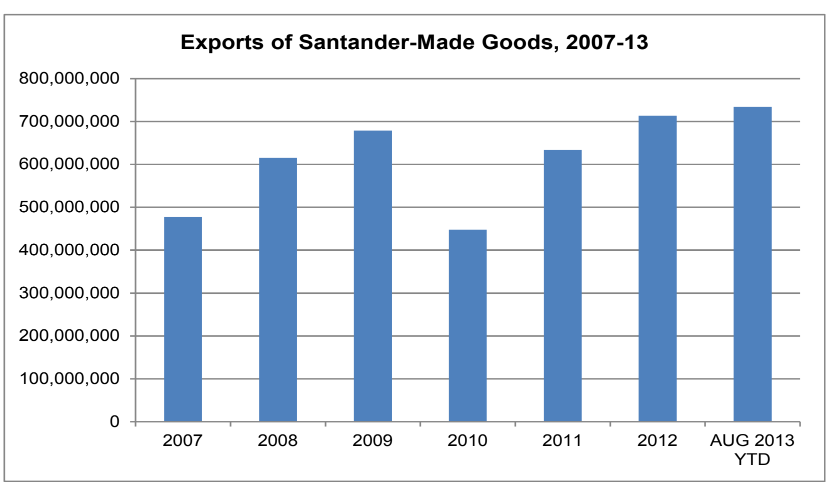
Source: Departamento Nacional de Estadística - Dane

Santander's Top 20 Export Commodities

Rank	HS Code	Description	2005	2006	2007	2008	2009	2010	2011	2012	Aug 2013 YTD
		Total All Commodities	**54,632,970**	**48,410,535**	**166,754,786**	**330,429,775**	**340,244,777**	**17,378,958**	**23,800,192**	**58,944,645**	**86,545,000**
		Total Non-Oil Exports	**50,976,952**	**47,407,489**	**165,309,808**	**330,062,021**	**334,862,538**	**12,595,054**	**11,123,475**	**42,145,875**	**77,641,404**
1	2	Meat and Edible Meat Offal	5,556,828	3,182,750	80,405,702	203,748,841	251,912,981	0	801,504	12,765,991	69,320,559
2	27	Mineral Fuel, Oil; Bitum Subst; Mineral Wax	3,565,018	1,003,046	1,444,978	367,754	5,382,239	4,783,904	12,676,717	16,798,770	8,903,596
3	73	Articles of Iron or Steel	329,230	256,657	1,040,780	1,168,659	1,299,234	294,897	428,066	11,314,392	5,179,074
4	84	Industrial Machinery, Including Computers	1,595,645	1,477,345	2,372,461	5,051,760	6,446,574	438,556	1,271,999	2,048,567	532,653
5	1	Live Animals	16,710,603	8,547,580	3,921,195	3,559,723	4,693,479	0	0	6,113,354	486,400
6	94	Furniture; Bedding; Lamps; Prefab Beds	126,485	1,183,031	1,120,468	428,610	34,304	10,749	128,517	1,339,171	447,305
7	87	Vehicles and Parts, Excpet Railway or Tramway	9,977,602	10,978,581	16,477,291	14,080,015	17,358,593	9,014,376	1,897,665	1,720,750	357,699
8	24	Tobacco and Manufactured Tobacco Substitutes	901,353	1,079,786	52,650	0	119,452	0	0	61,290	304,556
9	52	Cotton, Including Yam and Woven Fabric Therof	543,515	115,083	2,973,167	3,269,432	1,022,518	0	501,868	1,546,080	254,599
10	29	Organic Chemicals	4,066,579	5,379,683	5,536,783	6,078,238	2,373,836	221,442	629,208	754,959	217,411
11	55	Manmade Staple Fibers, incl. Yarns & Woven Fabrics	0	72,000	97,978	286,877	57,512	63,308	98,384	5	147,970
12	56	Wadding, Felt; Sp Yarn; Twine, Ropes	227,791	271,814	294,400	251,581	38,466	104,050	98,486	292,459	83,117
13	62	Apparel Articles and Accessories, Not Knit	1,627,279	3,493,270	13,198,353	10,480,852	2,595,082	708,721	1,712,916	1,924,294	74,145
14	48	Paper & Paperboard & Articles (Inc Pulp)	19,182	63,116	44,555	174,620	651,890	0	45,057	89,788	67,030
15	39	Plastics and Articles Thereof	28,288	115,731	896,765	1,236,601	1,381,147	59,196	322,210	208,749	46,055
16	44	Wood and Articles of Wood; Wood Charcoal	40,800	256,323	851,134	1,799,551	412,677	42,600	17,500	81,342	31,567
17	96	Miscellaneous Manufactured Articles	356	0	22,693	88,229	0	0	0	0	24,711
18	28	Inorganic Chemical; Previous & Rare-Eart	0	0	1,958,800	3,039,900	244,050	0	1,728	0	24,491
19	61	Apparel Articles and Accesories, Knit or Crochet	508,254	1,148,612	5,039,024	4,233,276	1,219,079	265,844	654,514	707,093	19,318
20	70	Glass and Glassware	10	50,816	362,193	418,071	158,616	23,268	138,967	234,841	9,679

Source: Departamento Nacional de Estadística -Dane

Exports of Santander-Made Goods



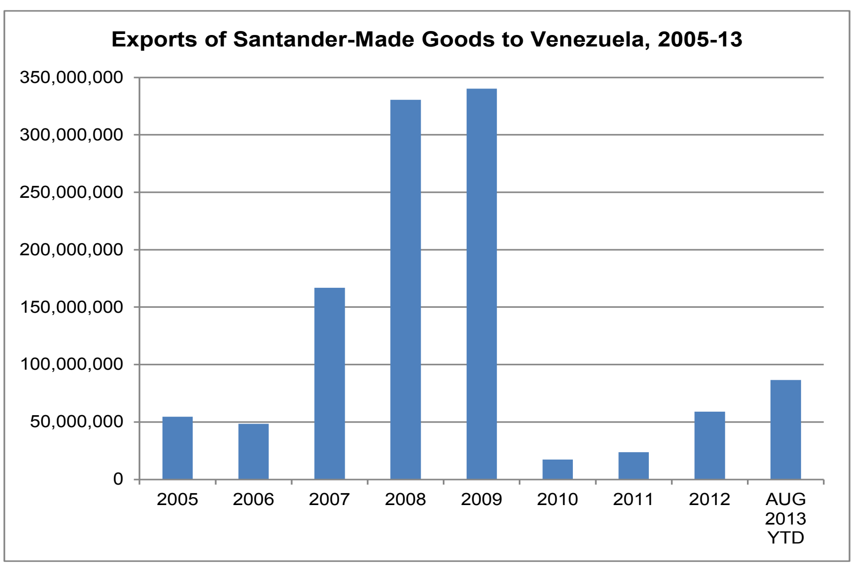
Santander's Exports to Venezuela

Trade with neighboring Venezuela merits separate examination, given its traditional importance to Bucaramanga's small manufacturers as their primary export market. Due to deteriorating political relations between the two countries, Santander's exports to Venezuela plunged from about a third of a billion dollars in 2009, to almost nothing in 2010. Since then, there has been a slow rebound in bilateral trade between the two neighbors, benefitting Santander's economy (mostly meat producers).

Santander's Top 20 Exports Commodities

Rank	HS Code	Description	2007	2008	2009	2010	2011	2012	Aug 2013 YTD
		Total All Commodities	**477,469,183**	**615,196,978**	**678,946,432**	**448,020,789**	**633,534,109**	**713,726,447**	**734,017,970**
		Total Non-Oil Exports	**466,681,924**	**583,893,230**	**512,995,875**	**203,743,454**	**200,918,214**	**186,550,215**	**203,132,512**
1	27	Mineral Fuel, Oil, Bitumen, Mineral Wax	10,787,259	31,303,748	165,950,557	244,277,335	432,615,895	527,176,232	530,885,458
2	2	Meat and Edible Meat Offal	80,405,702	204,010,878	253,611,608	2,239,854	2,398,395	12,979,187	69,638,084
3	9	Coffee, Tea, Spices	138,351,105	113,007,003	64,275,191	70,499,815	114,597,474	68,938,462	42,398,163
4	24	Tobacco and Manufactured Tobacco Substitutes	3,066,807	4,933,087	4,364,256	2,068,144	1,008,887	6,105,111	25,567,101
5	29	Organic Chemicals	11,653,856	13,005,876	12,376,885	21,186,339	9,226,414	11,011,723	11,517,559
6	87	Vehicles and Parts, Except Railway or Tramway	20,115,599	19,561,975	23,524,620	19,308,115	14,369,988	15,418,639	8,609,653
7	84	Industrial Machinery, Including Computers	8,861,326	11,337,799	13,459,060	8,336,800	11,153,917	11,718,251	6,245,452
8	73	Articles of Iron or Steel	1,297,239	1,907,861	2,697,472	640,780	2,002,771	12,536,123	5,902,127
9	18	Cocoa and Cocoa Preparations	76,012	156,408	1,800,805	3,681,029	1,463,827	2,554,764	4,715,601
10	15	Animal or Vegetable Fats, Oils & Waxes	2,610,647	4,915,325	6,113,430	13,926,102	9,452,191	1,767,734	4,563,456
11	39	Plastics and Articles Thereof	2,605,817	2,870,101	3,755,032	5,530,548	4,171,087	5,259,442	4,246,716
12	62	Apparel Articles and Accesories, Not Knit	27,530,635	22,245,040	9,474,469	7,030,915	6,440,337	6,450,059	4,002,584
13	64	Footwear, Gaiters and Parts Thereof	13,636,643	11,400,985	7,004,583	3,848,242	6,394,892	6,295,822	2,667,701
14	41	Raw Hides and Skins (No Furskins) and Leather	1,571,729	8,519,915	5,390,216	516,196	2327,289	204,798	1,656,065
15	61	Apparel Articles and Accessories, Knit or Crochet	9,844,349	8,428,151	4,406,784	3,627,888	4,179,823	3,604,234	1,652,696
16	85	Electric Machinery; Sound Equip; TV Equip; Parts	227,432	551,186	3,265,840	1,161,527	1,089,920	639,363	1,102,771
17	60	Knitted Or Crocheted Fabrics	1,849,472	2,579,686	1,745,081	1,629,072	2,056,382	1,640,365	1,002,938
18	52	Cotton, Including Yarn and Woven Fabric Thereof	6,730,275	3,269,432	1,031,854	0	508,070	1,546,080	882,179
19	17	Sugars and Sugar Confectionery	31,308	253,494	273,300	331,917	534,078	608,994	733,388
20	94	Furniture; Beddings; Lamps; Prefab Beds	1,413,486	462,245	42,603	199,865	813,867	1,670,554	650,686

Source: Departamento Nacional de Estadística -Dane



Excerpt from Santander's Regional Competitiveness Plan

Santander's Regional Competitiveness Commission was the first one in the country to create a strategic plan for its region. In addition to being a pioneering effort, the plan and its implementation are often cited around Colombia as an example of the successful regionalization of the national economic competitiveness agenda – selecting those aspects of it that apply to a given department. The 25-year Regional Competitiveness Plan for Santander was formulated in 2007, then updated in 2012.

To help make Santander the most competitive department in the country by 2032, three "strategic pillars" were identified to drive its economic development: cluster development; formalization and entrepreneurial development; and internationalization. These pillars were supported by four cross-cutting "strategic lines" enabling them: infrastructure; the development of science, technology, and innovation; metropolitan integration and strengthening; and government transparency and efficiency. Below is a closer look at these pillars and strategic lines, and how they were implemented as priorities identified in the strategic plan.

Santander Competitivo
Comisión Regional de Competitividad

MATRIZ DE INICIATIVAS
Internacionalización - Atracción Inversión

❷ ***Institucionalidad para la promoción de la Inversión Extranjera:*** Basados en las experiencias de invest in Bogotá, se pretende organizar una institucionalidad que atraiga y promueva la inversión extranjera en Santander
Localización: Santander

Metas	***Productos Finales***	***Fecha De Entrega***
1. Institucionalidad que apoye la inversión extranjera 2. Definición de la institución que se hará cargo de la agencia, su equipo de trabajo y líder 3. Portafolio de indicadores que hagan seguimiento a los resultados 4. Acompañamiento a los inversionistas nuevos e instalados para brindar apoyo a proyectos	1. Una agencia para la promoción de la Inversión 2. Proyectos apoyados por la inversión extranjera	Julio 2020
EQUIPO:	***ENTIDAD:***	***Rol***
Martha E. Pinto	Comisión Regional de Competitividad	Directora Ejecutiva
Aura Pimiento	Proexport	Líder
Juan Camilo Montoya	Cámara de Comercio de Bucaramanga	Gestor

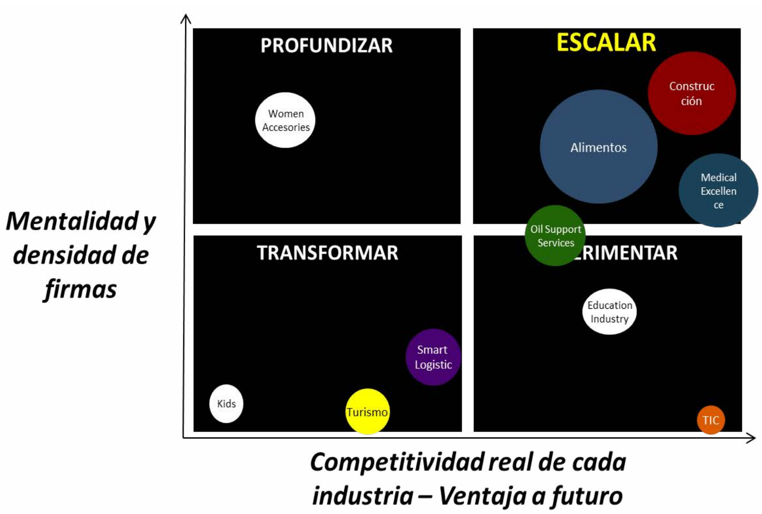
Interdependencia con otros entregables:	***Interdependencia con otras entidades:***
Guía de apoyo al inversionista	Academia, SENA, Alcaldías municipales, gobernación de Santander, gremios
RIESGOS:	***INVERSIÓN REQUERIDA:***

The implementation of each item in the strategic plan was assigned to a specific task team, consisting of RCC and/or Bucaramanga Chamber of Commerce staff, representatives of government agencies (national as well as local), universities, the business community, and various other stakeholders, as applicable. Through a multi-month consultative process, specific objectives were established, to be achieved according to set timelines. Potential risks and resources required to accomplish the objective, where applicable, were also included. The schematic below is an example of an action item from the strategic plan, this particular one focused on establishing an agency to attract foreign direct investment (now known as Invest in Santander, and housed within the Bucaramanga Chamber of Commerce):

The research department of the Bucaramanga Chamber of Commerce monitors progress made on an ongoing basis, and these metrics are then fed into the next round of strategic plan updates. A summary of the process is below.

1. **Cluster Development:** The regional competitiveness plan established a process to identify priority sectors, take steps for their further development, and improve the conditions and factors affecting each sector. The RCC's work was based on a close familiarity with Michael Porter's cluster theories (and he actually visited Bucaramanga last year for a conference).

a) Sector Awareness: Relying on the highly sophisticated in-house economic research capabilities of the Bucaramanga Chamber of Commerce, a dedicated task team under the RCC umbrella worked to identify sectors of the local economy that have a strong concentration of existing businesses and employment, sector assets (like R&D facilities and educational programs), and market prospects for further industry growth, both nationally and globally. The RCC worked to standardize the terminology used, so that all stakeholders – and particularly companies from a given industry cluster – were referring to the same things during consultative sessions. They worked with various stakeholders to explain the concept of cluster-based economic competitiveness, and how it can be enhanced.



- Identification of priority sectors for Santander: An analysis was conducted before identifying or prioritizing key industries to ensure that initiatives accentuated competitive advantages and were adaptable to global trends. For instance, a chart was developed to plot each of the region's existing industries. They were analyzed in terms of their existing size and strength in the region versus their competitiveness in the future global economy. The placement of the firms on the chart helped identify which sectors would become priority sectors if scaled up, which sectors needed to be developed further to become a competitive strength, which sectors needed more in-depth research or improvements to become more competitive globally, and which sectors needed an overall transformation.

- Workshop for identified sectors to adopt a common language and framework

b) Development Initiatives: The RCC and its partners worked with stakeholders to ensure a sufficient degree of buy-in, without which proactive cluster development strategies cannot succeed. Several analyses were carried out for the development of particular clusters, not necessarily by outside consultants (often by the Chamber's or university researchers).

- Companies' will to improve their cluster

- Consultant services for cluster development

c) Business Environment: These are improvements to the general business environment, some of which disproportionately favor the development of specific targeted industries – for example, industry-specific training programs.

- Recognition of conditions specific to each cluster

- Talent formation

- Public and private-sector transparency and efficiency

2. **Formalization and Entrepreneurial Development:** With rates of informality exceeding the national average, bringing businesses in Bucaramanga and Santander into the formal economy was and is a priority. Further, raising firms' productivity was seen as one of the only paths to sustained growth. Improving firms' engagement, interaction, and community participation were also seen as important.

a) Facilitation of Formalization: In collaboration with national agencies such as Findeter and local government officials, assisting companies in various industries (not just the targeted clusters) to formalize, thereby enjoying access to the financial system, export assistance, etc. in return for paying business taxes and social contributions.

- Agreements with municipalities to adopt a joint strategy for formalization

- Simplification of procedures (inspection visits, building permits, establishment of a Business Services Center in Floridablanca)

- Carrying out a business census in 2009

- Building confidence among entrepreneurs

b) Productivity Improvements: The Bucaramanga Chamber of Commerce and its partner entities work with universities and firms across industries to help them improve their business processes, develop better technological solutions, thus becoming more productive and profitable. Specific activities include training workshops, application for national funding for industrial restructuring, and fostering closer collaboration with university researchers and instructors.

- Formulation and implementation of projects to improve productivity in existing sectors

- Transfer of technology and know-how to improve business productivity

c) Sustainability: The RCC and Chamber have enjoyed much success in tapping corporate foundations and similar funding sources for various initiatives helping Bucaramanga's SMEs and environment.

- Improving Corporate Social Responsibility among Santander companies

- Professionalization of corporate boards

d) Entrepreneurship: The Chamber holds entrepreneurship training programs (subsidized from its own funds if the trainees can't pay, such as a startup firm). While networking in Bucaramanga has improved and there have been some angel investors supporting new business ventures, there is no meaningful emergence of US-style VC funds.

- Promoting the creation of venture capital funds

- Promoting entrepreneurship

- Formation of an entrepreneurial network

3. **Internationalization:** With Colombia's greater openness to the outside world, international economic linkages were seen as a key area of opportunity to stimulate growth in the local economy. Trade, logistics, FDI, and tourism were all included in the plan.

a) Promotion of international and domestic tourism: The RCC identified tourism as one of the main job-creation engines for Santander's next economy. Although starting from a very low base, the region's tourism industry has been developing rapidly, and now boasts 58 hotels, a new convention center in Bucaramanga, and the Chicamocha National Park, established through public investment. Chicamocha is now having a clustering effect of other tourism-related businesses (Orlando-style), including numerous adventure and nature tourism attractions and an Aquatic Park.

- Training programs and certification

- Development of a tourism marketing plan and informational materials, including a website

- Product development, including bird-watching, historic sights, health tourism, and ecotourism

- Participation in existing international trade fairs and events, and organizing tourism marketing events and workshops in Santander and abroad

- Establishment of a tourism network to research the market and promote the region overseas, including enlisting the support of Colombians living abroad to serve as ambassadors of Santander tourism

- Establishment of a Convention Bureau to guide the short-, medium- and long-term development of Santander's tourism industry

b) Attracting foreign direct investment: Based on the strategic plan's recommendation, Invest in Santander agency was established within the Bucaramanga Chamber of Commerce. In collaboration with the Zona Franca Santander, local governments, and ProExport Colombia, the initiative has had some significant successes in recent years, attracting a call center from Arvato/Bertelsmann employing over 1,000 people, and Bucaramanga has recently been featured in several global site selection publications, such as the Financial Times fDi Intelligence.

- Preparation of a guide for international investors, and its dissemination

- Modelled after Invest in Bogota, establishment of an investment promotion agency for Santander to assist existing and new investors with projects, and clearly defining who will be in charge of it.

- Creation of an environment favorable for foreign investment, including clear investment policies and incentives, and development of a bilingual workforce.

- Identification of sectors with the greatest potential to attract FDI, and targeting promotion efforts accordingly

c) Promotion of foreign trade: The strategic plan identified exports as an obvious area of growth opportunity for

Santander's companies. Various programs, funded from both national and local sources, have been put in place to assist local companies to sell overseas, such as the training at Universidad de Santo Tomas and ProExport's *Formacion Programa Exportadora*, which identifies new companies that may be able to export their goods and/or services. Yet results remain fairly modest, with only 370 firms actually exporting (of which about two thirds are in the garment industry, collectively exporting just US$22 million). Oil still accounts for about two thirds of the US$1 billion in annual exports from the region, though this does not include fast-growing services exports like education, healthcare, tourism, and BPO.

- Exporter training programs
- Market diversification
- Attending trade shows and other international events
- Identification of new exportable/competitive products in the region for marketing abroad, including those commercialized from university research
- Annual business conference sponsored by the Mayor of Bucaramanga (*Gran Rueda Internacional de Negocios* – GRIN). Bringing together local producers with national and international buyers

d) Consolidation of logistics platforms and free trade zones: The strategic plan aims to build on Bucaramanga's strategic location between Bogota and the Atlantic coast to attract logistics and distribution facilities. Within the Zona Franca as well as throughout the area, facilities are being readied to accommodate greater freight flows once present infrastructure upgrades are completed. A key strategic priority is also attracting commercial air service to Miami, seen as a vital enabler for several development priorities.

- Taking advantage of the national policy on free trade zones and logistics to develop them in Santander and its metropolitan area
- Supporting individual logistics projects, including by creating appropriate committees to monitor and support the entities involved
- Promoting aviation and attracting major international logistics operators involved in foreign trade

As noted above, the Regional Competitiveness Plan provided that the three pillars of Santander's economic development be enabled by four cross-cutting "strategic lines": infrastructure; science, technology, and innovation; metropolitan integration and strengthening; and government transparency and efficiency.

4. Infrastructure: The Regional Competitiveness Plan envisaged the upgrading of all major modes of transportation in Santander (road, air, river, urban mass transit, and tentatively rail, should the national government make progress on that front), plus electrical power generation and distribution, water resources management and supply, waste management, and the construction of affordable housing. In practice, practically all infrastructure initiatives fell outside the remit of the Commission, so it was up to government agencies at different levels (municipal, departmental, or national) to implement them. Still, these initiatives played a role in boosting Santander's economic development (e.g. the reconstruction and expansion of Bucaramanga's airport is of vital economic importance for tourism, exports of health services, precision manufacturers, and business in general).

5. Science, Technology, and Innovation: Initiatives in science, technology, and innovation (STI) are seen as absolutely critical to Santander's efforts to build a new knowledge-based economy. The plan places a particular emphasis on strengthening the ties between area universities and the private sector, with local government playing a convening role, and the national government providing important sources of funding.

a) Committee on University-Business-Government Cooperation (*Comité Universidad Empresa Estado* – CUEES)

- Dynamic engagement of most entrepreneurs taking part in CUEES
- Institutionalizing PROMOVER as the principal regional event for cooperation between universities, government, and the private sector
- Increasing the number of research and innovation projects carried out in partnership between business and the universities

b) Funding STI initiatives:

- Proposing projects to fund
- Allocating 2 % of regional GDP for investment in STI
- Ensuring that 50% of investment in STI be by the private sector

c) Strengthening scientific capacity

- Strengthening scientific institutions with the region's existing and emerging industries of strategic importance
- Promoting a culture of intellectual property
- Promoting the development of scientific capacity in children and youth

d) Institutional strengthening

- Strengthening Unired (Network of Universities and Research Centers of Eastern Colombia)

- Fostering collaboration between CUEES and CODECYT

- Commissioning of the Guatiguará Technology Park.

- Strengthening the local technology business incubators

- Strengthening the Bucaramanga Interactive Science and Technology Park – Neomundo

6. **Metropolitan Integration and Strengthening:** The elimination of administrative barriers to investment and growth within Santander's only metropolitan area is seen as a key strategic priority. Consolidation of the four municipalities of Bucaramanga, Floridablanca, Piedecuesta, and Giron into a unified Bucaramanga metropolitan area is something its Chamber of Commerce has been advocating for some time.

7. **Efficient and Transparent State:** In line with developments in the rest of Colombia, there is an increased emphasis on government agencies serving the citizen. Elimination of corruption and waste, and responsiveness to citizens' needs

The strategic plan's priorities outlined above are numerous, and with a variety of entities and individuals responsible for their implementation. There is no dedicated source of funding for these priorities, but Santander has actually been the most successful department in the country in terms of preparing timely applications for funding from national sources (channeled through various agencies) and submitting winning proposals. In addition to national funds, Bucaramanga's business community has generously contributed to economic development initiatives, both financially through the Chamber of Commerce, and in-kind in various ways – through the engagement of top executives, mentoring programs, and utilizing their vast relationship capital in Bogota and abroad to create new market opportunities for local firms.

As noted, the strategic plan has no formal mechanism to compel anyone to do what they commit to. There are no rewards or penalties built into the process, just the power of persuasion and a sense that all have a stake in the economic fortunes of their city and region. Through the Chamber, professional associations, and other civil society organizations, the business community does not hesitate to lobby public officials to invest in their priorities, including education and infrastructure, especially transport.

Progress is monitored by relying on the exceptionally strong research capabilities of the Bucaramanga Chamber of Commerce, as well as national benchmarking reports such as those from CPC and CEPEC/URosario, plus international rankings compiled by the IDB, World Bank (Doing Business), ECLAC, WEF, and others. There appears to be a strong local consensus in favor of proactive economic development efforts, and working collaboratively to reach that US$20,000 target in per capita GDP as soon as possible.

National Agencies

Several Colombian national government agencies have a role in local and regional economic development, covering a variety of functional areas like planning, infrastructure, workforce development, scientific research and technology development, capital access, and international trade and investment. Individual agencies are tasked with administering specific programs designed to strengthen the competitiveness of the Colombian economy and those of its regions. These key agencies include:

National Competitiveness and Innovation Commission (Comisión Nacional de Competitividad e Innovación – CNCeI) is headed by the President of the Republic, and includes the heads of various central government agencies with a role in economic development, representatives of Colombia's departments and municipalities, labor unions, universities, think tanks, and the private sector, including industry guilds and the national association of chambers of commerce (*Confecámaras*). The Commission meets once a month to assess the status of the national competitiveness agenda. The President's competitiveness advisor[14] cites infrastructure, foreign trade, productivity, and more resources to help companies innovate and export as the top priorities for the Commission at the present time. Out of 109 current initiatives to promote competitiveness, 20 have been identified as top priorities by the Commission.

Financiera del Desarrollo Territorial (Findeter) is the country's main public development fund and grant administrator. Findeter supports funding by financial intermediaries to municipalities and companies providing public services. Working through local government partners, Findeter focuses on urban and geospatial development and environmental sustainability (e.g. through its Sustainable Cities program), as well as the formalization of family-owned and other small businesses.

Bancoldex, Colombia's trade and development bank, provides export finance and financial assistance to Colombian firms (but only formal ones – this does not cover the 43% of companies in the informal sector). The President's office develops guidelines for funding programs, like the fund for the development of SMEs.

Programa de Transformación Productiva (PTP), a Bancoldex affiliate, supports individual companies in 20 designated industry sectors, in coordination with the regions, by providing technical assistance, management know-how, and working to address remaining administrative impediments to their formalization and growth. PTP's activities represent

14 In person interview with Dr. Jaime Bueno Miranda, Senior Presidential Advisor for Competitiveness and Strategic Projects, Presidency of the Republic of Colombia, in Bogota, DC, on March 31, 2014.

a national-level "bet" on specific industries as drivers of economic prosperity.

INNpulsa, another key affiliate of Bancoldex, provides both funding and technical assistance to SMEs in particular, through direct support, matching grants, microfinance, training workshops, and dedicated funds aimed at fostering innovation, such as *Rutas Competitivas* and MiPYME's "productive chains" initiatives.

The Ministry of Commerce, Industry and Tourism (MinCIT) also supports entrepreneurship and sectoral development, both directly and through its institutional affiliates, such as the public-private partnership known as the *Centro Nacional de Productividad* or the *Fondo Nacional de Garantias*. This support can be in the form of funding and/or guarantees, know-how, or simply the convening power of the national government to bring together disparate institutional actors. MinCIT also conducts very detailed monitoring and evaluation (M&E) of the national government's investments in economic development, which helps to ensure accountability and a focus on results.

Department of National Planning (DNP) is responsible for Colombia's overall National Development Plan (currently for the period 2010-2014), which includes economic development as one of its priority areas along with social and human development. DNP has an important role in channeling national funding for critical enabling investments such as infrastructure to Colombia's departments and municipalities. DNP also supports select individual initiatives such as the nationwide network of technology development centers (*Centros de Desarrollo Technologico*), which foster entrepreneurship and industry-academia collaboration. DNP also provides assistance and sometimes funding to regions to determine their own areas of competitive advantage to target for proactive interventions.

ProExport Colombia is the country's trade, tourism, and investment promotion agency. It follows a targeted sector strategy in both investment attraction and export facilitation, with a particular focus on high value-added and "non-traditional" sectors of the economy, such as ICT or BPO. In trade, ProExport has in place a variety of programs to support Colombian exporters (again, limited to formal firms), including trade shows, export development missions (inbound and outbound), buyer/seller match-making, and subsidizing overseas trips for Colombian firms trying to export. In FDI attraction, ProExport works with Colombia's cities and regions to help them articulate their individual value propositions for international investors, set up their own investment promotion entities if interested, and to share experiences and best practices amongst such regional entities. ProExport also emphasizes investor aftercare, regularly following up with foreign investors after the transactions are completed. ProExport maintains a network of international offices around the world, as well as eight regional offices throughout Colombia, including a highly active office in Bucaramanga which covers part of eastern Colombia.

Colombia's National Learning Service (*Servicio Nacional de Aprendizaje* – SENA) is the country's workforce development agency, which works very closely with universities, local and regional government, and employers to ensure the supply of skilled workers for the jobs that need to be filled. Most notably, SENA designs and implements (often in collaboration with local educational institutions) customized training programs needed by individual companies, usually paid for by the national government. This gives local economic developers a key competitive tool in the race to attract investors.

Colciencias (Colombia's equivalent of the National Science Foundation in the United States) provides funding for fundamental as well as applied university research in a variety of scientific disciplines, helping knowledge creation and the commercialization of technologies. Scientific research also benefits from the legal provision that 10% of royalties from national resources in Colombia be set aside for scientific research.

Testing of Standardized Research Hypotheses

As noted in the report's Introduction, this is the first in a series of case studies of economically successful cities around the world. In order to ensure comparability of "teachable moments" across all case studies, a set of standardized hypotheses was tested in Bucaramanga to determine the exact scope for research at the metropolitan level, factors that may have most affected how those prerogatives were used, and the extent to which specific interventions (and how they were implemented) may have resulted in the economic outcomes observed.

The first hypothesis tested seeks to determine to what extent Bucaramanga's economic results were attributable to proactively picking sectors to support, the second one looks at the strategic planning process itself and how it may have affected economic growth, and the third one looks at the plan's implementation.

1. **Bucaramanga's economic success is attributable to its having made strategic bets on specific industrial initiatives, rather than just making improvements to its general investment climate in order to stimulate economic activity.** Although national and local-level improvements to the business climate have helped the achievement of superior economic outcomes, proactive initiatives are likely to be the greater part of the reasons for Bucaramanga's success.

    Bucaramanga has benefitted from a favorable and improving business climate at the national level, including improved security and public safety, greater transparency and reduced corruption, better connectivity (telecommunications and transport), greater market competition, reduced barriers to external trade and investment, streamlined business regulation, and systematic efforts to formalize informal companies. Local-level business climate improvements include massive public investment in education, poverty reduction, the provision of infrastructure and public services, and simplification of company registration procedures for entrepreneurs (one-stop).

Proactive economic development initiatives which are likely to have contributed to Bucaramanga's economic success include industry sector targeting, establishment of the Invest in Santander promotion agency and Zona Franca free trade zone, establishment of entrepreneurial networks and support services, design and implementation of industry and even firm-specific (customized) worker training programs, strengthening industry-academia collaboration in specific sectors, building dedicated facilities such as research labs, a convention center, and the Chicamocha National Park, as well as upgrading the airport (to boost tourism, but also industries dependent on time-sensitive delivery). There are no sector-specific tax incentives; however, lower business tax rates apply if investors locate in FTZs. Beyond these proactive initiatives at the local/regional level, Bucaramanga has been exceptionally successful at tapping into national sources of financial and technical support (often directed at specific industry sectors), such as export-assistance programs, innovation grants, entrepreneurial assistance, formalization programs, and infrastructure/project funding. Ingredients of success:

a. As an economically successful city, Bucaramanga has no single **dominant theme** – its success is attributable to the interplay of several key factors. Probably the most important single factor, although on its own insufficient to explain this metropolitan economy's success, is the comparatively high level of human capital. This has resulted in higher adaptability and enabled Bucaramanga's transition into a knowledge-based economy.[15]

b. Bucaramanga has focused its proactive economic development efforts on developing industries producing **tradable goods and services**, including oil & gas, tourism, food processing, ICT, high value-added manufacturing (such as tooling and equipment for the oil industry), education services, healthcare (including medical tourism), BPO, and logistics.

c. In pursuing its proactive economic development initiatives, Bucaramanga has pursued an **integrated, three-pronged approach** to business development: nurturing the growth of its existing firms, fostering the establishment of new start-up companies, and striving to attract new investment from outside the region. Companies in traditional sectors got assistance to improve their productivity, internationalize (i.e. begin exporting, and perhaps investing abroad), and ultimately adapt to global competition. In innovative, non-traditional sectors Bucaramanga provided entrepreneurial assistance through heavily subsidized programs and limited incubation services. Finally, by establishing a dedicated IPA within its Chamber of Commerce, Bucaramanga has stepped up to attract outside investors, bringing capital, jobs, know-how, and integration into global supply chains.

2. **The likely trajectory Bucaramanga's economic performance was altered by specific policy interventions provided for in its strategic plan.** Around 2006-07, Bucaramanga started formulating its existing strategic plan for economic development. The plan was created in response to mounting external competitive threats (e.g. free trade agreements with more productive economies), and an increasing awareness that Bucaramanga's economic structure would have little choice but to undergo a transformation or face a precipitous drop in activity. While it is difficult to prove a counterfactual (i.e. how much worse Bucaramanga's performance would have been in the absence of any interventions), empirical evidence from other episodes of trade-induced shocks around the world suggests the drop could have been substantial. By proactively working to nurture the emergence of the next economy, Bucaramanga not only avoided a contraction, but actually started to outpace its national economy by an even wider margin than before the creation of a strategic plan for economic development.

Bucaramanga's strategic planning process included:

a. **Robust analytics** to guide decision-making and strategy formulation, based on an intimate familiarity with global best practices in cluster development theory, benchmarking, and goal setting, relying on the superb economic research capabilities of the Bucaramanga Chamber of Commerce.

15 For example, politically, the RCCs didn't work; the National level set up a framework but didn't give guidance on implementation or funding to pay for the time of qualified professionals. The differentiators for why Santander Competitivo was one of the most successful RCCs in the country were the support of the Chamber of Commerce and ability of professionals within Santander Competitivo. This development capacity included the ability to effectively use tools like INNpulsa and partner universities; to identify goals and prioritize project proposals to obtain funding; to employ systemic approaches to collaboration and implementation; and to utilize prior collaborative development plans that had simply lacked funding.

b. **A structured but not highly formalized planning process** to:

- Identify key economic development **issues** Bucaramanga was facing, including the preponderance of micro and small enterprises with very few large firms, high rates of informality (inhibiting access to finance, support programs, and therefore growth), low capital investment and slow product innovation, heavy reliance on making commoditized products with low market differentiation, low export intensity, an excessive reliance on the neighboring Venezuelan market, incomplete market information, inadequate transport infrastructure, the absence of entrepreneurial networks and sector associations, and poor knowledge of English.

- Identify the city's main **competitive strengths**, such as high levels of human capital, the presence of several excellent universities with advanced research facilities, expertise in the oil & gas industry – including Ecopetrol and its research institute, some of the best healthcare providers in Colombia, exceptional natural beauty and tourism potential, a better security situation than much of the country, a strategic geographic location between Bogota and the Atlantic coast, and highly engaged private sector.

- Formulate a **vision** of progress Santander as a whole can make in 25 years (by 2032), including specific measures to address its challenges and to capitalize on the region's competitive strengths.

c. **Assembling a "growth coalition"** at the department level, under the banner of the Regional Competitiveness Commission (Santander Competitivo). The RCC brought together representatives of the departmental and municipal governments, universities and the scientific community, the private sector (the Chamber of Commerce and industry associations), labor unions, the national oil company Ecopetrol, and the national workforce training agency (SENA). Such broad representation of diverse stakeholder groups from the public and private sectors, as well as academia and civil society, ensured that the strategic planning process was not captured by any specific interests, but representative of the region at large. Santander's plan was a grassroots effort, not imposed from above, so stakeholders have a very real sense of ownership and care about its outcomes.

d. **Strategic decision-making and prioritization:** Bucaramanga utilized a structured process for identifying and agreeing on policy priorities, but not for evaluating trade-offs between different public investment alternatives, such as through cost-benefit analyses. This is because the strategic plan generally did not include monetary allocations for specific interventions – indeed, the RCC itself was not initially funded, and later received miniscule amounts of funding (US$7,000) from the national government. The Bucaramanga Chamber of Commerce continues to house the RCC on its own premises, offering operational assistance from its own staff, as well as other resources. Inasmuch as the strategic plan called for specific capital investments to be made (e.g. for transport infrastructure), it relied on its partner entities for implementation and funding (e.g. the national Ministry of Transport, or the departmental government).

3. **The level of autonomy enjoyed by Bucaramanga and Santander in economic development (the equivalent of the "Mayor's Wedge") was a significant factor in being able to push through interventions resulting in improved economic outcomes.** In a decentralized country like Colombia, its administrative units (departments and municipalities) have much fiscal power and institutional ability to make and implement decisions at their respective levels. Political legitimacy stems from the fact that mayors and governors are popularly elected for single four-year terms, without the possibility of reelection. Funding for local programs comes from taxes and oil royalties, allowing for discretionary authority over spending decisions.

However, in Bucaramanga's case proactive economic development initiatives were led by the private sector, organized through the Chamber of Commerce. The Chamber has been a driver of the area's economic competitiveness agenda – since this directly impacts its membership – in partnership with government, academia, and other stakeholder groups. Characteristics:

a. The Bucaramanga Metropolitan Area does not have a **dedicated economic development agency** as such, or even a metropolitan-level government for that matter, however there are agencies at the departmental level.

- Institutionally fragmented between four municipalities, the metro area has a coordinating body for projects of area-wide significance such as transport and water supply/sewerage, but its responsibilities do not include economic development. Individual municipalities tackle select local economic issues such as targeted assistance to low-income and vulnerable groups, and participate in the RCC. Every elected official in recent years has been supportive of economic growth in the metro area, but without having specific statutory obligations for it.

- At the level of Santander Department, there is a planning department that largely focuses on public infrastructure investments and projects of a regional significance. It plays primarily an enabling role in economic development, and builds economic competitiveness issues into its long-term regional development plan (but stipulates that their development is the responsibility of the RCC).

- The RCC (Santander Competitivo) is the convening, policymaking, and articulation body for economic development in Santander Department (although in practice that means largely metro Bucaramanga, where 95% of Santander's non-oil manufacturing is located, with a similar portion of its services industries). The RCC's existence is provided for in national legislation, but legally it does not exist as a separate entity, nor does it have a dedicated source of funding.

- The Bucaramanga Chamber of Commerce also fulfils several economic development functions. In addition to housing the Invest in Santander IPA, it provides entrepreneurial training and business advisory/support services to local companies, and partners with ProExport Colombia on trade promotion activities. The Chamber's President and Vice Presidents participate in specific economic development projects, such as hosting incoming delegations of prospective investors, and promote the city and region at every turn in their materials and activities.

b. Internal management: The RCC has just four full-time staff positions, paid for by a mixture of funding from private (majority) and public sources. Its Executive Director is an experienced economic development and public policy professional, selected by and accountable to all the stakeholder groups participating in Santander Competitivo, and has a seat on the Board of the Bucaramanga Chamber of Commerce. The RCC utilizes the Chamber's IT infrastructure and many other kinds of operational support, as needed. The Chamber's research team monitors progress made on achieving the strategic plan's objectives, but there are no formal performance incentives (rewards of penalties) systems in place. Still, the plan's implementation has proceeded well even in the absence of such mechanisms.

c. Santander's strategic plan did not just involve diverse stakeholder groups in its implementation; it actually relied on them to implement the bulk of objectives set in the plan. For example, the private sector (including the oil company Ecopetrol) provides a lot of the funding, corporate leaders are Santander's main boosters working to attract outside investors and national government funding, and the universities collaborate with SENA to implement workforce development plans. In the case of Bucaramanga, domestic firms frequently invested in improving the existing climate and seemed less likely to leave in favor of other attractive business climates.

d. Labor unions are present in the consultative process and get to express the viewpoints and interests of their membership, but in Colombia they are not particularly large nor politically influential.

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INTERVIEWS

1. In person interview with Bucaramanga Chamber of Commerce leadership in Bucaramanga, Colombia on April 4, 2014.

2. In person interview with Dr. Jaime Bueno Miranda, Senior Presidential Advisor for Competitiveness and Strategic Projects, Presidency of the Republic of Colombia, in Bogota, DC, on March 31, 2014.

3. Presentation by Adolfo Meisel Roca, Member of the Board of Directors, Banco de la Republica (Colombia's central bank), April 2014.

4. In person interview with Daniel Mitchel, Research Director, Acoplasticos, on March 31, 2014.

5. In person interview with Rodrigo Moreira Silva, Director of Business Development, Department of National Planning, in Bogota, DC on March 31, 2014.

6. In person interview with Saul Pineda Hoyos, Director of Center on Competitive Strategies (CEPEC) on April 1, 2014.

7. In person interview with Findeter on April 1, 2014. (or do we mention all three names?)

8. In person interview with Marco A. Llinas Vargas, Vice President, Colombian Private Council on Competitiveness on April 1, 2014.

9. In person interview with Juan Mauricio Ramirez, Executive Vice President, Fedesarrollo on April 2, 2014.

10. In person interview with Maria del Pilar Granados Galvis, Director of Infrastructure and Sustainability, Programa de Transformacion Productiva on April 2, 2014.

11. In person interview with MINCIT on April 2, 2014.

12. In person interview with Mayor of Bucaramanga Luis Francisco Bohorquez and top advisors on April 3, 2014.

13. In person interview with Aura Pimiento, Regional Director of ProExport Colombia on April 3, 2014.

14. In person interview with Santiago Pinzon Galan, Executive Director, ANDI (and mention regional manager?) on April 3, 2014.

15. In person interview with Metropolitan Area of Bucaramanga on April 4, 2014.

16. In person interview with Guilds of Santander on April 7, 2014.

17. In person interview with University Rectors on April 7, 2014.

18. In person interview with Nivea Santarelli Franco, Chief Executive Officer, Zona Franca Santander on April 7, 2014.

19. In person interview with Arvato International Company at Zona Franca Santander on April 7, 2014.

20. In person interview with private sector leaders and business owners in Bucaramanga on April 7, 2014.

21. In person interview with Augosto Martinez Carreno, Executive Director of Santander Competitivo and Martha Pinto de Hart, former Executive Director of Santander Competitivo on April 7, 2014.

22. In person interview with Santander's Governor's office on April 8, 2014.

23. In person interview with Luis Eduardo Becerra Ardila, Universidad Industrial de Santander and Guatiguara Technological Park (and staff) on April 8, 2014.

24. In person interview with Dr. Victor Castillo, Chief Executive Officer of Fundacion Cardiovascular de Colombia on April 9, 2014.

25. In person interview with Juan Camillo Beltran Dominguez, Chief Executive Officer, Bucaramanga Chamber of Commerce on April 9, 2014.

26. In person interview with Andres E. Mantilla Z., Director of Colombian Institute of Petroleum (ICP) on April 9, 2014

27. In person interview with Mediimplantes S.A. on April 10, 2014.

28. In person interview with INNpulsa on April 11, 2014.

29. In person interview with Juan Carlos Gonzalez, VP for Investment, ProExport Colombia, on April 11, 2014.

Coimbatore, India, June 2014

Case Study 2

COIMBATORE, INDIA

A Private Sector-Driven Success Story

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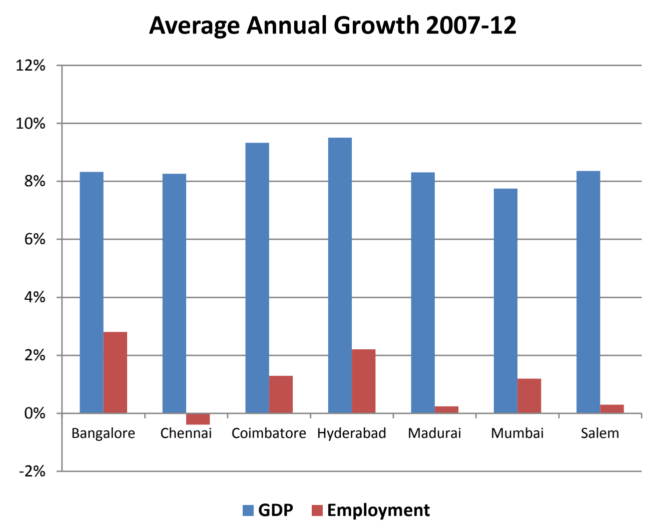
INTRODUCTION

This case study of the economic success of the Indian city of Coimbatore is one of six in a series of World Bank case studies of successful metropolitan economies around the world. The World Bank's Competitive Cities Knowledge Base (CCKB) project aims to provide city leaders with the tools and knowledge for the successful formulation and implementation of proactive economic development strategies at the city level.

Coimbatore is a landlocked mid-sized city in a lower-middle income country, with a manufacturing-intensive economy. The city has been highly successful in improving the prosperity of its residents, both in absolute terms, and relative to other cities in India. In fact, over the past decade Coimbatore has had one of the best performing metropolitan economies in the South Asia Region (SAR) in terms of GDP and employment growth (see "Coimbatore by the Numbers" section below).

In Coimbatore, the role of the public sector in economic development has been somewhat limited. Municipal governments in India do not have statutory responsibility for economic development, instead focusing on the provision of basic public goods like infrastructure and public safety. While there is proactive industry targeting by the state government of Tamil Nadu, the direct effects of this on Coimbatore have been somewhat limited given the absence of state-owned enterprises in the city.



Source: Oxford Economics Data (2013) and World Bank staff estimates (2014).

Coimbatore is a story of private sector-driven growth, of individual for-profit firms pursuing market opportunities which have resulted in socially desirable economic outcomes. It also provides an example of how proactive economic development initiatives can be undertaken by diverse actors, in the public and/or private sectors.

This report is based on primary and secondary research by the World Bank Group's Competitive Cities Knowledge Base team[16], including two weeks spent in Tamil Nadu, India, in June 2014, interviewing government officials in Coimbatore and the state capital of Chennai, as well as members of the city's business community. The report also incorporates staff feedback, among others, received at a review event in Washington, DC, in July 2014.

This report was prepared by Z. Joe Kulenovic and Drilon Gashi, with input and suggestions from Bertine Kamphuis, Fatima Shah, and the broader CCKB team. The joint-TTLs of the CCKB project are Austin Kilroy and Megha Mukim. Overall guidance on the project has been provided by Ceci Sager, Sameh Wahba, Stefano Negri, and Somik Lall as senior advisors.

Coimbatore by the Numbers[1]

109%	Increase in per capita GDP 2002-2012
132%	Increase in Gross Value Added per worker 2002-2012
31%	Total job growth 2002-2012
3.2%	Average annual GDP growth 2002-2012
222%	of average national per capita income in 2012

Source: Oxford Economics Data (2013) and World Bank staff estimates (2014).

16 While the CCKB team did review prior analytical work by other World Bank staff, other international donors, consultants, and academics as background materials, the findings of this case study are overwhelmingly based on fact-finding on the ground by the CCKB mission to Tamil Nadu, not literature reviews of dissertations and scholarly treatises. In keeping with CCKB's strong focus on applied economic development and the relevance/ replicability of each case study city's experience and lessons for decision-makers in other cities around the world, the team applied a consistent methodological framework to all the case studies, based on testing a set of core standardized research hypotheses. Please see this report's appendices for more detail.

EXECUTIVE SUMMARY

Coimbatore provides an example of a secondary city posting strong economic results, driven largely by the actions of private-sector actors, with local government providing an enabling but not leading role. It is a private sector-driven success story, in which socially desirable economic outcomes have been achieved through the activities of for-profit private firms pursuing market opportunities, and their membership associations' initiatives.

Coimbatore is a mid-sized, landlocked city in a lower-middle-income federal country, with an economic structure heavily reliant on manufacturing, but with some diversification over the past half-decade into services, primarily information technology, information technology enabled services and business process outsourcing (IT/ITES/BPO). Family-owned engineering firms have been the mainstay of Coimbatore's manufacturing economy. Emerging sectors like logistics/distribution, food production, tourism, and healthcare are still in their infancy, but have some growth potential.

Coimbatore's success is the result of a confluence of multiple factors, some inherited, and some enabled through deliberate interventions, mainly by private-sector actors. The city's key economic characteristics include: educational attainment and vocational training levels higher than the rest of Tamil Nadu and much of India; a tradition of entrepreneurship and small, family-owned "cottage" manufacturing; and diversification from traditional sectors like textiles (which remains an important part of the city economy) and industrial machinery into precision engineering and electromechanical components. But while the increased production of tradable goods and services is central to Coimbatore's success story and exports are increasing in importance, they remain somewhat limited in scope – most products are destined for customers elsewhere in Tamil Nadu and the rest of India. Only IT and back-office services are geared primarily towards foreign markets.

Coimbatore has enjoyed the success that it has, even in the absence of any discernible local government interventions to spur economic development, though within a broadly supportive national and state policy framework. The city does not have a formal economic development strategy as such, a dedicated economic development agency, or any implementable zoning/land use regulations.[17] There is also no permanent growth coalition in Coimbatore, just ad-hoc self-organizing by the business community regarding specific issues affecting all, or to lobby the national or state governments, mostly for investments in infrastructure.

Main Growth Themes

To ensure comparability with other CCKB case studies of economically successful cities, Coimbatore was selected based on its performance during the period 2007 to 2012.[18] During this time, the city experienced strong GDP and employment growth, outpacing both the rest of Tamil Nadu state and India as a whole, although many of the conditions enabling this growth were put in place in earlier periods. There are two dominant themes to Coimbatore's growth:

- ***Organic growth of an indigenous engineering cluster:*** Originally home to a large textile industry—Coimbatore had developed a home-grown textile machinery cluster in the early-to-mid 20th century by reverse-engineering imported technologies. Over time, these local manufacturers diversified into related industry segments requiring similar core competences and engineering expertise, such as metal castings, pumps, valves, precision tooling, and automotive components. The city eventually attained dominant status in India's closed market in several individual industries, such as water-lifting pumps (60% market share in the 1980s to below 40% in the 1990s[19]). National policies also provided support. Import substitution protected industries such as pump manufacturing, and subsidies offered to farmers for buying pumps were great incentives for the cluster's development. With the opening up of the Indian economy starting in the 1990s, Coimbatore's companies began to

17 As we will see in the report, land acquisition was not cited as a major impediment in Coimbatore, though it remains a challenge throughout India. This is a particular challenge for SEZs and again did not seem to affect Coimbatore's relative success with both public and private SEZs.
18 While the period 2007-2012 ensures comparability among all cases, CCKB draws on an economic database with figures from 2002-2012.
19 Ibid, pp. 4207.

export, and later became suppliers to foreign investors in India (e.g. automotive OEMs in Chennai).[20] In recent years, there has been a scaling up of existing firms' activities, as well as a proliferation of new start-up companies, specializing in individual niches, often as suppliers to systems integrators. Crucially, the engineering firms have very strong linkages to local technical colleges and vocational schools.

- ***Attraction of outside investment, especially in ICT and related industries:*** Multinational firms in sectors such as ICT, BPO, ITES, and engineering services have chosen to locate in Coimbatore's newly-built special economic zones, as well as outside of them (somewhat less common). Recruited by the SEZs' private-sector developers (utilizing national incentive programs), the MNCs chose Coimbatore as a viable alternative to India's increasingly congested, pricier Tier-1 cities starting in the mid-2000s. Coimbatore's incumbent business community lent its strong support to the arrival of the MNCs. Principal site selection considerations include the availability and cost of skilled labor and land (facilities), adequate infrastructure, the city's strategic geographic location, a pleasant climate, good educational and health facilities, and a pro-business, conducive entrepreneurial ecosystem.

While the growth story documented in this case study focuses on engineering and ICT, there are also other prominent sectors of the local economy:

- ***Traditional Sectors:*** Textiles remains the most prominent of the traditional sectors, employing up to 26% of Coimbatore district's residents.[21] Other sectors include apparel, jewelry and precious metals, general consumer goods, traditional handicrafts, construction, and food production, among others. These sectors remain important providers of employment for Coimbatoreans, but – with the notable exception of the booming construction industry – are mostly stagnating or shrinking locally. There is, however, visible growth in some specialized industry niches, such as medical textiles, some kinds of jewelry and food products, etc.

- ***Emerging Sectors:*** These include education and healthcare (as tradable services, not just focused on serving the local population), logistics and distribution, tourism, retirees, and small ICT startups (offering, for example, web design services). There is significant scope for growth of all these industries, but very little coordinated effort to achieve this. The government of Tamil Nadu has made some progress in tourism promotion, and several new hotels have been built by private firms. But given Coimbatore district's natural beauty and rich cultural heritage, the sector remains far below its potential. The city is gaining popularity among retirees from other parts of India, attracted by the low cost of living and salubrious climate, but the industry is still in its infancy. For the growth of these and other sectors like logistics, further major infrastructure upgrades will be essential (upgrading Coimbatore's airport was an important step in the right direction).

There are no reliable, detailed data about the relative contribution of each industry segment to metropolitan value added and job creation. However, based on its own observations and information obtained from its membership, the local Chamber of Commerce estimates that about 40% of new jobs in recent years have been created at Coimbatore's existing companies, 40% at new start-up firms, and the remaining 20% at multinational companies setting up operations in Coimbatore. Therefore, Coimbatore's growth is multi-faceted, in that it is manifested in all three main forms of economic development activity (expansion of existing firms, formation of new ones, and attraction of outside companies).

Success Factors

The principal factors of Coimbatore's economic success could be summarized as follows:

1. ***Private-Sector Led Development:*** Coimbatore's private sector has been the main driving force behind

20 However, the industry also faced its share of exogenous shocks, with a cut in subsidies for buying pumps, reduced demand nationally due to a downturn in the construction industry and the increased import of pumps from China, Italy and the U.S. (See: Ibid, pp. 4214).

21 Brief Industrial Profile of Coimbatore District 2012-2013.

its recent economic success, while government's role has largely focused on the provision of infrastructure, some incentives to outside investors, and limited financial and technical assistance to local firms. As noted earlier, private-sector led economic growth in Coimbatore over the past decade has had two principal aspects – growth of the indigenous engineering industry cluster, and attraction of outside investors to the city. In addition to advancing local economic development through their own business activities, Coimbatore's for-profit firms have acted as the city's main boosters and promoters, and originally established many of the technical colleges for which Coimbatore is known.

2. ***Supportive Ecosystem*:** With numerous industry associations, educational and training facilities, trade fairs, existing agglomerations of companies, technological and organizational know-how, and a deep specialized labor pool, Coimbatore offers an environment highly conducive to company formation and growth. Industry associations help cluster development through knowledge sharing, entrepreneurial training, ensuring common quality standards, organizing business development events, and leveraging government programs, among other activities. Based on healthy cooperative competition among their member firms, these associations help build local capacity within their respective industries, and recognize opportunities for industry diversification and growth. In addition, the associations act as advocates for the city and its business community at the state and national levels.

3. ***Quality Workforce:*** The quality of Coimbatore's workforce has been perhaps the decisive factor behind its economic success in recent years. Home-grown firms have expanded based on the ability to tap into local talent, while outside investors have been drawn to Coimbatore by the ability to hire high-caliber graduates at attractive compensation rates. Coimbatore's workforce quality is the result both of a highly-effective local educational system, and a somewhat unique approach to enhancing the employability of graduates. The city is renowned as a center for engineering, with a highly specialized labor pool and historically strong linkages between private businesses and educational institutions. Many of the city's technical colleges were originally founded by family-owned local engineering firms, today offering practically-oriented technical curricula developed in consultation with for-profit companies. Local engineering students spend part of each school day on the shop floor, as well as in class, which sets Coimbatore apart from other cities in Tamil Nadu and other parts of India. There are also "finishing schools" for prospective MNCs employees, teaching applied skills such as customer service practices, problem solving, and situational awareness. Most Coimbatore schools use English as the main language of instruction, a huge competitive advantage.

4. ***Responsiveness to Market Opportunities:*** Coimbatore's private-sector actors have been highly adept at seizing market opportunities, presented by:

- Multinational firms' quest for alternatives to sites in India's Tier-1 cities: A private for-profit Coimbatore company successfully recruited MNCs to its newly-built SEZ, in the process creating thousands of new jobs and enlisting the support of the city's established business community.
- Growth of the auto industry in Chennai, creating a need for sourcing components locally: Coimbatore's business community was highly responsive to automotive OEMs approaching them in search of parts for their vehicle production, quickly diversifying into automotive components and scaling up production.

5. ***A Relatively Competitive Business Climate:*** The value proposition is gaining importance in guiding companies' investment decisions. Rising business costs have led many MNCs in India to consider second-tier cities like Coimbatore for their expansion plans. In addition to the cost side, such site selection considerations favor cities like Coimbatore which are able to provide a compelling value proposition for companies, not just low business costs. In addition to a highly-skilled, largely English-speaking workforce at competitive wage levels, Coimbatore offers MNCs additional bottom-line business advantages, including abundant land, good universities and technical colleges, reasonably good infrastructure, existing business ties to local firms, strong entrepreneurial culture, a growing local consumer market, a pleasant climate and quality of life, and a regulatory environment which compares favorably to many regional competitors'. This had proven to be an attractive combination for many companies including Bosch, Cameron, Hirotec, Denso, Rieter, Cognizant, Dell, IBM, Larsen & Toubro, Wipro, and TCS.

Key Lessons

As noted earlier, some of Coimbatore's success factors, and the competitive advantages on which they are based, have been developed over a number of years and even decades. While the city's success definitely has some unique local aspects to it, there are still "teachable moments" that Coimbatore's story holds for other cities. The most notable learnings include:

1. **Focus on Core Competencies:** A city does best when leveraging the real assets that it does have, which is exactly what Coimbatore has done. This has meant capitalizing on the city's reputation for engineering excellence and precision manufacturing – both for home-grown companies to scale up, and to attract additional inward investment.

2. **Facilitate ongoing, continuous sectoral diversification by honing the development of transferrable skills:** Coimbatore's engineers are renowned for their aptitude in mechanical engineering and metal manufacturing, with skillsets easily transferrable from one industry segment to another. There is a specialized labor pool within a small geographical radius, with extensive knowledge-sharing and technological exchange, enabling Coimbatore's existing firms to branch out into new product lines, and aspiring entrepreneurs to start their own companies. This diversification is the result of individuals and firms pursuing concrete market opportunities, not some grand design to achieve it.

3. **Nurture close, substantive relationships between academia and the private sector:** Coimbatore seems unique in Tamil Nadu and India in its very high degree of industry-academia collaboration. Educational curricula are practically-focused and developed in consultation with potential employers, so students graduate with relevant, applied skills and extensive manufacturing shop floor experience, not just theoretical knowledge.

4. **Foster the development of a supportive entrepreneurial ecosystem:** Coimbatore's mostly family-owned SMEs compete with each other for specific business opportunities, but also band together and self-organize to build capacity, ensure common technical standards, facilitate exports, or lobby the government for infrastructure upgrades. A critical role in this is played by industry associations, which provide technical assistance to their members. They know their industries and city, understand the competitive pressures of the marketplace, and seek to help one another wherever they can.

5. **Build up and leverage the city's human capital as a key competitive asset:** Coimbatore has a long history of highly valuing education, particularly in the natural sciences and applied technologies. The city's business community originally established the vast majority of Coimbatore's technical colleges and vocational schools, both to develop their own talent pipeline and as a way of giving back to the community. More recently, Coimbatore's human capital has been touted as the key competitive advantage over similarly situated cities in attempting to recruit multinational firms.

6. **Create a virtue out of necessity – turn the lack of attention from government into a strength, instead of a competitive disadvantage:** Coimbatore's local leaders emphasized that the city had no political champions or state-owned enterprises. The municipal government's role has largely been limited to the provision of basic public goods and an enabling environment, with no concerted effort to help local firms tap into existing national or state-level support programs. Largely left to its own devices, Coimbatore shows what the private sector can accomplish on its own, provided basic services are taken care of and interventions by the public sector don't actually inhibit economic activity.

The National and State Context

Coimbatore has benefited from being in Tamil Nadu. City economies do not operate in a vacuum – they are part of a national economic system, facing specific regulatory provisions and macroeconomic trends. In Coimbatore's case, the city also happens to be located in one of India's most developed and economically successful states, Tamil Nadu, in the far south of the country. India as a whole has been reaping the benefits of liberalization and macroeconomic reforms over the past couple of decades, with increased exports and investment by multinational firms in its economy. Indeed, a number of policy schemes have been implemented to stimulate inward investment, particularly geared towards exporting.

Some **national** trends and policies with the most visible effect on Coimbatore's recent economic performance include:

- Increased openness of India's economy to external trade & FDI
- Slowing in the rates of GDP growth, exacerbated by political uncertainty (until recently)
- Increasingly stringent environmental regulations, such as rules on Zero Liquid Discharge by manufacturers; Tamil Nadu's standards are even stricter than national ones
- Continued interest of multinational firms in investing in India, both to serve the expanding domestic market, and as an export platform, e.g. for IT/ITES or BPO
- Increased saturation and congestion in Tier-1 cities like Mumbai, Bangalore, Pune, or Hyderabad, with rising wage levels and overall business costs; spillover growth from such Tier-1 cities to more affordable, less congested but still viable alternatives like Jaipur, Indore, Ahmedabad, Lucknow, and Coimbatore, which offer many of the same advantages (business facilities, highly skilled workforce) at significantly lower cost
- Specific national programs like the Scheme for Integrated Textile Parks (SITP), Software Technology Parks (STP), and Special Economic Zones (SEZ), aimed at attracting international investors to the country, particularly to designated parks with special tax treatment and better infrastructure than surrounding areas
- Support programs for MSMEs, including technical assistance, capital access, export assistance and finance (Small Industries Development Bank of India - SIDBI, and ExIm Bank), and workforce training (National Skill Development Corporation/Sector Skill Councils)
-

At the **state** level, a number of developments and policies in Tamil Nadu have also had an impact on Coimbatore's recent economic performance:

- Tamil Nadu is acknowledged as one of India's most progressive states, with economic/social indicators and infrastructure significantly better than the national average, and early efforts to erase vestiges of caste-based discrimination
- The state's economy is more manufacturing-intensive than India's overall, with well-established clusters of automotive, machinery, electronics, and construction equipment producers centered in or around the state capital of Chennai
- Emerging clusters in IT, software, ITES, BPO, and other higher value-added services, mostly driven by foreign multinationals' investment in the state
- Tamil Nadu's Industrial Policy document, updated every few years, identifies priority sectors for the state's economic development efforts, particularly in terms of FDI attraction
- FDI inflows have historically centered on Chennai (based on the "parent-child" model), but more recently Tamil Nadu's government has been offering more incentives to invest outside the state capital
- Support programs for home-grown MSMEs are coordinated with the central government, and implemented through several District Industry Centres around the state (there is one in Coimbatore as well), providing capital, power, and VAT subsidies, as well as entrepreneurial assistance including training, a single-window clearance process for administrative requirements, registration, and credit guarantees
- Tamil Nadu's urban local bodies (ULBs) formally have legal scope for "planning for economic and social development".[22] However, both the government and non-government interviewees did not mention this function being carried out in practice. The Coimbatore ULBs lack technical capacity (e.g. 70% of CCMC council members have only a primary education), and are reportedly afflicted by corruption
- According to state law, the main responsibilities of local government agencies (the Coimbatore City Municipal Corporation – CCMC, and the District Administration) include the provision of infrastructure, issuing building permits, ensuring public safety, and revenue adminis-

22 Memorandum of Agreement between Government of India, State Government of Tamil Nadu and Coimbatore City Municipal Corporation, July 29, 2006, pp. 6-7.

tration; local government has therefore played only a supporting role in Coimbatore's economic success

Institutional Actors

ultiple institutional actors have played a role in Coimbatore's economic development. Several agencies of India's national and state government have responsibilities for local and regional economic development activities, covering a variety of functional areas like capital access, infrastructure, entrepreneurial training, and promoting international trade and investment.

National government agencies include:

- **Ministry of Micro, Medium and Small Industries, Government of India,** assists state governments in India (in this case, the Government of Tamil Nadu) in their responsibility for promoting and developing Micro, Small, and Medium Enterprises (MSMEs) in the state. The Ministry provides funding and technical assistance programs for MSMEs. It undertakes schemes and programs for the following: 1) access to capital; 2) support for technology upgradation; 3) integrated infrastructure facilities; 4) testing facilities and quality certification; 5) management training; 6) training for entrepreneurship and skill development; 7) product development; 8) worker welfare; 9) access to internal and external markets; and, 10) cluster-development measures to promote collective capacity development.[23]

- **Small Industries Development Bank of India (SIDBI)** is a subsidiary of the Industries Development Bank of India (IDBI) with the objective of providing assistance to MSMEs and supporting their growth. SIDBI does this through a variety of loans and schemes, including: term loans to MSMEs; seed capital/soft loan assistance for MSMEs; and financial support to the Coimbatore District Small Scale Industries Association (CODISSIA).[24] SIDBI offers the following schemes for MSMEs: national equity fund; ISO 9000 certificate refinance; marketing support; export bill financing; vendor development; working capital term; and credit guarantee fund.

Tamil Nadu state government agencies include:

- **District Industries Centre (DIC)**, a Tamil Nadu State Government body serving as the local nodal agency for small-scale industries (SSIs). The DIC is headed in Coimbatore by the DIC General Manager, and by the Commissioner of Industries and Commerce of the State Government in Chennai. The DIC's main functions are: registering SSIs; providing subsidies in the form of a 15% capital subsidy, a 15% generator and low tension subsidy, a power subsidy and special subsidies for industries operating in economically backward areas; and, providing subsidies and technical support and guidance through the New Entrepreneur-cum-Enterprise Development scheme (NEEDS), Unemployed Youth Employment Generation Programme (UYEGP), and Prime Minister Employment Generation Programme (PMEGP).[25]

  - NEEDS[26]: "first-generation" entrepreneurs, individuals meeting a minimum education requirement between the ages of 21-35 years old, are offered entrepreneur training, assistance in devising a business plan, and access to financial institutions to set up new manufacturing and service ventures;

  - UYEGP[27]: unemployed individuals meeting a minimum education requirement, and between the ages of 21-35 years old, are offered a collateral free loan to start a new firm. They may also be offered a 7-day long training under the Entrepreneur Development programs;

  - PMEGP[28]: individuals are provided subsidies to start micro enterprises; special incentives are provided to rural entrepreneurs[29].

- **Tamil Nadu Industrial Development Corporation (TIDCO)** stimulates industrial development and leverages capital investment by taking direct equity stakes in firms and industrial parks.[30] TIDCO and ELCOT, the Electronics Corporation of Tamil Nadu (ELCOT), a promoter of IT industries in the state, have a joint venture in TIDEL Park Coimbatore, a public sector-owned SEZ focused on IT and ITES.[31]

- **Tamil Nadu Industrial Guidance & Export Promotion Bureau (Guidance Bureau)** in Chennai is the Single-Window Facilitation Office, the single government point of contact for foreign investors, responsible for promoting inward investment in all of Tamil Nadu. The Guidance Bureau, within TIDCO, also leads the drafting of the annual state government industrial policy. The organization's coordination role in attracting MNC

23 Ministry of Micro, Small and Medium Enterprises, Annual Report 2012-2013, pp 4-5.

24 SIDBI supported CODISSIA in setting up the INTEC industrial fair complex.

25 Kumar, Motor and Pumps Cluster Coimbatore, pp. 9; CODISSIA 45th Annual Report, pp. 17.

26 The New Entrepreneur-Cum-Enterprise Development Scheme (NEEDS) is a Tamil Nadu State Government scheme (CODISSIA 45th Annual Report, p. 19).

27 The Unemployed Youth Employement Generation Programme was initated by the Chief Minister of Tamil Nadu (CODISSIA 45th Annual Report, p. 21).

28 The Prime Minister's Employment Generation Programme is controlled by the MSME Ministry of the Government of India (CODISSIA 45th Annual Report, p. 20).

29 DIC a project implementer only for the urban areas (CODISSIA 45th Annual Report, pp. 20).

30 Tamil Nadu Industrial Development Corporation, http://www.tidco.com/bulid.html.

31 In person interview with Mr. Atul Anand, I.A.S., Managing Director, Electronics Corporation of Tamil Nadu, ELCOT, on June 19, 2014.

investment involves creating infrastructure for investors to come to the state, offering fiscal incentives and land giveaways to investors, and promoting technical education to ensure the availability of workforce skills.[32]

- **Tamil Nadu Small Industries Development Corporation (SIDCO)** develops industrial parks—with infrastructure facilities, work sheds and developed plots—for MSEs in Tamil Nadu, as the project implementer. SIDCO has both a raw materials supply scheme and marketing assistance scheme, and provides guidance to entrepreneurs.[33] There are currently two SIDCO industrial estates in Coimbatore District, in Kurichi and Malumchipatti. Only the Kurichi estate falls within the Coimbatore metropolitan area.[34]
- **State Industries Promotion Corporation of Tamil Nadu (SIPCOT)** is responsible for building large-scale industrial parks, industrial estates, and SEZs to attract investment. SIPCOT provides basic and support infrastructure within these estates. They have not yet built any such parks in Coimbatore District.

Local Context

Coimbatore has in the past few years overtaken Madurai to become the second most populous urban agglomeration in the Indian state of Tamil Nadu[35], with 2.2 million residents. The city proper is administered by the Coimbatore Municipal Corporation (population: 1.6 million), though much of the recent urban development has taken place outside the Municipal Corporation limits, with new residential neighborhoods emerging around industrial areas on the city's periphery, particularly on the north side. Until a few years ago, single-family houses were the norm, but more recently there has been a flurry of construction of multi-story apartment buildings, apparently catering to the lifestyle preferences of the city's younger knowledge workers in emerging sectors. Coimbatore is also the headquarters of the District of the same name, one of 32 into which Tamil Nadu state is divided administratively.

Coimbatore is the crossroads of southern India. Located at the foot of the Western Ghats mountains along the Noyyal River, Coimbatore lies just 340km south of Bangalore, and less than 500km from the state capital of Tamil Nadu,

Coimbatore's Location in Southern India

32 In person interview with Mr. M. Velmurugan, I.E.S., Executive Vice Chairman, Guidance Bureau, Industries Department, Government of Tamil Nadu, on June 19, 2014.

33 Tamil Nadu Small Industries Development Corporation, http://www.sidco.tn.nic.in/.

34 Brief Industrial Profile of Coimbatore District 2012-2013, pp. 6.

35 According to India's 2011 Census.

Chennai. The area has long been the transport crossroads of the southernmost part of the country, with easy access to both its east and west coasts. Three major national highways (NH 47, NH 67, and NH 209) pass through the city, while Coimbatore Junction is a major hub for passenger and freight rail traffic.

The city's recently upgraded airport has direct international flights to Singapore and Sharjah, UAE, as well as to most major Indian cities. While infrastructure in Coimbatore and Tamil Nadu in general is considered above average by Indian standards, comparatively higher motor vehicle ownership rates mean that in practice congestion and traffic flow remain serious challenges across the sprawling metropolitan area.

History

Coimbatore's path dependency has had a tangible influence on the city economy's ability to transition into modern manufacturing, and to tap into opportunities offered by the increased openness of India's economy. Coimbatore has a long history of educational excellence, social solidarity, and higher levels of human capital than nearby, comparable Indian cities. It has traditionally been a magnet for seekers of economic opportunity, including the entrepreneurial Naidu community, whose members formed many of today's successful firms in Coimbatore.

Known as the "Manchester of South India", Coimbatore's economy has been closely tied to the evolution of India's textile industry. The British introduced cotton growing to the area in the 19th century, starting local textile production. Prior to that, Coimbatore (or Kovai, as it used to be known) was less a city than a collection of villages. Cotton growing and ginning, and the subsequent expansion into other segments of the textile industry, were crucial in the development of local know-how and an entrepreneurial class, which was to be important to the city's later development.

In the early 20th century, local artisans learned to make spare parts for the imported textile machines used in Coimbatore. Over time, as their skills further developed and local demand for equipment surged, Coimbatore's mechanics learned to produce textile machinery, by reverse-engineering imported technologies. Family-owned firms emerged in Coimbatore to produce textiles as well as the machines on which to make them. By the time India became independent, Coimbatore already had home-grown garment companies and textile machinery producers, mostly family owned. Some of them (PSG, Ramakrishna, KG, Lakshmi) are still in business today, and over the decades have evolved into diversified conglomerates involved in everything from textiles to mechanical engineering to IT to real estate development. Although Tamil Nadu's textile industry is now centered on nearby Tirupur[36], key functions like product design, management, training, and textile machinery production are still based in Coimbatore.

NATIONAL AND STATE LEVEL

1981: Coimbatore local government upgraded to primary tier, becoming a Municipal Corporation.

Early 1990s: Reforms for greater economic openness, simplified license regulations for trade.

Mid to late 1990s: State Government attracts Ford and Hyundai to Chennai. Tamil Nadu becomes auto hub during 1990s and 2000s (adding Nissan, Toshiba, Renault, BMW, Mitsubishi, Mahindra).

2005: National and state law approved for the establishment of Special Economic Zones (SEZs), offering national and state incentives.

CITY LEVEL

Up to 1950: Cotton and weaving mills, with colonial roots, create opportunity for farm-based machinery and machine tools for textiles.

Mid 1900s: Family-owned firms set up universities, including the Coimbatore Institute of Technology and PSG College of Technology.

Late 1900s-2000: Firms diversify from textile manufacturing to pumps, motors, wet grinders, and automotive components.

2006: KGiSL establishes CHIL as SEZ for IT, ITES, and BPO services. CHIL attracts Cognizant, Bosch and Dell (IT & ITES, BPO, and engineering R&D).

Late 2000s: State Government establishes TIDEL Park SEZ for IT, ITES, and BPO services. Tenants include Bosch (IT & ITES) and Cameron (engineering).

Recent period: Coimbatore industry associations organize to lobby all levels of government for metropolitan area infrastructure improvements.

36 While Tirupur was administratively part of Coimbatore during the period studied, its particular history is beyond the scope of this case study report.

Geography strongly influenced Coimbatore's early development. Climatologically, Coimbatore sits in a "rain shadow", without much direct precipitation, as most weather fronts don't make it over the Western Ghats mountain range lying between the city and India's west coast. Water-intensive cultivation of cotton therefore needs much irrigation, for which motor pumps are used to bring groundwater up to the surface. Already prior to independence, Coimbatore's makers of textile machinery diversified into producing motor pumps, later at one point accounting for 80% of India's closed market. In subsequent decades, these local producers further diversified into related industry segments like pressure valves, precision measurement, and process control equipment. All this played a critically important, enabling role in the early development of the city's economic and skills base.

Select Milestones in Coimbatore's Recent Economic History

Another side development of Coimbatore's early industrialization has been the establishment of independent charitable trusts and non-profit foundations by Coimbatore's family-owned engineering firms. Legally, these entities have an arm's length relationships with the businesses that founded them, and have focused on funding numerous technical colleges, schools, hospitals, and clinics in Coimbatore. But in practice, these relationships are very close and collaborative: the for-profit firms provide scholarships, apprenticeships, and training for students from their respective affiliated educational institutions.

This last element is proving to be a key competitive advantage for the city, and likely a crucial enabler of its economic success, as will be shown later. Today Coimbatore has higher human development indicators than Tamil Nadu and India as a whole, particularly in terms of educational attainment and technical skills. Importantly, much of the instruction in Coimbatore's institutions of higher learning is in English, giving its workforce and edge over workers in other cities who may have primarily been educated in the local Tamil, Malayalam, Kannada, or Telugu languages, for example.

While local government was not driving Coimbatore's economic development, it has played a vital enabling role for the city's success, through the delivery of essential public goods. Although this report will note that the Coimbatore government's role has generally been limited with regards to proactive economic development initiatives at the local level, Coimbatore city was distinguished as the "Best Corporation" within Tamil Nadu state for its provision of physical infrastructure, and municipal capacity.[37] The award recognized Coimbatore's excellent performance on roads, education, health, solid waste management and tax collection.[38] An Indian firm (headquartered in Mumbai) that chose to locate in Coimbatore, while noting that roads were generally superior in South India, particularly distinguished Coimbatore's transport connectivity, ICT infrastructure and advanced support infrastructure (healthcare and education). In particular, Coimbatore's good connectivity to business hubs including Chennai, Bangalore, Delhi, and Mumbai was considered a particular advantage of the city.[39] Partly this is due to Coimbatore's geographic location, but mostly due to its road, rail, and air infrastructure.

Key Local Actors

Private sector leading the way. The Coimbatore Chamber of Commerce and the city's industry associations are the de facto leaders of economic development, through facilitating interaction on finding market segment opportunities between member firms and industries, strengthening access and ties to national and international markets, and representing local firms' interests to the city, state and central government. While member firms compete with one another, they also find opportunities to cooperate, both because they are not direct competitors in certain market segments, and for the general good of Coimbatore.

Indian Chamber of Commerce & Industry Coimbatore (ICCI) was founded in 1929 by independent India's first finance minister, who was originally from Coimbatore. Today the Indian Chamber of Commerce & Industry in Coimbatore includes 1,600 members and 90 affiliated organizations. The Chamber is registered as a society, and maintains the broad objective of supporting the Coimbatore region's economic development. It seeks to promote and develop business in Coimbatore through pursuing improvements in infrastructure, amenities and services. It does this through regular meetings and exchanges with government bodies, and by increasing access for its members to national and international markets.[40] In addition to meeting and lobbying relevant government bodies, the Chamber conducts meetings and seminars with its members on industry-related issues and concerns.[41]

The Chamber, as an association, and "association of associations", led the "One Voice for Kovai's 10 Point Agenda"[42] initiative, articulating 10 infrastructure projects which they considered as being urgently needed by the city region. The agenda is directed at both the state and central government. Specific project proposals in the document include:

37 Coimbatore wins "Best Corporation" award, 16 August 2012, http://www.thehindu.com/todays-paper/coimbatore-wins-best-corporation-award/article3777701.ece.

38 Ibid.

39 In person interview with Mr. Vijay Deshmukh, Vice President, Larsen and Toubro (L&T) Precision and Manufacturing, on June 9, 2014.

40 The Indian Chamber of Commerce and Industry Coimbatore, http://www.indianchamber.in/.

41 Kumar, N. Mahesh, Motor and Pumps Cluster Coimbatore, pp. 12.

42 "One Voice for Kovai's 10 Point Agenda", The Indian Chamber of Commerce and Industry Coimbatore & RAAC.

1. **Roads** – creating outer and intermediate ring roads, providing rail over bridges and bus and truck terminals, and other general road infrastructure improvements;

2. **Coimbatore Urban Development Authority & Master Plan** – forming a development authority for the metropolitan area, as well as updating the Master Plan from 1994;

3. **Housing & Water for Slums –** providing housing and physical infrastructure (including water supply, sewage, drainage and traffic management) for over 20,000 households living in Coimbatore's 200 slums;

4. **Railway** – doubling tracks, adding railway brides and commuter trains, and developing stations**;**

5. **Government Hospital –** providing improvements to Coimbatore governmental hospital facilities;

6. **Electricity –** enhancing the quality and reliability of power supply, especially for manufacturing and agricultural users;

7. **Agri-Export Complex with Cold Storage –** setting up an agri-export complex to boost agricultural exports out of Coimbatore;

8. **Water Bodies & Noyyal River –** specific improvements to the Noyyal River bed, the river flow and streams, and restoring Coimbatore region's tanks and canals;

9. **Heritage, Tourism & Sports –** preserving Coimbatore as a "heritage town", creating recreational facilities, and the conversion of land into parks in and around the city.

10. **Airport –** developing airport infrastructure as well as expanding connectivity within and beyond India.

Coimbatore District Small Scale Industries Association (CODISSIA) is a development-oriented association serving the growth and prosperity of its 4,325-strong Small Scale Industries (SSI) membership. CODISSIA represents Coimbatore entrepreneurs at all advisory and grievance panels for SSIs, and conducts seminars, training programs, exhibitions and trade fairs for its members. CODISSIA set up a permanent trade fair complex in Coimbatore, only the second such facility in the country after the one in New Delhi, and hosts annual trade fairs for several of the city's industries. Lastly, CODISSIA has existing MOUs with Coimbatore area technology and engineering colleges and polytechnics, as well as with manufacturers associations within India and abroad.[43]

43 Kumar, N. Mahesh, Motor and Pumps Cluster Coimbatore, pp. 11-12.

Confederation of Indian Industry (CII) is a national level body representing industry and primarily larger firms.[44] Similar to the previous associations mentioned, it plays a lobbying role to the government and conducts regular meetings and seminars with its members.[45] CII was noted in the mission interview meetings as being a representative to the government of the larger conglomerates. In the case of Bosch locating to Coimbatore, for example, Bosch first contacted CII to enquire about relocating to the region.[46]

Southern India Engineering Manufacturers' Association (SIEMA) represents, protects, and promotes Coimbatore's engineering industries, which have been critical to the city's recent economic growth. SIEMA has two overarching goals: providing prosperity for its member firms, and facilitating their emergence in global commerce. SIEMA's membership is mostly composed of pump and pump accessory manufacturers, but it also includes manufacturers of electric motors, monoblocks, diesel engines, castings, automobile parts, textile machinery and parts, and other engineering products.[47]

Coimbatore Industrial Infrastructure Association (COINDIA) was created by this engineering industry association (SIEMA) in 2005, to serve the pump, motor and foundry cluster within the engineering sector. COINDIA acts as a Special Purpose Vehicle (SPV) and provides common physical infrastructure and research facilities for its cluster of industrial firms. It is a recipient of both national and state government funding.[48]

SIEMA, CODISSIA, and the Industrial Development Bank of India (IDBI) were influential in the creation of the **Small Industries Testing and Research Centre (SITARC)** in 1986 for testing, training and development, and research in motors and pumps. SITARC is funded by the national and state government of India, as well as by IDBI and UNDP.[49]

44 In person interview with R.R. Balasundharam, President, Mr. Lakshminarayanaswamy, Vice-President, the Indian Chamber of Commerce and Industry, Coimbatore, and K. Ilango, Chairman, C.R. Swaminthan, Co-Chair, Confederation of Indian Industry, Coimbatore, as well as other Coimbatore industry officials, on June 10, 2014.

45 Kumar, N. Mahesh, Motor and Pumps Cluster Coimbatore, pp.13.

46 In person interview with Mr. Jayamurali, Vice President – Corporate Relations, KG Information Systems Private Limited, KGiSL, on June 11, 2014.

47 In person interview with T.C. Thiagarajan, President, the Southern Indian Engineering Manufacturer's Association, SIEMA, as well as other SIEMA officials, on June 13, 2014; Kumar, N. Mahesh, Motor and Pumps Cluster Coimbatore, pp.12.

48 In person interview with Mr. Viswanathan, President, Coimbatore Industrial Infrastructure Association, COINDIA, on June 16, 2014; In person interview with R.R. Balasundharam, President, Mr. Lakshminarayanaswamy, Vice-President, the Indian Chamber of Commerce and Industry, Coimbatore, and K. Ilango, Chairman, C.R. Swaminthan, Co-Chair, Confederation of Indian Industry, Coimbatore, as well as other Coimbatore industry officials, on June 10, 2014.

49 Kumar, N. Mahesh, Motor and Pumps Cluster Coimbatore,pp. 9, 11.

South India Textile Research Association (SITRA) is a private autonomous research organization supported by the Ministry of Textiles of India. The organization provides technical assistance on management knowhow, labor training, and cost and economic issues. SITRA provides labor training through the Integrated Skill Development Scheme and provides product testing facilities to test such things as yarn and fabric. It currently has approximately 65 patents, and applies for government funding for research based on the industry needs and as a result of regular consultation with textile industry firms. Lastly, in recognizing the industry trend of moving from traditional to "technical" or "functional" textiles, SITRA has created Centers of Excellence to facilitate the diversification of the industry into these new segments.[50]

Textile Manufacturing Industry Associations. The historical importance of the textile industry and textile manufacturing in Coimbatore has been widely documented, but this industry segment has not been responsible for much of the more recent growth of Coimbatore's economy—the main focus of this report. The interests of the industry are represented and promoted by the South India Mills Association (SIMA), whereas research, as aforementioned, is carried out by the South India Textile Research Association (SITRA).

The Coimbatore City Municipal Corporation (CCMC) is the administrative government structure of Coimbatore city,[51] but not of the wider urban agglomeration or metropolitan area. The wider area is governed by the Coimbatore District Administration, which is led by the state government appointed District Collector, a career civil servant. The District Collector provides a supervisory role over the CCMC. While Coimbatore's city government has a mayor and municipal council, the state government-appointed municipal commissioner serves as the chief executive. The CCMC has a very limited role in economic development. In broad terms, the municipal corporation's role is in planning and land use management, urban infrastructure, social infrastructure, the urban environment, heritage, and tourism.[52] In terms of state and national level incentive schemes for firms, these are usually leveraged by the firms themselves, either through the industry or business associations mentioned above, or through direct cooperation with representatives of higher tiers of government with local offices in Coimbatore.

Universities

Coimbatore has a nationwide reputation for being an educational and industrial center, with over 150 arts and sciences colleges and about 60 engineering colleges.[53] The city is particularly known for its engineering colleges, most of which have strong links to local engineering and manufacturing firms. The founding of several engineering colleges and polytechnics by private, family-owned firms helped fulfill an industry need—creating and sustaining a workforce meeting industry requirements and ensuring continuous innovation—as well as supported the greater goal of Coimbatore's growth and prosperity. The relatively high number of engineering universities, colleges and polytechnics, which maintain close ties to the industry, has continuously provided Coimbatore with a high quality workforce. This has contributed to Coimbatore's organic growth over the years and, more recently, has provided a significant part of its value proposition to Indian or multinational firms choosing to locate or do business in the city.

With an literacy rate of over 80% and a number of government and private educational institutions, the city is the educational hub of Tamil Nadu, which itself performs very well in terms of education attainment within India. The main colleges and universities are: the Government College of Technology, PSG College of Technology (the PSG trust colleges also include the PSG College of Arts and Sciences, the PSG Institute of Management and others, and are affiliated with Anna University), the Coimbatore Institute of Technology, and universities including Bharathiar University, Anna University, and Amrita University.[54] In addition to these, there are a number of industry research institutes such as SITARC for motors and pumps and SITRA for textile research, as well as other institutes like the Institute for Forest Genetics and Tree breeding, the Indian Council for Forestry Research & Education, and the Tamil Nadu institute of Urban Studies.

SEZs in Coimbatore

Special Economic Zones (SEZs) were found to play an important role in Coimbatore's growth from 2007-2012, helping to attract MNCs as well as firms already operating in Coimbatore that were looking to lower operating costs. With their establishment endorsed by national law in 2005, and followed up by a Tamil Nadu state act in the same year, there are now two SEZs in Coimbatore: CHIL, a private initiative; and TIDEL Park Coimbatore, a government venture. As of 2014, six additional private initiative SEZs are in planning for Coimbatore.[55] Currently, CHIL and TIDEL Park are home to firms specializing in IT and IT-enabled services, BPO (Business Process Outsourc-

50 In person interview with Mr. Prakash Vasudevan, Director, the South India Textile Research Association, SITRA, on June 11, 2014.

51 The "municipal corporation" is the administrative structure for cities in India that meet certain state-specific criteria (and the primary tier urban local body).

52 "City Development Plan for Expanded Coimbatore City Municipal Corporation," Tamil Nadu Urban Infrastructure Financial Services Limited (TNUIFSL).

53 In person interview with Mr. Jayamurali, Vice President – Corporate Relations, KG Information Systems Private Limited, KGiSL, on June 11, 2014.

54 Other educational institutions include K.G. group colleges (the Institute of Health Sciences, KGISL Institute of Information Management. KGISL Institute of Technology, KG College of Arts & Science), GD Naidu College, Coimbatore Medical College, Coimbatore Law College, the Tamil Nadu Agricultural University, Karpagam University and Avinashilingam University.

55 In person interview with Mr. Jayamurali, Vice President – Corporate Relations, KG Information Systems Private Limited, KGiSL, on June 11, 2014

ing), engineering and design services, and automotive R&D. Interviews with both CHIL and TIDEL Park officials suggest that they were created at approximately the same time, with CHIL being the first to begin operations.

However, SEZs have had mixed results throughout India.[56] Only about 20 percent of approved SEZs in the country have become operational (124 from a formally approved 580). Coimbatore's advantage may derive from being located in Tamil Nadu, and benefitting from the respective enabling conditions. State actions with regards to SEZs have been critical, often determining the success or failure of SEZ policy on issues such as land acquisition, for example. SEZ success has depended upon the interest of host state governments to establish them, state government capacity to act effectively in providing necessary SEZ conditions and solving problems, and the willingness of citizens to go along with the policy. SEZs in southern Indian states performed relatively well, and there is extreme diversity between states in India in SEZ performance.[57] Explaining the particular success of Coimbatore SEZs requires further study beyond the scope of this report.

CHIL was established as a speculative private-sector investment. The SEZ was started by KGiSL group, a conglomerate offering IT, ITES services, BPO services, and higher education,[58] who recognized the opportunity for spillover growth from MNCs looking to move into Tier-1 cities. KGiSL promoted investment in Coimbatore, bought the land plots to eventually form the SEZ, and built the facilities and physical infrastructure—commercial offices, roads, and eventually residential housing for the SEZ employees. While this will be detailed later in the report, KGiSL attracted Cognizant, Dell, and Bosch to its SEZ, amassing 20,000 total jobs[59] since 2006. Cognizant, which currently employs 10,000 in Coimbatore, is looking to add space to accommodate up to 60,000 employees in the next 3-5 years.[60]

TIDEL Park was created as a joint venture of public enterprises TIDCO and ELCOT, mainly for IT and ITES. TIDEL Park Coimbatore succeeded the initial TIDEL Park in Chennai, which was reported as having employed close to 33,000.[61] The Coimbatore SEZ features firms such as Bosch (Bosch has operations in both CHIL and TIDEL), which employs about 1,000 at the park, and Cameron, which employs 500[62]. Bosch operates IT and ITES out of the TIDEL Park SEZ, whereas Cameron, headquartered in Houston, provides engineering and design services.

There is little evidence of clustering effects, significant knowledge spillovers, or other substantive linkages between firms in SEZ and the city's broader economy. SEZs in Coimbatore appear to have contributed significantly to job growth in the city in the period studied, attracting firms with incentives, the provision of common infrastructure, customs and excise duty exemptions, as well as tax exemptions. However, the findings suggest that there are very limited linkages between the MNCs within either SEZ—a lack of both knowledge sharing and staff migration. In addition, MNCs report very limited linkages to the local economy, apart from almost entirely employing local Coimbatoreans. So while the economic benefits are apparent with the extensive job creation, the longer-term effects on the local economy—which would be facilitated by linkages to local firms—appear to be limited. Within CHIL, the firms reported having agreed not to pouch either other's employees, negating the potential positive effects of staff migration, shared experience, and learning. Faced with insufficient electricity and physical infrastructure elsewhere, firms seemed to co-locate within the SEZs simply for the convenience and savings from cost-sharing of common infrastructure. Clustering is not helped by the fact that the foreign firms in the SEZ are sometimes in seemingly unrelated industries (e.g. automotive R&D or IT call centers).

56 Saleman and Jordan, The Implementation of Industrial Parks. Some Lessons Learned in India. (See Annex 3: Learning from SEZs).

57 Ibid. (Annex 3: pp. 1, 21).

58 KGiSL manages four privately-owned colleges.

59 Of the 20,000 jobs, 10,000 are from Cognizant, 5,000 from Bosch and the rest from Dell, KGiSL and other firms.

60 In person interview with Mr. Jayamurali, Vice President – Corporate Relations, KG Information Systems Private Limited, KGiSL, on June 11, 2014.

61 In person interview with Mr. S. Chandresekar, General Manager (Operations), and Ms. M. Gita, Company Secretary, TIDEL Park Coimbatore Ltd., on June 10, 2014.

62 Cameron plans to scale up to 700 employees by the end of 2014, and up to 1,000 by the end of 2015 (Discussions with TIDEL Park Coimbatore resident MNCs, on June 10, 2014).

Analysis

Factors of Competitiveness

As noted in the Executive Summary, the two main themes of Coimbatore's recent economic success have been the growth of its indigenous engineering cluster, and the upsurge of inward investment by multinational firms, as well as a few large companies from other parts of India. More specifically, the principal factors of Coimbatore's economic success could be summarized as follows:

1. **Private-Sector Led Development**.
2. **Supportive Ecosystem**
3. **Quality Workforce**
4. **Responsiveness to Market Opportunities**
5. **Bottom-Line Business Advantages**

Below is a closer look at each factor.

Factor 1: Private-Sector Led Development

Coimbatore has a highly entrepreneurial, engaged, socially conscious private sector, which has been the driving force behind its recent economic success. The local government's role has largely focused on the provision of enabling infrastructure, while the national and state governments have provided investment incentives, as well as constructed one SEZ (Tidel Park) to attract outside investors. These incentives and schemes from the higher tiers of government are leveraged by the private sector groups, or particular firms. It was noted in several interviews that Coimbatore lacks a "political champion", necessary to both utilize such schemes and pressure higher tiers of government for more support.[63]

Private-sector led economic growth in Coimbatore over the past decade has had two principal aspects – growth of the indigenous engineering industry cluster, and attraction of outside investors to the city. The focus here is on the formation and growth of indigenous manufacturers, while he latter will be covered in the section on Responsiveness to Market Opportunities.

SMEs are a central part of the city's success story. While there are a few local diversified conglomerates that also have engineering arms, the vast majority of Coimbatore's engineering firms are family-owned SMEs, on average employing 50 to 100 workers, and with only about 10 to 15 customers. Individual industry segments include foundries, pumps, valves, compressors, electric motors, precision instruments, process control equipment, automotive components, gearing, grinders, and food and textile machinery. The common thread of all these industries is that they are heavily reliant on engineering skills and know-how, with a high degree of transferability of practical knowledge from one engineering industry segment to another.

Path dependency has influenced the city's industrial growth, but is in itself not a sufficient explanation for the economic outcomes observed. As noted earlier, the growth of Coimbatore's textile industry played a crucial role in the early development of its economic and skills base. This provided a foundation of engineering and corporate know-how in the city, paving the way for the later diversification into related industry segments like pumps and valves, which remain important to this day. Crucially, the accumulation of industry expertise and overall business acumen sets Coimbatore apart from many cities with a similar industrial history.

The city has built on its inherited strengths, and used them as a springboard to developing new ones. Coimbatore's traditional strength has been its foundries – metal castings manufacturers, which by some estimates today employ as many as 150,000 people in the city and its environs. This expertise is critical to everything from producing industrial machinery to auto manufacturing to components for aircraft engines, and Coimbatore's firms have earned a national and international reputation for quality metal products at competitive prices. Metal works are a mainstay of the local economy, and have provided a good career entry point for workers without a college education, as well as for highly-skilled mechanical engineers.

Elements of diversification. So why and how have the city's manufacturers been so successful at diversifying from making textile machinery (which is still produced in Coimbatore) into related, often higher value-added industries? This process has had a number of elements:

- This industry diversification has usually been into closely related industry segments, e.g. from manufacturing pumps to making pressure valves[64]
- The transferability of specialized skills and know-how between industry segments has been very high
- Related technologies with multiple applications (e.g. metal casting can be used in a variety of industries, even if they do not seem similar on the surface)
- Entrepreneurialism within companies, whereby an engineer (often the owner's son, for example) decides to make his mark by launching a new product line or

63 In person interview with Mr. Jayamurali, Vice President – Corporate Relations, KG Information Systems Private Limited, KGiSL, on June 11, 2014; 34. In person interview with Mr. C.V. Sankar, Principal Secretary, Industries Department, Government of Tamil Nadu, on June 20, 2014.

64 Lakshmi Machine Works, initially specialized in machinery for textile spinning, set up a foundry in cooperation with a German firm, began producing castings and eventually moved into the aerospace business. The conglomerate, Lakhsmi Group, also runs schools, colleges and a hospital (In person interview with Mr. Rajendran, Director of Finance, Lakshmi Machine Works Limited (LMW), on June 9, 2014).

innovating in some other way, helping the company he's in enter new markets

- Starting new firms, whereby an engineer decides to leave an employer go into business for himself, manufacturing an engineering product

- Capital access, either from own sources (e.g. by selling family land which had greatly appreciated in value), or from external sources (usually from commercial banks, with or without government capital subsidies)

- Cluster development to both share costs on common infrastructure, and enhance industry segment linkages and knowledge sharing

- Entrepreneurial support and training, provided by industry associations or government (DIC or MSME)

- Knowledge exchange within industry guilds and associations, including regular monthly meetings and workshops

- The international reputation of Coimbatore's manufacturers for quality and precision

In addition to advancing local economic development through their own business activities, Coimbatore's for-profit firms have acted as the city's main boosters and promoters. For example, private real estate developers have worked to attract multinationals to invest in Coimbatore, while the Chamber of Commerce and similar groups promote the city as a place to do business through their publications, events, and inbound/outbound business development missions.

An engaged private sector. Coimbatore's family engineering firms have established technical colleges, schools, hospitals, etc. through corporate trusts/foundations, maintaining collaborative relationships and mutually-beneficial training arrangements. This has been a key success factor – more on this in the report's Workforce section.

Factor 2: Supportive Ecosystem

Coimbatore offers an environment highly conducive to company formation and growth, with its plethora of industry associations, educational and training facilities, trade fairs, existing agglomerations of companies, technological and organizational know-how, and a deep specialized labor pool. This has most notably been the case in engineering-related industries, but others as well. Existing companies have been scaling up operations in response to business opportunities, while many new firms have been started by ambitious local entrepreneurs.

Industry associations like ICCI, CODISSIA, SIEMA, and others help cluster development through knowledge sharing, entrepreneurial training, ensuring common quality standards, organizing business development events, and leveraging government programs, among other things. Based on healthy co-opetition among their member firms, these associations help build local capacity within their respective industries, and recognize opportunities for industry diversification and growth. In addition, the associations act as advocates for the city and its business community at the state and national levels.

Given metro Coimbatore's modest size (about 2 million people), informal relationships and networks are both extensive and highly effective. Economic development stakeholders' paths cross on an almost daily basis, with many companies and the executives in them belonging to multiple local guilds and associations. Cross-membership makes the associations' joint initiatives more effective, and facilitates coordination among them. Some examples include:

- *One Voice for Kovai*'s 10 Point Agenda, lobbying for infrastructure upgrades

- Partnering with national government agencies on technology upgradation, quality certification & skills

- SIEMA and CODISSIA, with government and donor funding, setting up SITARC for testing, training and development, and research in motors and pumps

- CODISSIA coaching new entrepreneurs and advising its members on taxes, licensing, and exporting; conducting seminars, training programs, exhibitions and trade fairs, and establishing Coimbatore's permanent trade fair complex.

- COINDIA, set up as a special purpose vehicle providing common physical infrastructure and research facilities for firms in Coimbatore's pump, motor and foundry cluster, was founded by SIEMA with support from state and central government funding.

Factor 3: Quality Workforce

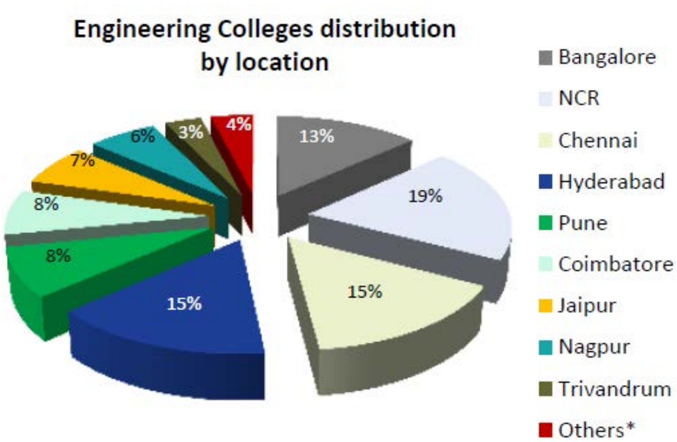
The quality of Coimbatore's workforce has, by all accounts, been one of the critical factors behind its economic success in recent years. Home-grown firms have expanded based on the ability to tap into local talent, while outside investors have been drawn to Coimbatore precisely because they are able to hire high-caliber graduates at very attractive compensation rates. Coimbatore's workforce quality is the result both of a highly-effective local educational system, and a somewhat unique approach to enhancing the employability of graduates.

Coimbatore's educational success is above all the story of excellence in various engineering fields, particularly mechanical, electrical, electronics, ICT, and materials science, as well as more fundamental scientific disciplines like physics and mathematics. Renowned throughout India as a center for engineering,[65] Coimbatore technical schools' annual output of new engineers is on a par with that of much larger Indian cities like Pune. The majority of these engineers have highly specialized, applied technical skills, and are readily employable. Some highlights:

- 10 universities in Coimbatore
- 60 engineering colleges, producing engineers and managers
- 30 polytechnics and industry training schools/institutes, preparing graduates for careers such as shop supervisors and machine operators
- "150,000 employable graduates every year", according to KGiSL officials

Coimbatore's technical schools are considered not just among the best in India, but also internationally competitive. Alumni of educational institutions based in Coimbatore can be found at most major Indian firms, as well as many multinationals around India and abroad – often in very senior positions. This extensive alumni network has undoubtedly played a role in the recruitment of companies to Coimbatore.[66]

Another element in Coimbatore's development of a specialized labor pool with advanced engineering skills has been its historically strong linkages between private businesses and educational institutions. As noted earlier, many of the city's technical colleges were originally founded by family-owned local engineering firms, or their public trusts. While there is legally an arms' length relationship between the schools and the companies that established them, there are MOUs between them regulating their still-close everyday relations and specifying the nature of the companies' involvement in the schools' planning and operations.



Source: Location Analysis: Emerging Cities of India, *Zinnov LLC, 2012*

Industry-academia linkages are exceptionally strong, and directly influence curriculum development. Despite being corporate-funded, the educational institutions are by law required to plow any revenues back into the school, enhancing funding and by extension overall instruction quality. The colleges' technical curricula are not just highly practically-oriented, they are actually developed in consultation with local for-profit firms, and based on concrete business needs. This ensures that the production of engineering talent in Coimbatore be directly relevant to the labor market, not just minting graduates for the sake of doing so. This indeed may have set Coimbatore apart from other high performing cities in the rest of Tamil Nadu.[67]

Coimbatore has a highly successful system of vocational training, developed largely by local actors. The support provided by companies to (usually affiliated) educational institutions also includes the provision of various kinds of practical training to students, enhancing their employability upon graduation. For example, there are well-established apprentice schemes (of 1 to12 months' duration), where students spend part of each school day on the shop floor, as well as in class. Even for the more theoretical engineering degree programs, students are never far removed from actual production, with almost all spending some time in local factories learning their particular business. Of course, after graduation many students receive offers from the very companies that trained them. This is a win-win for all: graduates get jobs, companies get employees whose skills and background are already well-known to them, while the colleges can rightly claim very high placement rates for their students.

Coimbatore's technical education programs focus on providing graduates with applied job skills. This practical focus of engineering education sets Coimbatore apart from many comparably-sized cities in Tamil Nadu and other parts of India (for example, Madurai was frequently mentioned in interviews). An enabler of this practical focus is the very fact that Coimbatore has a high concentration of local manufacturing facilities to begin with, making it much easier for students to spend time in nearby factories than in less manufacturing-intensive metropolitan economies.

Quality education is not limited to technical fields; bridge programs help. Beyond engineering, Coimbatore's liberal arts colleges are judged as "satisfactory" by the inves-

65 Tamil Nadu doubled its amount of private engineering colleges in the period 1999-2005, with over 240 colleges by 2005—20 percent of the total number of such institutions in India. It was reported, however, that most of the states' leading firms attract students from a fairly small number of institutions in Tamil Nadu, in and around Chennai and notably in Coimbatore. See: Fuller and Narashmian, Engineering Colleges, "Exposure" and Information Technology, pp. 258-259.

66 According to multiple executives interviewed in June 2014, for example Mr. Venugopal R., Vice President-Commercial/Centre Head at Bosch in Coimbatore. The main rationale was that the MNCs already had first-hand evidence of Coimbatore graduates' quality.

67 A former vice chancellor of Anna University stated that "ninety percent of engineering students [in Tamil Nadu], despite possessing adequate knowledge, are still not job-ready". See: Fuller and Narashmian, Engineering Colleges, "Exposure" and Information Technology, pp. 259.

tors interviewed, though not necessarily better than in other comparable Indian cities. The quality of their graduates appears to be adequate for the firms' basic staffing needs, such as in various call center/BPO/ITES functions. For specific staffing needs, private-sector employers/ offshoring firms like KGiSL run "TechnoCampus" and "bridge" intensive training programs, and "finishing schools" at their own expense (or with students picking up some of the cost) to make graduates more employable. This teaches them skills hard to attain outside the workplace, from good customer service practices to problem solving and situational awareness.[68]

Language. Finally, one of Coimbatore's additional competitive advantages – reportedly an important factor in guiding MNCs' investment decisions – is the prevalence of English as the main language of instruction in its educational institutions, regardless of field of study. This makes it much easier for multinationals to employ local graduates, and is another area where Coimbatore fares better than many other cities in the state. And as native speakers of Tamil, Telugu, or some other local language, workers are less likely to move away from Coimbatore to other parts of India where the main language is Hindi, resulting in higher worker retention rates.

Factor 4: Responsiveness to Market Opportunities

Coimbatore's private-sector actors have been highly adept at seizing upon opportunities presented by the dynamic, ever-shifting marketplace. The private sector has also capitalized on Tamil Nadu's aggressive investment promotion policy, led by the Guidance Bureau, aiming to attract automotive MNCs to the state. This is again essentially a two-dimensional story, driven by two seemingly unrelated sets of external developments:

- Multinational firms' quest for alternatives to sites in India's Tier-1 cities[69]; and
- Growth of the auto industry in Chennai, creating a need for sourcing components locally.

State-level investment-attraction efforts have benefited Coimbatore's economy, sometimes in indirect ways. Since the 1990s, the State of Tamil Nadu has targeted global "marquee" manufacturing names working on the "parent-child" model: attract an anchor investor like Ford or Hyundai, and dozens of parts suppliers (producers of intermediate inputs) will follow them into the state. This is indeed what has happened, with the Chennai area in particular attracting a virtual "who's who" of the automotive world, including not just Hyundai and Ford, but also Mitsubishi, BMW, Daimler Benz, Renault/Nissan, and Caterpillar. Yet the "majors", as they are sometimes called, also wanted to diversify their supplier sources and squeeze out further efficiencies from their supply chains by sourcing as many components as they can from local firms in India. The Chennai area, and much of the rest of Tamil Nadu for that matter, simply did not have enough such firms with the product capabilities and technical know-how to supply the OEMs.

Global automakers' arrival in Chennai in the 2000s presented a unique, historic opportunity for Coimbatore's engineering firms. Some manufacturers in Coimbatore already had long-standing relationships with Indian automakers like Ashok-Leyland, Tata Motors, or Mahindra. Now they had the chance to supply the likes of Ford or Nissan. According to the industrialists interviewed, it was the representatives of the auto firms seeking suppliers that first approached local business associations in Coimbatore to try to identify their members which could manufacture automotive components like transmission casings, diesel engines, fuel pumps, air compressors, or speedometers. Ever the entrepreneurs, the Coimbatoreans rose to the occasion and gradually became integrated into the majors' global supply chains, eventually supplying far-flung parts of their automotive empires even beyond India itself.[70]

While the opportunity in this case was external (OEMs approaching Coimbatore firms), the city's business community was quick to seize upon it. They were highly responsive, and willing to venture into lines of production that may have been somewhat different to what they were used to, but related enough in technical and functional terms that the production scale-up and shift could happen. Though no firm data are available on the volume and value of automotive shipments out of Coimbatore (in part to protect the confidentiality of existing supplier relationships), local manufacturers interviewed state that the number of jobs supported by this additional business runs "in the thousands" – not insignificant for a modestly-sized metro like Coimbatore.

68 Tholons defines finishing schools as "non-formal institutions designed for short-term training programs and aimed at training the relevant labor pool segment – particularly fresh graduates – for specialized industries to prepare them for gainful employment. The overall goal of finishing schools is to increase the capacity of the location in supplying the necessary amount of labor for an industry by addressing the individual's capacity to have and maintain a fulfilling career. Finishing Schools offer industry-specific training courses encompassing *technical skills* and *soft skills*. Technical skills are the specific skills sets required in an IT-BPO service line. Soft skills are those which should be ensured in the labor pool across all IT-BPO service lines. These common skills are not only used in the IT-BPO space, but also applied in other professions. Such skills are not consciously included as target skills areas in formal academic institutions." – *Finishing Schools for the IT-BPO Industry*, Tholons whitepaper, Dec 2012.

69 "Establishing service delivery centers in Tier II locations has become one of the most prominent trends for most global IT-BPO service providers' expansion activities. These service providers are pushed to search for alternative locations outside of hectic central business districts for different reasons such as high costs, labor pool saturation, and high amounts of competition among others." – *Tier II Locations in the Outsourcing Industry*, Tholons, May 2014. Tholons identifies cost savings, access to new labor pools, less competition, and incentives among the motives driving companies to expand in Tier-2 cities.

70 In person interview with R.R. Balasundharam, President, Mr. Lakshminarayanaswamy, Vice-President, the Indian Chamber of Commerce and Industry, Coimbatore, and K. Ilango, Chairman, C.R. Swaminthan, Co-Chair, Confederation of Indian Industry, Coimbatore, as well as other Coimbatore industry officials, on June 10, 2014; In person interview with Mr. M. Velmurugan, I.E.S., Executive Vice Chairman, Guidance Bureau, Industries Department, Government of Tamil Nadu, on June 19, 2014.

Capturing spillover growth. The other major external trend on which Coimbatore's private sector managed to capitalize so spectacularly was the increased saturation, congestion, and costs in India's Tier-1 cities like Bangalore, Hyderabad, Pune, and Mumbai. Following the Y2K-driven IT boom of the late 1990s and early 2000s, ever more Western companies were looking to establish or expand their presence in India; the fact that India's economy continued growing right through the global Great Recession meant that the domestic Indian market, too, was looking increasingly attractive to MNCs. But advanced business facilities with suitable infrastructure were becoming increasingly scarce and pricey in the Tier-1 cities. Wage levels were ascendant while workforce retention rates plummeted, and any firm wanting to put up a new facility hiring several thousand Indian workers faced an uphill struggle.

This is where a home-grown Coimbatore company, KGiSL, saw a stellar market opportunity. Pursuing its own commercial interests, KGiSL managed to recruit several MNCs to Coimbatore, resulting in major economic benefits to the city and its residents. KGiSL is the real estate development and services offshoring arm of Coimbatore's KG Group conglomerate, a company founded before India's independence, which like so many other local firms got its start in the textile industry. KG still makes textiles today, but it has since diversified into everything from IT services and HR consulting into real estate, healthcare, education and even water desalination. KGiSL had already done some outsourced work for U.S. firms in the late 1990s (medical transcription), on a campus originally built as a nursing school, and correctly understood that more corporate functions were likely to be offshored to lower-cost countries like India. Seeking new business opportunities in the mid-2000s, the company decided to put up a new office park as a speculative investment.

In launching the project, KGiSL quietly acquired an additional 300 acres of land in the Saravanampatti neighborhood, 12 km north of Coimbatore's city center and about the same distance from the city's airport, for perhaps less than a tenth of what the same land would be worth today.[71] The intent was to recruit some MNCs to Coimbatore – spillover growth from India's Tier-1 cities. Plan B, if no multinationals could be attracted to the new facility, was to turn the site into a teaching hospital, on the logic that "real estate is always a good investment".[72]

KGiSL staff undertook an extensive, systematic analysis of market trends and players in the offshoring world, and in particular the activities of MNCs in India. They observed that some companies had run out of room to grow in places like Bangalore or Chennai, and decided to pitch Coimbatore to these firms as a viable alternative, given its highly-educated, English-speaking workforce, available at significantly lower cost than in Tier-1 cities. KGiSL would offer them brand new, state-of-the-art business facilities at its new CHIL Park, then under construction, taking advantage of the national Software Technology Parks (STP) scheme; later the campus was expanded under another national scheme, the Special Economic Zones program. The first and so far largest MNC to be recruited to CHIL was New Jersey-based Cognizant[73], a major player in the outsourcing of financial and IT services, and with a longstanding presence in India and Tamil Nadu (Chennai). Other well-known corporate names that followed include Dell, Germany's Robert Bosch, and Japan's Hirotec, a designer and supplier of assembly line solutions to most of the world's major automakers.

Proactive economic development can be undertaken by public or private actors, ultimately with similar outcomes. Although they were performed by a private for-profit company, KGiSL's actions amounted to a classic economic development/investment promotion function: business recruitment based on sound analytics, industry and firm identification and targeting, marketing, sales pitch, site selection services, assistance with establishment and operations (including local staff recruitment), scale-up/business expansion, and investor aftercare. Interestingly, KGiSL got the full support of Coimbatore's business community, even though there were only limited benefits in it for them (and much concern about how the MNCs' arrival might presage a war for talent and raise local wage levels, hurting their own profitability). KGiSL invited representatives from Coimbatore's Chamber of Commerce, business associations, and leading home-grown companies to dinner with prospective investors, showcasing the entrepreneurialism and collaborative spirit in the city. By some accounts, this was an important consideration in the MNCs' final decisions to establish operations in Coimbatore.

71 As aforementioned, land acquisition has been one of the key problems faced by SEZs in India.

72 In person interview with Mr. Jayamurali, Vice President – Corporate Relations, KG Information Systems Private Limited, KGiSL, on June 11, 2014.

73 Cognizant currently has a staff of 10,000 in the CHIL SEZ, and has expansion plans to increase this to as many as 60,000 over the next few years.

Example of a Multinational Locating in Coimbatore: Germany's Bosch

Robert Bosch Engineering and Business Solutions Limited (RBEI) is the Indian subsidiary of Germany's Robert Bosch GmbH, one of the world's leading engineering firms. RBEI is the largest development center outside of Germany, providing engineering services, design, R&D for automotive embedded systems, IT/ITES (software, support for Java, Microsoft, SAP Process), as well as handling purchasing from local suppliers in India.

Bosch's operations in India had seen steady growth since the 1990s, so around 2003-04 the company started looking for an alternative site to grow besides its existing presence in Bangalore. Based on dozens of criteria, RBEI's own research shortlisted Coimbatore, along with Jaipur in Rajasthan and Bhubaneswar in Orissa, as the Tier-2 candidate cities being considered for expansion. RBEI approached local developer KGiSL about suitable facilities in Coimbatore; the timing proved fortuitous, as the new CHIL Park was then under construction. Bosch began its Coimbatore operations in 2006 and quickly grew its local presence, eventually moving into three local greenfield facilities which combined now employ 4,700 staff at both local SEZs (CHIL and Tidel Park). Bosch plans to further expand its local presence in Coimbatore to about 6,000 employees in the near term. KGiSL has helped Bosch with identifying and recruiting skilled staff for its Coimbatore operations.

RBEI cites the following principal factors in selecting Coimbatore for its expansion:

- Proximity to Bosch's existing facilities in Bangalore, and a strategic location for attracting talent from western Tamil Nadu, Kerala, and southern Karnataka
- Dependable supply of engineering talent, with 6 of 10 nationally-renowned colleges of interest to Bosch recruiters located in Coimbatore; a highly practical focus of curricula, and strong linkages to industry
- Quite a few RBEI employees in Bangalore hold degrees from colleges in Coimbatore
- A superior quality of life, and more multicultural than some alternative locations considered
- A highly favorable local ecosystem, in a part of the country known for its engineering prowess
- Existing high-quality supplier base, especially manufacturers of castings and forgings
- Socially conscious, entrepreneurial local companies, competing with one another in a very healthy way
- Coimbatore's "tendency to evolve when challenges present themselves": e.g. when the city became less competitive in textiles, it diversified into non-textile industries – a very appealing trait for Bosch

RBEI is co-located with other multinational tenants to share SEZ physical infrastructure, but there are no linkages, shared staff or knowledge among them. In that sense, the SEZ are not real clusters, just industrial estates. Bosch does have stronger linkages to local firms outside the SEZs, with its Small Engineering and Design R&D Center and corporate purchasing managers trying to source as many components and samples as they can from local suppliers.

Bosch officials interviewed state that working with government was not always easy or seamless, so they relied on the developer (KGiSL) for obtaining the needed clearances, permits, etc. as well as paving some roads. Local government did help with land acquisition before Bosch arrived. The land belongs to the developer, with Bosch leasing it for 99 years, as is the standard practice locally.

Factor 5: Competitive Business Climate (Bottom-Line Business Advantages)

"Saturation of Tier I cities has necessitated the growth of Tier II and III cities, which is supported by talent pools, sizeable and cheaper land and real estate options, relatively lower operating costs and conducive business environments. Prominent Tier II and III cities such as Ahmedabad, Jaipur, Chandigarh, Visakhapatnam, Surat, Vadodara, Indore, ***Coimbatore****, Nagpur, Bhopal, Lucknow, Bhubaneswar, and Kochi are witnessing increased interest by investors."* – Shveta Jain, Executive Director, Cushman & Wakefield India

The value proposition – getting the most for the investment dollar – is gaining importance not just between countries, but even within India, as the above quote from industrial real estate firm Cushman & Wakefield shows. Rising total business costs, and especially real estate and wage levels, has led many multinationals, including home-grown Indian corporations, to seriously consider second-tier cities like Coimbatore for their expansion plans. It is important to note that site selection considerations are not just limited to the cost side, but also focus on the quality and quantity that can be had at a certain pricing point. Therefore, Coimbatore does indeed provide a compelling value proposition for companies, not just low business costs.

In addition to a highly-skilled, largely English-speaking workforce at competitive wage levels (examined in-depth in a previous section), Coimbatore also offers the following main bottom-line business advantages to companies considering investing or expanding there:

- Abundant, inexpensive land for industrial or office use; pre-constructed business facilities such as call centers can be had on regular or 99-year leases, which provides a way around land ownership restrictions prevalent in India.
- A strategic location at the crossroads of southern India, with easy access to both coasts and a catchment area that includes western Tamil Nadu, Kerala, and southern Karnataka states.
- Good universities and technical colleges, with a long-standing tradition of collaborating with private, for-profit firms, and the ability (not fully utilized) to carry out R&D.
- Reasonably good infrastructure, including an international airport, railroads, highways, water and sewerage, and municipal waste treatment (recognized as a national best practice). The only glaring infrastructure deficiency is the provision of electric power, supplied by a monopolistic SOE, the Tamil Nadu Electricity Board; power blackouts have been a challenge throughout the state since 2008, and businesses cope with this by installing their own generators, which adversely affects profitability.[74]
- An entrepreneurial, business-friendly environment, still dominated by family-owned firms but with an increasing presence of Indian and foreign multinational companies, and a regulatory framework that compares favorably with other cities in its region.
- MNCs' existing business ties to local Coimbatore firms through prior joint ventures or supplier relationships. Indeed, Coimbatore has a well-developed network of suppliers of all sorts of manufactured intermediate goods, with a proven ability to quickly adapt to market opportunities and supply needed inputs.
- A growing local consumer market, with some 3.5 million people residing in Coimbatore District, and many millions more within a short driving distance.
- A fairly mild climate by Indian standards, without many days of extreme temperatures – Coimbatore is located in the tropics, but at an elevation of more than 400 meters and fringed by mountains, providing a cooling effect.
- A comparatively good quality of life, including multiple affordable housing options, good schools and hospitals, decent cultural and entertainment options, exemplary public safety, and lower traffic congestion and ambiental pollution than many other Indian cities.

The above advantages have favored both the establishment and growth of indigenous companies, and investment in Coimbatore by outside firms, particularly as a viable alternative to cities like Bangalore or Hyderabad. Examples of the latter include Bosch, Cameron, Hirotec, Denso, Rieter, Ford Global Business Services, Cognizant, Dell, and IBM, as well as Indian multinationals like Mumbai's Larsen & Toubro, Wipro, and TCS. In many cases, MNCs' initial investment was fairly modest, then scaled up as business expanded and they gained a higher confidence level in Coimbatore's ability to provide the workers, inputs, and facilities they needed to grow.

Lessons for Other Cities

Coimbatore's economic success holds valuable lessons for other cities in South Asia Region and elsewhere. Some of its success factors have taken decades to develop and are not easily or quickly replicable. Still, some of the enabling conditions in Coimbatore could presumably be developed in other cities through proactive policy interventions at the local or regional level, regardless of which specific actors undertake them. The most notable learnings include:

1. **Focus on Core Competencies:** This may sound like a truism, but the recent history of local economic develop-

74 For more, see Figure 2.3 in Athena Infonomics, Power Sector in Tamil Nadu, pp. 8.

ment initiatives worldwide is littered with examples of cities following fads, attempting to be something they are not by targeting industries for which they do not have even the basic prerequisites – in the process often spending vast sums on investment incentives. A city does best when leveraging the assets that it does have, which is precisely what Coimbatore has done, even if it wasn't part of a grand vision or development strategy devised and/or implemented by the public sector. In Coimbatore's case, this has meant capitalizing on the city's reputation for engineering excellence and precision manufacturing – both for home-grown companies to scale up, and to attract additional inward investment. Coimbatore's business leaders did not attempt to create a local industry cluster from scratch, nor attract to the city new industries for which it may not have the necessary prerequisites (e.g. semiconductors, biotechnology, aerospace, financial services, or some other "fashionable" sector). Instead, they made a push to expand in areas where they do excel. Outside investors did not need to be lured by hefty incentives, and in fact report having turned down offers of free land from competing locations in India.[75]

2. **Facilitate ongoing, continuous sectoral diversification by honing the development of transferrable skills:** Coimbatore's engineers are renowned for their aptitude in mechanical engineering and metal manufacturing. Whether producing water pumps, valves, or automobile transmissions, the skillsets required are very similar and easily transferrable from one manufacturing industry segment to another. There is a specialized labor pool within a small geographical radius, with shared production inputs, extensive knowledge-sharing, and technological exchange occurring on a daily basis. This has enabled Coimbatore's existing firms to branch out into new product lines, and aspiring entrepreneurs to start their own companies. This diversification is the result of individuals and firms pursuing concrete market opportunities, not some grand design to achieve it.

3. **Nurture close, substantive relationships between academia and the private sector:** Coimbatore seems unique in Tamil Nadu and India in its very high degree of industry-academia collaboration. Educational curricula are practically-focused and developed in consultation with potential employers, so students graduate with relevant, applied skills and extensive manufacturing shop floor experience, not just theoretical knowledge. In some ways, Coimbatore's approach to technical training is reminiscent of Germany's system of vocational training – another manufacturing-intensive economy whose schools produce talent with highly applied skills. Indeed, this is something that has attracted German engineering giant Bosch, for example, as well as other international firms.

75 In person interview with Mr. Venugopal R., Vice President-Commercial/Centre Head-Coimbatore, Bosch, on June 16, 2014.

4. **Foster the development of a supportive entrepreneurial ecosystem:** Easier said than done, but Coimbatore's mostly family-owned SMEs (de facto, very much an Indian version of Germany's *Mittelstand*) do not operate in a vacuum. They compete with each other for specific business opportunities, but also band together and self-organize to build capacity, ensure common technical standards, facilitate exports, or lobby the government for infrastructure upgrades, such as the recent expansion/upgrade of the city's airport. A critical role in this is played by industry associations such as SIEMA and CODISSIA, which provide very real, hands-on technical assistance to their members, and may be more effective at it than government programs in other countries attempting to accomplish the same. They know their industries and city, understand the competitive pressures of the marketplace, and seek to help one another wherever and however they can. Company executives/owners also see themselves as pillars of their community, whose duty it is to help others along. They volunteer their time and energy to make their respective industries better – more modern, more competitive, and better integrated into global supply chains.

5. **Build up and leverage the city's human capital as a key competitive asset:** Another apparent truism, yet few places seem as aware of people as their greatest resource as Coimbatore is, or as committed to investing in improving it. The city's for-profit companies have a long history of highly valuing education, particularly in the natural sciences and applied technologies. The city's business community originally established the vast majority of Coimbatore's technical colleges and vocational schools, both to develop their own talent pipeline and as a way of giving back to their community. More recently, private-sector actors attempting to recruit multinationals to the city have touted Coimbatore's human capital as the key competitive advantage over nearby, and otherwise similarly situated cities like Madurai. Anecdotal evidence also suggests that a number of professional Coimbatoreans had lived abroad, still maintaining close ties to their diaspora in other countries.[76]

6. **Create a virtue out of necessity – turn the lack of attention from government into a strength, instead of a competitive disadvantage:** Coimbatore has no political champions in Chennai or New Delhi, and has not had any leaders of national stature since India's early post-independence days. The city does not have a single state-owned enterprise ("Public Sector Unit"), yet its economic growth handily outpaces many places that

76 Tellingly, although Coimbatore itself is a hub for engineering education, several senior executives interviewed by the mission had earned their advanced degrees abroad, mostly in the UK or US. It was apparent that they were very much in sync with the latest technologies and management thinking in the West, and seemed to be on a par with their colleagues in high-income countries. Many also reported having business interests abroad, such as owning factories in the United States, or frequently traveling to Japan to meet with joint-venture partners. The overall impression was that of extremely savvy, globally-connected entrepreneurs.

have a lot of them. There is no concerted effort by municipal officials to help local firms and individuals tap into existing national or state support programs for which they may qualify (instead, this was done by industry associations and other private-sector membership groups). Government's role has largely focused on the provision of basic infrastructure, public safety, and very limited support such as export promotion or the help MSMEs receive through DICs. Beyond infrastructure provision largely "left to its own devices" economically, Coimbatore shows what the private sector can accomplish on its own initiative, provided some basic services are provided and government does not actively hinder economic activity through suffocating regulation, an onerous tax burden, or barriers to entry, for example. The active role played by its chamber and industry associations is a model for those in other cities where there are at least the contours of a market-based economy (i.e. there is a reasonably well-developed private sector).

Appendices

Basic Demographic and Economic Data

Coimbatore is now the 2nd largest city in Tamil Nadu. Population (millions):

- Municipal Corporation: 1.6
- Urban agglomeration: 2.2
- Coimbatore District: 3.5
- Metro GDP: US$6.7 billion

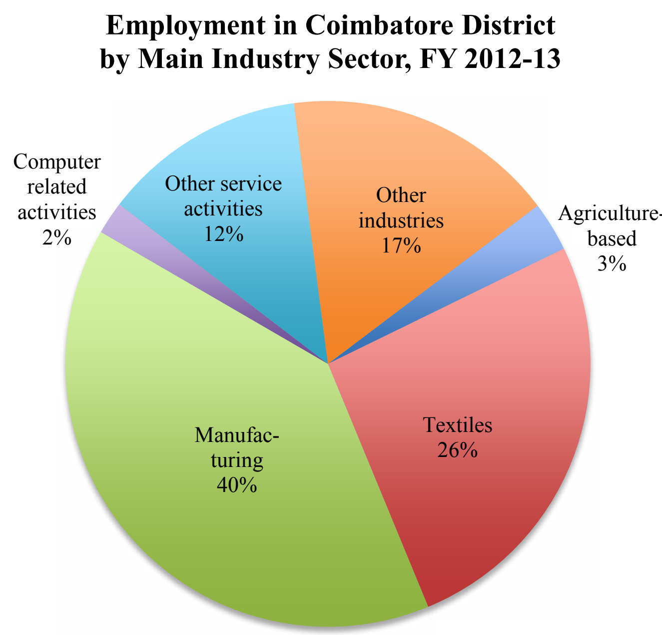
Selected Indicators for 18 Indian Cities					
Urban Agglomeration	Population (000s)	Share of India's GDP	Average GDP Growth 2007-12	Average Job Growth 2007-12	Composite Growth
Ahmadabad	6,048	1.11%	8.72%	0.52%	9.24%
Bangalore	8,022	1.48%	8.33%	2.81%	11.14%
Chennai	8,321	1.42%	8.26%	-0.39%	7.87%
Coimbatore	**2,030**	**0.36%**	**9.33%**	**1.29%**	**10.62%**
Delhi	16,790	3.89%	8.72%	1.82%	10.54%
Hyderabad	7,382	0.80%	9.51%	2.21%	11.72%
Indore	2,082	0.18%	9.49%	1.57%	11.06%
Jaipur	2,953	0.33%	8.22%	1.52%	9.74%
Kanpur	2,885	0.20%	6.74%	-0.12%	6.62%
Kolkata	13,941	1.90%	6.81%	1.58%	8.39%
Lucknow	2,800	0.20%	7.36%	0.97%	8.33%
Madurai	1,420	0.25%	8.31%	0.24%	8.55%
Mumbai	17,977	4.61%	7.75%	1.20%	8.95%
Patna	1,994	0.15%	10.64%	4.23%	14.87%
Pune	4,841	1.09%	8.60%	2.03%	10.63%
Salem	893	0.16%	8.36%	0.30%	8.66%
Tiruchirappalli	994	0.18%	8.25%	0.18%	8.43%
Tiruppur	886	0.16%	10.26%	2.26%	12.52%
18-City Average	*n/a*	*n/a*	*8.5%*	*1.3%*	*9.9%*

- 91% literacy rate is among the highest in India (74%)

Source: Oxford Economics, 2013; World Bank staff estimates, 2014

Coimbatore's key industries include manufacturing, engineering services, transport, IT/ITES/BPO, education, and health. Textile production still has a substantial presence in the local economy, but has declined in relative importance in recent years, with much actual production moving to neighboring Tiruppur while some functions like product design and management have remained in Coimbatore.

According to an industry profile of Coimbatore District done by the Ministry of Micro, Small and Medium Enterprises,[77] most MSME employment in Coimbatore today is in manufacturing, followed by textiles, service activities and other smaller industry segments. Manufacturing represents 40% of employment among Coimbatore MSMEs (72,000 workers),



now employing more than textiles, at 26% (50,000 workers), which represent more of the traditional industry in Coimbatore.[78]

Source: Brief Industrial Profile of Coimbatore District 2012-2013

Of the large firms identified in the report, almost all employing 500 or more employees are either in the textile or manufacturing sectors. The firm units within Lakshmi Machine Works, a conglomerate mentioned earlier in this report, include the mills company employing 692, clothing company employing 464, the machine tool division employing 320, and electrical control systems employing 231.[79]

77 The industry profile may not be an exact or exhaustive analysis of Coimbatore MSMEs or large firms, and it is referenced here to exemplify the general trend in Coimbatore industry employment.

78 Brief Industrial Profile of Coimbatore District 2012-2013, pp. 7-8.

79 Ibid, pp. 9-15.

The report also includes annual employment figures for newly registered firms. After a slowing down of employment growth from new firms in the years 2002-2005, each year from 2006 to the end of 2010 had more than 20,000 employees annually for these firms.[80]

Testing of Standardized Research Hypotheses

As noted in the report's Introduction, this is the second in a series of case studies of economically successful cities around the world. In order to ensure comparability of "teachable moments" across all case studies, a set of standardized research hypotheses was tested in Coimbatore to determine the exact scope for action at the metropolitan level, factors that may have most affected how those prerogatives were used, and the extent to which specific interventions (and how they were implemented) may have resulted in the economic outcomes observed.

The first hypothesis tested seeks to determine to what extent Coimbatore's economic results were attributable to proactively picking sectors to support, the second one looks at the strategic planning process itself (if any) and how it may have affected economic growth, and the third one looks at the plan's implementation, if applicable.

1. ***Coimbatore's economic success is partly attributable to key local actors having made strategic bets on specific industrial initiatives, rather than just making improvements to its general investment climate in order to stimulate economic activity.*** National, state, and local-level improvements to the business climate have undoubtedly facilitated the achievement of superior economic outcomes, but proactive initiatives on the part of private-sector actors are likely to be the greater part of the reasons for Coimbatore's success.

   Coimbatore has benefitted from a favorable and improving business climate at the national and state levels, including the dismantling of the erstwhile "license raj", greater openness to external trade and investment, increased market competition, and improving connectivity (telecommunications and transport). At the local level, the municipal and district governments have focused on the provision of critical infrastructure like transport and water & sewerage as enablers of economic development, as well as other, often unnoticed factors like good public safety, which reduces companies' operating costs. While corruption remains a concern at various levels of government, it does not seem to have materially affected Coimbatore's ability to deliver desirable economic outcomes. In addition, the simplification of procedures (single-window) for entrepreneurs is likely to have aided company formation and growth, and thus employment, at the MSME level.

   In Coimbatore's case, there were proactive economic development initiatives visibly contributing to the city's economic success. However, they were undertaken almost exclusively by private-sector actors pursuing profit motives, not city government or a dedicated local economic development agency. To the extent that there is any industry targeting by government, it is all done at the state level.[81]

   Ingredients of success:

   a. As an economically successful city, Coimbatore has **two dominant themes**: (i) growth of its indigenous engineering cluster; and, (ii) the attraction of (Indian and foreign) multinational firms to the city.

   b. Although not necessarily by design, Coimbatore's proactive economic development efforts have been focused on industries producing **tradable goods and services**, including engineering, metal components and products manufacturing, automotive parts, ICT and ITES, BPO, and industrial design services.

   c. In its proactive economic development activities, Coimbatore has de facto pursued an **integrated, three-pronged approach** to business development: nurturing the growth of existing firms, fostering the establishment of new start-up companies, and striving to attract new outside investment. Local companies got assistance from government and/or industry associations to establish their businesses, upgrade technologies, expand production, export, and integrate into global supply chains. Coimbatore's business community collaborated to bring new MNC investors into the city.

2. ***The likely trajectory of Coimbatore's economic performance was not altered by any specific policy interventions, nor did the city have a strategic plan for economic development. However, individual private-sector actors have in practice carried out some actions that are typically found in such plans, and would have likely been included had Coimbatore produced such a document.*** Coimbatore has managed to outpace its national economy even without creating an official strategic plan for economic development. Its principal private-sector actors (the Chamber of Commerce, industry associations, individual firms) did not have a structured approach to economic development, nor did they lay out a strategy as such. Rather, they organically diversified into new industry segments in response to market opportunities and favorable macroeconomic policy, and they worked to attract Indian and multinational firms to Coimbatore.

80 Ibid, pp. 6-7.

81 *Tamil Nadu Industrial Policy*, 2007.

Coimbatore's economic development-related activities have included:

a. **Robust analytics** to guide corporate decision-making and strategy formulation, based on a knowledge of global business trends and first-hand experience doing business with international companies through offshoring, supplier, or joint venture relationships. These were carried out at the level of the individual firm, rather than for the city as a whole. However, they did result in the recruitment of anchor investors in the engineering and IT fields, helping to put the city on the site selection map and raise its visibility – amounting to de facto economic development marketing as well as business recruitment/ expansion.

b. **No structured or formal planning process** to:

- identify key economic development **issues** facing Coimbatore, such as inadequate infrastructure, lack of access to finance, fairly low export intensity, tough international competition for its principal products, or lack of government transparency and accountability. However, through regular meetings within and among local industry associations and chambers of commerce, the business community did put together a lobbying document, *One Voice for Kovai's 10 Point Agenda*, which mostly focuses on addressing infrastructure deficiencies and is the closest thing Coimbatore has to a strategic plan. This document was the product of ad-hoc discussions between members of more than a hundred business groups and non-governmental organizations, not an organized process.

- identify the city's main **competitive strengths**, such as engineering excellence, good universities and technical colleges, relatively high levels of human capital, a very engaged private sector, highly competitive business costs, good public safety and security, and considerable tourism development potential. Many of these strengths (e.g. Coimbatore's reputation in engineering and manufacturing) are simply taken as a given, and not necessarily used as part of any coordinated marketing or business development strategy for the city.

- formulate a **vision** of progress that Coimbatore can make, including specific measures to address its challenges and to capitalize on its competitive strengths. There is a Vision Tamil Nadu document at the state level, but nothing for the city. More recently (i.e. falling outside the scope of this case study's time period), the Municipal Corporation has prepared a new City Development Plan, but it is still in draft form as of June 2014.

c. **Coimbatore did not assemble a "growth coalition"** as such at the metropolitan level, which would bring together representatives of local government, universities, private-sector businesses, labor unions, and other stakeholders in economic development. However, the Chamber of Commerce and industry associations did join together to prepare the *One Voice for Kovai's 10 Point Agenda* document. There appears to be a strong sense of solidarity and shared purpose among members of the business community in wanting to see their city advance economically, and they have shown an ability and readiness to gather in pursuit of such goals when needed, e.g. to lobby for infrastructure investments.

d. **Strategic decision-making and prioritization:** Coimbatore did not utilize a structured process for identifying and agreeing on policy priorities, nor for evaluating trade-offs between different public investment alternatives, such as through cost-benefit analyses. The Chamber of Commerce and industry associations advocate for specific forms of government support from the state and national governments (e.g. airport expansion or more reliable electric power supply), but this is not based on evaluating the relative merits of one form of support over another.

3. The level of autonomy related to economic development in Coimbatore (the equivalent of the "Mayor's Wedge") was not a significant factor in the city's improved economic outcomes. Local government bodies in India have a limited role in interventions aimed at fostering economic growth, although they do play an important enabling role through the provision of critical public goods such as infrastructure and public safety. The public sector has not undertaken proactive interventions – through plans, strategies, or in practice – to spur economic development.

a. There is **no dedicated local economic development agency** in Coimbatore, nor an economic development-related department of government. The role of government bodies, particularly the Coimbatore City Municipal Corporation and the District Administration, is limited to providing local public goods in physical and support infrastructure. Moreover, there are no economic development agencies at higher tiers of government, apart from the Tamil Nadu Guidance Bureau, which is the state agency for investment promotion.

a. **Low financial and administrative autonomy**: Although India initiated a decentralization reform effort under Constitutional Amendment 74, the country is generally characterized by low level of decentralization from national and state government to local government, or urban local bodies.[82] The reform effort has witnessed municipal government moving beyond responsibilities in traditional local public goods – yet the interview findings do not suggest Coimbatore municipal

82 In the wider India context, there has not been a significant increase in the volume of municipal spending noting the lack of increased fiscal autonomy. See: Mathur, Om Prakash. Municipal Finance Matters. PowerPoint Presentation at World Bank. June 2, 2014.

government's involvement in economic development. Amendment 74 outlined that state governments could assign up to 18 government functions to urban local bodies, 16 of which were reportedly transferred to urban local bodies in Tamil Nadu.[83] While the function for "planning for economic and social development" is reported as having been transferred to ULBs, the mission interlocutors, including the local government chief executive, did not suggest a municipal role in economic planning and implementation.[84]

b. **Funding**: Municipalities in India, including municipal corporations in large urban areas, have low municipal spending ability and limited fiscal powers more generally.[85] The institutional ability to make and implement decisions at the city level is shared by the Municipal Corporation's elected officials as well as the state government appointed Municipal Commissioner and lower level commissioners.

c. A well-defined **geographical remit**: Political legitimacy and accountability appear to be hampered by having both state and local government leadership at the city level, with the main executive power holders appointed by higher tiers of government, and not elected by the city's constituents. While the Coimbatore City Municipal Corporation is the primary urban-tier local body in Coimbatore (and the only municipal corporation in the metropolitan area), it does not have functional authority beyond the city limits. The Municipal Corporation Mayor is popularly elected to a five year term and yet ostensibly only a figurehead in Coimbatore. The Municipal Commissioner is the local government's chief executive and is appointed for a fixed, renewable term. The District Administration, whose responsibility extends across the metropolitan area, does not perform economic development functions.

b. **Efficient internal management**: While interview findings suggest a low level of capacity for the Coimbatore government, the CCMC seemed to perform well in its main infrastructure functional responsibilities. The CCMC beat out 11 competitors in Tamil Nadu State to receive the highest state municipal corporation honors. It won out due to its performance on roads and sewage management, but, more importantly in terms of management, for its high levels of tax collection and the implementation of an e-government system.

a. **Roles**: The district administration provides licenses and approvals, administers revenue, and acts as a "pass-through mechanism". A range of economic development functions, including entrepreneurial training, skill development, business advisory services, trade promotion, are played by the District Industries Center and local chapter of the Ministry of MSME. Additional functions such as branding, government lobbying (on behalf of local firms), business cluster development and entrepreneurial support, are carried out by the city's industry associations.

- **Enabling environment**: Coimbatore's inclusion in the national JnNURM scheme provided additional infrastructure funding along with national government monitoring of the implementation of decentralization in the city, local government capacity, and how this reflects on urban planning, This provided a greater impetus for the city to develop an initial city development plan (2006), a follow-up city development plan due to be released later in 2014, and an update to the 1994 master plan.

- **Monitoring & evaluation**: The most recent Coimbatore city development plan, a draft copy of which was provided to the mission team, includes a vision and development strategy projected to 2045. However, its main focus is on land use and the provision of municipal services. The vision, strategy, and implementation framework do not go into adequate detail, and do not suggest any mechanisms for thorough assessment of implementation against objectives.

c. **Private sector and stakeholder involvement in implementation**: Given the absence of an economic development strategy for the city and government's limited role in economic development more generally, the Coimbatore City Municipal Corporation only identifies government stakeholders as part of its consultations for the upcoming city development plan. The private sector plays the leading role in Coimbatore's economic development, yet is no structured forum or channel for dialogue between public and private sector actors. Details:

- Coimbatore's for-profit firms pool their (limited) financial and in-kind resources to help market and promote the city as a business and tourism destination.

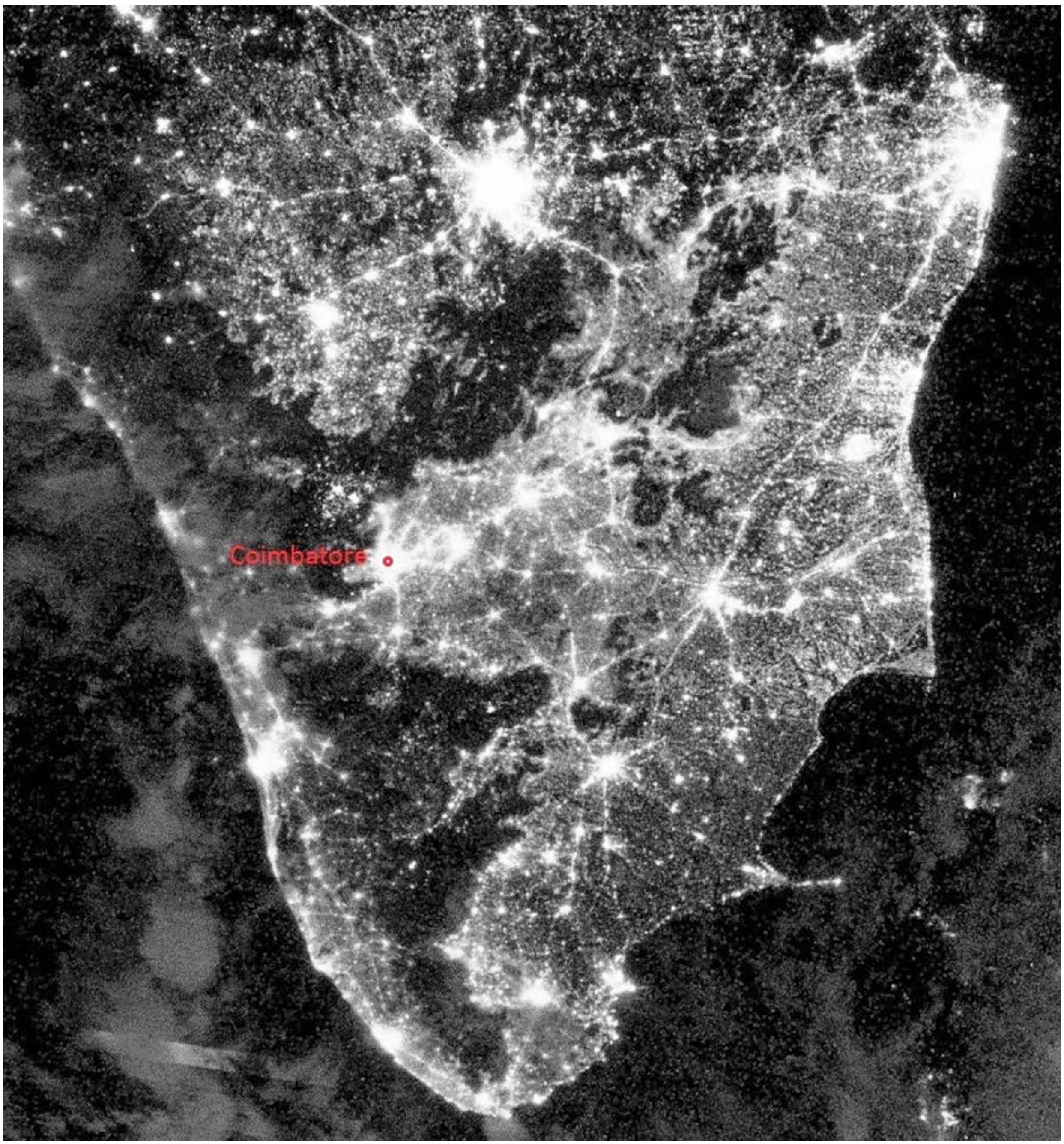
83 Memorandum of Agreement between Government of India and State Government of Tamil Nadu and Coimbatore City Municipal Corporation. JnNURM. pp. 6-7.

84 In person interview with Ms. Latha, Municipal Commissioner, Coimbatore Municipal Corporation, in Coimbatore, India, on June 17, 2014.

85 Mathur, Om Prakash. Municipal Finance Matters. PowerPoint Presentation at World Bank. June 2 2014.

- Industry associations actively work to integrate local small and medium-sized businesses into multinationals' global supply chains.
- Senior corporate leaders, both at home-grown firms and those based elsewhere, act as the city's public champions and utilize their relationship capital to secure more investment and business opportunities for Coimbatore and its companies.
- Coimbatore's private-sector firms are actively engaged in workforce development, having established educational institutions and now collaborating with them by enabling students to spend time on the factory shop floor.
- Given the prevalence of SMEs in Coimbatore, trade unions do not play a prominent role in the city's economic development.
- There is no permanent "growth coalition" as such, although stakeholders do self-organize on an ad-hoc basis in response to specific issues and opportunities.

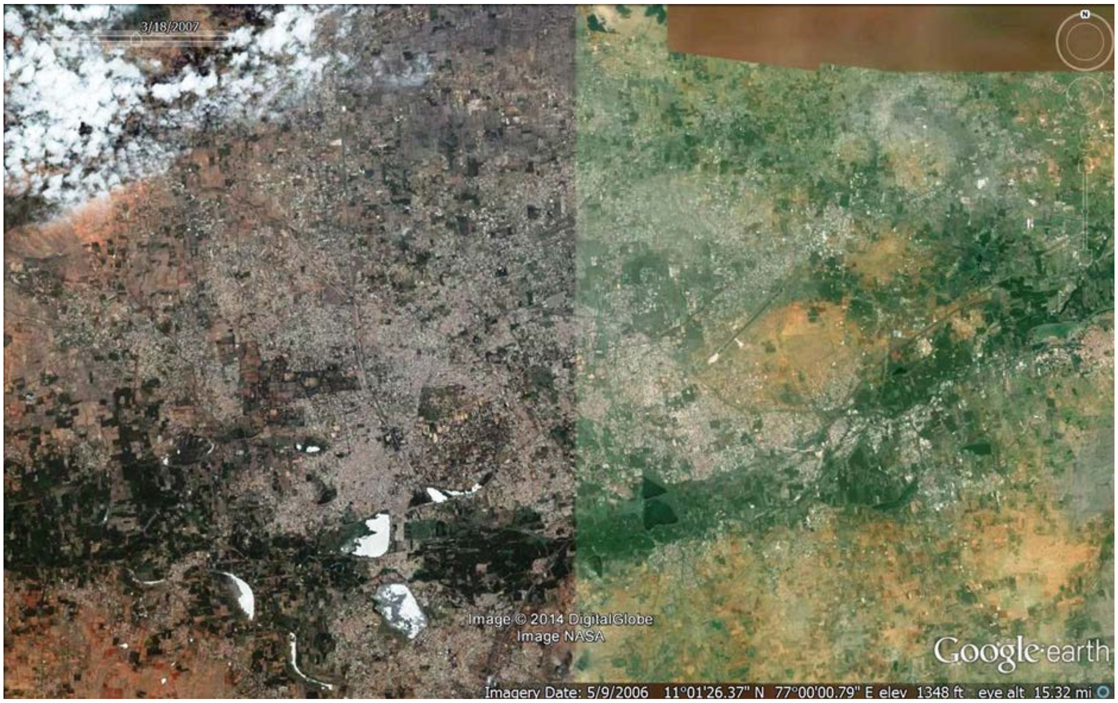
Night Lights Patterns of Southern India, 2012



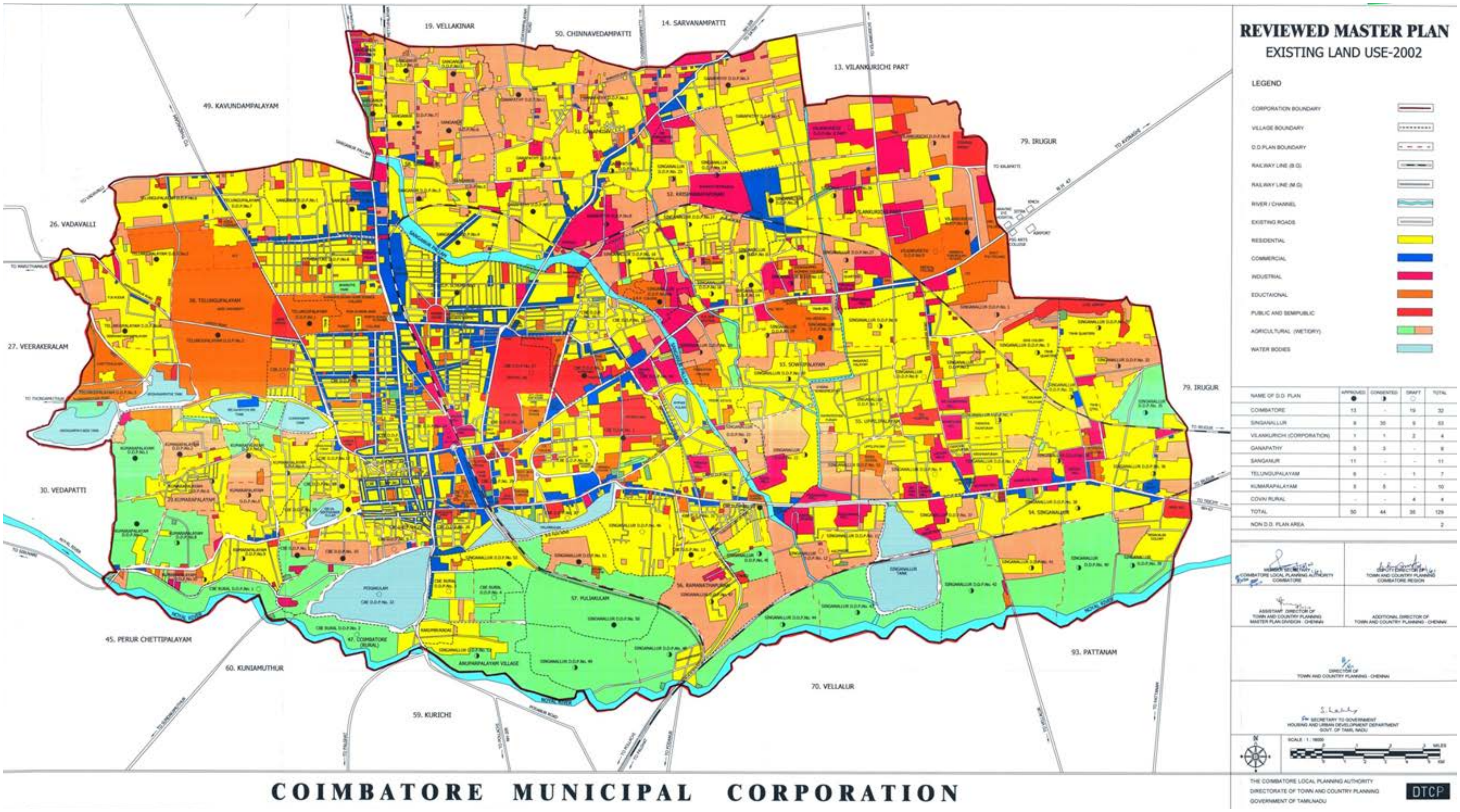
Source: NASA

Spatial Development over Time

Coimbatore in 2006:



Coimbatore in 2014:


REVIEWED MASTER PLAN
EXISTING LAND USE-2002
LEGEND
CORPORATION BOUNDARY
VILLAGE BOUNDARY
D.D.PLAN BOUNDARY
RAILWAY LINE (B.G)
RAILWAY LINE (M.G)
RIVER / CHANNEL
EXISTING ROADS
RESIDENTIAL
COMMERCIAL
INDUSTRIAL
EDUCATIONAL
PUBLIC AND SEMIPUBLIC
AGRICULTURAL (WET/DRY)
WATER BODIES
NAME OF D.D. PLAN | APPROVED | CONSENTED | DRAFT | TOTAL
COIMBATORE | 13 | - | 19 | 32
SINGANALLUR | 9 | 35 | 9 | 53
VILANKURICHI (CORPORATION) | 1 | 1 | 2 | 4
GANAPATHY | 5 | 3 | - | 8
SANGANUR | 11 | - | - | 11
TELUNGUPALAYAM | 6 | - | 1 | 7
KUMARAPALAYAM | 5 | 5 | - | 10
COVAI RURAL | - | - | 4 | 4
TOTAL | 50 | 44 | 35 | 129
NON D.D. PLAN AREA | 2
MEMBER SECRETARY
COIMBATORE LOCAL PLANNING AUTHORITY COIMBATORE
DEPUTY DIRECTOR OF TOWN AND COUNTRY PLANNING COIMBATORE REGION
ASSISTANT DIRECTOR OF TOWN AND COUNTRY PLANNING MASTER PLAN DIVISION - CHENNAI
ADDITIONAL DIRECTOR OF TOWN AND COUNTRY PLANNING - CHENNAI
DIRECTOR OF TOWN AND COUNTRY PLANNING - CHENNAI
SECRETARY TO GOVERNMENT HOUSING AND URBAN DEVELOPMENT DEPARTMENT GOVT. OF TAMIL NADU
THE COIMBATORE LOCAL PLANNING AUTHORITY
DIRECTORATE OF TOWN AND COUNTRY PLANNING
GOVERNMENT OF TAMILNADU
DTCP
19. VELLAKINAR
50. CHINNAVEDAMPATTI
14. SARVANAMPATTI
13. VILANKURICHI PART
49. KAVUNDAMPALAYAM
79. IRUGUR
26. VADAVALLI
27. VEERAKERALAM
30. VEDAPATTI
45. PERUR CHETTIPALAYAM
60. KUNIAMUTHUR
59. KURICHI
70. VELLALUR
93. PATTANAM
COIMBATORE MUNICIPAL CORPORATION

INTERVIEWS

1. In person interview with Om Prakash Mathur, Senior Fellow, Institute of Social Studies, in Washington, D.C., on June 5, 2014.

2. In person interview with Mr. S. Rivandra, Vice President, IL&FS Clusters, in Chennai, India on June 8, 2014.

3. In person interview with Mr. Vijay Deshmukh, Vice President, Larsen and Toubro (L&T) Precision and Manufacturing, in Coimbatore, India on June 9, 2014.

4. In person interview with Mr. Rajendran, Director of Finance, Lakshmi Machine Works Limited (LMW), in Coimbatore, India, on June 9, 2014.

5. In person interview with R.R. Balasundharam, President, Mr. Lakshminarayanaswamy, Vice-President, the Indian Chamber of Commerce and Industry, Coimbatore, and K. Ilango, Chairman, C.R. Swaminthan, Co-Chair, Confederation of Indian Industry, Coimbatore, as well as other Coimbatore industry officials, in Coimbatore, India, on June 10, 2014.

6. Discussions with Coimbatore entrepreneurs at Industrial Trade Fair Coimbatore, INTEC 2014, in Coimbatore, India, on June 10, 2014.

7. Discussions with TIDEL Park Coimbatore resident MNCs, in Coimbatore, India, on June 10, 2014.

8. In person interview with Mr. S. Chandresekar, General Manager (Operations), and Ms. M. Gita, Company Secretary, TIDEL Park Coimbatore Ltd., in Coimbatore, India on June 10, 2014.

9. In person interview with Mr. Prakash Vasudevan, Director, the South India Textile Research Association, SITRA, in Coimbatore, India, on June 11, 2014.

10. In person interview with Mr. Jayamurali, Vice President – Corporate Relations, KG Information Systems Private Limited, KGiSL, in Coimbatore, India, on June 11, 2014.

11. In person interview with Mr. Ramachandran, President, and Mr. Babu, Honorable Secretary, Coimbatore District Small Industries Association, CODISSIA, in Coimbatore, India, on June 11, 2014.

12. In person interview with Mr. A.V. Vardharajan, Chairman, Sandfits Foundries Private Limited (former President of CODISSIA), in Coimbatore, India, on June 11, 2014.

13. In person interview with Mr. Asokan, Joint Director/ General Manager, District Industries Centre, in Coimbatore, India, on June 12, 2014.

14. In person interview with Prof. Dr. G. James Pitchai, Vice-President, Bharathiar University, in Coimbatore, India on June 12, 2014.

15. In person interview with Dr. P. Tamizhselvan, Associate Professor, Tamil Nadu Institute of Urban Studies, in Coimbatore, India, on June 12, 2014.

16. In person interview with S. Periyasamy, Deputy Director, Textiles Committee, in Coimbatore, India, on June 13, 2014.

17. In person interview with Mr. Sathianandan, General Manager & Regional Head, and Mr. Ananthakrishnan, Deputy General Manager, Small Industries Development Bank of India, SIDBI, in Coimbatore, India, on June 13, 2014.

18. In person interview with T.C. Thiagarajan, President, the Southern Indian Engineering Manufacturer's Association, SIEMA, as well as other SIEMA officials, in Coimbatore, India, on June 13, 2014.

19. In person interview with Mr. Palanivel, Deputy Director, MSME Development Institute (Branch of Ministry of MSMEs of India), in Coimbatore, India, on June 14, 2014.

20. In person interview with Mr. Viswanathan, President, Coimbatore Industrial Infrastructure Association, COINDIA, in Coimbatore, India, on June 16, 2014.

21. In person follow-up interview with Mr. Jayamurali, Vice President – Corporate Relations, KG Information Systems Private Limited, KGiSL, in Coimbatore, India, on June 16, 2014.

22. In person interview with Mr. Venugopal R., Vice President-Commercial/Centre Head-Coimbatore, Bosch, in Coimbatore, India, on June 16, 2014.

23. In person interview with Mr. Hayama, Director and President, and Mr. Narayanan, Vice President, Hirotec India, in Coimbatore, India, on June 16, 2014.

24. In person interview with Ms. Archana Patnaik, District Collector, Coimbatore District Administration, in Coimbatore, India, on June 17, 2014.

25. In person interview with Ms. Latha, Municipal Commissioner, Coimbatore Municipal Corporation, in Coimbatore, India, on June 17, 2014.

26. In person interview with Mr. K. Ilango, Chairman, Confederation of Indian Industry, Coimbatore, in Coimbatore, India, on June 17, 2014.

27. In person interview with Mr. Albert Stephen, Branch Manager, Centre for Monitoring Indian Economy, in Chennai, India, on June 18, 2014.

28. In person interview with Mr. Nanjundi Karthick Krishnan, Senior Consultant, and Ms. Anupama Ramaswamy, Senior Consultant, Athena Infonomics, in Chennai, India, on June 18, 2014.

29. In person interview with Mr. S. Krishnan, I.A.S., Principal Secretary, Planning, Development and Special Initiatives Department, Government of Tamil Nadu, in Chennai, India, on June 19, 2014.

30. In person interview with Mr. M. Velmurugan, I.E.S., Executive Vice Chairman, Guidance Bureau, Industries Department, Government of Tamil Nadu, in Chennai, India, on June 19, 2014.

31. In person interview with Ms. Mabhumathi, General Manager, State Industries Promotion Corporation of Tamil Nadu, SIPCOT, in Chennai, India, on June 19, 2014.

32. In person interview with Mr. Atul Anand, I.A.S., Managing Director, Electronics Corporation of Tamil Nadu, ELCOT, in Chennai, India, on June 19, 2014.

33. In person interview with Mr. A. Jayaraman, Senior Vice-President & Company Secretary, and Mr. D. Selva Pandian, Assistant Vice President, Tamil Nadu Urban Infrastructure Financial Services Ltd., in Chennai, India, on June 20, 2014.

34. In person interview with Mr. C.V. Sankar, Principal Secretary, Industries Department, Government of Tamil Nadu, in Chennai, India, on June 20, 2014.

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Case Study 3

KIGALI, RWANDA

Leveraging national policies strategically

TABLE OF CONTENTS

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INTRODUCTION

The case study of the economic success of Kigali, the capital city of Rwanda, is the third in the series of World Bank case studies of successful metropolitan economies around the world. The World Bank's Competitive Cities Knowledge Base project aims to provide city leaders with the tools and knowledge for the successful formulation and implementation of effective economic development strategies at the city level. No single case study will provide a recipe for success for other city leaders, but each case study in the series will offer insights and strategies for cities with similar conditions, factors and challenges.

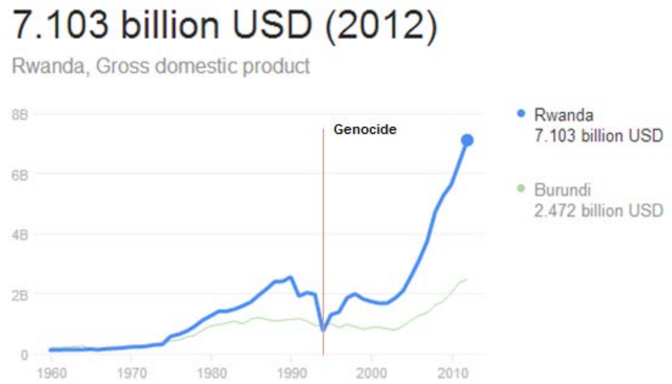
Kigali was selected as a case study because, between 2007 and 2012, the city experienced exceptionally high rates of economic growth. As part of the city selection exercise, cities in the Sub-Saharan Africa region were ranked according to the amount by which they exceeded the average national growth rates[86]. The intent was to identify competitive cities, or cities that had "outperformed" their national economies in terms of GDP and job growth. These outlier cities were of great interest; as understanding *how* these outlier, competitive cities were able to achieve high levels of growth (when cities with the same set of macroeconomic conditions and national policies had not) could offer lessons to others interested in potential strategies and effective levers that can be utilized at the municipal level to improve economic growth.

Further, Kigali has not had access to many of the advantages that other cities in the region enjoyed. As the nation's capital, Kigali has benefitted from national attention and assistance (especially for infrastructure development) and its ability to attract talent from around the country. However, Kigali lacks many inherited advantages that other cities and countries within the region enjoy; like abundant land and natural resources, cheap energy, transport linkages, a flagship university or anchor investments. Above all, Kigali (and Rwanda) suffered from years of instability and violence, which culminated in the 1994 Rwandan Genocide. Yet less than 20 years after the genocide, Kigali is experiencing exceptional levels of economic growth that go beyond modest recovery growth (see figure below). This begs the question: ***How?*** And, importantly, ***what can other cities learn from Kigali's example?***

Indeed, the story of Kigali's economic success provides a useful learning experience for other cities around the world, because like many other cities, Kigali is:

1. A capital and primary city
2. Located in a country with a strong, proactive national government
3. Lacking inherited natural advantages (i.e. landlocked and small)
4. Recovering from conflict and needing to rebuild both the city and the economy

Yet unlike other cities, Kigali has experienced extraordinary economic growth; attributed in part to the successful leveraging of national level strategies, as well as to improvements to local government capacity and the attractiveness of the city, including:



Source: World Development Indicators, World Bank

86 The City of Kigali ranked in the top 20 cities in the region for outperforming the national rate of growth; top 3 for capital cities in the region; and the top 3 for cities in natural resource poor countries in the region.

1. Creating a conducive environment for business and improving the ability of firms to operate (e.g. obtain a construction permit, access finance, etc.);

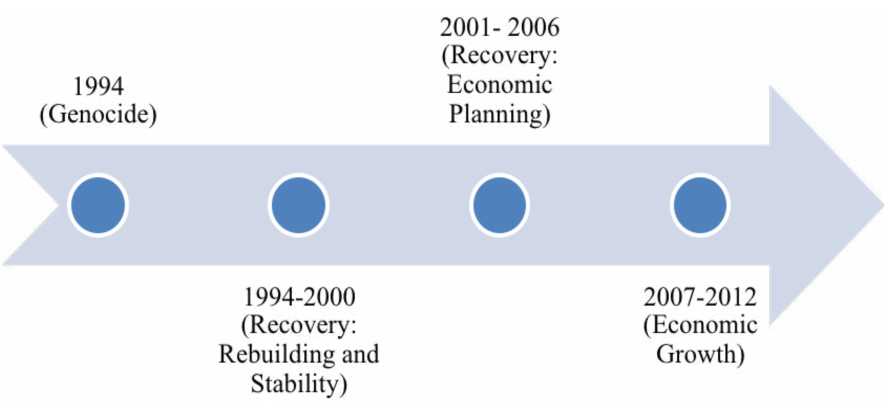
2. Building up local government capacity with international exchanges and external experts that assist staff with the learning and implementation of new tools to improve local capacity in prioritized areas (e.g. tax collection)

3. Increasing the relative attractiveness of the city by improving unique liveability factors (e.g. cleanliness, safety) and marketing widely and clearly investment opportunities within the city.

Kigali: Key Facts and Figures	
1,060,267	Population of Metropolitan Area
24.7%	Population growth (2007-2012)
$1.46 bn	Metropolitan GDP 2012 (billion, USD)
9.70%	Average Annual GDP growth (2007-2012)
6.12%	Average Annual Job growth (2007-2012)
$1,380	GDP per capita (USD)

Source: Oxford Economics

City of Kigali Timeline



EXECUTIVE SUMMARY

As the capital and primary city, the City of Kigali benefitted from national policies that improved governance and the business environment. Since 2000, Rwanda has been steadily implementing reforms to promote stability and economic growth in the country. As the capital city and center of economic activity in the country, Kigali benefitted significantly from these improvements. Specifically, Kigali has benefitted from 3 main factors:

1. ***National Economic Planning and Implementation***: National level plans outlined strategies and set goals according to short, medium and long-term horizons to improve implementation, as well as agency coordination. Targeted strategies were also developed to promote the growth of key economic sectors, and ultimately help the country achieve middle-income status by 2020.

2. ***Improved Safety and Good Governance***: Efforts to improve safety had far-reaching impacts on economic growth, including: increasing local business activity, attracting the diaspora community and other professional talent (to relocate to Kigali), and expanding foreign investment and opportunities for tourism in the country. Governance reforms like performance contracts, the zero tolerance policy on corruption and decentralization have further improved the accountability and performance of government officials.

3. ***Enacting Key Reforms to Improve the Ability to Do Business***: Rwanda prioritized the improvement of the business environment and has been a top reformer according to the World Bank's Doing Business survey. Notable improvements include land reform (through the Land Tenure Regularization Program), that encouraged private land ownership and freed up land markets; and the centralization of investment promotion activities within one agency- the Rwanda Development Board (RDB).

The City of Kigali created a niche for itself in terms of economic development. The Mayor's Wedge, or amount of autonomy over economic development, is relatively small in Kigali. However within this wedge, the city still managed to create a role for itself by leveraging national level programs and playing up its own competitive strengths to promote growth. The city's actions can be grouped into 5 key areas of intervention, Kigali:

1. ***Improved the city's business environment***: The City of Kigali proactively undertook an assessment of the enabling environment according to the World Bank's Doing Business survey (adopting this "best practice" from the national level). This assessment included feedback from the private sector, through the newly established Kigali Investors Forum, and concluded with the implementation of specific reforms to address identified constraints.

2. ***Built up capacity within local government:*** Understanding that high capacity staff are necessary for a high-functioning municipal government, Kigali incorporated capacity building opportunities into problem-solving exercises. The city utilized learning exchanges that involved sending key personnel to other cities to learn specific skills (like tax collection systems, or economic planning), and bringing these same experts back to Kigali to assist with the implementation of these new skillsets and ideas.

3. ***Addressed bottlenecks and constraints for the private sector***: The city engaged regularly with the private sector to better understand constraints to doing business. Through these engagements, the city identified access to finance and land ownership as two key constraints for local firms. The city then addressed these constraints by helping firms (and small producers) to organize as cooperatives and co-locate operations; providing groups with land titles for the new properties. Further, the city worked with financial institutions to provide these same land titles as collateral and subsequently helped increase access to finance.

4. ***Accentuated its unique liveability appeal***: Kigali is attractive to both domestic and foreign residents because of both inherited (climate, low corruption efforts by national government) and constructed factors (cleanliness, safety). The city's "clean appeal" evolved from cleaning initiatives that began shortly after the Genocide; but

keeping the city clean became a tradition that individual residents took pride in and promoted through monthly neighborhood clean ups. Further, residents began contributing to local security services, in order to maintain the safe climate they had come to expect. Investors and foreign businesses took note of this liveability, and have cited Kigali's liveable environment- including cleanliness, safety, low corruption and low traffic- as a key factor in their decisions to live, work and invest in the city (especially when compared to other cities in the region).

5. ***Marketed city appeal to investors and key actors to attract new investment***: Through designing an award winning urban plan that demonstrates a long-term vision for economic prosperity, Kigali has caught the eye of numerous investors. The Kigali Conceptual Master Plan (and later the Kigali City Master Plan- KCMP) has been used as a promotional tool to demonstrate viable opportunities for investment in the city. Paired with a good investment climate and government commitment (signaled by the completion of infrastructure projects in line with the long-term vision), the plan has successfully attracted numerous new investments by foreign and domestic investors.

In sum, the City of Kigali enjoyed high rates of economic growth in terms of GDP and job growth, because of a combination of both inherited and constructed factors. As the capital city, Kigali benefitted from national level economic planning (including proactive sector targeting), improved safety and governance, and business environment reforms. However the city also contributed to its own growth by supplementing and replicating national level efforts at the city level, and capitalizing on its competitive advantages. This included: improving the municipal business environment and the ability of firms to operate, pro-actively building up local government capacity, and improving and marketing the relative attractiveness of the city.

National Context

Kigali's economic success is in large part due to national level improvements. Growth in Kigali has chiefly been a result of policies implemented at the national level. These policies have focused on promoting stability and economic growth; including improvements to economic planning, governance, the ease of doing business and macroeconomic policy (e.g. stable currency, prudent debt management, and inflation under control). While national-level policies have been good for growth in many parts of the country, Kigali has benefitted significantly as the majority of investment and high-skilled jobs have landed in the nation's primary city. The following section describes the national environment to serve two related objectives: (1) to illuminate major national level factors that contributed to economic growth in Kigali and, (2) to explain how Kigali has leveraged these national level efforts to promote further growth.

Rwanda's national government has contributed to Kigali's impressive success through 3 main factors:

1. National Economic Planning and Implementation
2. Improved Safety and Good Governance
3. Enacting Key Reforms to Improve the Ability to Do Business

Factor 1: National Economic Planning and Implementation

Rwanda utilized national level plans to set goals, outline strategies, and coordinate among agencies. One of the most prominent plans is Vision 2020. Led by President Kagame in 2000, this was the first long-term plan that clearly established national level priorities, most notably, the goal of transforming Rwanda into a middle income country by the year 2020.

Yet national planning was not limited to developing long-term visions, but was applied to short and medium term goals as well. In order to break long-term visions into manageable and perhaps "implementable" pieces, the government created medium (Economic Development and Poverty Reduction Strategy Papers, EDPRS) and short-term plans (annual action plans) to set targets, measure progress and improve accountability. The plans were implemented strictly with dedicated funding, and both, national agencies and local governments, were held accountable for meeting targets through performance contracts. On the whole, Rwanda's success has not been due to the long-term vision itself, but rather due to the country's ability to transform (and implement) a long-term vision into short-term action plans, that were backed by funding and accountability mechanisms.

The President's Office developed targeted strategies aimed at the growth of key sectors. In order to usher the country into middle-income status in only 20 years, a clear plan for economic prosperity had to be developed. In the early 2000s, the Ministry of Commerce conducted an analysis of economic constraints and opportunities across different districts. This analysis fed into the development of national strategies that promoted investments in sectors with the highest potential for growth. The selected sectors were diverse, including:

- Agriculture, where the majority of Rwandans worked;
- Tourism, an industry with potential and existing firm capacity (see pg. 9); and
- ICT, where leaders understood Rwanda would have to develop capacity in order to cultivate a tertiary industry that could support a larger middle class (see pg. 10).

Proactive Sector Targeting: The Tourism Sector

The national government identified tourism as a high potential sector very early on. Rwanda had always enjoyed demand for tourism services because of the natural beauty of its volcanos and lakes, and the presence of rare gorilla families. However years of violence and instability weakened demand. After security was restored in the early 2000s, the demand for tourism services surged and tourists returned in high numbers.

The national government devised a strategy in light of the constraints that Rwanda faced in the tourism industry. Rwanda would be unable to compete with safari tours in Kenya and Tanzania given their experience in the market and the lack of domestic capacity to handle large numbers of tourists. The Government decided to create a niche in the market: promoting high-end tourism for unique "gorilla experiences" that would result in fewer tourists without compromising on revenues, because of the high priced permit fees mandated by the government.

A second niche was developed in light of Kigali's unique advantages in the tourism industry; for Meetings, Incentives, Conferences and Events (MICE) Tourism. Kigali enjoyed several unique characteristics in the region including low traffic congestion, high levels of safety, cleanliness (i.e. tidy streets) and a central location in Africa. The hosting of conferences and events seemed like a natural fit for these assets and would give Kigali a competitive edge in this market over other large cities in the region that lacked these factors (e.g. Nairobi).

Therefore, the government, seeking to further its competitive advantage in multiple sectors, promoted multi-lingual capacity among residents through education, requiring schools to teach in both French and English. The Government also attracted private sector investors, through tenders and Requests for Proposals (RFPs), to build hotels and a conference center; choosing "leading" investors like the Radisson and Marriott (hotel groups) with the expectation that other industry actors would soon follow.

The decision to target the tourism sector was part of a larger, participatory process. Private sector players engaged with government officials and communicated their interests in growing the tourism sector in Rwanda. The sector might have been small in the late 1990s, but the players were long-established and relatively sophisticated, which helped increase their ability to influence decision makers.

In 2002, the tourism industry was chosen deliberately as a focus for proactive targeting. At that time, the RDB hired a consulting firm and organized a working group to develop an action plan. The working group consisted of 80-120 people, made up of both private sector and government actors. The decisions that were made (and voted on) by the working group were taken to the National Cabinet by the Ministry of Trade and Industry to be approved as national policy. The strategy included an action plan, which was incorporated into the action plans of individual actors (like the RDB's yearly action plan), along with dedicated funding to ensure implementation.

Results: Today, tourism is the largest generator of foreign exchange in the country.

Proactive Sector Targeting: The ICT Sector

Unlike in the tourism industry, there was no existing capacity in ICT when the sector was prioritized in the early 2000s. The decision to promote the ICT sector was made in response to existing constraints, rather than existing capabilities. According to President Kagame, because of the country's limited natural resources, Rwanda would need to make its *people* the country's greatest resource. The future ICT sector would be largely dependent on high levels of human capital which the national leadership intended to develop as part of the country's long-term economic growth strategy.

The first priority was an environment conducive to the ICT industry. Fiber optic cables were installed and made accessible. The telecommunications industry was liberalized and mobile-cellular telephone subscriptions jumped from 33.4 per 100 inhabitants in 2010 to 63 per 100 inhabitants in 2013 (Rwanda Ministry of Youth and ICT, "MYICT" report). Broadband internet coverage was extended, and Rwanda displaced Ghana to become the country with the fastest broadband internet speed in Africa (according to the latest statistics from Ookla's NetIndex).

Another priority was improving human capital by improving domestic education programs and attracting foreign educational institutions. The Government of Rwanda approached Carnegie Mellon University (CMU) to develop a Center of Excellence in Rwanda that would address the lack of professional capacity in science and technology. While the University was not looking for opportunities in the region at the time (it already had campuses in Qatar and China), it found itself attracted to the quality of life, safety and the commitment of political leaders in Rwanda. The Government had offered a lucrative deal, underwriting all costs of the program so that the University could maintain the quality and cost of its degree program. Both parties agreed to the terms and as of 2014, the Carnegie Mellon University Campus in Rwanda graduated its first class of 22 students with Master's Degrees in Science and Technology (equivalent of a degree from the main campus in Pittsburgh, PA).

The Government hopes to build a competitive ICT sector that will help address issues of youth unemployment and the need to develop globally competitive tradable services. Despite the improvements outlined above and efforts made to attract new firms, challenges still remain: like a limited domestic consumer market and preference for expats in technology or high capacity roles within Rwanda. The national government's investment in the ICT industry continues in the present day with the understanding that benefits will most likely be realized over the longer term.

Factor 2: Improved Safety and Good Governance

Efforts to improve safety have had far-reaching impacts on economic growth. Following the genocide there was a period of stabilization and recovery in the late 1990s. The need to restore safety and stability, and the need to rebuild institutions and trust was critical. It took until the early 21st century for improvements in safety to affect directly economic activity.

The ability to promote a safe environment for doing business is no small feat in the region. In Rwanda, improved security enables shopkeepers and venders to stay open later and store cash and supplies without fear. This is also true for female vendors and shop-keepers, encouraging women to play an important role in the economy. Expatriates identified safety in Rwanda as a unique feature in the region, with ripple effects on the economy that have not only impacted existing firms, but also expanded the economy, for example:

- Improved safety has encouraged the return of refugees and members of the diaspora community, most of whom have resettled in Kigali, creating a denser urban agglomeration and consumer market with demand for services and housing.
- Improved safety has allowed the tourism industry to flourish.
- Improved safety has increased the attractiveness of Rwanda to foreign investors.

Governance reforms have improved the accountability of government at the national and local levels. Reforms and policies designed to improve the effectiveness of governance and service delivery have included specific measures like:

- **Performance contracts**: Performance contracts – based on the precolonial Rwandan tradition of Imihigo- are signed between local Mayors (or Governors) and the President at the beginning of the formers' terms. The contracts bind the Mayors to agreed-upon economic and social targets based on the needs of the districts and the national priorities. Internal government audits are conducted to measure performance against targets each year, and additionally, Mayors must read aloud in Parliament their progress on each of the targets. These testimonies are broadcasted through television and social media to ensure local constituents are informed.
- **Zero tolerance policy on corruption:** The President has been a champion of the zero-tolerance approach to corruption. To improve implementation of the policy, the Ombudsman Office was created in 2004[87] to monitor compliance across government sectors. As further proof that the policy was to be taken seriously; several key officials have been removed from office and received prison terms for their offenses.
- **Decentralization:** Decentralization of authority and responsibility to the district level was carried out in 2001 to improve participation at the local level and improve accountability of local government officials. Decentralization happened in two phases: Initially 11 provinces (plus the City of Kigali) were established. In the second phase, the 11 provinces were consolidated into 4 provinces (plus the City of Kigali). Each district became responsible for its own development plan which included economic and social goals. These district level plans were then integrated into the medium term national plans (the EDPRS). Performance contracts were also implemented at this time, which led to improvements in planning, target-setting, and outcomes at the local level.

Factor 3: Enacting Key Reforms to Improve the Ability to Do Business

Apart from proactively targeting specific sectors, the national government made investments to improve the business enabling environment, **including**:

- **Doing Business Reforms**: The national leadership prioritized improving the overall business environment. Using the World Bank's Doing Business evaluation tool as a guide, the government made key improvements, resulting in the World Bank recognizing Rwanda as one of the top reformers in both 2010[88] and 2011[89] (in 2014, Rwanda would move up to 32nd place[90]).
- **Land Registration**: Land ownership has not always been clear in Rwanda (especially after the 1994 Genocide and the return of large numbers of refugees) and land registration processes used to take up to 2 years. However, the Land Tenure Regularization Program that became law in 2005 (and was implemented in 2007) addressed these problems and other land disputes, by improving the land registration process, encouraging private ownership of land and freeing up land markets. The program led to a real estate and construction boom, and subsequent increases in job creation.
- **Centralizing investment promotion within one agency, in 2009, the Rwanda Development Board**

87 Hitchen, Jamie, "Rwanda: Corruption will not be tolerated," The Foreign Report.com, 4 January 2013 http://www.theforeignreport.com/2013/01/14/rwanda-corruption-will-not-be-tolerated/, accessed 11 August 2014.

88 World Bank, Doing Business, "Most Improved in Doing Business 2010," 2010, <http://www.doingbusiness.org/reforms/top-reformers-2010> accessed 1 August 2014.

89 World Bank, Doing Business, "Most Improved in Doing Business 2011," 2011, http://www.doingbusiness.org/reforms/top-reformers-2011> accessed 1 August 2014.

90 World Bank, Doing Business, "Ease of Doing Business in Rwanda," 2014, <http://www.doingbusiness.org/data/exploreeconomies/rwanda> accessed 4 August 2014.

(RDB): The RDB was established to fast track priority investments in Rwanda, specifically investments in targeted sectors outlined in Vision 2020. The RDB actively reaches out to investors and provides country-wide investment information. Specialized packages are developed for investors in priority sectors, including no/low taxes, free imports on goods to do business, etc. The RDB has a clear mandate and collaborates with provincial and district governments by dividing responsibilities: the RDB handles investment attraction and incentives; while the local governments handle the provision of land and project facilitation (e.g. construction permits).

Local Context

Kigali is the capital and primary city of Rwanda. In 2012, the City of Kigali accounted for approximately 10% of Rwanda's population (over 1 million people), and approximately 20% of the nation's GDP[91]. Since the 1990s, the city's population has grown quite rapidly; from a population of 235,000 in the early 1990s, to over 600,000 just 10 years later. At present, Kigali is the largest city in Rwanda and accounts for the majority of the country's urban population, making it a center for the country's industrial, service and administrative activities.

In March 2001, Rwanda began to decentralize authority to the local government level. In Rwanda, local government is broken down into 4 units: provinces, districts, sectors and cells.

- **Provinces:** Rwanda is currently divided into 4 provinces plus the City of Kigali. While the City of Kigali is relatively smaller than the other provinces in terms of population, it is more drastically small in terms of land, accounting for only 730 km^2 (compared to an average of 6,000 km^2 among the other 4 provinces). Provinces are expected to help execute central government plans, as well as supervise and coordinate among the districts under their administration. The provinces are each governed by a:
    - Governor, who ensures adherence to laws, implementation of programs, and promotes development within the province.
    - Provincial Coordination Committee, which examines and coordinates matters of the province (includes the Governor, Permanent Secretary, Department Coordinators, District Representatives, etc.)
    - Provincial Permanent Secretary, who ensures the coordination of administrative and technical services[92]
- **Districts:** Each province in Rwanda is subsequently broken up into districts, with over 30 districts nationwide. Districts are considered the local government unit, and have typically been the recipient of decentralized authority and responsibility. Districts are governed by district leaders (who are elected to 5 year terms) and district councils.

While the City of Kigali is a province administratively, it is unique in that it represents 3 districts within the same metropolitan area. Therefore the City of Kigali has special administrative powers, like having its own budget, which makes its authority and responsibilities a blend of both the provincial and district level. Kigali is made up of 3 districts that comprise the Metropolitan Area (see map on right), and receives funding through local tax collection and budget allocations from the National Government. The City of Kigali's government has a Mayor, 2 Vice Mayors, a city council, and a "supervising role" for the minister of local government, although the Mayor takes the lead on city-level initiatives. However, in terms of economic planning, the "Mayor's wedge" is relatively small, with investment promotion, proactive sector targeting and economic planning largely carried out at the national level.

Administrative map of the city of Kigali

91 Oxford Economics Data

92 Ministry of Local Government, Rwanda

Analysis

Factors of Competitiveness

While national level factors contributed significantly to the city's economic success, Kigali's ability to capitalize on national strategies gave the city an additional edge. The majority of foreign investment ends up in Kigali because of the availability of human capital and infrastructure. Even sectors based elsewhere in the country have contributed to the city's economy; for instance, most tourists that come to Rwanda for gorilla tourism tend to spend a night or two in the capital before continuing on to their destinations. Yet apart from these primary city advantages and national policy improvements, Kigali has, within its relatively small policy wedge, created a niche for itself in promoting private sector growth and the attractiveness of the city.

In the following section, the key initiatives undertaken by the City of Kigali will be described. These include:

1. Improving the business enabling environment;
2. Building up capacity within the local government;
3. Addressing bottlenecks and constraints for the private sector;
4. Accentuating its unique liveability appeal; and
5. Marketing its appeal to investors and key actors in order to attract new investment.

Proactive piloting of projects

Although economic development strategies were frequently developed at the national level, the City of Kigali was proactive in implementing best practices. In 2011 the City of Kigali piloted an electronic platform for construction permits (supported by the IFC and the African Development Bank). Kigali decided to invest in its own electronic platform for construction permits because it wanted to reduce red tape even further and had learned of Nairobi's success with the electronic system. The city initiated the project and provided funding from the municipal budget. At present, Kigali's success with the electronic permit system has encouraged its adoption in other Rwandan cities. While the effects of the electronic platform are not captured as part of this study, it is testament to the city's continual focus on learning and piloting.

Factor 1: Improved the Business Enabling Environment

The City of Kigali sought to improve the business environment after witnessing Rwanda's success on the World Bank's Doing Business rankings. As mayor of the city (2006-2011), Dr. Aisa Kacyira observed that national level efforts to improve the Doing Business environment had been met with great success, improving Rwanda's reputation as well as the ability of firms to operate. She decided to reach out to the World Bank to set up a city level analysis of the business environment, which was then carried out in conjunction with the RDB.

City leaders coupled this analysis with formalized platforms for stakeholder engagement to understand better the constraints to doing business. Dr. Aisa created the Kigali Investors Forum, the first organization that *formalized* stakeholder engagement. The Forum provided a platform for private sector investors who had purchased land (or were currently building) to express issues or highlight constraints that were preventing them from completing their projects and starting their businesses.

The city implemented reforms to address key constraints. The Doing Business assessment and the Kigali Investors Forum highlighted "inefficiency and lack of coordination between agencies regarding construction permits" as major constraints to doing business. This information led to the establishment of the City of Kigali's One Stop Shop, in 2010, that housed all of the agencies that needed to approve construction permits under one roof. Investors would have one place to apply for (and be granted) all necessary approvals, and receive a construction permit within 30 days. According to a study on comparative advantage by the Ministry of Commerce, this level of follow through was typical in Kigali. The city was proactive in learning from others and in implementing reforms.

In sum, the city improved the business enabling environment by:

1. Identifying best practices at the national level and applying these at the city level;
2. Using expert assistance to help conduct assessments of major constraints;
3. Formalizing stakeholder engagement to promote regular feedback from the private sector; and
4. Addressing identified constraints by implementing appropriate reforms (e.g. One Stop Shop).

Factor 2: Built Up Capacity within Local Government

Improving the capacity of local government required more than just attracting top talent, but building capacity through technical learning exchanges and the use of expert consultants. Mayor Theoneste Mutsindashyaka (2001-2005) wanted high level professionals on his staff. Early in his term as Mayor, he began to employ graduates from leading local universities. As the country's capital, Kigali found it easy to attract talent from around Rwanda. However the Mayor knew that he needed more than just recruitment programs to build capacity.

The Mayor facilitated learning and training opportunities in priority areas. Mayor Mutsindashyaka reached out to John Street, the then Mayor of Philadelphia, and facilitated an exchange program between the two cities in the areas of economic planning and tax collection, both of which had become priority areas due to a lack of capacity among staff. Vision 2020 had just been released and economic planning was encouraged among local governments. Yet there was little or no capacity within Kigali to design an economic plan. Additionally, the city continued to be largely dependent on central government transfers and lacked the capacity to increase tax collection rates.

The partnership with the City of Philadelphia became an opportunity to address these shortcomings. The City of Kigali financed a month-long visit for key officials from the departments of Urban Planning and Finance to work with officials in Philadelphia. Following which, officials from Philadelphia came to Kigali, accompanied by GTZ-financed consultants, to assist with the implementation of lessons learned. As a result, Kigali developed the Kigali Economic Development Strategy (KEDS) in 2003; and adopted new software to improve land titling and tax collection in the city

Both outputs were not successful; in fact, years later the KEDS plan was all but forgotten. The KEDS plan was never fully implemented, but it did help to improve planning capacity over time. National officials testified that each input from the City of Kigali to the EDPRS plan was better than the last.

The improved tax collection capacity in the city included a computer titling system, which helped raise tax revenues from 20% to 85%. This meant that the City of Kigali was able to finance more activities through own-tax revenues, providing it with greater leeway over project design and decisions. At one point, tax experts in Kigali provided training workshops to country-wide officials; their audience even included staff from the national Rwanda Revenue Authority.

In sum, the city successfully improved its capacity by:

1. Capacity building alongside problem solving: the city did not use experts that solved problems and left, but instead improved the capacity of local staff by facilitating learning opportunities in key technical areas.

2. Using exchanges to not just share ideas, but implement actions: Kigali again exhibited follow through, bringing in experts to help not only with the design of new ideas, but with the implementation of these ideas as well.

Factor 3: Addressed Bottlenecks and Constraints for the Private Sector

The City of Kigali promoted the private sector by engaging with the business community and addressing identified constraints to growth. Two examples of these efforts include providing assistance to individual cooperatives and SMEs through land title programs, and working with financial institutions to improve access to finance. During Mayor Mutsindashyaka's term in office, more than 90% of investment was local, and was directed mostly into construction and rebuilding the city. The city maintained close relations with the business community; and through informal feedback loops, was able to understand specific bottlenecks and constraints to growth.

The city provided land and land titles to small and informal firms, encouraging their growth and formalization. A key constraint for firms was access to land, especially among small firms. Many firms leased their property and only when they had paid 40% of the property value did they receive the title to the property. This meant that many firms lacked collateral and subsequently, access to finance. The city addressed this constraint in two ways; 1) the city encouraged the formation of cooperatives by providing land to SMEs in physical clusters; and 2) these firms (and newly-formed cooperatives) were provided with land titles for their new property. The computer titling system (developed from training exchanges explained under Factor 2) not only improved the tax collection capacity of the government, but provided formal evidence of property ownership as well.

The city addressed the lack of access to finance for SMEs and cooperatives. City officials went to meet with financial institutions to better understand the lending risks to small businesses. During this meeting, the City of Kigali was requested to underwrite loans for the SMEs, as SMEs were considered high-risk borrowers (mostly because they lacked collateral). Instead, the cash-strapped city cleverly offered to provide land titles (from the newly developed computerized titling system) as collateral instead of underwriting the loans. This helped extend finance to previously credit-constrained groups, while at the same time allowing the city to avoid direct involvement in individual lending.

In sum, the city successfully addressed bottlenecks to growth by:

1. Engaging with private sector stakeholders to understand constraints;

2. Helping small firms to obtain affordable land while also promoting physical clusters, cooperatives, and business registration (through land titles).

3. Finding a market based solution to improve access to finance without becoming the direct provider of loans or putting the city financially at risk by co-signing loans.

*** The private sector continues to be underdeveloped in Kigali, and the strategies explained above have in no way provided a cure for or fully addressed the problem**. The policies and interventions did have an impact, as access to finance has steadily increased over the decade and land rights and land markets have become more transparent (improving the business enabling environment). However there is still much work to be done within the private sector to address bottlenecks that discourage the cultivation of a thriving business community.

Factor 4: Accentuated its Unique Liveability Appeal

One of the reasons that Kigali is attractive to both domestic and foreign residents is because if offers a liveable environment - it offers safety, cleanliness, low traffic, minimal corruption and pleasant weather. Several of these factors are not under the control of the city. For instance, the minimal corruption and high levels of safety that Kigali enjoys are mostly a result of efforts undertaken at the national level.

Yet some of these factors can be attributed to the city, and have given Kigali a unique competitive advantage within the region. The efforts to make Kigali a "clean city" started during the recovery period, when the city's first Mayor after the Genocide, Rose Kabuye (1994-1998) was tasked with rebuilding the city. Kigali was in ruins, and while rebuilding institutions was important, Mayor Kabuye decided that the city needed to be cleaned in order for business activity to resume. Kabuye hired women heads of household who were eager to find work and had them begin to clean the streets of the city. The women were paid with food rations from the World Food Program and each day, more women showed up to clean.

Eventually the city rebuilt its markets and invested in infrastructure, but the tradition of keeping the city clean has remained. The city began to take pride in the cleanliness of its streets and became acutely aware that this had become a positive distinction from other cities in the region. Thus, long after the recovery period, Kigali maintained its focus on keeping the city clean. Donors like the World Bank provided funding for garbage trucks, cooperatives were hired to maintain clean streets, and even businesses could invest in the upkeep and care of major throughways. Individual residents began to take pride in their city, and contributed to the upkeep; for example, all residents spend the last Saturday of every month cleaning alongside their neighbors (referred to as *Umuganda*). Residents also pay into community funds for local security forces to maintain the secure environment they have come to expect.

Kigali has benefitted from these small, but important, advantages; most notably, by attracting foreign investors. Investors and foreign businesses began to take note of Kigali's liveable environment and cited cleanliness, safety, minimal corruption and low traffic as key factors in their decisions to invest and to stay (e.g. place staff in country). Kigali also stands out against its competitors (i.e. cities in neighboring countries in the region), providing a stark contrast from issues related to violence, corruption, and even untidiness and traffic congestion. These liveability factors have given Kigali desirable attention, and the city has continued to play upon this advantage to make the most of its position.

In sum, Kigali leveraged its unique factors to increase its overall attractiveness, by:

1. Identifying and understanding its unique advantages and investing further in areas within their administrative remit (e.g. paying cleaning cooperatives, enhancing security)

2. Integrating efforts with community engagement: community buy-in helped residents to take pride in the cleanliness[93] of the city and keep the cleaning tradition alive.

Factor 5: Marketed City Appeal to Investors and Key Actors to Attract New Investment

The City of Kigali hired consultants to help develop an urban plan for the city (the KCMP) in 2007. In response to the growing popularity of urban plans, the City of Kigali decided to develop a Master Urban Plan that would plan for the long-term growth and development of the city in accordance with the city's long-term vision. The hired consultants developed a Portland-style model for the city, planning for mixed-use space and incorporating public spaces into the development of the city. The planners even used the Kigali Investors Forum to incorporate stakeholder feedback in the design process. The KCMP was submitted to, and won, international planning awards that further improved the circulation of the plan and its notoriety.

93 **It is imperative to acknowledge that cleanliness is not synonymous with competitiveness**. The incentive behind the "clean city" strategy was the need to put things in order after the conflict in order to allow business activity to resume and private sector growth to take-off. Once active, the cleanliness efforts built off other existing actors (including those inherited, from the national level and the city level) to increase the attractiveness of the city over other markets.

After the KCMP was completed, individual district plans needed to be developed for each of the 3 districts in Kigali, and external consultants from Singapore were invited to assist with the planning. This subsequent Kigali *City* Master Plan differed slightly from the previous KCMP; it had a Singapore style model that focused on industrial growth and development and was intended to accommodate larger numbers of people in the metropolitan area.

The City of Kigali used this Master Plan for more than urban development, but as a marketing tool to attract new investors. The city used the KCMP actively as a marketing tool and promotional piece at external events. In fact, according to the RDB, most investors that have inquired about Kigali already knew about the KCMP and many of the opportunities for investment in the city.

In sum, the city boosted successfully interest and investment in the city through the Master Plan because of:

1. Design: the plan was designed well with engagement from stakeholders; international awards give the plan further credibility.

2. Communication: the plan helped Kigali to demonstrate commitment to a long-term vision and opportunities for investment within the city.

3. Dissemination: the plan has been marketed to external audiences via the internet and through conferences and events.

4. Collaboration: while the city is in charge of the strategy and larger infrastructure projects, many of the highlighted investments are executed by the private sector (buying and developing mixed-use living spaces, etc.).

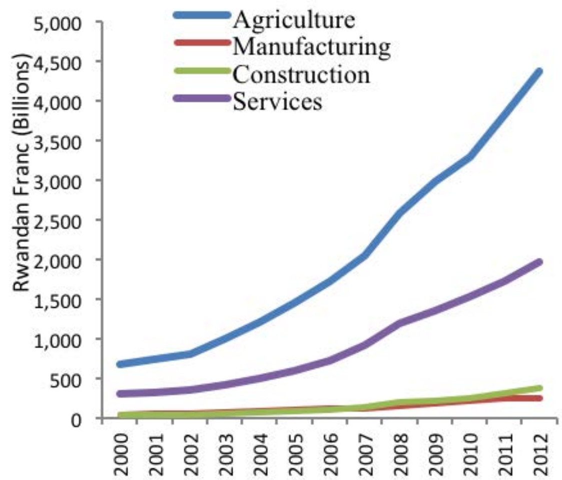
5. Signaling intent: the government has simultaneously invested in public infrastructure projects in accordance with the Master Plan that signal commitment and mutual investment in the long-term vision.

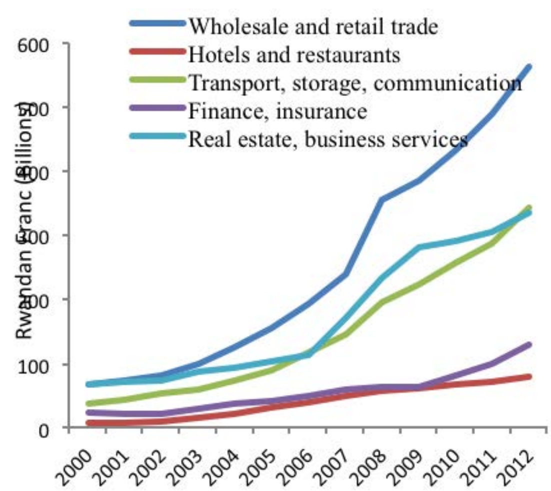
*** It is important to note that there are some mixed opinions regarding the Master Plan**. This includes concern regarding the large amount of developed office space (questioning the supply in relation to existing demand), and the demands on investors after their investments are sunk to make changes or alterations to their properties. This report does not confirm or deny these statements, nor does it make predictions regarding the feasibility of the plan, but highlights the importance of the use of the Master Plan as a tool for communicating and marketing a long-term vision for the city (as well as subsequent investment opportunities within the city).

Conclusion

The City of Kigali enjoyed a rapid increase in jobs and GDP because of a combination of both national and municipal level factors. At the outset, it is clear that Kigali did well because of Rwanda's national level improvements. As the country's capital it benefited immensely from national policies that unlocked constraints to investment and private sector growth. Rwanda is one of the world's 10 fastest growing economies[94] and Kigali, as the center of economic activity in the country, is growing quickly as a result. However, as explained above, Kigali's growth cannot be attributed solely to national level policies, as the city focused on supplementing national level efforts with those of its own.

However, Kigali still has a long path ahead of it, with numerous challenges that remain unaddressed. Kigali's success is remarkable because of the high rates of growth despite a (relatively recent) turbulent history. However, the country is still considered a low income country (with GDP per capita rates of only $1,380 in 2012), and despite the efforts highlighted above, there are several issues that remain. For instance, many local private sector firms still struggle to remain competitive and few, if any, have had international success. Further, despite Kigali's "liveable" traits, the city lacks sufficient affordable housing for local residents. Thus, Kigali has not yet become a middle income country, but the strategies and policies that it has used have helped it to grow at remarkable rates.





According to investors, what attracted them most to Kigali was:

- Good business environment, commitment to reforms
- Increasingly attractive market- few monopolies, clear land rights and investment opportunities
- Cleanliness and safety that set it apart within the region
- Lack of corruption (and overall good governance)

And why investors ultimately invested in Kigali was because:

- Responsive professionals in key offices (RDB, Kigali One Stop Shop)
- National and city plans signified a long-term commitment and clear opportunities to invest

94 The Economist, "Africa's Impressive Growth", 6 January 2011 http://www.economist.com/blogs/dailychart/2011/01/daily_chart, August 5, 2014.

Lessons for Other Cities

Kigali is a relatively small capital city in a low income country; its exceptional success can offer lessons to other cities with similar conditions and challenges. These could be other capital cities; cities in countries with strong, proactive national governments (i.e. with a small mayor's wedge); cities that lack inherited natural advantages; and cities recovering from conflict that need to rebuild their city and economy. While this case study does not certify that Kigali's success will be permanent, it does offer lessons for other cities in *how* it achieved such rapid growth:

1. **Cities with relatively small administrative remits, regarding economic development, can leverage national level policies and resources**. Capital cities typically benefit from greater international exposure, increased attention from the national level, and the presence of government offices (i.e. additional employment opportunities). However, both capital and non-capital cities can leverage the national level factors available to them, and subsequently, benefit from additional financial resources and technical assistance. Further, if cities have limited resources, they can not only benefit from additional resources, but maximize the efficiency of resources by finding ways to complement national level strategies. Ways in which to leverage national level policies and resources include:

   - Adopting best practices at the national level and modifying or piloting these practices at the local level;

   - Building off of proactive sector targeting at the national level by prioritizing local interventions that support the growth of nationally targeted sectors (e.g. creating a conducive environment for the growth of nationally targeted sectors, or the development of a liveable, attractive environment for new firms and/or universities).

   - Tapping into available resources through requests or proposals (or integration into local planning) for national funding and/or technical assistance programs; and

2. **Cities can, independently of national training programs, improve the capacity of local staff.** Cities can independently take measures to improve staff capacity. If local resources or experts are in short supply, then staff exchange learning programs can be an extremely effective way of improving staff capacity. These programs are more effective when 1) designed to address low-capacity areas (e.g. tax collection capacity in Kigali); 2) paired with clearly detailed objectives and specific staff members to receive training; and 3) exchanges incorporate the implementation phase as well as the learning phase (e.g. bringing experts back to Kigali to help staff implement new tax collection tools).

3. **Cities can build upon their unique advantages to increase the attractiveness of their city.** Cities must identify factors that set them apart, especially from competitor cities, so as to effectively accentuate these advantages. While Kigali may have struggled from its location in a landlocked country and/or its comparatively small labor force (compared to other East African capital cities); it had a unique appeal for foreign visitors. If offered a safe, clean and minimally congested environment with a strong rule of law and a central location in the region. Learning how to maintain these comparative advantages and market them to outsiders was critical to the city's success.

4. **City leaders can develop and market a long-term vision for their city.** Laying the foundation for growth is important (i.e. improving the business environment), but cities need to then advertise their potential to investors. This is especially critical in low income cities or those that are recovering from conflict, as the city might need to address its image abroad. Apart from addressing badly needed reforms, cities that lay out a future plan for the city and demonstrate commitment to this vision (e.g. building outlined infrastructure) can further induce investors by restoring confidence in the city's future growth. For example, Kigali improved its business environment and liveability indicators, but relied on the KCMP to outline investment opportunities and market the city to investors.

5. **Even if not the city's core competitive advantage, cities can improve liveability factors to make their city a more attractive place to work and live:** Although Kigali saw exceptionally high returns on this investment because of its regional context, most cities stand to gain at least moderately from improvements in liveability. Increasingly, liveability factors like cleanliness, safety and low congestion matter to high-skilled workers. A recent article by McKinsey argues that cities can promote cluster growth when they encourage talent (people, companies and universities) to agglomerate in their cities,[95] and cities that have more productive and higher educated professionals have performed better than their counterparts in terms of economic growth and incomes[96]. The City of Kigali's efforts to enhance and build upon the liveability factors in their city might seem superfluous, but the ability to attract top talent could create a far greater impact than anticipated on the city's level of competitiveness.

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[95] Kirchherr, Julian; Scherf, Gundbert; and Suder Katrin; "Creating Growth Clusters: What role for local government? " McKinsey Quarterly, July 2014 http://www.mckinsey.com/insights/public_sector/creating_growth_clusters_what_role_for_local_government?cid=other-eml-nsl-mip-mck-oth-1408, accessed August , 2014.

[96] Moretti, Enrico, "The Key to Economic Success? Geography," Special to CNN, 9 October 2012, http://globalpublicsquare.blogs.cnn.com/2012/10/09/the-key-to-economic-success-geography/, accessed August 7, 2014.

Appendices

Trade Data

Top 5 Rwandan Exports from 2011-2013

Description	ANNUAL 2011	ANNUAL 2012	ANNUAL 2013
TOTAL ALL COMMODITIES	417,342,133	505,743,450	620,468,875
Ores, Slag And Ash	164,606,856	135,744,126	222,066,076
Coffee, Tea, Mate & Spices	129,093,746	157,780,898	113,170,511
Mineral Fuel, Oil Etc.; Bitumin Subst; Mineral Wax	20,524,239	51,273,041	49,982,884
Beverages, Spirits And Vinegar	6,049,501	12,608,545	25,722,247
Dairy Prods; Birds Eggs; Honey; Ed Animal Pr Nesoi	150,424	468,403	24,239,331

Top 5 Countries for Rwandan Exports from 2011-2013

Description	ANNUAL 2011	ANNUAL 2012	ANNUAL 2013
TOTAL ALL PARTNER COUNTRIES	417,342,133	505,743,450	620,468,875
United Rep. Of Tanzania	1,213,482	164,772,763	255,422,897
Dem. Rep. Of The Congo	58,487,857	109,125,039	134,910,710
Uganda	6,830,550	68,354,093	86,688,168
Kenya	57,969,238	94,759,804	82,895,522
Burundi	7,981,409	13,336,492	20,442,812

INTERVIEWS

1. In person interview with Kabera Godfrey, Director General for Development Planning, Ministry of Finance and Economic Planning (MINECOFIN), in Kigali, Rwanda on 9 June 2014.
2. In person interview with Dr. Bruce Krogh, Director of Rwanda Campus, Carnegie Mellon University, in Kigali, Rwanda on 10 June 2014.
3. In person interview with Yoichiro Ishihara, Senior Economist, Rwanda Office of World Bank, in Kigali, Rwanda on 10 June 2014.
4. In person interview with Amb. Yamina Karitanyi, Head of Tourism and Conservation Department, Rwanda Development Board (RDB), in Kigali, Rwanda on 11 June 2014.
5. In person interview with Dusenge Emmanuel, Senior Engineer, ICT Infrastructure Department, in Kigali, Rwanda on 12 June 2014.
6. In person interview with Eugenia Kayitesi, Executive Director, Institute of Policy Analysis and Research (IPAR), in Kigali, Rwanda on 12 June 2014.
7. In person interview with Yvette Mukarwema, Chief Operations Officer, Private Sector Federation (PSF), in Kigali, Rwanda on 12 June 2014.
8. In person interview with Ashani Chanuka Alles, IFC Program Leader, International Finance Corporation, in Kigali, Rwanda on 13 June 2014.
9. In person interview with Sebastien Manzi, Acting Director of Economic Statistics, National Institute of Statistics in Rwanda, in Kigali, Rwanda on 13 June 2014.
10. In person interview with Esther Mutamba, Director General, Rwanda Housing Authority (under Ministry of Infrastructure), in Kigali, Rwanda on 13 June 2014.
11. In person interview with Kyazze Edward, Head of Housing, Urban Planning & Development Division, Rwanda Housing Authority (under Ministry of Infrastructure) in Kigali, Rwanda on 13 June 2014.

12. In person interview with Sally Murray, Country Economist, International Growth Centre, in Kigali, Rwanda on 13 June 2014.

13. In person interview with Rugamba Egide, Director General, Planning, Monitoring & Evaluation, Ministry of Local Government (MINALOC) in Kigali, Rwanda on 16 June 2014.

14. In person interview with Nizeyimana Alphonse, Vice Mayor for Economic Development, City of Kigali, in Kigali, Rwanda on 16 June 2014.

15. In person interview with Norbert Kamana, Director of General Planning, City of Kigali, in Kigali, Rwanda on 16 June 2014.

16. In person interview with Patrick Arinawe, Urban Planner, City of Kigali, in Kigali, Rwanda on 16 June 2014.

17. In person interview with Paul Rugambwa, Energy Swap Coordinator, Ministry of Infrastructure (MININFRA), in Kigali, Rwanda on 16 June 2014.

18. In person interview with Claude Albert Meutchehe Ngomsi (PhD), Technical Advisor, Support to Urban Development in Rwanda, in Kigali, Rwanda on 16 June 2014.

19. In person interview with Donna Rubinoff (PhD), Senior Advisor to the City of Kigali, in Kigali, Rwanda on 16 June 2014.

20. In person interview with Professor Nelson Ijumba, Deputy Vice Chancellor, Academic Affairs and Research, University of Rwanda, in Kigali, Rwanda on 17 June 2014.

21. In person interview with Annie Kairaba, Director, Rwanda Initiative for Sustainable Development, in Kigali, Rwanda on 17 June 2014.

22. In person interview with Agnes Kanyangeyo, Deputy Commissioner, Planning & Research Department, Rwanda Revenue Authority, in Kigali, Rwanda on 17 June 2014.

23. In person interview with Philip Lucky, Senior Information Officer, Investment Promotion and Implementation, Rwanda Development Board (RDB), in Kigali, Rwanda on 17 June 2014.

24. In person interview with Felix Manzi, Investor Inquiries & Information Officer, Investment Promotion and Implementation, Rwanda Development Board (RDB), in Kigali, Rwanda on 17 June 2014.

25. In person interview with Lt Col (rtd) Rose Kabuye, Chairperson (former Mayor of City of Kigali), GreenLeaf Ltd., in Kigali, Rwanda on 17 June 2014.

26. In person interview with Vinay Gorajia, President, Managing Director, Akagera Business Group (ABG), in Kigali, Rwanda on17 June 2014.

27. In person interview with Dr. Aisa Kirabo Kacyira, Assistant Secretary General and Deputy Executive Director (former Mayor of City of Kigali), UN Habitat (Nairobi), in Nairobi, Kenya on 18 June 2014.

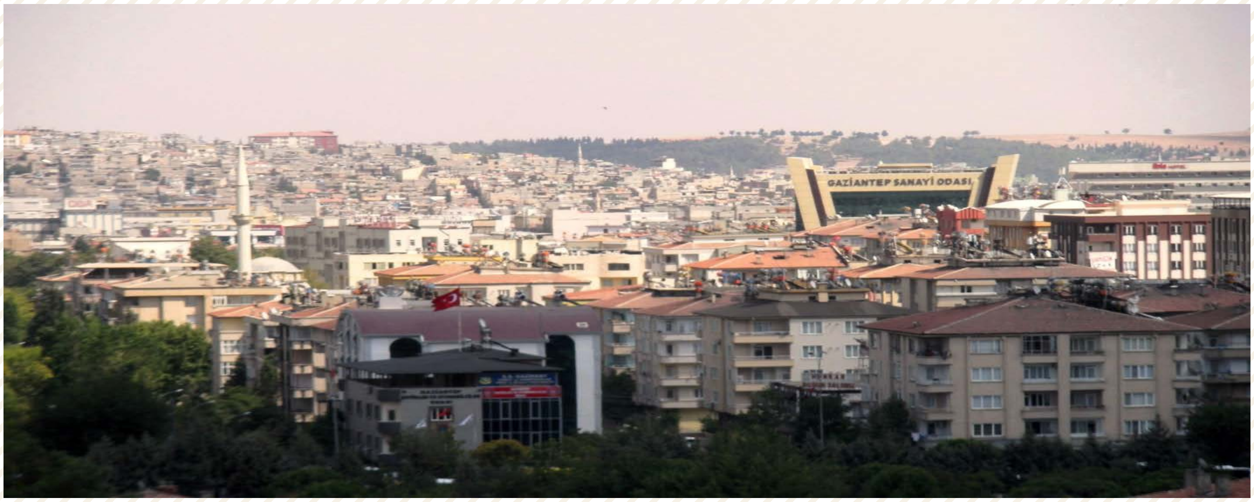
28. In person interview with Theoneste Mutsindashyaka, Executive Secretary (former Mayor of City of Kigali), Regional Center on Small Arms, in Washington, D.C. on 22 June 2014.

29. Phone interview with Neema Ndunguru, Project Manager, Investment Climate Facility for Africa (ICF), African Development Bank, on 26 June 2014.

30. Phone interview with Folkert Castelein, Private Foreign Investor, on 1 July 2014.

31. Phone interview with Didier Sagashya, Deputy Director General of Lands and Mapping (former Director of General Inspection Unit, City of Kigali), Rwanda Resource Authority, on 25 July 2014.

Gaziantep, Turkey, September 2014



Case Study 4

GAZIANTEP, TURKEY

A City Exports Its Way to Prosperity

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INTRODUCTION

This case study of the economic success of the Turkish city of Gaziantep marks the fourth in a series of World Bank case studies of successful metropolitan economies around the world. The World Bank's Competitive Cities Knowledge Base (CCKB) project aims to provide city leaders with the tools and knowledge for the successful formulation and implementation of proactive economic development strategies at the city level. The focus of the case studies component is to document not just what successful cities have done right, but *how* they have done it.

Gaziantep is a mid-sized city in an upper-middle income country, with a highly manufacturing-intensive economy. The Gaziantep metropolitan area has been highly successful in improving the prosperity of its residents, both in absolute terms, and relative to other cities in Turkey. In fact, over the past decade Gaziantep has had one of the best performing metropolitan economies in the Europe and Central Asia Region (ECA) in terms of GDP and employment growth. It has also emerged as Turkey's sixth-largest city, and the top destination for internal migrants after Istanbul.

Gaziantep's success story is one of export-driven economic growth. The city's manufacturing sector scaled up from very modest beginnings to become one of Turkey's top industrial centers, all within a couple of decades. This case study will attempt to document how and why they have done so, in the process overtaking much more established production centers in Turkey.

The other dimension of Gaziantep's success focuses on the city's approach to economic development – supportive local government working in partnership with the city's business community to identify and address key impediments to growth. Significantly, the private sector is involved both in making decisions about economic development issues, and in implementing solutions. The city's growth coalition provides a stellar example of diverse actors working together.

This report is based on primary and secondary research by the Bank's CCKB team, including two weeks spent in Turkey, in August and September 2014, interviewing government officials in the national capital, Ankara, and in Gaziantep itself, as well as members of the city's business community. The report also incorporates Bank staff feedback received at an internal review event in September 2014 in Washington.

This report was prepared by Z. Joe Kulenovic, Austin Kilroy, and Can Selcuki, with input and suggestions from the broader CCKB team. The fact-finding World Bank mission to Ankara and Gaziantep in August-September 2014 included the three co-authors, as well as Jose-Guilherme Reis and Stephen Karam from the Bank's Turkey CMU. The co-TTLs of the CCKB project are Austin Kilroy and Megha Mukim. Overall guidance on the project has been provided by Stefano Negri, Sameh Wahba, and Somik Lall as senior advisors.

EXECUTIVE SUMMARY

With one of the fastest growing metropolitan economies in the world, Gaziantep is a city which has literally exported its way to prosperity. Its economic success story is dominated by indigenous light manufacturing firms, which now sell their products in some 175 countries around the globe. Some top-level numbers are simply astonishing: Gaziantep's population has grown from just 600,000 as recently as 1990, to about 2 million inhabitants today; merchandise exports increased tenfold in just eleven years, from $620 million in 2002 to $6.2 billion in 2013. Prosperity is plainly evident in the city's streets, and Gaziantep remains a magnet for tens of thousands of newcomers each year. This once quiet corner of Turkey has emerged as an international manufacturing hub, and increasingly a tourist destination as well.

What are the reasons for this phenomenal economic performance? As is often the case, there isn't just one reason for the city's success, nor is its story necessarily a simple, linear one. Rather, several elements have combined to create the conditions and outcomes now worth examining:

- First, **Gaziantep has benefitted from a confluence of several favorable exogenous factors**, among them the liberalization of Turkey's economy and its greater openness to trade, modest decentralization of authority from the central to city governments, geopolitical developments in the region, and the city's geographic location astride vital trade routes. While other Turkish cities enjoy many of the same advantages, Gaziantep's industrialists and leaders have skillfully leveraged them for commercial advantage.

- Second, **local leaders have prioritized ensuring a business environment conducive to company growth**. In addition to lobbying the central government for national investment climate improvements, successive mayors and business leaders have worked together to streamline bureaucracy, reduce the administrative burden on companies, and provide adequate infrastructure for production and market access. Being in Southeastern Anatolia, Gaziantep also benefits from comparatively low business costs, including land and labor.

- Third, **Gaziantep offers a social environment that favors entrepreneurial activity and business growth**. The city is recognized throughout Turkey for its distinctive local culture and identity, work ethic, and tradition of multicultural tolerance and inclusion. Although socially conservative, Antepians are renowned as risk-takers, hardworking, and exceptionally commercially-minded. A career as an industrialist is valued much more than a cushy bureaucratic job, for example, and profits are largely reinvested locally.

- Fourth, **Gaziantep provides a stellar example of effective stakeholder engagement (or public-private dialogue – PPD) and collective action for economic development**. The city's private sector is well developed, with significant institutional capacity and funding, but also a keen interest in shaping the city's development. Since at least the late 1980s, Gaziantep's business leaders have had the ear of city government, and particularly of Mayor Celal Doğan, who instituted a series of pro-business initiatives and greatly enhanced the city's functionality and livability during his 15 years in office. Although informal relationships remain important, the institutional framework for this engagement is provided by the City Council, a sort of metropolitan parliament in which government and stakeholders come together to discuss issues and formulate recommendations, including on economic development. Its greatest accomplishment seems to be just facilitating dialogue, which otherwise might not happen. On the whole, local government in Gaziantep has been a valuable partner to business, without seeking to dominate economic development, nor does it directly benefit from business growth through increased fiscal receipts, for example. Collectively, Gaziantep's business and elected leaders have also been able to leverage their political influence in Ankara, acting as champions for the city and securing central government support for such economic development priorities as transport, Organized Industrial Zones, technology development, and capital access and export assistance for SMEs. In fact, in Turkey Gaziantep is known as a city that regularly punches above its weight politically[97].

- Fifth, **Gaziantep has in recent years emerged as a regional hub for Southeastern Anatolia**. As the largest, safest, best connected, and economically most prosperous city in its part of Turkey, Gaziantep now acts as the commercial, logistical, and educational center for a vast hinterland with millions of people. It has overtaken previous rivals for this role, and now hosts the regional offices of various national and international organizations, consular offices, donors and relief agencies, international fairs and buyers' expos, as well as one of Turkey's largest universities with thousands of international students and faculty. There are multiple daily flights to Turkey's main cities, as well as those in other countries (about 10% of total enplanements at GZT are international).

But it was not always thus; Gaziantep's road to industrialization has been anything but rapid, and path dependency is only one, minor part of its success story. With the area's arid land ill-suited to intensive agriculture, early on Antepians learned to earn a living by making and trading things. Over the centuries, an artisanal tradition developed, in everything from making shoes to Turkish rugs. Initial capital accumulation for industrial development came from two main sources: cotton-growing (and later textile-producing) landowners, and merchant families. Some of Gaziantep's family-owned companies (including large conglomerates like Sanko and Naksan Holdings) trace their beginnings to this era. Industrialization essentially began around the middle of the 20th century, with the introduction of mechanized weaving in making clothes and rugs, as well as the small-scale production of spare parts for imported agricultural machinery and vehicles. Processing agricultural commodities, a longtime mainstay of Gaziantep's economy, also remained prominent. But until economic liberalization took hold nationally starting in the 1980s, Gaziantep's development was quite unremarkable, and many comparable cities in Turkey did better economically.

Gaziantep is largely a self-made city; its growth began to really take off in the late 1980s. Although Gaziantep has enjoyed much success in leveraging national support programs, it has not had any SOEs except for a cement factory in the 1960s. Its success story is ultimately one of local entrepreneurs courageously (sometimes foolhardily?) entering new industry segments, and through trial and error finding their niche in an often crowded marketplace. Proudly calling their city "the reverse-engineering capital of the world", Gaziantep's industrialists eagerly learn from their competitors, attempt to reproduce the same goods at lower price, then try to undersell them in the marketplace. Turkey's era of protectionism and import substitution did not favor such an approach; it was only when market-oriented policies took hold that the entrepreneurial energy of Antepians was fully unleashed. They were at last free to succeed or fail! Significantly, failure does not seem to carry the societal stigma that it does, for example, in some European countries.

Gaziantep's stellar growth has been driven by homegrown (and often family-owned) companies, with very little foreign direct investment or new start-up activity. Of the three traditional pillars of private-sector economic development and job creation – attraction of outside investment, growth of existing firms, and new company formation – Gaziantep's story is almost exclusively a tale of expansion by its existing manufacturing firms, plus the ancillary growth accompanying it (e.g. retail trade, dining and hospitality, transport, public services, etc.).

The city's manufacturing-led growth has had a very clear sectoral dimension: a handful of manufacturing industries account for the lion's share of the observed increase in output, employment, and exports. They include carpets, garments and fabrics, footwear, construction materials, food, mechanical & industrial goods, chemicals, plastics & packaging, and automotive parts. Production is overwhelmingly focused on tradable goods, which are sold all

97 For all its purported lack of interest in public service, Gaziantep has often been well represented in the national government. Indeed, its current Metropolitan Mayor, Ms. Fatma Şahin, was previously the Minister of Family and Social Policies in the cabinet of then-Prime Minister Erdoğan. In addition, members of Turkey's parliament (the Grand National Assembly) from Gaziantep are reportedly able to effectively caucus together in supporting their province, regardless of party affiliation, when its vital interests are at stake in Ankara.

over Turkey as well as in foreign markets. Gaziantep's manufacturing firms usually sell products under their own brands, but sometimes also as sub-contractors for better-known global ones. Production machinery is still largely imported, although more recently more of it has been made locally.

Despite the phenomenal growth in trade numbers, Gaziantep's exports are not diversified either in terms of the product mix, or in terms of destination markets. Carpets, clothing & textiles, and food products account for more than two thirds of their total value. Geographically, Gaziantep's exporters have a very strong focus on (highly volatile) Middle Eastern markets; Iraq alone accounts for more than a third of Gaziantep's total exports. While the city has been able to exploit its geographic proximity, cultural affinity, and market familiarity to grow export sales, it is also highly vulnerable to adverse developments in the region, such as those happening now.

Gaziantep's is not yet a knowledge-based economy. Its manufacturers' performance in terms of product diversity and ubiquity[98] is still quite modest, trailing not just the industrial cities of western Turkey, but also fellow Anatolian Tigers like Konya and Adana. Simply put, Gaziantep produces a smaller range of products than cities like Bursa or Kocaeli, and they tend to be of a more "commoditized" nature, i.e. highly price sensitive and easily produced elsewhere. This makes them highly vulnerable to even lower-cost competition from places like China. Still, this is actually an improvement over years past. Gaziantep's producers initially competed only on price, but gradually got more sophisticated and started also paying attention to product quality. More recently, they are becoming increasingly aware of the need to innovate, investing in R&D and new production methods. However, industry-academia linkages are still in their infancy.

Gaziantep's success is not the result of implementing a proactive economic development strategy which would prioritize the development of particular sectors, nor was there a formal document which would determine these priorities and plan how to implement them. Planning for sector development as well as regional economic development has traditionally been undertaken by the central government. More recently, some responsibilities have been devolved to 26 regional development entities. The one covering Gaziantep (along with neighboring Kilis and Adiyaman provinces) is the Silk Road Development Agency. Through extensive stakeholder consultation, it has identified development priorities and put together a strategic plan for the region, including numerical targets and monitoring indicators. But having started operations only in 2010, this agency can be expected to play more of a role in Gaziantep's future economic development than it has in the period covered by our case study (until 2012).

Despite some devolution of decision-making for economic development to its cities and regions, Turkey remains a highly centralized country[99]. Ankara sets broad parameters for regional economic development, and provides some support programs through its local arms (the provincial administration, KOSGEB, TUBITAK, GAP, etc.). National policies directly affecting Gaziantep's observed performance have included the establishment of Organized Industrial Zones, the provision of trunk transport infrastructure, funding for education and research/ technology development, tax incentives (based on a 6-tier system of regions), and entrepreneurial and export assistance. Crucially, Gaziantep has been very successful at tapping into national support programs, and in implementing projects.

Gaziantep's Metropolitan Municipality has been supportive of economic development initiatives in the city, but has left specific business decisions up to the private sector. By law, the city government is primarily responsible for urban planning, water supply, and urban transport. In addition to infrastructure provision, its main instrument in support of economic development is land allocation, a tool Mayor Doğan's administration (1989-2004) first started using to foster industrial growth – before the authority to do so was even devolved from the central to local governments[100]. Other specific city-level interventions have included sister city partnerships, and urban regeneration/ redevelopment efforts, clearing out slums and upgrading public amenities like parks, eventually paving the way for tourism development. There are also three district municipalities in Gaziantep, with responsibility for housing, education, and poverty alleviation, including assistance to the disadvantaged and refugees.

Gaziantep's two business Chambers, of Industry (GSO) and Commerce (GTO), respectively, have played a prominent role in Gaziantep's economic success, and form the core of a citywide "growth coalition". GTO is the mandatory membership organization for all businesses, while GSO only includes firms with over 10 employees who produce what they export. Separated from each other in 1989, in practice there is some overlap in membership and responsibilities between the two. Both entities have large professional staffs, budgets, and political influence, but are by law required to be politically neutral. They both advocate on behalf of business interests, act as promoters for the city, and work with government and other institutional actors on matters of citywide significance, their leaders being among Gaziantep's most effective champions. They also implement various donor-funded project (such as by the EU) and provide assistance to their members in areas like inter-company collaboration, entrepreneurial development, market information, business contacts, and export assistance. In addition,

98 According to an analysis in the *Turkey Urbanization Review*, The World Bank, May 2014.

99 For example, only about 6% of corporate tax payments to central government are returned to Gaziantep's metropolitan municipality, according to former Mayor Doğan.

100 Following lengthy court battles in the 1990s, national legislation later caught up with the situation on the ground.

GSO initiated the establishment of Organized Industrial Zones just outside the city.

Gaziantep's Organized Industrial Zones (OIZs) have been an important, and likely vital, ingredient in the metropolitan economy's export-driven success. Located 15 kilometers northwest of the city, the OIZs host more than a thousand companies employing over 100,000 workers. Bringing together businesses previously scattered geographically, the OIZs offer: quality infrastructure (energy, wastewater treatment); expedited permitting/one-stop service centers; the clustering of similar firms; and an efficient, less bureaucratic private-sector regime. Four OIZs are currently in operation, one is under construction, and a sixth one (larger in size than the previous five combined) is planned for a location southwest of the city, and thus closer to ports on the Mediterranean. Based on a national law, OIZs exist all over Turkey, but have been much more successful in Gaziantep than the government-run ones in Adana or Mersin, primarily because of their private-sector characteristics: they were initiated by the Chamber of Industry (GSO), forming a new legal entity which acquires land, allocates it to firms, and can withdraw it again if land is not used productively. Firms contributed to the OIZs' construction, and later become shareholders. The OIZs are run by 5-member management boards. While some of Gaziantep firms' growth might have happened anyway without the OIZs, it is clear that by providing critical infrastructure and conducive regime not available elsewhere in the city, the OIZs have played a key enabling role in helping Gaziantep companies to expand, export, collaborate with similar adjacent businesses, and benefit from other effects usually associated with geographic agglomeration (knowledge spillovers, the development of a specialized labor pool, etc.).

So What? Summary of Insights for Other Cities from What Gaziantep Did Right

Key lessons from Gaziantep:

1. **If the city has a well-developed private sector, involve it substantively in the city's economic development. Also engage other stakeholders, and bring them into an effective citywide growth coalition.** Elected officials often think of for-profit firms as sources of funding – and they certainly can be. But business leaders can be so much more than cash cows: by engaging in dialogue with government, academia, and other stakeholders, they can identify impediments to company growth and job creation, and provide concrete suggestions on how to address them. They can also provide access, publicity, and international reach that public officials may lack. Executives often have immense relationship capital, brand equity, entrepreneurial know-how, and resources that can be put to use on behalf of the city. Meanwhile, the need for institutionalizing industry-academia linkages is well documented, benefitting both educational institutions and companies. All this public-private dialogue may but does not necessarily have to result in the formulation of written strategy documents and implementation plans – what matters is ensuring stakeholder buy-in and their solid commitment to act on the city's behalf, i.e. process. Productive public-private dialogue and collaborative partnerships can achieve meaningful results, over time helping to put a city on a higher growth trajectory.

   In Gaziantep's case, business and government have had a collaborative relationship since the late 1980s. Successive Metropolitan Mayors have shown a willingness to listen to business leaders and address their needs, inasmuch as it fell within the city's remit/scope to do so. Land was allocated, permits issued, slums cleared, roads built, uninterrupted water supply provided, and public spaces spruced up, all enhancing the city's livability and overall business environment. For its part, Gaziantep's private sector and its institutions like the Chambers acted as the city's public champions, developing the city's brand, building hotels, lobbying Ankara for support, establishing Organized Industrial Zones, and most importantly – exporting and creating jobs. For its part, academia sought to introduce concrete forms of engagement with private-sector firms, such as internships and sponsored research. This ability to work together for the benefit of the city is a process that can, over time, be emulated elsewhere, of course adapted to local circumstances.

2. **Successfully leveraging of available national support tools, as well as of a city's own endowments, can provide a meaningful boost to its economic performance.** Of course, it is not as simple as just taking funds from the central government, but rather capitalizing on the opportunities that national programs and policies – domestic as well as foreign – may create. On the endowment side, every city has something going for it – location, market access, climate, natural beauty, mineral wealth, demographics, culture, language, history, name recognition – that can facilitate economic development efforts and help its private sector create jobs. Endowments are not destiny: success is possible even with very modest endowments. The key is to work with whatever a city has, however modest it may be, to enhance its residents' prosperity. And a city can skillfully utilize national support tools to take advantage of the endowments it does have, in order to improve economic outcomes.

   Gaziantep provides an example of a city successfully leveraging its relatively modest endowments (geography, history, strong local identity and culture) for economic growth and job creation. While no structured process for identifying key competitive assets was observed in Gaziantep, there appears to be broad consensus among key stakeholders and even the general public about what it is that Gaziantep is endowed with that could help it advance and prosper. The city and its businesses have also shown great skill at identifying, often with the Chambers' help, applicable national programs (like financial, technical assistance, infrastructure, export facilitation) that could be of use to them, and accessing them to expand production and sales. Indeed, despite its comparatively low levels of human capital, Gaziantep has shown a strong capacity to design and implement various kinds of projects and initiatives. This is undoubtedly a process that could be replicated elsewhere in a more deliberate, structured manner.

3. **Cities can use intentional internationalization as a valuable pillar of a broader economic development strategy.** The first thing that comes to mind in the context of "international" is of course exports. But a city being international means so much more than just selling goods and services abroad. Internationalization as a pathway to economic development has been shown to improve economic outcomes, and ensure more consistent and sustainable performance at the firm level[101]. Besides trade, internationalization entails the promotion of foreign direct investment, joint ventures, and other collaborative cross-border business relationships. Enabling such commercial linkages is the "soft" infrastructure for this – sister city relationships, academic and educational exchange, consulates, bi-national chambers of commerce, foreign language instruction and cultural centers, proximity to international border crossings (overland, seaports, airports), direct air links, and so on. In demographic terms, having an ethnically diverse population or significant concentrations of expatriates can also be beneficial.

Gaziantep does not have all these elements working in its favor, but there is compelling evidence that it has embraced internationalization as part of its economic development agenda – even though it doesn't actually have a written strategy document as such. Historically, the city has always been ethnically and linguistically diverse, with a tradition of tolerance – the Syrian border is only half an hour's drive away. During his 15 years in office, Mayor Doğan embarked on an aggressive internationalization program, including establishing sister city relationships, inbound and outbound trade development missions, and directly contacting potential foreign investors (e.g. Volvo Trucks) to set up production in his city. Gaziantep University now teaches a variety of courses in English, cognizant of the opportunities this opens for its graduates. And the two Chambers have exceptionally well developed relationships with counterparts in many different countries, helping Gaziantep firms get in touch with potential clients and partners abroad. It is difficult to quantify exactly how much all this has helped the city's global commerce, but it has clearly played a role.

101 For example, according to the U.S. Department of Commerce, firms in the United States that export on average grow 15% faster, pay 15% higher wages, and are 12% more profitable than comparable companies which do not, and are also more likely to show market resilience during economic cycles or exogenous shocks. The specific numbers vary across countries, but most follow this general pattern.

The National Context

Belonging to the large, increasingly open Turkish economy has been highly beneficial for Gaziantep's growth and job creation. With a population of 75 million and a GDP exceeding US$800 billion, Turkey is one of the world's largest economies. Driven both by surging domestic demand and increased global commercial ties, the country has seen dramatic gains in income and living standards over the past decade, with nominal GDP more than tripling, and official poverty rates falling from 16.7% in 2003 to 5.1% in 2011, according to World Bank data. Across a range of other economic and social indicators, Turkey has made great strides in improving its global standing. Nowadays an upper-middle-income economy, Turkey has added about five million new jobs over the past five years, helping to reduce its nationwide unemployment rate into the single digits, despite a rapidly expanding labor force. As an OECD member and candidate for EU membership, Turkey has enjoyed free trade with the European Union since 1996, and has benefitted from miscellaneous EU pre-accession funding and technical assistance schemes.

Turkey's GDP growth has slowed recently, due to external as well as structural factors. While Turkey's economy has been one of the better performers among the G20 economies, significant macroeconomic challenges remain – among them, a large current account deficit and external financing needs, a depreciating currency, significant inflationary pressures, relatively high interest rates, and a large informal sector. Going forward, its economic growth is expected to moderate to just 2% this year, driven by a combination of financial, political, and structural factors. Over the medium term, the World Bank anticipates GDP growth of about 4%.[102]

An improving business climate has provided a boost to Turkish entrepreneurs, as well as foreign investors. Turkey has made numerous business climate improvements at the national level, resulting among other things in FDI inflows increasing thirteen-fold in about a decade, albeit from very low initial levels. The country ranks 44th in the 2013 World Economic Forum's Global Competitiveness Index, and 69th in the Bank's Doing Business ranking for 2014. The principal remaining obstacles for investors include bureaucratic and regulatory uncertainty. The Government's Tenth Development Plan 2014-18 aims to address these constraints through series of legal initiatives, including new income tax legislation, a new commercial code, and a new patent law. For domestic firms, there is a need to further streamline the regulatory burden for firms with more than 50 employees, as there is some evidence of a "missing middle" in the Turkish economy (large and small firms prosper, but not mid-sized ones).

Regional Economic Development in Turkey

Uneven growth and population shifts westward present a myriad of challenges. Turkey's economic success over the past decade is attributable to its macroeconomic stability and liberalization, greater openness to foreign trade and investment, sectoral support programs, and regional development policies. But, for a variety of economic, social, and security reasons, there has been a decades-long shift of population from the country's less developed east to the already densely-populated west. This has resulted in all the usual challenges accompanying rapid urbanization, including congestion, pollution, and the need to generate ever more jobs for newcomers to cities.

A rising tide lifts all *gulets* – but some rise higher than others. Persistent regional disparities in income levels and economic opportunities have long been an area of focused interventions by the national government, with mixed success. Cognizant of the need to rebalance economic activity from the industrialized west of the country to the less developed east, Turkey's successive governments have instituted a series of measures to address this, including targeted regional incentives schemes, massive infrastructure investments, and technical assistance and financial support programs for com-

102 *Turkey Partnership: Country Program Snapshot*, The World Bank Group, April 2014.

panies. For example, for investment incentives[103], the country is divided into six tiers of regions, with the most developed areas (Istanbul, Kocaeli, Bursa, Izmir, Ankara…) getting the least support (tier-1), and provinces in the country's east and southeast (Van, Batman, Diyarbakır, Şanlıurfa, Mardin…) qualifying for the highest level of incentives, tier-6. Gaziantep province is in the middle of the pack, designated as a tier-3 area – by far the most developed one in that part of the country:

Anatolian Tigers

"Anatolian Tigers" denotes a number of fast-growing cities in the Anatolian landmass of Turkey. These cities have become renowned in Turkey and further afield as something of an economic miracle, given their location in historically poorer and unindustrialized regions of the country. Productivity growth has been faster than in the advanced western provinces of Turkey. Relatively unproductive micro firms have grown into more productive SMEs[104]. Between 1997 and 2009, the number of Turkey's largest one thousand firms rose by 15 in Gaziantep, 18 in Kayseri, 11 in Kahramanmaraş, 12 in Konya; while it fell by 105 in Istanbul and fell by 37 in Izmir[105]. Some of these cities appear to have stabilized in recent years, with the notable exception of Gaziantep.

The rise of Anatolian Tigers during the 1980s coincided with neoliberal policy reforms in Turkey. This temporal correlation caused many scholars and policymakers to interpret the rise of Anatolian Tigers as "a successful model of local entrepreneurialism, which replaced the state's active involvement in economic development." The "organic" rise of the Tigers has been contrasted with state-led attempts at regional development in Turkey, which according to some analyses of economic outcomes have been largely unsuccessful (or at best have managed to decentralize metropolitan cities into their surrounding hinterlands)[106]. Tiger cities are perceived to have seized new opportunities opened to them by liberalized trade and economic regulations.

Thus, Anatolian Tigers are associated with the idea of local entrepreneurialism. For instance: "When asked what makes Gaziantep a model city, many entrepreneurs and local opinion leaders made statements which included phrases such as 'entrepreneurialism', 'competitive, hard-working people', 'successful without direct help of the state', 'standing on their own feet', and 'cooperation and solidarity'"[107]. A well-known case study of economic development in Kayseri was titled "Islamic Calvinists", denoting an analogy made by Kayseri's former Mayor and by the head of one of its business associations to a 'Protestant work ethic' in the city: "No personal waste, no speculation, reinvest your profits."[108] A book written about Kayseri by its former Mayor was titled 'The Self-Made City'[109].

Entrepreneurs in Anatolian Tigers apparently succeed also because of 'industrial district' dynamics. 'Industrial districts' usually refer to places in which there exists a mutual reinforcement between business, cultural values, social structures and local institutions. This pattern has been observed consistently in highly successful economic regions, such as northern Italy and southern Germany in the 20th century, or the pioneers of the industrial revolution in England in the 19th century[110]. Common features of these districts include: "a life ethic based on self-help, entrepreneurship, and a sense of local belonging; a regular flow of bottom-up innovations generated by the industrial atmosphere; a culture of emulation resulting from the mobility of labor between firms."

Is it accurate to frame the success of Anatolian Tigers wholly as a story of a liberal laissez-faire state with dynamic entrepreneurs? Some economic historians have argued that deliberate agency in economic development is

Number of Firms in Turkey's Top 1000 Exporters, by City

	2007	2009	2011	2013
Adana	15	15	17	22
Ankara	42	52	45	46
Bursa	57	52	48	50
Denizli	29	22	23	24
Diyarbakir	1	1	1	2
Erzurum	0	0	0	0
Gaziantep	**33**	**49**	**63**	**67**
Istanbul	535	492	475	453
Izmir	63	67	66	70
Kahramanmaraş	6	8	8	10
Kayseri	12	11	10	13
Konya	5	6	4	6
Sanliurfa	2	2	0	1
Trabzon	11	9	11	9
Van	1	0	0	0

(Source: TIM, 2013: 95)

103 Detailed, up-to-date information on investment incentives in Turkey is available at http://www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/Incentives.aspx

104 Chapter "Enterprise: Lessons in harnessing structural change for integration and inclusion" in World Bank, 2014.

105 Figures drawn from TEPAV, 2014a: 13.

106 Gazici & Hewings, 2004.

107 Beyırbağ, 2007: 126.

108 ESI, 2005.

109 Karatepe, 2001.

110 Marshall, 1890.

indeed a key part of the Anatolian Tigers' story, but that one must look for it at the local level rather than the national level[111]. Thus Tiger cities could be examples of 'entrepreneurial local governance'. We examine this theme more closely in our exposition of the development story in Gaziantep specifically—where it seems that entrepreneurs' success has been boosted by state incentives, and that development has also been facilitated by quasi-state organizations such as the City Council or cross-over organizations such as the Chambers of Commerce and Industry.

In the remainder of this section, we overview a few Anatolian Tiger cities and draw out some of the similarities and differences between them[112]:

- *Denizli* is located in the hinterland of the larger city of Izmir. Its productive activities are specialized in relatively simple manufactured products such as towels and bathrobes, and it is oriented towards international markets. Development of its industries has stemmed from a history of weaving and artisanal activities; these constituted a base of local knowledge for textile industries, and also created opportunities from capital accumulation. Firms in Denizli have received a number of industrial incentives, including the establishment of an Organized Industrial Estate and provision of cheap industrial plots with infrastructure.

- *Çorum*'s industries are specialized in bricks and some textiles. Development has been largely based on indigenous entrepreneurs. Firms in Çorum may have been less successful in reaching international markets owing to the underdevelopment of inter-firm networks in the city.

- *Kahramanmaraş* has grown from its traditional agricultural industries to become industrialized in metal tools, machinery and textiles (including yarn, weaving, dye, and ready-to-wear clothing). Firms have benefited from incentives to Kahramanmaraş as a Priority Development Area from 1968 onwards, and from foreign trade incentives from the 1980s onwards.

- *Kayseri* has become specialized in furniture, textiles and metal industries since the 1980s. One of the notable features of its local economy is a subcontracting production model with substantial inter-firm cooperation. Organized Industrial Zones were established, and Kayseri was also granted status as a priority development areas. A special summary of this case is given in the box below.

- *Gaziantep* has been described using the analogy of a 'cathedral in the desert' (or—in more evocative terms—as 'the Paris of Anatolia') for its function as a commercial and industrial center for the relatively underdeveloped Southeastern Anatolian Region. Its industries are oriented both to regional export markets (especially northern Iraq) and to international destinations.

The salient features of the city profiles given above can be summarized in the following table.

National Government Support Programs

At the national level, responsibility for different aspects of economic development is shared among several government agencies, including the Ministries of Economy, Development, Transport/ Maritime/Communications, Foreign Affairs (trade), the Prime Ministry, and specialized agencies like the Investment Support and Promotion Agency (ISPAT) and the Regional Development Administration – Southeastern Anatolia Project (GAP). Over the past few years, central government has tried to pursue a more regional approach to strengthening economic competitiveness through the establishment of 26 regional development agencies, each with responsibility for a few provinces.

Salient features of Turkey's Anatolian Tigers

	Product specializations	**Market orientation** *(proportion and destination of exports)*	**Provenance of largest firms**	**Recipient of substantial state incentives**
Denizli	Textiles such as towels and bathrobes	[tbd]	Indigenous to city	Yes
Çorum	Bricks and other earthenware.	[tbd]	Indigenous to city	Not much
Kahramanmaraş	Wood products, metal tools and machinery.	[tbd]	Indigenous to city	Yes
Kayseri	Furniture, textiles and metal industries.	29% to MENA; 39% to Europe.	Indigenous to city	Yes
Gaziantep	Textile industries such as machine-produced carpets. Foodstuffs.	58% to MENA; 22% to Europe[a].	Indigenous to city	Varies by period

[a] Figures drawn from TEPAV, 2014a.

111 Beyırbağ, 2007.
112 This section is summarized from Özaslan, 2005: 135-137.

'Islamic Calvinism' in Kayseri[a]

Kayseri is an 'Anatolian Tiger' in central Turkey that has become a leader in several industries. It is the home for two of Turkey's largest furniture manufacturers and retailers; a firm that produces one percent of the world's denim; and a large and successful sugar refinery. One single district of only 20,000 inhabitants (Hacilar, approximately 10 km from the center of Kayseri) has a modest appearance but is the home of families who have built 9 out of Turkey's top 500 companies. Thanks to its economic success, Kayseri's population grew from 65,500 in 1950 to approximately 600,000 in 2005.

Kayseri's leading industries are homegrown and have rather humble roots. For example, the conglomerate Boydak Holdings, which comprises 41 companies including Turkey's two most famous furniture brands (Istikbal and Bellona) and Turkey's largest cable factory, was established by a villager from Hacilar who left primary school after only one year. He became an apprentice in a small carpentry workshop, then later opened his own workshop producing wooden doors and windows, and subsequently moved to Kayseri's first industrial zone in the late 1950s, and has grown steadily since then. Another carpentry apprentice in the industrial zone began specializing in sofas and armchairs, opened a retail outlet, and founded Ipek, which has become one of Turkey's largest furniture producers and employs 2,500 staff. The company Orta Anadolu was founded in 1953, and after some difficult years in the early 1980s, now develops 300 denim prototypes annually, of which 100 are sold to the world's leading jeans brands such as Wrangler and Diesel.

These leading firms did not necessarily build on any innate comparative advantage or endowments in Kayseri—but rather are path dependent, created by Kayseri's particular history including heavy state intervention. The evolution of the following major industries in Kayseri demonstrates this trend:

- **Textiles.** Kayseri's textile industries grew out of the nationwide state-owned enterprise Sumerbank, which opened Turkey's largest cotton mill in Kayseri in 1935—and trained the engineers who became part of a new firm Orta Anadolu in 1953, which has subsequently become one of Turkey's most profitable companies. Total employment in textiles in Kayseri is now estimated at over 10,000 people.

- **Furniture.** Kayseri has no obvious comparative advantage in the production of furniture, given that the forest areas of the Black Sea are far away, and transport costs within Turkey are relatively high—yet it has become the manufacturing centre for Turkey's two largest furniture brands, and home to a total of 3,500 companies in the furniture sector, employing 40,000 people. The rapid growth of Kayseri's upholstered furniture sector has been aided by the presence of a strong local textile sector.

- **Metal products**. Large public sector investments have included repairshops for aircraft and tanks, which contributed to the development of qualified labor and subsidiary industries such as metal production. State procurement has also played a role: after Turkey's first cable factory was established in the early 1970s by a resident of Hacilar, the firm's business increased most quickly during the 1980s owing to major public investments in Turkey's infrastructure. During the 1990s the firm transitioned to produce fibre-optic cables and has become a major exporter, employing 2,500 staff.

- **Sugar.** There are 20,000 sugar beet growers around Kayseri producing for the Kayseri Sugar Factory, which makes annual contracts with farmers and provides technical support on production. Turkey's sugar industry can compete with cane sugar from the tropics only because of tariff barriers—cane sugar in the tropics is produced at half the cost.

In addition to state intervention, key factors in Kayseri's development story appeared to be: fast-growing local markets; and the use of OIZs.

- **Markets.** State investments in state-owned enterprises in Kayseri boosted the city's population and created a growing local market for consumer goods such as furniture and textile products. This growth provided a receptive market and testbed for local production.

- **OIZs.** In 1956, the Kayseri municipality established its first industrial zone and required craftsmen to relocate there, partly through fear of fire. Spatial concentration was a catalyst for the exchange of new ideas and technologies between those entrepreneurs. In 1959, one of the carpenters began producing upholstered furniture using dried grass as stuffing, and then moved on to foam rubber. In the early 1960s, another company moved on to metal furniture (spring mattresses, bedsteads and frames) drawing on metalworking skills introduced to Kayseri by state-owned enterprises such as the aircraft factory. In the late 1970s, after a trip to furniture fairs in Europe, the Boydak brothers moved from manual production to mechanized production—and, similarly to the previous technological innovations—other firms soon followed suit.

Lastly, the role of capable entrepreneurs should not be underestimated. For example, despite the conducive environment described above, the textile firm Orta Anadolu was on the verge of bankruptcy in the early 1980s. Its turnaround came when new management cut the workforce in half and shifted production to produce quality denim. They recruited an engineer from Levi's US denim supplier to instill upgraded production techniques, and worked for six months of experimentation to meet Levi's product specifications on weight, color and tension. Another individual from the same supplier assisted with marketing, and was the first in Turkey to produce a fabric catalogue. The firm is now one of the most profitable firms in Turkey.

However, this spirit of entrepreneurship has apparently not always been present. An anthropologist working in Central Anatolia in the late 1980s described how "villagers must work, but they do not like to; work in any form is looked down upon. It is not seen as a way of learning about life, or as an affirmation or fulfillment of the self. Certainly the meaning of life is not conceived in terms of work. The exemplary human activity is to sit; the very *oturmak* has both meanings [to sit and to live]." Hence, despite entrepreneurs' own claims that there is something in the blood, it may be more realistic to imagine that a culture of entrepreneurship has taken root over time, accompanying the growth of firms.

[a] The observations in this Box are the authors' interpretations of the full case study of Kayseri published in ESI, 2005.

National support programs which to varying degrees may have played a role in Gaziantep's economic success include but are not limited to:

1. **Regional Incentives:** In 1968, Gaziantep was incorporated into the Privileged Development Areas (Kalkinmada Oncelikli Yoreler – KÖY) program, granting its firms lower tax rates or tax exemptions for investments, lower labor insurance premiums, and/or cheaper energy. Privileges were withdrawn in 1973, then reinstated 1978-1980. Tellingly, the number of industrial enterprises in Gaziantep increased during those periods. After 1980, Gaziantep was left outside of KÖY, no longer receiving these incentives and subsidies. More recently, Gaziantep also benefitted from support under the Southeastern Anatolia Project (Güneydoğu Anadolu Projesi – GAP), but eligibility is limited due to its relative affluence compared with other provinces in the GAP region.

2. **Export Incentives:** As part of Turkey's national industrial export policies, state and international credits on preferential terms were provided by national or international funds, as well as by banks. Gaziantep's exporters have reportedly taken advantage of most of these programs, with up to two thirds of firms having benefitted from some type of support, most often directly supporting exporting activity. Currently, Turkish government support for exports is provided for the following:

- R&D activities
- Capital support for product development projects
- Environmental costs
- Market research
- Training
- Employment
- Opening and running an overseas office/store, and the promotion of a brand name
- Creation of Turkish brands in overseas markets, and establishing a "Made in Turkey" image
- Participation in overseas fairs

3. **Investment Incentives:** Turkey's new investment incentives system came into effect in 2012. It treats foreign and domestic investors equally, and they are eligible for four different categories of incentives schemes: General, Regional, Large-Scale, and Strategic Investment incentives. Depending on the individual scheme, eligibility for incentives is dependent on region (of which there are six tiers in the country – Gaziantep is in tier 3), sector, strategic importance, and size of investment. Specific support instruments include[113]:

- VAT Exemptions
- Customs Duty Exemptions
- Tax Reduction
- Social Security Premium Support (Employer's Share)
- Income Tax Withholding Allowance
- Social Security Premium Support (Employee's Share)
- Interest Rate Support
- Land Allocation
- VAT Refund

4. **Incentives for SMEs:** These incentive programs are administered by the local offices of the national SME development agency, KOSGEB, providing SMEs with technological, financial and organizational support. Firms in Gaziantep have received proportionally more of these than in other comparable locations, as they are distributed on relatively technical grounds. KOSGEB initially supported only manufacturers, but has since 2010 supported services providers as well. Firms employing from 1 to 150 workers may benefit from KOSGEB support, as long as they belong to KOSGEB's SMEs Membership System. KOSGEB provides subsidies for the following activities:

- Consultancy, tests and general testing/analysis for CE marking
- Technology research and development
- Information networks and e-business
- Local economic research
- Machinery and equipment ıntended for use in common
- Training
- Identifying overseas markets,
- Overseas business trips for export purposes
- Participation in overseas fairs at a national level
- Individual participation in overseas fairs
- Participation in overseas exhibitions
- Participation in locally organized international specialized industry fairs
- Participation in locally organized KOSGEB fairs
- Project support provided for export orientation
- Branding and promotion
- Business development centers
- New entrepreneurs
- The recruitment of qualified personnel
- Computer software
- Patents - useful models - industrial designs
- Infrastructure and superstructure project support

In addition to financial subsidies, KOSGEB provides entrepreneurial training (more than 5,000 entrepreneurs trained in Gaziantep in the past two years), as well technical assistance and know-how, and product devel-

113 Detailed, up-to-date information on investment incentives in Turkey is available at http://www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/Incentives.aspx

opment and testing at its own facilities. KOSGEB also administers donor-funded support schemes such those as from the EU. While there are no sectoral eligibility criteria for these support programs, priority is given to firms and products with export potential, greater innovation and R&D capacity (determined through evaluations in collaboration with Gaziantep University), environmental sustainability, and greater brand-building/awareness for Gaziantep and Turkey in general.

The Local Context

Gaziantep is Turkey's sixth largest city and one of the fastest growing metropolitan areas in the world. It was ranked #9 globally for growth in the decade 1999-2009 by the *Wall Street Journal*.[114] As recently as the 1970s, Gaziantep had a population of only about 120,000 people. By 1990, that had increased to 600,000. Today the city's population stands at 1.54 million, not counting approximately 300,000 Syrian refugees – a nearly threefold increase in less than 25 years, and more than ten times the levels of the 1970s. By 2030, Gaziantep's population is forecast to reach 3 million people. The population of the entire 9-district Gaziantep Province now stands at 1.85 million, 89% of whom live in urbanized areas. The province's population density is 270 persons per km^2, nearly three times the national average for Turkey, and about on a par with Bursa Province, though still only a tenth of Istanbul's.

Administratively, the city of Gaziantep consists of three individual districts, falling under a unified metropolitan government trying to cope with the effects of all this runaway growth. Gaziantep Metropolitan Municipality (*Gaziantep Büyükşehir Belediyesi*) is made up of three district municipalities: Şahinbey (population 817,000), Şehitkamil (694,000), and Oğuzeli (30,000). Although Şahinbey is home to the largest number of people within the city, most jobs, especially those at the four Organized Industrial Zones currently in operation, are actually located in Şehitkamil. This creates substantial challenges, most notably in transportation and congestion, as well as the provision of adequate infrastructure for all the new residents. Much of the city's explosive growth has happened in an unplanned, haphazard manner, putting pressure on land markets, housing markets, and public services. Squatter settlements sprung up throughout the metropolitan area, with construction taking place wherever land was available cheaply, with little if any regard to zoning rules or municipal infrastructure.

The reasons for Gaziantep's torrid demographic growth are complex, and include local, national, and international factors. In addition to high birth rates (70% of Gaziantep's population is under the age of 35), the city has been a magnet for migrants from other parts of Turkey, attracted by its political stability and economic opportunities – the city now ranks second only to much-larger Istanbul as a destination for internal migrants. Many current residents of Gaziantep have moved there from the east of the country, to escape unrest and violence – it is the first "safe" major city moving westward from Turkey's volatile southeast. However, there are also some 80,000 residents who have moved there from Istanbul[115], so it is clear that Gaziantep's appeal is economic as well as security-based. In all, about two-thirds of the population of Gaziantep Province was born there, while about a third have moved in from elsewhere.

With a long tradition of trading with its sister city Aleppo and other Syrian cities just across the border, Gaziantep has taken in large numbers of refugees from that country's ongoing armed conflict. The vast majority of the 300,000 or so Syrians now living in Gaziantep province are staying with friends and relatives, some have opened shops and restaurants, and their children attend Turkish schools. Only about a tenth of them are housed in refugee camps, and the Turkish government refers to the Syrians as "guests". Recognizing that their "temporary" stay in Turkey is likely to be an extended one, efforts are being made to integrate them into Gaziantep's social fabric. This is not without its challenges, but this is where Gaziantep's tradition of tolerance, coexistence, and hospitality clearly comes into play.

Gaziantep's History

Gaziantep is one of the oldest continually inhabited cities in the world, with a documented history going back some 5,600 years. Located in southeastern Turkey near the Syrian border, it is a landlocked city lying some 200 kilometers from the Mediterranean coast. About half of Gaziantep Province's total area is mountainous, while 27% consists of plains. Climatically, the city sits at the confluence of the continental and Mediterranean climate zones, as well as at the crossroads of commerce and cultures. It is a multilingual society, with speakers not just of Turkish but also Arabic, Kurdish, and nowadays foreign languages as well.

Gaziantep has little in the way of natural resources, as its land is dry and ill-suited for agriculture; this has played a prominent role in shaping the city's mindset and culture. Besides the famous pistachios for which the city (Ayintab, later Antep) was named, there are some olive trees and other Mediterranean cultures like grapes/raisins and lentils, able to survive in such arid or semi-arid conditions. However, the vast majority of other agricultural commodities have to be brought in from surrounding areas. The lack of natural endowments has forced Antepians to be self-reliant – early on, they had to learn to make a living by making things and trading them, rather than growing or mining stuff out of the ground. Over the centuries, this has played an important role in shaping local

114 http://s.wsj.net/public/resources/documents/wsj_DecadeTerror091220.pdf

115 http://www.gso.org.tr/userfiles/file/Sayfalar/Ekovizyon2014.pdf

attitudes and economic aspirations, helping the city develop some intangible assets, including its much-vaunted “entrepreneurial mindset”, i.e. the ability to identify and tap into opportunities.

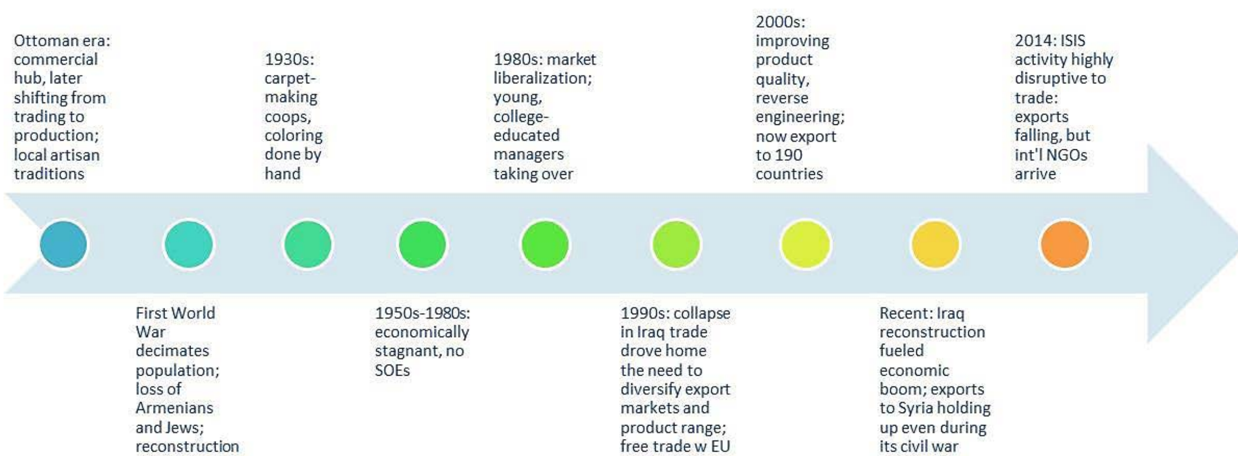
Geography has played a crucial part in Gaziantep’s path dependency. Proximity of cotton-growing areas (such as neighboring Urfa) fostered the early development of a cotton ginning and spinning industry, initially by hand, later mechanized. Over time, this has evolved into Gaziantep’s modern textile, clothing, and carpet industry, and has played a pivotal role in the development of industrial and mechanical know-how locally. The city has also for decades had a commodities exchange where agricultural commodities are traded, though they are actually grown elsewhere – early evidence of its status as a regional commercial and business hub.

Antep’s original prosperity was based on small-scale cloth and leather production, as well as trade; its economy suffered badly after trade links with neighboring countries were cut. Antep was a very prosperous trading city in Ottoman times, belonging to the Aleppo district – then the empire’s third largest commercial center after Istanbul and Cairo. The Ottoman Empire’s dissolution hit Antep particularly hard, as it was severed from its natural commercial area across what had now become an international border. The separation of Syria (as a French-administered territory) from Turkey also resulted in significant population shifts, with many Turks from Aleppo moving 60 miles north to Antep, and Arabs moving in the opposite direction. Many families, of various ethnicities, continued to have relatives on the other side of the border. In addition to dramatic demographic losses in the First World War and physical destruction in the Turkish War of Independence in the 1920s, Antep’s economy suffered a severe blow with the departure of the city’s Jews and Armenians, who had constituted its merchant, entrepreneurial class[116]. Renamed *Ghazi Ayintab* (“Antep the Heroic”), later simplified to Gaziantep, the city nevertheless embarked upon a swift economic recovery in the 1920s and 1930s.

Gaziantep’s artisanal traditions provided a solid foundation for entrepreneurial development during the first half of the 20th century. With a long tradition of rug-weaving, Gaziantep saw the introduction of its first carpet-making co-operatives in the 1930s; technology was still very basic, e.g. carpet coloring was still done by hand. Drawing on traditional family-based cloth production know-how, a local weaving industry started to develop in the 1930s, upgrading to mechanized weaving in the 1950s, which gave a boost to textile and carpet production. Processing of agricultural commodities, mostly grown in nearby regions, took off in the 1940s, laying the foundations of Gaziantep’s food industry. Construction of the Birecik Bridge across the Euphrates River in the 1950s linked Gaziantep with Urfa, reducing transportation costs and time to regional markets in southeastern Turkey.

Modern industrialization in Gaziantep had very modest beginnings. In the 1960s, fabric and related production switched from traditional to contemporary technology, vastly expanding output and enhancing capital accumulation. Small businesses began to emerge locally in the repair and small-scale production of spare parts for vehicles and agricultural machinery. But in other respects, Gaziantep remained relatively unremarkable among Turkish cities in terms of its development. Except for a cement factory in the 1960s (since closed), the city has not had any state-owned enterprises. Cold-war tensions meant that legal cross-border trade with Syria (a Soviet client state) remained miniscule, although some contraband trade did actually benefit the local economy and capital accumulation.

The development of Gaziantep’s human capital, particularly in terms of acquiring modern production methods and management know-how, was a very gradual process before the 1980s. A prosperous entrepreneurial class began to emerge in the city, based not just on trading but also on production. They began to send their sons to study abroad at Western universities, who would later bring fresh ideas and innovative approaches to the city.



116 According to Mr. Adil Sani Konukoğlu, Chairman of Sanko Holdings and current President of the Gaziantep Chamber of Industry (GSO), during this period the city lost up to 80% of its industrial know-how. It was the single greatest setback for its economy in modern times.

While the infusion of new management talent has boosted Gaziantep's human capital levels, the city continues to trail the national average to this day in some key indicators like educational attainment (i.e. the percentages of its workforce with formal degrees – technical, specialized, master's, etc.). **The economies of Gaziantep and Turkey began a significant transformation in the 1980s.** Then-Prime Minister Turgut Özal initiated measures to liberalize Turkey's largely statist economy, including the privatization of some SOEs and greater openness to foreign trade and investment. These new opportunities were seized upon by enterprising Anatolian businessmen, including ones from Gaziantep, investing in new production facilities and buying some SOEs[117]. New companies entered market segments previously held by highly-protected large firms from western Turkey, and many firms began to export for the first time. Product quality was poor, as Gaziantep producers competed primarily on price.

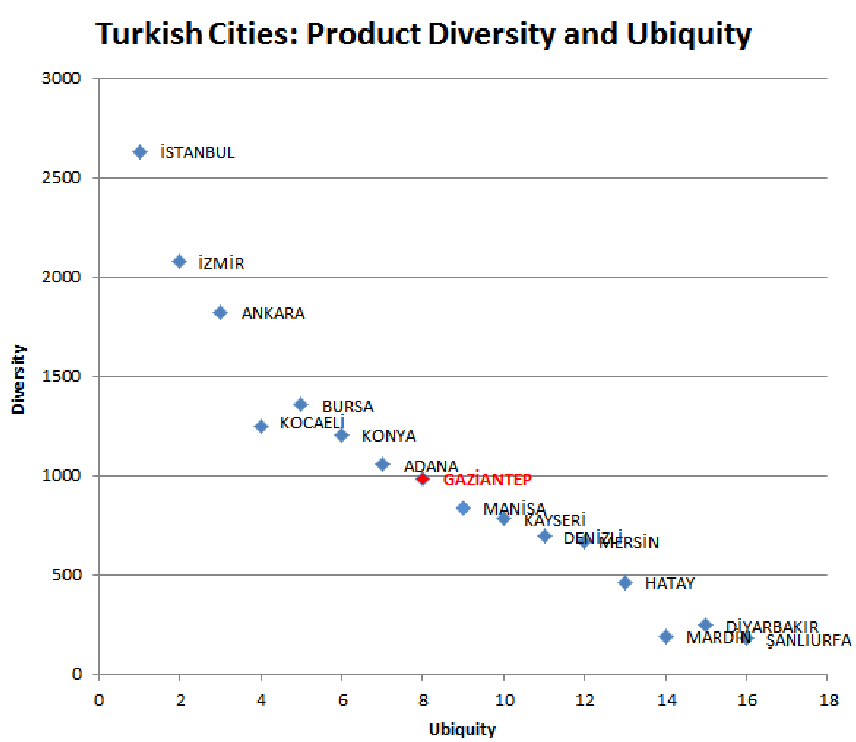
Gaziantep firms did not transition from trade to production in the 1980s; that process had begun in prior decades, as the city already a long tradition of craftsmanship and textile production. However, the 1980s saw many family-owned firms in Gaziantep venture into completely new industries, eventually emerging as large, diversified conglomerates making everything from clothing to carpets to medical supplies to construction equipment. In addition to a national policy framework that created an opening, Gaziantep firms were also able to draw upon their profound knowledge of products (being traders) and neighboring markets (being a border city). With most of Turkey's exports to Europe and other developed markets being made in western Turkey, Gaziantep producers focused on emerging opportunities in the Middle East, which to this day takes the lion's share of their exports.

Gaziantep's exporters continued to grow and scale up in the 1990s. Management skills and contemporary product awareness continued to increase, and with them product quality. But given the high ubiquity and low diversification of Gaziantep's products (and therefore its industry base), the long-term sustainability of this expansion was questioned as recently as 2000, with some economists deeming that "the economies of Denizli, Gaziantep and Kayseri are based on traditional industries with no high technology base or high level of skill acquisition."[118]

While Gaziantep has made much recent progress, its product mix is still far less diversified than those from cities in western Turkey like Bursa or Izmir, and about on a par with its Anatolian neighbors[119]. Gaziantep does outperform many cities in eastern Turkey in terms of product diversity and ubiquity, and it may be able to produce what some other cities can't or don't.

In the 2000s, Turkey's so-called "zero problems policy" towards its neighbors did away with visa requirements for visitors from many countries in the region, including Syria. Syrians were now able to come across the border to Gaziantep to shop or catch a flight, and business ties further expanded. Gaziantep firms expanded their presence in Iraq, particularly its Kurdish region, which grew to become Gaziantep's top export market. Exports of (still comparatively low-tech) products also grew to developed markets, but those continued to account for a much smaller share of Gaziantep's total exports than Middle Eastern ones. Deteriorating conditions in those countries are now a cause for major concern in the city.

Contemporary Gaziantep's economy is at a crossroads: its traditional manufacturing industries like carpets, garments, footwear, construction materials, food, plastics, etc. continue to see strong exports, but innovation is low and competition in those industries ever fiercer. Tentative steps are being made to develop emerging sectors like tourism, logistics, healthcare, and education, but the process is slow and made more difficult by adverse political developments in the region. However, awareness seems to be increasing among Gaziantep's business community that the old growth model may not take them much further into the future.



Source: Turkey Urbanization Review, 2014

117 "Gaziantep: Story of an economic boom on the historical Silk Road", *Today's Zaman*, November 27, 2011. www.todayszaman.com/national_gaziantep-story-of-an-economic-boom-on-the-historical-silk-road_264012.html.

118 Özcan, 2000: 229.

119 *Turkey Urbanization Review*, The World Bank, May 2014.

Key Local Actors

Gaziantep Provincial Governorate (Gaziantep Valiliği)

Provinces are the 81 administrative units into which Turkey is divided. Home to 1.85 million residents, Gaziantep Province is consists of nine municipal districts, including the three making up the Gaziantep metropolitan area. Four districts that make up the neighboring province of Kilis used to be part of Gaziantep Province, but were carved out into a separate province in 1994. As the local representatives of the Turkish state, Provincial Governorates are headed by Governors. Governors are rotated between different provincial postings every few years, and are seldom natives of the province in which they serve. The Governor is appointed, not elected, and is the highest ranking civil servant in the province. Answering directly to Ankara, Governors are responsible for coordinating the provision of public services in the province, so the local branches of all national ministries serve under the provincial Governor.

Turkey's central government provides the legal framework for local and regional economic development and, through the Governorate, carries out its responsibilities for selecting industrial sites, land acquisition, and the establishment of industrial zones, as well as the provision of state guarantees essential for financing investment projects by the Municipality. To accomplish this, the Governor is expected to maintain close dialogue with key local stakeholders, in particular members of the local business community – a relationship which has not always been smooth in Gaziantep's recent political history[120]. Apart from this, the Provincial governorate is responsible for public services only indirectly related to economic development, including:

- Public Works: Construction and maintenance of roads outside the metropolitan area
- Water Supply: Provision of drinking water outside the metropolitan area
- Public Safety and Security: Policing the entire province
- Education: Construction and maintenance of primary and secondary public schools
- Agricultural Services: Experimental farms, provision of seeds and fertilizers
- Health & Social Services: Construction of health centers, hospitals, and social centers

Gaziantep Metropolitan Municipality (Gaziantep Büyükşehir Belediyesi)

Turkey's highly centralized political system does not provide much autonomy or administrative scope at the local level[121]. Though decentralization measures in 2004 transferred some authority to mayors for managing public services like urban planning, transport, water and sanitation, waste management, social services, sports and cultural facilities, and environmental protection[122], in fiscal terms cities remain highly dependent on transfer payments from the central government. Some remaining structural shortcomings in the decentralization process include:

- Municipalities' low fiscal autonomy, relying on Ankara for two thirds or more of their operating budgets
- Limited borrowing ability: by law, Turkish municipalities' debt levels may not exceed 150% of their total annual revenues
- Under-development of bank financing mechanisms for municipalities
- As a general rule, local authorities have little fiscal incentive to foster economic development and job creation, apart from the political imperative of winning elections[123].

Covering the city's three districts, the Metropolitan Municipality is Gaziantep's city government, one of only 16 such bodies in Turkey. the Metropolitan Municipality is responsible for urban planning and the provision of major public services in the city. It also shares some of these responsibilities with the three individual district administrations that comprise the city. The Metropolitan Municipality has primary responsibility for making Gaziantep a well-func-

120 "A businessman interviewed cited Governor Bilgin on his approach to the entrepreneurs: The governor emphasized that if anything happens to the business people in Gaziantep, he would be the first to protect them, and the bureaucrats serving under him could not - and will not be allowed to - do anything to create obstacles in front of the entrepreneurs. Interestingly, the general secretary of the GSO noted that the bureaucrats who are responsible for services related to the economy and industry would be isolated by the business community if they adopted a negative approach to local entrepreneurs. ... In cases where the governor adopted a more prudent approach, the local bourgeoisie took a combative stance against the governor. Governor Erhan Tanju, who served between Güler and the current governor, chose to pursue such a policy. He openly declared that everyone had to do their business, and that he could attend the meetings he had to, but had no time for personal (one-to-one) relations (Yorum 2001 (8)). According to Hüseyin Toprak, the editor of the journal Yorum, the governor's approach annoyed certain business people, industrialists, mayors, and certain chambers (even certain directors of the local branches of the bureaucracy), who were used to having a close relationship with the higher echelons of the bureaucracy.176 Not surprisingly, Governor Tanju was replaced by the current governor in less than two years. Normally, the governors who develop positive relations with the representatives of the local bourgeoisie tend to stay in their office for longer periods. For example, the governor preceding him had served 6 years. The governor's weight in Gaziantep's political-economy is very much affected by the nature of relations with the business community of Gaziantep." – Beyırbağ, 2007: 202.

121 http://www.migm.gov.tr/en/PDF/GeneralInformation.pdf

122 Regulated by national legislation: "Law of Metropolitan Municipalities No 5216" (BüyükÇehir Belediye Kanunu) and the "Law of Municipalities No 5393 (Belediye Kanunu), as well as complementary regulations and bylaws.

123 According to former Gaziantep Metropolitan Mayor Celal Doğan, interviewed in September 2014, cities reportedly get back only 6% of the value paid in business taxes to Ankara by companies in their jurisdiction.

tioning, livable city, able to attract new residents and investment. Its specific areas of responsibility include: infrastructure (especially water supply and transport), urban planning, environmental protection, heritage preservation, public hygiene and health, and the coordination of public investments across the city. The municipal administration's Educational Unit also has an indirect role in economic development, through its mandate to carry out needs assessments/employer surveys of workforce skills needs

The Metropolitan Municipality's total budget in 2011 was YTL 335 million (€163 million equivalent at the time). Approximate breakdown of revenue sources in 2011:

- Central government transfers: 73%
- Service fees: 24%
- Local taxes: 3%

The Metropolitan Municipality does not provide services to the Organized Industrial Zones, as they lie outside its jurisdiction. However, successive Metropolitan Mayors have strongly supported the OIZs' development through advocacy and influence on other tiers of government, as well as partnerships with the Chambers and other private-sector actors.

Gaziantep's most senior elected official is the Metropolitan Mayor. Elected for a five-year term in office, the Mayor heads the municipal administration and is its chief executive. While the Mayor does not have direct responsibility for economic development – nor does the Metropolitan Municipality get higher tax revenues if economic development occurs in the city – successive mayors have understood the importance of job creation for their public approval and re-election prospects. Gaziantep's mayors have traditionally enjoyed much political influence in Ankara[124], and since the late 1980s have had much improved relations with the city's business community, collaborating quite effectively to advance the city's economic development.

Mayor Celal Doğan, a self-described "free market socialist who believes in limited government", was first elected to that office in 1989, and subsequently re-elected in 1994 and 1999. Mayor Doğan's 15-year term in office was truly transformational on a number of levels, including a doubling of Gaziantep's population, and through this its emergence as one of Turkey's largest cities. It was during this period that Gaziantep resolved some of it most acute infrastructure bottlenecks (e.g. having running water only one day a week in the early 1990s), so industrial production really began to take off. The Doğan years coincided with a change in composition of the Municipal Council towards stronger representation of the business community, and a shift in Gaziantep's overall ideological atmosphere from leftist towards market-oriented (neo)liberalism. The Mayor's often-repeated slogan was that he was "the mayor of the whole city, not just his own (social-democratic) party", and made a point of treating all citizens equally, irrespective of ethnicity (this while elsewhere in the country Kurds and Turks were shooting at each other). Many people moved to Gaziantep from Turkey's troubled southeast during this period, including entrepreneurs with lots of know-how and investment capital.

Mayor Doğan made economic development a top priority for the city. Early in his term, he convened 115 small manufacturers, pledging that the city would supply all the infrastructure they need as long as they continue production, creating jobs. He also asked Gaziantep's citizens for sacrifices – for example, residential users paid more for water use than industrial ones, because industrial growth was so vitally important to the city (in essence, cross-subsidies and preferential utility rates as a form of economic development incentive). Doğan's proactive interventions to strengthen Gaziantep's economy can be summarized as follows:

- ***Physical Infrastructure:*** Mayor Doğan understood that a lack of adequate infrastructure was perhaps the greatest impediment for local businesses to expand and create jobs. In addition to providing uninterrupted water supply and roads, the Municipality intervened in specific instances to ensure that markets can function and companies can do what they do best – with impressive results[125]. Land allocation was one of the key instruments at the Mayor's disposal. Initially, the city was willing to help any company to obtain land if it promised to create jobs; as Gaziantep became more prosperous, the Municipality began to prioritize land allocation for businesses focused on high value-added activities (though this selection appears to have been random, without any systematic criteria).
- ***Pro-Business Environment:*** Doğan sought to cut red tape and streamline bureaucratic procedures that were stifling business growth in the city. One of his proudest accomplishments was slashing the city bureaucracy, from 2,700 employees to only about a hundred, largely through attrition – his view was that the Municipality's job was not to provide jobs for political cronies. He also lobbied the national government in Ankara, to whom had direct access, for specific nationwide business-friendly reforms. He didn't see it as the city's job to pick winners or losers, just to "create an enabling environment, in which everyone feels like a citizen, that

124 The current Mayor, Fatma Şahin, was a minister in the national government; former mayor Doğan was a close friend of Turkey's Prime Minister (later President) Suleyman Demirel.

125 For example, municipal housing developments sought to curb rent-based speculation, by acquiring land from the central government, having development plans prepared, and then selling the land to developers, especially housing cooperatives. And artisan workshops previously located in the inner city were relocated to a new Gaziantep Trade and Industry Center (Gaziantep Ticaret ve Endüstri Merkezi – GATEM) especially for small businesses, located outside the city; the process was successful because it was done collaboratively between the Municipality and the leadership of Gaziantep's esnaf and artisan chambers.

they can succeed".[126] This resonated rather well with Antepians' instinctive entrepreneurialism, and won him a lot of support[127].

- ***Quality of Life:*** Gaziantep was not a particularly appealing or livable place a quarter of a century ago, given its severe water shortages, lack of transportation and connectivity, and almost no enabling "soft" infrastructure for business, such as decent hotels. Doğan engaged in some very activist placemaking, including significantly expanding the city's parks and green surfaces, tackling environmental issues, and clearing out slums and dilapidated structures not just to make way for new development, but also to make the city a more attractive place to live and visit. It was in the Doğan era that efforts to develop Gaziantep as a tourist destination began in earnest.

- ***City Promotion:*** Mayor Doğan was a tireless advocate and salesman on behalf of Gaziantep's economic development. He organized trade fairs, inbound and outbound trade delegations (in cooperation with the Chambers), worked to persuade investors to come to his city, and established sister-city agreements with cities in other countries.

Doğan's successors have largely continued this approach, irrespective of party affiliation. In particular, the past decade or so has seen stepped-up collaboration between the Municipality and private-sector leaders, as well as the institutionalization of this collaboration in the form of the City Council. Examples of the city's accomplishments over the past decade include:

- ***Development of a light rail (tram) system:*** The first phase of Gaziantep's light rail network (Gaziray) was opened in 2010, with 19 stations and a total length of 21 kilometers (15 km from Gar to Burç, and 6 km between Gaziantep University and Akkent). Currently, the light rail system transports about 12 million passengers per year, helping alleviate congestion and pollution, while increasing mobility. The construction of a third, 8 km-long tram line with eight stops, is planned, for a total rail network of 29 km.

- ***Prioritizing environmental sustainability:*** Gaziantep has been among the first Turkish cities to treat its wastewater, and is planning for further water supply upgrades, as current supply is inadequate for its exploding population. With the assistance of the Agence Française de Développement (AFD), Gaziantep has had a Climate Change Action Plan prepared, prioritizing ecological urban planning and energy-efficient buildings, and funding the establishment of a biofuel plant using pistachio residue, in collaboration with the Technology Transfer Office at Gaziantep University.

- ***Urban transformation:*** With 60% of the city consisting of scattered settlements that largely ignore any urban or spatial planning rules, Gaziantep is continuing the urban transformation begun under Mayor Doğan. Wherever possible, shantytowns are being retrofitted with basic infrastructure, structures are being brought up to earthquake code or demolished, and green spaces expanded and upgraded. A stated objective of these initiatives is to make the city livable, and attract investment and tourism[128].

There is some similarity between the role of the Mayors in Gaziantep and in Kayseri—another Anatolian Tiger city. In Kayseri, one of the most vocal former Mayors—Sukru Karatepe, from 1994 to 1998—focused on delivering a basic enabling environment for business and development, plus proactive initiatives to support businesses. Karatepe focused the Municipality's work on balancing the municipal books, and on ensuring the efficient delivery of municipal services. He reduced the number of municipal employees and privatized municipal services. He also engaged in more active industrial support, such as taking businessmen from Kayseri to Europe to introduce them to potential business partners.

The Municipal Council is Gaziantep's main representative and appropriations body. Elected for five-year terms, Municipal Council members meet three times a year to decide on such issues as the budget, housing plans, reconstruction programs, tax rates, and fees for municipal services. A variety of municipal standing committees, appointed by the Mayor and municipal department directors or selected by municipal council members from among themselves, deal with financial issues and decide on the appointment and promotion of municipal personnel. During the 1990s, there was a shift in the composition of the council from highly educated managers and professionals (coming from the public sector, generally with a lower- or middle-class background) to businessmen and other wealthier but less well-educated individuals. The share of council members with university degrees declined from 70% in 1989-1994 to 56% in 1994-1999, and to just 35.3% in 1999-2004[129].

District Municipalities

Gaziantep's metropolitan area covers three district municipalities[130] – Şahinbey, Şehitkamil, and Oğuzeli. They work together with the Metropolitan Municipality to ensure the provision of public services for residents. Their main areas of responsibility of district municipalities include:

126 In-person interview with former Mayor Doğan, September 2014.

127 On a somewhat contrarian note, Doğan was often criticized for not responding to the clientelist demands of grassroots businesspeople, and instead working only with a narrower set of big names. His image was of a leader distanced from populist demands, always project-oriented, and working closely with the powerful names of the city. – Beyırbağ, 2007: 199.

128 Interview with Gaziantep Metropolitan Municipality technical staff, August 2014.

129 Bulut, 2000: 36-38.

130 District municipalities are directed by national legislation in "Municipality Law No:5393" ("lu Belediye Kanunu").

- Public Works: Maintenance of the districts' secondary roads
- Sanitation: Garbage collection
- Land: Land management and expropriation, urban development control

The District Municipalities are headed by mayors, with significant budgets and large professional staffs. Their role in economic development is primarily focused on land development and allocation. In recent years, District Mayors have prioritized redevelopment, urban regeneration, and the beautification of public areas in order to enhance residents' quality of life and attract tourists. The District Municipalities have also taken the lead in helping to cope with the influx of refugees from the Syrian conflict, providing emergency assistance and helping them better integrate into Turkish society.

City Council

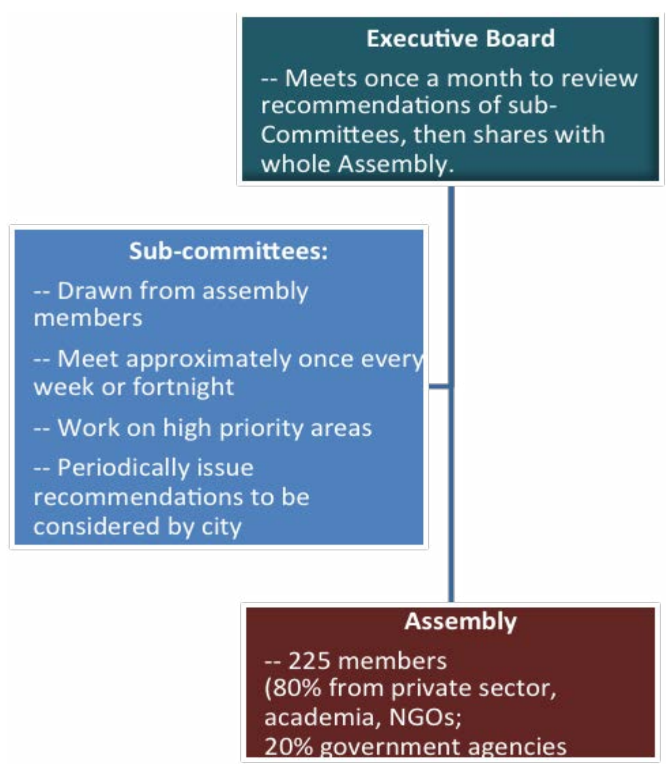
The City Council provides an institutional framework for stakeholder engagement in Gaziantep. Gaziantep's City Council is the main consultative body in the metropolitan area, bringing together representatives of government, business, universities, and civil society including journalists and unionists. Formally, the Council has a purely advisory role, but its structure facilitates the interaction of a large number of stakeholders on key issues of interest to the city. The Council seems to have played a catalytic role in engaging stakeholders in city development, more for its role in fostering substantive dialogue and information exchange than for its role in coming up with formal recommendations.

Gaziantep is relatively unusual in Turkey in its effective use of a City Council structure. National legislation enacted in 2006 provides for the establishment of City Councils as de-facto metropolitan parliaments; but collaboration among Gaziantep stakeholders predates this national legislation, and was established in the 1990s. During discussions with the previous Chair of the City Council, we were informed that Antalya and Bursa also have good examples of City Councils.

What factors make the City Council different and effective in Gaziantep?

- **Broad and deep membership, combined with well-defined institutional structure.** As shown above, the assembly has 225 members drawn from a wide variety of Gaziantep's main stakeholder groups. Sub-committees are assigned to work on issues of particular importance[131], and then report back to the Executive Board, who share the conclusions with the Assembly. The Assembly meets once every two months; the Executive Board meets once a month; and the sub-committees meet approximately once a week or once a fortnight. The Council's discussions on key issues affecting Gaziantep may help explain the pattern observed by many outsiders about Gaziantep, that Antepians "speak with one mind".
- **Chair as a city 'champion'.** The Chairs of the Council have been influential figures in the city—before, during and after their tenures (for example: the current Chair of the City council was previously President of the GTO for 22 years. The prior Chair from 2006 to 2014 was also Rector of Gaziantep University and continues as such). According to interviews with the Chairs, they used their role to set a frame for the City Council to be an advisor to the Municipal Municipality in the sense that it should be supra-political and rise above conflicts. Hence the Chairs have been leaders while trying to avoid provocation and partisanship.
- **Parallel governance structure to the Metropolitan Municipality?** As noted above, City Councils could be perceived as de facto metropolitan parliaments, which run alongside the Municipality's elected officials and technical staff. As such the City Council could be considered as a check and balance on the actions of the Municipality, to scrutinize its actions and maintain timely progress. *A priori*, there could be a risk of the City Council becoming only a forum for lobbying of other bodies. On the information collected so far, the positive

Organizational structure of Gaziantep's City Council



131 These issues appear to be defined rather broadly; we were told they include: infrastructure and transportation; disaster and crisis management; environment; education; culture & arts, industry & trade; popular culture of Gaziantep; healthcare; tourism; the EU and foreign relations; small shopkeepers and businesses; historical and cultural heritage; ethnic councils of migrants; social life in Gaziantep; international visibility; and local press and media.

and constructive tone set by the Chair may be one of the main ways in which that risk has been mitigated.

The City Council is relatively cheap to run, and leverages a small permanent staff of only three people. Their work is mainly concerned with organizing meetings; while the University Rector was Chair, he also leveraged university staff to provide research on technical topics that could inform the City Council's discussions, and for additional administrative support.

The City Council structure is not fixed, and continues to be reformed under its new Chair to formalize the role of decision-makers. The current Chair of the City Council has established an Executive Board of 16 members, which includes more formal decision makers—including the Presidents of the GTO, GSO, Commodities Exchange, Exporters Association, the heads of all major political parties, and contributions from all former Mayors of Gaziantep. The Chair told us that his decision to reform the Council's institutional structure stemmed from a feeling that "the common mindset is not sufficient: despite the presence of significant reports and efforts, the City Council has failed to address some of the more fundamental problems of the city". Hence his intention under the revised structure was to bring in more decision makers and attempt to make the Council recommendations more actionable.

Chambers of Commerce and Industry

The Gaziantep Chambers of Industry and Commerce seem to be markedly more successful than similar Chambers in other nearby cities. Membership rates of the Chambers are higher in Gaziantep than in other major cities[132]; and the activities of the Gaziantep Chambers have become more professionalized. Both used to be part of a unified Chamber of Commerce and Industry (GTSO), founded in 1891. The two chambers split in 1989, and Gaziantep is now one of 16 cities in Turkey where the chambers of commerce and industry are separate organizations.

- **Gaziantep Chamber of Commerce (Gaziantep Ticaret Odası – GTO):** GTO has more than 18,700 members (of which 15,270 currently active), and employs 61 staff. GTO's activities include: legal obligations such as the registration of firms; industry and market information; assistance with government relations; research on promising investment areas; expert appraisal services on property and machinery; information on international trade; assistance with export documentation and certification; training on ISO 9001 2008 Quality Management System; and vocational training. It has 41 sub-committees, which focus more intensively on narrower sectors and meet once a month.

- **Gaziantep Chamber of Industry (Gaziantep Sanayi Odası – GSO):** GSO has 3,650 members, and employs 44 staff. Its largest technical department is its industry department, which has 7 staff. GSO's activities include: knowledge production, including research and surveys in Gaziantep's main sectors; acting as an interlocutor for international companies seeking contacts; information on legal practices and procedures relating to foreign trade. GSO offers a companies database of all firms in individual sectors[133], and hosts a World Bank Library information center, which is administered by TEPAV. News articles on its website are posted approximately daily, and each one is viewed approximately 400 times on average. It has 27 sub-committees, focusing more intensively on narrower ranges of products[134].

What effect have GSO and GTO actually had on industrial development in Gaziantep? GSO's Secretary General responds by analogy: "Would you be the hero if you're the one that gives the order to shoot, or if you are the one that shoots? Actually it is more of a symbiosis: courageous entrepreneurs compete in every market, and we support them."[135] In practice, it seems that GSO and GTO have an impact on industrial development in two main dimensions:

1. **At the national and provincial level, GSO and GTO advocate and lobby on behalf of firms in Gaziantep for practical solutions that will benefit a large number of firms.** According to the GSO and GTO themselves, their approach is different from most other chambers in Eastern and Southeastern Turkey, whose interactions with the state mostly emphasize requests for state subsidies; in contrast, both the GTO and the GSO argue that when they go to Ankara or to a local government, they bring along their own clearly stated solutions and alternatives[136]. GSO and GTO have become credible interlocutors[137].

2. **At the firm level, GSO and GTO work to solve industry-level problems and to facilitate industrial growth.** Some tangible examples of the impact of this work include the following. First on the part of GTO:

- **Industry research and collective services for their members.** GTO conducts research on the problems that firms often experience in certain sectors, on sector-wide constraints, and on opportunities to assist firms. For

132 According to data from 2002, the following percentages of executives of industrial enterprises were members of the professional Chambers: Adiyaman 75%; Batman 89%; Diyarbakir 82%; Gaziantep 89%; Mardin 50%; Sanliurfa 71%. Figures are from Paksoy quoted in Beyırbağ, 2007: 180.

133 The database is available only in Turkish, and displays simply the name of the firm plus its main products.

134 For example: "Carpets, rugs and floor covering"; " Pastry and baking products"; and "Shoes, slippers, leather and leather products".

135 Interview in Gaziantep, August 2014.

136 Beyırbağ, 2007: 171.

137 According to a former President of GTSO: "The chamber presidents used to be ranked 45th on the official ceremony list. ... But, yesterday we met the Prime Minister (Recep Tayyip Erdogan of the AKP) at the airport. We had breakfast together. We explained our problems ... It used to be the same with the previous governments, too. All doors are open to us now. The MPs are asking us to arrange appointments with the Prime Minister, on their behalf. Now chambers have become more influential than the ministers." – Beyırbağ, 2007: 229.

example, the following process was conducted in the clothing sector:

(a) GTO research found that Gaziantep firms were not producing in line with fashion trends, and that individual firms were going to visit potential buyers without having done sufficient 'homework' beforehand. For example, firms were travelling to Poland with a range of sample clothes which did not match the sizes of Polish customers. It also found that firms were individually employing tailors and weavers, despite the cost savings that firms could have obtained if they shared those employees between firms.

(b) GTO recruited a fashion designer to work with several firms, and deepened its market research to help firms understand what was of most commercial interest to their buyers.

(c) GTO also acted as an intermediary for potential buyers, in order to reduce the transaction costs for those buyers of dealing with several smaller suppliers. Buyers could still choose between firms—and thus the firms continued competing on quality in order to satisfy the buyers—but GTO provided a platform through which the buyer could efficiently deal with multiple possible suppliers.

- **Creation of GTO branch offices in Erbil (Iraqi Kurdistan) and Aleppo (Syria)[138]**, thus helping to foster exports from Gaziantep to those places. The offices provide services to firms in Gaziantep to assist them finding local contacts in Iraq and Syria, and to conduct due diligence on the counterpart companies in those places to determine if they are reliable.
- **Lobbying and organization** for the establishment of organized industrial districts (as well as small industry estates); establishment of the GAP exporters union in Gaziantep; establishment of an electricity distribution company; establishment of gas distribution company for the city; establishment of Gaziantep University (GAZÜ) and the opening of departments and vocational schools related to dominant economic activities of Gaziantep.

On the part of GSO:

- **"Trademark City" project:** This initiative accompanied Gaziantep's shift from being an intermediate goods producer to a producer of final products. It aimed at increasing the quality and profit rates of products, meanwhile defining "Made in Gaziantep" as a trademark and a sign of high quality. The project won 'Best Unconventional Project Award' in the 2005 World Chambers Competition (organized by the World Chambers Federation and the International Chamber of Commerce). The GSO Secretary General mentioned that the project's goal was to ensure "that even the simplest consumer knows about Gaziantep, just as everyone knows about the Great Wall of China or the Eiffel Tower."[139] GSO argued that every firm should produce at least one branded product, as a means to increasing profitability of its production.
- **State incentives:** Applications for state incentives by firms in Gaziantep are channeled through GSO or (more recently) the Silk Road Development Agency, which implicitly also gives GSO an ability to embody strategic priorities in its use of this role.

GSO and GTO came into being in an environment in which firms in Gaziantep, like most firms, are in competition with each other and do not "naturally" collaborate. Gaziantep is renowned for its local patriotism and solidarity; but according to a former President of the GTSO, "the solidarity which exists in Gaziantep is a solidarity which competition brings, caused by the [fact] that everyone is in competition. Gaziantep is not a city [which] thinks, acts collectively"[140]. Soren Hjorth, the former EU coordinator of the Business Centre Project hosted by the GTO, claimed that it is remarkably difficult to bring entrepreneurs together in joint projects. One reason for this may be the nature of Gaziantep's industries, which even today are generally focused on relatively simple products that do not require intense collaboration and innovation between component suppliers and producers[141].

Until the 1980s, Gaziantep firms had not fully institutionalized their major forums for collaboration. In 1980, for example, it was observed that among the chambers of industry in Turkey, "notably absent are the Bursa and Gaziantep chambers, which have been in the process of organization since the early 1970s but have yet to be established. The difficulties encountered in the organization of these two chambers, in part, stem from the ongoing struggle between commercial and industrial interests."[142] GTSO (a combined Gaziantep Chamber of Commerce and Industry) did exist during the 1980s, and predominantly represented SMEs who were engaged in cross-border trade to regional markets and services to the local economy; industrial producers were in the minority of its members[143]. As industrial producers grew during the late 1980s, the pressure grew to break away from GTSO, spurred by a feeling that an association of "barbers, carpenters, and the car maintenance sector" could not possibly represent manufacturing interests[144].

Two important turning points followed, which fundamentally changed the course of inter-firm relations in Gaziantep:

138 The Aleppo branch is currently closed.

139 Interview in Gaziantep, August 2014.
140 According to Mustafa Geylani, former President of GTSO and former President of the Assembly of GTO.
141 Eyiiboglu, as cited in Beyırbağ, 2007: 128.
142 Öncü quoted in Beyırbağ, 2007: 132.
143 Beyırbağ, 2007: 133.
144 Beyırbağ, 2007: 162.

- **The first turning point came in 1989 with the establishment of GSO, which split away from GTSO.** A group of industrialists within GTSO resolved that their needs were not being met by the joint organization, and broke away from it. GTSO then became simply GTO. The new GSO began representing larger enterprises, boosted by the application of state incentives and credits, and was oriented to regional export markets as well as national markets (linking with industrial firms in Denizli, for example) plus international markets (especially the European Union). During the 1990s, GSO focused on executing its legally designated functions, with the gradual addition of collective services. The legal functions included a responsibility for processing paperwork for certain legal permits, the registration of firms, and record-keeping on behalf of the state. The collective services included the establishment of contacts with international organizations (including the German Technological Collaboration Organization, GTZ) and professional consultancy firms.

- **The second turning point came around 1998, as GSO broadened its focus from legal functions to become a service institution relying on knowledge and qualified experts.** These changes were prompted by a study and report produced by GTZ, which was commissioned by GSO. GTZ already ranked GSO as one of the four top chambers in Turkey in terms of effectiveness, organizational efficiency, and political influence. GTZ argued that GSO should prioritize member-oriented services rather than lobbying services, and should focus also on coalition building with key local actors.

  The GTZ report also advised on GSO's relations with other organization in Gaziantep. It recommended that "GSO, to increase its influence, is not to isolate itself from others but to collaborate with them. GSO should try to establish dialogue and should try to create a consensus by working with other social groups and institutions to come up with a medium term reform program which will be attractive to most of the constituency. [It] should be honest with the people. [It] should stay in dialogue with MPs and party leaders, and improvement of its position should be maintained without prioritizing any party. ... GSO, to be able to be more influential in the TOBB, has to enter into collaboration with other chambers of industry, [and] should concentrate on issues of strategic importance"[145]. In essence, GTZ advocated that GSO should build a growth coalition in Gaziantep formed from multiple actors.

  GSO encapsulated this new approach in a Vision document that it formulated in 1998, which set its objectives (and ambitious objectives for Gaziantep more widely) to be achieved by 2005. These included the objective of reaching US$3 billion in exports by 2005, and formal employment of 100,000 workers[146]. A new wave of GSO projects was launched, including 'Active Industries' (2000) which reconfigured GSO's structure to include member representation and business counseling; the Export Campaign (2001) which aimed to increase exports of SMEs through research and mentorship; and the Quality Campaign (2003) which provided training on ISO 9000 certification. More recently, projects have included Smart Industries (2009), promoting quality, branding, R&D, and innovation.

Meanwhile, GTO has also changed over time, especially in becoming more professional and providing collective services. GTO was the first Chamber in Turkey to hire staff via an entrance exam, externally supervised by Gaziantep University. GTO's annual information booklets are of a higher quality and more frequently updated than the local branch of the Ministry of Trade and Industry. In 2003, GTO moved into a large modern building designed to serve not only as its headquarters but also to host social and cultural activities in Gaziantep[147].

It could be observed that GSO and GTO are in a kind of "friendly" competition, given the overlap in their activities. For example, GTO is nominally oriented towards commerce, but also provides industry information and appraisal services on property and machinery. And GSO is nominally oriented towards industry, but also provides information on legal practices and procedures relating to foreign trade. This duplication and overlap may have contributed to the improvement of organizational and professional competencies of both chambers.

One final salient characteristic of GSO and GTO has been their institutional continuity. GSO's current Secretary General in 2014 has been in his position since the founding of GSO in 1989. The current President of GSO is one of only four Presidents since 1989 (which also included his father). Since 1989 there have been only three Presidents of GTO (one of whom was President for 22 years), and one President of the Exporters' Association. This continuity marks a contrast with GTSOs in neighboring cities—for example in Urfa, where management apparently changes frequently, and thus involves a frequent "reinventing of the wheel"[148]. This continuity could of course have led to intransigent or turgid organizations; but given the external changes and pressures on GTO and GSO described above, it seems instead to have led to longer-term initiatives focused on benefitting many firms rather than distributing personal favors. Indeed, GSO's current President in fact also heads one of Tur-

145 GTZ, 1998 translated in Beyırbağ, 2007: 164.

146 Interview with Adil Sani Konukoğlu, President of GSO, September 2014.

147 According to Mesut Ölçal, head of the GTO since 1984: "GTO works as the elder brother of the civil society organizations in Gaziantep, ahead of them, showing them the way, transferring to them information and knowledge, sometimes solving the problems that such organizations cannot solve by themselves." – Beyırbağ, 2007: 171.

148 Interview with Kürşat Göncü, Secretary General of GSO, August 2014.

key's largest firms (Sanko Holdings), and is part of a dynastic business family; he has in essence acted as a "champion" for firms in Gaziantep.

Other sectoral or professional organizations have also contributed to Gaziantep's economic success, though it is difficult to assess the magnitude of those contributions. They include:

- Gaziantep Development Foundation (Gazinatep Geliştirme Vakfı – GAGEV)
- Southeastern Anatolian Exporters Association (Güneydoğu Anadolu İhracatçi Birlikleri – GAIB)
- Chamber of Shoe Manufacturers
- Other sectoral Associations?

Gaziantep University (GU) and Technology Commercialization

Originally established in 1973 as an extension of Ankara's Middle East Technical University (METU), Gaziantep University became independent in 1987. METU had reportedly been attracted by Gaziantep's reputation for entrepreneurial dynamism, and saw it as a good location for its satellite branch, something it didn't set up often outside of Ankara. More recently, Gaziantep University has seen dramatic growth in student intake, now up to about 9,000 annually; its total student body exceeds 40,000, making it one of the largest academic institutions in the country.

GU is trying to step up its engagement with the local community, especially private industry. Turkish universities have traditionally not been very open to the community – the current Rector calls it a "glass wall between industry and academia" [149]. Since taking over six years ago, he has made it a priority to address this, especially in terms of sharing knowledge generated at GU with the public. University researchers used to expect the business community to come to them if needing new solutions or technologies, but now there is an emphasis on building partnerships – often "over a cup of tea". Some scholars already have very active R&D relationships with businesses, and they are the ones most involved in technology transfer. With "social sensitivity" training for its students already in place, GU is currently implementing over 300 projects in partnership with public agencies, private for-profit firms, or NGOs. Mutually beneficial engagement is further fostered through internships and "business counsellors" for students, as well as industry input into curricula design. Finally, GU is represented on the city council, and works with KOSGEB to evaluate SMEs' applications for support programs.

The University has prioritized developing international ties. It has relationships with many leading educational institutions around the world, and often hosts visiting faculty. Many courses are completely taught in English (e.g. engineering, architecture, medicine), enabling students to better integrate into the global economy. There are some 2,000 students from more than 80 countries studying there, and more recently there has been an influx of Syrians, both students and faculty; GU tries to help them and integrate Syrian scholars into its own teaching programs. It also provides psychological counselling, art therapy, and other social services to Syrians living in refugee camps.

In line with Gaziantep University's decision to prioritize the development of industry-academia linkages, a technology transfer office (TargeT) and a technology park (TeknoPark) have been established adjacent to its campus. Early efforts in the 1980s and 1990s to foster collaboration between private industry and the University were not successful, as there did not seem to be either capacity or commitment to the process. Turkish laws in the 1980s strongly emphasized fundamental rather than applied research, but more recently the pendulum has been swinging in the opposite direction.

The Gaziantep University Technology Development Zone (Gaziantep Üniversitesi Teknoloji Geliştirme Bölgesi Kurucu ve İşletici – TeknoPark) was established in 2008 with a €7 million grant from the European Union, along with GTO, GSO, and Gaziantep Metropolitan Municipality as minority shareholders. This science and technology park focuses on commercializing technologies developed at Gaziantep University (especially its Faculties of Engineering and Medicine). Key focus areas include electrical and mechanical engineering, information technology, software, design, consulting, biotechnology and medicine (orlgan transplants, pedagogic illnesses, pharmacology, personalized medicine), food, machinery, and textiles. Stated targets for the next five years:

- Establishment or attraction of more than 200 qualified companies
- Employment of over 4000 qualified R&D and software development staff
- Development of advanced technologies with a value added of more than USD1 billion
- will provide benefits beyond import substitution exports of
- Contribution to increase exports or reduced imports with an annual value of more than USD100 million

An ongoing debate at GU has been whether TeknoPark should focus on assisting existing businesses, or starting new ones? A consensus seems to be emerging that it should probably try to do both. TeknoPark often deals with old-school Gaziantep manufacturing firms, who don't know how to do R&D, or even to assess their needs. Traditionally, there has been no intermediary in Gaziantep

149 Interview with Prof. Dr. Mehmet Yavuz Çoşkun, Rector of Gaziantep University, August 2014.

to facilitate this interaction. However, with the younger generation of managers educated abroad taking over, this is gradually improving.

GU's Technology Transfer Office (Gaziantep Üniversitesi Teknoloji Transfer Ofisi – TargeT) was established in 2013, after a lengthy consultative process between GU and business leaders, in particular the two Chambers, which culminated in a strategy paper. Financial support came from Turkey's national scientific agency, TUBITAK, which provided a recurring YTL1 million per year grant, for ten fiscal years, as part of its national technology support targets for the universities. Its main areas of activity include:

- Raising awareness about technology development
- Office of Sponsored Research
- Fostering industry-university collaboration
- Management of intellectual property (patent application and protection)
- Technology commercialization and entrepreneurship

On the whole, Gaziantep University has primarily helped the city's past economic success through the education and training of successive generations of graduates, but much less so through the development of new technologies transferred and successfully commercialized by local industry. However, as the level of engagement continues to increase and industry-academia linkages deepen, GU and its affiliates can be expected to provide a more significant contribution to Gaziantep's transition to a knowledge-intensive economy. Both TeknoPark and TargeT will be important facilitators in this process.

Organized Industrial Zones (OIZs)

More than 100,000 workers are employed in Gaziantep's Organized Industrial Zones. The OIZs cover a land area of 43 square kilometers, and are located 15 kilometers north-west of the city. The OIZs host approximately 1,060 firms; and when the most recent OIZ was recently built, it was oversubscribed with applications from around 1,500 firms for new plots. A summary of the main features of Gaziantep's five OIZs is shown in Table 1 below.

Have OIZs been a cause or symptom of Gaziantep's economic success? OIZs have grown in size and number as Gaziantep's firms have grown. Have OIZs actually helped those firms to grow? The table below summarizes the factors that make it easier for firms to do business.

OIZs provide an enabling environment for Gaziantep's industrial enterprises

How have some of the usual pitfalls of industrial zones been avoided in Gaziantep? We highlight here two main characteristics: close private sector involvement (to configure the Zones relevantly); and land regulations to incentivize production (and mitigate the risk of speculation).

(a) *OIZs are formed in response to, and in collaboration with, local private sector firms*

One of the distinctive features of OIZs in Gaziantep is the way in which the Zones have been configured to cater towards emerging industry needs. This could be one of the key features that differentiates OIZs in Gaziantep from less successful Zones in Turkey and elsewhere in the world. In particular:

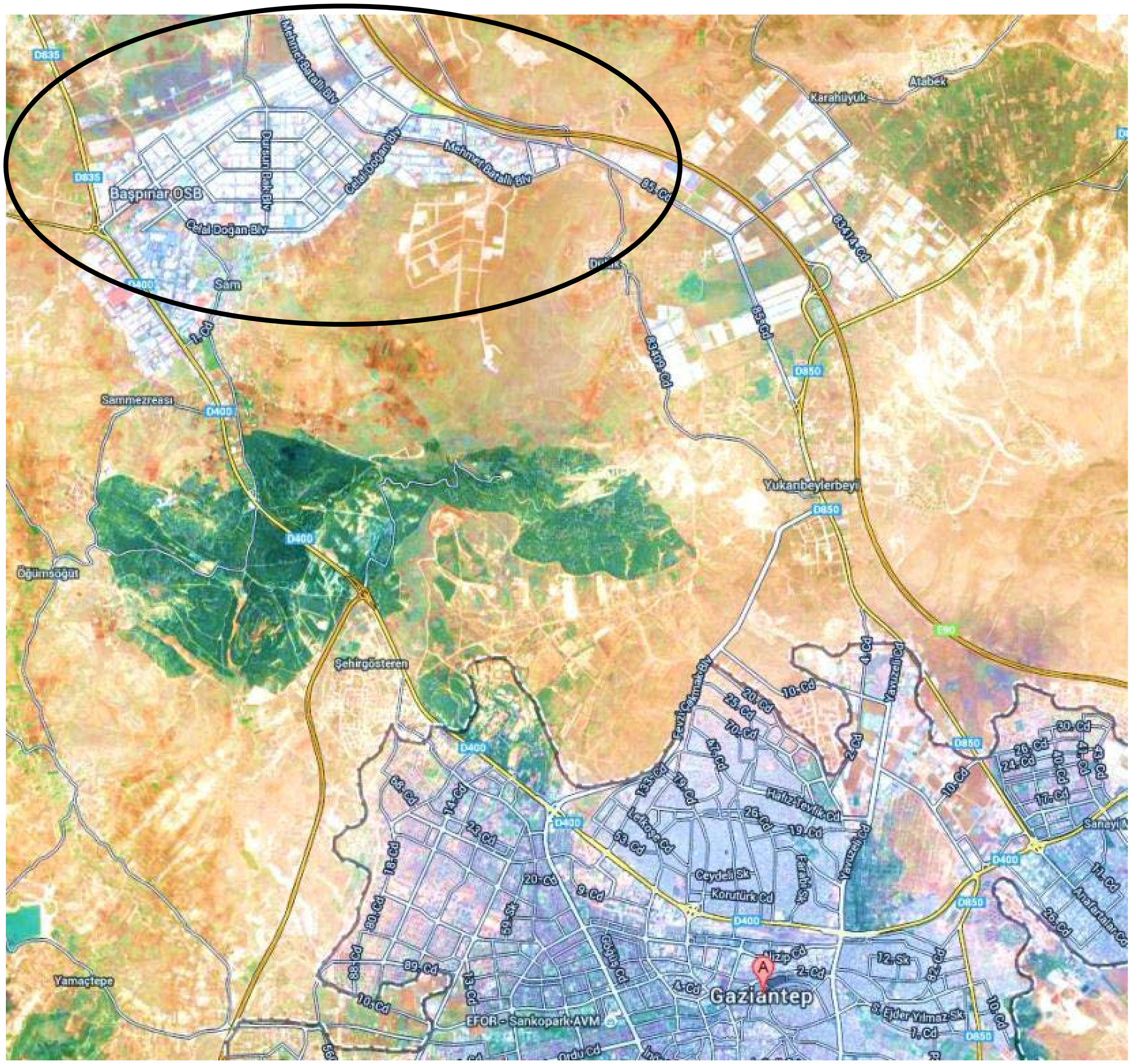
- The first OIZ (1969) was opened in the first wave of OIZs in Turkey, and was relatively generic in nature.
- The second OIZ (1987) was established to meet demand from scattered small-scale enterprises across the city. It comprises relatively small parcels, and served the purpose of formalizing the SMEs and facilitating those firms to upgrade their operations[150].

Table 1: Gaziantep's OIZs have evolved and become ever larger and more popular

	1st OIZ	2nd OIZ	3rd OIZ	4th OIZ	5th OIZ	6th OIZ
Year founded	1969	1987	1994	1998	2012	Under preparation
Total area (m²)	2.1 million	4.5 million	5.4 million	11.7 million	19.3 million	40 million
Number of firms	147	274	270	109	373	t.b.d.
Employment	22,000	36,000	34,000	28,000	[Not yet completed]	Forecasted 50,000
Electricity consumption *(Kwh per month)*	38.5 million	87 million	117 million	57.5 million	[Not yet completed]	t.b.d.

150 This information was gathered from the current General Director of the OIZs.

Five existing OIZs cover a large land area to the north-west of the city; a sixth OIZ will be built 35 kilometers to the south of the city.



- The third OIZ (1994) was rather similar in nature to the second, though with slightly larger land parcels and a larger total area.
- The fourth OIZ (1998) responded to the impressive progress made by carpet-making firms, and was specially configured to host those carpet-making firms plus smaller firms producing related products and intermediate goods for carpet-makers.
- The fifth OIZ (construction began in 2013) will combine space for large firms with additional plots for smaller firms who remain in other areas of the city.
- The sixth OIZ (now being planned) will be as large as all the previous Zones put together, but will be located 35 kilometers away from Gaziantep to the south. Purportedly this is partly because of a shortage of land in Gaziantep (though we could not confirm this, given the large areas of open land close to the city), and also to facilitate more convenient transportation from the OIZ to the newly renovated port in Hatay. A settlement zone for 50,000 is also being planned next to the OIZ.

OIZs appear to have been configured successfully owing to a close interaction between the GSO, Municipality and the Governor's office during their formation. GSO initiates the process, and a special Provincial legal entity is established (sometimes called the Special Provincial Entity, which is the responsibility of the Governor's office. The SPE buys land either from private owners or Treasury, parcels up the land, and allocates the parcels to those firms who apply. Once the OIZ has at least two-thirds of its members with a construction certification, the Municipality and Governor's Office drop off the Management Board of the OIZ, and the Board is drawn from the OIZ firms themselves[151]. This process is arguably better than the state-led process observed in some other countries, where the configuration of Zones is prescribed by government sometimes without much interaction with target firms. However, on paper, this process is the same as the process for all OIZs in Turkey—so presumably the structure of OIZs in Gaziantep cannot be claimed to account for their success.

(b) *Land regulations are configured to incentivize production*

Land regulations are configured to ensure that land is used for production rather than for speculation. Title deeds are issued in return for a fee, but are transferred to the owner only once the enterprises enter operation. The OIZ reserves a right to reclaim the land if the firm fails to enter production in a specified time period.

Further, in order to reduce barriers to ownership, OIZ land can be purchased in instalments over the course of 5-10 years. For example, a carpet-making firm purchased 10,000 m^2 of land at US$ 55 per square meter. It paid 30 percent of the price upfront, and is now scheduled to pay the remaining 70 percent over the next four years in installments every three months.

151 In the case of Gaziantep, where the GSO and GTO are separate, the GTO is also a member of the Management Board.

Benefits to firms	*How*
Plots and premises	Industrially-serviced land (priced at approximately US$55 per m^2).
Serviced infrastructure	Plots are serviced with electricity connections, wastewater treatment (removing the need for firms to invest in preliminary treatment themselves), and connections to the natural gas grid.
Business enabling environment	One-stop service centers located in the OIZs (for paperwork connected with water supply, electricity, asphalting roads, etc)
Knowledge spillovers	Clustering of firms in OIZs. (For example, the 4th OIZ consists almost completely of carpet manufacturers)
Lower costs for repeat investments	Firms making repeat investments benefit from interest subsidies, VAT reductions, and customs tax support.

Analysis

Factors of Competitiveness

Gaziantep has enjoyed the economic success it has for a variety of reasons. There were clearly some things the city did right, while in other instances it benefitted from external factors favoring its growth, but over which it may have had little or no direct influence. Accordingly, these exogenous success factors are separated out into a distinct category.

Factor 1: Exogenous Factors

Gaziantep's success has in no small measure been enabled by developments which it could do little to affect directly, including national trends and policies, geopolitics, and its historic legacy. However, the city did skillfully capitalize on some of these to improve its own prosperity.

- ***Geography and History:*** Gaziantep has traditionally been a gateway city, located at the crossroads of regional commerce – a multicultural, multilingual place where people come to do business with one another. Antepians have leveraged this endowment by forging closer links with counterparts in other countries, strengthening other aspects of internationalization like sister city partnerships and educational exchange, and lobbying Ankara for better transportation links that aid commerce. Although many other Turkish border cities enjoy similar advantages (e.g. Antakya, Urfa), they have not been nearly as successful as Gaziantep in leveraging them to further economic growth.

- ***National Trends and Policies:*** Numerous individual developments and trends come into play, but a few stand out in terms of impact:

    - The strong performance of Turkey's broader economy over the past decade has created a macroeconomic environment conducive to company growth.

    - Turkey has very high rental-to-homeownership ratios, enabling high labor mobility; not being tied down by a home that has to be sold makes it easier for citizens to move elsewhere in search of security or economic opportunities.

    - Decades of unrest and violence in Turkey's southeast have precipitated an exodus of people westward. Gaziantep is the first sizeable "safe" city on their way, and many have chosen to settle there. This has greatly increased the city's population and labor pool, but also brought in entrepreneurs with ideas and capital to invest.

    - Although not particularly consistent or targeted, the Turkish government's regional development policies have helped Gaziantep, through initiatives such as GAP, Turquality, small business and export promotion programs, and infrastructure upgrades strengthening the city's commercial access to markets.

    - Turkey's economic liberalization, move away from import substitution, and the lowering of trade barriers (including through free trade agreements and the customs union with the EU) has benefitted cities like Gaziantep, with high concentrations of producers/exporters.

- ***EU Pre-Accession Funding and Support:*** In addition to duty-free access for Turkish goods since 1996, the European Union has provided a range of support programs and tools to Gaziantep institutions as part of Turkey's preparations for eventual EU membership. For example, Gaziantep University's Technology Transfer Office was set up with EU funds; in the early 2000s, an EU-Turkey Business Development Center was established in collaboration with the Gaziantep Chamber of Commerce (GTO), providing consultancy and training for local SMEs; and Gaziantep was one of three pilot regions for the EU's Small Enterprise Loan Program (SELP), later expanded to 49 provinces throughout the country. These and similar EU initiatives have helped local economic development through capacity-building and the provision of funding.

- ***Geopolitical Developments:*** More so than many other Turkish cities, Gaziantep is directly affected by what happens in the highly unstable Middle East. In addition to its location close to the Syrian border, its trade patterns are heavily oriented towards that region, rather than Europe as is the case with western Turkey. Armed conflict in Iraq and Syria, in particular, affected Gaziantep's exporters, as these are their largest markets. Yet Antepians excel at finding opportunities even in adversity, managing to continue trading with various parties even as the region descended into violence and disorder[152]. Gaziantep is also the principal staging post for international relief efforts in the region, serving as a base for aid workers, journalists, etc., benefiting the local economy.

152 For example, as part of the compensation to neighboring countries for the international sanctions against Iraq in the 1990s, Gaziantep was able to get funding and equipment (pipes) from South Korea, used to upgrade its own municipal infrastructure, according to former Mayor Dogan who arranged it. After the fall of Saddam Hussein, the Gaziantep Chamber of Commerce (GTO) set up a representative office in the capital of Iraqi Kurdistan, Erbil, to facilitate bilateral commercial exchange and participate in the reconstruction boom in that entity. And even as violence has escalated in neighboring Syria, Gaziantep firms have continued to export food, consumer products, spare parts, and basic necessities to all sides in that conflict.

Factor 2: Favorable Business Environment

Over the past quarter century or so, Gaziantep's political and business leaders have made improving the city's business environment a top priority. The business environment (cost/quality tradeoffs and regulation) has a direct bearing on companies' bottom-line profitability, and for Gaziantep's firms this has been an important factor in enabling them to grow. Since the late 1980s, the city's business environment has progressively become more conducive to company investment and growth. Led by a self-described "free market socialist" Mayor, Celal Dogan, the Metropolitan administration prioritized the provision of enabling infrastructure, quality of life issues, simplified regulatory and bureaucratic procedures, and enacted other measures to encourage local firms to produce, export, and create jobs. Specific business environment characteristics playing a role in Gaziantep's robust economic performance include:

- ***Cost-Competitive Business Location:*** Gaziantep has "Anatolian" (i.e. relatively low) production costs, including wage levels significantly lower than in western Turkey[153].
- ***Land Availability:*** Although local land prices have increased substantially in recent years, there is still ample availability of inexpensive industrially-serviced land, especially in the Organized Industrial Zones, at much lower cost than in western Turkey.
- ***Regulatory Environment:*** Turkey as a whole has made significant improvements in recent years to streamline its administrative procedures for business. Gaziantep's leaders too are well aware of the need for a simple, predictable regulatory environment, and have instituted a less bureaucratic one-stop administrative process in the OIZs (expedited permitting/one-stop service centers, a streamlined and efficient private-sector regime).
- ***Adequate Physical Infrastructure:*** Gaziantep currently has four operational OIZs, a fifth one under construction, and a sixth one – larger in surface than the previous five combined – in planning stages[154]. The OIZs offer energy (electricity and natural gas), advanced wastewater treatment facilities, as well as the clustering of similar firms. Local firms also enjoy easy access to domestic and international markets, with further upgrades under way. The city's airport now handles nearly two million passengers per year, nearly a tenth of them international, and close to 21 million tons of air cargo. Gaziantep is one of the few cities in southeastern Turkey with direct rail service to the OIZs. And highway access to maritime ports in Hatay is being improved through a massive tunneling and road-building project that will shorten the trip by about a hundred miles, or 160 km.
- ***Labor:*** Although Gaziantep's human capital is below national levels, local firms do have at their disposal a large pool of appropriately skilled light manufacturing workers. Rapid population growth also means that the labor force continues to expand. In the recent past, Gaziantep firms have primarily raised output by throwing more labor and machinery into production; the transition to a knowledge economy has barely begun, and as it gathers momentum human resource constraints may become an impediment. For the time being, however, there is plenty of available labor to meet local production needs, and it is cheap.

Factor 3: Conducive Social Environment

Gaziantep's economic development has benefitted from the city's strong sense of local identity, tolerance of diversity, and entrepreneurial culture. Companies do not operate in a vacuum from the rest of society. Where a firm is founded and expands can decisively shape its corporate culture, outlook, market performance, and work practices. In Gaziantep's case, the cultural milieu has been particularly conducive to business growth, drawing on high local levels of social capital. Some characteristics:

- ***Strong Identity:*** Gaziantep is a city with a distinctive identity ("micro-level nationalism") within the broader Turkish nation, a strong local culture, and shared sense of community[155]. These have been effectively leveraged for the benefit of local businesses.
- ***Social Inclusion:*** Gaziantep's multicultural society is generally tolerant and welcoming towards newcomers. People from almost anywhere can reportedly become accepted as Antepians if they adopt the local values, traditions, and sense of belonging to the community[156]. Many Antepians actually have relatives in neighboring countries.
- ***Traditional:*** This is a highly conservative society, with exceptionally strong family ties, and remnants of feudal social structures and relationships[157]. Together with the residents of other "Anatolian Tiger" cities, Antepians are

153 Average wage rates for workers and engineers in Gaziantep are $590/month and $850/month, respectively.

154 Located in Polateli, some 35 km south of Gaziantep, on the border with Kilis Province. Significantly, the newest OIZ will be only about a hundred kilometers from the Mediterranean port of Dörtyol in Hatay Province, also being upgraded at present.

155 Some of the statements on this topic heard by the Bank mission include "Antepians eventually come home wherever they may go." and "People of Gaziantep think with one mind.".

156 The absence of armed conflict or terrorist activity has attracted numerous low-skilled workers from farther east, fleeing political instability and violence, but also entrepreneurial capital seeking safety. More recently, the war just across the border in Syria has resulted in some 300,000 refugees coming to Gaziantep; most of them do not live in camps, but are being integrated into Turkish society.

157 For example, companies often treat their employees more as family (e.g. giving them financial assistance when they marry, have children, etc.) than as hired hands. Firms therefore enjoy high employee loyalty and exceptionally low turnover rates – a worker may spend an entire working lifetime in just one firm. More recently, there has been increased competition for the best workers, and talent poaching among competing employers.

sometimes referred to as the "Islamic Calvinists" given their focus on hard work, savings, and still underdeveloped consumerism.

- ***Entrepreneurial Culture:*** Gaziantep residents are recognized throughout Turkey as practical, hardworking, entrepreneurial, results-focused, and risk takers. The city enjoys a reputation as a "place that gets things done". Traditionally self-reliant and without any SOEs to provide employment, Antepians also differ from the rest of Turkish society in being much less ken on public-sector jobs; from an early age, parents instill in their children the virtues of entrepreneurship and profit-seeking, rather than bureaucratic stability. Perhaps uncoincidentally, recent financial data reveal that Gaziantep has the highest rates of indebtedness relative to household income than any other metropolitan area in the country. This willingness to venture into the unknown is one of the defining traits of Gaziantep's business culture, and certainly one enabler of economic success.

Factor 4: Stakeholder Engagement (Public-Private Dialogue)

Gaziantep has been much more successful than other comparable Turkish cities in fostering substantive collaboration between government, the private sector, academia, and other segments of civil society, and translating this into tangible economic outcomes. The city has a permanent growth coalition which brings together the main local actors in economic development, who discuss issues, develop and implement strategies, and act as Gaziantep's champions. This is enabled by an exceptionally well-developed private sector, whose for-profit firms compete fiercely with one another for specific commercial opportunities, yet also maintain the ability to come together on matters of common interest to their industry, or to the city as a whole.

Stakeholder engagement (or Public-Private Dialogue – PPD) in Gaziantep has been observed in two principal forms:

- ***Direct:*** This occurs primarily at the individual industry level, and includes the provision of entrepreneurial assistance and training, peer learning and knowledge exchange networks, technology upgradation schemes, product testing facilities, trade fairs, trade development missions, direct business recruitment, marketing assistance, client development, and capital access.

- ***Indirect:*** In areas where public-sector support may be needed, Gaziantep's growth coalition seeks to influence public policy and bring about particular interventions, e.g. by lobbying for infrastructure investments, export assistance, regulatory and business climate improvements, skills development, capital access, and other support program.

All four dimensions of the so-called "PPD Diamond" are well represented in Gaziantep:

Much of the interaction among key economic development actors in Gaziantep takes place through informal channels, as business leaders, industry associations, and government officials all generally know one another, and successful outcomes largely depend on their inter-personal relationships and ability to work together.

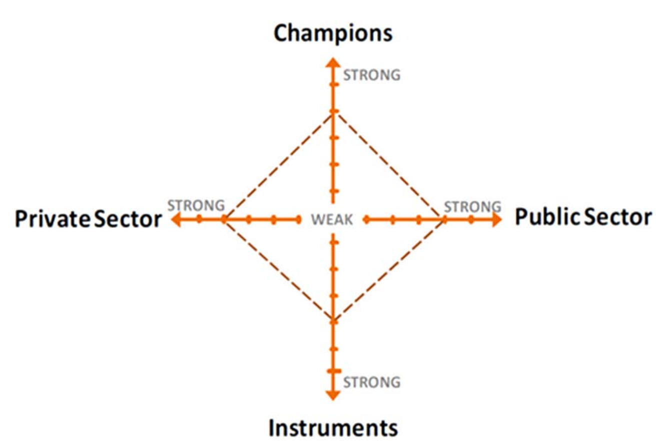
The Gaziantep City Council provides an institutional framework for this engagement, as the de-facto citywide parliament where the most important issues are discussed. The City Council has an influential but purely advisory role. Its assembly has over 300 members, 80% of whom from the private sector or NGOs, and just 20% from government agencies. The City Council has several thematic working groups which periodically issue recommendations, some of which pertain to economic development.

Business leaders tend to be highly engaged in local issues, and often band together to lobby the national government. Collectively, Gaziantep's business and elected leaders have been able to leverage their political influence in Ankara, acting as champions for the city and securing central government support for economic development priorities.

Factor 5: Regional Hub

Gaziantep has emerged as a regional hub in recent years, being the main base for various business and policy initiatives in Southeastern Turkey. It has overtaken rival Anatolian cities to assume this role, and now hosts the regional offices of various national and international organizations, consular offices, donors and relief agencies, international fairs and buyers' expos, as well as one of Turkey's largest universities with thousands of international students and faculty. Higher value-added activities (such as the commodities exchange, or the headquarters of large holding companies) are now concentrated in Gaziantep, providing not just jobs but jobs of an increasing skill level and sophistication. From trade and logistics to healthcare and education, Gaziantep is rapidly emerging as the de facto business capital of Southeastern Turkey.

Being a regional hub confers some natural economic advantages. Once a critical mass of population, economic



activity, and amenities is reached, regional centers tend to further siphon off activities from rival cities, and assume a more prominent ranking in the national hierarchy of cities. As centers of economic opportunity, they attract ever more migration, as has indeed been the case over the past couple of decades in particular. Being the “natural” site for many kinds of activities feeds on itself, over time cementing the hub’s lead over other cities in the region. Examples abound from all over the world, from Atlanta and Denver in the United States, to Perth in Western Australia or Auckland in New Zealand. Gaziantep now appears to have “arrived” in that respect, and is cementing its status as the largest, safest, best connected, and economically most prosperous city in its part of Turkey. This also helps place branding, with increased name recognition and international profile.

Lessons for Other Cities

Gaziantep holds valuable lessons for other cities around the world seeking to grow their economies and create jobs. The ultimate purpose of these qualitative case studies is to understand what a city did well, how they did it, and which lessons might be replicable elsewhere. While every city's circumstances are to some extent unique, Gaziantep's experience provides an example of what can be done (regardless of who actually does it) to boost a city's economic competitiveness and outcomes.

Key lessons for other cities from Gaziantep's experience:

1. **Capitalize on endowments for economic success:** Gaziantep provides an example of successfully capitalizing on its endowments (geography, history, culture) to enhance its economic growth and prosperity. As Gaziantep shows, endowments are not destiny: success is possible even with very modest endowments. Every city has something going for it which can be used to advance its development. The key is to understand the city's competitive assets, however modest they may be, then with whatever the city has to enhance prosperity. Gaziantep didn't have much, but it made the most of it, and other cities can as well.

2. **Never neglect the importance of having a business environment conducive to growth.** Constant improvements to the local business environment, however incremental, are an important enabler of long-term economic performance. Improving the business environment is therefore an economic development imperative. Unless you are a business location with seemingly unassailable advantages (e.g. Silicon Valley, Wall Street), you need to also compete on "mundane" factors like cost and regulation. Since the 1980s, Turkey as a whole has come a long way from having a closed system with rigid regulations and labor rules to a much more liberal, outward-looking economy eagerly tapping into global opportunities. For its part, Gaziantep went beyond national policies in trying to create a enabling environment for local firms to thrive and expand. A city cannot easily change national rules, but should act to improve those within its own remit.

3. **Mobilize economic development stakeholders to support the city's prosperity by forming a growth coalition.** In any city with a reasonably developed for-profit sector, and where the legal and political framework allows it, the role of the private-sector actors can be critical. Enlisting the involvement of for-profit firms, but also other vital stakeholders like universities, chambers of commerce, industry associations, and other elements of civil society, can provide tremendous impetus to a city's economic development. Gaziantep demonstrates the value of building an effective growth coalition to champion economic development and advance the city's prosperity, with industrialists and other businesspeople. successfully acting in concert other stakeholders. In this, process can be more important than producing formal documents; indeed, meaningful results can be achieved by working together informally and utilizing stakeholders' external influence and relationship capital.

4. **Make internationalization an integral part of the city's economic development strategy, formal or not.** An orientation towards international markets, tolerance of ethnic and linguistic diversity, and building bridges across borders can really make a difference to a city's economy. Leveraging historical, cultural, and family ties abroad is an obvious – but often overlooked – way to do this. As a border city, Gaziantep welcomes foreigners, reinforces existing international ties, and establishes new ones. Gaziantep's exporters would not have been nearly as successful without such ties in Syria and Iraq, for example, which remain their top markets even amid the current turmoil.

5. **Leverage national support programs.** National governments often institute incentives schemes and other forms of assistance to businesses – whether they be financial, technical, market access, infrastructure, or whatever – that can make an important difference to a city's economic outcomes. Gaziantep's firms have taken advantage of such help whenever the opportunity arose, led by its highly skilled and sophisticated business chambers and industry associations – who not only raise awareness of support programs, but also assist companies in accessing them. The city has also successfully implemented projects financed from a variety of sources, including international ones like the European Union's accession funding.

6. **Encourage the development of a local identity and brand, and make an effort to act in concert when advocating on behalf of the city.** This is perhaps toughest to achieve intentionally, as not every city has as distinctive a local culture or sense of shared identity as Gaziantep does. However, it is still important to build awareness of what a city stands for, and how it wants to be perceived. This is beneficial for its ability to influence outsiders such as the national government, while also being good for business. Gaziantep's political and business leaders have managed to find ways to set aside mutual differences and present a unified voice when advocating on behalf of the city – whether in Ankara, or when trying to drum up international business opportunities. A conscious initiative to develop a "Made in Gaziantep" brand has won international recognition and awards, so that nowadays the city has emerged as a well-known leader in areas like carpet production, select kinds of foods, and its rich cultural heritage.

In sum: know who you are as a city, and how you'd like the world to perceive you. While every city has different circumstances and combinations of competitive strengths and weaknesses, ultimately it is important to have a clear understanding of who you are and what your value proposition is as a location, both on the national and international stage.

Appendices

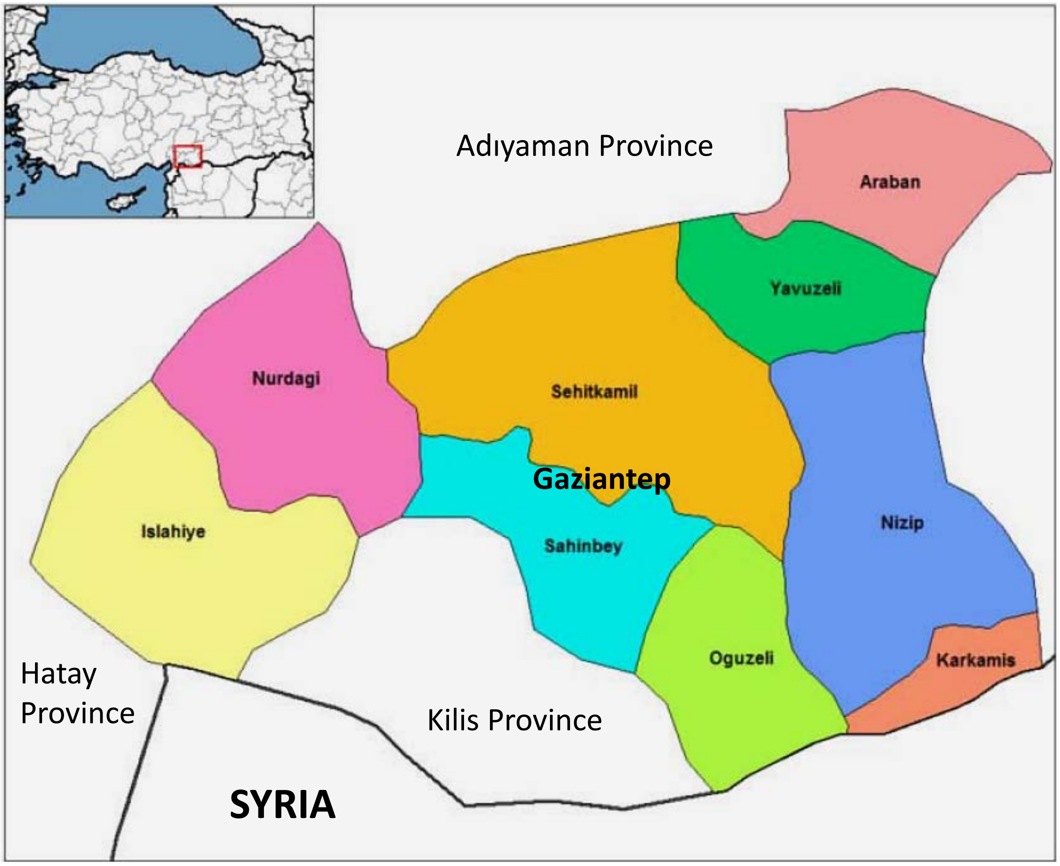
Basic Economic Data

Select Gaziantep General Indicators

Indicator	Value	Year	
Total population, Gaziantep Province	1,844,438	2013	
Total population, Gaziantep Metropolitan Municipality	1,844,438	2013	
Illiteracy rate, population aged 6+	4.74%	2012	
Population with a higher education, aged 15+ (college/license/master/PhD)	7.5%	2012	
Labor Force Participation Rate	45,4	2010	
Unemployment Rate	13,4	2010	
Number of manufacturing establishments	2,420	2013	
Patent applications	120	2012	
Patent approvals	7	2012	
Total foreign trade, USD billion	10.6	2012	
Total exports, USD	6.5	2012	
Number of exporting firms	1,270	2012	
	Drinking Water	**Sewerage**	**Solid Waste**
Population coverage by municipal services, 2010	70	97	100

Source: TUIK

Municipalities in Gaziantep Province



Selected Gaziantep Tourism Indicators

	2010	2011	2012
Total Number of Visitors to Gaziantep, of which:	349,969	449,098	555,632
Domestic	299,444	377,098	454,389
Foreign	50,525	72,574	101,243
Total Number of Overnight Stays, of which:	531,518	681,53	831,665
Domestic	446,780	562,127	665,006
Foreign	84,738	119,403	166,659

Source: TUIK

Industrial Structure of Gaziantep's Economy

The number of companies from Gaziantep included on the Istanbul Chamber of Commerce's Top 1000 Companies in Turkey list increased from 31 in 2008 to 50 in 2012. The city's economic structure is fairly well-balanced between modern and traditional industries, but manufacturing undoubtedly forms the mainstay of Gaziantep's contemporary economy.

Key manufacturing industries include carpets, textiles, garments, footwear, construction materials, food, mechanical & industrial goods, chemicals, plastics & packaging, and automotive parts. Textile production still has a substantial presence in the local economy, but has declined in relative importance in recent years. Most manufacturing is not in knowledge-based or R&D-intensive industries, and formal educational attainment of the workforce is below the Turkish average. However, there appears to be increasing awareness among businesspeople, particularly the younger generation now taking over the reins at many family-owned firms, of the need to innovate in existing product segments (e.g. developing stain-resistant and flame-retardant carpet fabrics), as well as to move into entirely new industries (e.g. solar panels).

Emerging sectors include tourism, logistics, healthcare, and education (as tradable services). With the steady growth of its tourism sector, Gaziantep has attracted investment in hotels, restaurants, retail and other tourist infrastructure, as well as traditional artisanal craft workshops producing copper, leather, and other products. Overall, there is "full employment": despite the massive influx of new residents, firms are mainly grappling with a shortage of workers.

Distribution of Gaziantep Firms by Size, 2013

Number of Employees	% of All Firms
Less than 10	56
Less than 50	32
Less than 250	10
More than 250	2

Sectoral Distribution of Firms in Gaziantep's

Organized Industrial Zones

Sector	% of All Firms
Textiles	45
Food	25
Plastics	7
Electronics	8
Other	15

Gaziantep's Share of Turkey's Total Production Capacity

Product	Gaziantep as % of National Total
Machine-made carpets	94
Leather slippers with rubber soles	93
Polypropylene yarn	92
Non-woven fabric	80
Carpet tufting	68
Acrylic yarn	65
Fancy yarn	58
Plastic slippers with rubber or plastic soles	50
Chocolate cocoa products	50
Cotton yarn	46
Semolina	56
Sweaters and pullovers made from artificial fibers	45
Sacks and bags	44
Nuts (pistachios, walnuts, chickpeas, almonds)	30
Polyethylene bags	19
Women's leather shoes	12
Men's leather shoes	12

Air Cargo Handled at Gaziantep Airport, Metric Tons

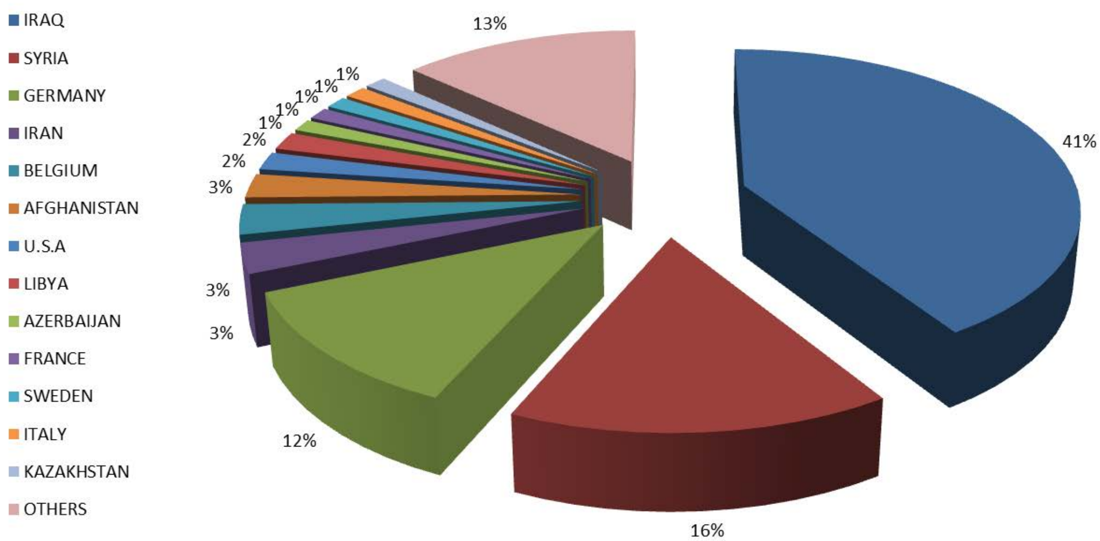
Year	Domestic	Interna-tional	Total
2008	5,420	2,592	8,012
2010	9,838	2,123	11,961
2012	13,133	3,674	16,807

Source of all data in tables: TUIK

Foreign Direct Investment in Gaziantep

A total of 256 companies with foreign origin are operating in Gaziantep, according to GTO:

Source: Gaziantep Chamber of Commerce (Gaziantep Ticaret Odası – GTO)



International Trade

Gaziantep's economic engine is largely export-driven: $6.2 billion was exported in 2013, representing a tenfold increase from just $620 million in 2002. Gaziantep companies export to 164 destination countries, with a strong concentration on markets in the Middle East, particularly Iraq and Syria[158]. In fact, Gaziantep alone accounted for a fifth of Turkey's total trade with Iraq, which accounted for more than a third of the city's total worldwide exports.

Selected Trade Statistics

Gaziantep's Foreign Trade 2009-13, US$ Millions

	2009	2010	2011	2012	2013
Exports	3,260	3,888	4,929	5,879	6,473
Imports	2,126	3,430	4,782	5,054	6,658
Total Trade	**5,386**	**7,318**	**9,711**	**10,933**	**13,131**

Source: Gaziantep Chamber of Commerce (GTO)

Gaziantep's Top Export Destinations (in US$ Millions)

Rank	Destination Market	2012	2013	% Change
1	Iraq	2,372	2,330	-1.8
2	Saudi Arabia	302	301	-0.3
3	Libya	204	281	37.7
4	Syria	54	278	411.3
5	United States	212	231	9.0
6	United Kingdom	146	150	2.5
7	Germany	164	144	-12.4
8	Italy	96	137	42,4
9	Russia	124	119	-3.6
10	Africa	144	108	-24.6

Source: Gaziantep Chamber of Commerce (GTO)

Gaziantep's Top Export Products, 2013

Product	US$ Millions
Cereals, Pulses and Oily Seed Products	1,581
Machine-Made Carpet	1,497
Textile and Raw Materials	1,075
Chemical Products and Substances	716
Forestry Products and Substances	716
Forestry Products	372
Steel	317
Vegetable and Fruit Products	137
Machinery and Appliances	131
Ready-Wear Clothes	127
Leather and Leather Products	104

Source: Gaziantep Chamber of Commerce (GTO)

The number of companies from Gaziantep in TİM (Turkish Exporters' Union) Top 1000 Exporters List increased by nearly one half between 2008 and 2012, to 71. There are a total of 1,270 companies with documented export sales, as well as 172 importing companies.

A modern fair center was built in 2007, with an enclosed 15,000m^2 exhibition area, plus 90,000m^2 of open-air exhibition space. In 2013, there were 14 fairs from various sectors organized.

Exports by Province, 2013

Rank	Province	US$ Millions
1	Istanbul	63,800
2	Bursa	12,856
3	Kocaeli	12,725
4	Izmir	8,917
5	Ankara	7,271
6	Gaziantep	6,473
7	Manisa	4,033
8	Denizli	3,083
9	Sakarya	2,240
10	Hatay	2,083

Source: Gaziantep Chamber of Commerce (GTO)

Gaziantep Firms Among Turkey's Top 1000 Exporters

Rank	City	2008	2009	2010	2011	2012	% of Turkey Total in 2012
1	Istanbul	503	492	483	475	464	46.4
2	Gaziantep	48	49	53	63	71	7.1
3	Izmir	65	67	66	66	61	6.1
4	Kocaeli	47	41	44	62	56	5.6
5	Ankara	48	52	47	45	50	5.0
6	Bursa	55	52	55	48	44	4.4
7	Denizli	28	22	27	23	24	2.4
8	Adana	15	15	17	22	22	2.2
9	Manisa	18	20	20	14	20	2.0
10	Kayseri	11	11	12	12	14	1.4

Source: Turkish Exporters' Union (TIM)

158 However, not all members of Gaziantep's business community consider this to be as central or as permanent: "Syria is not that important to Turkey economically. The middle classes have less to spend, and the industry is not that developed... Northern Iraq is where the real money is for Gaziantep. ... Iraqi Kurdistan is industrializing rapidly and they are buying our goods to do so. ... We are an industrial city now, so we primarily export to other industrial economies." – academic and industrial interviewees in Gaziantep http://cjophillips.wordpress.com/2012/08/06/notes-from-turkey-gaziantep/

Testing of Standardized Research Hypotheses

As noted in the report's Introduction, this is the fourth in a series of case studies of economically successful cities around the world. In order to ensure comparability of "teachable moments" across all case studies, a set of standardized research hypotheses was tested in Gaziantep to determine the exact scope for action at the metropolitan level, factors that may have most affected how those prerogatives were used, and the extent to which specific interventions (and how they were implemented) may have resulted in the economic outcomes observed.

The first hypothesis tested seeks to determine to what extent Gaziantep's economic results were attributable to proactively picking sectors to support, the second one looks at the strategic planning process itself (if any) and how it may have affected economic growth, and the third one looks at the plan's implementation, if applicable.

1. ***Gaziantep's economic success is partly attributable to key local actors having made strategic bets on specific industrial initiatives, rather than just making improvements to its general investment climate in order to stimulate economic activity.*** National and local-level improvements to the business climate have facilitated the achievement of superior economic outcomes, but proactive initiatives on the part of public-private growth coalitions are likely to account for at least part of Gaziantep's success.

   Gaziantep has benefitted from an improving business climate at the national level, including greater openness to external trade and investment, free trade with the European Union and selected other trading partners, and improving connectivity (especially transport). At the local level, the municipal and provincial governments have focused on the provision of critical infrastructure like roads, natural gas, and water & sewerage, reducing companies' operating costs and improving residents' overall quality of life. The establishment and proliferation of Organized Industrial Zones (OIZs), in particular, has been a crucial enabler of local company growth across sectors and size bands.

   In Gaziantep, proactive economic development initiatives have visibly contributed to the city's economic success. They were undertaken by private-sector associations (especially chambers) in collaboration with city and provincial government, often utilizing national support tools and mechanisms. In the recent past, industry targeting has occurred on a largely ad-hoc basis, usually through the collaborative actions of the key local actors. There are various declarative documents pledging support for given industries, but no comprehensive formal strategy tying them into an integrated initiative.[159]

   Ingredients of success:

   a. As an economically successful city, Gaziantep has **one dominant theme**: the spectacular growth of its home-grown, largely family-owned manufacturing firms, through a process of organic cluster development. Predominantly located inside OIZs and overwhelmingly focused on exports, these manufacturers have accounted for the lion's share of employment growth over the past decade.

   b. Gaziantep's proactive economic development efforts have been focused on helping the growth of industries producing **tradable goods and services**, including carpet manufacturing, textiles, food processing, chemicals, plastics & packaging, and tourism.

   c. In its proactive economic development activities, Gaziantep **has not pursued an integrated, three-pronged approach** to business development: nurturing the growth of existing firms, fostering the establishment of new start-up companies, and striving to attract new outside investment. The main focus of support efforts has been on existing local companies, who get assistance to locate in OIZs, expand production, upgrade and test technologies, and export.

2. ***The likely trajectory of Gaziantep's economic performance was altered by specific policy interventions, such as the establishment of OIZs, but the city did and does not have a formal strategic plan for economic development. However, private-sector actors, or public-private coalitions of actors, have in practice carried out many actions typically found in such plans.*** Gaziantep has managed to outpace its national economy even without creating an official strategic plan for economic development, at least prior to 2010. Its principal private-sector actors (the Chambers of Industry and Commerce, associations, for-profit firms and high-profile individuals as champions) did not have a structured approach to economic development, but they did produce some internal strategy documents (e.g. on how to reach specific export targets). They largely followed their commercial instinct and experience in deciding on priorities, and engaged in a consultative process to set priorities.

159 Starting in 2010, however, the Silk Road Development Agency has been set up to support the economic development of Gaziantep and two neighboring provinces through an integrated regional effort. Though this activity falls outside the timeframe of this analysis, it can be expected to make a measurable difference in the coming years.

Gaziantep's economic development-related activities have included:

a. **Some analytics** to guide decision-making and tactics (less so strategy formulation), based on a knowledge of global business trends and first-hand experience doing business abroad. These were carried out at the level of the Chambers or individual firms, rather than for the city as a whole. However, they did result in de facto economic development marketing, recruitment, and assistance for business expansion and exports. **No structured or formal planning process** was employed to:

   - Identify key economic development **issues** facing Gaziantep, such as infrastructure deficiencies, relatively low levels of human capital and innovation, tough international competition for its manufacturers' principal products, or turmoil in key export markets (Syria, Iraq). However, through regular meetings within and among local actors such as the City Council, Chambers of Commerce and Industry, associations, and other entities, the community did formulate ad-hoc agendas in response to the most pressing needs, and concrete steps to address them.

   - Identify the city's main **competitive strengths**, such as its favorable geographic location, vast production capacity and know-how, well-developed trading links, a very engaged private sector, highly competitive business costs, and decent tourism development potential. However, consensus appears to already exist among most stakeholders about what the city has going for it – these are largely referred to as facts or articles of faith.

   - Formulate a **vision** of progress that Gaziantep can make, including specific measures to address its challenges and to capitalize on its competitive strengths. A document entitled *Competitiveness Agenda for the GAP Region* was released by the Southeastern Anatolia Development Project (GAP) in 2007, and a *Regional Plan 2010-2013* prepared by the Silkroad Development Agency, but both of these were geographically broader than just Gaziantep Province. The Gaziantep Metropolitan Municipality also has a *Strategic Plan 2010-2014*, but its focus is on the provision of public services, thus much broader than just economic development, although some key economic indicators are also monitored and tracked.

b. **Gaziantep assembled a "growth coalition"** at the metropolitan/provincial level, bringing together representatives of local government, businesses chambers, industry associations, universities, civil society groups (e.g. women, youth, the disabled) and other stakeholders in economic development. The institutional framework for the stakeholder engagement is provided by the City Council, with an influential but purely advisory role. The Council's assembly has more than 300 members, only 20% of whom from government agencies, and the remaining 80% from the private sector or civil society at large. It has several thematic working groups issuing recommendations, some on economic development. There is a strong sense of common local identity and shared purpose among members of the business community in wanting to see their city advance economically, and come together in pursuit of such goals when needed, e.g. to lobby for improved transport infrastructure or the establishment of a new OIZ.

c. **Strategic decision-making and prioritization:** Gaziantep has utilized a somewhat structured process for identifying and agreeing on policy priorities, primarily within the chambers' sectoral working groups and City Council's thematic working groups. No rigorous process for evaluating trade-offs between different public investment alternatives, such as cost-benefit analyses, has been observed at the local level. Administratively, Turkey is a highly centralized country, so local government is highly dependent on fiscal transfers from Ankara. The Chambers of Commerce and Industry advocate for specific forms of government support from the national government (e.g. airport expansion or a new highway), but this is not based on evaluating the relative merits of one form of support over another, mainly the outcome of discussions.

3. ***The level of autonomy related to economic development in Gaziantep (the equivalent of the "Mayor's Wedge") was a factor in the city's improved economic outcomes, particularly after decentralization measures in 2004. Local government bodies in Turkey (both municipal and provincial) are able to undertake limited interventions aimed at fostering economic growth, especially through the provision of critical public goods such as transport and water supply, land allocation, slum clearance and tourism "place-making", and establishment of sister-city partnerships.*** The public sector has undertaken various proactive interventions – through plans, individual initiatives, and in practice – to spur economic development in Gaziantep.

a. There **was no dedicated local economic development agency** in Gaziantep, nor an economic development-related department of government, during most of the period covered by this case study. However, starting in 2010 with the establishment of the Silk Road Development Agency as a regional planning, coordination, and promotion body for three provinces including Gaziantep, a more structured approach has been adopted, and it can be said that **Gaziantep now does have a dedicated economic development agency**. This entity has not been in existence long enough for it to have materially affected Gaziantep's observed macroeconomic performance, but going forward it can be expected to play a more substantial facilitating role as the city's (and Turkey's) economy strive to transition to higher income status and greater knowledge intensity.

- **Low financial and administrative autonomy**: Although Turkey has implemented some decentralization reforms, it remains a highly centralized country with restricted administrative scope for local government..

- **Funding**: Municipalities in Turkey, including metropolitan municipalities in large urban areas, have low municipal spending ability and limited fiscal powers more generally. For example, Gaziantep Metropolitan Municipality gets nearly three quarters of its budget through fiscal transfers from the national government.

- A well-defined **geographical remit**: Gaziantep's Metropolitan Municipality is the primary urban-tier local body in Gaziantep. However, it does not have functional authority beyond the city limits, e.g. in the OIZs. The Mayor is popularly elected to a five year term, while the provincial Governor is appointed from Ankara and heads the local branches of all national agencies.

b. **Efficient internal management**: The Gaziantep Metropolitan Municipality, as well as the individual district municipalities, seem to perform very well in their core functional responsibilities.

- **Roles**: The Metropolitan Municipality is primarily responsible for urban planning, transport, water supply, urban regeneration and redevelopment, business licenses and approvals, some aspects of land allocation, clearing out slums and upgrading public amenities like parks, and helping tourism development efforts. A range of other economic development functions, including entrepreneurial training, skills development, business advisory services, and export assistance are played by the local office of KOSGEB. Additional functions such as branding, government lobbying (on behalf of local firms and/or the city as a whole), business cluster development and entrepreneurial support, are carried out by the city's business chambers and industry associations.

- **Enabling environment**: Local government in Gaziantep (both municipal and provincial) has worked to ensure the availability of critical infrastructure needed by local businesses (including OIZs), as well as to streamline administrative and bureaucratic procedures. Additionally, the OIZs have a more business-friendly, private-sector regime which makes things simpler and less onerous for firms.

- **Monitoring & evaluation**: The Silkroad Development Agency's *Regional Plan 2010-2013* includes a vision, sets of goals, and individual thematic strategies for its three-province region, including Gaziantep. The plan provides for the tracking of a variety of indicators and sets some numerical targets both in terms of process and implementation, some of which are sector-specific. The planning process reveals a familiarity with global best practices in everything from benchmarking to stakeholder consultative workshops and techniques to ensure broader participation. There are some mechanisms for the thorough assessment of implementation against objectives, but this process is still in its formative years and it is too soon to draw any profound conclusions about its effectiveness.

c. **Private sector and stakeholder involvement in implementation**: Gaziantep's City Council provides a structured framework and forum for dialogue between public and private sector actors. Gaziantep Metropolitan Municipality engages with stakeholders, who play a vital role in Gaziantep's economic development. Details:

- Gaziantep's for-profit firms partner with government, but also pool financial and in-kind resources to help market and promote the city as a business and tourism destination.

- Senior corporate leaders act as the city's public champions and utilize their relationship capital to secure more investment and business opportunities for Gaziantep and its companies.

- Gaziantep's private-sector firms are actively engaged in workforce development (ahi tradition), primarily through on-the-job training. However, skills and human capital levels remain below the national average for Turkey – yet apparently sufficient for existing industry needs. Challenges are likely to come up as the city's firms try to move into more knowledge-intensive, higher value-added industry segments and products.

- Trade unions have not been observed play a prominent role in the city's economic development.

- There is a permanent "growth coalition" of business and government leaders, as well as instances of stakeholders self-organizing on an ad-hoc basis in response to specific issues and opportunities.

INTERVIEWS

In Ankara (August 25-27, September 4-5)

1. Republic Of Turkey, Ministry of Development: Umut Gür, Head of Department of Industry; Serkan Valandova, Head of Department of Regional Competitiveness

2. Invest in Turkey – Investment Support and Promotion Agency (ISPAT): Muhittin Aslan, Senior Project Director; Mahmut Muhiddin Keskin, Project Director; Taha Yasin Saran, Project Director

3. KOSGEB (Small and Medium Enterprises Development Organization): Ahmet Merih Ozyilmaz, Head of Department; Ömer Pak, Head of Department; Imran Gezinti, Head of Department

4. Regional Development Administration – Southeastern Anatolia Project (GAP): Muhammed Adak, Vice President; S. Yasar Yetkin, General Coordinator; Ahmet Tokdemir, Coordinator; Tolga Erogan, Advisory Committee Member, Utilization of Renewable Energy Resources and Increasing Energy Efficiency in Southeast Anatolia Region

5. United Nations Development Programme (UNDP): Murat Gürsoy, Programme Specialist and Advisor; Pelin Rodoplu, Regional Competitiveness Specialist

6. Economic Policy Research Foundation of Turkey (TEPAV): Güven Sak, Managing Director; Günes Asuk, Chief Economist; Ussal Sahbaz, Program Manager; Dr. Janamitra Devan, Advisor to the President

7. Turkish Exporters Assembly (TIM) – Ankara

8. Former Mayor of Gaziantep, 1989–2004: Celal Doğan

In Gaziantep (August 26-September 4)

1. Gaziantep Province: Mehmet Taşdoğen, Deputy Governor

2. Gaziantep Metropolitan Municipality: Sezer Cihan, Deputy Secretary General; Ahmet Ertürk, Head of Foreign Affairs Department

3. Şahinbey Municipality: Mehmet Tahmazoğlu, Mayor; Cuma Güzel, Deputy Mayor

4. City Council: Mehmet Aslan, President

5. Silkroad Development Agency/Invest in Gaziantep (IKA): Sezen Genc, Head of Planning, Programming, and Coordination Unit; Abdulmenap Ertaş, Head of Program Management Unit; Utku Ali Riza Alpaydin, Head of Promotion and Cooperation Unit; Vakkas Koca, Coordinator of Gaziantep Investment Support Office

6. KOSGEB Gaziantep Service Center Manager

7. Gaziantep Organized Industrial Zone (OSB): Özer Özcan, General Director

8. Gaziantep Chamber of Commerce (GTO): Eyüp Bartik, President; Figen Çeliktürk, Deputy Secretary General; N. Sezin Darwish, Expert SME & Foreign Relations Department

9. Gaziantep Chamber of Industry (GSO): Adil Sani Konukoğlu, President and Chairman of the Board, Sanko; Kürşat Göncü, Secretary General

10. Southeast Anatolian Exporters Union (GAİB): Serdar Aydoğan, Department Manager

11. Gaziantep University (GAUN): Prof. Dr. Mehmet Yavuz Çoşkun, Rector; Prof. Dr. Türkay Dereli, Vice President

12. Technology Transfer Office (*Gaziantep Üniversitesi Teknoloji Transfer Ofisi* – TargeT): Ekrem Tekin, General Manager; Sedat Öztürk

13. Gaziantep Teknopark: Assist. Prof. Dr. Deniz Vuruşkan, General Manager

14. Syria Recovery Trust Fund: Hamit Doğan, Office Manager

15. Kaplan Kardesler Carpet: Salahattin Kaplan, President and Chairman of Carpet Exporters' Union

16. Royal Hali: Cihan Dağci, Head of Carpet Production and Board Member; Tayfun Cevher, R&D Innovation Manager

17. Özmaksan isi Sanayii: Hamit Öztürkmen, General Manager

18. Besler Group: Kemal Çakmak, General Manager; Tugba Oğuz, R&D and Product Development Manager; Osman Mustafa Mutlu, Supply Chain Management Manager

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Case Study 5

CHANGSHA, CHINA

Modern manufacturing

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INTRODUCTION

The case study of the economic success of Changsha, China, is the fifth in the series of World Bank case studies of successful metropolitan economies around the world. The World Bank's Competitive Cities Knowledge Base project aims to provide city leaders with the tools and knowledge for the successful formulation and implementation of effective economic development strategies at the city level. No single case study will provide a recipe for success for other city leaders, but each case study in the series will offer insights and strategies for cities with similar conditions, factors and challenges.

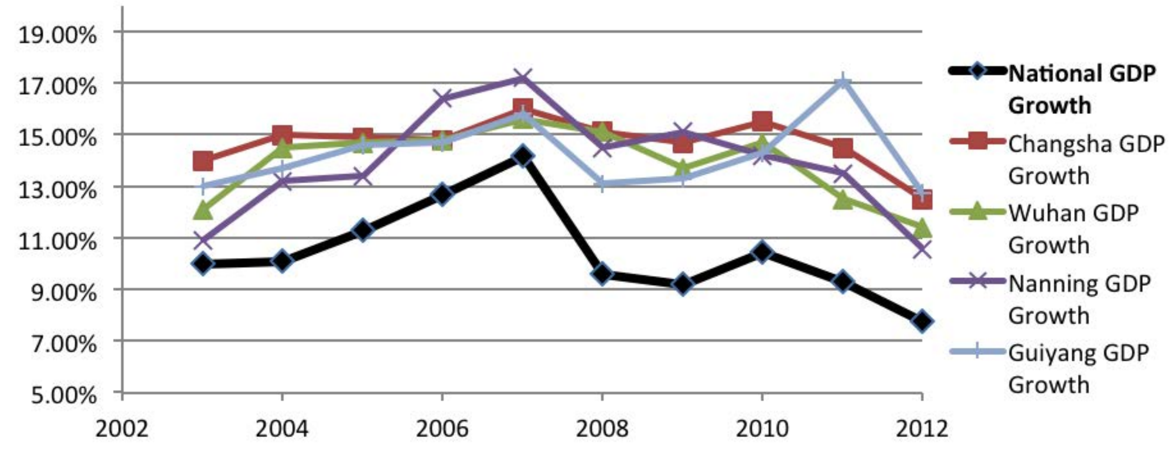
Changsha was selected for this case study because between 2007 and 2012, Changsha experienced exceptionally high rates of growth in GDP and employment, even for China. As part of the city selection exercise, cities in the East Pacific region were ranked according to the amount by which they exceeded the average national growth rate. Cities from China dominated the rankings; with distinctions between Chinese cities difficult to make as growth in terms of GDP and jobs sometimes differed by only one hundredth of a point. The decision was made to select one representative Chinese city (not necessarily the best performing city as that qualification would be hard to substantiate) for inclusion in the series of case studies.

Many other cities in China had exceptional growth too; Changsha was selected as a relevant city from which others could learn, not necessarily because it was unique. This report in no way distinguishes Changsha as the top performing city in China during the period in question. In fact, as the graph below shows, many other provincial capital cities in central and western China also experienced tremendous growth in the same period. Changsha was selected for its consistent high levels of growth, but also because of its relevance as a non-coastal, Tier 2 (secondary) city that lacks natural resources and strategic advantages (e.g. proximity to borders or trade routes). Like the other cities graphed below, Changsha indeed benefitted from national level policies, as well as its status as a provincial capital. However given that it lacked significant inherited advantages and instead offered evidence of proactive strategies from which other cities could learn, Changsha's success story was selected for further investigation.

Changsha's relevance derives in some ways from its drawbacks, which many other cities around the world may also face. Specifically, Changsha is:

- A landlocked, secondary city (and provincial capital)

GDP Growth Rates of Major Provincial Capitals in Central and Western China



Source: Oxford Economics Data

- Located in a country with a strong, proactive national government
- Located in a country with numerous Tier 1 and Tier 2 cities with which it may be said to compete for private sector investment and human capital
- A city that was largely dependent on 1-2 industries, but sought economic diversification

Despite these drawbacks, Changsha has experienced extraordinary growth, attributed in part to being well-positioned to capitalize on national trends and policies, as well as strategic interventions by the municipal government. The latter fall under three headings:

- Nurturing the development of key industries by promoting the competitiveness of firms
- Utilizing inter-agency coordination mechanisms to successfully diversify the economy
- Developing and acquiring higher levels of human capital through vocational degree programs and talent attraction programs

Changsha: Key Facts and Figures	
12.82%	**Average annual GDP growth (2007-2012)**
1.10%	**City GDP as ratio of National GDP**
7.15m	**City population (4.5m in core city)**
3.83%	**City population annual growth (2000-2010)**
1.37m	**Total migrant population**
6.64%	**Migrant population annual growth (2000-2010)**
6.05%	**Annual average job growth (2007-2012)**
12	**Total number of industrial parks**

Source: Oxford Economics Data; 2000 and 2010 Population Census

EXECUTIVE SUMMARY

Changsha is a mid-size (for China), secondary city that has grown its economy by nurturing and diversifying its core industries, and systematically building human capital. Changsha lacked the advantages of other Chinese cities in the coastal provinces, whose promotion of higher value added manufacturing benefitted from strong transportation linkages and external connectivity, as well as high levels of human capital. However Changsha has managed to expand its manufacturing base, both attracting and fostering the growth of firms that have become globally competitive. Outside manufacturing, the city is home to one of China's most dynamic media companies, albeit largely as a result of provincial actions. The city's success is, of course, in part due to endowments and national and provincial factors. Yet the city's own government has been an important catalyst for growth, effectively addressing perennial problems such as inter-agency cooperation, government support for local businesses, and improvements to human capital levels.

Like other Chinese cities, Changsha has grown under unique conditions, which have both created and eliminated problems for city leaders. Authority is highly decentralized in China regarding local economic development and municipal government leaders are therefore responsible for implementing strategies that will stimulate growth locally. Leaders have historically had clear, prioritized GDP and tax revenue targets that were determined by the central government; which have consequently simplified the problem of competing objectives. Further, unlike other cities, the municipal government in China has rights over all or almost all land in the city, which it can lease or use as collateral to fund local infrastructure. Cities are also part of China's elaborate system of inter-governmental learning, which promotes piloting reforms and adopting best practices. These unique conditions have given the municipal government some unique degrees of freedom. On the other hand, they have created incentives towards sprawling land use (biased against density), and fiscal dependency on land leases, which may leave the city exposed during a property slump.

National and provincial level policies and trends positively impacted the city. The national government has pursued a policy entitled "The Rise of Central China" which promotes investment in the region; as well as provides funding and key infrastructure investments, such as the High Speed Rail (HSR), to improve connectivity. The national government has also indirectly supported the growth of the construction machinery industry (the leading manufacturing industry in Changsha). First, by installing a national research institute in Changsha in the 1950s that generated knowledge in the area of construction machinery; and second, by developing a national stimulus plan in 2009 (post global financial crisis) that triggered a construction demand boom domestically. This demand drastically improved revenues for construction machinery firms in Changsha from 2009-2012. Finally, as Hunan's capital, Changsha was a beneficiary of provincial policies and initiatives; particularly the development of Hunan TV, a dynamic media company that has provided significant jobs in the city.

Above all, the municipal government strategically intervened to capitalize on these national trends and location advantages. The municipal government made deliberate investments to improve the city's competitiveness, prioritizing the growth of existing firms as well as the attraction of new firms. The three most effective areas of intervention included:

Nurturing the development of key industries by promoting the competitiveness of firms

The municipal government actively supported the growth of key industries, and in particular, the construction machinery industry. The most unique government initiatives were intended to promote firms that could be globally competitive by providing market information to firms, promoting sourcing from top global input suppliers in lieu of local procurement requirements, and support for R&D and attraction of top talent to the city. Through promoting individual firm competitiveness, the government has consciously and unconsciously cultivated a fierce competition between local firms. The construction machinery industry in Changsha has accounted for over 100,000 direct jobs, generated worker training programs and contributed significantly to municipal tax revenues and increased incomes that have improved welfare as well as competitiveness[160].

Utilizing inter-agency coordination mechanisms to successfully diversify the economy

To mitigate the risk of dependency on its core industry (construction machinery), the municipal government diversified the economy by attracting new industries, like the automobile and automobile parts industry. The government utilized effective inter-agency coordination mechanisms, called "Leading Groups", to coordinate investment attraction and investor aftercare across various departments and levels of government. Many cities find investment attraction hard to execute in practice, with investments frequently getting stuck due to government departments working in silos. However the Leading Group helped the city to avoid these silos, by providing a framework with clear roles, reporting requirements and accountability mechanisms. At the same time, the city was disciplined in letting go of industries that were not competitive, or competitive only in the presence of permanent subsidies. The city's successful diversification of the economy has reduced the city's exposure to the downturn of the construction machinery industry in 2012, with new industries providing substantial, counterbalancing tax revenues.

Developing and acquiring higher levels of human capital

The city placed a high and sustained priority on human capital and developed a two pronged approach in order to improve upon existing levels of human capital in the city. First, the city sought to attract high level talent both domestically and abroad; leveraging national talent attraction programs and initiating municipal programs of their own to effectively target, recruit and compensate new talent willing to relocate to the city. Simultaneously, the city addressed existing pools of talent through the regulation and promotion of vocational degree programs; seeking to increase employment through the development of specialized "in-demand" skillsets. Both strategies have been successful, with vocational schools teaching applicable skills and talent programs attracting thousands of high level "talents" to the city.

In sum, Changsha's exceptional economic growth in 2007-2012 was a result of both national and municipal level factors, but the latter predominated. National level factors provided the city with significant potential, while actions by the municipal government leveraged and furthered this potential. In the absence of the national factors several of the city's actions would have generated some, if lower levels of growth; while the national factors without the city's actions would, at best, have left it anonymous, and at worst, synonymous – with Detroit.

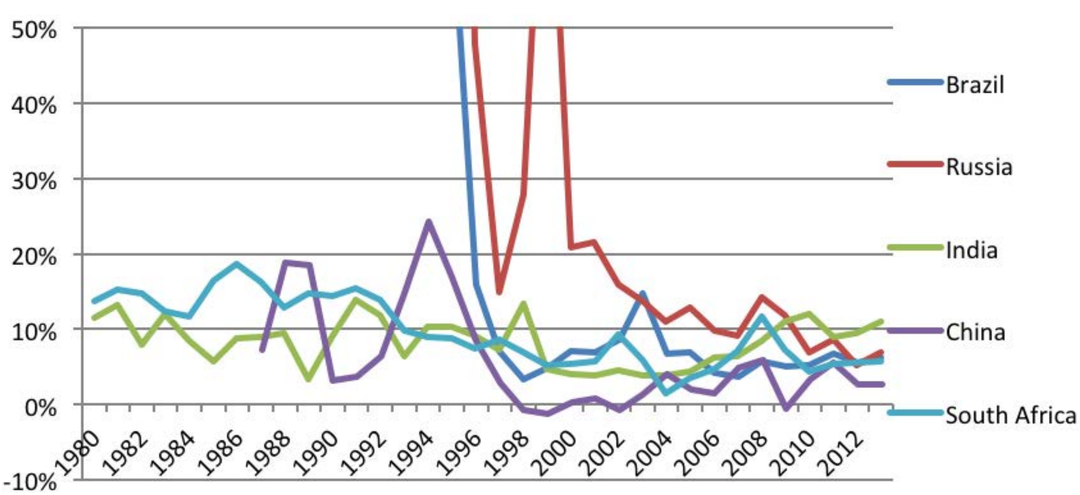
160 It should be noted that the rapid growth of this construction machinery industry during 2007-2012 was largely dependent on the construction demand boom domestically because of the national stimulus plan post 2008 global financial crisis. This leads to huge infrastructure investments in many cities across China which in turn creates a big problem in municipal debt management. Since municipal debt management is not a unique problem faced by Changsha only, and there are many reports that try to address this problem, this case study focuses on the local economic development actors and address what these actors did well that contribute to the success of Changsha. Particular attention was paid to initiatives that were uncommon and/or carried out in a unique manner that could be of interest or assistance to other cities. This by no means indicates that other cities should clone exactly the same industrial growth model.

National Context

National Framework

Changsha's economic success occurred within a highly favorable national macro-environment. In the last three decades China has achieved a growth record that may be a "once in humanity" event[161]). In terms of macroeconomics, the inflation rate was relatively well-managed when compared to other emerging economies (see graph), the pegged exchange rate regime provided exporters some degree of certainty in managing their export incomes, and the domestic investment rate was consistently high, with an annual average of 40% of GDP over the last 30 years. China has become the second largest economy in the world, and has successfully lifted more than 500 million people out of poverty in the last 3 decades[162]. During the period of 2007-2012, China's GDP rose from $3.49 trillion USD to $8.23 trillion USD, with average annual GDP growth around 10%[163]. The poverty headcount ratio at $1.25 a day was approximately 6.3% in 2011, down from 12.3% in 2008[164].

Inflation Rate of BRICS Countries in the Past Three Decades[165]



However, this national growth has not simply benefitted cities; cities have been key contributors to China's growth. The national government[166] has decentralized authority regarding the promotion of economic growth to bring about economic reform; and as the Chinese population becomes more urbanized, cities are responsible for promoting GDP growth and job creation for increasing numbers of citizens. Municipal and provincial level leaders are ultimately evaluated on the economic performance of their delegated region, with clear GDP targets that hold them accountable for initiatives and reforms undertaken during their time in office. The national government provides guidance in the form of national strategies that outline areas for reform or increased attention (that can have funding attached); however it is the responsibility of local leaders to carry out initiatives that fit under the umbrella of national policy. In doing so local leaders have coped with a population influx unique in its scale: as of 2007, the number of people living in urban areas in China was about 45%; just five years later, this number increased to 52%[167] (an increase of over 100 million people). Yet, approximately 130 Chinese cities recorded annual GDP growth of over 10% during this same period (2007-2012)[168].

Chinese cities have operated with a unique degree of fiscal and political autonomy in their objectives. The distinctive political environment in China has created both opportunities and challenges for economic growth, and at the municipal level, this has resulted in a set of unique conditions that differentiate Chinese cities from their counterparts. The national government has both knowingly and unknowingly eliminated many of the governance challenges that cities typically face. Several of the factors behind these unique conditions, like strict accountability to GDP targets and the Communist Party of China - as opposed to constituents- have subsequently created challenges of their own. This report in no way values the elimination of municipal governance problems over all else, but simply seeks to highlight the unique scope conditions relevant to Chinese cities. These common problems and how they are relaxed in Chinese cities are illustrated in Table 1.

161 Pritchett, Lant & Summers. Lawrence H., "Asia-phoria Meets Regression to the Mean", National Bureau of Economic Research, Working Paper No. 20573, 2014.
162 "China 2030", World Bank Group and the Development Research Center of the State Council, the People's Republic of China, 2013.
163 World Development Indicators, The World Bank Group
164 World Bank Poverty and Inequality Index, The World Bank Group
165 World Development Indicators, The World Bank Group

166 The National Government also represents the Communist Party of China (or CPC)
167 World Development Indicators, The World Bank Group
168 Oxford Economics Data

Table 1

Common Problems	Eliminated Problems
Many cities struggle in terms of generating revenue or capturing the value created by local public goods	Chinese cities own almost all of the land in their jurisdiction and have influence over local bank branches to monetize and borrow as needed
Many cities struggle to address competing demands by constituents, while city leaders can be further burdened by competition between political parties	Chinese cities have nationally mandated targets: maximize GDP (and economic growth) and avoid social unrest
City leaders can lack information about best practices regarding institutions and policies; leaders are not necessarily in competition with other cities	Chinese cities are part of an elaborate system that fosters learning through think tanks, seminars & conferences, networking, competition between cities, and rotating local leaders to take up positions across the country
The political party system can be contentious: causing disconnect between administrations, additional incentive systems for city leaders	Chinese politics are heavily influenced by CPC party politics, and strong city leaders are rewarded with promotions within the party

Despite these, at times, favorable conditions for municipal leaders, it cannot be said that Chinese cities are gifted with double-digit growth "by default". High-performing Chinese cities have developed useful institutions and strategies that can offer valuable lessons to others. Chinese cities have become highly adept at fostering conditions for growth, and despite operating in a unique environment (as outlined above), the individual strategies and interventions undertaken have relevance across borders. Chinese cities have become skilled at integrating best practices and experimenting with reforms through piloting new policies and initiatives. As city leadership in China is ultimately evaluated on economic performance, leaders have honed their strategies, creating highly effective internal management structures and fostering the development of globally competitive industries. How the cities have done this (not necessarily why) can offer key insights to other cities looking to improve the effectiveness of their own interventions.

National Level Factors that Impacted Changsha's Growth

Apart from the national framework provided to all cities, Changsha was specifically well-positioned for growth in 2007-2012 due to several national policies and trends, including:

1. The national policy of the "Rise of Central China" and promotion of investment and economic growth in the central provinces
2. External connectivity linkages through national infrastructure projects like the High Speed Rail (HSR)
3. Inherited knowledge in the area of construction machinery (due to the placement of a national research institute in Changsha in the 1950s), which benefitted from a domestic construction boom following the 2009 national stimulus.

***Factor 1*: The national policy of the "Rise of Central China" in 2004 prioritized the growth of cities and provinces in central China**. This policy was similar to a greater emphasis on western development and investment (i.e. "Go West" policy), in order to address rising income inequality and an overreliance on the eastern coastal region for economic growth. Under the "Rise of Central China", cities in central China have benefitted from transportation infrastructure improvements and additional incentives for foreign investors in targeted sectors, both of which were intended to highlight the region's advantages, such as a centralized location, an unsaturated market and abundance of cheap land and labor. Alongside the shift in China's growth drivers from exports to domestic demand, the large-scale investments in transport infrastructure for goods helped to turn a locational disadvantage – being away from the coast – into an advantage, with rapid transit times to multiple domestic markets.

***Factor 2*: National transportation investments for the movement of people, like the High Speed Rail (HSR), have improved connectivity between cities**. The HSR is intended to connect all provincial capital cities (i.e. Changsha); offering passengers drastically reduced commuting times between cities throughout the vast country. This improved connectivity has subsequently increased the accessibility of cities in central China that would otherwise suffer from locational disadvantages. Changsha has specifically benefitted from its position at the intersection of three high speed rail lines, which improve connectivity to major coastal cities like Guangzhou (2 hours away) and Shanghai (5 hours away).The impact of this rail line is most apparent in the presence of high levels of human capital, as people are more willing to relocate to Changsha due to its improved connectivity to major cities, and even hometowns.

***Factor 3*: Changsha inherited a national research institute in the 1950s that was focused on generating knowledge in the construction machinery industry.** This institute would facilitate the emergence of Zoomlion, one of the top firms in the industry globally; as well as the construction machinery cluster more largely, complete with input suppliers and competitor firms. While the presence of the national research institute in no way guaranteed the success of future firms (as will be discussed in the next section), its presence is acknowledged in order to distinguish Changsha's inherited advantages from those of other Chinese cities.

The construction machinery industry in Changsha would benefit further from decisions made at the national level in 2009, when the national stimulus catalyzed a domestic construction demand boom. This jump in domestic demand had a large impact on the industry, and top national firms like Sany and Zoomlion (both located in Changsha) nearly doubled their sales and number of employees as a result. This period of industry growth (2009-2012) directly coincided with the period of analysis of this case study series (2007-2012), thus explaining part of the city's exceptional economic growth during this time. However, the demand was principally in construction, which would not have automatically led to growth in Changsha were the city not the home of firms already competitive in construction machinery.

While unable to account for the entirety of the city's success, these national government factors were instrumental to Changsha's growth. The prioritization of the region by the national government, the provision of infrastructure to address constraints to competitiveness (i.e. location), and the establishment of an industry specific knowledge institute, (and subsequent national stimulus package), all contributed to the city's competitiveness during the period of analysis. In the end, however, none of these factors would independently trigger growth; Changsha's success was largely dependent on the city's ability to leverage each of these factors and effectively collaborate at the municipal government level in order to promote the development of several competitive industries.

Local Context

The City of Changsha:

- ***Scale:*** Home to over 7 million people and an area of 12,000 km^2 (see image[169]), the City of Changsha is over 3,000 years old, and today, is the capital city of Hunan Province. Changsha is made up of six districts, two counties and one county-level city. In the core of the city, the population is about 4.5 million; with migrants making up about 1/3 of the population (equivalent to 1.5 million people). In 2012, Changsha's GDP reached 640 billion yuan (~ 102 billion USD) up from 245 billion yuan (~32 billion USD) in 2007.

- ***Governance*:** The city is governed by a Secretary General and Mayor, in addition to an Executive Vice Mayor and 7 Vice Mayors. The Mayor is appointed to 5 year term (and a maximum of 2 terms) by the local CPC committee(s). The CPC is responsible for establishing reporting hierarchies for the various tiers of government, and ultimately asserts control over the appointment as well as disciplining and dismissing of appointees.

- ***Responsibility:*** The Municipal Government of Changsha is in charge of administering affairs within their jurisdiction and reports to the provincial government. There are approximately 283 cities with municipal government authority in China (some cities in China have specialized authority due to designation as autonomous regions or centrally governed cities) and 31 of them are provincial capitals. It is the responsibility of the municipal government to provide almost all public services as well as economic planning for the city (including business development support; provision of infrastructure, water and electricity; provision of basic education, social welfare services and health services, etc.). The city of Changsha, specifically, manages twelve development

169 Hunan Provincial People's Government Website http://eng-hunan.gov.cn/AboutHNprovince/Facts/GeographicalLocation/201310/t20131028_941840.htm, October 5, 2014

zones and 39 municipal government departments, including the General Office, the Commission of Industry and Information Technology, Education Commission, Finance Bureau, and the Commerce Bureau.

- ***Fiscal Resources:*** Taxation on business and profits from land leases account for a large part of local revenues. Most of the tax incomes, such as those from personal income and business income, are shared with higher tiers of government. Conversely, however, municipalities receive fiscal transfers from the central government for local government spending. Finally, a unique and important mechanism that Chinese cities have been using to finance public programs and infrastructure projects is through setting up a special purpose vehicle company to borrow credit against future land values. With these potential local fiscal resources in mind, in 2012, Changsha achieved a balanced budget, with a small surplus[170]. This enables Changsha (financially) to invest in pro-business initiatives that promote firm growth.

Hunan Province:

- ***Scale*:** Changsha is the capital of Hunan province; a province of over 200,000 km^2 and 72 million people[171]. Located in central China, Hunan province is made up of 13 cities and 1 autonomous prefecture. The provincial GDP reached 2.2 trillion yuan[172] in 2012 (350 billion USD), up from 1.3 billion yuan in 2009[173]. Apart from being known as a historical rice and cotton producer, a growing industrial base, and the home of the popular television network *Hunan TV*, Hunan is also the birthplace of several national leaders, including Zeng Guofan and Chairman Mao Zedong.

- ***Governance:*** The province is governed by a Secretary General, a Governor, an Executive Vice Governor, 5 Vice Governors, and an Assistant Vice Governor. Similar to appointments at the city level, Governors are appointed by the local CPC committee(s). The Secretary General is first in command, leading the provincial committee that governs the Province. The Governor follows the Secretary General as second in command. There are 23 provinces in the country, all of which report to the State Council (the institutional body that delineates responsibility between the central government and provincial government).

- ***Responsibility:*** The responsibilities at the provincial level include administering economic, social and cultural affairs within the province. The provincial government can also implement local laws and decisions made by the provincial people's congress and CPC standing committee. The division of responsibilities among the province and municipal government is not always clear-cut, with mandates frequently overlapping. Such overlaps and blurred responsibilities were not considered a cause for concern, possibly because China's governance framework places greater weight on whole-of-government outcomes (growth, employment and social stability) than on differentiated functional processes.

- ***Fiscal Resources:*** China is a very centralized country in terms of fiscal resources. For example, 75% of the business income taxes that are collected locally have to be sent back to the central government, while local governments (including province, city, county, town, and village governments) share the remaining 25%. In the case of the city of Changsha and Hunan province, Hunan province has the authority to decide the tax sharing mechanism with Changsha (such as what percentage of the local taxes Changsha retains). Since Changsha has a bigger tax base, it typically has more fiscal income than other cities in the province.

While the key focus of this case study was analyzing strategies and initiatives undertaken by city level agencies, it is imperative to note that several interventions undertaken at the provincial level also had a large impact on the city's success. Like all cities, Changsha does not operate in a vacuum; both national *and* provincial level policies and initiatives contributed to the high levels of GDP and job growth in the city. For instance:

***The Cultural Industry*:** Alongside construction machinery, Changsha is also home to a thriving cultural industry. Primarily dependent on Hunan TV (a television station), the industry employs about 20,000 people in the province and 10,000 in the city of Changsha. Hunan TV is a provincial SOE, and like Zoomlion, was granted significant autonomy that made its success ultimately dependent on 2-3 top, effective managers. Similar to other firms in Changsha, Hunan TV credits its success to a strong talent attraction program, effective managers, and a flexible structure that promotes competitiveness as well as the belief that state owned assets should maintain their value (and be regularly evaluated).This industry was not featured in this case study because, despite Hunan TV's success (3rd largest station nationally after National CCTV and Shanghai TV, and highest viewing ratio), the SOE has largely received support from the provincial government, with very little support from the municipal government. However, its popularity generally helps Changsha's image and reportedly makes it more attractive for talent.

***Improved Access to Finance*:** The Chinese central government has made significant efforts to promote access to finance for businesses. As the Chinese banking and finance sectors are both regulated by central government agencies, it was under their authority that special purpose policy banks and insurance companies designed to promote exports were established. The provinces, however, had to attract banks and insurance companies to open branches within their jurisdiction. In Hunan's case, the provincial government facilitated the opening of a branch of the Export-Import Bank of China (a non-profit financial institution) in 2006. Access to this

170 Changsha Bureau of Finance Website, 2013
171 Hunan Provincial People's Government website
172 ibid
173 ibid

branch subsequently improved access to finance for numerous businesses, most especially, the construction machinery firms. Given the high cost of heavy machinery, buyers frequently required loans to make purchases. When foreign buyers were unable to get favorable loans from their home countries, they were instead able to get low interest rate loans from the Export-Import Bank. This helped the construction machinery industry to increase sales worldwide, increasing their exports and reducing their dependence on domestic sales (prior to the domestic slowdown).

Both the success of the cultural industry and the presence of the Export-Import Bank promoted the economic success of the city. Both were driven by the province, though in other countries such initiatives may be possible for cities (the "mayor's wedge" having a different scope in each country). However provincial government support did not end there; there were numerous occasions in which the provincial government made itself available to support the initiatives of the municipal government. Examples of such support are noted in the Factors section below.

The Private Sector and External Stakeholders:

The private sector in Changsha was not actively engaged in the formation or implementation of economic development strategies. The private sector *was* responsible for starting up key leading firms in the city, like Sany, a leading firm in the construction machinery industry. The private sector also collaborated through the Changsha Enterprise Association for Foreign Investment, a 600 member nonprofit organization that advocates for policies that support private sector interests and serves as a representative of private sector interests to the local government[174]. While the Association has served the interests of its members, its role has been more limited to lobbying and advocacy efforts regarding specific city regulations (e.g. traffic regulation).

174 It must be acknowledged that the Association was initially supported and funded by the government. Today, the Association is formally independent from the government.

Analysis

Factors of Competitiveness

Changsha's municipal government was the main catalyst in initiatives that took advantage of exogenous and inherited opportunities. The municipal government made deliberate public investments to improve the competitiveness of local industries and transition (and diversify) the city's economic base by attracting new industries and high level talent. The most effective initiatives (promoting growth) have been grouped into three categories of intervention:

1. Nurturing the development of key industries by promoting the competitiveness of firms
2. Utilizing inter-agency coordination mechanisms to successfully diversify the economy
3. Developing and acquiring higher levels of human capital through vocational degree programs and talent attraction programs

Factor 1: Nurturing the development of key industries by promoting the competitiveness (and competition) of local firms

Since the late 1990s, the municipal government in Changsha has actively supported the growth of the construction machinery industry, both consciously and unconsciously facilitating a fierce competition among the leading firms. Initiatives undertaken by the government to support this industry were centered on the premise of building globally competitive firms; the most notable initiatives included: providing support in the form of access to market information and linkages to top global suppliers, and support for R&D and attraction of top talent across all firms in the industry. Furthermore, the city took steps to support firms, without disproportionately promoting the growth of specific firms over others (even when some of the firms were SOEs).

What Did the Industry Look Like?

Changsha's successful industrial sector developed from homegrown, local firms. After market reforms in the late 1970s, Changsha's growth began to pale in comparison to that of coastal cities in China. Located in a province that relied chiefly on agricultural production, Changsha had become a center for trading, manufacturing and services (with primary, secondary, and tertiary industries contributing 12.96%, 42.93% and 44.11% to GDP respectively[175] in 1998). It was not until the early 2000s that Changsha's manufacturing sector began to take off; with significant growth in industrial output initiated by homegrown firms, like Sany and Zoomlion, not by foreign investment or newly attracted industries (favored pathways to growth in many other cities).

The construction machinery industry was not an early priority for the government. In fact, leading firms started up independently of significant public sector support. Both Sany and Zoomlion developed without government intervention or preferential policies. Despite Zoomlion being an SOE, the firm received minimal assistance during its startup; receiving a loan of only .5 million RMB, of which half had to be deposited as collateral. Even early support, like land within industrial parks, was offered to other firms outside of the construction machinery industry as well. The government did not select individual firms or industries as local champions, but allowed firms to demonstrate capability to compete before receiving more tailored support.

The two leading firms, Sany and Zoomlion have developed a fierce competition that has encouraged increases in innovation and productivity. While both firms developed in Changsha in the 1990s, they have had different trajectories and different ownership structures that have markedly set them apart. For instance:

- ***Sany*** is a private sector firm, currently ranked #1 nationally and #6 globally in the construction machinery industry. Established in 1989 by 4 engineers in Hunan Province, Sany relocated to Changsha in 1994 to take advantage of the city's resources. During the peak of the construction demand boom in 2011, Sany enjoyed 60% annual growth, contributed 40% of district tax revenue, and accounted for about 5% of city GDP. Annual operating income (i.e. profit) reached 2.6 billion RMB (~430 million USD) in 2009 and 6.9 billion RMB (~1.1 billion USD) in 2012, almost tripling in 3 years. As of 2014, Sany employed about 13,000 people in Changsha and 18,000 within Hunan Province. In the face of the current slowdown, the company is focusing on the provision of value-added services alongside its machinery.
- ***Zoomlion*** is a SOE, ranked #7 globally in the construction machinery industry. Zoomlion has direct roots in the Construction and Machinery Research Institute (the aforementioned National Research Institute). In 1992, the Vice President of the Institute wanted to start a company using the knowledge generated from research, although at the time, he was not sure in what area specifically the company should focus. He went on to found Zoomlion and became the SOE's first President. In the late 1990s, Zoomlion was listed on the Shenzhen stock exchange, and today, the firm has diverse shareholders using a limited liability corporation structure, with only a 16% provincial government stake. Annual operating income was approximately 2.8bn RMB (~460 million USD) in 2009 and 8.9 bn RMB (~1.4 billion USD) in 2012. As of 2014, Zoomlion employs nearly 20,000 people in the city. In the face of the current slowdown, the company has adopted a different strategy than Sany, diversifying into machinery for non-construction sectors. In particular, it has invested heavily in agricultural equipment,

175 Hunan Provincial Bureau of Statistics <http://www.hntj.gov.cn/english/sq/Changsha_Investment.htm> 2004.

betting that rural land reforms will spark widespread mechanization in China.

Other construction machinery firms in Changsha include Sunward, CHTC Jove, Rullong Heavy Industries, Zhongli Machinery, Dingli Tech, and AVIC Landing Gear[176]. Sunward is the most prominent and is rapidly moving into global markets, e.g., for advanced tunneling equipment. It is sometimes grouped with Sany and Zoomlion as "the three musketeers". The combined number of jobs in Changsha from all firms in the construction machinery industry (including Sany and Zoomlion) is estimated at 100,000.[177]

What Did Support for the Industry Look Like?

Changsha's dominance in construction machinery was not automatic. Other Chinese cities tried to nurture the same industry, sometimes with more substantial, if superficial, advantages. In the early 1990s, Changsha was one of many cities in China with the potential to develop a construction machinery cluster, but the city differentiated itself by *not* imposing a local procurement requirement, and providing support in the form of the provision of market information instead. Other Chinese cities had firms in the construction machinery industry; for instance, Caterpillar had established a joint venture and technology transfer agreement with Xugong in Jiangsu province (where the firm still exists today, but is a distant third to both Sany and Zoomlion in domestic and global markets).

Unintentional Competitors?

In the early 2000s, the government tried to broker a merger of a weaker, almost bankrupt SOE with an existing firm. The deal was first offered to Sany (refused) and then to Zoomlion (who accepted). Only after this acquisition was Zoomlion of a comparable size and scale to Sany- and the two have been fierce competitors ever since.

The cities support in the "early stage" (mid-1990s) focused on providing information, especially relating to global component suppliers. Some competitor cities, like Xiamen, imposed local input requirements that diminished the quality and ultimately, the competitiveness of local firms. In contrast, Changsha not only permitted but encouraged firms to import top quality inputs by commissioning an analysis of top international suppliers. The municipal government helped further by making connections between firms and global industry players; helping them to secure invitations to industry events, like trade shows.

In the middle years (late 1990s/early 2000s), support shifted to in-kind resources, such as land and tax credits. The city provided space for both Sany and Zoomlion in the different industrial parks, placing the firms in separate areas, where they could have access to improved infrastructure and park management staff (to troubleshoot problems). In terms of in-kind resources, firms could receive tax credits for providing in house training; as long as this training had been government certified (e.g., Sany Technical School is one of only 9 city government-certified vocational degree programs in the city). Tax credits and matching of funding were also available to firms to support R&D, new investments or international acquisitions.

In recent years (2005-present), the municipal government has supported the transition into higher value added production. Support has included help accessing national and provincial level programs to tap into funds intended for R&D projects and high level talent attraction. For instance, both Sany and Zoomlion attracted high level talent by utilizing national talent attraction programs that provided funding (i.e. research grants, compensation and/or settlement allowances) for top talent willing to relocate internationally or nationally. The provincial government also invested in a design center, made accessible to all firms, to encourage innovation across the industry. The center has been particularly active in helping connect Sany to international designers, and to enable its own cultural connection with acquired companies in the West (e.g., Italy).

The city and province's long-term support of the industry left firms well prepared to take advantage of the post-crisis investment surge in China (i.e. national stimulus). Support also helped mitigate the "bust", or drop in demand, as the firms are currently reorienting their strategies, but profitable despite a ~30% drop in sales. Instead of shielding firms from market competition, government initiatives enabled local firms to be competitive globally, promoting high quality inputs, access to basic resources, and market access, and innovation capacity[178]. Today, Sany Group Ltd. ranks among Forbes "Top Chinese Enterprises", exports to 110 countries and has 30 subsidiaries worldwide; Zoomlion is similarly expanding

What was absent from government support for the industry?

- Local procurement requirements
- Promotion of a single company
- To our knowledge, a "bail out", when the industry struck trouble

176 KPMG. "Changsha, Gateway to Inland China; Changsha Investment Environment Report 2013." https://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/Changsha-Gateway-to-Inland-China-201305.pdf, 2013.

177 Construction Shows. "Development of Changsha Construction Machinery Industry." 21 February 2013 http://www.constructionshows.com/development-of-changsha-construction-machinery-industry/216986, November 14, 2014.

178 Many economists have expressed concerns about other types of support, including the high levels of debt and cuts in interest rates to support large SOEs. This report did not focus on such issues and therefore cannot confirm or deny any such issues in Changsha. The primary focus of this report was what the City did well.

overseas and in 2012 had a 27% jump in overseas sales (just as domestic demand was in decline) .

What Was the Impact of the Industry on the City?

The construction machinery industry had a significant economic impact on the city, providing critical tax revenues, technical training for worker development, jobs and increased incomes. The industry reached 194.7 billion yuan in industrial output in 2012[179] (a 6.6% increase from 2011) and accounted for 24% of the City's total industrial output value in 2011. In terms of employment, the top two firms alone (Sany and Zoomlion) employ over 30,000 people in Changsha, smaller firms like AVIC Landing Gear employ about 3,000[180], and most total industry employment estimates are around 100,000. Taking into account the industry multiplier of 5[181], and assuming a 2.25 million size labor force (50% labor participation rate of a 4.5 million population size core city), employment from this industry cluster represents over 20% of total Changsha job opportunities.

Factor 2: Utilizing inter-agency coordination mechanisms to improve investment attraction

The government of Changsha successfully diversified the city's economic base by attracting new industries, like the automobile industry. The city used effective interagency coordination mechanisms, called "Leading Groups" to coordinate investment attraction efforts across departments and industrial parks management structures. This diversification ultimately reduced the city's exposure to the construction downturn and helped Changsha to avoid the fate of other largely one industry dependent cities (e.g., Detroit).

What Did Investment Attraction Look Like?

The municipal government prioritized the attraction of new industries in order to reduce the city's dependence on the construction machinery industry for jobs and tax revenue. The city quickly set its sights on the automobile industry as it offered a large number of jobs for lower skilled workers, and despite the city's efforts to improve levels of human capital, there were still numerous lower skilled workers seeking employment in the city.

The city had a number of factors in their favor for attracting the automobile industry:

1. ***The automobile industry was a nationally prioritized sector***, so proactively targeting this industry was in line with the interests of provincial and national level officials (The city did not target all nationally prioritized sectors, the municipal government only targeted those for which they felt they had capacity; for instance, they dismissed the textile industry).

2. ***Changsha was cost competitive*** in terms of logistics, labor and land (due to municipal improvements atop inherited advantages)

3. ***There was significant market demand***; Changsha boasts high per capita income levels and high rates of consumer spending, while the central region of China more largely has a relatively unsaturated market and high levels of growth predicted in the next ten years.

4. ***There was some existing capacity for supply, albeit small and of doubtful competitiveness***; including a few automobile parts factories and spillovers from skills developed for workers in the electronics industry.

These factors were understood intuitively and via market-testing rather than through extensive desk analysis. The city's strategy for automobile manufacturing was based on some analysis, albeit of uncertain robustness and with extremely aggressive targets. Moreover, the strategy for other industries has been somewhat less successful, for example, the city's selection of the electronics industry. Although a single electronics firm has created a large number of jobs producing screens for the iPhone, there has not been the growth of a cluster of firms such as in the automobile industry. In fact, a large MNC left when its tax benefits expired (see text box). It is debatable whether this should be seen as a blemish, since this meant, in practice, applying a market test rather than a consultant test. Such tests however may only be feasible at a smaller scale for cities with greater constraints on fiscal action.

Firms like Fiat and Sumitomo were attracted to Changsha, citing cost competitiveness, capacity and market opportunities as key reasons behind their decisions to invest. However firms were further attracted by incentives offered; such as preferential tax policies, availability of funding (e.g. tax credits for high-tech R&D activities), and locational advantages in industrial parks where input suppliers could be co-located with component parts producers. Park and management offices could more easily address labor supply needs (conducting regular recruitment events). While numerous parks exist in China offering similar preferential treatment, the firms interviewed highlighted the attentiveness and attraction coordination by the municipal

Letting Key Firms in the Electronics Industry Leave

It is important to note that not all attraction efforts were met with success. In the electronics industry, LG was attracted but left when nearby city Wuhan offered more attractive incentives. Changsha did not try to compete with Wuhan or initiate a race to the bottom. Instead, the government maintained that preferential policies should expire and focused its efforts on industries in which it had a competitive advantage. The electronics industry still exists, but compared to the automobile industry is small and highly concentrated in one firm.

179 Changsha Commerce Bureau, "Invest in Changsha". 2013. http://www.csinvest.gov.cn/jjcs_cssyscy_1.asp, 15 October 15, 2014.
180 ibid
181 Each job directly in the industry supports another 5 jobs city-wide

government as one of the key factors in their decision to invest.

The automobile industry's entrance was well-timed; just as the downturn in the construction machinery sector began the preferential tax policies expired for the automobile industry. In one county, tax revenues from the construction machinery industry had accounted for 30% of the tax base and fell to just 10% after the drop in demand. Increasing tax revenues in one industry essentially counterbalanced falling tax revenues in another industry, mitigating the impact of individual industry cycles.

How Did the Government Successfully Manage Investment Attraction?

The municipal government utilized *Leading Groups* to effectively coordinate investment attraction efforts and investor aftercare. Leading Groups are temporary committees that are convened for a specific initiative (like investment attraction) in order to both coordinate among various departments as well as keep top level officials informed of progress and/or problems. Leading Groups were in no way unique to Changsha, but are a common mechanism used across China by government officials. It should also be noted that not all leading groups are successful. Those that are set up for an initiative falling into the city's prioritized area and are overseen by the mayor himself tend to be more effective.

Leading Groups coordinated not only different departments but different levels of government, including municipal departments and industrial park management:

- **Municipal Government Level:** All municipal employees have a shared objective of achieving GDP growth targets, for which city leaders are ultimately assessed on achieving. Departments are individually evaluated on specific initiatives that contribute to GDP growth and tax revenues (which provide further funding for initiatives designed to promote growth). However, like many other cities, individual departments can suffer from working in silos, and can have difficulties cooperating on inter-agency matters. The personnel evaluation system tracks, to some extent, responsiveness to others' problems. However on its own, the municipal governance structure had no incentive system or coordination mechanism (before Leading Groups) to address these issues.

- **Industrial Parks:** All of the parks in the city have independent management structures called "organizing committees". Each declared park is over 100 km^2 (although zones are built incrementally in phases of 10-15 km^2), and contains factories, roads residential, retail, and even schools and hospitals. Formally the organizing committee is considered an independent government, ranked a half-level up from the county level. The organizing committees are large enough to address many of their own problems internally, and small enough that internal coordination between departments is relatively easy. The parks are funded by land sales, leases and service fees, with net surpluses contributed back to the municipal budget. Historically, the parks were held to individual targets that promoted quantity (number of firms and jobs) over quality. However, of late, this has been changing; clear directives (and correspondingly lower targets) have been given to parks, like the Changsha High-Tech Industrial Development Zone, to prioritize quality[182] over quantity.

The "Leading Group for an open economy" works to promote high-quality investment attraction effectively across municipal departments and park organizing committees; creating a framework that clearly establishes roles, reporting requirements and accountability. This specific Leading Group is headed by the Mayor and supported by a dedicated office that draws on personnel and resources from the Bureau of Commerce. There are approximately 30 departments (across the municipal, county and park government structures) that are formal members of the Leading Group, their respective roles delineated in a concise 4-5 page document. The Leading Group draws on the management structure of each individual party, ensuring that problems move efficiently up existing channels.

Reporting requirements for members of the Leading Group ensured that investor problems are dealt with in a timely fashion (see graphic on next page). Departments can voluntarily bring up problems, but the Leading Group mechanism is intended to catch problems routinely, through reporting:

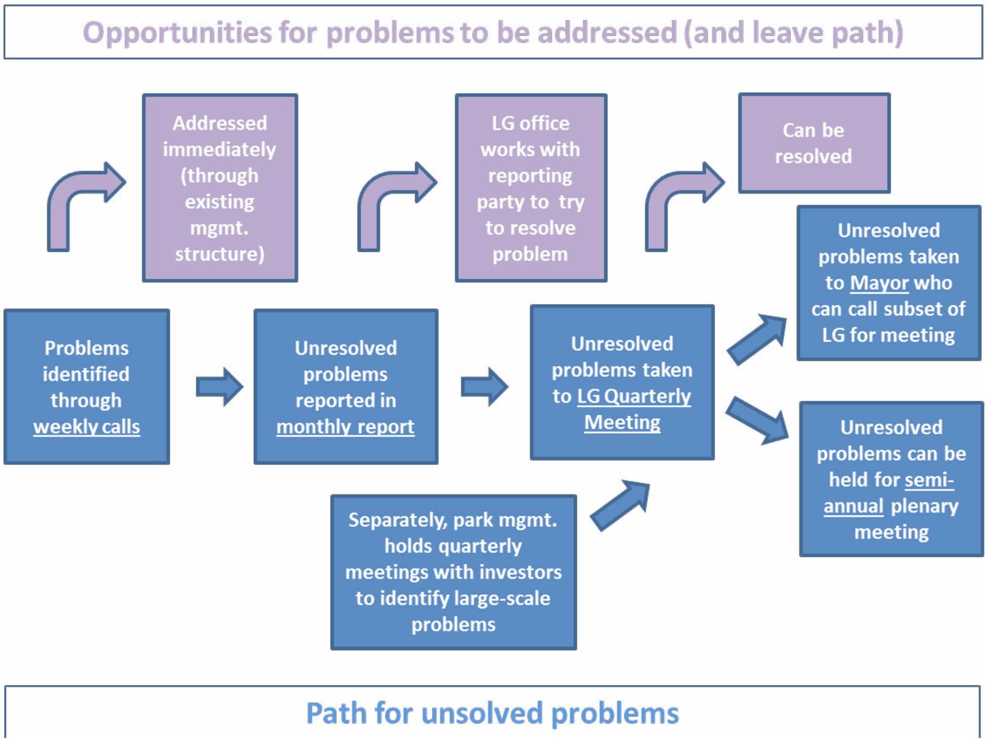
1. ***Each week***, designated officers within parks call their assigned investor to check if any problems or concerns have emerged. Problems can be addressed immediately within the park management structure (if possible). Only unsolved problems are listed in the monthly report.

2. ***Each month***, the municipal departments, park organizing committees and county governments submit a monthly report to the Leading Group office on progress and problems with investments in their jurisdiction. If reports indicate a problem or delay, then the Leading Group office will address this problem with the reporting party immediately. If the problem persists, then it will be brought up at the quarterly meeting of the Leading Group (see #4).

3. ***Each quarter,*** within parks, directors and senior management meet with all investors to address issues and discuss prospective problems. Problems that cannot be resolved are taken to the Leading Group quarterly meeting (see #4).

4. ***Each quarter***, the Vice-Mayor chairs a meeting for "core" members of the Leading Group. Only problems and changes in policy are addressed at this meeting,

182 "Quality" refers to promotion of start-ups, and high tech R&D and higher value added production by firms.



indicative of the trend to raise problems (not approvals) to high-level officials' attention.

5. ***If problem is still not adequately addressed***, then the Leading Group office brings the matter to the Mayor, who calls a subset of the Leading Group (of concerned departments) to solve the problem. Additionally, problems can be set aside for the semi-annual plenary sessions of the Leading Group, held for particularly intractable problems (and shifts in policy).

Finally, measures to improve accountability at the individual and department level were incorporated into the framework. All personnel are required to handle problems that are brought to their attention or they must be officially handed off to another department. Even if the request is brought to a department that is not the best suited to assist, that department is required to handle or "hand-off" the request to the appropriate department. While focal points exist for each investor, no focal point is designated as the sole point of contact, ensuring that the investor may contact any department or personnel that they desire. A response of "not my mandate" is considered unacceptable, and to monitor this, it is required that requests brought to specific individuals are tracked in personnel files (and firm concerns are likely to resurface…).

Further, performance evaluations are conducted at all levels. The municipal departments and parks each have annual performance evaluations that measure industrial output and annual revenue (industrial parks) and contributions to GDP and tax revenue (municipal departments). But at a more detailed level, these evaluations incorporate organizational responsiveness and contributions to prioritized initiatives.

What Was the Impact of the Leading Group?

While the Leading Group for an open economy is not necessarily unique to Changsha or even the time period in question, it undoubtedly helped the city to attract new industries. As a result of coordination mechanisms and efforts to improve investment attraction and investor aftercare, the city attracted new firms in emerging industries, like automobiles, electronics and biomedicine. These new industries contributed to economic growth and diversification, increasing tax revenues and resilience to industry specific downturns.

Industrial Output by Industry (2012)[183]

Construction Machinery Industry	194.7 billion yuan (30.96 billion USD)
Automobiles and Parts	31.1 billion yuan (4.95 billion USD)
Cultural and Creative Industry	125 billion yuan (19.88 billion USD)
New Materials[4]	123.9 billion yuan (19.7 billion USD)
Biomedical	19.8 billion yuan (3.15 billion USD)

183 KPMG 2013

Specifically, the automobile industry supported resilience after the downturn of the construction machinery industry. In 2008, industrial output in the automobile industry was only 14.7 billion RMB[184], but by 2012, industrial output had more than doubled to 31.1 billion RMB (an increase alone of 26.6% from 2011[185]). Firms working in the automobile industry include Bosch, Lizhong Automobile Design, Sumitomo Rubber, Hitachi, BYD, GAC Fiat, etc.[186]. At present, a new Volkswagen plant is under construction that will increase the production capacity in the city by 300,000 cars in 2016[187].

Factor 3: Developing and acquiring higher levels of human capital

The municipal government of Changsha placed a high and sustained priority on human capital; seeking to ultimately increase incomes and GDP growth through higher levels of human capital. Higher levels of human capital in Changsha contributed to improvements in productivity and innovation at existing firms, attraction of higher value added sectors and the growth of new firms in emerging industries. Senior officials all listed investment in human capital as their first priority, well above physical infrastructure. However, building human capital is much easier said than done, and beset with market and institutional failures. Changsha's strategies for improving levels of human capital in the city have been centered on two approaches: talent attraction and vocational training.

What Challenges and Advantages did Changsha Inherit regarding Human Capital?

Although home to numerous universities, Changsha did not inherit any significant advantage in terms of an abundance of high level human capital. In fact, brain drains were common to the central and western regions of China, with top level talent migrating both domestically and internationally. Nationally, large Tier 1 cities in the eastern (or coastal) provinces, like Beijing, Shanghai, Guangzhou and Shenzhen attracted top talent with their highly ranked university degrees, and/or more attractive incomes and lifestyles.

What did Talent Attraction Programs Look Like?

Changsha has leveraged national and provincial level programs as well as developed municipal programs to attract highly talented individuals both domestically and abroad. In order to improve levels of human capital within the city, the municipal government sought to attract new talent. Similar to efforts to promote new investment, the city utilized the Leading Group mechanism (called the Leading Group for Talent Attraction) to coordinate tasks, such as:

- the identification of existing firms, areas of research and emerging industries in which new talent was needed;
- the leveraging of national level programs and funding; and
- the implementation of recruitment efforts both domestically and overseas.

At the national level, Changsha made aggressive use of national programs designed to recruit high level research talents. For instance, the 1,000 Talent Attraction program, which started in 2009, accepts applications from candidates who have resettled in China and are willing to stay for up to 3 years. The National Central Organizing Committee evaluates applicants against specific criteria and provides compensation for approved "talent" as compensation and/or a resettlement allowance. The municipal government used this program- and compensation package- both to market the city to individuals (to encourage them to resettle in Changsha) and for utilization by its top firms, like Sany and Zoomlion, who recruited high level talents with the knowledge that funding could be individually applied for through the national program. Both Sany and Zoomlion reported that several of their most important senior researchers in their expanding R&D centers were attracted through the program.

At the municipal level, the city independently attracted talent by developing municipal attraction programs. Municipal Program 313, for example, which began in 2009, was implemented by the Talent Attraction Leading Group. The program utilized diaspora networks overseas to promote and attract new applicants to the program, as those with stronger connections to the city could be more easily convinced to resettle or stay in Changsha. Diaspora networks were also used as a low-cost marketing and outreach tool, helping to advertise and identify individuals in targeted industries that could be recruited. The program enjoyed such success that the Leading Group has plans to develop a follow on attraction program.

What did Vocational Training Look Like?

The municipal government in Changsha certified and provided funding to eligible vocational schools. Higher vocational degree programs are degrees available to high school graduates that complete 3-4 years of vocational training at specialized schools. These programs are ubiquitous in China; intended to address unemployment and increasing demands for skilled labor in specialized fields. However, unlike other cities, Changsha has managed to address many typical market failures in vocational education, with firms reporting high levels of satisfaction with local schools and the availability of skilled labor. The city achieved these outcomes by: imposing high barriers to entry, stimulating competition through transparent performance reporting, providing funding, and improving linkages with firms.

184 KPMG. "Changsha National Economic and Technical Development Zone, Investment Environment Report 2009". <https://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/Changsha-economic-technical-200909.pdf > 21 October 2014.

185 KPMG 2013

186 ibid

187 The Wall Street Journal. "Volkswagon Readies New China Factory". 13 May 2013. <http://online.wsj.com/articles/SB10001424127887323716304578480313299340912> 10 November 2014.

The city imposed high barriers to entry for vocational degree programs,[188] improving the quality of supply. Each program must be certified by the central government in order to operate. This is the case even for public schools, where operated by the local municipality. The certification requirements are steep (e.g. evaluated against a list of 50 indicators), but not impossible for schools of good quality. The certification only takes place once every five years which minimizes the administrative burden on local government. Schools that fail are given a second chance to reform, with specific guidance to help them do so. The result was comparatively few post-secondary vocational schools. Within the city's remit (i.e. senior vocational schools administered by the municipal government, not the provincial or national government), there are only 9 senior vocational schools which confer a 3-year associate degree (some also award a 4-year college degree), and 6 of these schools are privately administered. This small number of schools helps to facilitate the flow of information about schools' quality (i.e. less schools to keep track of), both among potential students (or their parents) and among potential employers.

Competition between schools was stimulated by improved transparency regarding performance and the promotion of new providers. For instance, the average score on the national exam of the incoming class of students for each school is made publicly available; which reflects the caliber of the school and can influence future applicants and firms looking to recruit or co-develop curriculums. The employment rates of recent graduates are also made publicly available, which serves as an indicator to the government, firms and students about the applicability of the curriculum, quality of the institution, and overall responsiveness of the school to needs of firms. These are measures that are typically taken across China, and often at the provincial or national level (however, there is little reason to believe cities elsewhere could not undertake them within their jurisdiction). Finally, the city promoted private sector vocational training programs, which was not necessarily the norm in China. This conversely reduced barriers to entry and allowed more, potentially competitive, training providers to enter the market, reducing the likelihood of a monopoly. Encouraging private sector providers thereby stimulated competition, as the threat of new entrants (or degree programs) kept all schools competitive.

Changsha provided funding for public *and* private schools, with the provision of funding linked to the number of students enrolled. In doing so, the government both rewarded high quality institutions and incentivized schools to respond to the needs of students. For example, Sany developed a worker training program for new hires and had its program certified by the municipal government (Sany Technical School). While not available to all citizens, the training was of exceptionally high quality and would improve the competitiveness of workers. Instead of receiving direct funding from the government, the firm received tax credits, further incentivizing the provision of high quality trainings – as well as potential spillovers.

Finally, the city improved linkages between vocational programs and firms, promoting desired outcomes like improved curriculums and employment. The parks made frequent linkages between vocational programs and firms, helping firms address their needs for skilled labor. Some firms identified vocational schools on their own, due to increased transparency measures regarding performance by the government. Cooperation between schools and firms varied; in some cases, schools signed cooperation contracts with firms to provide tailored curricula. In exchange, firms would host internships or recruit from these programs. These agreements were not exclusive; in fact, it was not uncommon for firms to sign 30+ agreements to ensure a variety of skills were developed to meet their needs.

The government also facilitated linkages between vocational schools and firms in order to promote employment after graduation. The municipal government provided funding for on-site career placement offices within schools and organized job fairs, while the talent service centers within industrial parks held regular job fairs to connect students with hiring firms. Due to these efforts, Changsha generated optimal outcomes like high rates of employment among graduates and minimal "skill mismatches".

What was the Impact of these Efforts?

The municipal talent attraction program alone has successfully attracted 102 "high level talents" and 17 start-ups in just 3 years. Through national programs, Changsha has recruited more than 10,000 professionals between 2009-2011,[189] and has earmarked 30 million RMB to fund future attraction programs. Key "talents" are helping to further diversify the economy, leading cutting edge 3D printing companies and starting up firms in the emerging biomedical industry.

In terms of vocational training, interviewed firms reported that skilled labor has been relatively easy to find, and noted that this had been a key factor in their decision to invest. One MNC explained that they were so satisfied with the skills in Changsha that they planned to bring higher value added production to their operations in the city. Factory-floor observation confirmed that the largest firms were executing advanced production techniques, and that attrition and poaching were relatively low among higher-value firms (otherwise were dependent on benefits and where companies ranked in terms of pay scales).

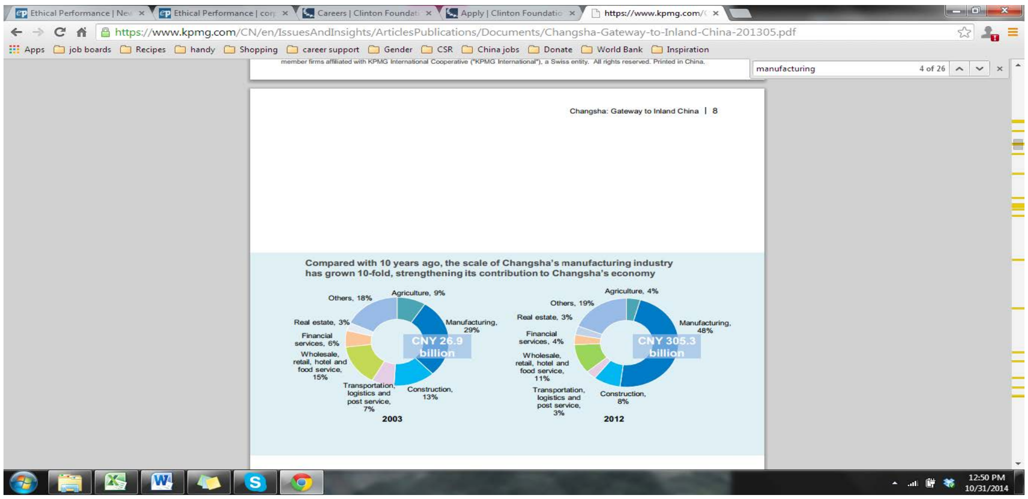
188 Vocational *degree* programs differ from vocational *training* programs. There are thousands of vocational *training* programs across China; mostly private sector run and lightly regulated, these programs attract students for short training courses (e.g. English classes). Vocational *degree* programs are multi-year training programs; increasingly regulated by the government, these offer planned curriculums that develop specialized skillsets.

189 KPMG 2013

Measure	Likely effect
High but not impossible barriers to entry for vocational schools	Few enough schools for reputation effects to be feasible, but mitigating cartel/monopoly
Deep, infrequent monitoring on process quality, with improvement suggestions	Avoids setting almost-impossible task of repeated curriculum audits
Equal treatment of public and private schools that do meet qualification requirements	Maintains the existence of a market, and threat of new entries hangs over public schools
Funding of both public and private schools on per-student basis, with hard budget constraint	Ensures strong incentives to maintain enrollment, by attracting students
Full transparency on all schools' "score at entry" on national exams	Gives students and companies "market" feedback on school quality, responsiveness
Full transparency on all schools' employment rates by major	Gives students, companies "market" feedback on schools' responsiveness to employer needs
Promotion of cooperation contracts between firms & vocational schools, brokered by SEZs	Gives new investors an immediate institutional option to obtain new technical capabilities
Extensive use of job fairs, at SEZs, the municipal and provincial level	Ensures continuous, dense exchange of labor market information among all participants

Conclusion

Changsha's economic growth in the period of 2007-2012 was not due to efforts by the municipal government alone, nor was it a result of the exceptional success of one industry. The city's success is due to a combination of factors, including inherited advantages, national and provincial level policies, and municipal government initiatives. While only the most unique and constructive factors are noted in this report[190], these factors have positively impacted the city, contributing to the competitiveness of firms and the growth of the economy.



In sum, while inherited and national level factors provided the city with both an increasingly competitive location (centrally located with improved external connectivity) and an industry-specific knowledge base; success was ultimately dependent on the city's efforts to leverage these factors in order to take advantage of economic opportunities. National level factors were insufficient to trigger growth independent of municipal interventions. It was the municipal government that leveraged advantages, providing support to firms across industries and employing effective inter-agency coordination mechanisms that improved the efficiency and responsiveness of government agencies. These measures helped the city to develop globally competitive industries and successfully attract new firms and talent – further diversifying, strengthening and ultimately, growing the economy.

190 For example, many critiques note the questionable high levels of debt among cities and SOEs.
191 KPMG 2013
192 "Invest in Changsha"

Lessons for Other Cities

Changsha, a mid-sized, provincial capital city in central China, recorded very high absolute, and relative, growth in terms of GDP and employment growth in 2007-2012. While this case study does not certify that Changsha's success was unique nationally, or that its success will be permanent, it does offer lessons for other cities (particularly for those outside China, but also within) in *how* Changsha achieved such rapid growth as a national Tier 2 (or secondary) city:

1. ***Firms become competitive, as a result of inter-firm competition and strong management capabilities***. Evaluating firm competitiveness is critical to the identification, and subsequent prioritization, of pillar industries. Initiatives to promote competitiveness include:

    - ***SOEs:*** Decentralizing authority to top managers, reducing support and government shares, and selling SOEs that cannot compete (sale of bankrupt SOE to Zoomlion).

    - ***Private Firms***: Different levels of assistance are offered in the early, mid and later stages in order to both avoid choosing winners and help those firms with potential to compete globally. In the early stage- offering market information to all firms; in the middle stage- offering industrial park land to firms that have demonstrated growth and job creation; in the later stage- providing support for R&D, with tax credits to those demonstrating higher-value added production.

    - ***Foreign Firms***: Enforcing the termination of preferential policies (e.g. tax breaks) after the introductory period and letting firms go that are uncompetitive or refusing to operate without excessive support (i.e. avoiding a "race to the bottom").

2. ***Investing in information flows; both public and private*** can have a high impact, multiplier effect as a public good- especially for start-ups.

    - The provision of market information can be a relatively cost-efficient way to provide support to multi-firm industries.

    - Allowing market information to become publicly available- for example publishing test scores of incoming students as an indicator of school quality- helps to inform consumers and consequently, promotes the success of the most competitive among firms (and schools).

3. ***Improving cross-silo coordination by elevating problems (not approval processes), under disciplined monitoring and accountability mechanisms (e.g. Leading Groups)***. Whether through permanent agencies or temporary leading groups, inter-agency coordination can be improved by developing institutions that clearly designate responsible parties for specific issues, hold members accountable for resolving issues, require group members to meet at frequent intervals to "catch" unsolved issues, and elevate problems that cannot be adequately solved to the next level. Monitoring success, in terms of the issues resolved vs. unresolved, further increases accountability among individual parties.

4. ***Regulating and promoting competition among vocational training facilities*** helps cities to address common quality control problems in terms of relevant skill development. By requiring that all programs be certified in order to operate, and undergo regular evaluations to maintain certification, cities can better regulate the type and number of degree programs available. The certification of schools is not intended to limit providers and allow schools to develop monopolistic positions; in fact, competition among schools is promoted by encouraging private and publicly managed schools to administer programs. Further, cities can better recommend and provide linkages to private sector firms more cost effectively by using verifiable statistics on performance to monitor school quality and desired outcomes.

5. ***Attracting new talent as well as new investment*** improves the ability of cities to develop competitive industries. Cities with large populations can struggle to convert human resources into human capital, but talent attraction programs can contribute to this conversion, as part of a larger, multi-pronged approach to improve human capital. Best practices in talent attraction are similar to those in investment attraction: Target individuals in prioritized areas that could further contribute to the competitiveness of existing or emerging industries; provide limited preferential treatment (resettlement packages for stay of 3 years or more); and utilize diaspora networks as a low cost outreach tool as well as to attract individuals willing to make long-term investments in the city (and not leave for the next attractive package).

6. ***Leveraging national level programs*** can increase the resources available to municipalities to implement new programs and initiatives. In the case of Changsha, the city successfully leveraged national level programs for talent attraction and strategically selected a nationally prioritized industry for its investment attraction efforts (e.g. automobiles). This not only saved the city money, as funding was available at the national level to support initiatives (e.g. funds to compensate certified "talent" that relocated to the city) but reduced the need for the city to duplicate administrative efforts as well. Changsha even encouraged local firms to take advantage of national level programs, helping lead firms to attract thousands of new employees.

Of course, these interventions relied on several conditions that were present in China, and while we cannot know if these same interventions would be as effective in other environments, we can identify a few of the scope conditions that boosted the effectiveness of interventions in this case:

1. ***Availability of financial resources***: For instance, attracting foreign talent can require compensation or resettlement allowances, and the city must have additional funds available for these purposes (without otherwise draining funds for key services or vulnerable groups).

2. ***Performance on cross-department initiatives:*** Interagency coordination efforts were undeniably supported by the fact that personnel had existing incentives to focus on cross-department outcomes (e.g., with the city's growth affecting all officials' promotion prospects to a greater or lesser extent).

3. ***Reliable, Nationally Standardized Tools***: Vocational degree programs had high barriers to entry, but those that were in operation were of high quality. How did the government successfully develop a barrier to distinguish high quality from low quality programs? The municipal government had appropriate certification standards to distinguish programs as well as significant authority to mandate curriculums. In terms of standards, the government relied on available tools- such as nationally standardized test scores for high school students (which were almost impossible to manipulate)- to measure the quality of existing institutions.

Appendices

Testing of Standardized Research Hypotheses

As noted in the report's Introduction, this is the fifth in a series of case studies of economically successful cities around the world. In order to ensure comparability of "teachable moments" across all case studies, a set of standardized research hypotheses was tested in Changsha to determine the exact scope for action at the metropolitan level, factors that may have most affected how those prerogatives were used, and the extent to which specific interventions (and how they were implemented) may have resulted in the economic outcomes observed.

The first hypothesis tested seeks to determine to what extent Changsha's economic results were attributable to proactively picking sectors to support, the second one looks at the strategic planning process itself (if any) and how it may have affected economic growth, and the third one looks at the plan's implementation, if applicable.

1. ***Changsha's recent economic success is attributable to its having made strategic bets on specific industry initiative, rather than just improving their general investment climate.*** Before making bets on specific industries or firms, the government did not select individual industries or firms as local champions, but allowed firms to demonstrate capability to compete before receiving more tailored support.

    a. Changsha is particularly well-known for its construction machinery industry. The two anchor firms in this industry, Sany (a private firm) and Zoomlion (an SOE) ranked #6 and #7 respectively globally in the construction machinery industry. They are global firms **producing tradable goods**—their products export to over 100 countries and these two firms both have subsidiaries worldwide.

    • Other major industries in Changsha are new materials and automobiles & parts. While they are not as prominent as the construction machinery industry, they help diversify the city's economic structure, enlarge the city's tax base, and create job opportunities.

    b. **New business and industries appeared**, together with the continued growth of existing firms. While Sany and Zoomlion grew rapidly from local homegrown firms to globally competitive firms in a matter of two decades, other new start-ups in the same industry also appeared. Some late-comers, such as Sunward, are said to be even more technologically advanced than the already established firms and these new firms are rapidly moving into global markets as well. Higher value-added new industries also start emerging, such as cultural and creative industry in the services sector and biomedical industry.

2. ***While Changsha had strategic plans for long-term economic and social development, such as the widely-quoted "five-year" plans, its policy interventions were largely planned and driven by opportunities identified by the market.*** The municipal government strategically planned and intervened in industries that can effectively capitalize on market trends and location advantages (e.g. the automobile and construction machinery industries). If certain firms (even key firms) were proven to be "outdated" in the market, the municipal government was ready to let these firms leave the city.[193]

    a. In general, strategic plans in Changsha (and China) listed out general economic and social targets and can be served as a guidance to identify prioritized sectors or interventions. However, the wordings of these strategic plans are usually "vague" which **left some space and flexibilities** for local governments in terms of *how* they would design and plan to achieve the targets. For the case of Changsha, the Five-year Plan of 2001-2005 specified that Changsha should target to have the industry sector to be the main pillar of its local economy. The Five-year Plan of 2006-2010 emphasized the need for Changsha to grow its industrial clusters and helped firms to move up the value chain. Changsha was traditionally strong in the consumer services sector, but within a 10-year timeframe (2001-2010), its economic structure transitioned from a consumer services dominated one to an industry sector dominated one, with some "star" industrial companies and cluster well-known not only in the domestic market but also internationally. However, **the analytics (or the existence of it), the detailed planning process** are little known to the general public.

    b. There is **no prominent "growth coalition"** at the city level: while private sectors' concerns and problems are regularly communicated to government officials, and academics are hired by government as advisors, there is not a systematic mechanism to convene them to become a growth coalition.

193 For example, a renowned multinational firm used to produce CRT TV screens in one of the industrial parks in Changsha. When the incentive package expired and the firm threatened to leave Changsha, the municipal government did not engage in "race to the bottom" competition to match the incentive package to keep the firm. The firm eventually left and the factory space was turned into producing touch screens of smart-phones.

c. While clearly **there are strategic prioritization** in different public investment alternatives, the process of this decision is not transparent and is little known to the public.

d. In Chinese cities, including Changsha, fiscal transfers from the central government, taxation on business, as well as profits from land leases account for a large part of local revenues which are used to finance city-level interventions. As the heavy use of special purchase vehicle companies to finance infrastructure projects is being discouraged in recent years, public-private partnerships (PPPs) are becoming more and more popular. This provides **viable funding sources** for Changsha. Changsha has maintained a balanced budget with a small surplus in recent years.

3. ***Local government bodies in China played a huge role in the implementation of interventions aimed at fostering economic growth.*** The public sector has undertaken proactive interventions – through plans, infrastructure provision, and enterprise support – to spur economic development. Changsha government utilized *Leading Group* mechanisms to mitigate inter-agency coordination failures, leveraged national and provincial level programs and developed local programs to bring about the optimal outcomes of these proactive interventions.

a. In general, Chinese cities enjoy a relative high degree of fiscal and political autonomy compared with other cities globally. The Provincial Development & Reform Committee, Commerce Bureau of Changsha, Commission of Industry and Information Technology of Changsha, and the Management Offices of various industrial parks in the city are the major government entities to set and achieve economic targets. However, it should be noted that since city leadership in China is heavily evaluated on the city's economic performance, city leaders—not only the mayors but also leaders in all departments—have the incentives to work together towards achieving economic targets. In general, all government entities have well-defined roles, autonomy, funding and geographic remits.

b. The Changsha municipal government utilized Leading Groups, inter-agency coordination mechanisms, to coordinate the implementation of interventions. Leading Groups are temporary committees that are convened for a specific initiative in order to coordinate among different departments and different levels of government. There is also a specific reporting mechanism in place that allows issues identified or raised by firms to be addressed in a timely fashion. If they are not resolved within the designated time frame by the responsible government departments, these issues will be ultimately taken to the mayor for mediation and resolution.

c. There is very limited private-sector or other stakeholder involvement in implementation.

INTERVIEWS

1. In person interview with Huang Bin, Deputy Director, Development Research Center and Shen Bing, Division Chief of Urban Research, National Development and Reform Commission, in Beijing, China on 9 September 2014.

2. In person interview with the Mayor and Municipal Government of Changsha (Mayor Hu Henghua, Secretary General Ling Qinjie, Director of Changsha Foreign Affairs Office Du Zhongta, Director of Changsha Finance Bureau Zhang Min, Deputy Director of Changsha Development and Reform Commission Hu Shengguo, Deputy Director of Changsha Research Office Tang Shuguang) in Changsha, China on 10 September 2014.

3. In person interview with Municipal Departments of Changsha (Foreign and Overseas Chinese Affairs Office of Municipal Government, Finance Bureau, Commission of Industry and Information Technology, Commerce Bureau, Science and Technology Bureau, Human Resource and Social Security Bureau, China Council for the Promotion of International Trade Changsha Branch, Administration for Industry and Commerce) in Changsha, China on 10 September 2014.

4. In person interview with National Industrial Parks of Changsha (Changsha Economic and Technical Development Group, Administrative Committee of Changsha National High-Tech Industrial Development Zone, Changsha High-Tech Zone Innovation Service Center, Xiangjiang New Area, Changsha Finance Bureau) in Changsha, China on 11 September 2014.

5. In person interview with He Jian, Senior Manager, Finance & Accounting, Bosch Automotive Products Co., Ltd. in Changsha, China on 11 September 2014.

6. In person interview with Masahiko Tanaka, Senior General Manager, HR & GA, Sumitomo Rubber Hunan Co., Ltd (Dunlop) in Changsha, China on 12 September 2014.

7. In person interview with Joe Wu, Human Resource Department, Project Manager, and Chen Ye, Manager, Business Management Division, GAC Fiat Automobiles Co., Ltd in Changsha, China on 12 September 2014.

8. In person interview with Municipal Bureau of Commerce in Changsha, China on 12 September 2014.

9. In person interview with Municipal Department of Science & Technology in Changsha, China on 12 September 2014.

10. In person interview with Municipal Department of HR & Social Security in Changsha, China on 12 September 2014.

11. In person interview with SANY (Director and Group Vice President, Public Relations Manager, R&D Director) and Changsha Economic & Technical Development Zone Liaison Office in Changsha, China on 15 September 2014.

12. In person interview with Zoomlion (Director of the Finance Department) in Changsha, China on 15 September 2014.

13. In person interview with Changsha Enterprise Association for Foreign Investment in Changsha, China on 16 September 2014.

14. In person interview with Vice President of the Hunan Broadcasting System in Changsha, China on 16 September 2014.

15. In person interview with the Changsha University of Science & Technology in Changsha, China on 16 September 2014.

16. In person interview with Chang Wei, Deputy Director of the Hunan Provincial Department of Science & Technology in Changsha, China on 17 September 2014.

17. In person interview with Municipal Department of Education, in Changsha, China on 17 September 2014.

18. In person interview with Municipal Talent Attraction Committee in Changsha, China on 17 September 2014.

19. In person interview with Hunan Provincial Development & Reform Committee, in Changsha, China on 17 September 2014.

20. In person interview with Huna Provincial Department of Commerce and Hunan Provincial Finance Department in Changsha, China on 17 September 2014.

21. In person interview with Zhuzhou CSR in Changsha, China on 18 September 2014.

22. In person interview with Hunan Development Research Center in Changsha, China on 18 September 2014.

Tangier, Morocco, December 2014

Case Study 6

TANGIER, MOROCCO
Leveraging Maritime Commerce to Accelerate Economic Growth

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INTRODUCTION

This case study of the economic success of the Moroccan city of Tangier marks the sixth and final report in a series of World Bank case studies of successful metropolitan economies around the globe, under the Bank's Competitive Cities Knowledge Base (CCKB) project. Tangier is the sole representative city for the Middle East/North Africa (MENA) Region.

The CCKB project aims to provide city leaders with the tools and knowledge for the successful formulation and implementation of proactive economic development strategies at the city level. All six cities in this series have been studied using a uniform methodology, testing a set of standardized research hypotheses (provided as an appendix to this report) to understand the cities' economic success over the decade from 2002 to 2012, as well as any prior decisions or additional factors that may have influenced economic outcomes over the period studied. The study's scope is limited to this timeframe in order to ensure the comparability of findings. In functional terms, its focus is only on economic development (particularly job creation), not related though interesting topics like national competitiveness or municipal service provision.

Tangier is a mid-sized port city in a lower-middle income country, with a relatively highly manufacturing-intensive economy and an expanding tourism sector. Tangier has enjoyed much success in recent years in improving its residents' prosperity, and in many respects has made significant progress in catching up with Morocco's other leading cities such as Casablanca and Rabat. Indeed, over the past decade, Tangier has had one of the better performing metropolitan economies in the MENA region in terms of GDP and employment growth.

Tangier provides an example of a successful secondary city in an administratively highly centralized (though gradually de-centralizing) country, which successfully leveraged a major national economic development initiative to reinvent its own economic structure, integrate into global value chains, significantly improve its human capital, create local employment opportunities, and thus enhance the overall economic prosperity of its residents. Tangier's success has been enabled by the Moroccan government's strategic decision to better integrate the northern regions with the rest of the country, and to jump-start these areas' development by making major investments in physical infrastructure and human capital. None of the positive outcomes observed were inevitable; indeed, a number of factors and local actors came together to successfully translate this national initiative into robust economic results at the local level.

This report is based on primary and secondary research by the Bank's Competitive Cities Knowledge Base team, including two weeks spent in Morocco in December 2014, interviewing government officials in Tangier, as well as members of the city's business community. The mission also met with representatives of national government agencies and business associations in the administrative capital, Rabat, and the country's main business hub, Casablanca. The report also incorporates internal Bank staff feedback received during April 2015.

This report was prepared by Z. Joe Kulenovic, with input and suggestions from Karim Amri, Marie Cerceau, Philippe de Meneval, Andrea Liverani, and the broader CCKB team. The co-TTLs of the CCKB project are Austin Kilroy and Megha Mukim. Overall guidance on the project has been provided by Stefano Negri, Sameh Wahba, and Somik Lall as senior advisors.

EXECUTIVE SUMMARY

The Moroccan port city of Tangier provides an example of a secondary city successfully leveraging a major national economic development initiative to accelerate its own growth, and to move towards a more diversified economic structure. This is a process which has been underway for well over a decade now, with highly visible results on the ground. But Tangier's success is not the story of a city content to just sit back and wait for the national authorities to make things happen; local actors and institutions proactively seized upon this once-in-a-lifetime opportunity to remake their local economy, crate jobs, and achieve a higher quality of growth.

Tangier is one of the world's oldest and perhaps best known cities, harking back to Phoenician and Roman times. Over several millennia of recorded history, the city had been ruled by many powers before its reintegration into an independent Morocco in 1956. But given its location at the northernmost tip of Africa, the Tangier-Tétouan region remained relatively isolated from the rest of Morocco for nearly another half century after independence. Road and rail connections were inadequate, air links expensive and infrequent, and domestic longshore shipping underdeveloped. Getting products to markets in other parts of the country was more challenging than just shipping them across the Strait of Gibraltar to Europe, less than ten miles away. Even in the absence of free access to European and other foreign markets, Tangier managed to develop a local textile and leather industry, in addition to its more traditional economic mainstays such as fishing and food processing. These local industries have always had an export component, even if it wasn't dominant during the era of economic autarky. In the final decades of the 20th century, the city increasingly became a magnet for rural migrants from villages throughout northern Morocco, even though the economic opportunities it could offer were comparatively limited. It remained a regional center without greater aspirations.

For decades, Morocco's economic growth was centered on its mid-Atlantic coast between Kénitra in the north and El Jadida in the south, especially on the core Casablanca-Rabat axis, while the country's geographically remote regions remained poorly connected and economically isolated. In particular, Greater Casablanca was fast becoming a megacity, with all the accompanying challenges this brings, even as more peripheral regions stagnated and continued to see an exodus of residents in search of jobs and opportunities. With the accession of the present monarch in 1999, the national government's adopted essentially a twofold response to these challenges: accelerate the construction of physical infrastructure to better connect the country's regions to its core, and devolve some decision-making authority to the regional and local level.

As the 21st century began, the Moroccan government made a far-reaching strategic decision to make Tangier an alternate "pole" driving Morocco's economic growth, in addition to the country's traditional business hub of Casablanca. Tangier already had a reasonably well-developed local manufacturing sector, and its strategic location at the doorstep of the European Union as well as at the intersection of major global maritime routes provided inherent advantages that could not be ignored. Much of Morocco's maritime passenger traffic with the EU, for example, passed through the port of Tangier. The national government therefore decided to build a brand new seaport complex and logistics hub some 35 km east of the city of Tangier itself, directly across the Strait from Gibraltar and Algeciras in Spain, and to properly connect them to the rest of Morocco via modern transport infrastructure. The stage was thus set for a chain of events which would end up transforming Tangier's economy and turn it into a major success story after decades of relative stagnation.

Construction of the new seaport (called Tanger-Med) proceeded in parallel with major upgrades to northern Morocco's road and rail connectivity. Improvements to the country's transport infrastructure on this scale were unprecedented. Port construction unfolded in several phases, eventually including multiple deepwater container terminals, roll-on–roll-off (RO-RO) facilities, a hydrocarbons storage facility, and a massive passenger ferry terminal. Railroads were extended from the main national network right into the Tanger-Med port itself, enabling the rapid intermodal transfer of containers, bulk cargo, and motor vehicles. Modern multilane highways were built not just connecting the port complex to regional population centers such as Tangier and Tétouan, but also connecting the entire north of the country to centers of economic activity in the central Casablanca-Rabat area, and beyond. For the first time in history, Tangier-based producers came to enjoy efficient access to domestic markets.

To maximize the development impact of this massive infrastructure investment, in 2002 the Moroccan government established the Tanger-Med Special Agency (TMSA). This umbrella entity brings together the Port Authority and multiple free trade and logistics zones. It works closely with various other local actors involved in trade, investment attraction, workforce development, and regional decision-making. As a leading economic development-focused agency, it has sweeping powers in key areas such as land acquisition and allocation, as well as direct access to senior national decision-makers in Rabat. Among other things, TMSA has served as an important transmission channel for articulating local needs to the national government.

The relocation of Tangier's freight traffic to the new Tanger-Med port has enabled the redevelopment of the city's old seaport, renamed Tanger-Ville, into a tourism- and fishing-focused maritime facility, along with high-end retail and residential developments. The free trade zone previously located inside the port area has been decommissioned, its businesses relocated to new areas outside the city core. A wall cordoning off the port from its city has been torn down. New terminals for larger cruise ships and pleasure craft are under construction. Implemented in several phases, the port's conversion is still ongoing. In 2010, a sister organization to TMSA called SAPT (Société d'Aménagement pour la Reconversion de la Zone Portuaire de Tanger) was established as a public-private partnership to coordinate all these activities, and to serve as a focal point for the transformation at the heart of the city's waterfront. SAPT has also played an important role in ensuring stakeholder buy-in, particularly from some relatively small but socially and politically important constituencies like fishermen.

Tangier has worked hard to reconcile its dual ambitions to simultaneously serve as a manufacturing hub and a leading tourist destination. This was achieved through extensive stakeholder consultation and visionary transportation planning, by measures that included the above-mentioned port redevelopment, relocating manufacturing firms outside the city core to newly-built, designated facilities with adequate infrastructure, designating prime locations as "tourist" zones while reserving the flexibility to rezone areas as needed, and encouraging foreign investment in industrial plants and tourism. After decades of neglect and uncontrolled urban sprawl, special attention was paid to environmental protection and mobility. Tangier has been, for example, the first Moroccan city to achieve 100% coverage of urban households with vital municipal services like water and sewerage, according to the city's current Mayor.[194] Priorities such as environmentally sustainable development, flood control, the preservation of green spaces, beach and seawater cleanliness, transportation access, and the deployment of renewable energy are all seen by local leaders as critical economic development issues (for tourism as well as investment attraction), not just citizens' quality of life concerns.

Tangier and Morocco have successfully capitalized on some geographic, historical, cultural, advantages to foster local and regional economic growth. Lying less than ten miles from the southern shores of the European Union gives Tangier unrivalled access to the world's largest common market. At the same time, the city's location astride a shipping route handling a fifth of the world's maritime commerce presents major opportunities to participate in global value chains. Tangier also enjoys a reputation as a cosmopolitan, tolerant place, and its people have the ability to conduct business in multiple languages. The city's pleasant climate, without extremes of heat or cold, is highly conducive to tourism development. National and local leaders have successfully leveraged these advantages to market the city both nationally and internationally, attracting investment, trade flows, and tourists.

Multiple planning documents, and their implementation, have contributed to Tangier's economic success. The national government has produced national five-year plans focused on economic and social development, which were in turn complemented by regional development plans. The Tangier-Tétouan region and municipalities in it have also produced a number of other planning documents, some with assistance from European partners. However, it is difficult to gauge precisely how much of a role each of these individual strategies has had; ultimately the implementation of decisions made at the national level in Rabat may have mattered the most.

Tangier does not have a focal economic development organization, but several entities from both the public and private sector have a role in fostering investment and job creation in the city. These include: the regional governorate (Wilaya); the central and regional/local offices of national agencies (e.g. for workforce development, tourism, territorial development); the Urban Community (i.e. elected city government); TMSA and SAPT; the Regional Investment Center (CRI); the Agency for the Promotion and Development of the North (APDN); institutions of higher learning, especially Abdelmalek Essaâdi University; the Chamber of Commerce, Industry and Services; the General Confederation of Moroccan Enterprises (CGEM); the Tangier Industrial Zone Association (AZIT); and various other private-sector groups and associations. In a very real sense, these entities form a de-facto growth coalition, even if the exact mechanisms for its activities are not necessarily formalized. With about a million inhabitants, Tangier is not a huge city; most key decision-makers know each other personally and interact on a regular basis. There appears to be a very high level of social capital, aided by the conscious efforts of key local actors to build up mutual trust and work together for results.

194 In person interview with Mr. Fouad El Omari, Mayor of the Urban Community of Tangier, on December 4, 2014.

What are the reasons for Tangier's economic success? Its recent exemplary performance is attributable to a combination of factors:

- First, **Tangier has benefitted immensely from being part of a stable, rapidly expanding Moroccan economy.** The country has made tremendous strides in recent years, liberalizing its economy, removing barriers to external trade and investment, and enabling its firms' closer integration into global supply chains. As mentioned earlier, some devolution of decision-making for economic development to the regional and local levels, as well as national sectoral development policies and support tools, have provided strong impetus to economic growth and job creation in the Tangier-Tétouan region.

- Second, **Tangier has benefitted from a strategic national focus on northern Morocco.** After decades of stagnation, the Moroccan government has made development of the country's northern areas a key priority, making unprecedented investments in transport infrastructure, funding various local initiatives, working to attract catalyst investments, and encouraging international business and tourism through marketing, promotion, and other enabling activities.

- Third, **Tangier's success has been helped by significant local capacity to further the city's economic development**, including high-quality human resources and capable leadership at key government agencies, officials' ability to constructively work together, effective stakeholder engagement, adeptness at utilizing national tools and capitalizing on initiatives to foster local job creation, knowledge of products and markets, and the use of internationalization as a deliberate economic development strategy, among other things.

- Fourth, **Tangier's recent economic success has been facilitated by inherent geographic, historical, and cultural advantages, and successful local efforts to build upon and expand them further**. The city's location along major shipping routes, its proximity to Europe, pleasant climate, diverse topography, rich cultural heritage, and tradition of multiculturalism, diversity, and tolerance, have all been successfully leveraged to attract visitors and investors alike. In addition, residents' ability to function in multiple languages gives it an edge over most comparable locations when seeking to attract international commerce and tourism. Tangier is a safe, welcoming city.

- Fifth, **Tangier had a relatively diversified economic (particularly manufacturing) base** even before the national government's transformative infrastructure investments. It was home to sizeable local production in sectors such as machinery, metal works, chemicals, apparel and leather goods, handcrafts, and food processing. Local firms had existing know-how to later adapt and become suppliers to major foreign manufacturers like Renault. The new opportunities brought about by the completion of Port Tanger-Med enabled local firms to further integrate into global value chains, upgrading their technologies and workforce skills, and enabling growth in new, higher value-added segments like automotive and aerospace, gradually transforming the local economy.

- Sixth, **Tangier's ability to attract outside firms has been helped by its generally adequate levels of human capital at highly competitive wage levels, as well as successful labor market intermediation programs and efforts**. Having workers with the appropriate skills sets, or the ability to quickly attain them, has been an important factor in attracting investment. Where existing skills were insufficient, the national workforce agency ANAPEC stepped in, working with employers, the local university, and training providers to develop workforce training programs addressing these needs.

- Seventh, beyond wages **Tangier offers some other very tangible bottom-line business advantages, which have been an important consideration for outside investors**. Morocco's national business climate has been rapidly improving in recent years, and Tangier has lower logistics costs than the rest of the country due to its proximity to Europe and new state-of-the-art infrastructure and facilities. Tangier (and Morocco) offer reliable power supply and other infrastructure, but at lower land costs and operating costs than competitor sites in southern Europe. Yet it is not a "low-cost" location as such, but rather offers a compelling value proposition in terms of cost-quality and time-to-market tradeoffs. Tangier enjoys a particular advantage in attracting firms serving the European market, which need quick turnaround times (e.g. aerospace components or fast fashion).

So What? Summary of Insights for Other Cities from What Tangier Did Right

Some valuable lessons from Tangier include:

1. **If implemented correctly, major national initiatives really can have a transformative effect on local and regional economies; but local capacity is essential.** Successful city economic development is seldom a matter of pouring vast resources into a flagship project and just hoping it pays off – a "build it and they will come" approach. Indeed, more often than not, such an approach results in little more than ribbon-cutting ceremonies for what ultimately end up being white elephants. Beyond the obvious matter of financial, economic, and environmental sustainability, the project's broader ecosystem – the economic, institutional, political, and societal milieu in which the capital investment occurs – can determine whether it accomplishes more than just its immediate goals, such as living up to traffic flow forecasts and delivering the benefits originally anticipated. Truly transformative initiatives are planted

in "fertile ground", where local actors and institutions can skillfully leverage them to accomplish quantum leaps in economic outcomes. Such a thing happened in Tangier with the construction of the new port of Tanger-Med: local know-how and entrepreneurial energy were mobilized to use the new facility as a means of integrating into global value chains, in the process increasing residents' shared prosperity.

Why has Tangier been successful at leveraging a major national initiative where so many other cities have failed? The answer is a multi-faceted one, and includes a combination of path-dependent and subjective factors. Tangier is fortunate to be located where it is, and to be endowed with all the natural advantages it has. But local actors exhibited a phenomenal grasp of global business trends and market opportunities, and managed to collaborate with one another to make these external factors work in the city's favor. They have also been exceptionally skilled at making good use of the tools provided by the national government, such as investment incentives and workforce development programs. Highly effective information feedback loops and responsiveness from higher tiers of decision-makers complete the picture of how success can be achieved under such circumstances.

2. **Engaging diverse stakeholder groups in the city's economic development efforts early on, and finding ways to bring them into an effective growth coalition – whether formal or not – is an important enabler of success.** The CCKB team's prior work on case studies of economically successful cities has revealed a consistent pattern: involving private for-profit firms and their associations, educational institutions, civil society groups, quasi-public entities as well as various tiers of government dramatically increases the probability of a city achieving its desired economic outcomes. Tangier very much confirms this pattern, its diverse stakeholder groups successfully partnering with government to accomplish shared goals and adequately respond to the once-in-a-generation opportunity the city was presented with. This is much more than a "consultative" process or "iterative dialogue" – it entails different entities' substantive participation the decision-making process, stakeholders' shared sense of ownership of those decisions, and shared responsibility for implementing what has been agreed. National governments can build ports and roads and offer incentives, but they cannot substitute for the entrepreneurial energy of individual businesspeople, or the inter-personal relationships within a community that are so vital to getting things done on the ground – and by extension, to ensuring successful economic outcomes at the city level.

3. **Globalization can be a highly effective element of a city's economic development strategy.** If done with some forethought, going international can be among the most beneficial things a city can proactively do for its residents' long-term prosperity. Cities do not set (national) trade policies, have no ability to impose tariffs on imports, or restrict foreign competitors from the local market. But what they can do is take full advantage of what their national frameworks allow (including through free trade deals, bilateral investment treaties, and open skies agreements) to attract investors from abroad to their communities, as well as to help home-grown firms better integrate into global value chains. Once a critical threshold is reached, a city's globalization often gains momentum of its own. Gradually – but perhaps irreversibly – Tangier appears to have gone down this path.

- Tangier is an obvious poster child for the benefits of globalization at the city level. Indeed, Tangier was global long before being global became "cool". In its former heyday as a "free international city", Tangier was comparatively prosperous, hosting an eclectic mix of people from many different countries, speaking a multitude of languages. This was followed by several "closed" decades, in which this port city no longer played the role of commercial hub, contributing to its relative stagnation. Finally, in the new millennium Tangier appears to have come full circle: it is now once again a bustling port and export-oriented production center, with rising employment and incomes. The leaders of today's Tangier do not seek protection from the global economy – they embrace it. Foreigners are not seen as a threat, they represent an opportunity – not just to seal commercial deals, but to spread worldwide an awareness of Tangier's business acumen, natural beauty, welcoming people, and rich cultural heritage. The Mayor shuttles to international trade fairs inviting firms to invest in his city, while the local leadership rolls out the welcome mat to business and leisure visitors alike. Existing foreign investors are bringing in their suppliers, and telling the international business community of how profitable their Tangier operations are. Once again, the Tangerois are improving their multiple language skills, and the city is attracting the attention of global business. This appears to be Tangier's natural condition, and a role it plays exceptionally well. It is something other cities could indeed learn from.

The National Context

During much of the 20th century, Morocco's economic performance was quite lackluster. Pursuing statist, autarkic policies like import substitution and the protection of favored domestic industries, the country was essentially stagnant as measured by various economic and social indicators. It was leapfrogged by comparable economies, both in its own region and elsewhere around the world, in terms of growth in per capita GDP, literacy levels, and various other measures of development. Indeed, growth in economic output was barely keeping pace with demographic increases. Economic opportunities were limited, and many Moroccans sought a better life by emigrating abroad, particularly to European countries like France and Spain, with whom Morocco has enjoyed longstanding historical, cultural, and linguistic ties.

In the 20th century, Morocco's economic growth was geographically extremely uneven. The country's mid-Atlantic coastal plain between Kénitra in the north and El Jadida in the south, and especially its central section between the commercial capital of Casablanca and Morocco's administrative seat, Rabat, attracted the lion's share of investment, jobs, and internal migration. In particular, Greater Casablanca's population surged, in just a few decades becoming one of the largest cities in Africa, with all the attendant challenges that come with being a megacity. Roughly half of Morocco's industrial production, and most of its higher value-added industries, came to be concentrated in the Casablanca area. Meanwhile, Morocco's more peripheral regions stagnated, continuing to experience outflows of residents in search of jobs and opportunities. Housing shortages were severe in various Moroccan cities, and transport infrastructure both within and between major urban centers wholly inadequate. The country's northern areas, with their historical legacy of having been administered (by Spain) separately from the rest of Morocco prior to independence in 1956, were particularly isolated – logistically, economically, and in some respects socially. Integrating Morocco's diverse regions was therefore emerging as a critical imperative for the national economy, and for public policy in general.

The accession of His Majesty King Mohamed VI in 1999 marked the beginning of a new era for Morocco. Reforms already underway were accelerated and deepened, in the process dramatically transforming Moroccan society in just a few short years. Major strides were made in improving educational outcomes, addressing longstanding gender issues, and chronic housing shortages throughout the country, particularly in rapidly-growing cities. Domestic state-owned monopolies were dismantled and privatized, and foreign investors welcomed in, both to foster market competition and to ensure the introduction of new technologies and ways of doing things. More responsibility was devolved to sub-national units of government (regions, prefectures, provinces, and municipalities) across a range of functional areas; this process of decentralization is still ongoing.

The new millennium also saw a much greater openness of the Moroccan economy to the outside world. Free trade agreements were concluded with the US, EU, Turkey, and various Middle Eastern and African countries, visa requirements abolished or relaxed for visitors from many nations, and open skies agreements concluded, enabling low-cost international air travel. Rather than just cater to a closed domestic market, Moroccan firms began to enjoy more success in international markets, especially by exporting fisheries, olives and olive oil, fruits, and later higher value-added products like autos, aerospace, and pharmaceuticals. The investment climate has been improving, with Morocco seeing gradual but substantial improvements in international *Doing Business*-type rankings. Among other measures, relaxing rules on foreign ownership, establishing investment "one stop shops", and stepping up proactive investment promotion activities all contributed to increasing FDI inflows into Morocco, particularly into sectors like finance, telecoms, transport, manufacturing, offshoring (services), and tourism/hospitality.[195]

Over the past decade, the Moroccan economy has been one of the better performers in the Middle East and North Africa region. Reforms begun in the 1980s and 1990s, and accelerated in the early 2000s, have not just helped Morocco's economy become more competitive, but also more resilient in the face of external shocks. After several years of healthy GDP expansion in the early 2000s, Morocco managed to weather comparatively well the global "great recession" of 2008-09, without seeing its economy contract in any single year. Since then, growth has picked up again: after expanding by 2.7% in 2012, Morocco's GDP grew by a more robust 4.4% in 2013, and is on track to post annual growth rates in excess of 4% over the next few years, according to World Bank forecasts. In current dollar terms, the size of the country's annual economic output more than doubled in a decade, reaching US$104 billion in 2013. Meanwhile, also from 2003 to 2013, per capita income also more than doubled, posting growth of 104%, according to data based on the World Bank's Atlas method.[196]

Morocco's export-driven growth in the 21st century has been led by a handful of sectors as principal earners of foreign currency, in particular tourism, food/seafood, and fertilizers. Tourism has been an important part of Morocco's recent prosperity, capitalizing on the country's natural attractions and rich cultural heritage to draw millions of visitors, boosting both export earnings and sustaining jobs. Agriculture and food processing also remain a mainstay of the economy, accounting for some 15-20% of Morocco's GDP and a disproportionately large share of employment in rural areas. Exports of agricultural products and seafood are vitally important to the nation's economy, as are phosphates for use as fertilizer. But unlike many other coun-

195 See Morocco's improving performance in the World Bank's www.doingbusiness.org annual rankings.
196 All macroeconomic data: The World Bank: Global Economic Prospects, December 2014; and World Development Indicators, March 2015.

tries in the region, Morocco is not endowed with (proven) oil and gas deposits, and in fact imports most of the hydrocarbons it consumes. This in turn has provided some impetus for the development of renewable energy sources like wind and solar, relying on the natural resources which the country does have in abundance. By inviting global leaders in those technologies into its energy market, Morocco's policy has also been to foster the development of a nascent local renewable energy industry, gradually building up local capabilities while minimizing environmental impacts.

Morocco has made great strides in reducing unemployment in recent years, but is now prioritizing further raising its levels of human capital as a vital enabler of competitiveness. Growth in labor-intensive industries like tourism has helped to bring down the nationwide unemployment rate, which has remained in single-digit territory for much of the past decade. However, finding suitable jobs remains a challenge, particularly for urban graduates and women. Indeed, female participation in Morocco's labor force is still only around 26%, compared to about one half in other comparable economies at a similar stage of development. Still, the unemployment rate for both women and youth has been steadily declining, with some regional variations within the country. Crucially, while formal educational attainment has improved dramatically, there continues to be some disconnect between the "fundamental" knowledge with which students are graduating, and real-world skills needed by prospective employers. Morocco's government is well aware of this, and has taken concrete measures to gradually transition from a traditional, French-influenced model of largely theoretical education, towards more applied, practically-focused curricula. Modern workforce development and labor market intermediation programs seek to ensure a better match between skills and employer needs, also aligned with national sector development priorities.

Far from being complacent about recent economic results, Morocco's national government is actively working to identify and address remaining developmental challenges in a structured, systematic way. While recent growth has been impressive, national policymakers are highly cognizant of the need for further progress on modernizing Morocco's economic structure, diversifying its exports, attracting more foreign investment, continuing to improve the business climate and infrastructure, and raising the levels of human capital. For example, agriculture continues to account for a disproportionately large share of Morocco's economy and employment base. Exports have been increasing at a rapid clip, but much of what the country exports has until fairly recently largely consisted of low value-added agricultural products and fisheries. There is an awareness that Moroccan producers can no longer compete in the global marketplace primarily on price, yet technological innovation is only gradually beginning to gain traction. Policymakers are well aware of the dangers of falling into a middle-income trap, rolling out a series of nationwide initiatives aimed at laying the foundation for the "next economy".

To jump-start the country's economic development, the Moroccan government launched a series of sectoral strategic plans in the mid-2000s. Designed to speed up the development of strategic sectors like agriculture, fisheries, energy, and logistics, as well as promising industries like automotive and aerospace, these strategies were developed with substantial input from the private sector. The plans were to be implemented both directly by the government, and through innovative public-private partnerships, thus ensuring stakeholder buy-in and long-term sustainability, while enabling the government to focus more on its core regulatory functions

Morocco's industrial strategy was dubbed "National Pact for Industrial Emergence" (or simply "*Emergence*"), released in 2005, then revised in 2009. The strategy was aimed at revitalizing and strengthening the competitiveness of Morocco's existing industrial base, as well as identifying and supporting new promising sectors in which the country may have a competitive advantage. Collectively, the seven industrial sectors selected for proactive support were expected to account for 70% of near-term industrial growth in Morocco, increase GDP by an additional MAD 90 billion, and result in the creation of 400,000 new jobs by 2015.[197]

***Emergence* was a comprehensive document, based on robust analytics.** The original plan, as well as its subsequent revision, utilized a systematic process to identify the country's competitive strengths in specific industries and their individual segments, taking into account broader global business and macroeconomic trends, benchmarking Morocco relative to the competition, and coming up with specific interventions to capitalize on market opportunities. Among other things, these include an incentives framework, the construction of new physical facilities like seaports and upgrades to existing infrastructure, and instituting training programs for targeted industries. While led by the Ministry of Industry, Trade, and New Technologies, a plethora of other national government agencies have had a role in the plan's development and implementation – and at the regional level, in collaboration with other tiers of government and private-sector partners.

***Emergence* set numerical goals for each of the seven sectors targeted as "growth engines" for Morocco's industrial development**:

- **Automotive Industry:** Creating an industrial base which includes both final auto assembly, and an expanding network of automotive component suppliers. The goal was to create some 70,000 to 80,000 direct jobs in the industry, with an annual value added of MAD 10 billion.

197 "Pacte National pour l'Emergence Industrielle 2009-2015"; and "Programme Emergence – Une politique volontariste et ciblée au service de l'Essor de l'Économie Nationale", presentation by Salah Eddine Mezouar, Minister of the Economy, November 2005.

- **Aerospace:** The goal was to create 10,000 aerospace-related jobs (mostly in aerospace components manufacturing) and generate an additional MAD 3 billion in value added.

- **Electronics:** Focus on specialty electronics and integrated circuits, related to the other targeted sectors, aiming to create more than 10,000 jobs and MAD 5 billion in new value added.

- **Business Process Outsourcing/Offshoring:** Capitalizing on Morocco's multilingual workforce (particularly workers speaking French and/or Spanish), the goal was to create 100,000 new jobs, generating over MAD 15 billion annually.

- **Food Processing:** The objective was to develop specialty production in 8 to 10 agro-industrial niches, aiming to create an additional 6,000 jobs and more than MAD 5 billion in value added.

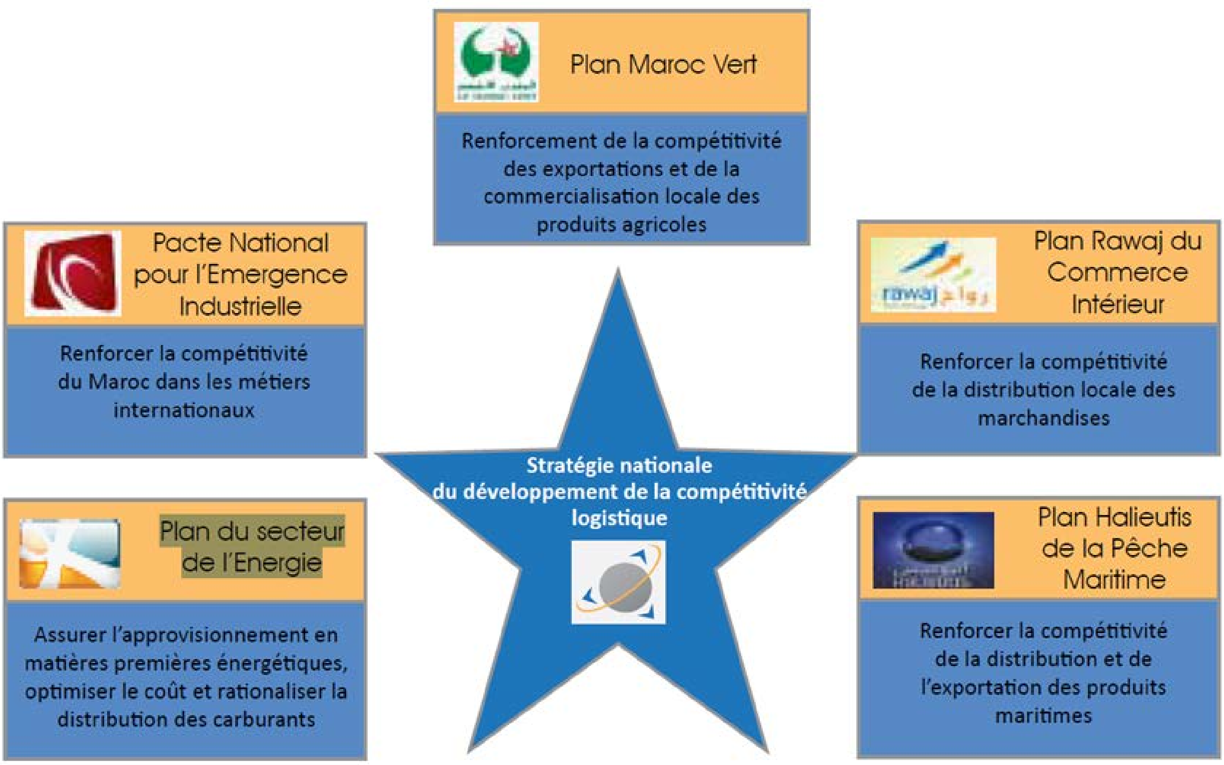
- **Seafood Processing:** Production of higher value-added halieutics and export of frozen products, helping to support an additional 35,000 Moroccan jobs and more than MAD 3 billion in value added.

- **Textiles and Leather:** Carving out profitable market niches such as fast fashion and co-contracting, with a goal to create 50,000 jobs and more than MAD 5 billion in value added.

Progress on achieving these goals is monitored on an ongoing basis, and inter-institutional effectiveness ensured through a formalized consultative process.[198]

Besides these seven industrial sectors, there are additional, separate multi-year strategic plans for the development of other priority sectors, as mentioned above. More specifically, Morocco's government has formulated dedicated strategic plans for the development of agriculture (*Maroc Vert*), the retail and distribution sector (*Plan Rawaj*), aquaculture and fisheries (*Plan Helieutis*), tourism (*Vision 2010*, then *Vision 2020*), the energy sector, and logistics (*Stratégie Nationale de Développement de la Compétitivité Logistique*), as well as upgrading the country's ICT capabilities (*Maroc Numeric 2013*), which plays an enabling role by cutting across various sectors of the country's economy.

A schematic of the different national sector development plans in Morocco is provided below.



198 Note: we don't have enough information on the functioning of national mechanisms in this area, nor exactly who does what, how, and accountable to whom. Perhaps the WB team in Rabat can expand on this?

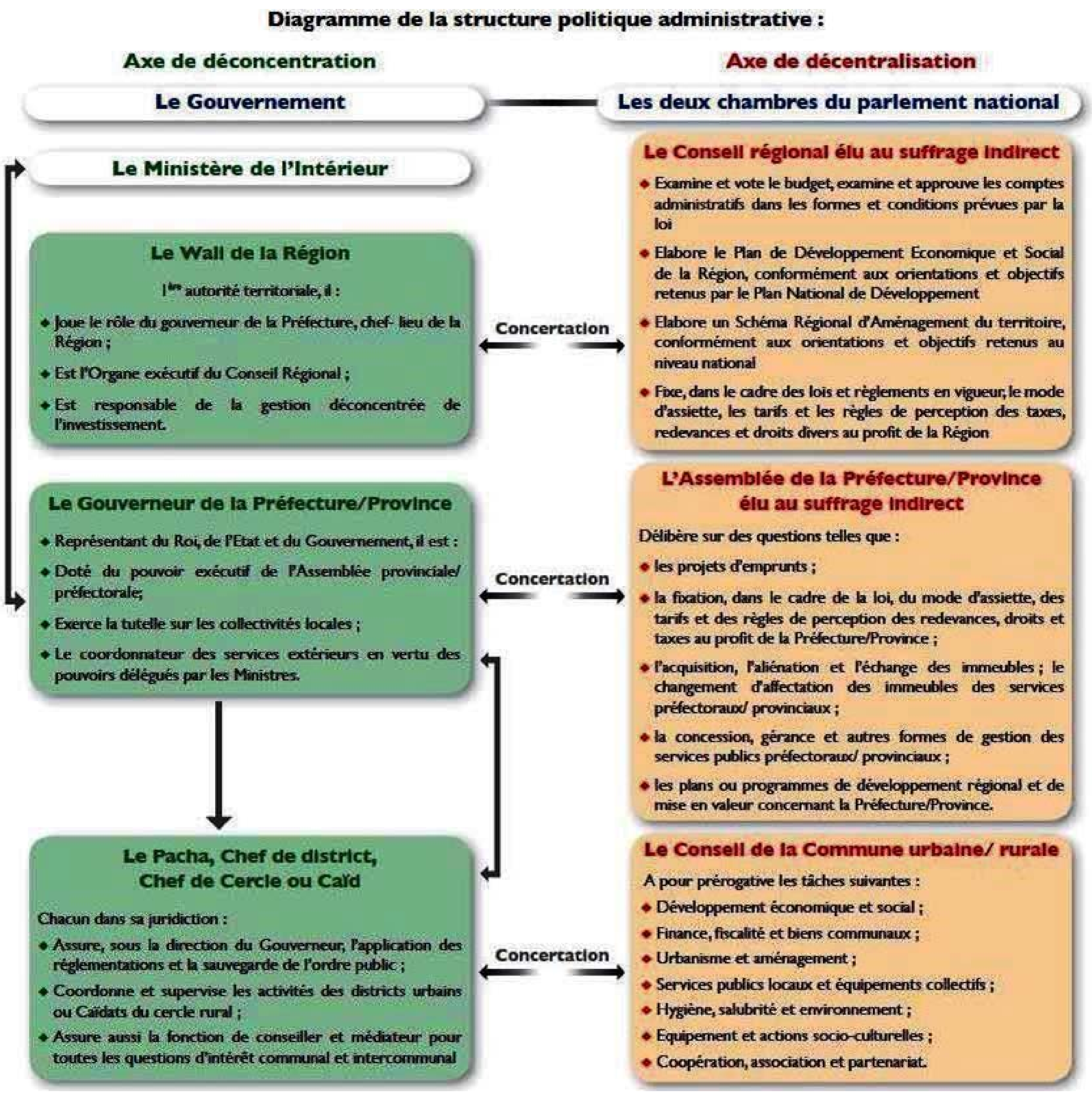
Moroccan Sector Development Plans

Source: Stratégie Nationale de Développement de la Compétitivité Logistique, 2010

Tangier's economic success is in part the result of the successful localization of national sector development strategies and application of support tools. While national in scope, all of the above plans also have implications at the local level, and have to varying degrees contributed to the recent economic outcomes observed in Tangier. Reasons for their relatively more successful implementation in Tangier are manifold, and range from strong local capacity and social capital/interpersonal relationships, to broader global economic trends favoring the city.

Urban and Regional Economic Development in Morocco: Framework and Key Actors

Comparatively speaking, Morocco is not yet a highly urbanized country. While there has been a massive shift of people from the countryside to the cities, today only 57% of Morocco's 33 million people live in urban areas, a much lower proportion than in other countries at a similar level of development. Its system of cities is dominated by the economic powerhouse of Greater Casablanca, along with the nearby administrative center of Rabat. Outside the central coastal plain, inland cities like Marrakesh, Fez, and Meknes are also sizeable population centers, while Agadir serves as the hub for the country's southern regions. Tangier is the largest city in the northern part of the country, and its region is one of 16 units into which Morocco is divided.



Investment Incentives: An Indispensable FDI Attraction Tool

At the national level, the Moroccan government offers a comparatively generous system of investment incentives. While multinational firms seldom set up operations in a country only or primarily due to incentives, these can undoubtedly help to influence their final locational decision. Morocco has developed an effective incentives toolkit to help it compete for discretionary projects. There are two main sets of investment incentives:

General: Investment Promotion Funds (IPFs): To qualify for financial support from the national government (via approval by an "investment commission", proposed projects must meet at least one of five criteria: (i) invest a minimum of MAD 200 million (about US$ 20 million); (ii) create at least 250 jobs; (iii) promote the transfer of technology and/or know-how; (iv) contribute to environmental sustainability/green growth; and (v) be in a targeted geographic region/province. If these criteria are met, the government may reimburse the investor for up to 20% of land costs, 5% of infrastructure costs, and 20% of the cost of workforce training. Investments are also exempted from VAT and import duties for the first three years on goods and materials need for the project. These incentives apply to all sectors except real estate.

Sector-Specific Incentives: There are also sector-specific incentives for targeted industries through the Hassan II Fund, with a minimum size threshold of MAD 10 million, and may include dedicated training subsidies of up to US$3,000 per worker annually. With a few exceptions (e.g. cross-regional projects like telecommunications infrastructure), incentives applications are processed through regional investment commissions, then passed on for evaluation by technical committees the national investment promotion agency (AMDI), or the Ministry of Industry (for Hassan II applications).

Morocco as a whole is presently in the midst of a transition from a highly-centralized political and economic structure to a more polycentric one. As already mentioned, the nation's decision-making and economy have traditionally been dominated by the Rabat-Casablanca core. A series of political and legal reforms in recent years have sought to devolve some decision-making authority to the regional and local level.[199]

Responsibility for the economic development of Morocco's regions and cities is shared among a range of institutional actors. As the diagram above shows, there is a complex web of institutional relationships and funding flows between different tiers of government. Economic development – meaning the creation of economic opportunities and especially jobs – is not the domain of any one entity, but necessitates the involvement of a multitude of institutional actors at the national, regional, super-regional, and city/local level. Safeguards and feedback loops are built into the process, so that the disparate entities are bound to work together to accomplish results. National government agencies with regional responsibilities and a role in Tangier's economic success include but are not limited to the following:

Morocco's Investment Promotion Agency (*Agence Marocaine de Développement des Investissements* – AMDI): AMDI was created in 2008, in the context of Morocco's new national industrial strategy, to spur foreign investment into the seven targeted sectors. As the country's FDI promotion agency, AMDI works to brand and market Morocco globally as an investment destination, but also to generate investment leads and provide business recruitment, expansion, and retention services to multinational firms. Leads are generated through a combination of in-house research, subscriptions to standard FDI databases, and referrals from existing investors, land developers, site selectors, or other "multiplier" organizations such as professional services firms. A key stated objective is the diversification of Morocco's FDI inflows beyond traditional markets like France and Spain, to include more investment from other European and North American countries, Japan, and large emerging-country multinationals. The agency has offices in several key FDI source markets around the world, and runs a multilingual investment promotion website. It also works very closely with local and regional authorities, particularly for the provision of hands-on site selection services, as well as in implementing its excellent program of investor aftercare.[200] AMDI has at its disposal a standard toolkit of highly-effective investment incentives that can be deployed to seal FDI deals (see box).

National Agency for the Promotion of Employment and Skills (*Agence Nationale de Promotion de l'Emploi et des Compétences* – ANAPEC): ANAPEC is Morocco's principal labor market intermediary, seeking to match up job seekers with employer needs. The agency has a network of offices all over Morocco, and a sophisticated online tool that enables job seekers to explore and identify the kinds of functional roles in which they might perform well, as well as connect with specific openings, both in Morocco and abroad (employers in other countries can seek out Moroccan job applicants through ANAPEC). In addition, ANAPEC organizes

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199 Reflective of the lingering influence of French administrative traditions in Morocco, this has been both a process of "deconcentration" and of "decentralization" (in the strict sense of the word). The distinction is more than just a sematic one. See, for example, *Decentralization and Local Governance in MENA: A survey of Policies, Institutions, and Practices*, the World Bank, 2007, and *Decentralisation et Deconcentrations Administrative: Instruments de la Proximite Administrative*, Abdallah Harsi, Faculte de Droit de Fes, 2005.

200 At the beginning of each year, AMDI staff put together a list of 40-50 foreign companies in Morocco. Then they visit their facilities on-site, discuss their satisfaction with how their investment in Morocco is working out, and focus on addressing any concerns or problems they may have encountered. Progress towards achieving the objectives stipulated in incentives agreements is monitored within a 3-year window, and assessments made about their effectiveness.

job interview workshops for job seekers and employers, and provides assistance to employers in defining their human resource needs. An innovative program helps prospective entrepreneurs (particularly recent graduates, school drop-outs, the very young, unemployed, or self-employed) to define and operationalize their entrepreneurial ideas, thus encouraging the formation and growth of new businesses. Finally, ANAPEC is involved in retraining and continuing education, taking part in 3-sided agreements with employers and training providers (e.g. OFPPT, or private education centers). These customized training agreements stipulate that, by a particular deadline, workers will be trained to acquire the specific skills needed by the employer, and that they will be guaranteed jobs once they do acquire those skills; ANAPEC picks up the cost of the training.[201]

In Tanger-Tétouan, ANAPEC also carries out labor market studies in various targeted sectors, often working directly with companies in them, to understand the firms' future staffing needs, and by extension to project the region's overall skills and training needs in the years to come. ANAPEC interfaces with other government agencies and key stakeholders through a dedicated mechanism called CRAM (*Comité Regional d'Amélioration de l'Employabilité*), which among others includes representatives of the Wilaya, CRI, professional associations, and the university. CRAM's role is to analyze the studies and action plans prepared by ANAPEC, and to validate or correct its estimates of training needs anticipated for each sector. CRAM has four specialized sector commissions: automotive & aerospace; transport & logistics; offshoring; and tourism. On the whole, this model has been highly successful, with the Tangier office regularly reaching its ambitious annual job placement and skills development goals, thereby playing an important enabling role in companies' efforts to establish local operations.

Office of Professional Training and Employment Promotion (*Office de la Formation Professionnelle et de la Promotion du Travail* – OFPPT): OFPPT is Morocco's main public provider of vocational training, ensuring that the sectors targeted for proactive economic development efforts have an adequate supply of qualified workers with the skills needed by employers. OFPPT's sector priorities closely adhere to those in the *Emergence* plan, i.e. with a strong emphasis on automotive, aerospace, offshoring, tourism, logistics, and other targeted sectors. With more than 320 centers and 7,100+ instructors all over Morocco, OFPPT delivers over 90% of the country's publicly-supplied training. OFPPT works closely with ANAPEC, which often funds its training activities.[202] The two agencies also share a database of people trained at the local level, facilitating the matching of skills available with those actually needed.

It is important to distinguish between general skills formation, and customized ("*à la carte*") training. Both at the national and local levels, OFPPT partners with representatives of industries and employers, labor unions, other government agencies involved in economic development, and civil society groups (for women, persons with disabilities, youth, charitable foundations, etc.). Such entities are represented on OFPPT's Board (*Conseil d'Administration*), and are consulted in the design of OFPPT's general training curricula. At the national level, OFPPT's steering committee meets with representatives of professional associations and other stakeholders every six months, while at the regional level meetings are held on an ongoing basis year-round. OFPPT's national and regional *Organs de Gouvernance* are the consultative mechanisms for private industry to provide feedback on their skills needs (but not all industries are represented in all regions). Universities do not participate in designing the agency's curricula, but university graduates sometimes seek out additional training by OFPPT to obtain usable workplace skills, while conversely people without formal degrees can use training received from OFPPT to count towards such degrees in the future. OFPPT also works hand in hand with AMDI to ensure that foreign companies can get suitably-skilled workers for the jobs they want to create or retain.

Maroc Export: Morocco's export-promotion agency was created in 1979, under the name of "Moroccan Center for Export Promotion", to facilitate the exporting of manufactured goods, agricultural products, and fisheries. Until a few years ago, the functions of promoting exports and inward FDI were combined under the same entity, but now FDI is handled by a separate agency, AMDI. Administratively under the Ministry of Foreign Trade (the Trade Minister is its Chairman of the Board), Maroc Export now has 88 employees, all based in Casablanca. It does not have any field offices around the country, instead partnering with CGEM, local chambers of commerce, and sector associations to organize export-related workshops for Moroccan firms. Each year, Maroc Export participates in about 140 promotional events around the world, on average assisting 700-800 Moroccan companies from 20 sectors, in some 40 targeted export markets. The agency's sector priorities are aligned with national sector development plans (currently, about 60% of the companies supported are in priority sectors). Maroc Export supports the export operations of Moroccan companies through the following kinds of specific activities: market intelligence[203], risk analyses, organizing and subsidizing[204] attendance at international trade fairs/exhibitions, promotional campaigns, branding, and holding trade-related road shows and capacity-building

201 Examples of this include ANAPEC's agreement with AMICA (the automotive industry association) to train 20,000 employees with the specific skills needed by 2017, and another agreement with local SMEs in Tangier to train workers for social jobs under a "Solidarity Economy" initiative.

202 ANAPEC matches workers with jobs, analyzes market needs, and pays for worker training, but does not actually carry it out – OFPPT does. The two agencies have complementary but distinctive roles.

203 Maroc Export staff carry out country and sector studies, as well as event-specific analyses, mostly in-house. On rare occasions when additional highly specialized product or country knowledge is needed, they contract such analyses out to specialized consulting firms. Quality intelligence is seen as absolutely critical to market success.

204 Maroc Export covers up to 80% of the cost of Moroccan firms' attendance at trade shows, with differential tariffs for B2B events. Higher rates of support are provided for exporting to non-traditional markets, which is a priority. In addition, as of this year, large companies that draw in SMEs as suppliers get a 5% discount on services.

workshops within Morocco. The goal is to help 200 new companies each year.

Maroc Export maintains a database of all companies in Morocco which export products. In 2013, Tanger-Tétouan ranked second only to Greater Casablanca among Moroccan regions, accounting for 12% of Morocco's total merchandise exports. There were 646 exporting companies in the region, only 16 of which participated in Maroc Export's programs. Broken down by sector, those firms cover: agribusiness (4 companies), leather and plastics (3 each), textiles (2), and one firm each in the seafood, automotive, electronics, and water treatment industries. In terms of export value, the top sector by far is automotive, skewed by exports from the vast Renault factory.

National Tourism Confederation (*Confédération Nationale du Tourisme* – CNT):

Founded in 1995, CNT is a private-sector industry association affiliated with CGEM, focused on promoting tourism as a major engine of the Moroccan economy. It also serves as the umbrella organization for all of Morocco's Regional Tourism Councils, which are represented on its Board (including two delegates from Tanger-Tétouan). CNT works to set the strategic direction on major cross-functional projects in the tourist industry, working closely with the Moroccan government, particularly the Ministry of Tourism. Tourism already supports about a fifth of all jobs in the country, and has been an important pathway out of poverty for many Moroccans. As the country's tourism offering grows and diversifies, one of the priorities for CNT is also to ensure that hospitality-related establishments can find the workers with the appropriate skills.

Morocco's national tourism strategy documents (*Vision 2010*, followed by *Vision 2020*) sought to significantly boost visitation to the country as a whole, as well as to develop Morocco's global tourism brand beyond just Marrakech. The initial national goal was to raise the number of foreign visitors to Morocco from 4.4 million in 2001 to 10 million by 2010 (nearly fully accomplished, at 9.3 million!), then to double that again to 20 million by 2020. In addition to raising tourism's share of the country's total GDP to 20%, the planning documents also envisaged tripling accommodation capacity and revenues from the industry, while becoming the first "sustainable" tourist destination in the Mediterranean region. From the national perspective, ensuring the balanced growth of tourism in all of Morocco's regions was both an economic and political imperative. To that end, Morocco's tourism planning process was collaborative and inclusive. Officially launched by HM King Mohamed VI, the *Vision* documents were formulated jointly by the national government, CNT, the 16 Regional Tourism Councils, private-sector tourism businesses, and stakeholders at large. Road shows were held all over Morocco to solicit stakeholder input and ideas about tourism development. Morocco's regions sought to identify their particular strengths and weaknesses, and understand what might be needed for the *Visions'* effective implementation. Contract Programs were signed among the key actors, with each region deciding what its own developmental priorities should be, while CNT made sure they were aligned with each other and with the national branding and promotion efforts. Aggressive marketing campaigns were undertaken abroad, particularly in European and Middle Eastern markets, including attendance at trade fairs and other standard tourism promotion channels.

Moroccan Logistics Development Agency (*Agence Marocaine de Développement de la Logistique* – AMDL): AMDL is a dedicated agency under the national Ministry of Equipment, Transport, and Logistics focused on improving the efficiency of the country's logistics sector as a key enabler of economic competitiveness, as well as the creation of employment opportunities for Moroccans by capturing higher value-added activities in the global logistics industry. In Tangier's case, that meant capitalizing on the flow of cargo through the Strait of Gibraltar. Logistics was identified as one of the main sectors to target for regional economic development efforts. To this end, AMDL has worked with APDN, the Wilaya, TMSA, and other key local and regional actors to ensure that they got the appropriate support from the national government in developing MedHub and related logistics facilities, as well as the accompanying infrastructure, around the port of Tanger-Med, and that the *Stratégie Nationale de Développement de la Compétitivité Logistique* mentioned earlier would be successfully implemented in the region.

Ministry of Economy and Finance

- Geographic and balanced growth have been the main issue in Morocco in the last decades
- The "region level", the SMEs and education have been supported to make sure that the strategic decisions are successfully implemented
- Two trends: sector diversification and geographic diversification
- Tangier was well known for its cultural elite, its rich civil society and its energy potential (wind)

Haut Commissariat au Plan

- All the data required regarding Tangier economic and demographic development available in the HCP website: growth contribution, employment, consumption, sectors (automotive, buildings, etc.)
- Two Specific studies are tackling the informal sector issue (98-99, 2007-2012)

MedZ

- MedZ is developing two tourist areas in Tangier
- This public entity relies on an agreement signed with the Ministry of Interior and the Ministry to have access to the land
- Offshoring has become an important sector in Morocco as it represents 2.5% of GDP, MAD 2 billion of invest-

ments and 70,000 jobs. The objective is to double these figures by 2020.

Other Entities

- Ministère des Affaires générales et de la Gouvernance – CNEA. In 2009 the government formed the National Committee for the Business Environment (Comité National de l' Environnement des Affaires, CNEA). The CNEA was tasked with improving Morocco's competitiveness and creating an optimal environment for investors by fast-tracking new business laws to simplify doing business, primarily targeting administrative bottlenecks
- Ministère de l'Intérieur / DGCL
- Wali / DPAT
- Ministère de l'Industrie, du Commerce et des Nouvelles Technologies

Local Context

Tangier is the largest city and principal center of economic activity in northern Morocco. Tangier is the capital of Morocco's Tanger-Tétouan Region, which had 3.033 million inhabitants and an estimated GDP of nearly US$ 8 billion in 2012. Covering a surface of 11,570 km^2, the region consists of two Prefectures (Tanger-Assilah and M'diq-Fnideq) as well as five Provinces (Chefchaouen, Fahs-Anjra, Larache, Ouazzane, and Tétouan). Together with its neighboring region of Taza-Al Hoceïma-Taounate, this area of northern Morocco has a combined population of 4.9 million, just under half of whom (47.8%) live in urban areas, compared with Morocco's overall urbanization rate of 58.8%. Approximately one million people reside within the Tangier metropolitan area itself. While it has made substantial advances in economic development in recent years, the Tanger-Tétouan Region remains slightly less affluent than Morocco as a whole, with a per capita income of MAD 21,682 in 2012 (or 85.4% of the national average).

Located just ten miles from Europe, Tangier is influenced by its geography to a greater extent than most other cities. Situated at the crossroads of global commerce, where continents and civilizations meet, it has traditionally been a maritime, outward-looking city. In an earlier, autarkic era, Tangier's location in a remote corner of the African continent was a distinct disadvantage, implying isolation from the mainstream of its national economy and a marginal economic role. In the globalized marketplace of the 21st century, however, the situation is exactly reversed: Tangier is now a natural gateway, the place where worlds come together and where cross-border business gets done. This narrative will trace Tangier's evolution from stagnant economic backwater to booming entrepôt and manufacturing hub within a very brief time span.

Tangier's position on the Strait of Gibraltar

History

Tangier is one of the world's oldest and perhaps best known cities, harking back to Phoenician and Roman times. Over several millennia of recorded history, the city was ruled by many world powers, then for several decades enjoyed the status of a free "international city" not administered by any individual country. It developed a reputation as a multicultural, tolerant place, where people of many different nationalities and religions came together to do business with one another, but also to avoid the constraints often encountered in their countries of origin. The mild climate attracted artists and writers from all over the world, who moved there to create some of their masterpieces. International banking and insurance flourished as enablers of international commerce, with multiple languages being spoken. Located in the very heart of the city, Tangier's port was an important hub for commerce, but at times also for illegal activities.

Moroccan independence in 1956, and Tangier's reintegration with its hinterland, reoriented the city's economic activities. International commerce diminished in importance, as European and other countries erected barriers to imports, while Morocco itself embarked on a path of import-substitution and related economic policies fashionable at the time. Tangier went from being an international trading city to a minor regional production center within Morocco, vastly eclipsed by the country's Casablanca-Rabat core. Internal migrants from impoverished rural areas of northern Morocco naturally gravitated to Tangier as the main population and economic center in that part of the country, resulting in significant population growth over time.

Tangier was relatively isolated both geographically and economically during the second half of the 20th century. Given its location at the northwestern tip of Africa, Tangier remained quite isolated from the rest of Morocco for nearly half a century after independence. Road and rail connections were inadequate, air links pricey and highly regulated, and cross-strait links with Spain still relatively underdeveloped, although the frequency of passenger ferry services between the two countries did rise over the years, resulting in a gradual increase in tourist visitation and especially in transit traffic through the city. High logistics costs and administrative obstacles were a real detriment to the competitiveness of local producers: access to consumer markets elsewhere in Morocco was slow and inefficient, while trade barriers and bureaucratic restrictions in practice limited how much could be produced and traded internationally.

Even during the "closed economy" years, companies in Tangier managed to build up manufacturing know-how and enhance knowledge of products and industrial processes. Despite the lack of free access to European and other foreign markets, or ways to easily reach the majority of Moroccan consumers, Tangier still managed to develop a local textile and leather industry, as well as production in chemicals and selected metal and mechanical manufacturing industry segments. These largely built off the city's longstanding competencies like handicrafts and artisan production, but attained more of an industrial scale over time. At the time, this was largely low-technology, labor-intensive production, but it did help to build basic local capacity, business acumen and workforce skills, accumulate capital, and hasten development of the city's indigenous industrialist class. Geographically, this production was centered on the old seaport, site of a TFZ, and later on the AZIT industrial zone located outside the city's historic core. At the same time, other traditional mainstays like fishing and food processing retained their importance.

The accession of a new Moroccan monarch in 1999, combined with evolving external circumstances, set in motion a chain of events that would end up transforming Tangier's economy during the first decade of the 21st century. As noted earlier, before the turn of the millennium, Morocco's economic growth was extremely uneven geographically, heavily dominated by the central Casablanca-Rabat core. With the accession of HM King Mohamed VI in 1999, rebalancing the country's economic growth, both geographically and across sectors, emerged as an overriding policy priority for the central government, and national sector development plans (outlined in a prior section of this report) were drawn up and implemented.

The strategic decision to make Tangier an alternate "pole" driving Morocco's economic growth was made at the highest levels of national government, and strongly endorsed by the new King himself. Various agencies at different tiers of government were involved in operationalizing this decision, in consultation with organizations representing the private sector such as: CGEM (the General Confederation of Moroccan Enterprises); the Chamber of Commerce, Industry and Services; and various sector guilds/industry associations. As far as development of northern Morocco is concerned, national interventions to accomplish this were undertaken in two principal ways:

- Through massive ***investments in physical infrastructure***, including but not limited to the construction of new roads, railways, a brand new mega-seaport on the Strait of Gibraltar, and enhanced municipal infrastructure for the provision of basic services.[205] Additionally, significant funds were allocated to the construction of tens of thousands of new housing units in the Tanger-Tétouan Region, helping to at least partly alleviate the shortage of suitable dwellings endemic in many Moroccan cities. Public funding (including budget and debt financing) and donor funds were used to catalyze even greater resources from domestic and international private-sector investors, through a variety of PPPs and other modalities common in

205 A figure of US$17.8 billion over the period 2008-2014 is provided by www.tangerfreezone.com, but that includes infrastructure investments beyond just the Tanger-Tétouan Region.

high-income countries, but at the time relatively new to Morocco.

- ***Support for increased economic activity***, both through proactive efforts to recruit outside investors, and through support programs for existing local firms to better adapt to the global marketplace, including participation in global value chains. These activities were closely tied in with the aforementioned national sector development strategies, and comprised investment incentives (including land), capital access programs, the provision of technical advice and guidance, export assistance, as well as dedicated workforce development and labor market intermediation programs – achieving a very high impact.

While prioritizing Tangier as a driver of Morocco's economic development was ultimately a political decision, it was based on sound economic rationale and robust analytics. Not only was there tremendous potential for the north to achieve catch-up growth, but favorable external developments such as new free trade agreements and the increase in shipping activity through the Strait of Gibraltar presented new opportunities for Morocco to seize a greater share of higher value-added activities related to international commerce. This would best be accomplished by becoming a major transhipment hub on the Strait, through which more than a quarter of the world's seaborne cargo was already passing – right outside the city of Tangier. These market opportunities were identified through a structured process at both the national and local levels.

The introduction of ever-larger oceangoing freight vessels meant that brand new terminals were needed to accommodate them, which Tangier (and Morocco) did not have in the early 2000s. Upgrading Tangier's existing port, located in the center of town and home to an existing free trade zone mostly producing textiles and seafood, was deemed impractical. The old in-town port would never be able to accommodate the large container ships (and especially future post-Panamax sized ones) which Morocco wanted to attract, nor was there adequate landside access for such an expanded volume of commerce, given that the port was boxed in by the old Medina and other cultural monuments, as well as high-density urban housing. In consultation with local stakeholders, Morocco's government therefore decided to construct a brand new seaport facility some 35 km east of the city, directly across the Strait from Gibraltar and Algeciras in Spain.

Begun in 2002, construction of the new seaport complex (named Tanger-Med) was one of the largest infrastructure projects in African history. It entailed a multi-billion dollar investment in civil works to transform a pristine stretch of northern Moroccan beach just 14 km from Gibraltar into a deepwater harbor (18-meter draft) with two separate container terminals, and an adjacent 250-ha logistics hub/free zone and intermodal services zone (called MedHub) directly behind the port. Beginning operations in 2007, Tanger-Med's first phase (Tanger-Med I) is one of the largest intermodal facilities on the Mediterranean, as well as Africa's biggest container port, with an initial annual capacity of 3.2 million TEUs. Right next to it a passenger ferry terminal was constructed, with 8 berths able to handle up to 50 departures per day and 7 million Africa-Europe passengers and 700,000 trucks per year, roll-on–roll-off (RO-RO) facilities with a capacity of one million vehicles, and a hydrocarbons storage facility. Finally, a further expansion currently under construction and planned to be completed by 2016 (Tanger-Med II) will add two more container terminals, more than doubling the port's capacity to over 8 million TEUs. Container terminal operations have been tendered out under 30-year concessions to specialized entities with vast experience and global commercial networks: APM Terminals (part of the Maersk Group), and the Italian-German EUROGATE-Contship consortium (consisting of MSC, CMA-CGM and Comanav). Today Tanger-Med is connected to 56 ports in 40 countries. Container traffic at Tanger-Med has been rising rapidly in recent years to surpass 2.5 million TEUs in 2013, while total cargo traffic reached 35 million tons, thus already making Tanger-Med the country's second-largest hub for maritime traffic after Casablanca.

The Port of Tanger-Med I, with Algeciras (Spain) and Gibraltar visible across the Strait

Recent Developments and Their Significance

Given that Tanger-Med was designed from the outset to be more than just a gateway for the movement of freight and people, it forms part of an interconnected regional system of industrial and logistics zones. Unlike other seaports in the country, which are managed by the national port operator Marsa Maroc, Tanger-Med has a unique governance regime, under its own dedicated Tanger-Med Special Agency (TMSA). In line with Morocco's sectoral and regional development priorities, TMSA oversees an integrated network of six industrial and free zones located within an 80-km radius of the port of Tanger-Med itself. Its value proposition for potential investors includes the offer of an "integrated industrial platform", with efficient production and logistics, ease of market access, large labor pool, and low operating costs.

The motivation for undertaking such a massive infrastructure investment of nationwide significance and impact went beyond just improving the efficiency of Morocco's transport sector. Tanger-Med was envisaged under Morocco's logistics sector strategy, and was to be used as a catalyst for the economic development of the entire Tanger-Tétouan Region, and northern Morocco as a whole. Besides the transshipment of containers from one vessel to another, the intent was to capture a share of higher value-added logistics services along both east-west and north-south shipping routes, attract international investors to Morocco as a platform for production and export, and boost local producers' competitiveness by lowering transport costs.

Construction of the new seaport complex proceeded in parallel with major upgrades to northern Morocco's road and rail connectivity. Railroads were extended from the main national network right into the port of Tanger-Med itself, enabling the rapid intermodal transfer of containers, bulk cargo, and motor vehicles. Upgraded infrastructure and new rolling stock resulted in less congestion, higher average track speeds, and enhanced safety along northern Morocco's railroads. Plans were announced to build Africa's first high-speed passenger railroad (*Ligne à Grande Vitesse*, or LGV, modeled after France's TGV) which, when completed in the next couple of years, will reduce travel times between Tangier and Casablanca to only about an hour and a half. Modern multilane highways were built not just connecting the Tanger-Med port complex to regional population centers like Tangier and Tétouan, but also to the country's main Casablanca-Rabat axis. Finally, the facilities at Tangier's Ibn Battouta Airport were substantially upgraded in 2008, tripling its passenger capacity just as open skies agreements with EU and other countries enabled greater frequency of air services by low-cost carriers in particular. To finance these unprecedented improvements to northern Morocco's transport infrastructure, its national government utilized a combination of funding mechanisms, including issuing debt obligations and involving various international donors and private, for-profit concessionaires.

Tangier's improved transport infrastructure simultaneously accomplished multiple, but related economic and political objectives, with far-reaching impacts:

- Northern Morocco's better connectivity and integration with the rest of the country;
- More efficient market access (domestic as well as international) for Tangier-based producers and exporters, conferring a meaningful cost advantage and ease of participation in global value chains;
- Greater attractiveness of the Tanger-Tétouan Region to foreign investors, due to lower transport costs and shorter shipment times;
- Easier and cheaper access for foreign tourists, enabling increased visitation to the city and region by leisure travelers, in turn helping to bolster the local tourism industry.

The construction of Tanger-Med I and the infrastructure upgrades associated with it de-facto transformed Tangier from an isolated, minor regional center into one of the best connected, most cost-competitive business locations on the Mediterranean. An ultramodern mega-seaport, efficient landside access, and improved air connections managed to turn Tangier into one of the region's best connected business locations in a time span of only a few short years – a feat seldom observed in local economic development. Multinational firms, site selectors, bilateral and multilateral collaborative bodies, the business press, and even academics... all of a sudden, Tangier began to appear on their radar screens as a very serious contender for all sorts of operations. The city came to be seen for what logically it should have been all along: a "near-shore" hub only a few miles from southern Europe yet outside the EU's legal regime, offering a good quality of life, duty-free access to the single EU market, an inexpensive yet reasonably skilled workforce, competitive land, energy, and other general business costs, and a national government committed to attracting (and, when needed, incentivizing) FDI. Tanger-Med thus managed to become an example of what has often been attempted, but seldom successfully accomplished – a project serving as a catalyst for urban and regional economic development. The reasons for this success are both external and location-specific, with more detail below.

Infrastructure upgrades were accompanied by the successful local implementation of national sector development strategies, starting in the early to mid-2000s. As noted earlier, *Emergence* and other national planning documents had identified the sectors with the highest potential to drive Morocco's economy forward. The national strategies were successfully operationalized at the local level in some industries already present in Tanger-Tétouan, or with clear advantages to take root there:

- Transport and logistics
- Automotive
- Aerospace
- Agri-business, including seafood processing
- Textiles and leather
- Electronics and mechanical engineering
- Services offshoring (BPO/ITES, including customer support)
- Tourism

How was national sector targeting implemented at the local level? Five broad categories of sector-specific interventions were observed in Tanger-Tétouan, each of which has likely played some role in scaling up economic activity in those targeted industries. They include:

- **Investment promotion:** Carried out in partnership between national and local entities, this includes the identification of potential investment targets in each sector, and outreach activities to inform them about the business potential of Morocco and Tangier more specifically. Via the web, through AMDI's network of international offices, referrals from existing investors, and other common channels, MNCs were contacted and relationships built to understand their locational needs in terms of further expansion, very much in line with global best practices in investment promotion. Credible leads/prospects were referred to CRI as the focal point for processing them, often also involving TMSA, the TFZ, the Wilaya, Tangier Mayor's office, or any other entity whose participation may have been needed or beneficial to bring in a specific investor. A shared understanding of inward FDI being critical to Tanger-Tétouan's development and prosperity seems to have been present among all the key actors, at both the national and local/regional levels.[206]

- **Entrepreneurial support programs:** Besides attracting outside investors, growth in targeted sectors can be given added momentum by implementing programs aiming to help existing firms scale up and create jobs, as well as by fostering the growth of new ones. In Tangier's case, this has included the assessment of industry-specific needs, development of managerial and technical know-how, product and process improvement, various technical certification programs and standards, language instruction, capital access programs and tax breaks[207], export assistance and market information, and the identification and addressing of industry-specific administrative and regulatory issues. Technology transfer programs are still in their infancy, but national legislation has in recent years moved towards making it easier for research/educational institutions to collaborate with private for-profit businesses. A variety of institutions, both public and private, are involved in local needs assessment and the implementation of national support programs, among them the Chamber of Commerce, CGEM, AZIT, TFZ, sector associations, Abdelmalek Essaâdi University, Maroc Export, ANAPEC, as well as various other local and regional government bodies, as appropriate in each situation.

- **Integration of local firms into global supply chains:** In essence, achieving this entails establishing linkages between the previous two categories of interventions – attracting international companies to Tangier, then helping them develop a local supplier base among existing Tangerois firms. Unlike what the CCKB team has observed in some other countries, very few international investors in Tangier have formal supplier development programs, and the process is as reliant on ad-hoc relationship building as it is on any systematic approach. However, economic logic and global competitive pressures drive the MNCs to source locally as many intermediate inputs into their production processes as they can, thereby minimizing transport costs, delays, and supply chain risks. In the automotive industry, for example, building up local capacity and know-how has actually been easier than might be expected, given its specific segments in which Tangier has emerged as a player – automotive seats and fabrics, wiring harnesses and cables, steel stamping, plastic injection and sealing, steering wheels, A/C and safety systems, etc. All these build on Tangier's accumulated expertise in more traditional industries like textiles, chemicals, and metal works, so the transition to producing what carmakers like Renault need, for example, has proceeded fairly smoothly. An important intermediation role was played by AZIT, TMSA, and TFZ management, keen on strengthening the link-

206 Based on interviews and extensive discussions with the staff of these organizations in December 2014.

207 For example, although SMEs account for 95% of all firms in Morocco, capital access remains a serious challenge for many of them, and therefore an impediment to establishing and scaling up productive activities. To address these financing gaps, the central government has instituted several programs, including grants, loans, and credit guarantees, such as: the *Moukawalati* bank loan guarantee program; the *Imtiaz* program, which covers a portion of firms' start-up costs; and the *Moussanada* program, providing cash grants to strengthen firms' strategy and organization. While these capital access programs are not restricted to the targeted sectors, by supporting company formation and growth they likely provide support to the Moroccan economy's most dynamic and vibrant segments, which are likely to include the sectors targeted under *Emergence* and other strategic plans.

ages between their tenants and the multinational firms being brought in.

- **Sector-specific infrastructure:** The provision of industry-specific physical facilities, including suitable industrially-serviced land, dedicated railroad terminals, ro-ro facilities, gantry cranes, storage facilities, cruise ship berths, yacht marinas, beaches and nature preserves, road spurs and connectors, upgraded fiber-optic links, fish processing areas, waste disposal and materials recycling, flood control and prevention, etc. has helped to create the enabling conditions and environment needed by firms in the targeted sectors, locally-grown ones as well as outside investors. Depending on the specifics, these interventions may have been undertaken by the local branches of national agencies (coordinated through the Wali's office), as well as by municipal authorities or the different entities under the TMSA umbrella. Advocacy for such interventions is often channeled through the Chamber of Commerce and/or CGEM, in a feedback loop stretching back to the national government agencies in Rabat.

- **Dedicated workforce development programs:** Morocco as a whole has made tremendous strides in raising its levels of human capital, prioritizing improved basic education as well as greater female enrollment and attainment. In terms of specific skills needed by targeted sectors, mechanisms (called *Organs de Gouvernance*) exist at both the national and regional levels for private industry to provide feedback to OFPPT, ANAPEC, and the universities about their particular skills needs. ANAPEC periodically funds studies of sectoral workforce needs, and partners with the universities or other accredited entities on delivering the training needed. HR managers' and sectoral professional associations in Tanger-Tétouan have the chance to express their needs and concerns through four dedicated sectoral commissions (automotive/aerospace, transport/ logistics, offshoring, and tourism). There is much flexibility in designing local training programs that are actually relevant to what employers seek. In addition to this general training for jobs in individual sectors, the Moroccan government also funds customized training programs (called "*formation à la carte*") tailored to the needs of individual employers. Utilizing a combination of these various tools and instruments, Tangier has been able to produce the workforce talent needed by local and incoming companies alike. This has undoubtedly been a critical element in the city's economic success story.

While Tanger-Tétouan effectively utilized standard national incentives schemes in its investment attraction efforts, there is no firm evidence that MNCs' decisions to locate there were primarily motivated by incentives. The above-mentioned industries qualified for standard national incentives schemes (including in free zones); the World Bank mission did not find any additional subsidies or incentives offered at the local level not available elsewhere in Morocco. However, Tangier's unique geographic advantages, quality infrastructure, the relative abundance of industrially-serviced land in the region, and workforce availability and cost likely played the determining role in attracting investors to the city and its surrounding region. Incentives may have served as deal "sweeteners", but do not appear to have been the key driver of MNCs' decisions to locate there in the numbers or on the scale that they have.

Since Tanger-Med I began operations in 2007, there has been an upsurge in foreign investment into the Tanger-Tétouan Region. While as early as the 1990s multinational firms had begun looking more closely at northern Morocco as a viable nearshore business location – very close to Europe, but outside the EU – it was the inauguration of the new port of Tanger-Med that really opened the floodgates to foreign investment, by enabling much faster, less costly market access. In industries ranging from plastics and packaging to metal products and fast fashion, the Tangier area's bottom-line business advantages became hard for MNCs to ignore. Development of a network of industrial free zones in the area, offering one-stop processing, fiscal incentives, and efficient logistics services, further solidified Tangier's value proposition.

The arrival of French automaker Renault to the Tangier area in 2012 provided a tremendous boost to Morocco's FDI attraction efforts, and in particular to development plans for the country's north. On 280 hectares of land donated by the Moroccan government, Renault established what will upon full buildout be the largest automotive plant on the African continent, producing some 400,000 vehicles per year. Located in Melloussa, in between the port of Tanger-Med and the cities of Tangier and Tétouan, the plant offers easy access to all of them (and the region's vast labor pool) via brand-new multilane highways. A dedicated rail link from the Renault plant directly to the new seaport enables easy loading and offloading of automotive components and assembled vehicles. At present, entire engines are shipped to the plant via Tanger-Med from Renault's European plants for installation into locally-assembled vehicles, but that is expected to change over the next few years, as more content is sourced locally.

The Renault plant is expanding, helping to develop a local supplier base and auto industry know-how. The vehicles produced at Melloussa now comprise about 35-40% Moroccan-made content, but the plan is to gradually increase that share of local content to 60% or more, as local suppliers build up technical capabilities and expand their own productive capacity. In addition, so far 12 Tier-1 suppliers from abroad have followed Renault to Morocco, setting up operations in proximity to their key customer. Officials interviewed at the Renault plant also hinted at plans to establish a sister Nissan plant alongside the existing one at Melloussa, with outward signs (Nissan logos) already in place. While Renault already has a leading 40% share of the domestic Moroccan auto market (including another JV assembly plant in the Casablanca area), more than 90% of Renault vehicles produced at Melloussa (mostly under the Logan brand) are destined for export through Tanger-Med. With an initial capital investment of US$1.5 billion, Renault directly employs 5,500 workers at the site, with another 30,000+ jobs supported indirectly (at component suppliers, etc.) through the plant's multiplier effect in the local economy. In a very real sense, this single investment project has helping propel Tangier into FDI's major league.

Tangier's quest to become a regional automotive production hub did not begin or end with attracting the Renault factory. Even in the early 2000s, foreign automotive firms started to produce components in Morocco for installation at European assembly plants. Then, Renault's arrival provided an even more compelling reason to be in Tangier. The region's free trade zones are home to some leading auto suppliers, among them: electronics maker Delphi Automotive, with 4,900 local employees; Lear Automotive, with 2,500 employees; Japanese air conditioning maker DENSO Thermal Systems, employing 120 Tangerois; and chemicals giant Dupont, supplying paint colors for vehicles, with 25 local employees. The Moroccan government has ambitious plans for further auto cluster development, and is actively working to attract a second major automaker's assembly plant to Tanger-Tétouan, which would further solidify Tangier's status as a leading automotive production hub in its part of the world. To this end, another 300 hectares have been set aside for a free zone dedicated to the auto industry, called Tangier Automotive City (TAC), adjacent to Renault's plant at Melloussa. While only one part of TAC is operational (the rest is still under construction), there has been strong interest from components manufacturers, and a handful of automotive firms (e.g. Spanish firms Turbo Cadiz and Europac, and Electrical Components International from the U.S.) have already set up operations there.

Demand for skilled and semi-skilled labor surged with the opening of the Renault plant and related facilities; instituting workforce development program(s) that would address these needs was absolutely essential. In 2011, a dedicated training institute – *l'Institut de Formation aux Métiers de l'Industrie Automobile de Tanger Med* (IFMIA) – was established adjacent to the Renault factory then under construction in Melloussa. In line with the approach outlined in *Emergence*[208] and funded by Morocco's national government (specifically, the Ministry of Employment and Vocational Training, as well as the Ministry of Industry, Trade and New Technologies) in collaboration with the Agence Française de Developpement (AFD) but operated by Renault, IFMIA was established to fill the talent pipeline needed by expanding automotive production in the region, for jobs at Renault itself but also at the facilities of its components suppliers. Specific applied skills taught include stamping, welding, riveting, assembly, hydraulics, pneumatics, electrics, materials handling, servo systems, mechanics, robotics, forklift operations, sanding, painting, logistics, and so on. The skills attained through this training program are also applicable to related industries like aerospace, whose skills needs are somewhat comparable in functional terms. On the whole, this program has been a stellar success, and is indicative of the kinds of vocational and customized training programs which Tangier (and more generally, Morocco) have utilized to ensure the availability of skills sets critical for industrial development. It is another important factor in the city's recent success.

The relocation of Tangier's freight traffic to the new Tanger-Med port has enabled the redevelopment of the city's old seaport, renamed Tanger-Ville, into a tourism- and fishing-focused maritime facility, along with high-end retail, entertainment, and residential developments. To coordinate these activities, a dedicated

Renault's production plant at Melloussa

208 For more detail, see http://www.emergence.gov.ma/Formation/Pages/InstitutsEcolesSpecialisees.aspx

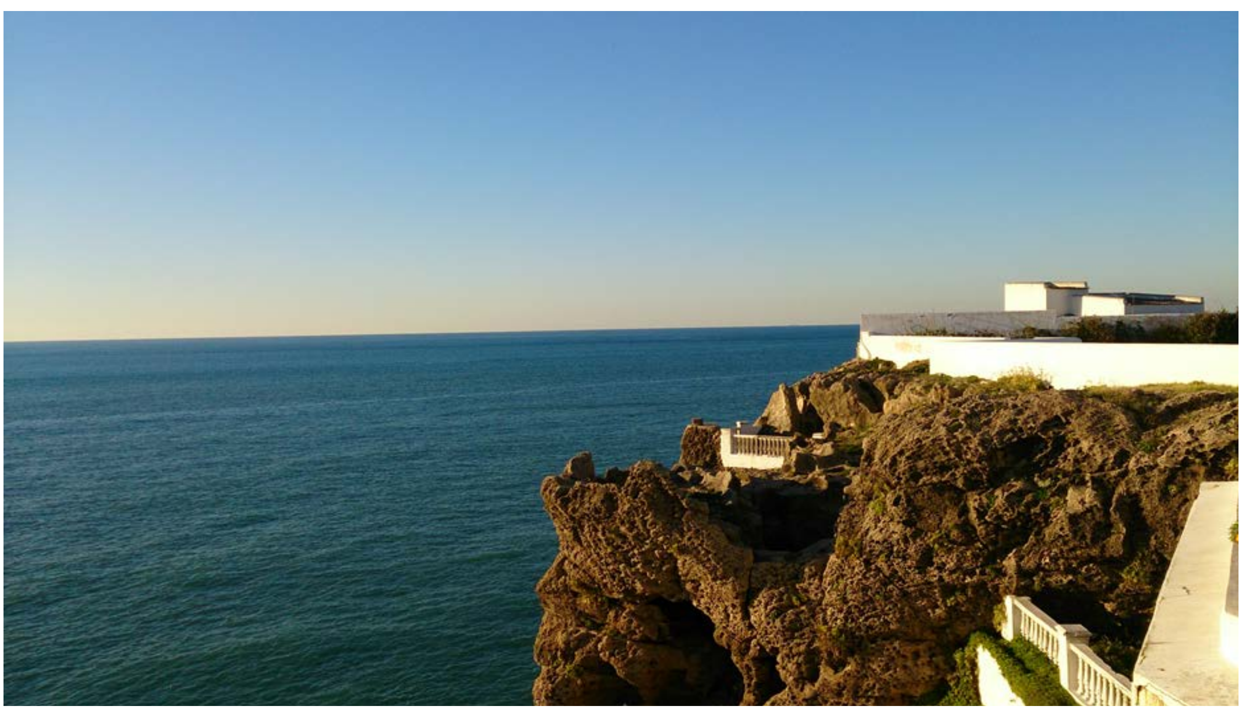
organization called SAPT (Société d'Aménagement pour la Reconversion de la Zone Portuaire de Tanger) was established in 2010. The free trade zone previously located inside the port area was decommissioned, its businesses relocated to a new area outside the city core, while a wall cordoning off the port from its city was torn down. Implemented in several phases, the port's multifaceted conversion process is still ongoing. A new harbor for fishing vessels is being constructed outside the old port area, which will enable fish processing facilities to be relocated away from the port's main tourist areas. At present, new terminals for larger cruise ships and pleasure craft are also under construction, which will be followed by the construction of upscale housing, office space, three hotels, a convention center, a retail complex with cinemas, and eventually even a hanging cable car system (*téléférique*) which will transport visitors and other passengers between this new leisure port and tourist attractions in the city's old Medina. Much of this development will be funded by private concessionaires or public-private partnerships.

Tangier has worked hard to reconcile its dual (and sometimes seemingly contradictory) ambitions to simultaneously serve as a manufacturing hub as well as a leading tourist destination. This was achieved through extensive stakeholder consultation and visionary transportation planning, by measures that included the above-mentioned port redevelopment, relocating manufacturing firms outside the city core to newly-built, designated facilities with adequate infrastructure, designating prime locations as "tourist" zones while reserving the flexibility to rezone areas as needed, and inviting/encouraging foreign investment in both industrial plants and the tourism sector. After decades of neglect and uncontrolled urban sprawl, special attention was paid to environmental protection and mobility. Tangier has been, for example, the first Moroccan city to achieve 100% coverage of urban households with vital municipal services like water and sewerage, according to the city's current Mayor.[209] Priorities such as environmentally sustainable development, flood control, the preservation of green spaces, beach and seawater cleanliness, transportation access (including public transit), and the deployment of renewable energy are all seen by local leaders as critical economic development issues (for tourism as well as investment attraction), not just citizens' quality of life concerns.

These proactive "place-making" initiatives set the stage for Tangier to be more than a transfer hub for tourists traveling between Spain and Morocco. In addition to having the nation's fourth busiest passenger airport at Ibn Battouta, Tangier's twin maritime passenger gateways (Tanger-Med and the old port at Tangier-Ville) account for about one fifth of all tourist arrivals to Morocco, or close to two million visitors per year. This presented a clear opportunity to try to get them to spend some more time in the city and its environs, rather than just pass through. But a systematic, focused approach to promoting tourism in the region was needed. With the involvement of both local and national actors, such an approach was indeed developed.

Tanger-Tétouan's tourism promotion efforts have been closely tied in with Morocco's nationwide tourism sector strategies. The national *Vision 2010* and *Vision 2020* planning documents described earlier were developed collaboratively, in a process involving the Moroccan govern-

The Atlantic Ocean near Cap Spartel, where it meets the Mediterranean, just outside the Tangier city limits



209 In person interview with Mr. Fouad El Omari, Mayor of the Urban Community of Tangier, on December 4, 2014.

ment, CNT, the 16 Regional Tourism Councils, private-sector firms, and stakeholders at large. In addition to boosting the numbers of visitors to the country, a key objective has been to develop Morocco's tourism brand beyond just Marrakech, which had already become globally known for its cultural treasures. The *Vision* documents sought to ensure the balanced growth of tourism across Morocco's regions, while also emphasizing its economic and environmental sustainability.

The regional plan for Tanger-Tétouan took inventory of the region's tourism assets, and identified priority areas for development. Tangier-Tétouan is generally greener than much of North Africa, and its pleasant climate is reminiscent of coastal California's, without extremes of heat or cold. With literally millennia of recorded history and the sites to document it, Tangier is a cultural gem. Local authorities are working to further increase the area's attractiveness to visitors both by emphasizing its natural beauty and ecotourism potential, and by developing large-scale tourist resorts and attractions. The current hotel capacity in Tangier-Tétouan exceeds 13,000 beds, but plans are afoot to more than triple this to 40,000 beds by 2020. Indeed, the region's existing hospitality infrastructure has seen dramatic growth over the past few years, with many international hotel chains moving in. It is planned that the city of Tangier itself will be the locomotive driving the development of the whole region's tourism industry, building on its transport advantages as well as its lure as a cultural destination, centered on its historic Medina. With about a million nights spent by tourists in Tangier hotels each year, the city now ranks as the fourth most-visited Moroccan city after Marrakech, Agadir, and Casablanca.

Key Local Actor

Tangier does not have a single, focal economic development organization, but several entities from both the public and private sectors do have a role in fostering economic growth and job creation in the city and its surrounding region of Tanger-Tétouan. These include: the regional governorate (Wilaya), which has a coordinating and oversight role over the work of most other public entities in the region; the central and regional/local offices of national agencies (e.g. for workforce development, tourism, territorial development, etc.); the Urban Community (i.e. Tangier's elected city government); the Agency for the Promotion and Development of the North (APDN); the Regional Investment Center (CRI); TMSA; the Port Redevelopment Agency (SAPT); institutions of higher learning, especially Abdelmalek Essaâdi University; the General Confederation of Moroccan Enterprises (CGEM); the Chamber of Commerce, Industry and Services (CCIS); the Tangier Industrial Zone Association (AZIT); and various other private-sector groups and industry associations.

Tangier and its region have what in practice amounts to a regional growth coalition, even if that coalition's structure and inter-institutional relationships are not always formalized, or codified in legislation. The key actors confer with each other regularly, and act in concert to advance the city's economic development agenda. Thus, in a very tangible sense, the above entities form a de-facto regional growth coalition, even if the exact mechanisms for its activities are not necessarily formalized. With about a million inhabitants, Tangier is not a huge city, and even its surrounding region has not much over three million residents. Practically all key decision-makers know each other personally and interact on a regular basis. Issues are discussed and sometimes vigorously debated within these meetings. There isn't a formal mechanism for resolving differences, but in practice consensus is usually reached on most important matters, and problems that cannot be solved locally are brought to the attention of national authorities. On the whole, there appears to be a very high level of social capital, resulting less from a sense of shared identity than the awareness that these initiatives are essential for Tangier's future, and the conscious efforts of Tangier's key players to build up mutual trust and work together for results.

Local government and business leaders in Tangier are forward-looking and globally savvy. Tangier's leaders – from the Wilaya and the Mayor's office, to TMSA and CGEM – appear to have their finger on the pulse of global business in a much more direct way than in many other comparably-sized cities. Tangier is not New York or Singapore, but its business and political leaders are engaged in promoting their city's development and global commerce in very hands-on, practical ways, from the identification and targeting of potential investors to taking part in trade and investment promotion missions. There is also an almost limitless readiness to listen to and address the concerns of investors – a "can do" spirit – whish ensures that Tangier's business environment is a hospitable one, going beyond just what is provided for by national legislation and available incentives schemes. The analytics local teams employ are robust, systematic, and timely. Going beyond a general (and highly generic) "open for business" marketing message, which almost every city and country strives to put out nowadays, Tangier focuses on setting realistic, attainable goals, and tries to get all of its key actors on board to make it happen.

Below is a closer look at some individual entities with a role in Tangier's economic development.

Wilaya of Tangier (Regional Governorate): The Regional Governorate is headed by the Wali (Governor), as the personal representative of the Moroccan King in the Tanger-Tétouan Region. In this role, the Wali's office oversees and coordinates the work of all public-sector entities under its jurisdiction. Ongoing administrative reforms in Morocco are striving to devolve more institutional scope to the individual regions, in this case meaning to the Wilaya, to undertake interventions of a local and regional significance. Importantly, high institutional capacity within the Wali's office itself (in terms of human resources, technical know-how, and capability to implement complex projects), has been a vital enabler of the transformative events and economic outcomes observed in recent years.[210] The Wilaya is institutionally represented on the governing bodies of many other local public entities, and gets a say in their general priorities and spending decisions. By law, the Wali is also simultaneously the Prefect of the Tanger-Assilah Prefecture within the region, the vast majority of whose population resides within the city of Tangier itself.

Urban Community of Tangier: The Urban Community is Tangier's city government, headed by an elected Mayor and City Council. Its administrative remit does not extend beyond the Tangier city limits, but because of the urban core's role as the business hub of the entire region, it has a greater economic significance than its limited territorial jurisdiction would imply. Within the 1,195 km² encompassed by Tangier's city limits, there were 974,000 residents in 2014, making Tangier Morocco's third most populous city after Casablanca and Fès.[211] The city government has statutory responsibility for the provision of regular municipal services as well

210 For example, in meeting with Tangier's incumbent Wali, Mr. Mohamed El Yaacoubi, it was very apparent to the Bank mission that this was not just a routine administrator who ensures that the apparatus of government is humming along as usual. Rather, the Wali takes a keen personal interest in the intricacies of economic development, including engineering solutions to transport and mobility challenges, the relocation of specific facilities to ensure compliance with environmental safeguards, catering to the locational needs of foreign investors, capitalizing on broader global business trends to benefit Tangier's economy, and so on. A "let's get it done" approach seemed to permeate the implementation of almost every initiative. While it is hard to judge based on just a few meetings, the Wali may well be representative of a new generation of local leadership in Tangier that is dynamic, capable, and unequivocally committed to enhancing economic opportunities and the quality of life for area residents.

211 http://www.h24info.ma/maroc/le-surprenant-classement-des-villes-les-plus-peuplees-du-maroc/31608

as for urban planning, as required by national law. It is not administratively tasked with "core" economic development functions like job creation, simply with creating an enabling environment for it to occur. However, in practice Tangier's city government takes a much more active role in fostering economic development, undertaking a series of highly-beneficial interventions that transcend its immediate administrative scope. These include: "place-making" (improvements to quality of life, making the city more attractive to residents, visitors, and investors); investment promotion events, both inbound and outbound, touting Tangier as an attractive place to do business; building sister-city relationships and other forms of international cooperation; and working to improve Tangier's overall business environment, e.g. by simplifying administrative procedures and making sure that available infrastructure is adequate for businesses' needs.[212]

Agency for the Promotion and Development of the North (*Agence pour la Promotion et le Développement du Nord* – APDN): APDN is an agency dedicated to the territorial development of the northern third of Morocco (there are two sister agencies for the country's central and southern parts), under the direct authority of the Prime Minister. Covering an area of 35,973 km^2 that extends along more than 100 km of Atlantic coastline and nearly 300 km of Mediterranean coastline, the North has about five million inhabitants. APDN oversees the territorial and social development of two of Morocco's 16 regions: Tanger-Tétouan, and Taza-Al Hoceïma-Taounate. It includes 11 prefectures and provinces (Tanger-Assilah, Fnideq-M'Diq, Tétouan, Fahs Anjra, Chefchaouen, Ouezzane, Larache, Al Hoceïma, Taounate, Guercif, and Taza), which are further divided into 29 urban and 216 rural districts. APDN was created in 1996 at the urging of (and with assistance from) the European Union, as a regional body to coordinate development activities and funding for that part of Morocco, including halting illegal ones (smuggling contraband, narcotics, immigration, etc.). APDN's focus is on five main areas: opening up the North to development, education, electricity, water, and health. In addition to channeling funding and carrying out or commissioning studies, it assists local communities in preparing their own development plans, seeks to address intra-regional disparities and ensure inclusive development, and build local capacity for project implementation. APDN is a vital venue for ensuring dialogue and collaboration across multiple jurisdictions in northern Morocco, and a key conduit for development funding, from Moroccan as well as donor sources.

Regional Investment Center (*Centre Régional des Investissements* – CRI): CRI facilitates foreign investment into Tanger-Tétouan Region, registers new companies, and provides entrepreneurial assistance to existing firms. It is AMDI's principal local partner for administering national incentives programs, as well as providing traditional site selection services to foreign investors. Just like AMDI nationally, CRI makes sure that certain criteria are met in order to qualify for incentives (in terms of capital investment, job creation, and the nature/technological level of each proposed investment). CRI provides incentives to companies in the manufacturing, services, and tourism sectors, but not in real estate or agriculture (as those sectors are aided by the departments housing and agriculture, respectively). In 2013, for example, CRI processed about 540 investment projects, a significant increase from the 450 processed the previous year. Proposed projects are reviewed and approved (or not) in consultation with the Tangier City Council and the Wali's office. CRI also provides investor aftercare services, in coordination with AMDI. Significantly, CRI does not engage in investment promotion, and is by law precluded from "poaching" or diverting investments from other Moroccan regions. Finally, CRI is responsible for registering new businesses in Tanger-Tétouan, and provides financial assistance to existing Moroccan or foreign firms already operating in the region seeking to upgrade or expand their production.

Tanger-Med Special Agency (TMSA): The Moroccan government established the Tanger-Med Special Agency in 2002, as a dedicated entity to maximize the development impact of its huge investment in a new seaport and landside infrastructure. TMSA is an umbrella organization bringing together the Tanger-Med Port Authority with an "integrated industrial platform" consisting of multiple free trade and logistics zones throughout northern Tanger-Tétouan Region. The intent was to connect Morocco to global value chains, and to create the right conditions for international investors to want to locate in Tangier. TMSA represents the Moroccan State in all interactions pertaining to the Tanger-Med port and industrial platform, and has sweeping powers in key areas such as land acquisition and allocation. With direct access to senior national decision-makers in Rabat, TMSA has also served as an important transmission channel for articulating local needs to the national government. As a leading regional economic development agency, TMSA brings together various actors involved in trade, investment attraction, workforce development, and regional decision-making, many of which have representation on TMSA's Board. Given all this, TMSA and its subsidiaries have played a pivotal role in Tangier's economic success over the past decade.

Tanger-Med Port Authority (TMPA): The Tanger-Med Port Authority (TMPA) is a subsidiary of TMSA, responsible for the construction and maintenance of the port's infrastructure, development of the broader port complex, and the overall international promotion of Tanger-Med. In coordination with TMSA, TMPA also undertakes long-term planning for the port's expansion, as well as of its landside access. Tangier is the only major Moroccan port to have its own port authority, rather than be managed by the national ports agency, Marsa Maroc. Originally much of the port's

212 Development of the seminal *Tanger Metropole* plan was led by the city government, for example, in consultation with other pertinent government agencies and key stakeholder/civil society groups. It provides an integrated approach to infrastructure, environmental conservation, urban regeneration and redevelopment, tourism, education, health, sports, and various other local priorities for Tangier, including some that directly pertain to economic development and job creation. Enacted in 2013 and with implementation slated to be completed by 2017, however, it falls outside the immediate time scope of this case study and will not be examined in detail in this report.

traffic consisted of the transshipment of containers, but now the export and import of goods from and into Morocco are gaining in importance as a share of the port's total business volume, especially since the opening of Renault's factory at Melloussa. TMPA strives to ensure the port complex's seamless operational integration with the other elements of the Tanger-Med industrial platform, a function that will only gain in importance as the port expands further to overtake nearby Algeciras, Spain, in total container capacity.

Tanger Free Zone (TFZ): Like TMPA, the Tanger Free Zone Company is a TMSA subsidiary, operating the six facilities that make up the Tanger-Med industrial platform, on some 3,000 hectares of land zoned for industrial use. The company is 51% owned by TMSA, while the remaining 49% of its shares are held by institutional investors in the private-sector – primarily banks, pension funds, and insurance companies, both Moroccan and foreign. The Tangier Free Zone (TFZ) itself is just one of the six industrial or free zones in Tanger-Tétouan Region operated by this holding company. TFZ's creation actually predates the establishment of TMSA and the new seaport: the legal framework for a Tanger Free Zone was put in place back in 1995. TFZ was officially established in 1999 as a one-stop shop for investors, and welcomed its first industrial tenant in 2000. TFZ offers a range of incentives and fiscal exemptions typically found at zones designated for export-oriented production. Located very close to Tangier's Ibn Battouta Airport, TFZ today employs nearly 50,000 workers at more than 500 companies, which have to date invested more than US$2.6 billion into local production facilities. The vast majority of them are in four sectors: automotive, aerospace, agribusiness, and textiles (especially fast fashion). Officials interviewed at the facility cite its strategic geographic location, quality infrastructure, and favorable business environment as the top reasons for TFZ's success to date. Its management employs standard economic development research and recruitment techniques to identify potential investment leads, and to bring those companies to TFZ to set up or expand operations.

Tangier Industrial Zone Association (*Association de la Zone Industrielle de Tanger* – AZIT): Operational since 1990, AZIT is Tangier's oldest industrial zone, and still one of its most successful. Originally set up as a way of coping with the risks of factory facilities being located in a floodplain outside the city center, AZIT's role has evolved to include facilities management (e.g. utilities, industrial waste collection/disposal, and of course flood control), emergency services (health, police, fire protection), human resources (e.g. training for operations and maintenance of machines), and advocacy on behalf of industrial firms, often in collaboration with CGEM and other partners. Legally, AZIT is a non-profit association in which firms own the land, but contribute financially and have differing numbers of votes based on the surface area each of them occupies (i.e. smaller firms pay less, larger ones more and get a greater say in governance). AZIT's General Assembly meets every year to discuss key issues, and elects its governing committee (Bureau) every three years. While there is no formal consultative mechanism with government, meetings are held on an ad-hoc basis whenever needed, and relations with the Wali and other key officials are very good. In the recent past, AZIT has sought and obtained those officials' help with addressing specific problems like dealing with Customs or individual ministries in Rabat. Presently, there are 116 firms operating in AZIT, employing approximately 30,000 workers, with a particular concentration in the textile/leather, chemicals, agribusiness, optics, and construction materials sectors. The zone is oversubscribed, meaning that more firms would like space there if it were available; however, there is no additional space available for further growth.

Port Redevelopment Agency (*Société d'Aménagement pour la Reconversion de la Zone Portuaire de Tanger* – SAPT): Established as a public-private partnership and sister agency to TMSA, SAPT serves as the lead entity tasked with the transformation of the city's waterfront following the relocation of cargo and most passenger ferry services to nearby Tanger-Med. SAPT's Board includes all the main actors involved in this project: the Ministry of Economy and Finance, the Hassan II Fund, APDN, the Wilaya, Tangier City Council, and so on. SAPT has a contractual relationship with other entities involved in the project (such as road construction firms), committing to who will do what by when. As noted earlier, the project to redevelop and repurpose the old port in the Bay of Tangiers from an industrial quasi-wasteland into a tourist attraction is neither a simple nor inexpensive one, but is now seen by the majority of stakeholders as vital to Tangier's economic future, and is proceeding ahead of schedule and within budget. It entailed moving the companies located in the old free zone at the port to TFZ; a special task force was created at SAPT to support those firms in the administrative and logistics process. SAPT played a key role in ensuring stakeholder buy-in for the project, particularly from some relatively small but socially and politically important constituencies like fishermen. SAPT officials cite as the key success factor for their project: "Do consultations, make promises, and make the promises come true to restore people's confidence in the public officials."

Chamber of Commerce, Industry, and Services (CCIS): In Morocco, chambers are quasi-public institutions, funded by a 0.1% "professional tax" levied on businesses locally, which is then funneled back to Tangier's CCIS by the national Ministry of Finance. CCIS performs multiple functions, some of which are directly related to Tangier's economic development:

- ***Promotion*** of Tangier as a business location, including preparing and disseminating informational materials, organizing events and missions (inbound and outbound), facilitating joint ventures, and fostering other linkages with partner entities abroad.

- ***Entrepreneurial support*** to Tangier firms, including but not limited to capacity building (for production, exporting, etc.), professional development and training, assistance with administrative procedures and compliance (e.g. business taxes, certificates of origin, etc.).

- ***Member services***, including advocacy and intermediation vis-à-vis government agencies, conciliation and arbitration in commercial disputes, and provision of market information.

CCIS works very closely with the Wilaya, the Tangier Mayor's office, and national agencies on measures to improve the overall business climate (e.g. by simplifying administrative procedures), assist corporate relocations within the region due to changing zoning regulations (e.g. moving polluting factories and slaughterhouses outside the urban core and areas designated for tourism development), and various other initiatives directly affecting its members.

General Confederation of Moroccan Enterprises (*Confédération Générale des Entreprises du Maroc* – CGEM): CGEM is a nationwide private membership organization dedicated to furthering the interests of Moroccan business and creating a prosperous economy through private-sector initiative. CGEM's local chapter, CGEM Nord, covers the regions of Tanger-Tétouan and Taza-Al Hoceïma-Taounate, and has approximately 150 members, most of whom are in the following sectors: automotive, aerospace, logistics, textiles and leather, and agribusiness. In addition to advocating on behalf of business interests and promoting cooperation among different entities involved in the region's development, CGEM Nord commissions specialized studies (e.g. on workforce needs in targeted industries), facilitates the attraction of foreign investment, assists local member companies in improving their business processes and upgrading technologies, provides input into Maroc Export's program design at the national level, and organizes seminars and learning events for members (e.g. on economic, social, legal, and tax topics). Examples of recent accomplishments include: creation of a "Regional Center for the Business Environment" in collaboration with CRI, focused on improving local administrative procedures; agreement to keep the port open 24 hours per day; separation of export and import flows inside the port; creation of MEADs (*magasins et aires de dédouanement*), as areas with expedited port and customs procedures, reducing goods' time to market; and enabling Moroccan firms to pay each other in dirhams, instead of euros, inside TFZ. CGEM leaders regularly meet with the Wali and other public-sector representatives every month. However, there are now fewer such meetings than before, indicative of there being fewer problems to jointly address!

Abdelmalek Essaâdi University (UAE): The region's only major public university was formed in 1989 through the merger or two prior educational facilities in Tangier and Tétouan, centered on the liberal arts and science & technology. To this day, UAE has had a strong – and increasing – focus on providing "professional" educations which aim to prepare graduates for jobs, rather than just advancing knowledge for its own sake. Since the global great recession, Moroccan universities as a whole have been moving in this direction, emphasizing tangible skills to facilitate graduates' employability. For example, national legislation has since 2008 mandated that IT, foreign language, and entrepreneurship modules be integrated into all university programs. Currently UAE has about 60,000 enrolled students, half of whom are in Tanger itself, and the remainder in the Tétouan area. With more than 800 professors, UAE's main areas of instruction include: science & technology; law & economics; business; engineering; languages; and medicine & pharmacology. It is governed by a University Council, consisting of senior university faculty (UAE president, deans, professors), the president of the Regional Council of Tanger-Tétouan, representatives of CGEM and CCIS, seven representatives of "productive sectors" (i.e. private for-profit firms), and three other external appointees. Membership of the Council's thematic working groups is flexible, and varies according to the topic being addressed. Crucially, private-sector employers are now able to provide more feedback in curriculum design.

In terms of "core" economic development activities, UAE is prioritizing ever-closer links with private industry and labor market intermediaries like ANAPEC. University-based research and technology commercialization are not yet highly developed in Morocco, and the universities continue to lack sufficient financial autonomy in this, but there has been gradual progress in making commercializing research easier. UAE has 15 patents pending, and hopes to get more companies interested in its R&D capabilities. Informally, there already are some relationships between university professors and Tangier's for-profit firms, who occasionally hire the university to conduct tests on materials, and similar activities at its research labs. UAE leadership envisage an increasing role for it in Tangier's industry cluster development, closely aligned with Morocco's national cluster development strategies. Already, the university is home to four "competency centers" (i.e. centers of excellence) directly relevant to those clusters: renewable energy, electronics and telecommunications, marine sciences, and logistics. All of them provide strong impetus to the development of specialized know-how in the region, and clearly aid targeted cluster growth. UAE has a technology incubator in Tétouan (though not yet one in Tangier), as well as a women's business incubator, created in 2013 in partnership with AFEM (the Moroccan association of women business leaders), which is already yielding results in terms of building entrepreneurial capacity and creating employment opportunities. Finally, the university has enthusiastically embraced internationalization, adopting the EU's Bologna degree system, and participating in the Erasmus and Tempus programs. It has partnerships with educational institutions in many different countries, and its faculty speak multiple languages.

Analysis

Factors of Competitiveness

Factor 1: Conducive national policy context and support mechanisms: The broader Moroccan economy has made tremendous strides over the past few years, including substantive measures to liberalize the economy, remove barriers to external trade and investment, and enable Moroccan firms' closer integration into global supply chains. Specifically:

- **Macroeconomic stability and performance**, with fairly consistent national GDP growth, exchange rate and price stability, formal job creation, and poverty reduction.
- **General business climate improvements**, reflected in Morocco's steadily improving performance in annual *Doing Business* and similar rankings.
- **Opening up** various sectors of the economy to competition and market dynamics, including privatizing some large previously state-owned monopolies.
- Greater **openness to the world economy**, including through numerous bilateral and multilateral free trade treaties and open skies agreements, and the attraction of FDI
- Some **devolution of decision-making** for economic development to the regional and local levels, and the instituting of effective **feedback mechanisms** for alerting national decision-makers to local issues and needs.
- National **sectoral development policies**, putting in place incentives and mechanisms to promote the rapid growth of industries targeted for proactive economic development efforts. Although these policies were national in scope, their practical operationalization has strong geographic implications.
- Instituting highly effective national **support tools** (e.g. investment incentives, workforce training programs, export assistance) available to firms at the local level.

Factor 2: Strategic national focus on northern Morocco: Besides nationwide policies to improve the business climate, prioritize specific industry sectors, and accelerate economic growth, the Moroccan government has made development of the country's northern areas a key priority. Examples include:

- Unprecedented **investment in physical infrastructure** to better integrate the north with the rest of the country, and to facilitate international commerce and travel.
- **Responsiveness to local needs and concerns**, articulated through multiple public- and private-sector channels.
- **Funding a variety of local initiatives**, from the environmental cleanup and urban redevelopment to the restauration of historic sites and cultural events.
- **Marketing and promotion** of northern Morocco as a business location and tourist destination, particularly in EU countries.
- **Attraction of catalyst investments**, such as the Renault plant just outside Tangier, including the active participation of all national actors in making it happen.
- **Encouragement of cross-border cooperation** between Moroccan cities/regions and those just across the Strait in Europe.

Factor 3: Significant local capacity to further the city's and region's economic development, including:

- High levels of **stakeholder engagement** through consultation, participation, and building up of social capital and trust as enablers of results on the ground.
- Proven ability of various local actors (city, region, private sector, university) and the local representatives of national entities to **work together** to set and achieve shared goals.
- Ability and willingness to **articulate** Tangier's needs to national decision-makers, and to **advocate** on behalf of the city.
- Skillfully **taking advantage of national initiatives** to foster local job creation.
- Making good **use of national support mechanisms**, such as financial incentives, export assistance, and workforce development and training programs.
- **Capitalizing on external growth opportunities** and global trends to attract trade and investment.
- **Knowledge** of products, markets, and "how business is done" worldwide.
- **Flexibility** and responsiveness to investors' needs, including a demonstrated readiness to engage with them to address their specific concerns.
- Proactive initiation of global ties, and use of **internationalization** as a deliberate economic development strategy (inbound and outbound missions, cultural exchange, language instruction, etc.).

Factor 4: Geographic, historical, and cultural advantages, which have greatly facilitated Tangier's recent economic success:

- Tangier's strategic **geographic location** at the crossroads of major global shipping routes, and its proximity to business partners and markets in the European Union.
- A highly **attractive geographic setting** (mountains, beaches, pristine ecosystems, temperate Mediterranean climate).
- A **rich cultural heritage** favoring the development of tourism.
- **Place-making**: targeted efforts to improve the city's livability for residents and attractiveness to visitors and investors.
- Tangier's history and tradition of **multiculturalism**, diversity, tolerance, and multilingualism: in part due to its long history of global engagement, Tangier has a reputation as an exceptionally open-minded place. Local residents are able to function in multiple languages, and making conscious efforts to learn additional ones.
- **Political stability and security**: Morocco is an oasis of stability in a sometimes turbulent region, and Tangier is safer than many comparably-sized cities. Foreigners are made to feel welcome.

Factor 5: A relatively diversified economic base: Even before the national government initiated the massive infrastructure investments which would end up having a truly transformative effect, Tangier already had a fairly diversified metropolitan economy, albeit with a strong manufacturing focus. Local production spanned sectors as varied as machinery, metal works, chemicals, apparel and leather goods, handcrafts, and food processing, plus fishing and some tourism. Construction and real estate have also traditionally been important in this coastal city. All this meant that Tanger companies had at least a basic level of manufacturing know-how to later become suppliers to major foreign investors like Renault. The new opportunities brought about by the completion of the port of Tanger-Med enabled local firms to become better integrated into global value chains, upgrading their technologies and workforce skills. Significantly, this process enabled growth in new, higher value-added industry segments like automotive and aerospace, gradually transforming the sectoral mix of local manufacturing firms.

Factor 6: Workforce skills and talent formation: Having workers with the appropriate skills sets, or the ability to quickly attain them, has been an important factor in Tangier's ability to attract outside firms, particularly foreign ones. Two elements stand out in particular:

- Generally adequate levels of **human capital** at highly competitive wage levels across a range of industries (automotive and aerospace components, garments, medical supplies, construction materials).
- Successful **labor market intermediation** through the national workforce agency ANAPEC, and its highly effective collaboration with employers, the local university, and training providers (e.g. OFPPT) to design, fund, and implement both general and customized workforce training programs.

Factor 7: Bottom-line business advantages: Besides competitive wage levels, Morocco in general and Tangier in particular offer some compelling locational advantages to firms in several industries. The overall cost of doing business is highly competitive, and the business climate much improved in recent years, in everything from tax treatment to regulation. There is ample availability of industrially-serviced land, allocated either for free, or on highly favorable terms. Power (including from renewable sources) is abundant, logistics capabilities have dramatically improved, and Morocco's free trade agreements with many countries enable duty-free market access. While wage levels are higher than in "low-cost" producers like Vietnam or Bangladesh, the technological sophistication of local firms and the quality of Morocco's workforce make it a logical nearshoring location for European markets in particular. Given its location right across the Strait from Europe, Tangier has been able to attract firms needing quick turnaround times, either as direct investors, or in supplier relationships.[213]

Lessons for Other Cities

Tangier's economic success has been enabled by favorable external developments, especially the Moroccan government's decision to prioritize the development of the country's northern regions. Yet local actors skillfully seized the opportunities this offered, improving both the quantity and quality of economic growth. While some aspects of Tangier's experience are quite unique, it does still hold some "teachable moments" for other cities. Key learnings include:

1. **Recognize a unique major opportunity when it presents itself, and take advantage of it:** This may sound like an obvious thing to do, but recent economic development history is littered with examples of once-in-a-lifetime opportunities which were squandered due to unrealistic expectations, failure to take appropriate actions or follow through, and not seizing the initiative under highly favorable circumstances. Tangier's leaders correctly understood that the establishment of the

213 In some ways, Morocco's role vis-à-vis the EU market resembles that of Mexico relative to the US. Tangier is geographically and linguistically perfectly positioned to take advantage of the opportunities this presents.

Port of Tanger-Med and the massive investments accompanying it would offer a unique chance to put the city on the map of international business in previously unimaginable ways, and in the process to remake the city's economy and greatly enhance its residents' prosperity. Operational plans were made and adhered to, partnerships forged, mutual suspicions and egos set aside, and an inordinate amount of effort put into jointly promoting the city as a business and tourist destination.

2. **Follow global business trends, understand their local implications, prioritize among business prospects, and create a compelling value proposition for each audience:** With the advent of Tanger-Med, the city and its leaders could easily have jumped onto any number of fads so common in the world of economic development, chasing after whatever industry or segment may be in vogue at the moment. Instead, by employing robust analytics to identify specific business prospects, then tailoring its marketing message to specific audiences, Tangier has been able to attract the attention of investors and visitors alike. Like Morocco as a whole, Tangier has prioritized sectors where it believes it has a competitive advantage, then sought to attract and help grow firms in those industries. The city and its region have relied on available national support tools, and also enlisted the participation of local government and business leaders to help raise the city's international visibility.

3. **Help existing businesses and workers adapt and integrate into the global division of labor and industry value chains, through improved technology and skills:** Even before Tanger-Med, companies and workers in Tangier had a solid level of industrial know-how, in some ways fairly typical of a middle-income economy. This made them suitable candidates to become suppliers to the multinationals, and to staff their new local factories – but with some degree of upgrading of skills and technologies. Tangier's economic development leaders worked with private-sector firms, aided by CGEM and the Chamber, to upgrade local firms' technological capabilities and industrial processes so they could become Tier-2 and eventually even Tier-1 automotive and aerospace suppliers, for example. Meanwhile, the national workforce agency, ANAPEC, worked with employers to identify specific skills gaps, then establish structured curricula or customized training programs to address them. These and similar interventions have literally brought Tangiers into the global economy.

4. **Pursue internationalization as a deliberate economic development strategy:** It has become rather fashionable for cities to "go international", their mayors globetrotting in search of trade and investment opportunities. But beyond the intercontinental handshakes and gift exchanges, translating such initiatives into tangible commercial partnerships has been quite limited. Tangier has been successful in such endeavors for the following principal reasons:

    a. A longtime tradition of being an "international" city, embracing different cultures, languages, and tolerating diversity;

    b. Tangier's geography at the crossroads of trade routes, making it a natural gateway and commercial entrepôt;

    c. Infrastructure, both physical (TFZs, seaports, airport, hotels, fiber optics, electric grids, pipelines) and "soft" (foreign consulates, banks, cultural institutions, human linkages) necessary for international commerce;

    d. An existing concentration of international companies from various countries;

    e. A critical mass in some industries (e.g. automotive, aerospace, fast fashion, biomedical equipment, tourism), making it a credible partner for foreign firms;

    f. Supportive, active local and regional leadership committed to internationalization.

5. **Nurture productive public-private dialogue and collaborative relationships between government, academia, and the private sector; to build up mutual trust and willingness to collaborate, go for attainable but visible early wins:** This is a perennial theme in local economic development, and can often be THE deciding factor of whether strategies are successfully implemented and results achieved. In Tangier's case, stakeholder involvement occurred early in the process – basically, as the national government's decision to prioritize the North's development was rolled out, various local actors from the public and private sector were invited to participate in operationalizing what this means on the ground, identifying the issues that matter most to them and to provide suggestions on addressing them. The business community's and citizens' input was solicited, stakeholder buy-in ensured, and relations of trust and collaboration forged. After years of apparent neglect, government leaders were able to establish credibility and gain the trust of small business owners, for example, by addressing some of their most pressing needs like wastewater treatment and adequate electrical capacity. This process was by no means linear or easy. It took much proactive effort on behalf of local government and business leaders in particular to work together for the betterment of their community as a whole.

Appendices

Basic Demographic and Economic Data

Table 1: Key Macroeconomic Indicators

	Actual			Est.	Proj.			
	2011	2012	2013	2014	2015	2016	2017	2018
Real economy	Annual percentage change, unless otherwise indicated							
GDP (nominal–local currency)	5.0	3.1	5.5	5.3	6.9	7.2	7.3	7.3
Real GDP	5.0	2.7	4.4	3.0	4.6	4.8	4.9	5.0
Per Capita GDP	3.8	1.6	3.3	1.9	3.5	3.7	3.9	4.0
Contributions:								
Consumption	5.0	3.6	2.9	2.2	2.5	2.8	2.8	2.7
Investment	1.4	-1.1	-0.1	0.8	1.2	1.6	1.6	1.7
Net exports	-1.5	0.1	1.6	-0.1	0.9	0.4	0.5	0.6
Imports	5.0	1.7	-1.5	4.5	5.0	5.1	5.2	5.2
Exports	2.1	2.6	2.4	6.2	9.5	8.0	8.2	8.3
Unemployment rate (ILO definition)	8.9	9.0	9.2	10.0	...	...	...	...
GDP deflator	0.1	0.4	1.0	2.3	2.2	2.2	2.2	2.2
CPI (pa)	0.9	1.3	1.9	1.5	2.5	2.2	2.3	2.4
Fiscal Accounts	Percent of GDP, unless otherwise indicated							
Expenditures	33.1	35.0	32.1	31.6	30.8	29.9	29.2	29.0
Revenues, including all grants	26.4	27.6	26.6	26.7	26.5	26.3	26.2	26.0
Budget Balance	-6.7	-7.4	-5.5	-4.9	-4.3	-3.6	-3.0	-2.9
Central Government Debt	53.7	59.7	63.5	65.0	64.9	64.0	62.5	61.0
Selected Monetary Accounts	Annual percentage change, unless otherwise indicated							
Base Money	6.4	4.5	3.1	6.9	7.4	7.3	7.4	7.5
Credit to non-government	10.4	5.1	3.5	4.4	5.5	5.5	6.9	7.1
Interest (key policy interest rate)	3.25	3.25	3.00	2.50	...	...	...	...
Balance of payments	Percent of GDP, unless otherwise indicated							
Current Account Balance	-8.0	-9.7	-7.6	-6.7	-5.8	-5.1	-4.5	-3.8
Imports	49.9	51.5	48.1	45.7	45.8	45.6	45.5	45.4
Exports	35.8	36.1	33.8	32.8	34.0	34.9	35.8	36.7
Foreign Direct Investment, net	2.4	2.8	2.9	2.7	2.7	2.6	2.6	2.6
Net reserves in US$, bln (eop)	20.3	17.2	18.4	20.0	21.4	23.3	24.3	25.8
In months of next year's imports	4.9	4.1	4.3	4.4	4.5	4.6	4.5	4.5
As % of short-term external debt	2.4	2.0	2.1	2.3	2.5	2.7	2.8	3.0
External Debt	26.3	30.9	32.6	34.0	35.8	36.5	36.0	35.8
Terms of Trade, change in %	4.1	-13.1	-15.8	-0.4	-1.1	-0.2	-0.5	-0.5
Exchange rate (average)	8.09	8.628	8.40	8.15	...	...	...	...
Other memo items								
GDP, nominal MAD, bln	802.6	827.5	872.8	918.9	982.1	1,052.4	1,128.9	1,211.8
GDP, nominal US$, bln	99.2	95.9	103.9	112.8	...	...	...	...

Source : Morocco's Government and staff estimates and projections

Morocco's International Merchandise Trade

Morocco's Total Trade

Rank	HS Code	Commodity	2007	2008	2009	2010	2011	2012	% change 2011-12
		Total Trade	**46,257,737,267**	**62,627,661,227**	**46,950,989,823**	**53,143,673,256**	**65,912,871,561**	**66,206,965,988**	**0.4**

Top Moroccan Exports

Rank	HS Code	Commodity	2007	2008	2009	2010	2011	2012	% change 2011-12
		Total	**14,607,345,603**	**20,305,697,979**	**14,068,939,695**	**17,764,791,387**	**21,649,934,076**	**21,417,184,362**	**-1,1**
1	85	Electrical Machinery and Parts	2,090,050,417	2,530,708,534	2,004,497,760	2,632,490,784	3,172,823,856	2,834,799,027	-10.7
2	31	Fertilizers	869,601,599	1,427,289,276	699,709,227	1,561,944,751	2,317,995,172	2,416,815,298	4.3
3	62	Apparel Articles and Accessories, Not Knit	2,518,027,805	2,509,509,115	2,242,953,402	2,142,621,955	2,280,071,538	2,256,836,754	-1.0
4	25	Salt; Sulfur, Earth & Stone; Lime & Cement Plaster	794,275,089	2,402,301,839	638,854,478	1,173,944,490	1,699,373,970	1,739,410,317	2.4
5	28	Inorg Chem; Prec & Rare-Earth Met & Radioact Compd	1,102,683,787	2,999,373,601	1,021,930,339	1,663,483,382	2,147,923,635	1,676,182,097	-22.0
6	27	Mineral Fuel, Oil; Bitumin Subst; Mineral Wax	557,149,945	850,126,847	503,893,142	588,117,757	939,921,986	1,234,594,124	31.4
7	87	Motor Vehicles and Parts	160,983,086	203,241,342	224,292,087	245,345,889	426,211,960	990,949,125	132.5
8	61	Apparel Articles and Accessories; Knit or Crochet	962,855,905	868,190,866	804,212,456	828,150,754	957,859,768	932,403,040	-2.7
9	03	Fish, Crustaceans & Aquatic Invertebrates	837,101,083	996,830,707	805,232,357	768,140,754	893,278,291	907,526,976	1.6
10	07	Edible Vegetables & Certain Roots & Tubers	458,504,900	554,989,701	592,918,825	600,857,103	741,086,537	672,1973513	-9.3
11	16	Edible Preparations of Mean, Fish, Crustaceans	488,272,283	611,989,701	634,759,734	614,196,497	535,617,514	671,559,450	23.1
12	08	Edible Fruit & Nuts; Citrus Fruit or Melon Peel	457,518,918	651,691,002	516,330,570	575,177,881	743,440,424	601,504,267	-19.1
13	64	Footwear, Gaiters and Parts Thereof	338,731,584	363,660,455	357,291,545	351,855,511	382,633,474	307,307,334	-19.7
14	88	Aircraft, Spacecraft, and Parts Thereof	31,578,746	72,078,583	147,655,819	207,862,673	219,868,548	296,311,768	34.8
15	71	Natural Pearls, Precious Stones and Metals; Coins	106,498,766	138,055,331	155,399,168	373,015,311	351,682,107	274,997,088	-21.8
16	84	Industrial Machinery, Including Computers	128,599,470	152,849,453	196,872,482	237,047,348	249,838,084	246,937,135	-1.2
17	63	Textile Art Nesoi; Needlecract Sets; Worn Text Art	43,281,490	44,537,066	122,755,973	224,808,179	271,124,635	240,933,438	-11.1
18	26	Ores, Slad and Ash	201,286,031	156,810,295	149,123,928	210,709,077	221,488,493	240,614,494	8.6
19	74	Copper and Articles Thereof	137,066,367	138,777,792	114,116,076	230,520,479	405,998,565	231,269,897	-43.0
20	20	Prep Vegetables, Fruit, Nuts or Other Plant Parts	159,833,408	218,792,532	194,393,747	199,168,666	203,387,920	188,971,555	-7.1

Moroccan Imports

Rank	HS Code	Commodity	2007	2008	2009	2010	2011	2012	% change 2011-12
		Total	**31,650,391,664**	**42,321,963,248**	**32,882,050,128**	**35,378,881,869**	**44,262,937,485**	**44,789,781,626**	**1.2**
1	27	Mineral Fuel, Oil; Bitum Subst; Mineral Wax	6,328,335,832	9,441,624,701	6,745,220,670	8,133,360,204	11,179,793,974	12,356,543,727	10.5
2	84	Industrial Machinery, Including Computers	3,299,362,348	4,632,941,211	4,020,294,631	3,816,352,051	4,095,689,577	4,113,120,858	0.4
3	87	Motor Vehicles and Parts	2,206, 476,494	3,111,550,194	2,704,980,348	2,800,719,843	2,753,524,077	3,317,029,467	20.5
4	85	Electric Machinery and Parts	3,136,349,877	3,479,311,912	2,791,594,288	2,963,324,975	3,468,141,398	2,894,491,222	-16,5
5	10	Cereals	1,730,393,491	2,258,198,662	1,109,432,749	1,408,250,509	2,141,688,042	2,221,803,869	3.7
6	39	Plastics and Articles Thereof	1,222,503,470	1,359,627,094	1,141,938,373	1,257,057,849	1,620,915,817	1,667,257,567	2.9
7	72	Iron and Steal	1,396,643,233	2,181,294,546	1,207,907,961	1,180,404,839	1,582,973,360	1,413,450,026	-10.7
8	25	Salt; Sulfur; EArth & Stone; Lime & Cement Plaster	427,525,930	1,730,672,087	259,049,531	452,346,086	898,837,032	909,913,298	1.2
9	73	Articles of Iron or Steel	538,829,764	772,523,020	593,562,821	587,191,390	760,544,021	847,025,526	11.4
10	48	Paper & Paperboard & Articles (Inc Papr Pulp Artl)	431,937,860	529,282,598	507,545,912	545,136,273	675,477,467	661,204,898	-2.1
11	28	Inorg Chem; Prec & Rare-Earth Met & Radioact Compd	274,452,361	408,883,556	290,917,588	406,506,945	643,564,634	640,987,013	-0.4
12	15	Animal or Vegetable Fats, Oils & Waxes	397,404,983	618,047,176	470,066,322	452,713,947	687,106,726	632,909,681	-7.9
13	52	Cotton, Including Yarn And Woven Fabric Thereof	792,767,278	774,400,398	568,893,818	623,805,435	756,301,272	622,329,660	-17.7
14	55	Manmade Staple Fibers, Incl Yarns & Woven Fabrics	476,146,867	518,088,517	445,539,902	457,096,090	601,751,236	616,330,765	2.4
15	19	Sugars and Sugar Confectionary	249,375,767	299,098,961	435,983,334	401,058,005	606,884,754	603,019,913	-0.6
16	23	Food Industry Residues & WAste; Prep Animal Feed	255,945,775	355,349,756	245,138,316	390,918,090	530,513,379	601,136,752	13.3
17	44	Wood and Articles of Wood; Wood Charcoal	531,009,463	579,275,235	478,418,600	498,924,445	577,599,455	527,923,158	-8.6
18	29	Organic Chemicals	435,302,491	465,730,442	389,582,241	449,977,880	511,870,308	494,443,484	-3.4
19	30	Pharmaceutical Products	320,297,454	386,621,222	470,635,945	502,813,907	567,806,790	494,201,279	-13.0
20	74	Copper and Articles Thereof	366,340,704	376,185,396	284,152,345	360,729,987	485,729,961	447,819,837	-7.8

Source: www.wisetrade.org, data from UN Comtrade

Testing of Standardized Research Hypotheses

As noted in the report's Introduction, this is the sixth and last in a series of case studies of economically successful cities around the world. In order to ensure comparability of "teachable moments" across all case studies, a set of standardized research hypotheses was tested in Tangier to determine the exact scope for action at the metropolitan level, factors that may have most affected how those prerogatives were used, and the extent to which specific interventions (and how they were implemented) may have resulted in the economic outcomes observed.

The first hypothesis tested seeks to determine to what extent Tangier's economic results were attributable to proactively picking sectors to support, the second one looks at the strategic planning process itself (if any) and how it may have affected economic growth, and the third one looks at the plan's implementation, if applicable.

1. ***Tangier's economic success is largely attributable to key national actors having made strategic bets on specific industrial initiatives, and their successful local implementation, rather than just making improvements to Morocco's general investment climate in order to stimulate economic activity.*** Ongoing national and local-level improvements to the business climate have facilitated the achievement of superior economic outcomes, but proactive initiatives on the part of the national government have contributed much to Tangier's success – in particular, the construction of a brand new mega-port close to the city, as well as accompanying landside infrastructure and an integrated system of multiple free trade and industrial zones.

   Tangier has benefitted from a favorable and improving national business climate, Morocco's increasing openness to external trade and investment (particularly through multiple free trade agreements), greater market competition, upgraded municipal infrastructure, improving educational outcomes, and dramatically better transport connections, domestic as well as international. Tangier's regional and municipal governments have coordinated the local implementation of national sector strategies, in collaboration with stakeholder groups like business membership organizations, private-sector partners, and universities, while also ensuring the provision of critical infrastructure and political support for economic development and job creation in particular.

   In Tangier's case, proactive economic development initiatives clearly and directly contributed to the city's economic success. They were undertaken by an informal coalition of national government, regional/local public agencies, and private-sector actors and their associations.

   Ingredients of success:

   a. As an economically successful city, Tangier has **two dominant themes**: (i) leveraging its new port to attract investment and create jobs; and, (ii) the successful implementation and localization of national sector development strategies.

   b. Tangier's proactive economic development efforts have been overwhelmingly focused on growing industries producing **tradable goods and services**, including auto assembly and automotive parts, aerospace, agribusiness and seafood production, garments and leather, transportation and logistics, and tourism.

   c. In its proactive economic development activities, Tangier has to some extent pursued a **three-pronged approach** to business development: nurturing the growth of existing firms, fostering the establishment of new start-up companies, and striving to attract new outside investment. Of the three pillars, the attraction of outside investors has been by far the most visible and impactful, followed by assistance to existing local companies to scale up their production, acquire new know-how and upgrade technologies, and to integrate into global supply chains, in particular by becoming suppliers to foreign investors with operations in the city or its immediate surroundings. Formation of new businesses has seen an uptick recently, but remains by far the smallest of the three pillars.

2. ***The likely trajectory of Tangier's economic performance was dramatically altered by a single policy intervention, the central government's decision to build a new seaport. The city did not have its own strategic plan for economic development, but key local actors successfully implemented national sector strategies.*** Tangier's principal private-sector actors (the Chamber of Commerce, General Confederation of Moroccan Enterprises, and industry associations) closely cooperated with government agencies on implementing national economic development plans. Separate planning documents were established for the development of the two regions of northern Morocco covered by APDN, but their scope is broader than just economic development and jobs, and includes broader social development.

   Tangier's economic development-related activities have included:

a. **Robust analytics** to guide national sector strategy formulation, based on realistic assessments of Morocco's competitive position, and knowledge of global business trends. At the local level, the region's main investment promotion entity (TMSA) also used state-of-the art market analyses to identify potential investment leads, market the Tanger-Med "integrated industrial platform" to them, and follow up with other site selection services.

b. **A structured or formal planning process** to:

- identify key economic development **issues** facing the Tangier-Tétouan Region, such as inadequate infrastructure and connectivity, workforce skills gaps, lack of access to finance, technological obsolescence in certain industry segments, and administrative impediments to business formation and growth. Through regular meetings between the Wilaya, the Mayor's office, other public agencies, and industry associations and chambers, potential coordination failures were overcome, and stakeholder buy-in for important initiatives ensured.

- identify the city's main **competitive strengths**, such as favorable geographic location, competitive business costs, existing expertise in selected industry segments, political stability and security, and enormous tourism development potential.

- formulate a **vision** of progress that Tangier can make, including specific measures to address its challenges and to capitalize on its competitive strengths. There are various planning documents at the national level, while the city's own vision document, Tanger Metropole, was published in 2013, just outside the time period covered by this case study (2002-2012).

c. **Tanger-Tétouan assembled an informal "growth coalition"** at the regional level, bringing together representatives of public-sector agencies, private-sector businesses and their membership organizations, Abdelmalek Essaâdi University, fishermen's groups, and other stakeholders in economic development. There is no overarching institutional mechanism for this engagement, but there are multiple channels for interaction focused on specific issues or sectors (development of workforce skills needed by aerospace firms, or payment in Moroccan dirhams instead of euros within the TFZ, for example). On the whole, there appears to be a strong sense of shared purpose among the Tangerois in wanting to see their city and region advance economically, and their leaders have shown a readiness to advocate on their city's behalf both with the national government in Rabat, and on the broader international stage.

d. **Strategic decision-making and prioritization:** At the local level, Tangier did not utilize a structured process for identifying and agreeing on policy priorities, nor for evaluating trade-offs between different public investment alternatives, such as through cost-benefit analyses, with the exception of 2013's plan Tanger Metropole, but even in that case it is limited. The implementation of national sector strategies was discussed locally on an ongoing basis, but without evaluating the relative merits of supporting one sector over another.

3. ***The level of autonomy related to economic development in Tangier (the "Mayor's Wedge") was not a significant factor in the city's improved economic outcomes. Local government bodies in Morocco have a limited role in undertaking direct interventions aimed at fostering economic growth, although they do play an enabling role through the provision of municipal infrastructure and place-making (improving the quality of life for residents and visitors) , as well as through the Mayor's role as Tangier's emissary and cheerleader at international events.*** The public sector has undertaken proactive interventions to spur economic development and job creation, but this was mostly done by national agencies and their local/regional representatives, coordinated through the Wali's office.

a. Tangier has **multiple entities with economic development responsibilities, but no single dedicated local economic development agency or government department serving as its focal point.** In addition to national agencies in Rabat whose actions directly affect Tangier's development, economic development responsibilities at the local level rest with: the Wilaya (coordination and oversight of all national agencies' activities within the region); the Mayor's office (public representation and advocacy, sister city and other international liaisons, provision of municipal infrastructure); APDN (strategic planning, financing, international cooperation); TMSA (investment promotion, management of the mega-port and network of FTZs); SAPT (old port conversion and urban redevelopment); CRI (processing investment projects and administering national entrepreneurial support programs); Abdelmalek Essaâdi University (research, technology development, and talent formation); AZIT, the Chamber, CGEM, and industry associations (articulating private-sector needs and constraints to growth, partnering with national ministries in program implementation); and the Regional Tourism Council (planning and advocating on behalf of the tourism industry, capacity building).

- **Low financial and administrative autonomy**: Although the Kingdom of Morocco has been gradually moving towards a less centralized administrative and fiscal structure, in comparative terms the country is still characterized by a low level of decentralization of authority from national government to regional bodies or elected municipal entities. National plans call for greater devolution over the next few years.

- **Funding**: Municipalities in Morocco, including those in large urban areas, have relatively low municipal spending ability and limited fiscal powers. Elected officials at the city level do have some institutional scope to make and implement funding decisions, but for larger, more transformative initiatives may in practice need the agreement of the Wali, who is appointed by Morocco's King.

- A well-defined **geographical remit**: The Urban Community of Tangier is the primary urban-tier local body in the Tanger-Assilah Prefecture, but it does not have functional authority beyond Tangier's city limits. The Mayor is popularly elected to a six-year term and is the local government's chief executive. The Wali is simultaneously the Prefect of the Prefecture in which the Wilaya's seat is located, in this case Tangier.

b. **Efficient internal management**: Interview findings suggest a significant level of capacity for the Tangier government, seeming to perform well in its main functional responsibilities. While job creation as such is not a core function of the Urban Community, its leadership and staff have been strongly supportive of all pertinent economic development initiatives, and have gone beyond just what they are legally required to provide. Local governance in Morocco is still evolving, so future years will likely result in expanded scope for economic development interventions at the city level.

- **Roles**: As noted earlier, multiple entities in Tangier have some responsibility for the city's and region's economic development. While the institutional framework for economic growth and job creation is quite fragmented, in practice it appears to be working rather well, achieving the main set objectives like attracting outside investors and helping local firms' growth by integrating into global value chains. One possible explanation for why this is the case could be the existence of a shared awareness among key local decision-makers that these interventions are absolutely critical to developing the city, and pulling large numbers of Tangerois (as well as newcomers) out of poverty. But that may not be the full story.

- **Enabling environment**: Tangier's Urban Municipality and Wilaya, in collaboration with a range of national and local entities (including private-sector ones), have worked to ensure the availability of critical infrastructure needed by local businesses, and to streamline administrative and bureaucratic procedures.

- **Monitoring & evaluation**: Sector strategies are developed nationally, and include mechanisms for assessing the progress being made in their implementation. Other plans, such as those prepared by APDN and the new Tanger Metropole, also provide for some tracking of progress being made, though not necessarily in a structured and comprehensive way.

c. **Private sector and stakeholder involvement in implementation**: Tangier's recent economic success is largely the result of decisions made in Rabat, and interventions undertaken by the national government and its local representatives. Still, the Wilaya and other public-sector entities have endeavored to include diverse stakeholder groups in operationalizing national strategies at the local level, and especially in devising concrete ways in which to capitalize on the unprecedented opportunities for local and regional economic development presented by investments in physical infrastructure. Details:

- Among other channels, public-private dialogue is facilitated by CGEM through its consultative forum called the Competitiveness Commission, which brings together its members with government agencies, meeting about once a month

- Chambers and industry associations actively work to integrate local small and medium-sized businesses into multinationals' global supply chains.

- Senior corporate leaders, both at home-grown firms and those based elsewhere, act as the city's public champions and utilize their relationship capital to secure more investment and business opportunities for Tangier.

- Tangier's private-sector firms actively collaborate with the government and educational institutions to design and implement workforce development programs that correspond to industry needs.

- Trade unions do not play a prominent role in the city's economic development, but they are represented in training curriculum development at the national level through OFPPT's Board.

- There is no formal citywide growth coalition as such, but stakeholders are involved in an iterative dialogue with various tiers of government on an ongoing basis.

INTERVIEWS

Conducted by the CCKB Mission to Morocco (December 1-12, 2014)

Tangier

1. Mr. Mohamed El Yaacoubi, Wali of Tanger-Tétouan Region
2. Mr. Fouad El Omari, Mayor of Tangier
3. Mr. Ouanaya, President, Société d'aménagement pour la reconversion de la zone portuaire de Tanger Ville
4. Mr. El Hadi, Chairman of the Management Board of Tanger Med Special Agency (TMSA)
5. Mr. Tazi Riffi, General Director of Tanger Free Zone
6. Ms. Najlaa Diouri, General Director of Tanger Med
7. Mr. Rachid Houari, Director, Port Tanger Med 1
8. Mr. Hassan Abkari, Director, Tanger Med Passenger Port
9. Mr. Hartmut Goeritz, Managing Director, APM Terminals

Rabat

1. Mr. Aziz Ajbilou, Secretary General, Ministry of General Affairs
2. Mr. Benchrifa, Wali, Director-General of Local Governments (DGCL)
3. Mr. Afirhat, Governor, Direction du Patrimoine (DPAT)
4. Ms. Ibtissam Kaifouf, Head of Division of Cooperation and Partnership, Ministry of Industry, Trade and Investment.
5. Mr. Ali El Yaacoubi, Head of Market Research and Acting Investment Promotion Manager, Moroccan Investment and Development Agency (AMDI)
6. Mr. Tazi, Director of Moroccan Agency for Logistic Development (AMDL)
7. Mr. Chafiqui, Director of Research and studies, Ministry of Economy and Finances
8. Mr. ELYAZHI, MEDZ

Casablanca

1. Ms. Zahra Maafiri, Director-General, Maroc Export
2. Mr. Hassan Sentissi El Idrissi, President, Moroccan Exporters' Association of (ASMEX)
3. Mr. Ali Ghannam, President, National Tourism Council (CNT)

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Ministry of Industry, http://www.mcinet.gov.ma/Pages/default.aspx

Tanger Med Port Authority, http://www.tmpa.ma/

(Footnotes)

1 The figures and chart on this page are based on Oxford Economics Data (2013) and World Bank staff estimates (2014).

2 Figures drawn from TEPAV, 2014a.

3 The observations in this Box are the authors' interpretations of the full case study of Kayseri published in ESI, 2005.

4 "New materials" typically serve as raw materials for manufactures (e.g. steel pipes, diversified chemicals, etc.)

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