Turkey - Embracing East and West, Sakip Sabanci Lecture, Brookings Institution, Washington, D.C.

Paul Wolfowitz
World Bank President
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I'm very pleased to be with you here today to celebrate the life of Sakip Sabanci. He comes from a generation of accomplished individuals who built the flagship enterprises of modern Turkey, groups such as Sabanci Holdings, Koc Holdings, and Has Enterprises, to name just three. And I mention them because these individuals and the companies they founded were not just businesses. They were also philanthropic leaders, and leaders particularly in the field of education, committed to improving people's lives and investing in the future of Turkish children.

The foundation of Sabanci University, already one of Turkey's top universities, is an enduring symbol of that generation's dedication to its country. So I'm particularly pleased to have the opportunity to talk to Sabanci students today and to hear from them.

I first visited Turkey almost exactly 30 years ago, in December of 1976. I still remember the time. It made a powerful impression on me. I expected, when I arrived, to see a country that was much more like its neighbors in the Middle East than its neighbors in Europe. Instead, I saw a country that was embracing the best of both worlds, a country that took pride in its rich civilization and Islamic heritage and, at the same time, a country that was moving toward becoming a part of modern Europe. Turkey has the bad luck of being in a difficult neighborhood, but its pursuit of progress and prosperity could serve as an inspiration and even a model for its neighbors.

When Ataturk founded the modern Turkish republic, he envisioned a modern industrial future for his country. He embarked on wide-ranging social, political, and economic reforms, reforms that helped put Turkey on the road to democracy and brought about remarkable changes.

As we've seen from the brutal killing of a Turkish judge by a religious fanatic just last week, there are times when that quest for modernity may be misinterpreted by some as being at odds with the Muslim religion. But secularism and respect for religion in Turkey have co-existed for 80 years, and I am confident that Turkey’s long-standing commitment to democracy will protect the country's unity and diversity.

Notably, since its early years Turkey has been at the forefront of promoting equality for women. Ataturk argued that Turkey would never catch up with the rest of the world if they modernized only half of their population. As a result, Turkey granted women the right to vote and stand for public office as early as 1930. That was 14 years ahead of France and 41 years ahead of Switzerland. At the time, Turkey stood second only to Finland in the percentage of women in its parliament.

I've gone back to Turkey many times since that first visit 30 years ago, and the pace of progress in the course of those years has been stunning. Today the people of Turkey enjoy significantly higher living standards and significantly more opportunities. Back then, in 1976, when many of the parents of today's Sabanci students were students themselves, the per capita income was $1,900 a year. Today it is 2.5 times that amount. Back then, the average Turk lived 58 years. Today the average Turkish citizen can expect to live to 70. A generation ago, infant mortality stood at 15 percent. Today that figure has been brought down below 3 percent—although that is still too high. And in the 1970s, only one in five teenagers was enrolled in secondary education. Today the numbers are reversed, and four out of five are enrolled in high school.

But behind that panoramic view of progress, Turkey has also faced its share of setbacks. We need only turn to the history of recent years to know that. After a period of economic boom in the 1980s, when trade, finance, and private enterprise flourished, Turkey's economy started to weaken. Even though it was growing by as much as 4 to 5 percent per year up until the late 1990s, Turkey suffered from extremely high inflation, huge fiscal imbalances, and a buildup of systemic risk in the banking system.
All of that came to a head in the crisis of 2001 that sent the economy reeling. The banking system virtually collapsed and scores of enterprises went bankrupt. In just one year, from 2000 to 2001, the average per capita income declined by a full 13 percent. Unemployment nearly doubled. The construction sector alone lost more than half a million jobs in half a year.

But the people who suffered the most were those who were working in what's called the informal sector. As in many countries around the world, a disproportionate number of the poor rely on jobs in the informal sector make a living and to feed their families. Some of the poor were forced to pull their children out of school because they could no longer cover out-of-pocket education-related expenses. So they weren't just losing income. Their children were losing their future. They were losing opportunities they needed to reach their full potential.

When you think about the severity of that crisis of 2001, Turkey's recovery in the years since then is nothing short of remarkable. For the past four years, the Turkish economy has been growing an average of 8 percent per year, which puts it among the fastest-growing economies in the world. Turkey has brought inflation down below 8 percent. That's dramatic progress from the 1990s, when inflation fluctuated between truly astronomical levels, between 55 percent and over 100 percent. Now citizens can plan for their future without fearing that inflation will rob them of their savings. And more importantly, Turkey has emerged from that crisis as a stronger nation and as a leading reformer than many countries in the neighborhood and around the world can learn from.

As the president of the World Bank Group, I am very proud to say that Kemal Dervis, one of our alumni, left his job at the World Bank to serve his country in the immediate aftermath of the crisis. As minister of the economy, he helped lay the foundation for those reforms. And his successor and my friend Ali Babacan has played a vital role in carrying out those reforms since 2002.

In the wake of the crisis, and I believe as a sign of a maturing economy, the people of Turkey have also become increasingly vocal in their calls for banking reform, stronger corporate governance, and transparency in public spending. The economic recovery was possible because Turkey had the courage to adopt bold structural reforms. Rigorous regulations in banking, energy, and telecommunications were introduced. Agricultural subsidies were cut drastically--something that's painful in any country--and they were replaced instead with direct income support for farmers, a much more rational system. Public sector governance was improved, making public spending more transparent.

But none of this should be cause for complacency, none of it can be taken for granted. The recent cautious in the IMF report are a reminder, if any were needed, that this kind of discipline and this kind of courageous decision-making is still essential for Turkey to maintain its economic momentum.

And even with the spectacular growth of the last few years, unemployment in Turkey remains persistently high. Between 2002-2005, it hovered over 10 percent and, if anything, it seems to have increased in the early part of this year. In recent opinion polls, the Turkish public has ranked unemployment as the highest priority for their country, by a margin of more than 2 to 1, over terrorism or any other challenges. People who want to work and give their children a better future need to be given that opportunity.

When I met Prime Minister Erdogan last summer, he, too, raised unemployment as his most serious concern. He was concerned particularly about the many people, especially women, who haven't entered the labor force at all. In most countries, at least half the working-age population is employed. The average for the European Union was 65 percent in 2004. But in Turkey in that same year, only 44 percent of the working-age population had jobs. That gap poses one of the biggest challenges to Turkey's aspirations to join the European Union. To bring employment rates up to the EU average by 2010, Turkey would have to create 10 million new jobs in the next six years.

The unemployment challenge is even greater when we consider the gap between women in Turkey and women in Europe. Only one out of four Turkish women was employed in 2004, compared to 57 percent in the European Union. That's not a trivial concern. Ataturk's words about the importance of not neglecting half your population ring true of many countries around the world today. No country can attain successful development if half its population is not achieving its full potential.

I believe that today Turkey is on the road to an exciting but also challenging journey to become a member of the European Union. I want to briefly touch upon what I think are two of the top priorities that Turkey needs to focus on both to harness growth and to move closer to Europe.
The first priority is education. Turkey's richest resource is its people. Investing in a good quality education is an opportunity to invest not only in an individual, but in an entire nation. As a former dean of an academic institution, this is an issue that's close to my heart. Since we have students from Sabanci University with us today, I'd like to make a few particular observations about that subject.

We live in a world where the competition for ideas has never been greater. A country's natural resources are no longer sufficient to achieve successful development. They aren't even the most important thing. The level of education in the workforce is equally, indeed almost surely more, important.

The good news is that Turkey has already made some important gains in improving access to education. In just the first six years after the introduction of the basic education law in 1997, net enrollment in primary education increased by a million students, reaching the 90 percent level. But if you think about it, that still means that 10 percent of Turkish children are not enrolled even in primary school. And many of those are girls.

And more than half of Turkey's high school students still perform at the lowest international standards. Instead of learning to ask insightful, incisive questions, students are too often trained to give standardized answers on selection examinations. That won't work in today's world. The labor market today requires increasingly complex skills in thinking, communicating, and technology.

Not enough schools and universities are preparing that kind of highly skilled graduate. That only happens when schools provide not just education, but quality education. Sabanci University is doing just that.

The private sector can act as a valuable partner in bringing the resources needed to bring a better quality of education at all levels to more students in Turkey. That will help not only the students themselves, it will also help businesses by giving them access to more productive and innovative workers.

About one-fifth of global education spending already comes from the private sector, and that proportion is growing. And I'm pleased to know that the private sector in Turkey is actively involved with improving access to education. Sabanci University is one important example. But Koc Holdings also founded Koc University, and Kadir Has has established Kadir Has University, and the TOBB founded ETU University. I'm told there's a little bit of competition among you. I think that's just great. What a great area to be competing in.

A second priority for Turkey is the need to cultivate a healthy private sector to create much-needed jobs. A strong private sector, we've seen around the developing world, is the real engine for change and growth and job creation. While Turkey lies in an oil-rich region, evidence from the last half century tells us that oil is not the engine of growth. The technological achievements of resource-poor countries in East Asia prove that. Korea, for example, has by far the largest number of internet subscribers, as a percentage of the population, in the world, and 100 percent--100 percent--of Korean schools are connected to the Internet.

Turkey, too, has invested in its future and innovation and modernization rather than relying on limited natural resources. It channeled its energy toward building a strong industrial base to drive that growth. Today, 95 percent of Turkey's exports are industrial products. In fact, that strong industrial base helped them dramatically increase exports after the 2001 financial crisis, and helped economic recovery.

So it comes as no surprise, I think, that investors are now starting to pay more attention to Turkey, particularly as an investment bridge between Europe and Asia, between East and West. In 2005, foreign investors brought nearly $10 billion into Turkey's economy. That's a significant increase from previous years, when foreign investments were chronically low. But that still represents only about 2.5 percent of Turkey's GDP and falls far below the expectations for a successful middle-income developing country. We believe that the percentage of foreign direct investment could and should rise to 4 or 5 percent of GDP, which would mean reaching levels of $15 to $20 billion in the years ahead.

But to do that, the business environment in Turkey needs to improve. And I'm not just talking about the environment for foreign investment. Indeed, domestic investigation is perhaps, in general, the more important engine of growth, although both matter and both are affected by many of the same factors. Investors, whether they're from Turkey or from other countries, look for an environment where they can invest their money reliably, dependably, and know that their efforts and the risks they take will receive reasonable returns. By World Bank estimates, if Turkey improved its business environment, it could reduce unemployment by anywhere between a full percentage point or as much as 4 percent points.
Each year for the last few years, we've been issuing a publication called Doing Business. The report ranks 155 countries worldwide according to the environment they provide for business. It's become a useful tool for our partners to pinpoint specific obstacles to investors and to push for legislative reforms to enhance the business environment. It's not really a guide to foreign investors. I doubt any serious foreign investor would make their decision about whether to invest in Turkey or any other country based on what they find in that report. It's really a guide to government officials, to tell them the kinds of things they need to change if they want the foreign investors that come and look at their country, or their local investors who are trying, to start businesses.

I've been pleased to see how many foreign officials that I've met with have understood it that way. I met with the finance minister of a very important middle-income developing country about four or five months ago, and my staff told me he wanted to talk about the Doing Business Report. They thought he was going to complain about the fact that his country was ranked around the middle of 155 countries. He didn't complain at all. He said thank you for what you've done. You've called attention to the problems in our stock exchange law, and it's enabled me to have the clout in my own congress to get it changed.

That's the kind of help that we hope it can provide. So keep that in mind as I tell you, unfortunately, in last year's Doing Business Report, Turkey ranked number 93 out of 155 countries. That's bad news, but it's also good news because it tells you that there's a lot that can be changed and probably changed relatively easily--I don't underestimate the difficulty--to improve the business climate and to increase investment in Turkey.

The latest report, for example, tells that people in Turkey need 28 percent of the average annual income to start a new business. That compares to zero in Denmark, 5 percent in Romania, or 10 percent in Chile and Brazil. Twenty-eight percent, by the way, of Turkish per capita income may not be a big obstacle to any multinational firm, but 28 percent of per capita income for a poor Turk trying to start a small business is probably close to an insuperable obstacle.

Another obstacle, it takes 232 days to obtain a business license in Turkey. That compares to 147 as the average among OECD countries. It takes Turkish entrepreneurs 10 signatures to export goods, 20 signatures to import goods. That compares with just 3 signatures that OECD entrepreneurs need for imports or exports. And we all know what some of those signatures probably involve.

The message here is clear. If it costs too much to start a business or if you have to untangle too much red tape to get there, then many businesses just won't get started. Many Turkish citizens will be denied job opportunities and their children will be denied their future.

I'm proud that the World Bank Group has been a partner in Turkey's efforts to bring itself closer to EU standards not only in education, but also in the private sector and in health. Our lending program of about $1.7 billion per year has been designed to support Turkey's EU aspirations. And we've been coordinating closely with the EC to draw from the experience of other countries that have joined recently.

Through World Bank support, about 2.3 million Turkish citizens receive conditional cash transfers so that children in poor families can go to school and receive regular health care. About 4,000 small local projects are being implemented to generate jobs and income throughout the country. And hundreds of companies have received credits to increase their exports. With Bank assistance, about 11,000 housing units supporting schools and health care facilities have been reconstructed in communities affected by the 1999 earthquake.

And the International Financial Corporation, the private-sector arm of the World Bank Group, has invested $109 million in the social sector alone so that people can have access to more high-quality medical care and education. The IFC is also working with the government of Turkey to apply international best practices and public-private partnerships in both health and education.

When Ataturk was contemplating his country's future in the early years of the republic, he said "The success of what we have won until today has done no more than open a road, a road towards progress and civilization. It has not yet brought us to progress and civilization. The duty falls on us and our grandsons to advance unhesitatingly in this road."

Turkey has traveled a long journey over the past eight decades, reconciling its rich traditions with its aspirations to modernity, to bring progress and prosperity to its people. The reforms of recent years in the private sector and the finance sector and the education sector give the Turkish people new opportunities to improve their living
conditions. They will find it easier to stay healthy, to obtain an education, to find a job, to make a living, to give their children an opportunity for a better future. And these reforms will also bring Turkey closer to its future in the European Union.

While there is still a long agenda of reforms ahead, Turkey can be held up as a successful model to many countries in the world and should be saluted for the balance it is achieving in embracing both East and West. Turkey's membership in the European Union will enrich Europe just as much as it will enrich Turkey. Turkey is bringing the proud legacy of a centuries-old civilization into a modern world to create a stronger, stable, and richly diverse global community.

For all of that we can say thank you. Or perhaps we should say it in Turkish: Cok tesekkur ederim. Thank you.