



**“Can Istanbul be as competitive as Paris in the context of regional development process? - Which lessons can be drawn?”**

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**Master of Arts in European Studies**

**By**

**Naime Hilal Özer**

**Student-Nr: s0124540**

**Matrikel-Nr: 328500**

**E-mail: [lalihozer@gmail.com](mailto:lalihozer@gmail.com)**

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## Abstract

The regions are the corner stones of the nations, especially when the economic and cultural aspect is taken into consideration due to the fact that the efficiency and effectiveness of the regions affect the nation's welfare. If the regions achieve to remain their economic stability in line with their improvement, nationally, the countries become more powerful and competitive in the global basis.

It would be improper to disdain the importance of the regions in the context of national economy. With respect to the growth in the world trade and the liberalization of the world trading system, harmonization of fiscal and monetary policies among countries has an increasing trend depending on the discipline which is enforced by the global financial markets. Therefore regions are repressed to compete in the international markets directly. If the regions are efficient in competing, the national economic performance of the countries rises. Therefore the relation between regional competitiveness, trade and national performance is significantly important in global basis.

When the European Union is considered, it can truly be said that it is giving the required significance to the regional policies in order to provide the equality between citizens and to make the regions more developed by catching up with the innovations among the world.

In this research, the key elements in the regional development and regional competitiveness process will be examined to give a clear idea about these policies by making a comparison between two regions, one from European Union (Paris) and the other from Turkey (Istanbul) which is a candidate country in the accession period. Even though Istanbul is pursuing similar regional policies in accordance with Paris, there are some cultural and systematic differences that avoid its ability to become as competitive as Paris. It is aimed to find out the regional disparities, regional development policies and the impacts of the development policies on regional competitiveness policies of these two regions and to discover the lessons that can be drawn from each regions situation.

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## Declaration of authenticity

I hereby declare that this thesis, submitted for the double degree Master's program in European Studies to the Faculty of Business, Public Administration and Technology in the University of Twente and to the Institute for Political Science in the Westfälische Wilhelms-Universität, is to my knowledge and belief of my own work. The papers, articles and researches of other people have been utilized with the proper use of citations and references. In addition, I confirm that this thesis has not been submitted to any other institution for any other degree, diploma or qualification.

Naime Hilal Özer

Enschede, July 2007

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## INTRODUCTION

European Union is such an entity that gathers the Member States under an economic and social community. At the national level there are some requirements which make a nation a Member State, can be classified as follows,

- to have a stabilized and institutionalized democracy,
- to be legal government and to be aware of the priority of the law,
- to respect the human rights, and
- to protect the minorities living in their territories

However to examine these Member States at the national level would not be sufficient to understand if they are really capable of having their power in the global platform due to the fact that power is a term that you start to gain from the lower levels and increase to the national level. If we briefly name this process as induction, to have the power at the national level, we should first consider the regional levels.

Regions are the mile stones of the nations in the way that especially economically and culturally, nations are depending on the effectiveness and efficiency of their regions. As far as the regions are successful in having their economy stable, this means a reflection of positive changes to the national level. They should also be competitive in regard to add value to the nation's welfare. If every region is competitive among a nation, then the nation's wealth can be increased to the global level.

Regional policy can be considered as the identification of the attractiveness of a region with respect to mobile factors which is associated with the production such as physical and human capital, technological innovation and highly-qualified labor.

When the regional aspect is taken into account, it is not generally adequate to give attention entirely on the stationary views of the supply of the factors that have less mobility. Besides it is important to focus on the improvement over time of that



endowment, particularly the capability of the regions to regulate that supply to the demands of structural change and globalization in a continuous way. The participation of all the regional agents is needed in order to protect a proper supply of production factors and to do all the required regulations over time. The regional policy has the ability to rise the demand of a specific region or location with respect to the creation of the essential incentives for the factors which have less mobility to regulate the changing needs of those mobile factors in a case in which the performance of economic agents pursues the model of incentives and disincentives caused by the regional and national economic policies and regulations.

We believe that without setting the right regional policies, countries can not achieve successful results at the national level. By setting all the policies at the national level would also be a wrong choice because of the fact that not all the regions are capable of applying those policies at their level. Therefore regional policies can also be thought to be the most important policies in a nation's agenda.

The policy makers are mostly facing a problem which is that regions can neither adjust nor sufficiently compensate for locational disadvantages that are national whilst they can voluntarily benefit from locational advantages which are resulting from national policies and regulations. In various issues, the extent to which the policy that is prepared at the regional level is being decreased by national locational disadvantages significantly.

In brief, the importance of the regions in the context of national economy can not be disdained. Due to the growth in the world trade and the liberalization of the world trading system, harmonization of fiscal and monetary policies among countries has an increasing trend depending on the discipline which is enforced by the global financial markets. Hence, regions are repressed to compete in the international markets directly. If the regions are efficient in competing, the national economic performance of the countries rises. Therefore the relation between regional competitiveness, trade and national performance is significantly important in global basis. The significance of educational and training measures in the context of providing technical skills, language skills and cultural outlook are promoted in order to make large, small and medium sized firms

compete efficiently in the global market.

Due to this fact, the main subject of this thesis is the importance of regional development policies and their effects on the regional competitiveness therefore the two regions will be compared against each other, one from European Union-Paris and one from Turkey-Istanbul in order to find out the significance of policy making process and sufficiency in the application of regional policies leading to competitiveness.

The purpose of this study concerns the key elements in the regional development and regional competitiveness process to give a clear idea about these policies by making a comparison between two regions, one from European Union and the other from Turkey which is a candidate country in the accession period.

Paris and Istanbul is the two of the world's well known metropolitans, mostly favored due to their cultural heritage and tourism. By this study, it is aimed to take a look at these metropolitans at the regional level. There are already EU regional policies set for Paris due to the fact that it is a region of a Member State and there are regional policies being applied for Istanbul in line with EU regional policies. With this study, we aimed to find out the regional disparities, regional development policies and the impacts of the development policies on regional competitiveness policies within the theoretical framework by linking this framework to these two regions and to discover the differences between them. Finally we analyzed if there are some lessons that can be drawn from each regions situation.

In Chapter 1, there will be a review of European Union's regional policy making process and the importance of European Commission in setting the policies according to the importance of the regions either they are leading regions, or lagging regions. Secondly, the regional development issues will be examined with the theories of empirical analysts and the focus will shift to the regional competitiveness policies depending on the regional development. The main question will be "How regional development policies improve region's competitiveness?" At first sight, the empirical view will take place about how regional development policies are being set and till which levels these policies can have a

contribution on regional competitiveness. Afterwards, we will try to find an answer to the question: What are the regional policies set by European Commission? Are they being set as the same for every region or are there differences between the policies of the leading regions and the lagging regions? Which regions are first considered on the innovation and growth basis? Followed by the answers to the questions, we will try to identify the main factors of competition relying on the related literature. Can we describe competition as a process depending on only one variable or is it a linked process including the determinants all together? We will give brief information about what makes a region competitive and leading among the other surrounding regions and finally there will be a brief summary about what SWOT analysis is and how it is used in order to make the second and third chapter clearer.

After concluding the first chapter by a literature review about regional competitiveness, in Chapter 2, Paris (Ile de France) will be taken under focus as it is the second leading region in the European Union after London. At the first glance, the regional policies in France will be examined to understand the regional policies at the national level because as it is a well known fact, although the regional policies which are set by European Commission is being applied in the entire European Union, national governments have also an authority on the regional policy agendas by defining the effectiveness of their regions and by knowing which of their regions are how much convenient for the application of the policies set. Secondly, Paris region will be observed in detail with its demography, its culture, its economic variables, etc. in order to give a clear idea that will make the reader understand why it is a leading region distinguishing from other regions. Thirdly and finally, the competitiveness of Paris region will be analyzed according to the given literature in the first chapter.

In Chapter 3, Istanbul region will be studied in order to make a comparison with Paris in the Chapter 4. First of all there will be a brief summary about the Turkey-European Union relations and the accession period linked to the Customs Union because it is thought that The Customs Union agreement between Turkey and European Union has an important place not only at the European level but also at the national level with respect

to the contribution it made to the internal regional competitiveness. Secondly, Istanbul will be analyzed regarding to its demography, its culture, its economic variables, etc. as Paris region is examined in the previous chapter, and the competitiveness and growth in Istanbul region will be focused in accordance with the literature review in the first chapter.

In the fourth and the last chapter, the Paris and Istanbul regions will be compared according to the previous two chapters and the lessons that each region can draw from each other will be observed in order to increase their competitiveness in specific areas and enhance their economic development with respect to their experiences and lastly, there will be the conclusion part to conclude the thesis.

## **CHAPTER 1: LITERATURE OVERVIEW**

### **1.1. The European Regional Policy**

The European regional policy is the policy in which the solidarity is being supported. In order to provide the equality between citizens- make them live in the same level of welfare- and to make the regions more developed, approximately one third of the European Union budget is being assigned to the regional development programs. The regional policies are being used to compensate the deficiencies of the less developed regions to catch up with the innovations, to support the industrial regions which are lagging behind, to improve the efficiency of the economies in the rural areas in which the agriculture is in a decrease and to set job creation. The main objective of the regional policy is to create employment by supporting economic growth and social cohesion in the European Union since it is a well known fact that without strengthening the smaller clusters, it is not possible to achieve welfare at the national level.<sup>1</sup>

The consequences of the regional policy can be clearly seen by taking a look at the European citizens who take advantage of the assistance such as finding a job or adapting to the market changes with the use of training. By this way, by increasing the funds of the public authorities to establish the new infrastructure, the lives of the people living in those regions develop. The building of roads and airports are financed partially by EU Funds. In addition these funds are used to help small businesses to improve. All these are tangible examples that EU citizens can see for themselves and make benefit in later time.

The European Regional Structural funds are a part of the financial support provided by the European Union for regions in the EU with a weak economy. The article: "Regional indicators for the allocation of the Structural Funds Objective 1 regions" refers to regions with which lag far behind in terms of economic development, the so-called Objective 1 regions. In the period 2000 to 2006 the EU is making available approximately 136 billion

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<sup>1</sup> For further information please visit [http://ec.europa.eu/regional\\_policy/index\\_en.htm](http://ec.europa.eu/regional_policy/index_en.htm)

euro to support these regions.<sup>2</sup>

The regional matters are generally being dealt by the European Commission which is an organizational configuration of the European Union. As the European Parliament and the European Council are the main bodies of the European Union, there is also Committee of the Regions which highlights the importance of regions within the Union. There are two functions of the Committee of Regions:

- 1) to represent the regional and local interests, and
- 2) to help the European Commission to set policies.<sup>3</sup>

The Committee of Regions is consisted of 222 representatives who are nominated by the Member States of the European Union.

From a general perspective the word “regional” is described as the geographic area in the borders of the Member States in the European Union. However European Commission defines regions as the tools that directly reflects the circumstances in that specific area and sets the required policies according to those reflections. In any manner, the regional policies should be structured by a central government unit and it should be supported by the Member States due to the fact that regions are the basic components on the way to achieve welfare at the national level.

The inter-regional socio-economic cohesion is aimed at the first place by the European Union authorities with the belief that it underlines the importance of decision making at the lowest level. EU regional policy consists of five basic objectives. These are the pursuit of social cohesion, sustainable development, competitiveness, human force and location.

With respect to the enlargement, there were some doubts about the convergence of living standards, so called indicator of success for EU regional policy. However, when we

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<sup>2</sup> For further information please visit [http://ec.europa.eu/regional\\_policy/intro/regions5\\_en.htm](http://ec.europa.eu/regional_policy/intro/regions5_en.htm)

<sup>3</sup> Please visit <http://www.cor.europa.eu/en/presentation/Role.htm>

consider the living standards, we see that they are not only based on GDP per capita and purchasing power but also other issues like access to healthcare, housing and education; access to infrastructure and the right to live in security should be included.

## **1.2. The reasons of regional disparities**

When we talk about the country's economies, we normally consider all the data and figures at the national level. However the economic welfare of the nations depends on the economic life of the regions. Not every region is the same due to the fact that while some are dynamic, and able to attract investment, generate wealth and create jobs, the others have to cope with the new environment of international competition.

The reasons behind the disparities between regions can be clearly explained by the level of infrastructure, the ability to develop and diffuse technologies, the type of industrial base and the degree of outside or foreign investment. Besides the people is an important determinant when the success and improvement of a region is considered. Nowadays, governments and the private sector started to focus on the role of human capital and its importance in providing and generating employment. Regions are now being more taken into account as a proper level for improving the performance of the training system to increase skills and develop people's productivity.

Besides the fact that business conditions are best observed, also important infrastructures are ensured and workers are put together with the industry at the regional level. The governments assure training and skills which can be adjusted according to the job market and economic improvement in the most proper way.

If we would like to sum up; as Ms. J.R. Shelton, Deputy Secretary-General, OECD, Paris had declared in one of the presentations, "Regions are well adapted to developing productive people, productive people are the key to dynamic regional economies that in

turn result in strong national economies.”<sup>4</sup>(OECD 1997)

Due to the fact that regions are the milestones of the way through nation's welfare, they should be taken more into account while evaluating their economies and setting their policies. With respect to the trade growth in the world, the harmonization of fiscal and monetary policies among the countries has an increasing trend caused by the discipline enforced by global financial markets. Accordingly, regions are automatically affected by the international markets in terms of competitiveness. The degree to which regions compete is therefore substantial when we think the national economic performance because regional competitiveness, trade and national performance are proportionally related to each other. In this context, it is also essential to provide educational and training measures in order to encourage, technical and language skills to be able to become competitive in the global market place with small and medium size companies.

### **1.3. The regional development process**

Regional development (growth) is a consequence of the decisions made inside and outside the region, leading to interregional trade. The regional development of a region depends on the regions capability to expand the economic structure and to reduce the divergence effects applied by the primate region. As the economic development, regional development is also accelerated by specialization and the establishment of economies of scale, bringing a specific spatial structure of centers. Inside the structure of centers, there will be a definite hierarchy which can be defined as administrative forces in some view and the desire on the part of producers and the consumers to minimize transport costs from another view.

The process of regional development finds its culmination in a situation where spatially distributed and specialized activities are internally integrated and form an integral part of a larger whole, which may be the nation.<sup>5</sup>(Hilhorst, J.G.M., 1967)

There are several reasons in order to explain whether a region may improve or regress,

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<sup>4</sup> Regional Competitiveness and Skills, OECD 1997, p.16

<sup>5</sup> Hilhorst, J.G.M., Regional Development Theory-An Attempt to Synthesize, Mouton, 1967



the most significant ones are the decline in the natural resources, structural change in demand and inadequate socio-political culture.

There are many steps to be taken into consideration while keeping an eye on the regional development which can be seen as the significant factors that are used to support the transmission of growth.

In the first stages of the regional development, when the communication systems and transportation was inadequate between the developed and less developed regions, comparative advantage was the basis for trade between them. The migration and the capital flows between the two regions will not be so important as long as the infrastructural conditions exist and the pure theory of international trade of Ohlin <sup>6</sup>(Bertil G. Ohlin, 1933) can be applied to the situation. In the less developed region, there will be a definite specialization of the trade effect together with the economies of scale which will make for higher productivity. The income per capita would increase and lead to higher savings and investments and a process of development will be initiated.

It is proved that for a general theory of regional development forces, both inside and outside analysis of the region should be taken into account. The economic growth of a region is aligned to its physiognomy and effects of transport cost minimization upon locational choices.

In the traditional literature (Beckman and Thisse, 1986) firms decide their locations according to the measures of costs and accessibility to production factors (labor and raw materials), transportation costs, size and characteristics of the markets. If the investor produces easily transportable goods, local demand has a little influence on location decisions. When we consider the whole Europe as the outlet market, firms choose their location on the basis of cost considerations and export to near locations.

Besides, it is believed that the role of regional promotion incentives and public infrastructures affect the cost function and location decision of the firms. Policy incentives can be in different forms such as financial incentives, tax incentives and labor-

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<sup>6</sup> Bertil G. Ohlin, *Interregional and International Trade*, Cambridge, Mass. 1933

promotion incentives. Due to the role of public infrastructure, it is examined that the regions with poor infrastructure have low productivity levels and lower returns to private investments when compared to the regions with improved infrastructures. (Vickerman, 1990). Therefore we can easily observe that regions with better infrastructures are more attractive for both domestic and foreign investments.

Fujiita, Krugman and Venables describe a new economic geography which is briefly the tendency of the industrial firms to locate close to the other firms from the same industry. With respect to this location decision, they would have access to a more stable labor market, availability of intermediate goods, production services and skilled labor force, and knowledge spillover between nearby firms. (Fujiita, Krugman and Venables, 1999).

When the economic attitude is taken into account, there exist some theories including some important factors which support the government's role in the effectiveness, efficiency, adjustment and equity. Besides these theories determines the required government actions, and observe the impacts of government actions with putting emphasis on the all elements of the region.

There are traditional approaches for the regional development which are named as the neoclassical theory and Keynesian theory. With respect to the neoclassical theory (Borts and Stein 1964, Siebert 1970), the availability and interregional mobility of production factors were the essential concepts that affected the development of regional disparities. The utilization of the regional resources was guaranteed by the flexible prices and wages on regional markets. Furthermore, the capital had a shift to the regions in which labor was cheap. Consequently, neoclassical approach came on the scene with the aim of raising the benefits of the investments in the less developed regions, and decreasing the gap between private and social costs or benefits by credits and fiscal incentives and by developing the industrial infrastructure. Besides, it was believed that the interregional labor mobility would be useful to decrease the unemployment in the less developed regions and increase the wealth of the individual workers, leading to an increase in the welfare of the national economy.

Most of the political scientists thought that the neoclassical growth model was failing to notice the scale economies, large non-marginal investments and external economies and they paid attention more on demand factors therefore they were called Keynesians. In the Keynesian approach, the emphasis was put on the demand for regional exports, inter-sectoral connections and this approach was also underscoring the significance of capital and labor mobility.

With respect to the Keynesian approach, the macro-economic policies of demand management can fail to compensate the impulsive market forces that support the regional differences. Hence, it is thought that economic efficiency should be partly sacrificed to more social equity, and redistributive policies should be introduced to help the less favored regions by sustaining their consumption levels, improving their social services and creating employment in public administration.<sup>7</sup> (Molle, W., Cappelin R., 1988)

The interregional policy schemes on the national level did not work as it was expected, therefore as the interregional mobility of the companies and labor force deteriorated, a new approach which was called new endogenous approach has arisen in the regional development. (Richardson 1978, Ciciotti and Wettmann 1981, Biehl 1980, Cappelin 1983a, Aydalot 1985) The endogenous growth approach is mostly based on the assumption of the contrast between the raising mobility of the goods and the stability of regional environments characterized by skills of labor force, technical and organizational know-how, social and institutional structures. In this approach it was believed that the regional policy should not aim at the mobility of production factors as at the full utilization and productivity of local resources.

When the regionalization theorization is considered, classical perception was the most important theory. However Weber and Lösch developed into the cornerstones of the neoclassical approach. With respect to the classical thinking, economic activity would take place where the natural resource costs were lowest because it was believed that in

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<sup>7</sup> Molle, W., Cappelin R., Regional Impact of Community Policies in Europe, Avebury, 1988, pg. 6

this case, the companies which are using natural resources would change their locations and labor would also shift to the regions which have the resources. When the view of Weber is taken into account, natural resources have an effect on the location of the companies in the following three ways,

- there should be a significant weight loss occurred during the production,
- the location of the company near the source would be optimal,
- there should be significant weight gain occurred.<sup>8</sup>

According to Weber, in specific regions, there should be a dominant tendency in which complementary industries could find advantage in sharing facilities, know-how or entrance to common services. Weber thinks that technological progress and innovation can bring about the diffusion of economic activity due to the fact that technology was externally derived, and technology changed the weight of products, relatively transportation costs, fostering a locational change to the market.<sup>9</sup> (Philip Cooke) However, the insight of Marshall was that the advantage could be gained from local economies of scale such as producing the range of products according to the local customers in which economies of scale were localized to the restricted production of identical inputs for local customers.<sup>10</sup>

The external conditions of regional development were affected by the lower inflation rates, increasing corporate profits and the diffusion of new technological paradigms. With the help of increasing demand, product innovation became more attractive than the process innovations: to make new products, to differentiate or improve them, grew more important than to reduce production costs. Besides employers decided to make investments to human capital rather than investing in new machinery because it was believed that high skilled labor would increase the productivity. Technological activity became more significant in the entrance to the markets when compared with the capital. Therefore, the development of the local economy was measured by its capacity to transfer

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<sup>8</sup> Knowledge Economies, Clusters, learning and cooperative advantage, Philip Cooke, pg.23

<sup>9</sup> Ibid.

<sup>10</sup> Ibid.

its resources from old activities to new ones by learning new product technologies by R&D incentives, training, improved information and know-how.

### **1.3.1 The policy making approaches on the regional development**

As it is mentioned in the OECD report about regional competitiveness and skills, there are four main concepts on regional development and competition.

The neoclassical theory focuses on “market mechanisms and responses to differences in prices for inputs such as capital, labor, energy, raw materials, information, and productivity.”<sup>11</sup> According to Goldstein and Luger, (1993), if capital investment and labor flow freely, then differences in the growth rate and wage levels between regions result from lower prices either for raw materials or transportation- thus the older theory of comparative advantage and trade with its emphasis on natural endowments.<sup>12</sup>

The stage or wave theory suggests that “economic development depends on the production and dissemination of key technologies which occur in stages, waves or cycles with recognizable patterns”<sup>13</sup>.

The stage theory emphasizes “the steps of economic development and identifies the preconditions for entering each new stage. The long waves or cycle theories, often associated with Kondratiev’s work in the 1920’s, were refined and conceptualized in the 1930’s and 1940’s by Schumpeter, who focused on clusters of innovation, and the role of entrepreneurship in economic development, laying the groundwork for a better understanding of product cycles.”<sup>14</sup>

Theories of production organizations, with a disciplinary base in political economy and economic geography, view the form of production, the conditions and consequences of organization, and the interaction among various agents, as the main explanation of

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<sup>11</sup> Regional Competitiveness and Skills, OECD, 1997, p. 41

<sup>12</sup> Ibid. p.41

<sup>13</sup> Ibid. p.42

<sup>14</sup> Ibid. p.42

regional clusters and growth patterns. Thus, new technology-based growth centers are seen as developing into production complexes through vertical disintegration rather than through the vertical integration characteristic of enterprises. The emphasis here is on the local labor markets, on clusters of enterprises in related businesses and on trust through geographical proximity.<sup>15</sup>

The concept of the learning region, partly based on theories of production organization, represents a fourth strand in the theory of economic development. Concentrating on “innovative”, “creative” or “learning regions”, it focuses on those factors that make regions economically dynamic and emphasizes the nature of innovation and the factors and the conditions that enhance it.<sup>16</sup>

In order to provide an indicator for economic growth in the long term, many researches have been done and some approaches are developed. Among these approaches standard Keynesian approach and neoclassical approach were the ones which came one step forward by leaving the other concepts behind. The neoclassical approach is mostly based on function of production in which economy is being improved by harmonized and amendable factors of production that can be named as labor and capital.<sup>17</sup>

In the neoclassical approach, there exist several hypotheses consisting competition, returns to scale, stable income returns, decreased income to the production factors and in which the investment is described as the fixed income proportion. The outcome of these hypotheses states that production, capital growth and the capital stock should have the same increasing trends. Therefore, in order to provide the growth of economic output, the growth of labor supply is essential.

Due to the neo-classical approach, companies do their investment in which they believe that place is the best to achieve the highest productivity. If the location proposes favorable conditions in terms of quantity and quality, then the companies do their investments on that significant location with respect to the fact that they have the guarantee that they will have higher productivity levels. In addition, they choose

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<sup>15</sup> Regional Competitiveness and Skills, OECD, 1997, p.42

<sup>16</sup> Ibid.

<sup>17</sup> Regional Impact of Community Policies in Europe, Molle, W., Cappelin R, 1988

locations according to the different types of skilled labor when regions with less mobile factors are considered.

According to Krugman and Porter, the cluster model of regional development could be quite useful for regional policy-making due to the fact that the regional concentration of enterprises belonging to the same or connected industries can be related to the local availability of qualified labor, technology and suppliers.<sup>18</sup> (Krugman, 1991 and Porter 1990)

From the empirical perspective, it is believed that the neoclassical model is used to find out if the economic growth is arising from the growth in capital stock or the labor stock or the residual that evaluates the efficiency of the factors and depends on technological improvement.

The empirical analysts Solow(1957) and Denison(1985) stated that economic growth is mostly affected by technological improvement whereas changes in factors of production do not have a significant impact on the growth. However Paul Romer (1986) presented that technological improvement was found outside the neoclassical approach.

Paul Romer's work established the recent interest in 'new' or 'endogenous' models of economic growth. These models are distinguishable from the neo-classical model in four ways (Bureau International des Expositions, 1993 pp. 26-27):

1. "Growth is the result of deliberate rational, optimizing decisions by investors, producers and consumers. That is, growth is endogenous to the model.
2. Investment behavior is in three areas: physical capital; human capital; and research and innovation.
3. There is imperfect competition and/ or the presence of externalities.
4. The public good characteristics of knowledge are essential because they result in externalities".

According to Romer, technological improvement is the consequence of the proceedings of the economic agents in the neoclassical approach and he highlighted that the creation

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<sup>18</sup> Geography and Trade, 1991, P.R. Krugman

of knowledge can be favorable with the harmonization of both commercial benefits and the public benefits practiced by the others.<sup>19</sup>

In the view of Goldstein and Luger, the neo classical theory accords with strategies of modernization and research and development investment (innovation) due to its emphasis on investment to increase productivity as a means to gain comparative advantage. (Goldstein and Luger, 1993, p.163) Once more, the importance of technological improvement and innovation is being stated in the words of the theorists above.

In order to give a clear idea of the literature above, we can briefly say that physical and human capital investment and research and innovation leads to technological improvement and it helps the regions to have economic growth. When the creation of knowledge is obtained at the public level and it cooperates with the commercial benefits procured by knowledge investors, the investments made for knowledge transfer bring about the regional growth and welfare.

### **1.3.2. The policy-making process and the spatial development**

In the concept of regional planning and policy schemes of the European Union, the European Spatial Development Perspective can be identified as the most important. The provision of equal regional development and social cohesion, the realization of ecological assimilation, and the improvement of the competition in the European Union can be listed as the essential objectives of the European Spatial Development Perspective.

According to the EC, the consequences of European politico-economic integration and, more broadly, economic globalization, mean that spatial planning issues are becoming ever more important. As markets become more integrated, the need for coordination of infrastructure and other facilitating investment is heightened. There is also a greater need to manage the social and environmental consequences of free trade. It is recognized that these forces for change require new forms of governance - spatial development policies - if they are to be channeled towards desirable social, economic and ecological ends. Existing governance structures were evolved to co-ordinate development at the sub-

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<sup>19</sup> Endogenous technical change, Journal of Political Economy, Romer, P. 1990



national scale and are therefore poorly equipped to manage the effects of interaction within the new integrated European framework. It is also acknowledged that key changes - notably globalization and public sector restructuring - have had uneven consequences for communities, regions and nations, producing new patterns of regional economic disparity (Directorate-General for Regional Policy and Cohesion, 1996).

In the multi-level policy process structure of the European Union, economic and social cohesion has a fundamental position that “cohesion” is a notion which is supposed to have a strong spatial character and can have an effect on the strategic and operational framework of the European Commission to help it overcome the disparities between regions in the regional development process.

Finally, when we consider the economic growth, the improvement mostly takes place in the cities, namely urban areas due to the fact that they have key roles in local relations. The latest literature presents the relation between the economic development and the development of industrial clusters especially the major role of urban clusters in the development of regional economy. (Enright, 1998; Hendry et. al., 2000; Porter, 2000)

Furthermore, urban areas have the skilled and knowledge workers which ensure the competitiveness in regional level that is positively contributing to national economy. The information is being transferred by the help of knowledge workers i.e. they constitute the relations between industries and institutions. By the help of research and development and investment into both physical and human capital, the innovation is encouraged. With the assistance of technology, the knowledge workers forms the basis of innovation, therefore it is a significant fact that regions should be able to attract skilled human capital in order to remain competitive.

### **1.3.3. The emphasis on urban regions and the "regional development" in European Union**

In the EU attention has long been given to both rural and urban contexts in different parts of the EC policy framework, without a blanket bias against either at any particular time.

<sup>20</sup> There is strong implicit recognition of the importance of city-hinterland relationships for the overall well-being of member states and the Union. It is recognized, however, that rural regions have received a large share of the regional support funding in the past (Directorate-General for Regional Policy and Cohesion, 1996). Thus, the European Union's 'Expert Group on the Urban Environment' recommended in 1998 that:

"EU funding should be redistributed in favor of urban areas to reflect the fact that the majority of the EU population lives in towns and cities, so requiring a shift from the current emphasis on funding for agriculture"<sup>21</sup>

When the present six-year structural funding program is taken into consideration, the importance of equal treatment between regions is more noticeable in the regional support framework. With this present program, investment in urban regions is being fostered in addition to the assurance of continuous funding for non-metropolitan areas.

According to the European Commission, urban network is the milestone of Europe's economy, cultural attitudes and environmental sustainability therefore the lagging regions' insufficiencies do not affect the policy making process and do not cause any anti-urbanism ideas.

It is recognized that cities 'function as motors of the regional and the national economy' (van den Berg et al., 1997 p. 2). Consequently, the health of Europe's economy, society and environment is closely linked to the well-being of its cities:

"Urban areas play a vital role in the European economy. They are centers of communication, commerce, creativity; innovation and cultural heritage Medium sized towns in particular also exert a powerful influence on rural areas" (Directorate-General for Regional Policy, 1999a p. 39).

The EU is one of the most urbanized regions of the world, containing approximately 170 cities with more than 200,000 inhabitants and 32 cities with more than one million inhabitants. The majority of Europe's citizens lives and works in urban areas. As van den Berg et al. (1997) note, "the cities - or more accurately functional urban regions - are the

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<sup>20</sup> Expert Group on the Urban Environment, 1998

<sup>21</sup> Expert Group on the Urban Environment, 1998 p. 15

vital cultural, economic and innovative centers of Europe"<sup>22</sup>

According to the researches it is noticed that the European tendency to see cities as embedded in larger regions of interest, often termed 'hinterlands'. The European Union's emphasis on the value of social and geographic 'cohesion' partly explains this outlook. The Expert Group on the Urban Environment has stated that:

"there is a need to redefine the concept of the 'urban', to take into account that cities and towns do not operate as closed systems, but are dependent on and have a responsibility towards their rural hinterlands"<sup>23</sup>

The European Union is attempting to encourage the cities due to the fact that it believes that urban areas are the basis which forms the growth channels through their networks. By this means it is supposed that interregional competition and balanced development between regions can be achieved.

European Commission is focusing on a new system of structural funding due to the fact that it realized the significance of urban regional economy. Some investments are being planned by European Commission to the specific metropolitan areas with the aim of increasing the growth of other regions with the social stimulation and economic dynamics arising in the metropolitans. It became more obvious that the improvements of successful regions and metropolitans have a direct effect on the growth of surrounding regions which are lagging behind therefore urban areas are being funded not only to achieve growth in metropolitans but also to help disadvantaged regions catch up with the innovations.

#### **1.4. The regional competitiveness**

There is a strong link between the globalization and regionalism and there have been some challenges for the establishment of a greater harmonization and a stronger combination between diverse regions to characterize the global market. The concept

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<sup>22</sup> van den Berg et al., 1997, p. 2

<sup>23</sup> The Expert Group on the Urban Environment 1998, p. 2

“regionalism” was seen as a simple trade agreement but nowadays, it is perceived more as the real integration of economies and policies and this new structure of regionalism is thought to develop the quality of life in the new global world by creating stronger competition among both different areas and within the same area.

The technology, human capital, financial markets and the role of the government are the most important variables that all the regions concentrate on to be a more competitive partner in a regional agreement. The technology was seen as a residual factor in regional competitiveness, however it is now considered as the single major factor in regional competitiveness.

When we consider the human capital, it is mostly seen as a significant factor for regional development. The human capital had an important role in successful areas and markets since 1960's as in the Vernon model, followed by the models of Storper, and in the 1980's by Walker and Porter.

According to the researches, financial markets lost its significance because the collapse of financial systems, some areas with many growth opportunities could not develop.

OECD assessments of the highly developed economies focus on the essentiality of the competitiveness. Besides European Commission is experiencing by the competitiveness of European Union and it has focused on catching up with US competitiveness levels by 2010 in order to increase its welfare because it is also a well known fact that the national welfare is depending mostly on regional competitiveness.

The issue of regional competitiveness in EU is significantly focused on due to the fact that it has been thought as the pursuit of social and economic cohesion, not only to catch up with the US. To close the competitiveness gap and increase the welfare of the less developed regions in the EU is being considered as an essential issue in order to assure the social cohesion, particularly in EU enlargement and monetary union.

Similarly, UK government has put the national competitiveness issue on its policy agenda. The competitiveness term is an item that can easily be spread to regional, urban and local policy discussions from national level. As the awareness of regional foundations of national competitiveness increases, and as new types of regionally-based policy interventions are taken into account with the aim of developing the competitiveness of all regions and major cities, it is clearer that national economies would also be affected by these policies depending on the induction.

The regional policies are usually being used to help the regions that lag behind as we mentioned above. However competitiveness occurs between the regions due to globalization, changing economies, and national disparities, etc.

With respect to the 6<sup>th</sup> Periodic Report on the Social and Economic Situation and Development of the Regions in the Community, regional competitiveness is defined as: the ability to produce goods and services which meet the test of international markets, whilst at the same time maintaining high and sustainable levels of income, or more generally, the ability of (regions) to generate, while being exposed to external competition, relatively high incomes and employments levels. In other words, for a region to be competitive it is important to ensure both quality and quantity of jobs. (European commission, 1996)

Due to the OECD reports, “regional competitiveness is based on a number of factors which are quite different from reliance on cheap labor or convenient transportation routes: the extent to which a region is called a “learning” or “intelligent” region defines its competitiveness with others. This difference in approach and strategy profoundly affects the way human resources are seen as central or peripheral to the development process.” (Regional Competitiveness and Skills, OECD 1997, p.35-36)

According to Kresl, there are six attributes to classify the competitiveness of an urban economy. These are as follows:

- High skill, high income job creation,
- Goods and services produced should be environmentally orientated,
- Goods and services produced with high income elasticity of demand and similar characteristics should be the basis of production,
- Full employment considerations should determine the suitable rate of growth, without overheating markets,
- Specialization of activities should be based on future potential of the city, not on acceptance of present configurations,
- Potential of the city to move up the urban hierarchy.<sup>24</sup>

In addition he sorts out the determinants of competitiveness into two categories as quantitative and qualitative in which quantitative determinants concern the economic determinants such as factors of production and infrastructure and the qualitative determinants include strategic determinants i.e. policy factors and design of institutions.

<sup>25</sup>(Kresl, 1995, p 51)

According to Krugman, rather than the regions themselves, the firms and organizations located in those regions compete directly. However, Martin and Tyler (2003) believed that regions are competitive by using comparative advantage; the high returns supported by agglomeration economies and are knowledge and innovation centers.

On a research paper which is presented at the Regional Studies Conference, Martin and Tyler argues if regions are compatible and if so to which degree they do.

They identified three occasions of which they think that regions can compete. These are as follows:

- 1 For investment through regions' ability to attract foreign, private and public capital,
- 2 For labor by being able to attract skilled employees, entrepreneurs and creative

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<sup>24</sup> Conceptual Framework for Regional Competitiveness, Leslie Budd and Amer K. Hirmis

<sup>25</sup>Ibid.

- workers, thereby enabling innovation environments within local labor markets,
- 3 For technology through regions' ability to attract knowledge and innovation activity.<sup>26</sup>

In general, it is believed that the locational advantage is determining the trend of competitiveness that is mostly deriving by non-price and non-trade factors such as the degree of institutional embeddedness, governance structures and demonstration effects that can be evaluated as part of the external economies that a place may vary. The above mentioned issues create a part of the agglomeration economy which is central to the locational advantage and is integral to the potential competitiveness of a city or region. Porter points out that the importance of traded clusters and their spillover effects in regional economic performance. Besides, Porter suggests that economic policy needs to be decentralized at the regional level, with development policies being used to encourage traded clusters and the upgrading of their productivity.<sup>27</sup>

European Union is regarding the competition concept as an important factor, thus European Commission is responsible to set the required policies which would improve the competitiveness of the European Union.

However, inter-regional competition within the EU is seen to hinder not advance the goal of competitiveness, whilst also weakening solidarity and cohesion. The EU takes the view that inter-regional balance in socio-economic conditions is a key for making the Union more economically competitive in the global trading environment. Its regional assistance programs attempt to foster inter-regional and inter-local cooperation in pursuit of social and economic development. Cooperation is held to generate synergy; a form of development energy that would not be harnessed if inter-regional competition were the favored governance model (European Commission, 1996).

With the European Summit of Lisbon of March 2000, it is aimed that Europe should be the most competitive and dynamic knowledge based economy in the world by 2010 and it was obvious that this could be achieved by fostering enterprise, innovation and research.

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<sup>26</sup> Conceptual Framework for Regional Competitiveness, Leslie Budd and Amer K. Hirmis

<sup>27</sup> Ibid.

In this context regions can be thought as the main actors with respect to the bottom up approach in the economy. Regions are the most affected units by the changes in the economy and if they cannot manage the economic load, then the national economy would also be affected in a negative way. Every region has a unique characteristic, has its own people, culture and assets and every one of them should be able to attract investment and skilled labor to remain and even improve its current conditions in order to improve its capacity for the innovations.

"The Commission estimates that 20 to 30% of every Euro is invested through the program, come back to the more advanced regions through payments for know-how or equipment" (Directorate-General for Regional Policy and Cohesion (1996) p. 16).

As it can clearly be understood from the above sentence taken from Directorate-General for Regional Policy and Cohesion, the European Commission believes that the innovation of the regions that have more wealth as compared to the others has positive impacts on not only the national economy of the Member States but also on the other regions by the help of precisely set regional policies.

It had been mentioned as five different factors related to competition in the European Union; however there is a different point of view to the factors affecting the competition. According to Castells, capital is, at its core, global, whereas labor is local. Thus capital and labor increasingly tend to exist in different spaces and times:"

- space: capital in the 'space of flows', and labor in the 'space of places'
- time: capital in the instant time of computerized networks, and labor in the clock time of everyday life. (Castells, M., 2001)

In his most recent work, he re-emphasizes the continuing predominance of cities when he describes our increasingly urbanized world of sprawling metropolises. Mobility is enabling people to increasingly concentrate in cities in order to improve their life chances, and to gain direct access to rewarding work and to high quality services and cultural enhancement. Economic production and management depend increasingly on knowledge and innovation, and, although this is directly enhanced by large scale and global networking, the importance of territorial complexes of 'milieux of innovation' is also at the heart of the ability of cities, and particularly of large cities, to become the



sources of wealth in the Information Age<sup>28</sup> (Castells, M., 2001)

On account of the technological innovations and the economic globalization, the importance of the knowledge based activities and the utilization of the new technologies are more realized by the European Union. With respect to the European Commission, the economical differences between the regions can harm the national level easily and this can cause to a decrease in the wealth of the entire European Union. Hence, the decline in the consumer demands can prevent the economic growth and diminish the competition in the European Single Market causing the European Union loose its competitiveness in the global economy. In this respect, the regions which are lagging behind the developing environment should also be improved. However, setting the necessary policies and applying them in those regions can not be helpful at the first sight due to the infrastructural gaps. Therefore even it is needed to improve the regions that are less wealthy when compared to the developed regions; the attention should first be given to the metropolitans with respect to the convenience of the field of application. As Michael Porter states that the geography, climate, population, research centers and governmental organizations are the basis of creation of an efficient region and they offer comparative advantage due to the fact that the establishment of these factors pursues a long and enduring process.<sup>29</sup> (The US Council on Competitiveness, 2001) In accordance with this fact, if the efficiency and effectiveness is achieved at the developed areas, it would be easier to improve the surrounding regions with the economical activity in the leading regions.

Besides Porter declares that productivity and competitiveness are the two significant factors that determines the wealth of a region because these factors do not rely on the industries that those regions are compatible in, but on how they are competing.

According to Michael Porter, the circumstances that support competitive advantage are "often localized within a nation, though at different locations for different industries"

<sup>30</sup>(Porter, 1990). Therefore, it can be said that the industrial locations are selected due to the regions.

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<sup>28</sup> Castells, M. (2001) "The Internet galaxy – reflections on the Internet, business and society", Oxford University Press, Oxford, New York, pg:226

<sup>29</sup> The US Council on Competitiveness, Austin, San Diego and Phoenix/ Tucson, 2001

<sup>30</sup> The Competitive Advantage of Nations, 1990, p. 157

In respect of Porter, the geographic regions with progressive industrial clusters are more competitive when the clusters are identified as the central point of international businesses in specific areas.

Furthermore, the demand conditions in the industry, institutional progress, encouraging factor conditions are the peculiarities of the efficient clusters and these leads to competition.

Some researchers think that the term competitiveness also comprises media image and ranking with the aim of attracting investors and tourists. The competitiveness depends also on the institutions and the policies that administrate the structure of trade and operation containing location, not only the socio economic framework and the firms located in that region. Objectively therefore, regional competitiveness can be seen as the cumulative outcome of a number of factors or attributes related to the region itself impacting upon the performance or competitiveness of enterprises and organizations that it encompasses.

Although the cost and price factors besides the relative wage and tax levels were named as the most significant indicators, terms as knowledge, creativity and infrastructure started to be taken into consideration while evaluating the competitiveness of the regions. In the view of Foss, human capital, culture, knowledge and institutional structures become more important for the innovation and competitiveness in the highly developed economies. (Foss, 1996)

The mobility of the skilled people, the resources and the capability of directing the innovations in favor makes the regions advantageous. The competition exists due to the potential of the regions. Therefore as the competitive regions attract the attention, the human capital is shifting towards this knowledge based, efficient areas.

According to the researches, it is determined that knowledge workers choose the regions with the best job opportunities that offers them improve themselves as well as satisfying wages. Besides, they evaluate the alternatives according to the social life of the place that they will work. With respect to Richard Florida, the regions with activities that can easily

be reachable and available on a “just in time” basis, attract the knowledge workers more.

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It is already a well known fact that the physical capital is shifting generally to the regions with efficient deliberative workers and even it is apparent that the regions which are based on goods and services, seem to attract physical capital and improve more, in the mean time, human capital is becoming more significant due to the fact that without efficient human capital, there can no longer be effective production. In order to provide regional competitiveness, not only social life offered to workers to ensure them a decent environment but also the adequacy of the local labor market is required.

### **1.5. SWOT Analysis**

The SWOT analysis will take place in the next two chapters for Paris and Istanbul in order to have a clear idea about the two regions and a comparison of the SWOT analysis of two regions will be discussed in the last chapter in combination with the lesson drawing in public policy. Therefore it is thought that an analysis of what SWOT is, by whom it is used, how to decide whether to use it or not and how to use it, would make the next chapters more comprehensible.

With the help of the knowledge collected from the external environment and the analysis of the organizations structure, the strengths, weaknesses, opportunities and threats are being examined and this is namely SWOT analysis. It is generally used to create a plan according to the various internal and external factors and in order to exploit the potential of the strengths and weaknesses while at the same time, decreasing the negative effects of weaknesses and avoiding the threats.

The SWOT analyzes the internal factors such as capabilities of the organization and strengths and weaknesses are the factors that can be drawn internally. Besides in order to take a look at the external environment, opportunities and threats are taken into consideration.

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<sup>31</sup> <http://www.nga.org/files/pdf/Florida.pdf>

In this point we thought that it would make the subject clearer if we take a look at the literal view of the SWOT analysis.

With respect to Thompson, it is significant to analyze environmental strengths and weaknesses of the organization's resources and concerning the organizational culture. If there is a connection between environment, values and resources then the real opportunities occurs and the combination of this three also helps the organizations become aware of the potential threats.<sup>32</sup> Hence it is important to know about the resources whether they are strong or weak due to the fact that they are used in order to find out the strategies. According to Thompson, the evaluation should include the strengths and weaknesses in relation to the needs of the environment and in relation to competition.<sup>33</sup>

As we have already mentioned above strengths and weaknesses in relation to the environmental opportunities and threats, is described as SWOT analysis. The strengths are the ones in which organization is capable of competitiveness; the weaknesses are the ones which avoid the organization from achieving competitive advantage and the opportunities are the elements that fit to organization's values and resources where the threats are the things that organization has to deal with and that it is not well equipped to deal with.<sup>34</sup>

The SWOT analysis are mainly to neutralize critical weaknesses and convert them into strengths, in the same means converting threats to new opportunities, and analyzing the changes in order to make them useful to gain advantage.<sup>35</sup>

It is significant to analyze the environmental change and catching up with the new technological developments hence it is essential to examine the environment by identifying the most significant sources in order to find out the opportunities and threats, estimating the impact of these forces on the future issues by the use of most appropriate methods, including expectations and predictions into decision making, thinking in the most realistic way while evaluating strengths and weaknesses corresponding to

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<sup>32</sup> Strategic Management awareness and change, John L. Thompson, page 264

<sup>33</sup> Ibid.

<sup>34</sup> Ibid.

<sup>35</sup> Ibid. page 265

competitors.<sup>36</sup>

The nature of the forecasts should be used in decision making and for determining the strategies which will be used in the future, besides the implications of the changes in the environment should be taken into consideration. It is also important to make the forecasts depending on the economy, demographic influences, political influences and technological forecasting.<sup>37</sup>

## **1.6. Conclusions**

In brief, as we have mentioned above the speech of Ms. J.R. Shelton, Deputy Secretary-General, OECD, Paris, “Regions are well adapted to developing productive people, productive people are the key to dynamic regional economies that in turn result in strong national economies.”<sup>38</sup>(OECD 1997) Therefore it is aimed to give information about the regional disparities, regional development process, regional competitiveness policies which are being affected by the regional development policies and the emphasis on urban regions within theoretical framework in order to understand the regional developments and competitiveness policies in the two regions in the next two chapters.

The regions are the milestones of the national economies; hence the development of the regions has a significant role. The investments, human capital and innovation are the key elements for regions’ improvement and to make them competitive not only within the national territory but also on global basis.

In the next two chapters, Paris region and Istanbul region will be examined by taking their image, location, skill base, financial situations, money markets and innovation activities and SWOT analysis into consideration in accordance with the literature above.

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<sup>36</sup> Strategic Management awareness and change, John L. Thompson, page 267

<sup>37</sup> Ibid. Page 268

<sup>38</sup> Regional Competitiveness and Skills, OECD 1997, p.16

## CHAPTER 2: THE PARIS REGION



### 2.1. The background information about Paris Region

After the Second World War, the European countries were weakened especially when their economic conditions were considered. Although European Union was founded as a coal community by Germany, France, Netherlands, Italy, Belgium and Luxemburg, it then turned out rather to be an economic union.

Due to the fact that France is one of the founders of the European Union, it as a country is advantageous when compared with the rest of the Member States except the other founder states. Paris is the capital city of France; therefore the governmental bodies are located in this region and economic activities are being directed from this city. After London, Paris is the second leading city in Europe by its location, its economic activities, service sectors, business centers, international companies and its cultural heritage. These qualifications made Paris attractive in the meanwhile and it is still advantageous when we compare with the other European cities and capitals. Not only in Europe but also all around the world, it is a well known city by its developed economic situation and innovative activities of which it uses to improve itself incrementally and catch up with the global world. Paris region is a developed region thanks to using new technologies, having strong skill base and employment fields, providing the required business environment and attracting capital investment by keeping its economic situation in an increasing trend.

Especially by Euronext<sup>39</sup>, the Europe's second leading stock market, it attracts most of the international companies. International investors mostly prefer to invest in economies

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<sup>39</sup> Euronext is the result of a merger between the money markets of Paris, Amsterdam, Brussels and Lisbon, is the principal European stock market platform when the volume of transactions are considered.

which have less flotation in its financial activities. The research and development has a significant place in Paris therefore the invested capital is being used in the right employment fields to increase the efficiency and effectiveness of the sectors and by this way leading a growth in the economy. Mostly highly qualified labor is employed in all the sectors with respect to the well known fact that globalization brings about the importance of education and training. Therefore in a world depending on knowledge based economy, if it is necessary to catch up with the global world, the labor force should be well educated about their employment field in order to improve the situation of their company at first, leading to a development of the regions economy and finally to the country's economy as in the bottom-up approach.

## **2.2. The overview of Paris Region in eight categories**

With respect to the economic growth and development in United States and Asia, European Union has also been affected. However the expansion rate of Paris is above the EU average due to the developments in employment market and the unemployment rate has decreased incrementally.



Paris has also a leading role by its size and influence as Greater London when compared to the Europe's other regions. In 2003, Catalonia was in the second rank in the place of Paris with respect to the number of business locations. Nevertheless, in 2004, Paris had its second rank again with the highest growth in market share of the principal European metropolitan regions.<sup>40</sup> In order to catch up with the changes in the economy, it was foreseen that it is needed to form new industrial policy instruments in France and these instruments were supposed to develop a synergy between large and small companies, academic training centers and

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<sup>40</sup> The attractiveness of Paris region, Paris region economic development agency

research centers.

Paris is an alternative region due to the structural advantages linked to scheduled and completed long term public investments in different master plans and 5 year plan contracts such as transport and communication infrastructures, backbone investments in research and development, etc. This collective capacity to invest represents a remarkable asset.

Paris is such a region that maintains its natural, architectural and cultural heritage since decades, therefore it is advantageous. It can be named as an important destination by attracting 42 million tourists and 11.3 million business visitors. The region involves every requirement for daily life and business environment. The forests, parks and rural areas form most of its surface. The management of urbanization, pollution and the protection of the landscape is being done by the local authorities by assuring the required precautions. It is in between international crossroads, therefore mostly, the conferences are being held in this region. According to the data of Union des Associations Internationales<sup>41</sup>, more than 200 international conferences were held in 2002 and led Paris become ahead of London and Brussels.

### **The Paris region has a reputable image**

Paris is a highly visible region with an image of excellence abroad. The decision makers stated that they have extremely fostering intentions to locate and there exists a degree of optimism shown by financial decision makers which contrasts with their habitual gloomy outlook.<sup>42</sup>

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<sup>41</sup> The Union of International Associations. For further information please see <http://www.uia.org/uia/profilen.php>

<sup>42</sup> IPSOS Survey, 2005 on the international image of Paris Region





Paris region is challenging with the following items; proximity and access to local, national and international consumer markets, transport and logistics infrastructures, availability of a qualified work force, a secure political, economic and social environment and with the number of current international organizations.

However labor costs are high and increased level of taxation is discouraging the organizations.

### **The Paris region is the choice of the businesses to be located**

With respect to its location, Paris is more attractive after Tokyo even ahead of London, New York and Chicago for the world's 500 biggest companies. Although the European economic climate was not reliable, Paris region has attracted the foreign investors which can be stated by the considerable increase in the level of foreign investment in 2004.

In the years 2000-2004, Paris region has the second place after Greater London with its location for international companies.<sup>43</sup>

Paris region has activities in various sectors; however the most significant sector is the service sector with a rate of 90%. When the industrial and service sector locations are taken into account, Paris is the only European metropolitan area to be ranked in the 3 leading destinations. For the hosting strategic functions, it has the second place in Europe. In 2004, it became the leading location for the siting and R&D centers due to the

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<sup>43</sup> Ernst & Young European Investment Monitor, 2005

software and electronics sectors.<sup>44</sup>



When the sources of investments made in Paris is examined, most of the settled companies are American based but the number of these companies is declining incrementally (down from 70% in 2000 to 35% in 2005). India is

the biggest investor in Europe but it still makes its investments in London, however it is foreseen that with the active implementation of the expansion plans of the blue chip companies, by the year 2010, Paris will be ahead of London.<sup>45</sup>

In order to name a region attractive, it is important to examine its capability to attract productive investment- particularly from foreign companies. For a foreign investor, there are some criteria to locate in one region which can be defined as follows; the consumer market, socio-economic environment, transport infrastructure, quality of office space available, etc. The number of companies that have settled in Paris region is hence the most remarkable illustration of its attractiveness.

When the urban transportation is considered, Paris has the first rank and when some items such as the entrance to markets, workforce quality, telecommunications infrastructure and transportation service are under focus, it in the second place while comparing with the European and international business centers.

In the overall ranking, when we compare the Paris region with the other metropolitan areas, Paris has the second place. When the market share in terms of number of business locations are considered the market share of Paris region is 21%. With the 63.5% growth, it can easily be declared that Paris is leading in terms of dynamism. According to the

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<sup>44</sup> The attractiveness of Paris region, Paris region economic development agency

<sup>45</sup> Cushman & Wakefield Healey & Baker, European Cities Monitor, 2005

location of R&D centers, Paris is the leader; however with respect to the location of strategic functions, it is in the second rank. In 2003, Paris has attracted 38% of the companies located in Greater London and this rate has increased to 47% in 2004 by which it can be understood that Paris is catching up with London.<sup>46</sup>

### **The Paris region has a leading money market in Europe**

Due to the geographical situation in Europe and infrastructural network quality, one of the densest in the world, Paris became one of the most efficient regions in Europe. In the European market scale, it provides an easy access to a market of 450 millions of consumers and it is less than 3 hours to the European cities when the transport is taken into account.

This access to European market is eased by the historic role played by France in the European construction, France is one of the Eurozone<sup>47</sup> members therefore the international effectiveness of the Paris region, its dynamism in economy and technology, the competitiveness of human resources made Paris region to become one of the key regions which opened the way to the research companies to develop new projects in Europe.



In the latest years, the money market in Paris became an alternative to the ones in London and Frankfurt. Paris has the Europe's second largest finance management cluster after London but still ahead Frankfurt.

<sup>47</sup> The Eurozone (also called Euro Area, Eurosystem or Euroland) is the subset of European Union member states which have adopted the euro, creating a currency union. The European Central Bank is responsible for monetary policy within the zone.

The companies in financial market that are located in Paris have a wide investor base and considerable opportunities. After United States, Paris has the second rank as a global collective management cluster. Euronext, (which is the result of a merger between the money markets of Paris, Amsterdam, Brussels and Lisbon), is the principal European stock market platform when the volume of transactions are considered and it has the second place in the means of market capitalization. The money market of Paris is a private access point to the euro market and foreign investors hold nearly 35% of the market capitalization and carry out 50% of transactions. Consequently, it can be said that it has a wide open money market for international investors.<sup>48</sup>

Paris can be thought as the location for a large number of national and international head offices that guarantees the existence of an active financial market driven by various issuing companies. This region has one of the biggest privatization programs in the world by offering significant opportunities (examples of recent stock market flotation's: EDF, GDF, Sanef, ASF) as well as a regulatory and legal environment in accordance with the international standards, in order to protect the investor especially with the latest "financial security law"<sup>49</sup> The banking system of Paris is capable of attracting a high number of international business banks and the French banks are among the most successful banks in Europe.<sup>50</sup> In brief, it can be understood that Paris region has also an effective and efficient banking system besides the stock market.

It is the first economic region with more than 615000 companies with a lot of multinational ones; Paris constitutes an economic center which is extremely dynamic. It is also one of the most creative and rich regions in Europe. Besides when GDP/ habitant ratio is taken into consideration, it has the highest number. In 2002, Paris has produced 28.7 % of national GDP and 5% of European GDP. Paris region is the first European labor BASSIN with more than 5.5 million active employees. 82.9% of employees are

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<sup>48</sup> The attractiveness of Paris region, Paris region economic development agency

<sup>49</sup> The adoption by the French Parliament on 17 July 2003 of a new Financial Security Law has resulted in several significant modifications to French legislation on securitization transactions. The French securitization law is to improve security of investors' rights, thereby strengthening their confidence in the French market. For further information, please see <http://www.gtnews.com/article/5230.cfm>

<sup>50</sup> According to Fortune Magazine, three French banks are in the top 20 banks worldwide, in terms of revenue

being employed in raw industry, 4.9% in the construction, 11.9% in the industry, 0.3% in agriculture.<sup>51</sup> Almost half of the France (47.8%) is being employed in Paris. This high proportion is due to the strong social density between Paris and the other regions, essentially in the headquarters of defense and new cities.<sup>52</sup>

Paris disposes a diversified economic activity and highlighted by the biotechnological, nano technological sectors. In addition it is competitive in wireless sectors where 3D graphic animations take place. Besides older innovative sectors such as pharmaceuticals and automotive sector or aerospace sector exist.

Paris region has 1.543 billion euros volume of transactions. Euronext, is the first European stock exchange which is completely integrated and is the leader in the Europe in terms of the transactions and the volume), has 2.092 billion euros of market capitalization volume (October 2005). Its volume of managed assets is 2.000 billion euros and volume of collectively managed assets is 1.159 billion euros. There are 1.270 companies listed on Euronext and 380 foreign financial institutions(banks and finance companies) are operating on the Paris money market in which it is behind London (450 companies) and ahead of Frankfurt (230 companies). The international investors are holding French securities of which 42% of the Paris market capitalization and approximately 50% of the French State's negotiable debt. Paris has a leading position in outstanding international bonds issued by companies with 250 billion of outstanding bonds. Besides when the bank revenues are considered worldwide, three French banks are in the top 20.<sup>53</sup>

### **The Paris region meets the demands of companies in terms of business property**

With respect to its largest volume of available space and transactions carried out, the best return in Europe for office space and the highest demand for property in Europe, Paris is the leading region in Europe even ahead of London. Paris presents a diversified and

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<sup>51</sup> For further information please visit <http://www.paris-region.com/>

<sup>52</sup> Ibid.

<sup>53</sup> The attractiveness of Paris region, Paris region economic development agency

competitive range of high quality property for companies. It is seen that the office space, logistics warehouses, business premises and laboratories available respond to the needs of all types of companies and satisfy the most varied requirements such as design, location, accessibility, etc.

Paris is being attractive to the international investors due to the following; the high liquidity of the market, the diversity of rental demand and the outstanding performance of property products. The profitability, market liquidity, diversity of rental demand, security of transactions, variety of the offer and considerable potential can be explained as the 6 chief assets in the means of business property for investors.



Paris has a wide diversity of international investors in which the Americans form 38%, Germans are 21% and the rest are mostly British and Dutch. Furthermore, in recent period, the number of Middle Eastern and new European investors-

such as Irish, Italian and Spanish-is increasing incrementally. <sup>54</sup>

Besides, Paris region can be described as the biggest business property market in Europe taking 47 million sq.m of office park, 30 million sq.m of an industrial park and 20 million sq.m of warehouse park into consideration. The business real estate market of the region is valuable and it addresses to a broad range of people therefore it is both innovative and competitive. With respect to the offices, warehouses, research laboratories, or commercial space, it is capable of meeting the demands of every kind of company. The real estate investors claimed that it has the best rate of return in Europe by the overall yield of 15.8% by the beginning of 2000. The 70% of the investments to the real estate is being done by foreign investors and the data shows that eight billion is being invested in

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<sup>54</sup> The attractiveness of Paris region, Paris region economic development agency



business real estate per annum.<sup>55</sup>

### **The Paris region is considered as one of the leading regions in attracting capital investment**

Paris is the second implantation pole with 500 big worldwide companies below Tokyo but above London, New York and Chicago. Paris is the first region of which the implementation of foreign companies was used in France. At the same time, it is the first region which attracted the foreign groups in France. In 2001, it attracted more than a quarter of business companies (8900 over 34000), nearly 30% of foreign labor (456000 labor), and 22% of the establishments and 25% of total national raw material sector.<sup>56</sup>

Paris is the Europe's second biggest market for innovative growth company financing, the financial market of Paris is one of Europe's most significant investment capital markets. There exists an increase in the pan European and American funds and they are opening



offices in Paris or they invest in French companies. For the French venture capitalists, Paris is the primary target region in France by attracting 58% of the investments. In the period of 1997-2003 the Paris region has the second position in Europe after London in the field of foreign direct investment. The essential factor of its attractiveness is the capability of attracting productive investments, especially the foreign investment. This provides a key role and superiority to Paris region. (Source: Ernst and young, PCE, 2003). During the 2001-2003, French venture capital decreased, however by 2004, it had

<sup>55</sup> For further information please visit <http://www.paris-region.com/>

<sup>56</sup> For further information please visit <http://www.paris-region.com/>

an increase by 36% in the means of total capital invested.

There was clearly renewed interest amongst investors for investments in start-up companies, although refinancing transactions continued to predominate significantly. The health and biotechnologies sector, which has experienced significant growth since the second half of 2002, together with the software sector, are front runners (29%), ahead of the new industrial technologies sector (25.5%).<sup>57</sup>

There are 250 investment funds in Paris. It attracts more than 60% of the total capital invested in France and 85% of French investment capital structures are set up in Paris. The French venture capital companies made approximately 22% of the amount in Paris according to the data in 2004. The number of the companies which is being financed by the French venture capital companies is 508 in Paris. The French venture capital companies are financing the activity sector and the leading investment are being made to the health and software sectors both with 29%, industrial technologies sector is following these sectors by 25.5% , telecoms sector with 12.5% and e-commerce and internet with 4%.

In France, Paris is the principle center of automotive, information services, electronic, financial services, chemistry and pharmacy in Europe.<sup>58</sup>

### **The Paris region has a significant skill base**

Paris is one of the metropolitan cities which attract mostly the working population, researchers and students. It has the biggest European student centre, with internationally renowned universities and engineering and management “Grand écoles”. More than 25% of the French students and 35% of the national postgraduate population prefer Paris for their education. Besides 20% of the postgraduate students are international students in the region. Approximately 500 000 students are educated every year in this region in extremely different disciplines.<sup>59</sup> The poles of intelligence and excellence are spread in

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<sup>57</sup> The attractiveness of Paris region, Paris region economic development agency

<sup>58</sup> Source: Ernst and Young, European Investment Report, 2003

<sup>59</sup> Please visit <http://www.paris-region.com/> for further information



Paris. With 17 universities, (La Sorbonne, Jussieu, Dauphine, Orsay, Nanterre, ...) and big engineering and trade institutes (Ecole Centrale de Paris, Ecole Nationale des Ponts et Chaussées, Ecole Nationale Supérieure des Télécommunications, Ecole Polytechnique, Ecole Supérieure de Physique et de Chimie Industrielles, Institut d'Etudes Politiques de Paris, Ecole des Hautes Etudes Commerciales, Ecole Nationale Supérieure des Mines de Paris, Ecole Normale Supérieure, Ecole Supérieure d'Electricité, Ecole Supérieure de Commerce de Paris, INSEAD, etc.), this region is composed of highly educated French engineers.



Furthermore, the level of qualification is high in Paris; around 25% of the working population is consisted of senior managers and high level academic professions. In addition, the educational structure has developed a number of partners with the companies and the research institutes in the region. The foreign workers are various with more than 100 nationalities represented. It is believed by the managers of major European companies that Paris attracts the best talent in Europe after London.<sup>60</sup>

Paris is capable of arranging the regional institutions with respect to the well improved information institutions.

Due to the qualified education infrastructure, renowned government and private research institutions, Paris can be considered as a human resources capital and when the productivity per hour is measured, it has the highest rate in the world. The research and high-tech industries make up a big amount of the working people in Paris.

The companies usually prefer Paris regarding to the financial incentives, encouraging taxation measures, and competitive and extensive real estate while deciding to locate their head offices and regional headquarters.

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<sup>60</sup> Cushman & Wakefield Healey & Baker, 2005

When the gross domestic expenditure on R&D is considered, Paris can be seen further on the other European regions. The region is an important scientific and technological actor with a strong agglomeration of research personnel, consisting of 126.000 people that stand for 6.7% of the capacity of the European Union. It has a powerful and highly diversified private research, contrary to most competing and more specialized regional metropolitan areas. According to Eurostat<sup>61</sup>, more than 13.4 million euros were invested to research and development that corresponds to 45% of national R&D expenditures and 8.5% of the European Union expenditure. According to the number of scientific publications, Paris has the second rank in Europe and globally it is alongside Silicon Valley, Boston, Tokyo, London and Randstad Holland and it holds many international researchers. The researchers in the region compose 37.6% of the French scientific texts published and these kinds of researches and contribution ensured a convergence between the scientific world and the business world.

The capital region possesses a multicultural and predominantly young population as almost one third of the population is aged between 20 and 30, which is higher than the national average.

There are 597.000 students in the region. 37% of national student population and foreign students enrolled at university, 20% of international students are among post graduate population, 43% of international postgraduate students in France are in Paris. More than 75% of international investors are pleased with the qualifications of the workforce in France according to the researches of Ernst&Young, 2005. Paris is in the second place among European cities when the qualifications of human resources are taken into account.<sup>62</sup> The managers and high level academic professions in Paris form 26.5% of the working population of Paris especially when it is compared with 11.6% in other French regions. Besides 26.5% of working population in France, has at least first and second

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<sup>61</sup> Eurostat is the Statistical Office of the European Communities. Its task is to provide the European Union with statistics at European level. By harmonizing statistics from the [European statistical system](#) (ESS) to a single methodology, the statistics are made comparable.

<sup>62</sup> Cushman & Wakefield Healey & Baker, 2005

year university qualification. In year 2004, the number of business start ups in the region was 72.955 and this number is equal to 26.4% in whole France. The number of international workers is 724.000 and international managers are 64.500 in Paris. 40% of the French researchers (132.400 researchers) and 7.5% of the total researchers in Europe are located in Paris. Every year 13.1 billion euros which makes 3.1% of regional GNP is being spent for R&D. In public laboratories there are nearly 10.000 international researchers <sup>63</sup> and around 5000 researchers enter or leave the region which can be explained as the mobility rate of the international researchers in Paris. <sup>64</sup>

Paris contributes to the national demography with the high increases. With 11 millions habitants, of which 18.7% is French<sup>65</sup>, the capital region is characterized by multi cultural population and particularly youth and they are representing nearly one third of the population of the region, more than the national proportion.

Paris has highly qualified population. The employment and intellectual superior professions represent 26.5% of the active population in France contrary to the 11.6% in the other French regions.<sup>66</sup>

The attractiveness in Paris for the foreign skilled labor is not being presented anymore. The region collects more than 724 000 active foreigners of more than 100 nationalities. Among them, more than 9200 researchers work in the public research centers.<sup>67</sup>

According to the researches of BACE (Bureau d'Accueil des Chercheurs Etrangers) the 4 main nationalities represented in Paris is Brazilian, Italian, Spanish and Chinese. In the region, there exists a marked intra European scientific mobility, including many Spanish, German and Italian researchers. Besides, American, Russian and Japanese researchers

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<sup>63</sup> Cushman & Wakefield Healey & Baker, 2005

<sup>64</sup> Fondation Nationale Alfred Kastler

<sup>65</sup> source: INSEE, 1999

<sup>66</sup> source: INSEE, 2002

<sup>67</sup> Please see <http://www.paris-region.com/>

have an important presence in Paris.

### **The Paris region is one of the most preferred regions for business events**

When the business events are taken into consideration, Paris is one of the world's leading regions due to its location. It has the largest exhibition capacity in the world and it is the Europe's leading city for trade fairs and exhibitions and the world's leading conference city.

This industry lets the companies located in Paris be privileged in terms of their new trends and innovations gained by the advantage taken to anticipate the upcoming trends and key issues and technological improvements of near future.

The value of direct spin offs of business events in the region is 3.3 billion euro and it has 613.000 m<sup>2</sup> as exhibition surface. The number of participants to these events is 11.3 million and the number of overall activity per year is 1703; 379 fairs (including 197 trade



fairs), 311 national and international conferences, 563 business meetings and 450 other events. Furthermore the overall participation rate has increased by 6% in 2004 when compared to year 2003. The number of exhibiting companies is 94.000 and the number of visitors is 8.9 million. The international exhibitors at trade fairs form 44% of the total exhibitors. The 5 top countries in the means in international exhibitors are Italy with 20%, Germany with 10%, UK with 8%, Spain with 7.3% and Belgium with 6.3%. The rate of international trade fair visitors is 31%. The number of conferences has increased by 10% and the market share of Paris in these events has a changing trend which can be seen in the table below.<sup>68</sup>

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<sup>68</sup> The attractiveness of Paris region, Paris region economic development agency

Paris (retrospective in %)	1999	2000	2001	2002	2003
Paris/World	2.6	2.9	3.3	2.5	2.9
Paris/Europe	5.4	6.3	5.7	4.4	4.9
Paris/France	39	43.7	38.2	40.4	42

Table 1: Business events in Paris

When these events are considered, in 2004, Paris was marked by a 5% increase in the number of events, a slight drop in the number of exhibitions by 2% and a distinct increase in the number of conferences by 10% and other events by 6%.<sup>69</sup>

Paris is still the world's leading city for international association conferences. The capital region is nevertheless worth having to face up to increasing competition from other European cities in a fast moving sector, with, firstly, dynamic cities rapidly winning considerable market shares (Vienna and Geneva) and, secondly, cities supported by a long term policy of vigorous international promotion targeting foreign countries (such as Barcelona).<sup>70</sup>

Paris has an extensive, modular exhibition space that can be adapted to all types of events. It has 10 exhibition centers, 2 centers with more than 2.1 million sq.ft of exhibition space. In addition more than 1000 other sites in the region can host professional meetings for more than 15 people, predominantly in hotels with meeting facilities.

With respect to the accommodation, Paris offers world class hotels, based on 2.400 establishments offering a total capacity of 145.000 rooms. Due to this fact, Paris is ahead

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<sup>69</sup> Ibid.

<sup>70</sup> Ibid.

of other European capital regions.<sup>71</sup>

### **The Paris region has an unmatched quality of life**

While selecting a location, it is a well known fact that quality of life is a key criterion for major international decision makers. France as a country has a beneficial side when its excellent reputation in the means of quality of life is considered and as the capital of France, Paris offers all the essential quality factors. Paris is one of the most satisfying places to live and work and it is famous all around the world for its heritage. It has managed to protect its natural heritage as well as its architectural and cultural heritage. It is known as the world's leading tourist destination for many decades.

The Paris city authorities in association with other local authorities and the state put on an array of events every year: Paris Plage (Beach on the Seine), Paris design capital, art in the street, etc.



75% of the area is made up of parks, woodland, vast forests and rural zones. 53% of the regions area is farmland and 25% is woodland. One million of the region's inhabitants live in rural areas. It has more than 1.700 km of cycle oaths, more than 2.000

km of footpaths and four natural parks. It has magnificent infrastructures known as some of the best in the world, especially in the field of transport, telecommunications and health.<sup>72</sup>

Due to the interconnected and improved infrastructure, Paris has one of the best passenger and freight transport networks in the world and an advantageous geographic

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<sup>71</sup> The attractiveness of Paris region, Paris region economic development agency

<sup>72</sup> Ibid.

position, it is easy to reach Paris and to travel around France, Europe and beyond, after getting there in order to meet existing and potential clients.

Paris Charles de Gaulle is continental Europe's biggest airport and in accordance with the region's other airports at Paris Orly and Paris Le Bourget, receiving almost 75 millions passengers every year. The three airports in Paris have flights to 520 cities in 135 countries.<sup>73</sup>

With respect to the quality of Paris TGV (train au grande vitesse- high speed train) and intercity network, it can be said that it has the most sophisticated and modern rail system in the world, putting the region within a few hours of 145 French destinations and the major European capitals. (Paris-London: 2 hours and 35 minutes; Paris-Brussels: 1 hour 20 minutes)

The local transport system of Paris is efficient and diversified with 16 metro lines and 300 stations, 5 RER (Réseau Express Régional- Regional Express Train) lines, 15.100 taxis, 2.100 km of main roads and motorways. There is 200 kilometers of subway and tram lines, 1.400 kilometers of regional and national railways, 3.000 kilometers of bus routes and 2.100 kilometers of roads and highways. Paris has the 70 ports and in accordance with its growth margin it is the leading river port in France, and second in Europe.<sup>74</sup>

Due to the quality of life Paris region can be seen as the leader capital whilst compared by London and New York. According to the researches of Cushman & Wakefield Healey & Baker, only Barcelona has a better quality of life in Europe when the 7th rank of London is taken into consideration.<sup>75</sup>

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<sup>73</sup> The attractiveness of Paris region, Paris region economic development agency

<sup>74</sup> Ibid.

<sup>75</sup> Source: Cushman & Wakefield Healey & Baker, 2002).

### **2.3. The regional development and competitiveness policies for Paris Region**

After the Second World War, France changed its traditional policy approach from centralization towards decentralization both in politics and economy. In those years, Paris was developed by having 15% of the total population of the country; however there were almost no improvements in the rural areas. In 1960's the regional development policies were being applied in order to abolish the disparities and ameliorate the distribution of people and activities.

The Regional Development Agency (DATAR) was founded in 1963 in order overcome the regional disparities by distributing the responsibilities to various local bodies for tourism, industrialization and urban development. The Regional Development Agency was seen as the key mechanism for government action in which the development objectives were defined as a part of national planning by the central government.

In 1970's there had been an economic slowdown especially in textiles and steel industries; therefore because of the decline in financial resources, the regional development stagnated and the government put more emphasis on helping the reformation of old industrial centers, training of the workforce and new program developments. The French government had some troubles with rural flight and some difficulties in certain urban areas. The financial support of European Union helped the central government to raise the assistance to agriculture and enhanced tourism and forestry.

With the help of decentralization in 1982-1983, the central government achieved to assign most of the burden to the local authorities and by this way the regions in French state developed into fully-fledged territorial units by increasing their power in order to improve themselves. The regions developed Concerted Development Programs (PACT's) in accordance with the central government which was also considered as a part of the national development plan. The territorial units also had key roles in the decentralization



process. There were 36.500 communes which were used as building stones in urban planning.

The sustainable growth and development forms a fundamental part in regional development policies which are set in order to equalize the development balance between city and the country with the aim of reinforcing local communities. It is seen that there is a strong link between regional development and environmental protection, hence in accordance with the economic concerns; environmental issues are regarded as the key elements in the regional development decision making process.

The enlargement of the European Union and the effects of the decentralization and internalization generates new issues occur that should be overcome. Due to these fundamental changes, the regions in French state are becoming compatible with the international and European markets and the main cities in France contract a liability by having the leading role whilst at the same time being in corporation with the local communities in achieving joint projects.

In general, the French regions do not have competence for innovation policy, however in Paris region; the authorities implement policies for funding innovation in order to make Paris become the best region. For the year 2006, the research and development budget of the region was 107 million euros and it is expected to increase to 150 million euros by the year 2010. These funds are being used to help the improvement of research clusters including large firms and small and medium enterprises, universities and support them to create a general research plan. It can be observed that the objective of putting the researchers from every field would add a value to the regions effectiveness and efficiency at national and international level.<sup>76</sup>

Besides, with the effect of globalization, there exist acceleration in research and development activities, competitiveness between the industrialized countries with an

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<sup>76</sup> Please visit [http://cordis.europa.eu/fetch?CALLER=NEWS\\_INNO&SESSION=&ACTION=D&RCN=25895](http://cordis.europa.eu/fetch?CALLER=NEWS_INNO&SESSION=&ACTION=D&RCN=25895) for further information.

increasing trend and European integration is reinforced. The three factors above should be considered by innovators while improving the regions effectiveness.

The sub regional collaboration in Paris region is arising from both top down institutional reform and bottom up experience of regional collaboration and this causes some discrepancies such as the decrease of reliance to the regionalism by the local authorities and the belief to a commitment to a regional governance experiment.

When the last decade is taken into consideration, it can be clearly seen that France has launched some programs to support the fragmented local authorities to take actions together.<sup>77</sup>

In Paris the new research programs seem to be well established and with respect to the 67 poles of competitive clusters, the complexity tends to increase. Due to the diversified economy of the region including manufacturing (aerospace, car industry, pharmaceuticals, electronics) and services (banking, culture, communication, etc.), it is considered as one of the most competitive regions. However the industry does not form the major part of the competitiveness because research and development has improved. The region has 20% of the national science production in which it is mostly effective in biology, medicine, mathematics, earth sciences, social sciences and humanities. The physics, chemistry and engineering are the areas that Paris is not well competitive.<sup>78</sup>

When the research and development expenses are considered, 2.5 millions euro is being spared for research programs and almost 6-7 millions euro is being used for local service laboratories.<sup>79</sup>

There is a major program for competitiveness in the region, it is not launched newly but it

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<sup>77</sup> Learning Lessons about Regional Co-operation, Peter Newman and Tassilo Herrschel, Reproduced by permission of the Public Management and Policy Association.

<sup>78</sup> Approaches of the Ville de Paris, Pierre Papon

<sup>79</sup> Ibid.

is comprehensive and effective. The region focuses more on innovation based activities and research potential with respect to the globalization, internalization and in order to catch up with the requirements of the knowledge based economic activities. Paris has a wide definition of adequate projects and fundamental aggregate support so that it can perpetuate its growth and remain its competitive situation with the other metropolitan cities.

#### 2.4. SWOT analysis for Paris region

In order to have a deeper idea about the Paris regions, it is thought that it would be useful to have the SWOT table as the following for further comparisons.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Paris has a reputable image in the global basis.</li> <li>• The financial market reliability has an important influence on the business investors.</li> <li>• There is progress in creating employment fields and in project development.</li> <li>• Paris is being considered as the center of business events</li> <li>• The region gives significant priority to R&amp;D and innovation activities.</li> <li>• There exist fiscal conveniences for research activities regulated by new measurements.</li> <li>• The region has a strong skill base.</li> <li>• There is a high concentration of business companies.</li> <li>• Paris is one of the leading regions in the means of attracting capital investment.</li> <li>• It has a progressive and diversified industry.</li> <li>• It provides a good quality of life for its citizens.</li> </ul>	<ul style="list-style-type: none"> <li>• The deindustrialization exists in the region.</li> <li>• The unemployment is a problem when the unqualified labor is taken into consideration.</li> <li>• Paris has a regional transportation overload.</li> <li>• In the export sector there is a lack orientation to emerging countries.</li> <li>• There is a lack of collaborative work between business partners and information sharing.</li> <li>• The market of knowledge economy is unstructured; there is not a professional syndicate.</li> </ul>

Opportunities	Threats
<ul style="list-style-type: none"> <li>• The developments in regulative basis can positively affect the region to increase the quality of the activities.</li> <li>• The improvements in technology are considered as an advantage for the software activities.</li> <li>• The immigration of skilled labor is a benefit when the improvement of region is considered.</li> <li>• The stabilized economic environment has a good influence on the investors' decisions.</li> <li>• The strategic competitiveness between the sectors in the global environment can help the region to achieve more success.</li> <li>• The technological changes have a positive effect on the region which would help it to improve its strategies.</li> <li>• Being a globally known capital due to its cultural heritage, adds a value to the region.</li> </ul>	<ul style="list-style-type: none"> <li>• The immigration of the unskilled labor creates a burden for the economic activity.</li> <li>• The existence of high crime rates because of the income level gaps in the global basis seems to be a threat for the region.</li> <li>• The informational changes bring about informational risks and these can be taken into account as threats that should be avoided.</li> <li>• London is a concurrent region and is a threat due to its strong accountability in expertise and assurance.</li> <li>• The existence of concurrent capitals such as London with its strong accountability can lead a decrease in the attraction of investments in the region.</li> <li>• The brain drain and ageing population has a negative impact for the future of the region.</li> </ul>

## 2.5. Conclusions

In this chapter we have analyzed the Paris region by its image, business locations, money market, business property, and attraction of capital investment, skill base, business events, quality of life and the regional development policies by depending on the theoretical framework we have examined in chapter 1. Paris is one of the leading metropolitans in the world and it has a developing structure in accordance with meeting national, European and global competition.

In the third chapter, Istanbul region from Turkey will be analyzed. It is thought that during the accession period, a region chosen from Turkey would be a good example to be examined in comparison with a region such as Paris from European Union. In line with the three chapters, there will be a comparison of Paris and Istanbul regions and the lessons that each region can draw from each other will be examined in the last chapter.

## CHAPTER 3: THE ISTANBUL REGION

### 3.1. The Turkey – European Union Relations

In relation with the beginning of the Turkey-European Union negotiations initiated on 3<sup>rd</sup> October 2005, some questions appeared on the agendas of the both sides concerning the phases of the negotiation process.

““After four decades in the EU's waiting room, accession negotiations with Turkey were opened on 3 October 2005. According to the mutually agreed negotiating framework, these negotiations are "an open-ended process", the outcome of which cannot be guaranteed". At the same time, analysts tend to point out that there has been no case in EU history where accession negotiations, once started, have not led to an offer of full membership.

Several analysts also recall that the term "negotiation" is slightly misleading, since, during the accession process, European law (i.e. the *acquis*) is to be adopted rather than negotiated.

Outside the immediate framework of the accession negotiations, Turkey is expected by the EU to normalize its ties with all of its neighbors, primarily Greece, Cyprus and Armenia, before joining the Union. Ankara must also do its best to reconfigure European public opinion in its favor.

Negotiations are expected to take at least 10-15 years.””<sup>80</sup>

As it is already briefly mentioned in the article above published on 3<sup>rd</sup> of October 2005 at euractiv web site, it is a well-known fact that Turkey is still in the negotiation period and it seems that this period would take a bit longer than it's expected because of the internal and external reasons that Turkey is facing.

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<sup>80</sup> <http://www.euractiv.com/en/enlargement/eu-turkey-negotiations/article-145219> Published: Monday 3 October 2005 | Updated: Wednesday 13 December 2006

Even Turkey is in the accession period to join the EU, it is already a member of European Commission and Customs Union due to the fact that it is already counted as a European country.

With respect to the subject of the thesis, in order to examine Istanbul region in a more comprehensible way, it is thought that giving brief information about Turkey-EU Customs Union would be expository so as to explain the importance of increasing regional competitiveness not only in the borders of Turkey but also among Europe.

### **3.2. The Customs Union Agreement between Turkey-European Union**

By means of the establishment of the Customs Union on 31 December 1995, the foreign economic and commercial relations of Turkey were resulted in the context of Turkey-EU association relations. Due to the approval of liberalization procedures, this event was important to assure the improvement of Turkish economy.

Turkey became almost as a business partner with EU with respect to the Customs Union because the agreement led to a sophisticated structure of integration by a broad aspect and inclusive framework that includes a various range of policies.

Turkey has a strategically and geopolitically important role in the business. Therefore it is the only country which was accepted to EU Customs Union without having full membership. With this agreement, Turkey and EU compromise to collaborate in various issues in addition to tariff reductions due to the fact that this situation is “*sui generis*”<sup>81</sup> for EU.

It is defined in the Article 24 of GATT (General Agreement on Tariffs and Trade) that Turkey removed the custom duties on imports from the EU and accepted the common customs tariff for imports from third countries in this context. In consequence, the tariff and non-tariff barriers were taken out between Turkey and EU with the help of Customs Union.

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<sup>81</sup> Latin for "of its own kind," used to describe something that is unique or different

Besides, it can be said that the Customs Union Decision includes implementation of a broad range of legislation which covers all types of trade, involvement of numerous meetings on academic, industrial and commercial property rights and harmonization to the technical standards of the EU.

Essentially the Customs Union is consisted of industrial and processed agricultural products. It is mentioned in the agreement that traditional agricultural products will be included in the Customs Union only after Turkey's adaptation to the Community's Common Agricultural Policy.<sup>82</sup>

In this context,

- Turkey eliminated all customs duties and charges having equivalent effect applied to imports of industrial products from the EU;
- Turkey started to apply the Community's Common Customs Tariff for imports from the third countries;
- Turkey and the EU established a system for processed agricultural products, in which parties differentiate between the agricultural and industrial components of the duties applicable to those products and abolished the duties for the industrial component.<sup>83</sup>

The above information is given in order to put emphasis on the importance of the Customs Union Agreement because it is believed that due to the extracted tariff and non-tariff barriers, Turkey as a country and Istanbul as the country's main economic and financial center achieved to become more competitive on the global basis.

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<sup>82</sup> [www.dtm.gov.tr](http://www.dtm.gov.tr)

<sup>83</sup> [www.dtm.gov.tr](http://www.dtm.gov.tr)

### 3.3. The background information about Istanbul Region

Istanbul is located in one of the most important locations in the world as it is on the two sides of the waterway which separates Europe and Asia. The history of the region leans upon 2600 years by being the capital city of the Ottoman Empire and ended as the most attractive region of the Turkish Republic, therefore it has the signs of many cultures. The borders of the city reach to the townships of Tekirdağ in the west and Gebze in the east, enlarging from the coast of the Black Sea in the north to Yalova in the south which approximately makes 6500 square kilometers and have a population of more than 12million. Due to its geographical location and variety of cultures, it can be observed that it has changed in accordance with the local and global effects.

After the foundation of Turkish Republic, the capital city of Turkey became Ankara due to its central location, therefore Istanbul had lost its significance in the first years, then in 1930's, with the help of new developments in planning



studies, it had its former attractiveness. European planners and technicians like H. Prost were used to adjust and design big cities such as Istanbul and the studies were effective in shaping the city.

After 1950's, because of the increasing immigration and high population, the plans made to improve the city's attractiveness did not work as before. During 1980's there was a new Master Plan but partial planning discernment had dominated. There existed "Urban Rehabilitation Development Plans" which had the aim of legalizing the unfit current situation, affected the improvement of Istanbul negatively. The last planning study made



in Istanbul was 1995 Istanbul Metropolitan Area Sub-Regional Master Plan which could not take permission from the Ministry. However the region persisted to improve due to informal local investment plans. For the new strategic plan of Istanbul, studies have begun under the control of Istanbul Metropolitan Municipality in 2005.

It has varying urban areas such as business, residential, transportation within the framework of an international metropolis. The European side of the region is mostly used for business and the Asian side has the residuals.

### **3.4. The Overview of Istanbul Region**

The cities can be described as the dynamics which keeps the national economies alive. Most of the metropolitan regions have high levels of GDP per capita and higher rates of growth when compared with the national average due to their sheer size. The geographic convergence of the companies and people forms a significant environment for innovation and knowledge exchange, by causing rise in productivity and competitiveness.

In this chapter we will examine Istanbul region in some categories, however because of the lack of transparency and deficiencies in the legal basis, we could not reach all the data therefore, it would not be possible to analyze Istanbul as we have examined the Paris region. The focus in this chapter will be on the administrative profile and inter-governmental Relations in Istanbul Region, its economic situation, financial fundamentals, skill base and the system progress in Istanbul region.



Istanbul has a concentrated industrial restructuring and especially the textile sector is competing with the cities in China,

Eastern Europe and some Asian countries because of their low cost production.

Because of the high trend in unemployment, in some of the neighborhoods of the region, there exists violence and poverty. The OECD reports also support this argument by stating that the crime rates are higher in the metropolitan regions by 30% when compared with the other regions.

In Istanbul region, there is a high rate of informal sector in the labor market, approximately 30-50% of the employees work informally.<sup>84</sup>

It is a cruel fact that the regions with economic competition in order to attract investment and human capital have more difficulties if they also face with the problems above while balancing their financial positions. In such regions, it is necessary to set well arranged policies and to improve the institutions, not to have any troubles during the implementation. The opinions of the citizens and the spokesperson's of the companies from each industry should be taken into account during the decision making process in order to be transparent and to ensure confidence.

The regions attracting people from all over the world are generally becoming the international migration centers.

Istanbul is trying to develop the governance in order to have control over complex issues such as transportation infrastructure and it has to integrate the earthquake risks arising from its geological situation into its building codes.

### **The Administrative Profile and Inter-governmental Relations in Istanbul Region**

Istanbul has a twofold position as a Special Provincial Administration and a Metropolitan Municipality. It consists of the City of Istanbul and 27 separate District Municipalities. The municipal council has crucial legislative power, whose 203 members are being elected for five years, as in the mayor.<sup>85</sup> The duties of the council can be followed as;

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<sup>84</sup> TC Istanbul Valiliği İl Çevre Koruma Vakfı Yayını-1, 2000, page 281

<sup>85</sup> please see <http://www.ibb.gov.tr/en-US/Kurumsal/> for further information.

reviewing and approving annual budgets, controlling the use of contracts, approving the use of reserves to compensate unexpected expenses and setting fares for municipality transport.



In the means of inter governmental relations, it is remarkable that local governments usually had the support of the Turkish government by having state guarantees and interventions for the avoidance of default on public debt.

At the local government level, by the help of economic policy that is used

to stabilize the macro economy, depreciation and the structural reforms engendered to a stable environment and the reliance on the local economy increased. Besides, the administrative reforms mostly focusing on the decentralization of the amount of the responsibilities and sources of incomes from central government to local administrative level.

### **The Istanbul region has an improving economic situation**

When the economic situation of Istanbul is considered, in the recent years it was unstable and going above the peaks and troughs of the country's economic cycle. Because of the economic crisis in banking and finance sector together with the economic slowdown in the world in 2001, Turkey's economy decreased by 7.4. In 2002, GDP had a growth of 7.8% as the signs of the economic recovery. The economic growth persisted in 2003 causing an increase of 5.8% of GDP.<sup>86</sup> Due to the substantial domestic and foreign investments made, there had been an increase in the exchange rates which has shifted the currency preferences to Turkish lira. Furthermore, when compared to the recent years, the productivity has visibly increased, revealing extensive job cuts with tough output growth.

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<sup>86</sup> The economic and Social Indicators of Istanbul, published by Istanbul Trade Center, 2002-2003, page 13

The US-led war in Iraq affected tourism sector and the overall economic situation in Turkey. Besides the terrorist attacks in November 2003, did not have a significant negative effect on economy; however tourism and investment was affected unfavorably.

As it is a well known fact, high inflation rates and high real interest rates are the main problems of the Turkish economy, impeding precise business planning and accounting, and depressing long term saving and lending, with the corrosion of the average value of the Turkish lira versus the US dollar of more than 400% since 1998. When the data is examined, there is a remarkable decrease in the inflation rates and the consumer price index has a growth of 65% between 1996 and 2002.<sup>87</sup> In addition 20% rate of growth was expected in 2003 thanks to the government's commitment to deflation and other measures under Turkey's Stand-by Agreement with the IMF.

Istanbul is the economic activity, finance and trade center of Turkey and it is the biggest and richest region. The 18.5% of Turkish population is located in Istanbul and 22% of Turkey's GDP is obtained from Istanbul. Besides, it engenders 40% of total national tax revenues.<sup>88</sup> The percentage of foreign direct investment in Turkey is not really high but the central government is attempting to develop the macroeconomic environment in order to attract the investment. Due to the above fact Istanbul is also not attracting much investment. However when compared with the other Turkish regions, it is the most attractive region nationwide.

The 31% of GDP is being gained by the trade; industry follows trade by 29%, transport by 15% and financial services by 12%. In the region, taxes are mostly collected from the banks

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<sup>87</sup> Ibid, 1997 page 22, 2003 page 31

<sup>88</sup> Ibid, 2005, page 15



due to the fact that the headquarters of all Turkish banks are located in Istanbul, therefore we can name the region as the financial center of Turkey.

The metropolitan municipality of Istanbul mostly focuses on the traffic problem in order to present a better environment to the citizens. It became more selective in projects and privatizing some municipal companies. A few decades ago, the working environment and quality of life was not taken into consideration as much as past few years. As we mentioned in the literature part, in order to become more competitive, we need skilled labor and invest in human capital (Paul Romer, 1993). The significance of human capital is recognized and the required environment is trying to be ensured by the new projects of the government. As it is stated in Florida report; “the regions with activities that can easily be reachable and available on a “just in time” basis, attract the knowledge workers more.”<sup>89</sup>

### **The Istanbul Region has efficient financial fundamentals**



The overall financial management of Istanbul is illustrated by positive net operating balances averaging 331million US dollars over the 1998-2002 period, with net operating margins averaging 39% during this time<sup>90</sup>. This significant performance shows that the administration relies on state shared taxes for a high

proportion of its operating revenues and can organize budgets with some degree of certainty. Besides, capital outlays which are ready to be postponed in case of financial distress, is included in the Istanbul's total expenditure. Moreover, an important proportion of the municipality's operating expenditures are unrestricted so that it can

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<sup>89</sup> <http://www.nga.org/files/pdf/Florida.pdf>

<sup>90</sup> The economic and Social Indicators of Istanbul, published by Istanbul Trade Center, 1999-page 32,2003-page 33

allow a degree of flexibility in the contingency of revenue losses.

### **The Istanbul Region is lack of qualified skill base**

In order to realize the national and corporate competitiveness in a knowledge based global economy, education and skilled workforce are two main factors. It is a well known fact that education is one of the most important fields that investment is needed while achieving poverty reduction and economic growth.

The restrictions in product and process quality, industrial property regime, level of technology development and linkages between research and development institutions and the industry were eliminated by the measures of the Turkish government since 1990's. Although, innovation in industrial sector is realized with the help of these reforms, the expected results could not be achieved and the targets which were established by the Development Plan could not be completed. In order to meet the requirements of the global competition, the number of innovative companies increased and the number of the companies that is active in R&D raised by 58% between 1996 and 2000.<sup>91</sup>

When the innovation policies in Turkey are considered, it is clear that it is based on the Science and Technology Policy documents. There exist allocations to innovation policy in the five yearly development plans. The main objective of science



and technology policy has been defined as “establishment of the National Innovation system”. The R&D projects are mainly supported by the Technology Development

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<sup>91</sup> for further information please see [www.tubitak.gov.tr](http://www.tubitak.gov.tr)



Foundation of Turkey (TTGV) with a long repayment period of soft loans and with grants by The Scientific and Technical Research Center (TUBITAK). The main difficulties arising in innovation activities in Istanbul can be followed as the lack of knowledge of cost-effective technology opportunities and Innovation, insufficient R&D skills and gap in transferring innovation culture to the business community, disconnected SME's, lack of large private industries with their own R&D activities and poor R&D in SME's, restricted capacity to upgrade available technology and pursue continuous improvements, restricted Technology adaptation and customization capability, underdeveloped science and technology infrastructure including quality, standards and testing infrastructure, insufficient innovation financing schemes to encourage investment in new technologies and innovative processes, and limited or unknown impact of FDI on innovation.

When the educative base of Istanbul is taken into consideration, according to the data of 1995, there existed 8 public universities including 151.872 students.<sup>92</sup> In 1997-1998 the total number of the students increased to 181.000 students in which 20.495 of them were masters and 6.740 were doctorate.<sup>93</sup> In 2002-2003 there was a decline in the student base with 208.500 when the 2000-2001 is taken into account with 249.000 students.<sup>94</sup> The cause of this decline was mostly because of the economic crisis Turkey was facing and the decrease in purchasing power of education facilities. In the 2004-2005 this number has increased to 229.000 students and in an increasing trend in 2006.<sup>95</sup> There exist 7 public universities (Bogazici University, Galatasaray University, Istanbul Technical University, Istanbul University, Marmara university, Mimar Sinan University of Fine Arts, Yildiz Technical University), 15 private universities (Bahcesehir University, Beykent University, Dogus University, Fatih University, Halic University, Isik University, Isanbul Bilgi University, Istanbul Commerce University, Istanbul Kultur University, Kadir Has University, Koc University, Maltepe University, Okan University, Sabanci University, Yeditepe University) and 2 military academies (Air Force Academy and Naval Academy).

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<sup>92</sup> The economic and Social Indicators of Istanbul, published by Istanbul Trade Center, 1996, page 28

<sup>93</sup> The economic and Social Indicators of Istanbul, published by Istanbul Trade Center, 1999, page 39

<sup>94</sup> The economic and Social Indicators of Istanbul, published by Istanbul Trade Center, 2002, page 40

<sup>95</sup> The economic and Social Indicators of Istanbul, published by Istanbul Trade Center, 2005, page 41

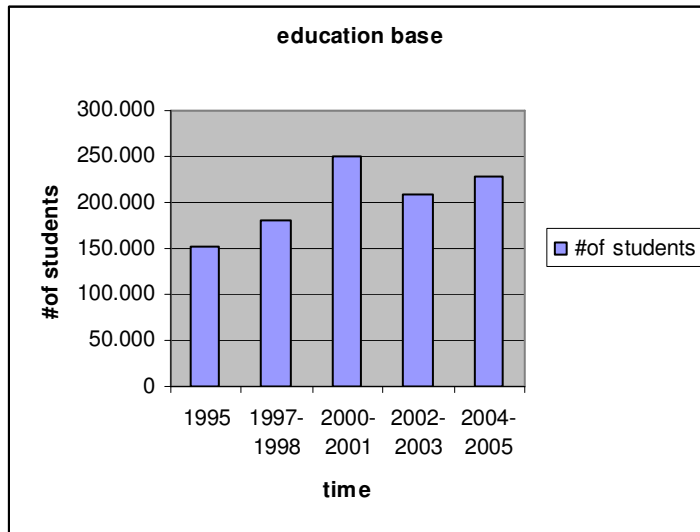


Figure 1: The education base in Istanbul

If we analyze the data above, 229.000 students out of 13 million of population, it can easily be said that Istanbul is not a metropolitan with a highly educated skill base. Mostly the skill base is consisted of the unqualified labor force that migrated from especially the eastern part of Turkey. Therefore in order to be more competitive, it is required that the highly skilled labor should be attracted to the region and the universities should work in collaboration with the industry in order to increase productivity leading to a regional and national competitiveness.

### 3.5. The systems have progress in Turkey and therefore in Istanbul Region

The Turkish governmental system is a centralized system in which the potential to increase revenue is concentrated and central government usually launches and collects most taxes. The state treasury approval is required in the process of issuing foreign debt if the treasury is to guarantee it or its permission if it is not guaranteed. Many municipalities in the region have financial troubles they do not have adequate revenue to finance their responsibilities.

The State is no longer serving municipalities' debts after a well reasoned plan put into



process in order to apply a degree of decentralization to local and regional governments' responsibilities and revenue sources.

The public sector reform package, consisting of the adjustments to the current local government laws and measures to ameliorate the effectiveness and efficiency of the public administration, became effective in 2005. According to those measures, it is aimed that metropolitan municipalities would receive more responsibilities such as culture, sport, environment, and the healthcare. The additional revenues were expected to include higher shares of current state share revenues, a higher share of municipal taxes, and some new taxes such as passenger tax, advertisement tax, accommodation tax and gas consumption fee.

Normally, the metropolitan municipalities have 5%-6% of shared tax revenues according to the law 3030.<sup>96</sup>

This percentage has decreased to 3.5% in 2003 and every city had 40% of this amount directly whilst the 60% was used by state controlled Iller Bank (municipal bank) and it has



distributed among the municipalities by taking the population into consideration.

Therefore Istanbul has left with 35% less revenue. In 2004, the reduction in the share of the taxes is eliminated and replaced by 4.1% for all metropolitan municipalities. Some of these municipalities had compensation for the revenue losses but Istanbul government is planning to get it as a settlement with the central government over time.

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<sup>96</sup> Law 3030: expresses the legal status of the Municipality of Metropolitan Istanbul and its authority are in the services. All the basis and procedures, regarding the establishment of the metropolitan and district municipalities, their missions and authorities, their relation with central and other local administrations take place in the extension of law no. 3030. With this law, two new terminologies have been included to the Turkish Local Administrative System. With this law, two new terminologies have been included to the Turkish Local Administrative System; Metropolitan Municipality and District Municipality.

### **3.6. The regional development and competitiveness policies for the Istanbul Region**

The policies in Turkey are mostly depending on the analysis and decisions that are concentrated on internal relations which avoids interregional developments and international integration. With respect to the relations with European Union, the necessity of the regional development policies became more significant in the national agenda. The national development plans are being implemented in order to be in accordance with the European Cohesion Policy for 2007-2013, it is needed to harmonize the regional planning system.

Because of the fact that the growth of Istanbul was not planned and that there were no strategic arrangements as a consequence of insufficient institutional capacity at the local level and legislative procedures, some social and economic problems raised and led illegal housing and decline in the welfare of the region.

Since 2004, there has been a remarkable institutional change in Turkey due to the integration period to European Union. Many policies were set in order to harmonize national plans such as the evolution plan for national development. For the period 2007-2013, 9th National Development Plan has been prepared and this plan was affected by the accession process to the European Union. The decentralization of authority to local bodies and the launch of other laws associated with development have encouraged the local governments to realize strategic development decisions.

With respect to the positive improvements in Istanbul and its near regions, it can be said that there is a decline in the regional differences between the Southeastern European Union and rest of the European Union.

It is well known fact that Istanbul is a core region for international trade and socio-cultural exchange. However due to the new trade routes and new technologic innovations, the importance of the region has decreased. Because of the two poled political system in the world, Istanbul has lost its international connections. Its location has still got a significant geopolitical role but it remains on the edge of Europe. When we evaluate the

researches made by Geniş (2004), Keyder and Öncü (1993), it is observed that with respect to the industrial enterprises, Istanbul had a recovery followed by its attraction of more industries and services as Turkey changed its import substitution policies to export oriented growth policies participated by financial liberalization and privatization policies. When we consider the beginning of 21<sup>st</sup> century, due to its nearby settlements in accordance with its industry, Istanbul became the biggest financial center in Turkey. Istanbul is the region which is capable of attracting the most of the foreign direct investment in the country especially in the producer services. According to Geniş (Geniş,2004), by considering the data of 2002, 82% of FDI in producer services and 50% of FDI in transformative industries such as construction, manufacturing and energy in Turkey were made only in Istanbul which also explains that Istanbul region is as the center for foreign direct investment in Turkey. Particularly, after the fail of the Soviet Union, it has improved much more than expected due to the internalization of Turkish companies and is now the main international trade center in the country.

As it is stated by Richard Florida under the article “The world in numbers: world is spiky” in the periodical The Atlantic Monthly on October, 2005 even Istanbul has a raising number of global connections and high attraction of foreign direct investment, because of the lack of improvement in technology, it could not be competitive as much as expected. Istanbul does not give sufficient importance to creativity and innovation.

With respect to the globalization, the informal industry became a problem in addition to the consistent improvements in the labor market which led to socio-economic problems.<sup>97</sup>

During the 1980's, many people migrated to Istanbul within Turkey, however by 1990's, it attracted people from Balkans, The ex-Soviet Republics, Africa and Middle East (Kirişçi, 2003). This migration could be explained by the informal sector growth and the increase in unlicensed building construction. Especially in some districts, immigrants from Russia and Africa are located. This kind of immigrants constitutes approximately 10% of the Istanbul's population and not all are taken under control and record.

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<sup>97</sup> Sassen, 1991, Storper, 1999, Stiglitz, 2002

The economy of Istanbul shifted to a private sector oriented economy from a public oriented economy and therefore there is a considerable difference between the income levels of the citizens.

It is a well observed fact that there is poverty in the region in accordance with the change of the local real estate market in inadequate neo-liberal market conditions. There is a significant deficiency in the management of the real estate stock because the policies are set more on regulating the land use. This deficiency is trying to be met by speculative real estate investments that damage the reinvestment opportunities for job creation and improving the quality of life. Because of this fact, rents increase by leading a decline in the quality of life and an increase in the poverty levels.

According to the researchers, because of the reason that the planning practices do not restrict the investments on real estate market, the adjusted financial regulations which can help the real estate market to work properly with the launch of the mortgage system. (Gülden Erkut, Mete Başar Baypınar, Ceren Özgen, 2006).<sup>98</sup>

It is believed that the above mentioned problems prevents Istanbul from being a locomotive global city which is capable of increasing its wealth in the South-Eastern Europe as explained by: “The city continues to be a destination for uncontrolled immigration and is a first-hand departure to Europe.”(Kirişçi, 2003)

Because of the fact that there is a lack of common and clear strategic approach between local and international interests in the planning system, when there are new investments made to raise the competitiveness of the region, there are some argumentations and speculations.

There are some reforms being implemented in Istanbul in relation with governance, urban and regional development management which concentrates on institutional capacity building, and better management through strategic planning at the institutional level, decentralization of authority to local authorities, enabling private-public-non governmental organization partnerships and enabling horizontal partnerships and

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<sup>98</sup> Istanbul as Part of an Emerging EU Global Connection Zone, Gülden Erkut, Mete Başar Baypınar, Ceren Özgen, 2006

cooperation between local governments.

### 3.7. SWOT analysis for Istanbul Region

As it is also done in the previous chapter for Paris, we will have a look at the following SWOT analysis of Istanbul region leaning on the scientific data we have gathered.

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Istanbul is the financial, commercial and cultural center of Turkey, with wealth indicators that are above the national average.</li> <li>• It has favorable debt profile and reasonable debt services.</li> <li>• It has remarkable economic growth.</li> <li>• The level of wages is favorable when compared to the other regions within Turkey.</li> <li>• There are reforms being made to regulate the labor market.</li> <li>• It has an improved transportation network and infrastructure.</li> <li>• Its communication infrastructure is well organized.</li> <li>• There are many opportunities for well education.</li> <li>• The cultural heritage of Istanbul is difficult to be compared to any other region.</li> <li>• Its tourism is well developed.</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Istanbul has minimal revenue flexibility and it has gradual growth in direct debt.</li> <li>• The region is not effective in improving managerial and controlling systems.</li> <li>• There exist varying revenue equalization mechanisms, deteriorated by the increase of intergovernmental reforms which affects the region negatively.</li> <li>• There should be a better stability about the political decisions about the region, therefore leading to a stabilized political environment.</li> <li>• The bureaucratic service quality is insufficient.</li> <li>• The need of innovation is fatal for the improvement of the region and for regional competitiveness both within the country and in global basis.</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• The presence of both qualified and unqualified labor is one of the advantages of the region that attracts the international investors.</li> <li>• The existence of the industrial culture and its improvement adds value in the global basis.</li> <li>• The development in the global world has a positive impact on the region therefore it can help to increase the level of demands.</li> <li>• Being at the core of Europe and Asia gives an</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• The changes in the tax tariffs on the global basis can have a negative effect on the investment decisions of the foreign investors.</li> <li>• .In a corporate global economy, the existence of dissonance between the institutions would become a threat.</li> <li>• The regional agencies in the economic development process have strong</li> </ul>

<p>advantage when the business events are taken into consideration.</p>	<p>influences therefore the lack of such agencies would be a negative impact.</p> <ul style="list-style-type: none"> <li>• The immigration from Eastern Turkey, especially in unqualified labor, is being considered as a burden to the region's economy, also causing deficiencies in providing a good quality of life.</li> <li>• The region can possibly suffer from the globally existing high crime rates in the metropolitans.</li> </ul>
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### 3.8. Conclusions

The facts written about Istanbul region reflect the literary data from our research depending on the books, periodicals and many resources. However, it is thought it would be clearer if we give way to the issues learnt during the appointment that had been done with the director of the European Union Relations Department of the Istanbul Metropolitan Municipality, Yaşar Karaca. According to the studies they are conducting, the regional policies in Turkey and in Istanbul are in line with the European regional policies. There exist 27 districts under Istanbul Metropolitan Municipality which are allowed to work in different projects in cooperation with international companies only by informing the metropolitan municipality but not being obliged to take permission. There exist some controls on funds and accounts of the municipalities whether they are being used for the projects and right purposes in order to prevent fraud. It is stated that the European Union regional regulations are completely applied in Turkey however there is lack of transparency which does not give any confidence to the international companies. This lack of confidence is arising from the economic crisis and high fraud rates in Turkey that were faced in the recent years. Every item of the agenda should be transparent to regain the confidence, therefore leading to the attraction of more foreign investment in order to become more competitive in the global ground. Besides the existence of regional agents are required however it is not possible to have the expected results without having

the necessary infrastructure.

The most important question here is, except the transparency issue, Istanbul seems to be a well developed region meeting all the requirements of the European Union but then the problem arises, “if there is a real progress and development in the region, then why it is not capable of being competitive as Paris?” Is it because of Paris being a French region and Istanbul is a Turkish region or such a question should arise: “Are those policies to improve the region being set but not being applicable because of the lack of infrastructure and therefore not leading(allowing) the most productive Turkish region to remain competitive as the other European regions?”

In the fourth chapter there will be the comparison of two regions, Paris and Istanbul in the light of the SWOT analysis and the lessons that can be drawn from each others situation will be examined in order to give a clear idea about the above mentioned information.

## **CHAPTER 4: FROM COMPARISON TO LESSON DRAWING**

In the previous chapters we have first analyzed the regional policies in the European Union by taking a deeper look at the regional development and competitiveness policies. We have observed that a region should be capable of attracting investment at first sight to create employment fields and by employing skilled labor, it can improve its technological side and be competitive not only on national but also on global ground. We have mentioned many views of many scientists on regional development and competitiveness policy process and the key was the equation of investment, labor and technology (innovation).

In the second and third chapters, we aimed to give some related information describing the image of the two well known metropolitans and supporting their regional activity by some scientifically proved variables and some policy remarks.

Not every region is the same and not every policy can be applied to every region. Therefore there exist some disparities between these two regions. In this chapter, we would like to make a comparison between Paris and Istanbul regions in the light of their SWOT analysis which are already mentioned in the previous chapters and by giving a brief idea about their different regional policy approaches.

Afterwards, we will try to find out if there exists some lessons that each region can draw from each other by using the related literature of Richard Rose” Lesson Drawing in Public Policy”, 1993 and “Lesson Drawing in Comparative Public Policy”, 2004 in order to discover if each region can be more developed and become more competitive by overcome their weaknesses, eliminate their threats, improve their strengths and use their opportunities in a positive way.



#### **4.1. The comparison of strengths of Paris and Istanbul regions**

When we consider the image of Paris and Istanbul, both regions has a good image, however because of the economic crisis and political fluctuations in Turkey, even Istanbul is considered as the financial, commercial and cultural center of Turkey, with wealth indicators that are above the national average, its image is bruised by the negative events within the national territory. Therefore when the financial aspect is taken into account, Paris has stronger and more confidential variables than Istanbul. In Paris the financial market reliability has an important influence on the business investors hence leading to the attraction of foreign investment to the region by the help of progress in creating employment fields and in project development. Whereas there are not sufficient employment areas in Istanbul and this lack of employment fields cases unemployment which is then turning out to be a burden on the economy. Paris is capable of attracting also skilled labor to the region with respect to fiscal conveniences for research activities regulated by new measurements. It is a well known fact that human capital has a significant role in development and competition in combination with the R&D activities; therefore because of the lack of progress in innovative activities in Istanbul, it is not possible to put two regions in the same scale. There are some reforms being made to regulate the labor market in Istanbul and also with its well organized communication infrastructure and its education opportunities in every field, the region is expected to make progress and to catch up with the other successful regions as well as Paris in the global basis. Although there exists a high concentration of international business companies in Paris region, with respect to its location and to its past activities, Istanbul is not attracting the attention of most of the business companies worldwide. As a matter of fact Istanbul is in between the Europe and the Asia with respect to its location but it is not well improved and well known by the investors and business companies as in the case of Paris region. Istanbul has a remarkable economic growth and if it procures the economic stability, it would be more capable to attract the investors and the international companies and therefore it will become more competitive. When we evaluate the quality of life in both regions, it is a fact that the infrastructure of Paris is more organized when compared to Istanbul; therefore it provides the best conditions for the human capital. Istanbul has a

more complex status due to the lack of infrastructure. The metropolitan municipality trying to offer the best options for transportation and leisure activities but the population overload still prevents the region to meet the welfare criteria. However the region is still being favored due to its cultural heritage, Bosphorus and its climate.

#### **4.2. The comparison of weaknesses of Paris and Istanbul regions**

When we take a look at the weaknesses of both regions, Istanbul has more problems in its economic situation such as minimal revenue flexibility and it has gradual growth in direct debt and varying revenue equalization mechanisms, deteriorated by the increase of intergovernmental reforms which affects the region negatively. However Paris region is economically stable and stronger. The deindustrialization, regional transportation overloads and lack export orientation to the emerging countries seems to be the areas that the region is weakening the region. Due to the fact that Paris is the most successful region in the French territory it attracts also unskilled labor leading to an increase in unemployment rates which is weakening its economic condition. Besides, not as much as Istanbul, Paris has a lack of collaborative work between business partners and information sharing in addition to its unstructured knowledge economy market. When we compare these with Istanbul region, it does not give importance as much as Paris region to the knowledge economy. There are some reforms being made to improve the cooperation proportions between business companies and universities in order to make use of knowledge economy. The political decisions about the region should be more stable in accordance with the needs of the region. The insufficient bureaucratic service quality should be dispelled because it is known that without sufficient bureaucratic service quality and fully justified political decisions; a region cannot be developed easily. In addition there is a significant need for innovation in the Istanbul region. In our opinion it is the most important missing part in this context. Technology is always a need to improve the countries and lack of innovation leads to a stable and even a regressing position in the global ground.

#### **4.3. The comparison of opportunities of Paris and Istanbul regions**

When the opportunities of the two regions are considered, the developments in regulative basis have a positive impact while increasing the quality of the activities of the Paris region. There exist high standards and an increase in software activities due to the technological global improvements. When these are considered in Istanbul case, it is not really into the development of software activities rather it has a more developed industrial structure with an improved industrial culture. The stabilized economic environment has a good influence on the investors' decisions in Paris region and the immigration of skilled labor is a good advantage for the development of the region.

The presence of both qualified and unqualified labor is one of the advantages of the region that attracts the international investors to Istanbul therefore it has the capability to have cheap labor which attracts the foreign investors worldwide and the qualified labor force helps the region to meet the demand of future investments. The strategic competitiveness between the sectors in the global environment can help the region to achieve more success because of the fact that Paris is a world wide region with the well identified technological approaches. Paris is a metropolitan which gives importance to knowledge based economy therefore; the technological changes have a positive effect on the region which would help it to improve its strategies.

Both regions are well known with their cultural heritage leading to an increasing trend in their tourism and with respect to their geographic positions.

#### **4.4. The comparison of threats of Paris and Istanbul regions**

As there are opportunities for the both regions, there are some threats existing in their current situation. Besides the opportunities related to the immigration of skilled labor, they are under threat of and economic burden because of the unskilled labor immigration. The preference of unskilled labor mostly affected by the attractiveness and unmatched quality of life. The immigration from Eastern Turkey, especially in unqualified labor, is being considered as a burden to the region's economy, also causing deficiencies in providing a good quality of life. It is making the region having trouble with the quality of

life that it's trying to provide to the skilled labor force in order to meet the demands of the human capital. The immigration from Eastern Turkey is being considered as a burden to the region's economy, also causing deficiencies in providing a good quality of life. The tax burden is affecting the investments negatively. The insufficiency of corporation between the local institutions seems to be a threat when the global corporation is taken into consideration. The regional agencies in the economic development process have strong influences therefore the lack of such agencies in Istanbul region would be a negative impact. Firstly, the infrastructure for such an agency should be constituted then the agency should make studies adequately meeting the needs of the region. The informational changes bring about informational risks and these can be taken into account as threats that should be avoided in Paris. London is a concurrent region and is a threat due to its strong accountability in expertise and assurance. It could be helpful for Paris if it improves itself but on the other hand hardens its activities in order to catch up with London's strong accountability in expertise and assurance. Besides the brain drain and ageing population has a negative impact for the future of the region because it has some expertise gaps which can cause a loss in skilled labor in the long term. Both regions are being influenced and will be experiencing high crime rates, because of the high income gaps between the citizens.

#### **4.5. The lesson drawing policy process**

When we consider the books of Richard Rose (1993, 2004) about lesson drawing in public policy, it is found out that the lesson drawing is to learn from the experiences of other governments which faced with the same problems in their past and to observe the conditions in which programs were being applied and how effective and efficient those programs can be. Basically, policy makers had the idea of finding solutions to problems on their own, by testing methods, however this attempt has changed over time and now rather than spending time on the solutions of the problems of newly experienced programs, it is being more utile to use the programs and methods of other countries which has already experienced the same problem and performed well. The lesson drawing process is not to copy the programs but rather to make them fit in the problems context

regarding to the characteristics of the context and to get over the existing problem.

Richard Rose, who has made studies about lesson drawing process, has mentioned ten steps in order to find out if the programs being applied in the process can work if they are put into application to the other countries facing the same problems. These are;

1. Understanding programs and lessons-what a lesson is and is not
2. Creating awareness of problems
3. Where to look for lessons-uses and limits of history, learning from afar as well as near at hand, too big or too good to ignore
4. Finding out how a program really works there-forums for learning official and unofficial
5. Turning anecdotes into a model-what is a model, what a model leaves out
6. Drawing a lesson-applying a model, applying lessons in the EU
7. Should a lesson be adopted-political conflicts about ends and means, pressures from abroad
8. Can a lesson be applied-inheritance before choice, resource limitations, mutual misunderstandings
9. Increasing chances of success-making the most of contingencies, manipulating foreign symbols
10. Looking ahead-evaluation (prospective and retrospective), as time goes by: evolution and adaptation, never say never in politics

In order to make it clearer we will first take a look at the definitions of these steps in the lesson drawing process and then we will analyze Paris and Istanbul region in this context.

### **Understanding programs and lessons-what a lesson is and is not**

In order to know about the process of lesson drawing in public policy, it is important to understand the key elements. It is significant to identify what a lesson is and is not.

“Policy process lesson can be defined as a program for action based on a program or

programs undertaken in another city, state or nation or by the same organization in its own past.”<sup>99</sup> However “Lesson drawing is not a theory of how policy makers learn. It is about what is learned, the programs that public officials develop in efforts to deal with immediate substantive problems”.<sup>100</sup> As it can easily be seen in the definition above made by Richard Rose, a lesson is considered as a kind of program that makes the policy makers learn the way how the other countries brought solutions to the problems in the other countries while facing the same problem.

### **Creating awareness of problems**

The second step in the lesson drawing process is to create the awareness of the problems due to the fact that without knowing the problem, it is not possible to analyze the other countries experiences and apply. The policy makers should be conscious about the problems as well as the reasons behind them in order to look for effective solutions by drawing lessons from the other experiences. In general if there is a problem existing, it is expected it to be solved soon and the policy makers usually don't like to suspend the present position by applying new things.

### **Where to look for lessons-uses and limits of history, learning from afar as well as near at hand, too big or too good to ignore**

The third step in the lesson drawing process can be described as the part that policy makers look for lessons, where to look for lessons. There is the use of the limits and the history and learning from afar as well as near at hand. It is observed that policy makers who has the knowledge of history, understand the programs they administer, for an established program is not their choice but the legacy of choices made and modified through decades.<sup>101</sup> Besides, according to Richard Rose, “the logic of lesson drawing is about ‘part-part learning’, that is, gaining knowledge about how one specific program

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<sup>99</sup> Lesson drawing in public policy, Richard Rose, 1993, page 21

<sup>100</sup> Ibid, page 23

<sup>101</sup> Learning from Comparative Public Policy, Richard Rose, 2004, page 42

operates in one part of another society and considering whether it could operate in a similar part of another society.”<sup>102</sup> Therefore while looking for lessons, it is usually important that the experienced issue you are looking for the lessons to be drawn should be something that had been experienced by some culturally and economically similar countries.

### **Finding out how a program really works there-forums for learning official and unofficial**

The fourth step in the lesson drawing process is to find out how a program really works there. Concerning a program that can work, it is significant that policy makers should learn how the program works in the other countries.<sup>103</sup> In order to be aware of the program progress in the other countries, it is important to have some reporters which would give an idea about how the programs are working so that policy makers can apply in their countries. There steps in the utility of unofficial and official forums while looking for a reporter of the experiences of the other countries as is stated by Richard Rose.

### **Turning anecdotes into a model-what is a model, what a model leaves out**

The fifth step in the lesson drawing process is turning the anecdotes into a model by distinguishing what a model is and what a model leaves out. With respect to Richard rose it is important to describe the required characteristics of a program being used in the other countries so that there will be a program which can be transferred.<sup>104</sup> A model is not a lesson but a precondition for lesson drawing. Without knowledge of how a foreign program works, learning can only occur impressionistically and impression can be misleading, especially about countries with which a visitor is not familiar. The purpose of a model is clinical; it is designed to show how a program works. Policy makers must make use of their skills and imagination to describe how the new program ought to operate once it is put into effect. By contrast, when a lesson is drawn from a program in

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<sup>102</sup> Ibid, page 51

<sup>103</sup> Ibid, page 57

<sup>104</sup> Learning from Comparative Public Policy, Richard Rose, 2004,page 69

effect elsewhere, there is an example of how a program can operate. Policymakers then face the problems of adapting it.<sup>105</sup> As the above explanations are stated by Richard Rose, there should be a cause and effect model of the program that would help the policy makers to understand and to adapt in the best appropriate way into their national context.

### **Drawing a lesson-applying a model, applying lessons in the EU**

The sixth step of the lesson drawing is to apply the model that is learnt from the experience of the other countries. While drawing the lesson and applying it in your national context, it is important that the policy makers do not take the same programs from the other experiences but rather adjusting them fitting into their condition. In the opinion of Richard Rose, a lesson is the adaptation and application of a program being used elsewhere.<sup>106</sup>

### **Should a lesson be adopted-political conflicts about ends and means, pressures from abroad?**

In the seventh step of the lesson drawing process, a question arises: Should a lesson be adopted? It is also crucial to consider the political conflicts about ends and means, and pressures from abroad. A lesson can be adapted if the national context is appropriate for the application.

### **Can a lesson be applied-inheritance before choice, resource limitations, and mutual misunderstandings?**

The eighth step of the lesson drawing process is whether a lesson can be applied. In order to apply a lesson, inheritance before choice, resource limitations and mutual misunderstandings should be taken into consideration. In the view of Richard Rose, finding 'space' for a new program in a field already crowded with existing commitments

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<sup>105</sup> Ibid, page 74-75

<sup>106</sup> Ibid, page 10



is the first requirement for applying a lesson in which resources are the second critical requirement, every lesson makes claims on a multiplicity of resources involving legislation, money, personnel, and organization. Cross national differences are a third necessary condition of lesson drawing, for without differences there would be nothing for one government to learn from another. Differences become obstacles only when they lead to misunderstandings. Whether drawing or giving a lesson, you need to be sure that there is a fit between what policy makers want to do and what they can do.<sup>107</sup> If the lesson fits into these requirements, then it can be applied into the context.

### **Increasing chances of success-making the most of contingencies, manipulating foreign symbols**

The ninth step in the lesson drawing process is about how to increase the chances of success of the lesson that is being applied. Richard Rose defines six conditions for increasing the chances of success which are clearly defined objective, a single goal, simple design of the program, the rested, social and technical knowledge lesson, the flexibility in relating the elements of the problem and the commitment of the political leaders.<sup>108</sup>

### **Looking ahead-evaluation (prospective and retrospective), as time goes by: evolution and adaptation, never say never in politics**

The tenth step of the lesson drawing process concerns the looking ahead part which can be described as the period of the evaluation of the applied lesson. In this process, it will become clearer if the lesson's performance is well or not, leading the policymakers to think of some other policy decisions which they did not think of before.

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<sup>107</sup> Learning from Comparative Public Policy, Richard Rose, 2004, page 103-104

<sup>108</sup> Learning from Comparative Public Policy, Richard Rose, 2004, page 118

#### **4.6. The position of Paris and Istanbul regions in the lesson drawing process**

When we consider Paris and Istanbul region in the context of lesson drawing process, we can easily see that the steps described above may be operated in Paris region when compared to Istanbul. Due to the fact that Paris region is one of the most competitive regions in the European Union, it is also one of the regions that policy makers are drawing lessons for their problems. However when Paris region is encountering some problems, it is drawing lessons from the other European Union regions which experienced the similar problem in its past. Paris has also a well structured political basis with experienced policy makers which help the region to cope with understanding the programs and lessons, interfering to the problems with the help of their awareness, by knowing where to look lessons, using reporters in the best appropriate way to find out how the programs are working in the other contexts, discovering whether to draw a lesson or not and whether to adopt and apply the lessons drawn and finding the appropriate way while applying those lessons in their context to increase the success of the policy. Normally Paris is advantageous because it's cultural and socioeconomic structure is similar to the other European regions therefore while policy makers are applying the lesson, they do not face any structural problems. The lessons are still not copied from the places that they draw from but rather being applied in the best way it fits to the structure of Paris. It is also possible that in the evaluation process it would not work but it is a well known fact that if a region has the infrastructure and the lesson drawn is restructured adequately and put into progress, the chance of success would have an increasing trend.

In Istanbul region the lesson drawing process is a bit different than it is in Paris. Istanbul has the impact of both Europe and Asia in its culture and its structure. Hence it takes time for the region to understand what the problem is at the first sight. The policy makers are setting some policies with the hope that it will work and do not consider the fact that the policies can have a negative effect therefore when there is a problem, it is difficult for the policy makers to be aware of that and start to look for lessons. Due to the fact that it has a doubled structure with the impacts of Europe and Asia, and also considering that the

countries in Asia are not well developed as Europe, when it comes to look for a lesson, it is mostly Europe. There are reporters in Istanbul case who would find out how the programs are being used in the other countries but the way that they describe the application is not working properly in Istanbul. It is because the country that the lesson is drawn from does not have the same structure as Istanbul. Therefore while deciding whether to draw, adopt or apply a lesson, the infrastructure of Istanbul should be taken into consideration by the policy makers in order not to fail in the evaluation process because it is mostly being copied from a region which has experienced the problem in its past without taking the cultural and socioeconomic conditions in Istanbul. Consequently when the lesson is drawn but not adopted and applied without fitting it in the appropriate context, it usually fails during the operation and in this case it is even not possible to mention about increasing the chances of success. As it is mentioned by Richard Rose, lesson drawing is to learn from other experiences not copying the same program and putting into process. The biggest fault in Istanbul region is trying to copy the experienced program directly into the context of the problem which almost fails all the time because as it is a well know fact, it is not possible to have success without taking the infrastructure and cultural differences into consideration. Therefore the policy makers in Istanbul region should make researches about the best fitting application of the lesson into the problem. By this way it is possible to deal with the problems by increasing the use of lesson drawing in the policy process.

## CONCLUSIONS

All in all, in the previous chapters we tried to analyze the regional policies in relation with development and competitiveness and in the light of the related literature we have examined two regions, one from European Union, Paris and one from Turkey, Istanbul.

Regional development is a consequence of the decisions made inside and outside the region, leading to interregional trade. The regional development of a region depends on the regions capability to expand the economic structure and to reduce the divergence effects applied by the primate region. As the economic development, regional development is also accelerated by specialization and the establishment of economies of scale, bringing a specific spatial structure of centers.

The traditional approaches for the regional development which are named as the neoclassical theory and Keynesian theory are examined in order to understand the theoretical view to the process. Accordingly, neoclassical approach is clinging to increase the benefits of investments in the lagging regions and leading to a decline in the gap between private and social costs or benefits by credits and fiscal incentives. The neoclassical approach was not found the best fitting approach in the regional development process because of the fact that it was not giving the sufficient importance to the scale economies, large non-marginal investments and external economies and that it paid attention more on supply factors. Some of the political scientists however put more emphasis on demand side. They were called Keynesians and in the Keynesian approach, the emphasis was put on the demand for regional exports, inter-sectoral connections and this approach was also underscoring the significance of capital and labor mobility.

Because of the fact that the interregional policy schemes on the national level did not work as it was foreseen, the interregional mobility of the companies and labor force deteriorated, and a new approach which was called new endogenous approach has arisen in the regional development. (Richardson 1978, Ciciotti and Wettmann 1981, Biehl 1980, Cappelin 1983a, Aydalot 1985) The endogenous growth approach is mostly based on the

assumption of the contrast between the raising mobility of the goods and the stability of regional environments characterized by skills of labor force, technical and organizational know-how, social and institutional structures.

It is a well known fact that physical and human capital investment and research and innovation lead to technological improvement and it assists the regions to have economic development. When the creation of knowledge is obtained at the public level and it collaborates with the commercial benefits acquired by knowledge investors, the investments made for knowledge transfer results in the regional growth and welfare. In this sense, skill base becomes more significant for the regions and urban areas have the skilled and knowledge workers which ensure the competitiveness in regional level that is positively contributing to national economy. The information is being transferred by the help of knowledge workers i.e. they constitute the relations between industries and institutions. By the help of research and development and investment into both physical and human capital, the innovation is encouraged. With the assistance of technology, the knowledge workers forms the basis of innovation, therefore it is a significant fact that regions should be able to attract skilled human capital in order to remain competitive.

"Urban areas play a vital role in the European economy. They are centers of communication, commerce, creativity; innovation and cultural heritage Medium sized towns in particular also exert a powerful influence on rural areas" (Directorate-General for Regional Policy, 1999a p. 39). As it can easily be understood from the above sentence even the lagging regions are the ones which should be improved and catch up the new global changes, urban regions are the cores for the Member States in the European Union. Therefore competitiveness occurs mostly between the urban regions due to globalization, changing economies, and national disparities, etc.

With respect to the 6<sup>th</sup> Periodic Report on the Social and Economic Situation and Development of the Regions in the Community, regional competitiveness is defined as: the ability to produce goods and services which meet the test of international markets, whilst at the same time maintaining high and sustainable levels of income, or more generally, the ability of (regions) to generate, while being exposed to external competition, relatively high incomes and employments levels. In other words, for a

region to be competitive it is important to ensure both quality and quantity of jobs.  
(European commission, 1996)

When the regional competitiveness is considered, according to Krugman, rather than the regions themselves, the firms and organizations located in those regions compete directly. However, Martin and Tyler (2003) believed that regions are competitive by using comparative advantage; the high returns supported by agglomeration economies and are knowledge and innovation centers. In their perspective regions need investment to attract foreign, private and public capital, labor by being able to attract skilled employees, entrepreneurs and creative workers, thereby enabling innovation environments within local labor markets, and technological ability to attract knowledge and innovation activity.<sup>109</sup>

With the European Summit of Lisbon of March 2000, it is aimed that Europe should be the most competitive and dynamic knowledge based economy in the world by 2010 and it is clear that this can be achieved by the help of three main elements: investment, labor and technology.

The competitiveness and development are two scientific terms which relies on each other. If something is competitive, it helps that to develop and if something is developed, that becomes more competitive. In this sense, the development process affects the regions capacity of attraction of investment, technology and skilled labor. When the region is having strong capital and technological innovations, the skilled labor directly shifts to this region and increase its competitiveness.

In the light of findings, we have analyzed firstly, Paris region. It is one of the leading regions in Europe and has the second rank in competitiveness after London. Due to the national economic growth, France is already attaining the attraction of investors. Besides, Paris is the capital city, including all the governmental institutions, has a good location, well designated business centers, well developed transportation system, good quality of life and a well structured system of education and research & development in

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<sup>109</sup> Conceptual Framework for Regional Competitiveness, Leslie Budd and Amer K. Hirmis

corporation with both the national and international companies in joint projects. The region is well equipped technologically in order to catch up with the global changes and the strong skill base in combination with innovation, helps the region to attract investments. Although Paris has some weaknesses and threats, mostly these are issues which can turn out to be advantages for the region. With its experienced administrative bodies, it would not be extremely difficult to fix the problems that it's facing. Due to its well structured decision making process, first the regions that have already experienced the similar problems are analyzed and the related lessons would be drawn. When the question of adopting that lesson is arisen, the region would be able to decide whether to adopt or not by using the data gathered by the reporters and the most important is, if it is decided to be adopted, rather it would be converted into a policy which would fit the regions interests and infrastructure. In this way, the problems would be fixed without causing any breakdowns not only in the system but also in its development and competitiveness process. This is to consider every small detail in a big perspective, therefore decreasing the chances of failure.

However in Istanbul case, as we have secondly analyzed in relation to the given literature, we have observed the regional development and competitiveness from a different frame and a different perspective. If we consider Turkey, having an unstable economy, it would not be difficult to blame the national economy for the slow improvement of Istanbul region. However it would be the easiest way to find an excuse for the region's decelerating development process and its low capacity of competitiveness.

Istanbul, mostly being reminiscent of the capital city of Turkey; however all the governmental institutions are located in Ankara, since 1923. The reason behind the fact that Istanbul is the most well known city in Turkey is its location, resources and it as being the center of business among national territories. As we have examined, it has a developing economy, it is still not a well competitive region worldwide in the real sense. According to our research, it would be wise to adduce arguments that it is mostly because of the lack of innovation and skill base. Due to the fact that it has stable –sometimes inharmonious- economy, it is capable of attracting investment. However without the

appropriate way of technology, and skilled labor, investment would not only be sufficient to take the region to the next level in a global competitive basis.

There exist 24 universities in Istanbul with 229.000 students, which would possibly be effective to manage R&D activities and not only developing but also applying new technologies in corporation with the business enterprises. In this way, it would both be innovative and be attracting the knowledge workers to the region rather than facing the immigration problem of the unskilled labor. With the help of utilization of appropriate labor, linked to the well structured technology, more investment would be attracted and the threesome (presence of these three elements) would keep the region competitive in the global ground.

When we consider the administrative basis of Istanbul region, there are experienced people working on decision and policy making process in order to make the region more effective and efficient. However because of lack of infrastructure, the weaknesses of the region turn out to be big problems that are difficult to handle. When there exists a problem, mostly there occurs the need to look for a lesson to be drawn and the place to look for it is mostly assumed as Europe with respect to the thought that it has similar cultural and socio economic background. Although Europe seems to be the best place to look for a lesson, there is a huge question missing from the attention which is that “does Istanbul has the same or similar infrastructure as the regions in Europe have?” This is not being realized mostly because there is still the idea that Istanbul has European culture and infrastructure, in which actually it has both European and Asian socio economic cultural basis. Therefore when the lesson is drawn from Europe for any kind of problem, maybe because of the lack of regional agents and reporters or lack of analysis and information gap, it is not being put into process as it should be. This is due to the fact that the lesson is trying to be adopted without considering the regions infrastructure and mostly being implicated in the exact way that was applied in the other region that the lesson was drawn from. Hence, it is mostly a copied lesson being applied in a different, unfitting environment and therefore leading to a mal functioning regional development and competitiveness process.



In the light of all these, it can be said that it would be useful for the region to give more importance on R&D activities, increasing the application of technology in every field among all industries, attracting skilled labor by furnishing the desired environment, and helping the universities to corporate with the industry in order to have the maximum efficiency and effectiveness expected from the region. As we had the interview with Yaşar Karacan, the director of European Union Relations in Istanbul Metropolitan Municipality, there are joint projects being managed by the national and international enterprises with the district municipalities, however in our belief, arranging joint projects with the universities in corporation with the use of knowledge base, the projects would be more efficient and it would help the region improve. Besides, while drawing a lesson and deciding whether to adopt or not, it should be assured that it's not being copied but being applied in the most appropriate way fitting its infrastructure. Therefore the aim should not only be having a big improvement at a time but having small, efficient and effective steps on the way to development process leading to a well competing region not only in Europe but also in the world.

Istanbul, historically had been the capital of many epochs, is not Constantinople anymore, and it would be the best for the region to start seeing its weaknesses and deficiencies rather than believing in its chivalry. It is never late for anything and it is an obligation for the region not to leave anything to chance and begin to make the appropriate changes in order to be cited as a competitive, strong region all around the world as Paris.

Is it the end or just the beginning?

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