



Declaration of Outcomes

Sixth Meeting of the Investment Advisory Council for Turkey

June 10, 2010 - Istanbul

1. We, the members of the Investment Advisory Council (IAC) for Turkey, are honored to have been invited here today to meet with Prime Minister Erdoğan to discuss Turkey's strengths as a global investment destination and to advise on measures that could make this country an even more attractive destination for foreign direct investment.

2. We have heard from Deputy Prime Minister Babacan on the government policies that have boosted Turkey's position in the world economy. Turkey is now the 17th largest economy in the world and the 6th largest in Europe. Its GDP per capita has trebled over the last decade, and Turkey generated record FDI inflows prior to the recent global crisis.

3. That said, this sixth meeting of the IAC comes on the heels of the worst global economic crisis in generations. We have seen Turkey successfully manage the risks of this global economic turbulence, and praise the Government for its strong economic stewardship during the crisis. While Turkey is rebounding from the global financial crisis faster than many of its peers, the global environment remains much tougher than it was during the previous decade. Slower growth and lower investment flows at global level mean more competition for resources. The IAC process of reassessing Turkey's fundamental economic strengths - and identifying the new challenges that need to be met - is all the more important given the global context.

4. We heard from our guests from international financial organizations. Mr. Dominique Strauss-Kahn, Managing Director of the International Monetary Fund, commended the Government's plans to adopt a countercyclical fiscal rule, and emphasized that strict implementation would help reduce Turkey's borrowing costs and further entrench macroeconomic stability, including a stable cost environment, which is so critical for investors. Also, Mr. Strauss-Kahn underlined that Turkey should continue to implement the fiscal and monetary exit strategies which were initiated earlier than many countries and

delivered concrete positive contributions to the economic recovery. This will also avoid widening of the current account deficit. Mr. Philippe Le Houverou, Vice President of the World Bank, praised the Government for its structural reforms and high growth rates before the crisis, and emphasized that an acceleration of reforms to improve the regulatory environment, labor markets and innovation will offer Turkey the best opportunity for reaching high levels of growth and investment in a more competitive world. Mr. Philippe Maystadt, President of the European Investment Bank, highlighted the importance of continued market liberalization, streamlined regulatory procedures and improved infrastructure to strengthening the investment environment. We concur with all these assessments.

5. We would like to acknowledge the initiatives taken by the Government to improve the investment climate since our last meeting in 2008. Yet we believe that new investment climate reforms must be accelerated in the year ahead in order for Turkey to drive productivity and maintain and improve its competitive position in the global economy. We encourage the Government to seize the current opportunity to renew and refocus its investment climate reform agenda to reflect new global economic realities, and continue to deliver an era of robust sustainable growth fueled by the private sector in Turkey.

6. In this regard, we advise the Government to focus on the following key areas in the year ahead:

A. **Macroeconomic Stability.** Macroeconomic stability—characterized by sustainable public finances, external balance and price stability—provides the core foundation essential for private sectors' long term business planning in Turkey. We welcome submission of the Government's fiscal rule to the Parliament and look forward to seeing strong and disciplined implementation once it goes into effect.

B. **Business Environment:** Decisive actions are needed in the following critical areas to further strengthen Turkey's business environment:

- **Fight Against the Informal Economy:** We encourage the Government's continuous efforts to fight against the informal economy, as this is critical for fair competition,

improving business productivity, access to finance, broadening the tax base and the protection of workers social rights.

- **The legal framework** in Turkey needs to continue to keep pace with the needs of modern business and be compatible with global standards and best practices. Key legislation should be enacted, such as replacement of the current commercial code which dates from the 1950s, with the draft legislation in the Parliament.
- **Improving the speed, efficiency, consistency and predictability of the judicial system** should be a top priority, given the indispensable role of the courts in creating a stable business environment.
- **Infrastructure:** Further liberalization of the energy sector, especially renewable resources, the transportation sector, and the telecommunication sector, are essential to ensure Turkey's physical and digital infrastructure can meet growing demands. A new Public Private Partnership law, and an amendment to the Renewable Energy Law, would help to further strengthen this area.
- **Support to SMEs.** Policies that support the creation of new companies and provide SMEs better access to finance, stronger linkages with production and supply networks, and improved management capacity will be essential to improve the overall business environment.
- **Efficiency of customs procedures** is crucial for facilitating integration of companies with the world markets. We would underline the importance of continuous efforts to increase transparency and speed of customs procedures while reducing costs for exporters and importers by developing technological infrastructure with international standards.
- **Other areas of continued importance include** strengthening the education system (in particular vocational education), creating a stronger global brand for Turkey so that perceptions match the realities, streamlining and improving the efficiency, predictability and consistency of the tax system, further reducing the number of

regulatory permit procedures affecting business, and strengthening sustainable agriculture through more efficient irrigation systems.

7. **Labor Markets.** Reforms to make labor markets more effective are crucial to creating more and better jobs in Turkey. This would include steps to strengthen linkages between education and employment, and enhancing labor market flexibility.

8. **Innovation.** Private sector innovation is critical to achieving sustainable growth in the years ahead. We believe there is tremendous opportunity for the Government to improve the environment for innovation. Specific actions would include enhancing cooperation between business and universities with a view to commercializing innovations, increasing private investments into R&D, strengthening the protection of intellectual property through effective enforcement, adopting new ICTs, and ensuring high international standards.

9. We welcome the Government's strategy to turn Istanbul into a Global Financial Center, and encourage rapid actions to put into place the elements—ranging from strong corporate governance to deep capital markets—that will be essential to achieving this goal.

10. We congratulate the Government on successfully steering this country through the worst of the global economic crisis. We believe that implementation of the agenda outlined here will help to bring a new era of private sector led growth and investment in Turkey. We look forward to monitoring progress on a refocused investment climate reform program, supported through a strong and more efficient YOIKK implementation, in the year ahead.



Respectfully submitted by the members of the Investment Advisory Council for Turkey

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