TÜSİAD

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THE SPEECH DELIVERED BY

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Distinguished Guests, Ladies and Gentlemen,

It's a great pleasure for me to welcome you on behalf of TUSIAD International this morning.

This gathering of the prominent business people from India and Turkey is a good opportunity to further friendship and cooperation between the private sectors of two countries.

I would like to share with you briefly some remarks on Turkish economy as well as trade and investment environment.

Turkey is an attracting country for investment destination as a synthesis of westernization, secularism and democracy in a free market environment. First comes the size of its market. Turkey is a country of 72 million people and 300 billion dollars of GNP. Furthermore it has favorable demographic dynamics. 66% of its population 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. However, Turkey did not make use of these potentials until recently. Main reason behind this underperformance had been unfavorable macroeconomic dynamics.

The outspoken performance of the Turkish economy is one that we have not witnessed in our near history. Having struggled with high and chronic inflation for nearly two and a half decade, Turkey managed to pull the inflation rate to single digit level. Furthermore, this success came along with a growth rate of around 8% in the consecutive three years, which is high by international and historical standards.

The current positive economic outlook rests on three pillars: high growth, enhanced stability and a comprehensive structural reform agenda. A brief glance at Turkey's macroeconomic performance since the economic and financial crises of 2001 clearly illustrates the success in improving the economy's resilience. The budget deficit came down to around 7% from 17% and the net public debt to GNP ratio of around 63% lastly, came close to Maastricht criterion from its level of 91% in 2001.

Turkey has adopted export-oriented strategy of growth since 1980. By shifting to this strategy, the economic structure was reshaped in the framework of free market economy, and foreign trade policies were completely liberalized. In 1996 Turkey entered into the last stage of Customs Union Agreement with the EU. Therefore, both import and export regimes have been made consistent with the regulations of the EU. In this process Turkey has been also progressively aligning herself to the EU's preferential trade regime, as required. Accordingly, Free Trade Agreements were signed with the Central and Eastern European Countries At present Turkey has 15 FTA's in force. All these factors directly affect our trade.

As bilateral barriers have been lifted, the EU become Turkey's biggest export and import partner with 54% and 46% shares last year respectively.

Certainly, this positive portrait does not mean that the job is accomplished. Despite the marked improvements in economic indicators, attaining lower inflation with high growth 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. Preserving 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.

Ladies and Gentlemen:

Of course, further to a proper macroeconomic framework, what matters most is the business environment. Recently, there have also been improvements concerning legal and regulatory framework of the investment environment.

Potentially, Turkey is an attractive country for global investors. Turkey has a large and dynamic market with a relatively high quality labor force and economic location advantages with easy access to regional markets. Despite these advantages Turkey could only attract USD 1 billion foreign investment on the average per year since 1990. According to generally accepted international standards, the minimum annual FDI attraction potential of Turkey is USD 35 billion (UNCTAD, 2002), which means that Turkey faces an investment loss of minimum USD 34 billion every year. In order to catch this potential we have to build confidence to our economy by ensuring stability of rules and regulations, transparency and political stability. Investors prefer countries that have well-functioning market economy and demand minimum bureaucratic requirements.

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. In this context, 9 technical subcommittees, in line with the findings and recommendations on FIAS (the Foreign Investment Advisory Service) report dated 2001, were formed on the problematic areas in need of improvement.

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.

One of the major achievements of the public and private sectors cooperation under this umbrella is the realization of the 2 Investment Advisory Council meetings held on March 2004 and this year in April in İstanbul. A group of 20 international executives, together with the heads of the four leading business associations of Turkey, have met with the Prime Minister, Minister of State and Minister of Finance. At the second meeting, the Presidents of IMF, European Investment Bank and the Vice-President of the World Bank were also present. The companies had the occasion to share their perspectives on how Turkey can enhance its competitive position in the world economy and increase its share of FDI.

On the other hand, the main FDI challenges facing Turkey are why FDI inflows have remained so low and how to increase these desirable inflows. Turkey's long-running fiscal problems and the ensuing macroeconomic uncertainty are probably important determinants of low FDI inflows. The weaknesses in infrastructure, the impediments on rule of law, fair competition and effective enforcement of the intellectual property rights also restrain FDI inflows to Turkey. Therefore, predictable and uniform implementation of existing and new legislation is of utmost importance for the improvement of investment environment. Moreover, in order to make a breakthrough, Turkey has to clearly define its FDI strategy and improve its reform management process.

Nevertheless, the economic setting in Turkey is changing, and it is now the turn of global entrepreneurs and the corporate sector. And the recent investment decisions by Fortis Bank, Unicredit, BNP Paribas, TeliaSonera amongst many others, signal the changing interest for Turkey as a destination for investments.

I would like to welcome you once more. Thank you very much for your attention.