

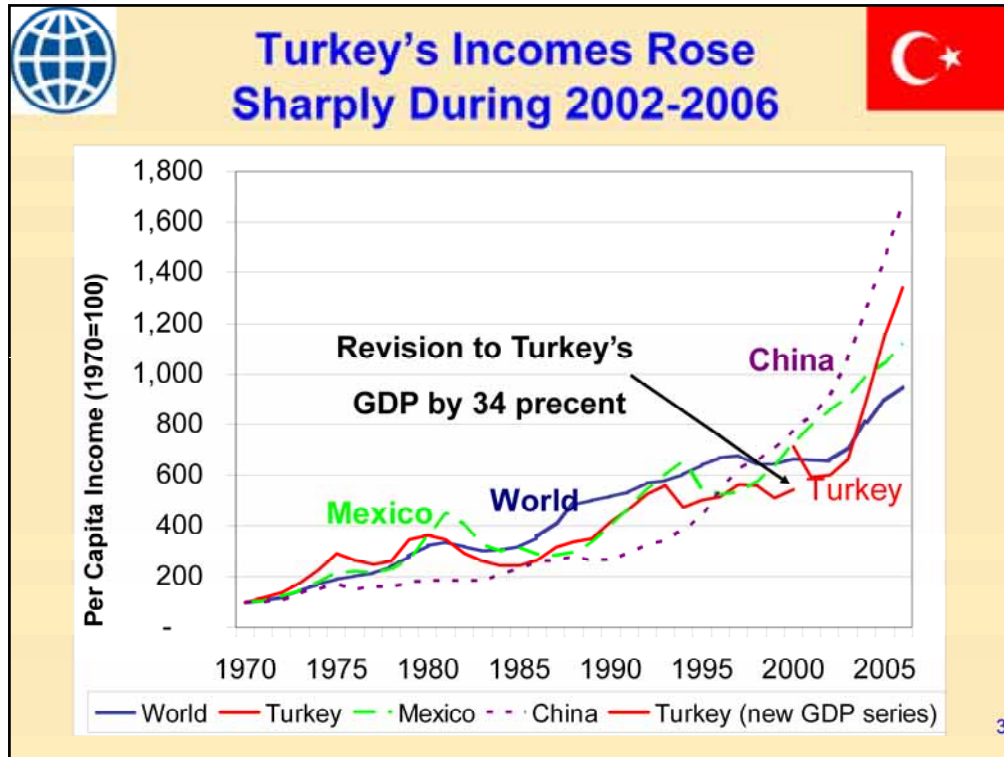


- Distinguished guests and participants. It is my pleasure to be here with you in Berlin for this conference on Turkey and Black Sea Regional Cooperation.
- I would like to thank the Südosteuropa Gesellschaft, in cooperation with TUSIAD, for organizing the conference and for the opportunity to share with you some thoughts on the partnership between Turkey and the World Bank in the context of Black Sea Regional cooperation.
- I will first talk a bit about the new WBG partnership strategy with Turkey and development opportunities & challenges we see for Turkey. Then about a few areas where I see scope for World Bank work together with Turkey and Black Sea stakeholders as part of Black Sea Regional Cooperation.
- Earlier this year we launched the new country partnership strategy and program of the World Bank Group with Turkey for 2008-2011.



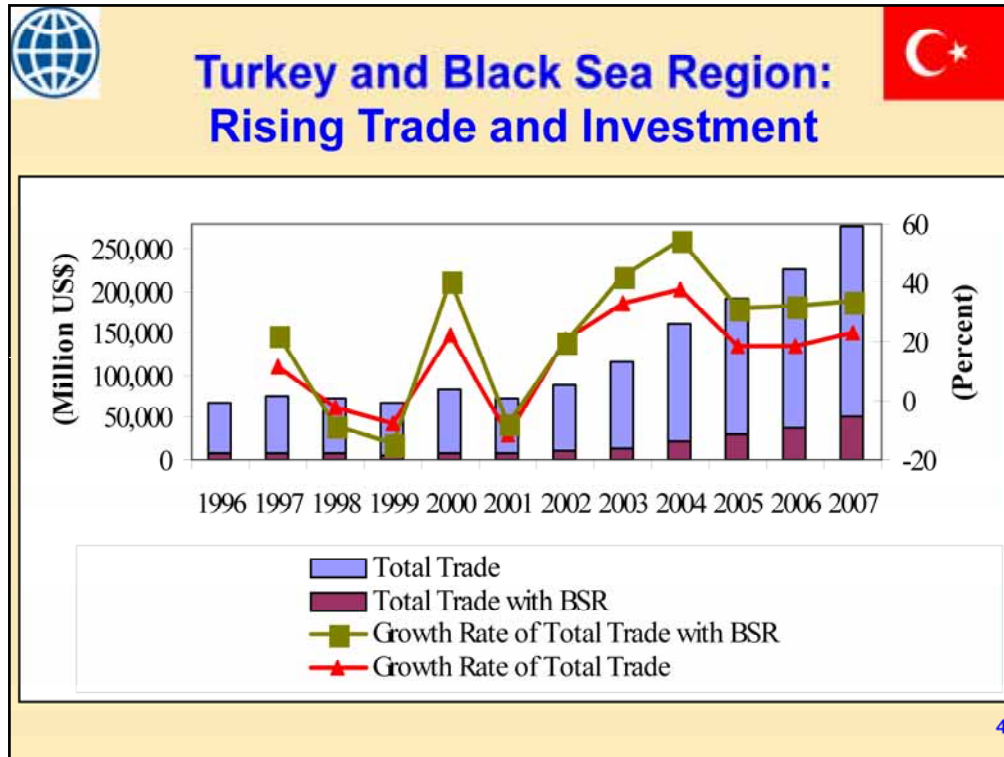
9TH DEVELOPMENT PLAN AND CPS

- **Our collaboration under this new strategy includes programs aimed at creating knowledge, sharing international experience, and providing advice and technical assistance.**
- Our new partnership **also includes expected future financing:** up to \$6.2 billion during 2008-2011 **for development projects and program** from the World Bank; and also financing directly to the private sector from the International Finance Corporation.
- **The new strategy is a framework of *partnership*. This means it is grounded in Turkey's own strategy and vision. So the main areas of collaboration between Turkey and the World Bank Group come directly from Turkey's 9th Development Plan:**
 1. increased competitiveness and employment—more & better jobs
 2. human development, that is, health, education, and social welfare
 3. and efficient, high quality public services



ECONOMIC GROWTH

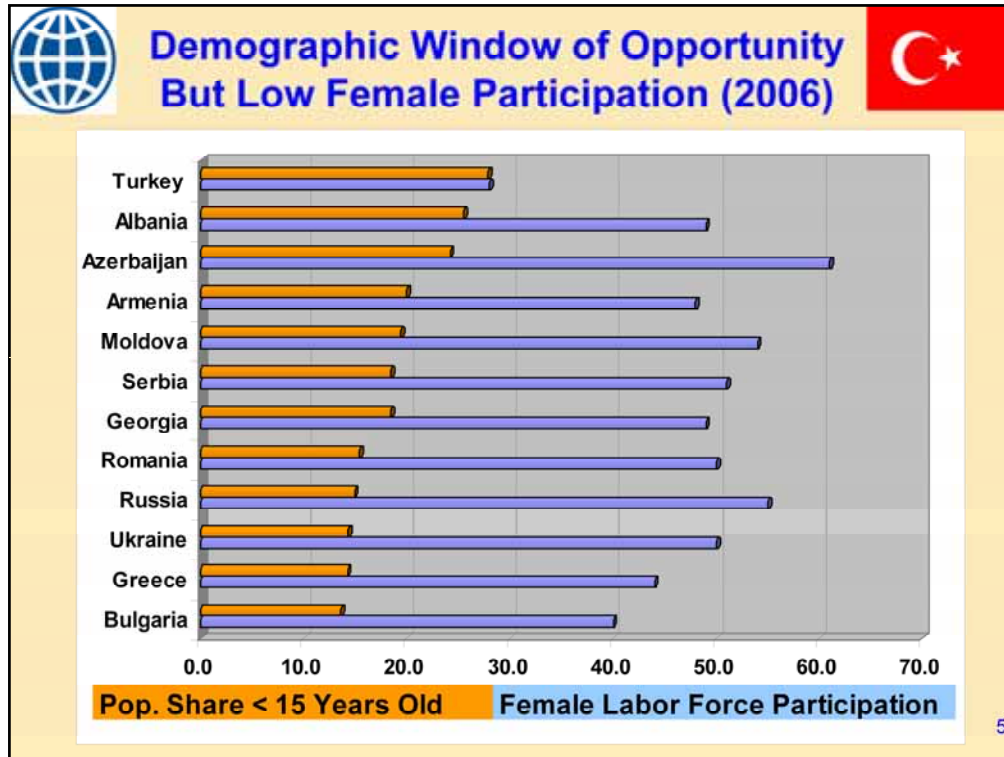
- **Turkey experienced rapid growth since 2002**—around 7% per year, much faster than in any other period since 1970.
 - Good economic policies have played an important role.
 - Turkey also benefited from favorable global economic trends.
 - And Turkey is a growing market in a prime location—so good policies and favorable global economic trends made Turkey attractive for foreign capital.
- **Turkey has now begun feeling the impact of recent, less favorable global economic developments and financial volatility**, which started last year with the US sub-prime mortgage crisis.
 - The Turkish Lira depreciated around 5% versus the \$ since end-2007;
 - the yield on the benchmark bond rose by 3 percentage points to almost 20%;
 - the Istanbul Stock Exchange index fell by close to 30% percent;
 - and the securitization market is virtually closed.
- **Turkey is now much more resilient than some years ago to adverse global economic and financial trends.** Turkey now has a floating exchange rate regime, an independent Central Bank, and significant foreign exchange reserves. Turkish banks have strong asset to loan ratios and liquidity ratios.
- **Overall I expect that Turkey will face challenges in the near term, but I am confident that, with continued good policies, Turkey will meet and manage these challenges.**
- **How can Turkey realize sustained strong economic growth? — growth that is inclusive and brings widely shared benefits for the Turkish people, and growth that benefits others, and benefits from others, through international economic cooperation, such as with the EU and with Black Sea neighbors?**
- Continued prudent macroeconomic management is of course important.
- **In addition, I would like to focus on 3 areas**
- that, in my view, are critical for sustained growth in Turkey,
 - in which the World Bank Group is working closely with Turkey,
 - and which are also of shared importance for Turkey, the EU, and other Black Sea countries and are key areas for Black Sea regional cooperation.
 - **These 3 areas are:**
 1. **expanding trade and investment—and, underlying that, increasing employment, productivity, and education;**
 2. **energy, and**
 3. **environment and natural resources**



TRADE & INVESTMENT

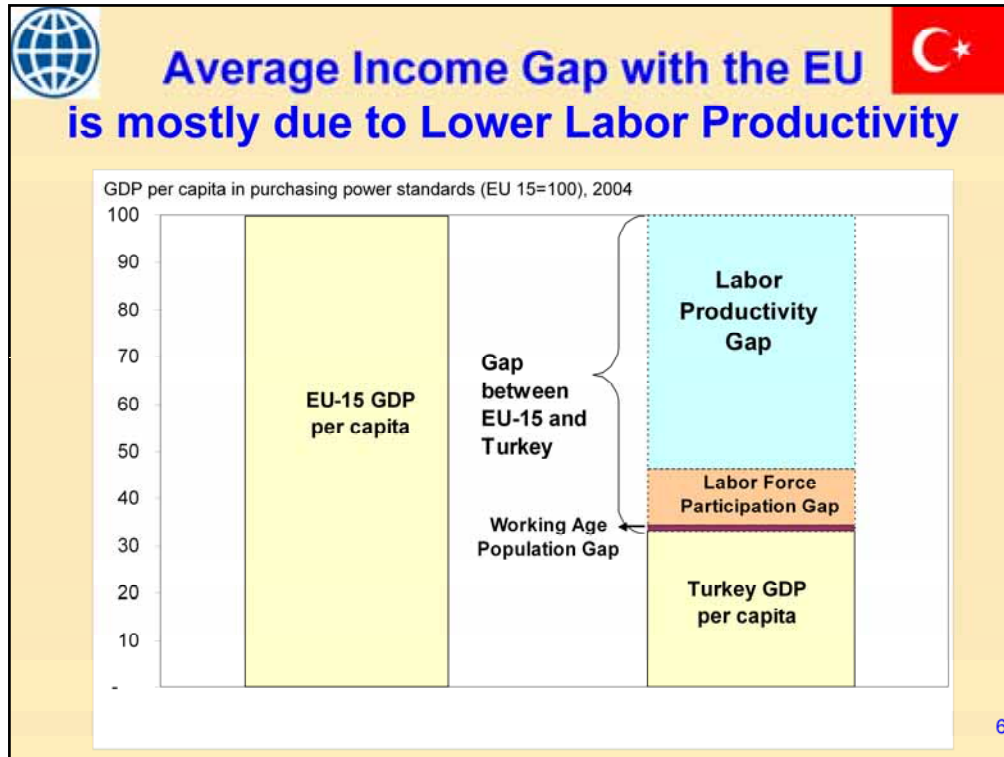
First, trade and investment—and, related, labor markets, employment, productivity, and education

- The Black Sea Region has 350 million people and has high growth potential.
- **Trade in the region, and of Turkey with the region, is growing rapidly.**
- The region has a foreign trade capacity of over USD 300 billion annually.
 - Turkey's total trade with Black Sea Economic Cooperation member states increased by 5.7 times during 1998-2007.
 - Turkey's total trade grew 2.8 fold during the same period.
- The Black Sea region is **one of fastest growing regions for container traffic** in the world—with growth of 40% in 2007.
 - Additional investment in port and handling capacity will be key—both public and private investment
 - **Turkish companies also increasingly invest in Black Sea countries**, taking advantage of regional business opportunities and diversifying risk.
 - The International Finance Corporation, the World Bank Group's private sector arm, for example, has been supporting the investments of Turkish firms in Bulgaria, Romania, Russia, and Georgia.



DEMOGRAPHY & LABOR

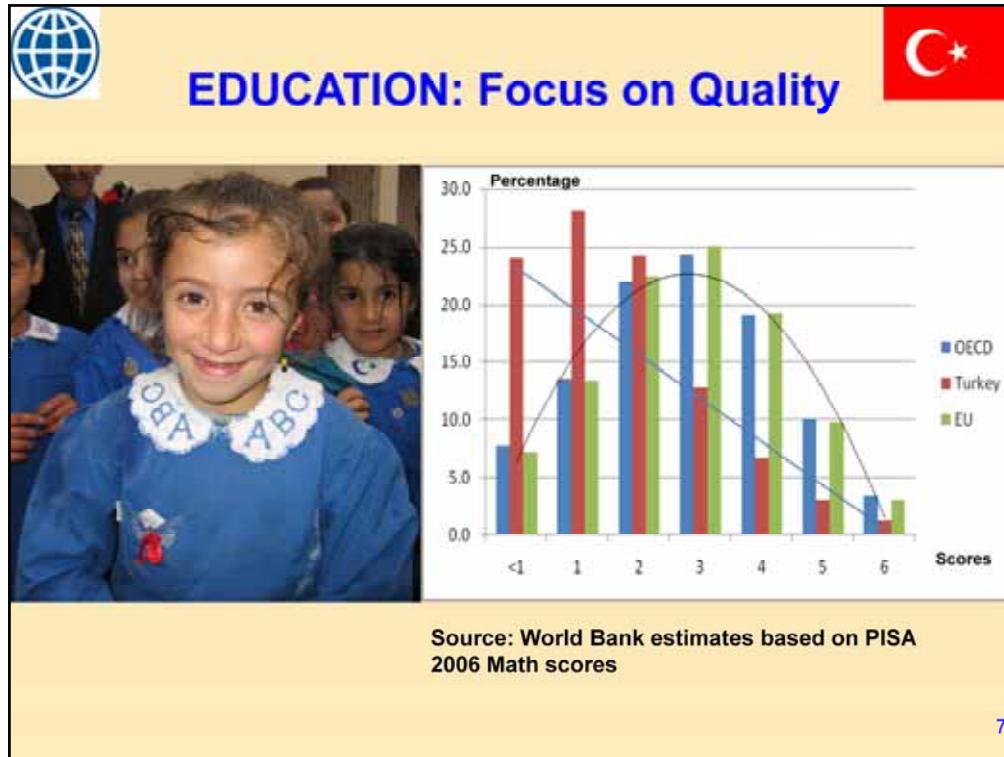
- **With rising trade and investment come opportunities for more jobs.** And more jobs are particularly important for Turkey. Turkey's growing population can provide a demographic dividend for economic growth, trade, and investment, if the growing population is employed productively. As this slide shows, Turkey has the most favorable population development among Black Sea countries, with the highest share of the population younger than 15 years old—and this demographic window continues opening until 2025.
- Turkey's population has grown faster than the number of jobs over the past 20 years. As a result, **only 48 percent of adults in Turkey are employed**, well below international standards. Overall, Turkey has **high informal employment, high youth unemployment** (twice the average unemployment rate), and a **low job creation despite high past growth**.
- **But most remarkable is Turkey's low participation of women in the work force.** Only about 28 percent of working age women are either working or actively looking for a job today—the lowest among Black Sea member countries. So increasing women's labor force participation will be crucial for Turkey to take advantage of its demographic opportunity.
- **The Turkish parliament has just passed an important labor package** to reduce the non-wage cost of labor and provide incentives for youth and female labor force participation. As the Bank Group, we aim to support the Government in this crucial area with analysis and policy advice. We will focus particularly on the transition from school to work, on skill building, and on policies to improve opportunities for young women to obtain good jobs.



SLIDE 6

LABOR PRODUCTIVITY

- With rising trade and investment, in addition to more jobs, also come opportunities for better jobs. And better jobs means more productive jobs.
 - Labor productivity in Turkey is roughly 40% of the EU average. And this difference accounts for around 80% of the income gap with the EU.
 - Increasing productivity will be crucial for Turkey: for further increasing competitiveness, expanding trade, and achieving sustained strong growth.
 - This will involve producing goods and services that use more capital, more advanced technology, more knowledge, and more skilled labor.
 - Turkey's future is not as a low-cost, low-tech producer. Rather, Turkey can and, I am confident, will move up the value chain.
 - The Turkish automotive and electronics industries have been successful in raising productivity and incomes. I am confident that other industries, especially tradable goods industries, can do the same.
 - Turkish workers will then produce more with the same resources, and incomes will rise accordingly.
 - And Turkey's neighbors and trading partners, including around the Black Sea, will benefit as well.



EDUCATION

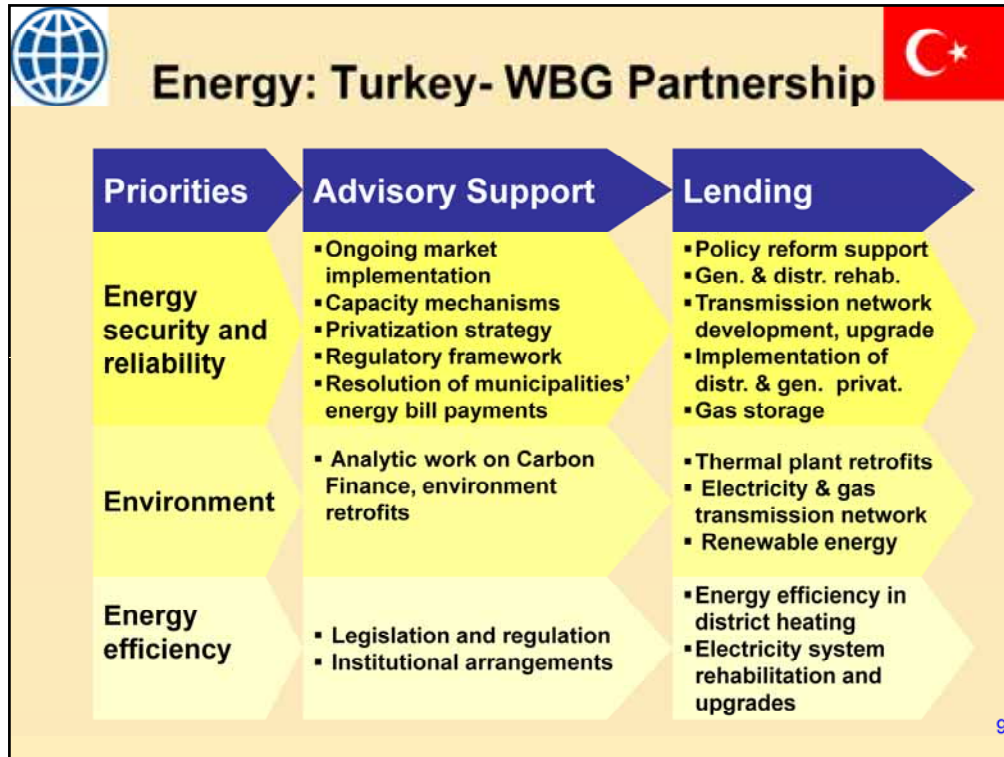
- The most important long term driver of productivity is education.
- In my view, education is probably THE most important public policy challenge for Turkey in the long term.
- Improved education is crucial for better skills, more and better jobs, higher productivity, and higher incomes.
- Turkey has raised enrolment rates and has modernized primary school curricula. These are important successes.
- But student achievements have just begun improving and remain low in the OECD. And there are very large disparities by region and between the top and bottom performers. This slide illustrates the challenge: on the standard 1 to 6 PISA scale, a very many Turkish students have low results and very few score high—whereas for the OECD average student achievements follow a bell curve.
- **I would like to highlight 4 directions that Turkey is taking in education, which I believe will all be important for achieving the vision of a Turkey whose people are well educated, have skilled jobs, and have high incomes:**
 1. **Further increasing access to secondary education for girls.**
 2. **Improving the QUALITY of education—perhaps the top priority.**
 3. **Strengthening vocational education and training.** This will be especially important to generate more jobs for young people in the long run. Both the government and the private sector can play an important role in this.
 4. **Increasing both the quantity and quality of tertiary education.** Knowledge generation and adoption is crucial for the competitiveness of economies in today's integrated world—including increasingly at the tertiary education level. **Here, I see an area for potential fruitful cooperation for the Black Sea Region – higher education research, student exchanges, and curricula integration.**

Priorities	Importance
Energy security and reliability	<ul style="list-style-type: none"> ▪ Electricity shortages looming: 2009-11 ▪ Gas: imports ↑; challenge to meet demand in winter ▪ Nuclear: considered as an option by Turkey from point of view of supply diversity, carbon emissions ▪ Energy Community with South East Europe
Energy efficiency	<ul style="list-style-type: none"> ▪ Future pricing key for improving efficiency in consumption, thus balancing demand and supply, and for "greening" Turkey's energy sector ▪ Will help ↑ industrial productivity, thus competitiveness
Environmental sustainability	<ul style="list-style-type: none"> ▪ Renewable energy (wind, solar) ↑ ▪ Large combustion plants impose health risks ▪ Large investment requirements: tradeoff in public/private financing between fiscal space and ease & speed of privatization

These priorities are included in Turkey's Ninth Development Plan

ENERGY 1

- Let me now turn to energy. Energy sector development is crucial for Turkey in achieving sustained strong growth over the medium term. And it is also crucial for the EU and the Black Sea Region
- *Energy demand in Turkey has been rising at 7-8% per year. And energy imports to meet demand account for virtually Turkey's entire current account deficit.*
- *Energy prices have also been rising rapidly, globally and in Turkey. And energy price increases account for much of inflation in Turkey.*
- **This slide shows 3 important dimensions of energy sector development. Much has already been said about energy security, which is a top priority for Turkey—as it is for the EU and for most of the Black Sea countries.**
- Indeed, as energy demand has continued growing, Turkey now faces a potentially serious energy supply gap as early as in 2009 or 2010—with serious implications for economic growth.
- **What I would like to highlight here is the importance of energy efficiency. Turkey has one of the most energy intensive economies in the world, and energy intensity is also very high in Central and Eastern Europe and the Former Soviet Union, so in most of the Black Sea countries.**
- **I would like to highlight 5 directions of this strategy that we in the World Bank support and that will be important for Turkey's energy links with the EU and with Black Sea countries:**
 1. Promoting private sector investment in power generation and distribution;
 2. Continued liberalization of the energy sector;
 3. Eventual privatization of generation and distribution;
 4. Development of indigenous and renewable resources; and
 5. Convergence with the EU on environmental & renewable energy targets.



ENERGY 2

- This slide provides an overview of the support of the World Bank for Turkey's energy sector. The two main messages are that: (1) energy is a priority area for the partnership between Turkey and the World Bank, and (2) this partnership focuses on energy security, energy efficiency, and environmental sustainability alike



Environment & Natural Resource Management

Issue:

- heavy phosphorus & nitrogen pollution from Turkish rivers

Action:

- GEF Strategic Partnership Danube/Black Sea Basin
- Anatolia Watershed Rehabilitation Project

=> Ready to support regionally integrated approaches for rehabilitation and protection.

ENVIRONMENT & NATURAL RESOURCES

- **The final area I would like to highlight is environment and natural resources—in particular the issue of pollution control for the Black Sea.**
- The Black Sea Trans-boundary Diagnostic Analysis in the mid 1990s identified Turkey's rivers which empty into the Black Sea as a key source of phosphorus and nitrogen pollution—most of this is due to outdated agricultural practices.
- We heard that Black Sea stakeholders have recognized the issue and are taking action.
- This slide lists just two projects that contribute to reducing nutrient levels and other hazardous substances to levels that permit Black Sea ecosystems to recover: (1) the GEF strategic partnership on the Danube/Black Sea Basin; and (2) the WBG financed Anatolia Watershed Rehabilitation Project. This watershed project finances the upgrading of catchments and introduction of sustainable land management practices in agricultural areas with run-off into rivers that flow into the Black Sea.
- Looking ahead, the World Bank Group stands ready to work together with Turkey and other countries to address rehabilitation and protection of the Black Sea and to be a partner with Turkey in building the capacity for adopting and implementing relevant EU Directives.



- I am confident about the great potential that Turkey has to further improve the lives of its people. I see Turkey as a very important leader for the Black Sea Regional Cooperation. This will benefit the entire region.
- And as Turkey engages further with the Black Sea Regional community, we, the World Bank, stand ready to be partner with Turkey—with the government and with the private sector—and with Black Sea countries in this cooperation.