

Talking Points (6/10/10 7 AM)  
Turkey Investment Advisory Council Meeting  
Thursday, June 10, 2010

- Thank you Mr. Prime Minister.
- It is a pleasure for me to be here in this dynamic country, in the beautiful city of Istanbul. Thank you again, Mr. Prime Minister, for hosting our Annual Meetings here last year – they were a great success. I am especially pleased to participate in this Investment Advisory Council (IAC) meeting. We at the Bank have been proud members of the IAC family since its inception in 2004.
- We last met in 2008, before the global crisis. Now the world economy is recovering. But, as expected, the recovery is uneven and volatile.
- We forecast global growth in 2010 of only 2.9 to 3.3 percent. Turkey, on the other hand, grew by 6% in the last quarter of 2009, and is likely to grow at 6% in 2010.
- But the downside risks remain high. Recent developments within the Euro zone are challenging the world economy. And what is happening in Europe is certain to affect Turkey. The Euro zone accounts for half of Turkish exports and is the source of close to 80 percent of FDI flows into the country.
- The “new” normal in investment flows and growth after the crisis will be much different than the “old” normal before the crisis. Investors are likely to become more discriminating and policy makers will need to work harder to achieve the same outcomes.
- The basic ingredients to achieve inclusive growth and high investment flows have already been identified in earlier IAC meetings – namely: (i) a supportive macroeconomic setting, (ii) good infrastructure and energy, and (iii) an enabling investment climate.

- Turkey has made remarkable progress on all fronts since 2001. Turkey's nimble recovery owes much to its strong macro and structural policies entering the crisis and there is no doubt in my mind that these policies are its biggest assets going forward.
- I would like to focus my remarks on the third of these ingredients – an enabling investment climate – and within this, in particular, effective regulation; the creation of jobs; and private R&D and innovation.

**First, the regulatory environment for business and investment needs to be strengthened.**

- This has improved during the last several years. For example, in facilitating business registration, simplifying taxation, and streamlining customs procedures.
- Going forward, we greatly welcome the Government's determination to replace the current commercial code that dates from the 1950s with a new one in line with modern business practices. In addition, Turkey may follow the example of countries like the Netherlands and systematically review and simplify all business regulations and make them more predictable.

**Second, Turkey can act to create more and better jobs, especially for young adults and women.**

- The Government is working on a comprehensive employment strategy. Having worked with your Government on the labor market and jobs over the last several years, we believe that this strategy offers a major opportunity to modernize the Turkish labor market.

- Redundancy payments in Turkey are three times larger than in France. These payments are excessively generous and expensive for businesses. They discourage the creation of formal jobs, and they promote informality. At the same time, few workers actually benefit from these payments and from unemployment benefits. We believe that the Government's plan to reform redundancy payments while strengthening unemployment benefits is a very good one.
- A second priority is enhancing opportunities for short-term and part-time work. Turkey's regulations on fixed-term contracts are among the most restrictive in the OECD. Therefore, we welcome the Government's plans to ease constraints on private employment agencies.

**Last but certainly not least, research and development (and innovation) will be critical.**

- Last year I saw here in Turkey what innovation can achieve. At the Mamak waste processing site in Ankara, Mr. Ali Kantur adapted technologies creatively to turn garbage and bad smells into electricity and even tomatoes—plus profits and jobs! It is an example of how innovation can improve the environment, and be a source of economic growth.
- ***How can Turkey further strengthen R&D and innovation?*** In our view, the key will be public policies to help increase private R&D spending. Private R&D investment remains very low at 0.3 percent of GDP. It's 1 percent in China, 1.6 percent in the OECD, and 2.5 percent in Finland. Private sector innovation, especially in small and young firms, is critical to achieve high growth through productivity improvements.

- *In particular, Turkey can take steps to facilitate the transformation of research and innovative ideas into actual commercial products.* The United States, for example, adopted the Bayh-Dole Act in 1980. In essence, the Act assigned the ownership and management of the intellectual property created by publicly funded R&D to the universities where the research was conducted. As a result, patent commercialization increased ten times and contract research seven times. Similar policies have been adopted in many OECD countries.
- *Turkey can also strengthen the protection of intellectual property rights.* Private investments supporting innovation will materialize only with adequate protection. Turkey adopted a good legal framework in recent years, but the emphasis should now shift to its effective implementation.

### Conclusion

- In closing, Mr. Prime Minister, the World Bank Group is honored to be a partner with Turkey on this path of reform and growth.
- Turkey can build on its success in achieving rapid growth before the crisis. That success was grounded in sound macroeconomic policies, progress in energy and infrastructure, and the implementation of structural reforms to establish an enabling investment climate. Accelerating these reforms – especially in the areas of the business regulatory framework, labor market, and facilitating private R&D and innovation – will be essential. We are convinced that this will help create wealth and jobs for the Turkish people, even in a more difficult and competitive world.
- **Thank you.**