

# Moving Forward: An Investment Climate Assessment for Turkey

Emre Deliveli

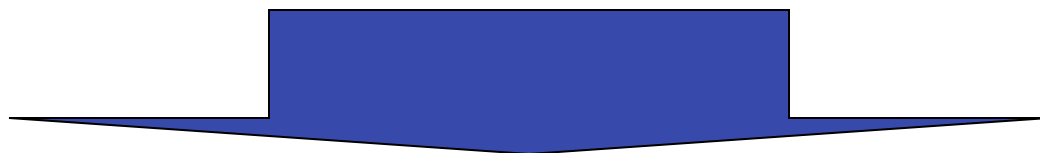
Ankara, 13 August 2005

# Agenda

- Recent Economic Developments
- Changing Binding Constraints for Private Sector
- Investment Climate Assessment
  - ➔ Objectives, Methodology and Examples
- Starting a Policy Dialogue
  - ➔ Government-Stakeholders
  - ➔ World Bank Country Assistance Strategy

# Changing Binding Constraints...

- The binding constraints of the 90s:
  - ➔ **Macroeconomic** (inflation, debt, RER, unemployment)
  - ➔ **Political** (unstable coalition governments, domestic tensions, terror)
  - ➔ **Institutional** (red tape, corruption)



2000-2001 crisis

# Turkey's Recovery since 2001 (1)

## ■ Macroeconomic Environment

- Declining Inflation, but...
- Declining Real Interest Rates, but...
- Productivity Growth, but...


## ■ Political Environment

- Stable one-party government, but...
- Improved policy certainty, but...

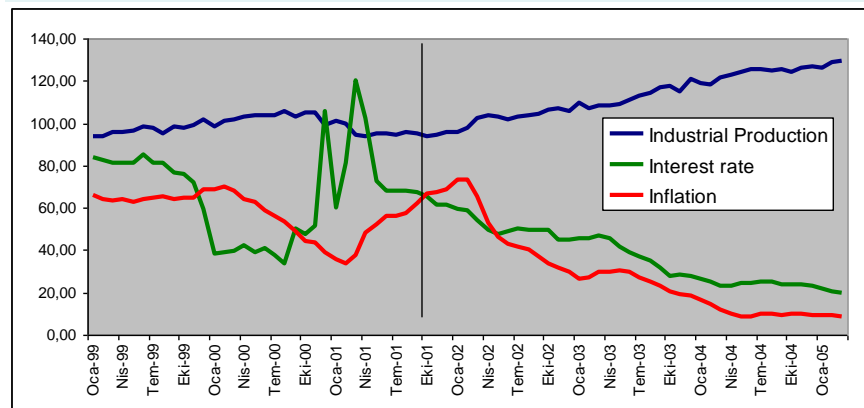
## ■ Institutional Environment

- Time to start up a business significantly shorter, but...
- Equal treatment for domestic and foreign investment, but...

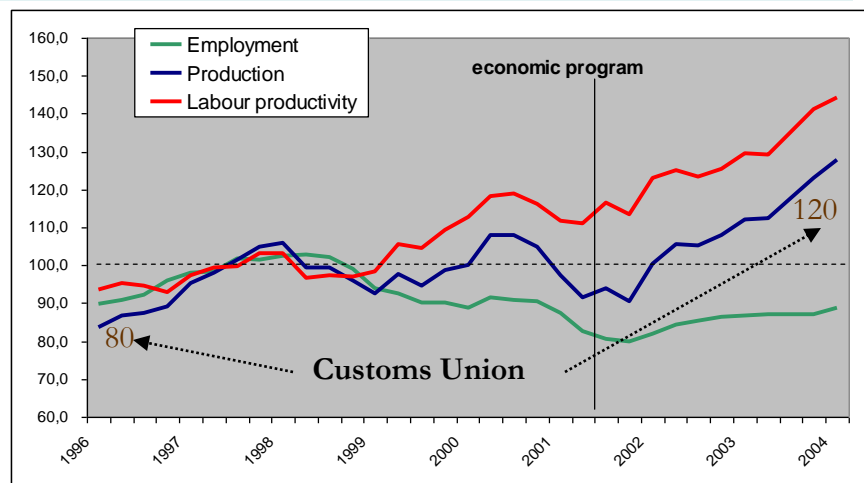
# Turkey's Recovery since 2001 (2)

- Stabilisation and Healthy Growth
  - Structural Transformation at the corporate sector
- 
- Rising Productivity and Competitiveness

## Non-inflationary growth



## Productivity Increases



Source: Central Bank of Turkey

# Turkey's Recovery since 2002 (3)

■ Transformation → Relative Stability → Superior Economic Growth

	2001	2004
<b>GNP (billion \$)</b>	<b>150</b>	<b>300</b>
<b>Growth (%)</b>	<b>-9,4</b>	<b>9,9</b>
<b>Inflation (CPI%)</b>	<b>70</b>	<b>10</b>
<b>Public debt (% of GNP)</b>	<b>95%</b>	<b>65%</b>
<b>Budget Deficit (% of GNP)</b>	<b>17</b>	<b>10</b>
<b>Exports (billion \$)</b>	<b>31</b>	<b>60</b>
<b>Foreign Reserves (billion \$)</b>	<b>19</b>	<b>35</b>

# Not everything is rosy... (1)

- Productivity increase not sustainable?
- Current Account
  - ➔ Imports of intermediate and capital goods are increasing... more than exports
  - ➔ Rising Trade Intergration has not led to an adequate Financial Structure
  - ➔ ...yet patterns & trends seem promising
- FDI inflows
- Unemployment

# Not everything is rosy... (2)

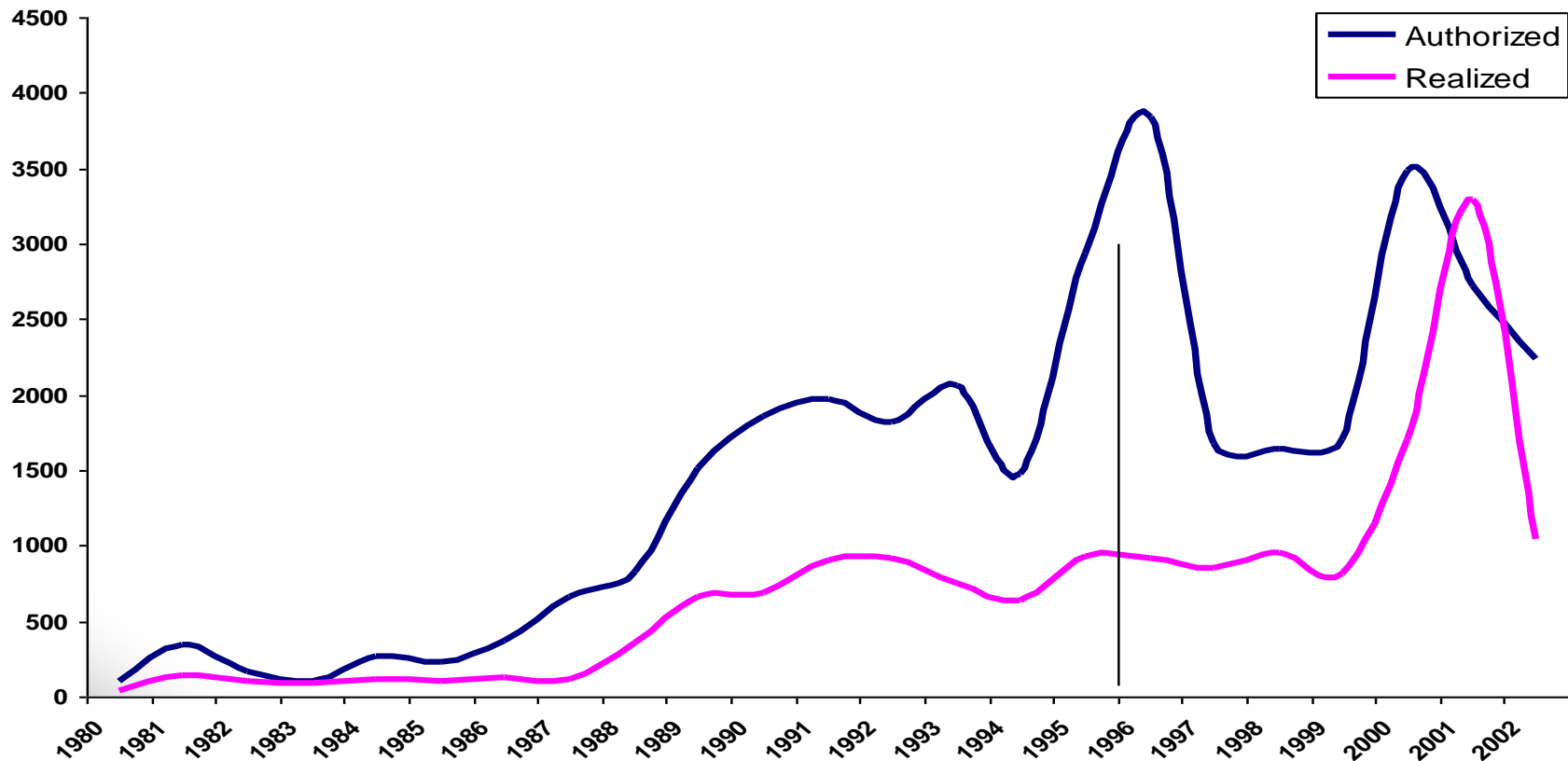
## ■ Investment Climate Problems:

- Tax System and Administration
- Labor Regulations
- Informal Economy and Anti-competitive practices
- Access to and Cost of Finance
- Access to Land
- Local Administrative Barriers (i.e. Licenses and permits)
- Corporate Governance and Restructuring
- Low Technological Base
- Lack of Innovative Capabilities
- Lack of Skills



# An Example: Institutional Environment Matters...

**FDI Inflows to Turkey (million US\$)**



Source: Foreign Investment Directorate, Treasury

# Which one is binding now?

## ■ For whom?

- Sectors
- Sizes
- Regions
- Domestic vs. Foreign

## ■ Why matters?

- Low Investment
- Lack of competitiveness of local industries

## ■ How can we find out?

# Role of Investment Climate Assessment

## ■ What are ICAs?

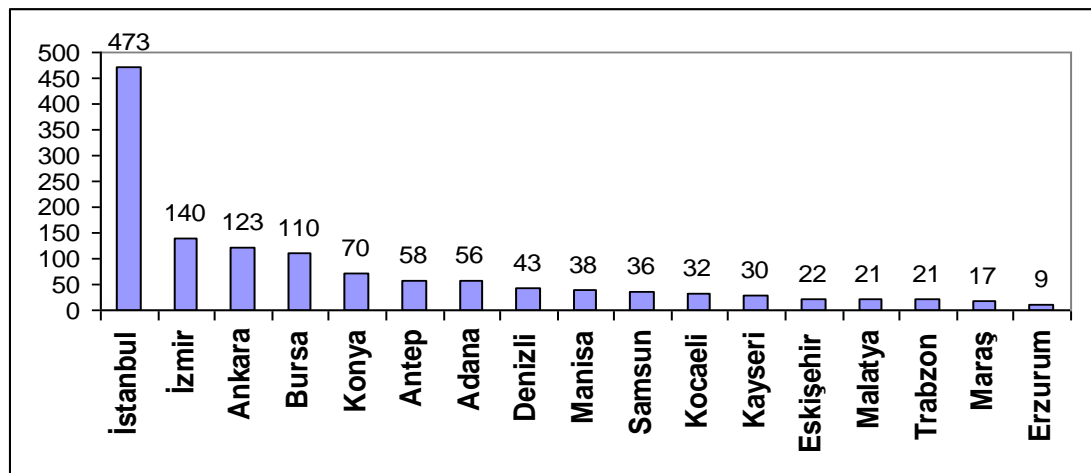
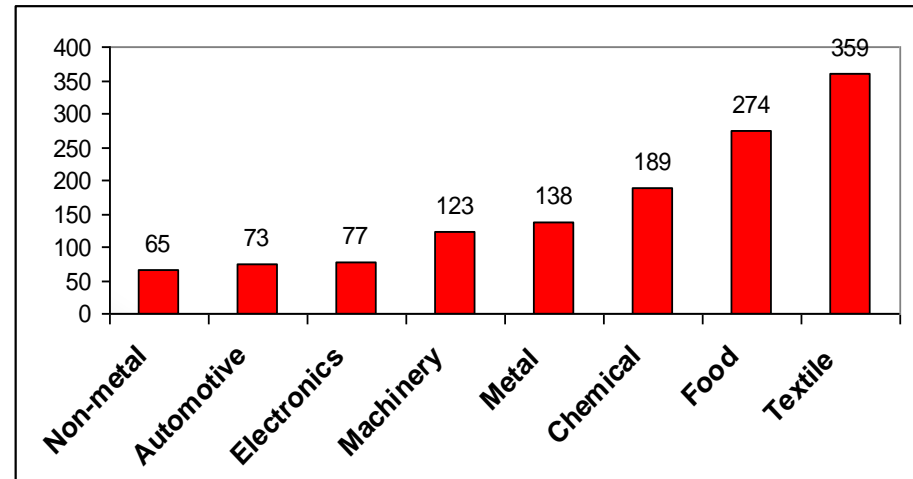
- Survey
- Background Papers
- Report



- Policy Dialogue
- World Bank's Country Assistance Strategy

# Survey Sample

- 1300 manufacturing + 200 hotels
- 8 subsectors
- 5 regions, 19 cities
- 15% foreign and exporting firms
- 80% representation
  - ➔ Value added
  - ➔ Employment
  - ➔ # of firms

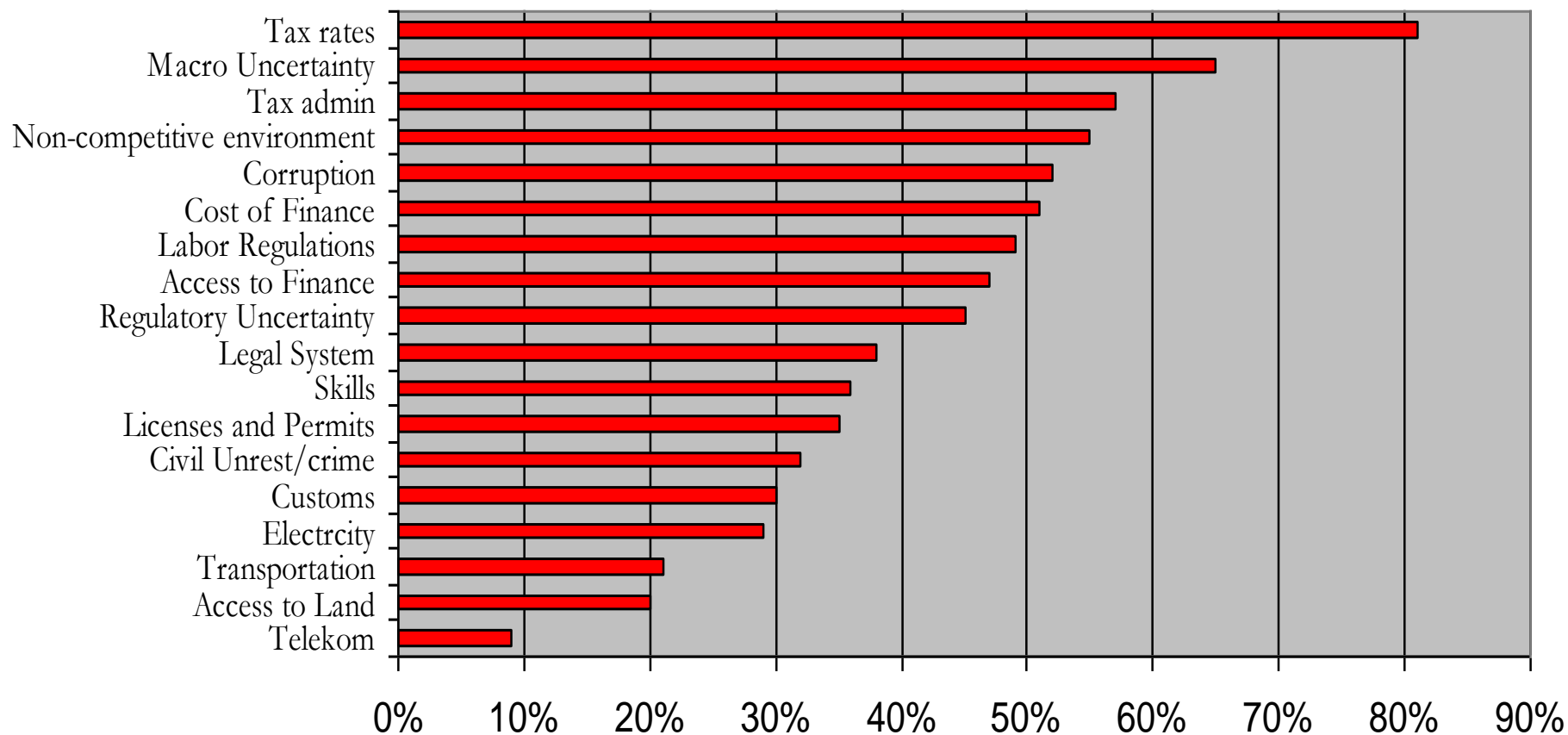


# What does an ICA provide? (1)

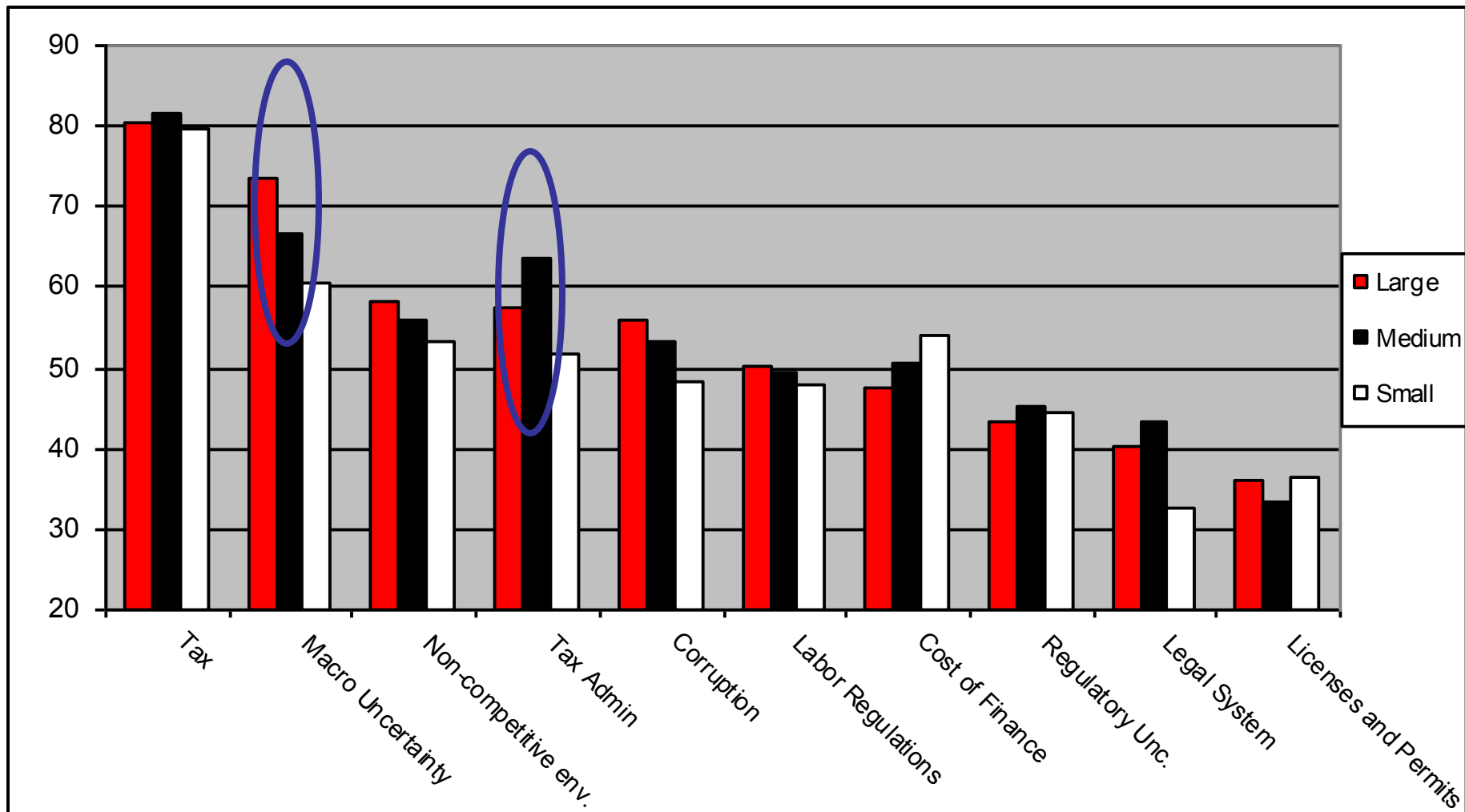
- Identifying the appropriate binding constraints to doing business
  - ➔ Variations across sectors / regions / firm sizes
- Assessing the relationship between firm performance and investment climate components
- Benchmarking against
  - ➔ China
  - ➔ New and potential EU members
  - ➔ Other comparable countries (Argentina, Russia)
- Policy recommendations and best-practices

# What does an ICA provide? (2)

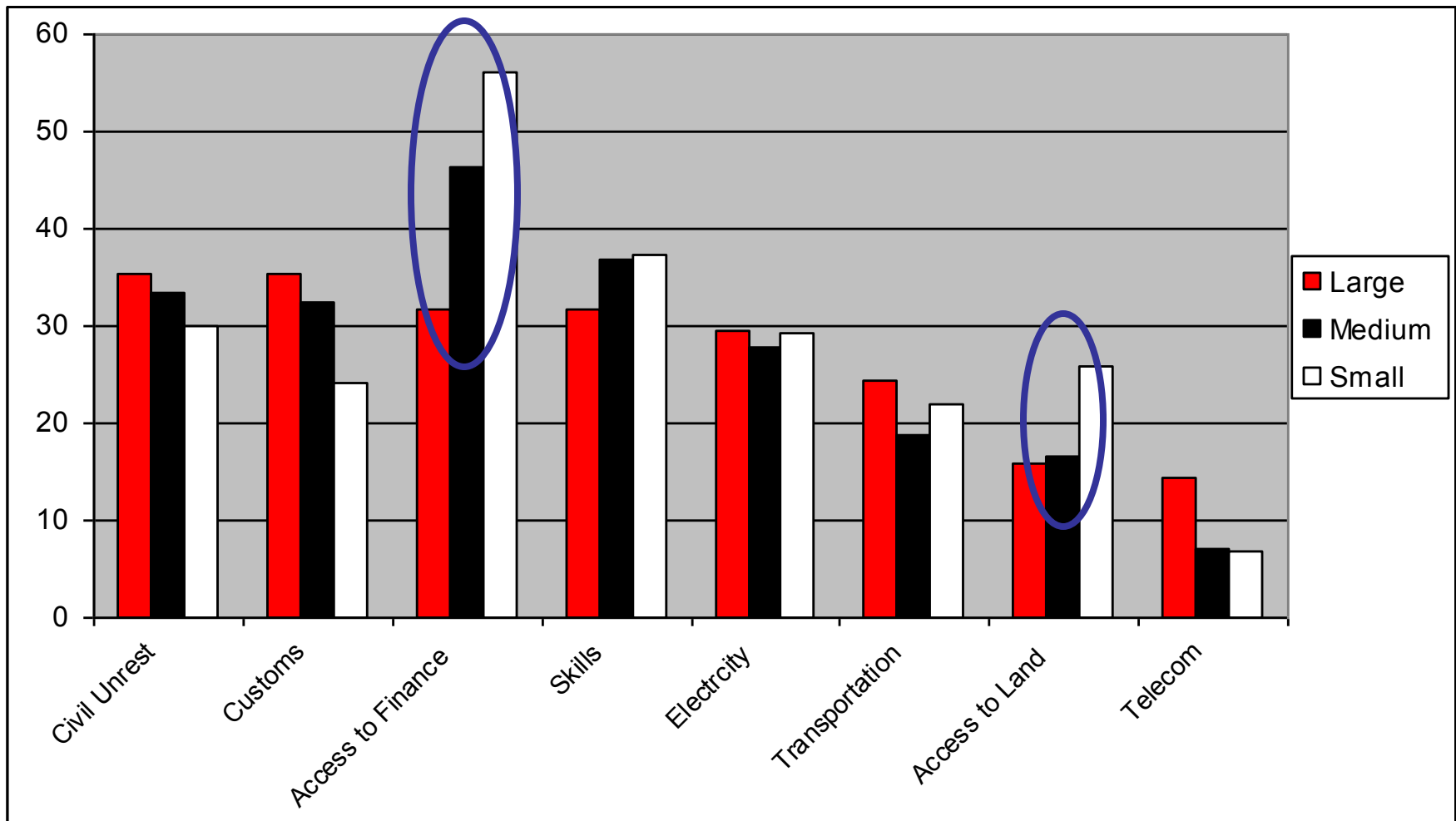
611 Firms - % perceiving severe and very severe



# What does an ICA provide? (3)



# What does an ICA provide? (4)





# Binding Constraints and Action Plans

- Binding Constraint in **Pakistan**: Low labor productivity, higher wages
  - ➔ Committee on Reforms in Regulatory Legal and Policy Environment introduced labor market reforms
- Binding Constraint in **Moldova**: Over-regulation, excess inspections, large agency fees and compliance costs
  - ➔ New Inter-Ministerial Commission for Deregulation Action Plan prioritizes curtailing inspections and agency fees, simplifying licensing and reporting requirements
- Binding Constraint in **Bangladesh**: erratic and poor quality of electricity supply
  - ➔ WB financed Power Sector Development Technical Assistance Project (\$15.5 million)

# Potential Ideas for Turkey's ICA

- Implications for Industrial Policy
- Setting the priorities (not limited to):
  - ➔ Would regional Incentives / Subsidies work?
  - ➔ What would be the performance gains be if the energy costs were the same as in China?
  - ➔ What are the root causes of lack of access to finance? Is access to finance a problem for SMEs only or is it a problem for large companies as well?
  - ➔ Are exporters more productive than non-exporters? if yes why?
  - ➔ Does innovative capabilities depend directly on R&D activities? Or are they embedded in other characteristics of firms (exporting, licensing, education of managers etc)?

# Limitations of the Survey

- Data provides only a snapshot of the economy:
  - ➔ Dynamic Analysis in background papers
    - Informality
    - FDI
    - Innovation
    - Red Tape
  - ➔ Conducting biannual ICA surveys (Indonesia)
  - ➔ Dynamic Analysis will be captured with accompanying projects:
    - Computable General Equilibrium Model

# Dynamic Analysis matters...

## ■ Dynamic Transformation of the Turkish Economy

### → Sectoral transition

- Which sectors will become the engines of growth?
- From traditional towards modern doing business (i.e.) retail

### → From informal to formal

- Effect of informality on competition, public finance, and productivity?

### → Sectoral and Corporate Restructuring

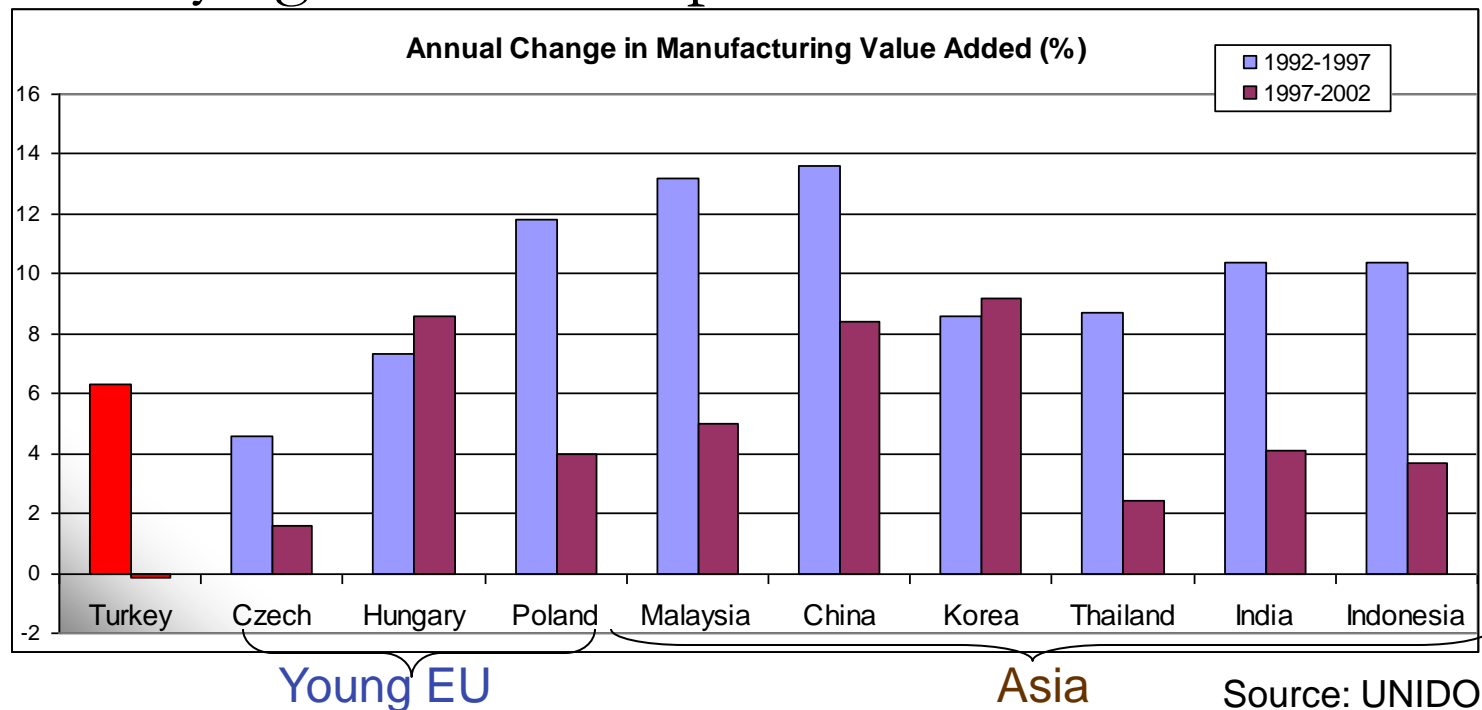
- End of the dynastic family businesses?
- Increasing importance of economies of scale and scope

### → Creative destruction & Transformation

- Competition → easier entry & exit

# Challenges

## ■ Intensifying Global Competition



- Sustainability of transformation?
- Adopting EU standards (costly in the short term). Solution:
  - ➔ Infrastructure and public sector reforms (decreasing costs)
  - ➔ Corporate Governance (institutionalization)

# Long term Goals

## ■ Innovative Policy Responses

e.g. textile sector in TR: EREZ in Palestine; mom&pop shops in retail

- Technically correct
- Administratively implementable
- Politically feasible

## ■ Policy Dialogue

- A dialogue instrument between business community and government
  - Public-private partnership is crucial for policy success
- Capacity building for policy formulation at TOBB
- Continuation of the YOIKK initiative
- Cooperation with and between different government agencies

## Questions and Answers

Further questions and comments? Please send them to [emre.deliveli@epri.org.tr](mailto:emre.deliveli@epri.org.tr)

If you would like to join the ICA Turkey mailing list, please send an e-mail to [senem@tepav.org.tr](mailto:senem@tepav.org.tr)