

*Turkey: Investment Climate Assessment (ICA) Report
TOBB Plaza – ISTANBUL, December 11, 2007*

Opening Remarks by Mr. Ulrich Zachau

Iyi günler, Sayın Bakanımız, Sayın Müstesarımız, Rifat Bey, distinguished guests and participants:

- I am very pleased to be here and would like to thank the Turkish authorities and TOBB for our partnership in improving Turkey's investment climate.
- One year ago I came to Ankara for the first time, upon being designated World Bank Country Director for Turkey.
- In the last 12 months, ***I have endeavored to learn—from the people of Turkey;*** from government, academicians, the business community, NGOs, the media.
- ***I endeavored to learn the essence of their vision for this great country.***
 - My sense is that consensus outweighs dissent.
 - That a common vision of the future will prevail.
- There is no question in my mind that ***the Turkish people and government have:***
 - ***a vision for Turkey where: a capable and accountable state*** provides first-rate public services, generates opportunities, and cares for the least fortunate.
 - ***a vision for Turkey where: today's and tomorrow's children*** will be well educated with skills that will allow them to succeed in an increasingly competitive world economy.
 - ***a vision for Turkey where: per capita income and human development indicators*** place Turkey among the most advanced societies in the world.
- ***How will this be possible? The prevailing vision I hear, as I travel and meet with people in Turkey, is that of a modern Turkey***
 - ***... a vision where Turkey moves up in the value chain***
 - ... by producing goods and services that use more capital, more advanced technology, more knowledge, and a better-trained labor force.
- I see a ***bright future for a Turkey following that vision: the vision of increasing competitiveness by increasing productivity, ...which will increase average wages and improve living standards.***

- Often exporters favor a low lira or low wages to boost competitiveness. ***In my view, devaluation, inflation, and low or declining real wages are NOT the path to increased competitiveness.*** I believe such strategies are self-defeating over the medium term. It seems to me that Turkey could not possibly out-compete countries like Vietnam, China, and India on wages.
- What's more, ***devaluation, inflation, and low or declining wages would keep many Turkish people poor.***
 - As I see it, **NO COUNTRY could or should grow by keeping its workers & middle class poor.**
 - **Indeed, following the vision I hear from people in Turkey, TURKEY can not and should not grow by keeping its workers & middle class poor.**
- ***In your vision of Turkey, as I hear it, with rising productivity and rising incomes for many people, the corporate sector needs to rise to the challenge of globalization*** in collaboration with the government and civil society.
- How else could Turkey achieve the ambition in the Ninth Development Plan—a tall and commendable ambition—of doubling per capita income in six years?
- **Consistent with my understanding of your own vision, I would like to share with you my own view of two public policy issues on which your vision hinges**
 - **(1) jobs and labor markets, and (2) education**
 - These are fundamental, essential, and, I believe, important to keep in mind as we consider today policies to further improve the investment climate.
- Let me start with **job creation and labor markets—which is a most urgent priority in the short term.**
- Population growth in Turkey has been faster than job creation over the past 20 years. Job creation has been modest even over the last 5 years of strong growth.
- As a result, ***Turkey's employment rate is around 48 percent***, that is, only 48 percent of adults are employed – well below international standards.

- ***Population growth is an opportunity for Turkey*** because the working age pool will continue to grow until 2040—unlike in the EU, which is aging rapidly.
- ***Yet, increasing employment will continue to be Turkey’s biggest challenge*** in convergence with the EU – both economically and politically.
- ***With the right policy framework, I believe, Turkey can lay the essential basis for creating more and better jobs. It’s all about protecting workers, not jobs.***
- ***Four measures will be instrumental, in my view, for increasing employment, and for realizing the vision of the Turkish people for Turkey’s future:***
 1. Removing disincentives to hire such as excessive severance benefits
 2. Creating more flexible employment conditions—especially liberalizing short-term employment
 3. Lowering the tax burden—pension and unemployment insurance contributions—on the employment of the young & new entrants.
 4. Protecting workers better by easing the eligibility for unemployment insurance; and by using unemployment insurance funds for building worker skills.
- ***I would like to turn now to education.***
 - In my view, ***education is THE most important public policy challenge for the medium and long term.***
 - Improved education is crucial for better skills, more and better jobs, higher productivity, and higher incomes.
- Turkey has raised enrolment rates and has modernized primary school curricula. These are important successes.
 - But student achievements remain the 2nd-lowest in the OECD. And there are very large disparities by region and between the top and bottom performers.
 - And achievements remain low even while national education spending is high relative to national income, and even while teacher salaries compared with average salaries are high by OECD standards.
- ***I see several important directions for Turkey to achieve its vision of people with a good education, skilled jobs, and high incomes:***
 1. Increased education spending has improved, and continues improving, access to education for *all* children, including girls and children from low

income families. This is a good thing. Further increasing access to *tertiary* education will be important.

2. **The most important, yet perhaps also the most difficult, challenge now is the QUALITY of education—and I understand that the Ministry of National Education has identified this challenge.**

- The **efficient and effective use of education spending** will be key for this—as critical as the level of spending, perhaps more so.
 - **Systematically measuring & widely publishing student achievement results** can be an important first step—so teachers, parents, and students all see what works well and what works less well, and do more of what works well and do less of what works less well.
 - Other steps include: modernizing secondary school curricula, strengthening vocational education, strengthening teacher training, reviewing school leaving examinations and the Dershane system, etc.
- **Labor market reform and education are crucial in my view.**
 - **I would like to close with a single message: Turkey has a historically unique opportunity to pursue this agenda and its vision of a better life for her people.**
 - The economy remains buoyant, after 5 years of high and sustained growth.
 - The global financial environment remains comparatively benign.
 - There is political stability. The government was reelected with a clear mandate to reform the economy. There is a strong majority in Parliament elected on the basis of a reformist political platform.
 - **These circumstances have blessed Turkey with an unprecedented opportunity to adopt the difficult reforms to realize YOUR vision, OUR vision for Turkey's future: a highly productive and competitive Turkey with good jobs & higher incomes for more people in this generation and in many more to come.**
 - **It is my greatest hope that Turkey is able to advance its ambitious reform agenda before this window of opportunity may close. NOW IS THE TIME!**

Tesekkür ederim ve kolay gelsin.