

PROSPECTS OF BUSINESS COOPERATION IN THE BSEC REGION

Halil Kulluk
Chairman of the Turkish – Georgian Business Council

24 February 2005
Thessaloniki

Dear Chairman,
Distinguished participants,
Ladies and Gentlemen,

It is a great pleasure for me to be here in the beautiful city of Thessaloniki and to address such a distinguished audience in a very well organized panel. Our session is titled “Prospects of Business Cooperation in the BSEC Region”. This is a very important subject because I believe that the development of the BSEC Region and its emergence as a regional power within the globalizing world order depends on to what extent we will be successful in strengthening the economic and commercial ties between the member countries.

As the Chairman of the Turkish-Georgian Business Council, which is operating under the auspices of the Foreign Economic Relations Board of Turkey (DEİK), I would like to inform you about the current situation of the Turkish economy with a special emphasis on the investment climate.

As you all know, the Turkish economy had gone through two financial crises in 2000 and 2001. As a result, the economy registered a record contraction of over 7.5 percent in 2001. Following the crisis, the government outlined a new economic program, supported by the international financial institutions, to bring about a rapid turnaround in the economy. Early elections were held in November 2002, and the new government has committed to continue with the macroeconomic program supported by the IMF.

The economy started to pick up in 2002, with GDP growth reaching 7.9 percent. The recovery continued in 2003 with 5.8 percent and for 2004 the estimated growth rate is 7.5 percent.

If we have a closer look at the macroeconomic indicators, we can clearly see that the Turkish economy has a remarkable performance in post-crisis recovery.

The Turkish lira was let to float in 2001 after the crisis and this led to a massive depreciation. In 2001, the Lira / US dollar exchange rate skyrocketed by 96.5 percent and this trend continued with 22.9% the following year. This trend changed, when increasing stability in Turkey was supported by the fall of the dollar in global markets, and the Turkish Lira gained stability. It appreciated

against the dollar in real terms by 0.8 percent in 2003 and 4.7 percent in 2004. Meanwhile, the government took out 6 zeroes from the Lira and launched the "New Turkish Lira" as of 1 January 2005. Currently the exchange rate is 1 USD = 1.31 New Turkish Lira.

One of Turkey's chronic problems, the inflation, is also taken under control. The CPI (consumer price index), which was 39 percent in 2000, has initially jumped up to 68.5 percent in 2001 due to the crisis. However the economic stability program of the new government began to produce results soon and the CPI began to go down gradually. In 2002 it was 29.7 percent, going down to 18.4 percent in 2003 and 9.3 percent last year.

Interest rates followed a similar path. The domestic borrowing rate had gone up to nearly 200 percent in March 2001. Now, as of January 2005, it's gone down to 21.1 percent.

Macroeconomic stability is gaining ground in Turkey and this trend is reflected in the people's wealth level as well. The crisis of 2001 had cut down the per capita GDP to 2,100 dollars. The official figure announced for the year 2004 is 4,100 dollars. The Turkish economy has now a size of nearly 300 billion dollars.

This is a bright picture, achieved only a couple of years. The trend is positive; however there are still some parts of the Turkish economy which are yet to recover. For example, the current account deficit, which was one of the key components of the crisis in 2001, is still a threat. Furthermore, the debt burden continues to affect the Turkish economy.

Distinguished participants,

Although there is still a lot of work to be done, nobody can deny that the Turkish economy is going through a highly successful recovery period. One of the most important reasons behind this success is that the political stability is growing stronger in Turkey, which is a *sine qua non* condition for executing the vital political and economic reforms needed. The leading Justice and Development Party (AKP) has a huge parliamentary majority and we have witnessed that this majority has enabled the government to go ahead faster with the reform packages. Prime Minister Erdoğan and his government retain substantial public support and their position was further strengthened following the European Council's decision on 17 December 2004 to start accession negotiations with Turkey in October 2005. Constitutionally, a general election will not be obligatory until November 2007.

Dear participants,

As I have tried to show you in figures, the wide-ranging economic reforms introduced in Turkey have helped to improve the macroeconomic stability which

led to a restoration of the investor confidence. Continued reforms in public sector management and in the financial sector are indeed important to ensure high and less volatile economic growth and to reduce economic vulnerability. However, it is also essential to create a business climate that attracts domestic and foreign investment. As an integral part of the broader national reform program that is laying the foundation for sustainable growth and development, driven by private investments in a transparent marketplace fully open to the world and supported by a smaller but more effective State, Turkey has launched a new legislation for foreign direct investment.

Key features of the new Foreign Direct Investment Law include:

- Freedom to invest by dropping all former FDI-related screening, approval, share transfer and minimum capital requirements;
- Reassurance of existing guarantees to foreign investors of their rights in one transparent and stable document;
- Upgrading to accepted international standards for definitions of “foreign investor” and “foreign direct investment”;
- A policy shift from ex-ante control to a promotion and facilitation approach with minimal ex-post monitoring to continuously improve an investor-friendly climate for growth and development.

I can give you some practical examples from the new law. For instance, there is no minimum amount of capital required. It is no longer obligatory to bring a minimum of 50,000 dollars in share capital. Any form of company included in the Turkish Commercial Code is acceptable for foreign entities. It is no longer obligatory to establish either a limited liability company or joint stock company. Also, companies having a legal entity with foreign capital in Turkey have the same rights to own or use land as domestic investors.

In short, Turkey is now offering a much more favorable environment for foreign direct investment.

Dear participants,

Although the main focus of Turkey’s foreign economic policy will be on our relations with the EU, this does not necessarily mean that our vision is limited with this one region. Both the government and the private sector are working hard to improve economic and commercial relations with regions that have a high potential for Turkey. In that sense, the BSEC region has a priority.

Turkey is already one of the largest sources of foreign direct investment in BSEC member countries. The total amount of Turkish direct investment in these countries amount to 4 billion dollars. If we include the investments in Central Asia this figure rises to 7 billion dollars. Major recipients of Turkish investment are Azerbaijan and Russia, which have received around 1.5 billion dollars of Turkish investment each. It is important to note that whereas Western companies have

focused on oil and natural gas investments in these countries, Turkish companies have a much diversified portfolio including investments in telecommunication, food, beverages, textile, construction materials, automotives, retail trade and transportation.

A discussion of the Turkish economic involvement in the Black Sea region would be incomplete without mentioning the contracting services. Turkish construction companies are successfully completed projects throughout the world. The total value of the projects undertaken in foreign countries is more than 50 billion dollars and projects in the Black Sea region make up 18 billion dollars from this figure. Russia is by far the largest market of Turkish contractors in this region.

We all try to attract foreign investment to our countries, both intraregional investment flows and those from third countries, but I believe that intraregional trade is very important as well. Our region is well endowed with transport lines, both on land and sea, and we should capitalize on this. In 2004, Turkey's exports totaled 62.8 billion dollars whereas its imports amounted to 97.2 billion dollars. The share of the BSEC region in Turkey's exports is 10.7 percent and in imports it is 15.7 percent. I believe that we can increase our trade both in quantitative terms and also by diversifying the products portfolio.

Dear Chairman,
Distinguished participants,
Ladies and Gentlemen,

We met in Thessaloniki to underline the importance of one special word which is included in our session's title as well: "cooperation". Turkey is ready to cooperate with its neighbors from the Black Sea region on any level of economic and commercial issues. The organization I am representing, the Foreign Economic Relations Board of Turkey, is ready to give you assistance if you have any plans of doing business with Turkey, so please do not hesitate to contact us anytime you like.

Thank you very much...