

TÜSİAD

**OPENING ADDRESS OF
MR. ERKUT YÜCAOĞLU,
PRESIDENT OF THE
TÜSİAD HIGH ADVISORY COUNCIL
AT THE MEETING OF THE
HIGH ADVISORY COUNCIL**

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Dear Members of TÜSİAD, Distinguished Members of Media,

On behalf of the Presidential Board of the High Advisory Council, I salute you all with my sincere regards.

Since our last meeting in May we went through a series of events which may have serious impact on our perspectives about the future.

The most prominent developments were the signals from the FED about monetary policy change, the rapid increase of exchange rates and interest rates at home, negative impact of the Syrian problem, the slow progress of the Solution Process, and the rise of a highly tense political atmosphere in Turkey following the “Gezi” protests.

My address of May 30th included the following statement:

“Infringement of the free expression or separation of power should be a thing of the past and Turkey should be a country having the most advanced democratic standards with its state of law, efficient and independent judiciary, efficient legislation, a fair election system and law of political parties.”

This was apparently more a wish than a statement. But it wasn't only a wish; it was also a summary of TÜSİAD's vision of Turkey for more than 15 years. We keep restating it at every meeting.

However in the very day we held this meeting the security forces overreacted to a peaceful demonstration at the Gezi Park.

The tension created by this increasing overreaction was exploited by certain groups prone to violence and resulted in damage to city property.

Tragic developments followed including losses of life and numerous injuries.

The public conscience has been hurt with the images of the camera recording of a young man beaten to death by 7 to 6 unidentified men armed with clubs.

Who are these men?

Yes, there are suspects already detained and of course the guilty will be punished. But Turkey should never be the scene of such images more, these images should come to an end.

“The Taksim Gezi Park Protests” had started within the limits of freedom of expression. It was an expression of the demand of the citizens to participate in the administration of the city. The youth wanted an end to the meddling to their life. There was no demand of a coup.

If it could be handled with tolerance and willingness to dialogue, Turkey would embrace the creativity of peaceful action and show its bright smiling face to the world. Instead, it presented itself as a country where the freedom of expression is repressed, a country disposed to burst of violence.

Dear TÜSİAD Members,

Another development which originated in May and got momentum in June, was the declaration of the FED about the change of monetary policy which created a sharp, negative reaction in the global markets, particularly in developing countries. Mr. Bernanke, Chairman of the US Federal Reserve announced that they will dial down the \$85 billion pace of monthly bond buying; they will reduce the pace of purchases in measured steps and end it eventually.

This was totally expected. The US economy was displaying a positive and stable growth; the figures of unemployment had started to move down, there were all the signs of the end of the years of pumping liquidity.

Following the news that US will tighten its monetary policy sooner or later, the funds flowing up to then to the developing economies abruptly changed direction and started to flow toward the developed economies. The European Union benefited from this change of direction as well.

We observe that the growth in the European Union is still zero. However there are signs of recovery here and there.

Japan appears to get finally free from the pressures of the 20-year long deflation.

The change of direction of the monetary flows created similar misfortune in all developing economies, particularly in India, Brazil and Indonesia. Exchange rates went up, stock markets plummeted, interest rates increased and central bank reserves underwent heavy pressure.

Turkey received its share of misfortune as well.

I am not going to delve into a numerical analysis of the facts. But you all know that FED has announced its decision this week. We know now that the purchase of bonds will continue and the reduction of the pace of bond purchase is postponed two or three months. This generated a general optimism. But a bothering question has also stuck to our minds: Has Turkey diverged from the overall trend of the developing economies in the negative direction?

The answer is quite complicated!

We see that the budgetary discipline and a reasonable growth process are still continuing. Unemployment is increasing, but the cause is that we cannot catch up with the increase in labor supply. The fall in the stock market and the increase of the benchmark interest rate were steep.

But the most annoying fact is that Turkey is among the 2 or three countries with greatest current deficit with respect to its national income and its reserves, or one of the country most in need of foreign financing, as shown in the analyses of the Economist magazine and JP Morgan.

You all know that the most vulnerable equilibrium of the Turkish economy is still the current account deficit and the quality of financing this deficit. When I say the quality of financing, I refer to the dependency of the Turkish economy to the hot money inflows. This is one of the factors creating the disequilibrium... Hence Turkey needs to restructure its macroeconomic

balances and revise the targets of its Medium Term Program. There are efforts to do this. I guess our President of the Board of Directors have also certain suggestions on this issue.

I would like to talk briefly about the current deficit problem which keeps pulling down the sustainable growth rate of Turkey.

Dear TÜSİAD Members,

You know that the greatest part of the current deficit arises in the energy sector as Turkey has an energy deficit and continues to be a net importer. To redress this framework would take decades. There is nothing to say about this but to carry on the investments in domestic and renewable energy resource at an accelerated pace.

But a quick glance at the world supply us many instances of energy deficit with countries such as South Korea, Japan, Malaysia, Taiwan. They all are net importers. But with the value added they create and the products they supply to the global markets they not only meet their energy need but also create a current account surplus. This means that they keep increasing their foreign exchange reserves.

That is why Turkey can no more accept the statement “we run current deficit because our energy needs” as an excuse. Our real target should be to finance our energy deficit with our high value added products.

Of course to attain this level we have to focus on microeconomic structural reforms. The Industrial Strategy of the Ministry of Science, Industry and Technology is a starting point. The implementation of this strategy requires a serious effort of coordination.

This need of coordination arise from the fact that on the one hand we have to increase the production and the exports with policies to targeting the common problems of all industries, and on the other hand we have to work on investments and regulations to increase the efficiency and the value added in every sector.

When we talk about industrial strategy, actually we talk about the competitive power of Turkey. The industrial strategy is a conceptual framework for the competitiveness. And to enhance the competitive power requires a huge amount of authority and coordination.

We need an executive authority where all our ministries, but particularly the Ministry of Science, Industry and Technology, the Ministry of Finance, the Ministry of Development, the Ministry of Food, Agriculture and Animal Husbandry, the Ministry of Economy, the Ministry of Energy and Natural Resources and maybe some other public institutions will work together.

This must be an executive authority who will examine concomitantly the cost structure, raw material input, market access, financial settings and tax practices of each sector or subsector on the roadmap of the competitive power. Otherwise, we cannot progress. And of course the private sector should have its due place in this coordination authority.

I would like to remind you that TÜSİAD has been launching a series of serious research work on industrial analysis. I urge you to follow them.

To sum up, Turkey should find its way out of the income plateau called “middle income trap”. We see that, all the countries moving out of the middle income trap has completed their strategic competitive power framework somewhat as described above, and produced long term policies for the education, labor participation of the women, innovation, environment and so on.

In spite of all these uncertainties, I believe that Turkey has the potential of making a breakthrough, and this potential will develop fully by improving our competitive power and by educating our youth well.

About the education I want briefly say that we keep changing our system recklessly and we leave the parent to choose a path for their children without understanding their talents and their true calling.

Frankly speaking, we do not know what is being done about the quality of our teachers, about the quality of the content of the lessons.

But the question always in our mind is the following:

Will the generations we are educating be able to lead our country with up to date knowledge and necessary skills in a competitive world?

Or to put it in the simplest way, where do we stand in the rankings of mathematics and science the performance of the students?

Once again I would like to point out that TÜSİAD has a series of ongoing comprehensive research work on the quality of education.

Dear TÜSİAD Members,

Turkey will definitely not allow any violation of its sovereignty. Turkey has shot down a Syrian helicopter within this principle and current engagement rules. It has every right to do so.

However in a more general context, Turkish foreign policy is displaying a harsh discourse, an inflexible attitude, sometimes even welcoming conflicts, and this is rather unusual within our foreign policy tradition.

This foreign policy produced an acrimonious attitude toward the West but did not find a significant resonance from the East.

This means that by restricting our room for maneuver, we put ourselves in a position where both our political standing and our regional economic relations suffered.

Less than a year ago Turkey was making progress toward becoming a powerful regional leader with its political stability, economic success and active foreign policy which has its ups and downs, but was basically sound.

At this moment, Turkey is nearly out of a new story to tell in the spheres of politics, economics and foreign policy.

However economics, politics and social development ask for hope, demand positive new stories. Therefore we have to hold on tight to a balanced and flexible foreign policy. Particularly we have to be careful to stay out of any kind of armed intervention.

We have to defend the principles in which we believe without giving signs of taking part in an ongoing conflict; we have to be able to keep a dialogue with all parties in the neighboring countries...

In the sphere of domestic policy, a positive story can be created by the sound progress of the Solution Process and democratization. Hesitations in the Solution Process can seriously damage it.

Here the core issue is the acceleration of the preparative works for the new constitution, but democratization packages brought to and concluded in the National Assembly may increase the beneficial effects.

On the other hand judicial reforms should accompany democratization and implemented rapidly in this context.

Dear TÜSİAD Members,

Turkey can secure its due position in the global arena and it can promise a bright future and welfare to all its citizens, only if it can develop an advanced democracy and a state of law in an atmosphere of internal and external peace, and if it can bring down the structural obstacles with a relevant economic program. The new positive story of Turkey should be based on this promise.

Ladies and gentlemen, I thank you for your kind attention. I salute you once again with my sincere regards.