TÜSİAD

TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION

THE SPEECH DELIVERED BY
ÖMER SABANCI
THE CHAIRMAN OF THE BOARD OF TÜSİAD
AT THE WIN – WORLD OF INDUSTRY 2005

Istanbul
March 17, 2005

Headquarters : Meşrutiyet Cad. No:74 Tepebaşı 80050 Istanbul Turkey Phone:+90(212)249 1929 Fax:+90(212)249 1350 e-mai : tusiad@tusiad.org
Ankara : İran Cad. No:39/4 Gaziosmanpaşa 06700 Ankara Turkey Phone:+90(312) 468 1011 Fax:+90(312) 428 8676 e-mail: ankoffice@tusiad.org
Brussels : 13, Avenue des Gaulois, 1040 Brussels Belgium Phone:+32(2) 736 4047 Fax: :+32(2) 736 3993 e-mail: bxloffice@tusiad.org
Washington D.C. : 1250, 24th Street N.W. Suite Nr. 300 Washington D.C. 20037 USA Phone:+1(202) 776 7770 Fax:+1(202) 776 7771 e-mail: usoffice@tusiad-us.org
Berlin : Märkisches Ufer 28 Berlin 10179 Germany Phone:+49(30) 288 786300 Fax:+49(30) 288 786 399 e-mail: info@tusiad-de.org
Paris : 12 Rue Godot de Mauroy Paris F-75009 France Phone:+33(1) 42 65 16 40 Fax:+ 33(1) 42 65 17 99 e-mail: atan@tusiad.org

www.tusiad.org

Mr. Chairman,
Ladies and Gentlemen,

It is a great pleasure for me to address this distinguished audience and I would like to thank the European Investment Bank for providing me with this opportunity.

Within the last three years Turkey has made remarkable achievements in terms of both political and economic stability; the two basic determinants of business environment.

Besides the progress on the lines of meeting Copenhagen political criteria for democratization and rule of law, a precondition for the beginning of membership negotiations, the economic fundamentals exhibits an outspoken improvement. The battle against inflation is progressing very well: the yearly inflation is expected to fall behind the government target of 8%. Turkish GNP reached to 300 billion dollars in 2004, which is 2 times of its level in 2001. The exchange rate is being determined totally by market forces under a free float system. The budget deficit came down to around 7% from 17% and the net public debt to GNP ratio of around 65% lastly, came close to Maastricht criterion from its level of 91% in 2001. The foreign deficit can be singled out as the only area of deterioration. The strong growth process has fueled imports, which led to a widening in current account deficit to 15.5 billion dollars in 2004. Nevertheless, the deficit was financed by international capital inflows thanks to increased credibility of the Turkish corporate and banking sector.

Certainly, this positive portrait does not mean that the job is accomplished. Despite the marked improvements in economic indicators, attaining higher growth-lower inflation in 2005 will necessitate a better calibration in implementation. Renewed agreement with the IMF will be one of the uppermost conditions to maintain the confidence atmosphere. We also appreciate the new three-year economic program, which is currently undertaken by the government. Preserving the fiscal discipline and proceeding structural reforms with determination will also contribute to the sustainability of positive expectations. Thus, there is certainly a need for going further with structural reforms for sustained macroeconomic stability. And, a renewed IMF agreement and EU harmonization process will provide a proper framework.

Of course, the EU accession process is an important part of Turkey's journey. The EU is the ultimate anchor and catalyst for institutional evolution. The EU convergence will serve as a lighthouse for sustainable economic and institutional development. In our view, although the IMF program has had an important structural reform context, EU candidacy and membership would be even a better anchor for structural transformation and welfare creation in the long run.

Ladies and Gentlemen,

Further to a proper macroeconomic framework, what matters most for an entrepreneur is the business environment.

I now want to draw your attention to the improvements concerning legal and regulatory framework of the investment environment. A Reform Program was launched at the end of 2001 for the Improvement of the Investment Climate in Turkey, which already produced improvements that have a direct, significant and immediate impact. Among the achievements the most outstanding one is the liberal foreign investment environment that was introduced with the new Foreign Direct Investment Law. Foreign investors are now entitled to establish any form of company included in the Turkish Commercial Code. There have also been significant improvements in the accounting framework. Further to International Financial Reporting Standards, Hyperinflationary Accounting has also become effective. Company establishment procedures notably simplified. The new law decreases the number of steps for establishing a company from 19 to 3.

However, the competition between countries to have a larger share from international foreign direct investment flows, is getting more and more tough, as the global funds are on a decreasing trend. This necessitates that Turkey should fortify its efforts towards a continuous improvement of the business and investment environment.

Concentrating much more on microeconomic reforms, Turkey will be in a position to take advantage of its competencies.

The foremost important one is the size of its market. Turkey is a country of 72 million with 66% of it is between 15-64. The country is also undergoing a demographic transformation. While the EU population is aging fast, the labor force in Turkey is increasing within the overall population. Furthermore, the family sizes are coming down which implies that, consumption demand, especially on durables will continue its fast growth.

The recent high growth path will also increase the income levels. We expect that the strong investment impetus and productivity gains will continue in the coming years. According to some preliminary results of a study that we conduct, Turkey's per capita GDP could easily reach 40% of the EU average by 2015.

Furthermore, State Institute of Statistics will start to measure GNP according to European system of accounting (ESA 95). After this revision of Turkish national accounts, we are expecting that the per capita income will be augmented by 30% due to unclassified sectors and activities under the current UN system of accounting 1968.

Thus, what the population and growth dynamics reveal, is a market full of business opportunities.

If FDI flows were to become even larger, say equal to 3 or 4% of GDP, as has been the case for some countries such as Ireland or Hungary, Turkish growth could be more rapid, approaching what has been achieved in some East Asian countries such as Korea over the last two decades. Compared to its peers, Turkey receives the lowest foreign direct investment flows. On average, it has attracted net FDI flows of 0.3% of GDP in the 1975-2001 period and only 0.4% in the 1990s when global FDI flows reached their peak. The EU accession process may be the trigger for much larger flows that would help to finance the economic convergence process. In Turkey, per capita FDI stock (during 1995-2003) totaled a mere EUR150, less than half of Romania and Bulgaria, and a fraction of countries like the Czech Republic, Hungary and Poland.

We believe that converging toward Europe will act as a magnet for foreign direct investment. Turkey should soon attract a class of investors that would have never participated in Turkish industrial and financial markets.

A huge and unsaturated domestic market that resolved its structural issues and an increased level of purchasing power that has strong economic relations with its neighbours will certainly be attractive for new investment opportunities.

Ladies and Gentlemen,

I would like to end up by underlying that as the business world, TÜSİAD will always work on recommendations that escalate Turkey to top performers. The Turkish business community has faith in the future of our country. We believe that now is the time to include Turkey in the short list of destinations for investment.
Thank you for your attention.