

**TURKEY:**  
**Gateway to Europe, Middle East  
and Central Asia**

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**President**

**TUSIAD-US**

**TÜSİAD Washington Representative Office**

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# **TUSIAD: Turkish Industrialists' and Businessmen's Association**

- **FOUNDED IN 1971; VOLUNTARY; 500+ MEMBERS**
- **CEOs & EXECUTIVES (Similar to US Business Roundtable)**
- **TOTAL SALES OF MEMBERS: 40% of GDP**
- **RESEARCH, POLICY & ADVOCACY ORIENTED**
- **COMMITTED TO DEMOCRACY & MARKET ECONOMY**
- **PRIMARY FOCUS: EU ACCESSION**
- **ORGANIZES NATIONAL QUALITY, TECHNOLOGY & E-TURKEY CONGRESSES & AWARDS**
- **ORGANIZATION**
  - **MEMBER DRIVEN COMMISSIONS**
  - **HQ & GENERAL SECRETARIAT IN ISTANBUL**
  - **REP. OFFICES: ANKARA, BERLIN, BRUSSELS, PARIS, WASHINGTON, DC**

# **TURKEY: Economic Policy Framework**

- **1923-1944: Etatist Economy**
- **1945-1961: Agriculture Led Dev.**
- **1962-1979: Planned Economy**
- **1980-Present: Market Economy**

# Turkey vs Select Countries

## (2002)

	<u>TR</u>	<u>POL</u>	<u>MEX</u>	<u>GR</u>	<u>EGYPT</u>	<u>USA</u>
• <b>POPULATION*</b>	68	39	105	11	75	290
• <b>GDP (PPP)**</b>	490	373	924	203	290	10,450
• <b>PER CAPITA GDP***</b>	7,300	9,700	8,900	19,100	4,000	36,300
• <b>GDP COMPOSITION(%)</b>						
– <b>AGRICULTURE</b>	12.9	3.8	5.0	8.1	17.0	2.0
– <b>INDUSTRY</b>	30.4	35.0	26.0	22.3	34.0	18.0
– <b>SERVICES</b>	56.7	61.2	69.0	69.3	49.0	80.0

\* Millions

\*\* US\$ Billions

\*\*\* US\$

# TURKEY: Foreign Trade

	EXPORTS*	IMPORTS*	(X+M)/GNP
	(X)	(M)	(%)
=====			
2003	46.9	68.7	.49
2000	27.8	54.5	.41
1995	22.0	35.1	.34
1990	13.0	22.3	.23
1980	2.9	7.9	.16
1970	0.6	0.9	.08

\*US \$ Billions

# TURKEY: Main Economic Partners

## (2003)

### TRADE

- Germany
- Italy
- **USA**
- UK
- France
- Russia
- Spain
- Switzerland
- Netherlands
- China

### INVESTMENTS (FDI)

- Netherlands
- Germany
- UK
- **USA**
- Switzerland
- France
- Italy
- Japan
- Panama
- Luxembourg

# US-Turkey Trade Volume

(\$, millions)

	<u>US Exports</u>	<u>TR Exports</u>
2004	3,361	4,945
2000	3,761	3,042
1995	2,768	1,798
1990	2,282	968
1980	540	175

# AMONG 10 BIG EMERGING MARKETS

(US DEPT. OF COMMERCE'S 10 BEM LIST)

• ARGENTINA

• BRASIL

• CHINA

• INDIA

• MEXICO

• POLAND

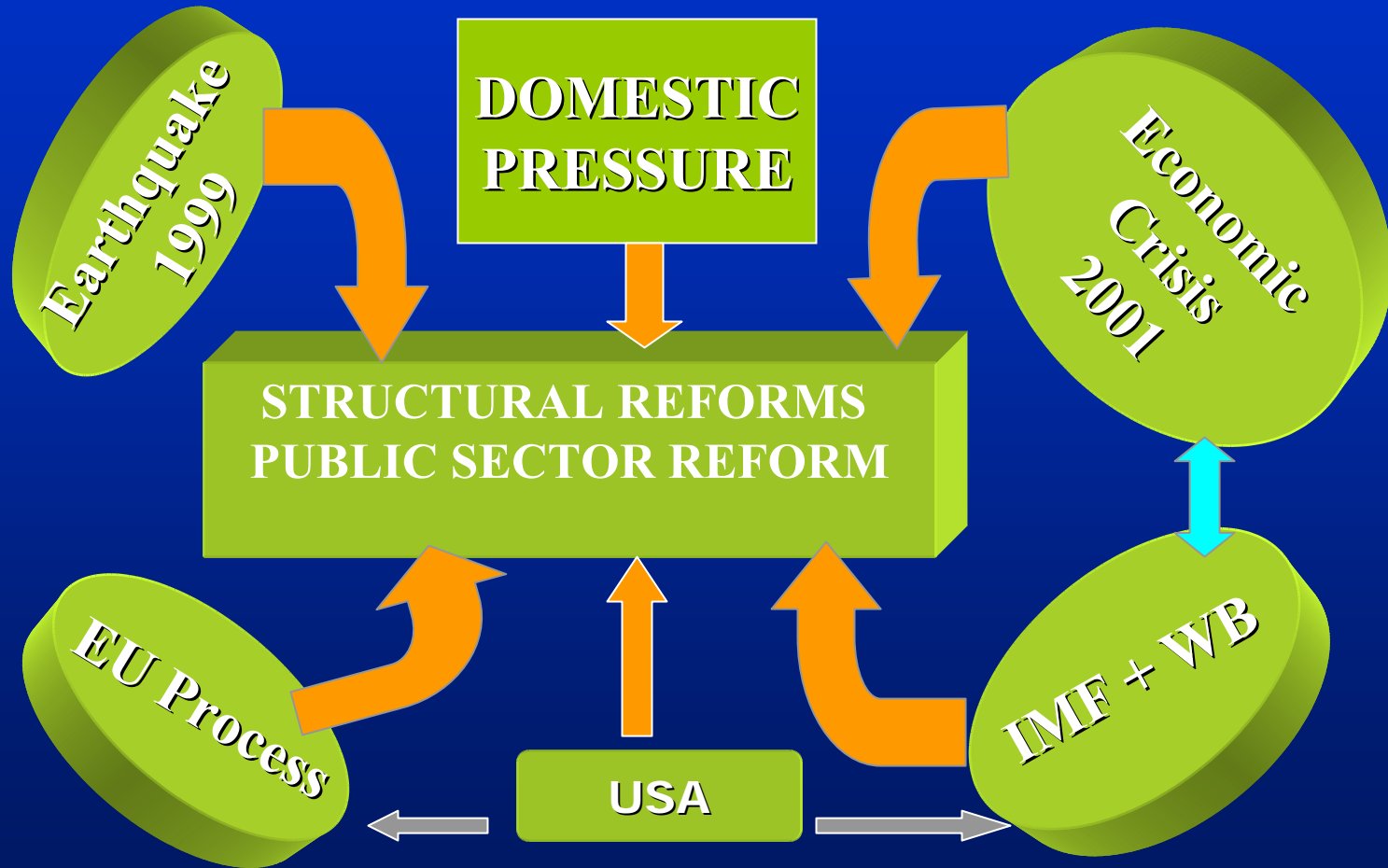
• SOUTH AFRICA

• SOUTH KOREA

• TAIWAN

• TURKEY

# CRISES TRANSLATE INTO OPPORTUNITIES



# WHY EU?

- **Modernization=Westernization**
- **Turkey's modernization efforts date back to early 19<sup>th</sup> century**
- **Foundation of the secular & western oriented Republic in 1923**
- **Atatürk's reforms: Bold steps towards modernization**
- **Post-WW II: Membership to all major European organizations: NATO, OECD, Council of Europe...**

# **EU-TURKEY: OVERVIEW**

- **1959: Application to EEC for full membership**
- **1963: Ankara Agreement ⇒ The first step to full EU membership**
- **1970s: ORTAK PAZAR ⇒ “They’re partners, we’re the market”**
- **1980s: Difficult years**
- **1996: Customs Union**
- **1999: Declaration of Turkey as a candidate for full membership**
- **2004: Decision to start negotiations**

# TURKEY'S ROLE IN THE REGION: MORE IMPORTANT THAN EVER AFTER SEPTEMBER 11

## TURKEY HAS:

✓ LONGSTANDING RELATIONS  
WITH THE WEST

✓ A STRATEGIC LOCATION

✓ NATO MEMBERSHIP



US AND EU

✓ A LONG AND STEADILY  
IMPROVING DEMOCRACY

✓ A STRONG AND RELIABLE ARMY

✓ A STRONG MARKET ECONOMY



TURKIC REPUBLICS,  
BALKANS AND THE  
MIDDLE EAST

THEREFORE TURKEY IS

✓ A ROLE MODEL FOR NEIGHBORING COUNTRIES

✓ A MAIN CONTRIBUTOR TO ECONOMIC DEVELOPMENT

✓ A GUARANTOR OF PEACE AND STABILITY IN THE REGION

# **STRONG RELATIONS WITH TURKIC REPUBLICS**

- ✓ **TURKEY HAS THE HIGHEST NUMBER OF INVESTORS IN TURKIC REPUBLICS AND SECOND LARGEST IN \$ TERMS**
  
- ✓ **TURKISH COMPANIES OPERATING ESPECIALLY IN ;**
  - ✓ **AUTOMOTIVE SECTOR**
  - ✓ **WHITE GOODS**
  - ✓ **RETAILING + FOOD & BEVERAGE**
  - ✓ **CONTRACTING**
  
- ✓ **INFLUENCE OF TURKEY IN THE REGION IN MATTERS RELATING TO**
  - ✓ **EDUCATION - STUDENT EXCHANGE PROGRAMS**
  - ✓ **WIDESPREAD TURKISH TV BROADCAST eg: CNN TÜRK**
  - ✓ **TELECOM FACILITIES ACTING AS A HUB**
  - ✓ **FOREIGN AFFAIRS**
  - ✓ **LARGEST NUMBER OF FLIGHT DESTINATIONS**
  
- ✓ **EASY ACCESS TO TURKIC REPUBLICS THANKS TO**
  - ✓ **CULTURAL & LINGUISTIC TIES**
  - ✓ **POSSIBILITY OF ADDRESSING SOME 300 MILLION PEOPLE**

# **AN AREA OF FOCUS IN TURKEY : SOUTHEASTERN ANATOLIA PROJECT (GAP)**

## **A \$ 30 BILLION INVESTMENT**

- ✓ **AIM TO DEVELOP ALL THE LAND AND WATER RESOURCES IN THE REGION**
- ✓ **COVERS 10% OF TURKEY'S SURFACE AREA**
- ✓ **COVERS 20% OF TURKEY'S LAND SUITABLE FOR IRRIGATION  
8.5 MILLION HECTARES**
- ✓ **AGRICULTURAL PRODUCTION IN THE REGION WILL BE INCREASED BY SIXFOLD**
- ✓ **WILL SUPPLY 25% OF ELECTRICITY AND 85% OF HYDROELECTRICAL ENERGY OF TURKEY**



### **AGRIBUSINESS OPPORTUNITIES**

- **CAPABLE OF GROWING MOST TEMPERATE AND SUBTROPICAL CROP SPECIES**
- **JOINT VENTURE OPPORTUNITIES**

# **TURKEY IS MOVING FORWARD IN MULTIPLE DIMENSIONS SINCE 1999**

- **DEMOCRATIC REFORMS SIGNIFICANTLY ACCELERATED**
- **ECONOMIC RESTRUCTURING IN PROGRESS**
- **MAJOR ECONOMIC INDICATORS IMPROVING**
- **POLITICAL & ECONOMIC SETTINGS STABILIZING**
- **PRIVATIZATION PROGRAM IN PROGRESS**
- **PROMISING RETURNS IN FINANCIAL MARKETS**
- **INVESTMENT OPPORTUNITIES EMERGING**

# MAIN DRIVING FORCES BEHIND TURKEY'S DYNAMISM

- UNSATURATED LOCAL MARKET
- YOUNG & INCREASING POPULATION
  - ➔ CHANGES IN LIFE STYLES AND CONSUMPTION PATTERNS
- DYNAMISM DUE TO INCREASED COMPETITION (EU PROCESS)
- INFORMAL ECONOMY
  - ➔ LOW TAX COLLECTION
  - ➔ HIGH CONSUMPTION
- AGILE PRIVATE SECTOR AS A RESULT OF PAST CRISES AND VOLATILE MARKET CONDITIONS
- EXPORTS TO & INVESTMENTS IN EMERGING REGIONS: RUSSIA, BALKANS AND CENTRAL ASIA
- ACTIVE PARTICIPATION IN TRADE & RECONSTRUCTION EFFORTS IN IRAQ & AFGHANISTAN

# DEMOGRAPHIC TRENDS HINT AT INCREASING CONSUMPTION

- **67 MILLION PEOPLE**
  - **AVERAGE HOUSEHOLD SIZE 4.4 (DECREASING)**
  - **30 % BELOW 15 YRS OF AGE (DECREASING)**
  - **74% URBAN POPULATION (INCREASING)**
  
- **STABILIZED DEMOGRAPHIC GROWTH ONLY BY 2025 AT AROUND 85 MILLION**

# RECENT ACHIEVEMENTS

- **Growth without inflationary pressure**
- **Fiscal discipline**
- **Inflation: Down from + 65% to < 10%**
- **Major productivity gains**
- **Impressive surge in exports**
- **Real interest rates declining**
- **Two remaining concerns: Public debt and current account deficit**

# TURKEY OFFERS...

- **Large domestic market**
- **Free access to EU markets**
- **Easy access to Russia, Central Asia, Caucasus and Middle East**
- **Pro-business&pragmatic Government**
- **Skilled work force&flexible labor market**
- **Western (US) educated white-collar work force**
- **Pleasant working&living environment**

# CAPITAL MOVEMENTS ARE ONE OF THE MOST LIBERALS IN THE WORLD

## WORLD COMPETITIVENESS REPORT, 2002 SELECTED COUNTRIES

### FREEDOM TO INVEST IN STOCKS AND BONDS

FOREIGN CITIZENS INVESTING  
IN HOME COUNTRY

OWN CITIZENS  
INVESTMENT ABROAD

RANKING

SCALE 1-7

RANKING

SCALE 1-7

<b>TURKEY</b>	<b>9</b>	<b>6.8</b>	<b>31</b>	<b>6.3</b>
<b>US</b>	<b>17</b>	<b>6.7</b>	<b>11</b>	<b>6.7</b>
<b>ITALY</b>	<b>26</b>	<b>6.5</b>	<b>27</b>	<b>6.4</b>
<b>BRAZIL</b>	<b>39</b>	<b>6.3</b>	<b>60</b>	<b>4.7</b>
<b>POLAND</b>	<b>42</b>	<b>6.2</b>	<b>69</b>	<b>3.9</b>
<b>CANADA</b>	<b>54</b>	<b>6.0</b>	<b>26</b>	<b>6.4</b>
<b>RUSSIA</b>	<b>71</b>	<b>5.1</b>	<b>70</b>	<b>3.7</b>

# TURKEY OFFERS A HIGHLY SKILLED WORK FORCE

WORLD COMPETITIVENESS REPORT, 2002  
SELECTED COUNTRIES

## HIGHLY SKILLED IT WORKERS

	<u>RANKING</u>	<u>SCALE 1-7</u>
U.S.	2	6.7
FRANCE	21	5.7
TURKEY	32	5.1
HUNGARY	36	4.8
CHINA	42	4.5
MEXICO	47	4.2
ARGENTINA	50	4.1
RUSSIA	61	3.7

# TURKEY HAS A FLEXIBLE EMPLOYMENT ENVIRONMENT

WORLD COMPETITIVENESS REPORT, 2002  
SELECTED COUNTRIES

HIRING & FIRING DETERMINED BY EMPLOYERS

	<u>RANKING</u>	<u>SCALE 1-7</u>
US	6	5.0
RUSSIA	10	4.7
TURKEY	17	4.2
CHINA	23	4.1
UK	29	3.9
MEXICO	45	3.5
POLAND	63	2.6
GREECE	65	2.4

## **LAST TWO YEARS' IMPRESSIVE PROGRESS**

- **Improving political stability**
- **Providing macro-economic stability**
- **Undertaking structural reforms**
- **Fighting corruption**
- **Passing new laws and incentives to attract FDI**
- **Adopting international financial reporting standards**

# **AREAS IN NEED OF FURTHER ATTENTION...**

- **Combating informal economy**
- **Undertaking judicial reform**
- **Reducing red tape**
- **Cutting taxes on labor (social security)**
- **Passing tax reform**
- **Accelerating privatization**
- **Implementing intellectual property rights**
- **Resolving existing disputes with US companies**

# **GROWTH POTENTIAL FOR SOME NEW BUSINESSES**

- **RETAILING**
- **TELECOMMUNICATIONS**
- **ENERGY**
- **AUTOMOTIVE PRODUCTS**
- **HOUSEHOLD APPLIANCES**
- **FAST FOOD CHAINS**
- **TOURISM & HEALTH**
- **ENVIRONMENTAL PROTECTION**
- **BANKING & FINANCIAL SERVICES**

# **EU'S ROLE-I**

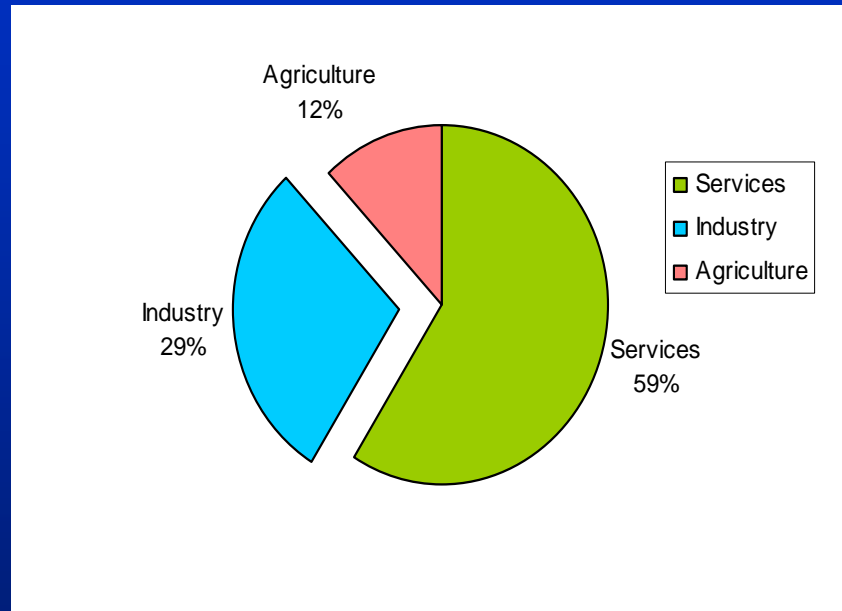
- **EU has been the main catalyst in this transformation process**
- **All previous accession countries have benefited from EU objectives & standards**
- **EU represents not only the world's largest economic bloc, but also a powerful union of democracies promoting stability in both member and accession countries**
- **Turkey-EU relations dates back to 1959**

# EU'S ROLE-II

- **Main economic benefits**
  - Single market
  - Competitive pressures
  - Free movement of capital/FDI
  - Common agricultural policy (CAP)
  - Reduced exchange rate volatility
  - Coordinated monetary policy
  - Financial assistance
  - Overall increase in living standards
- **EU-Turkey Customs Union since 1996**

# ONLY 29% OF THE TURKISH ECONOMY ENTERED THE CUSTOMS UNION DISCIPLINE WITH THE EU AND OPENED TO GLOBAL COMPETITION IN 1996

## TURKEY'S GNP (2003)



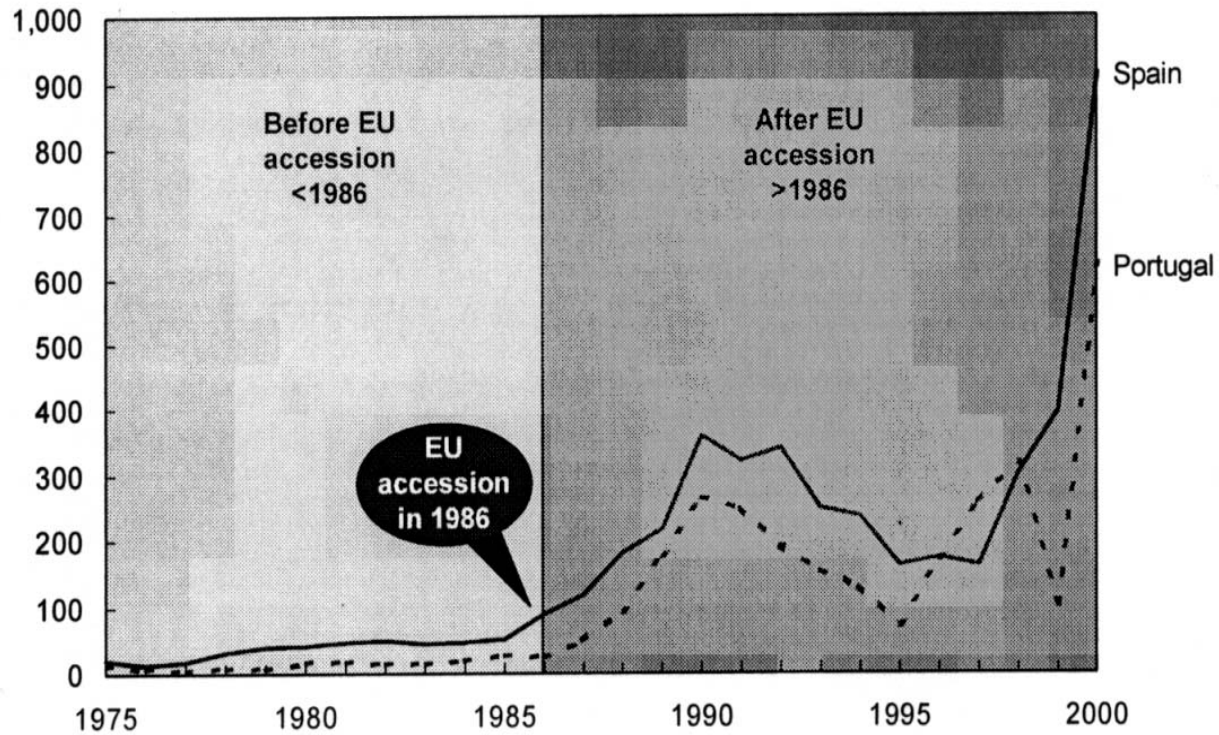
THE REMAINING 71 % IS STILL EXPOSED TO NEITHER EU DISCIPLINE NOR WORLD COMPETITION. FULL MEMBERSHIP WILL MAINLY IMPACT THIS SIGNIFICANT PART OF THE TURKISH ECONOMY

Exhibit 49

## EFFECT OF EU MEMBERSHIP ON FDI INFLOW TO SPAIN AND PORTUGAL

US Dollars

FDI inflow per capita



Source: *World Development Indicators*

# WHAT COULD TURKEY BRING INTO THE EU?

- **EU's global economic competitiveness**
  - Large & unsaturated market
  - Dynamic private sector & flexible labor markets
  - Gateway to the East and South; energy security
  - Significant welfare effects on EU citizens
- **Social Europe**
  - Shrinking & aging populations
  - Sustainable social security
- **EU as a global player**
  - Political & military aspects
  - Clash of civilizations
  - Fighting political Islam

# **A MESSAGE TO US BUSINESS COMMUNITY**

- **US INVESTMENTS IN TURKEY AMOUNT TO \$2 Bio (Less than Egypt; only 0.12% of US FDI)**
- **BILATERAL TRADE VOLUME: 2004= 8.3 Bio. (0.36 % of US trade volume)**
- **MAJOR INVESTORS ARE THE EUROPEANS**
- **SEVERAL EU INVESTORS ARE CURRENTLY NEGOTIATING DEALS**
- **INVESTMENTS IN REAL ESTATE REACHED US \$1 BIO IN 2004 ALONE**
- **GEO-STRATEGIC IMPORTANCE & REGIONAL POTENTIAL**
- **ENERGY & RECONSTRUCTION DIMENSIONS**

# IN SUMMARY

## IF YOU ARE IN SEARCH OF:

- ❑ NEW MARKETS FOR GROWTH & DIVERSIFICATION
- ❑ NEW SOURCES TO INCREASE COMPETITIVENESS
- ❑ A PLACE THAT YIELDS HIGH RETURNS
- ❑ A BRIDGE TO NEW MARKETS

**THEN ...**

**...you may either wait until TURKEY achieves full stability (becomes an EU member), and risk:**

- **Facing higher asset prices/entry costs**
- **Losing market share**
- **Delaying acquisition of market knowledge**
- **Missing opportunities**

**or...**

**...you may start doing business in  
Turkey now in order to enjoy benefits  
offered by this land of opportunity**

**If, in your judgment, doing business in  
Turkey is still a risky decision, then,**

**“The greatest risk, is not taking [even a moderate] one”\***

**\*AIG Commercial**