

Ambassador's Speech

It is better to start with the economic development of Turkey since fifties in order to explain different economic policies. This might also provide you some kind of macro economic outlook. During fifties the economics theory for the development was the import substitution. At that time, the famous Indian Economist Jagdish N. Bhagwati was saying that if one town wants to succeed in its economic development, first they must have high tariff barriers and then to protect its industry and to have an import subsidies policy. So, Turkey followed these policies between 50ies and 80ies. Most of the developing countries had their economic policies on this way.

Until 24th of January we had some kind of timid startup of liberalization in Turkish economy and during this period we changed our foreign exchange ratio. We had more liberalized economic policies and we started to have export oriented policies in 80ies thanks to our late President Özal. Another threshold in our economic policies is of course 1 January 1996 which is the date of the custom union with EU.

In Turkey most of the crisis that we faced was always the shortage of foreign currency because our export was always lower than our import. The Turkish economy was always facing this kind of crisis due to the shortage of foreign currency. Despite the export oriented policies, Turkish economy could not overcome these difficulties.

In 2001 we faced again the deepest economic crisis of Turkey: in one night the interest rate reached 7000 %. The overnight interest rate was 7000 % per night. So just to explain how deep the crisis was the inflation rate was around 100 % and then, as in other countries of course, we were obliged to go to the IMF, to the World Bank, to have a Standby Agreement with IMF to overcome this crisis. In 2001 **we were "obliged"** by IMF and World Bank to start up new structural reforms in our economy. I'm giving these examples because it is not far from what you are facing today. What the European countries are living today was our experience in 2001.

We started to have structural reforms, starting by restructuring our banking system. Secondly, we were obliged also to start up a big privatization project to have a budgetary discipline, financial consolidation and also to initiate regulatory **bodies** and diminish the role of the State in the economy. All those structural reforms are very similar to the structural reforms which have been asked today to Italy: mostly financial consolidation, budgetary discipline, privatization, to decrease the role of the State in the economy, efficient regulatory **bodies** and also a very strict control of the banking system.

Of course, those economic reforms are very well known by all the economists it is not a big secret. The most important is to have a very strong political power in the country to apply those reforms.

In 2002, because of those crisis and the startup of all those reform process, the government fall down and we had participated elections and the Justice and Development Party, the ruling party today, came to power in Turkey in December 2002. The Justice and Development Party continued this reform process in a very strict way. As I said the most important for those reforms is to have a political stability in the country, very strong government and not to make any concessions to the reform process.

After 10 years of Justice and Development Party government, which is from December 2002 up to December 2012, Turkey has tripled its GDP. Our GDP in 2002 was around 232 billion dollar and last year, at the end of the year, in 2011, our GDP has reached 774 billion dollar.

So I can give you other kind of figures which show the deep economic achievements of Turkey during the last 10 years, thanks to the reform process, the economic restructure of the Turkish system. During the last 10 years the average of the economic growth in Turkey, despite the economic crisis of 2008 and 2009, was 6%. In 2010 the economic growth in Turkey was 9.2% and in 2011 it was 8%. This year it will be most probably around 3.2% or 3.3% because again we were obliged to slow down our economic growth due to the inflationist pressure. When the economy becomes too hot you have to take care and must be more careful. Because all the balances are changing. However, for the upcoming 10 year the average that we are expecting or planning will be around 5%.

These are the growth figures. By the way thanks to those reforms process the inflation rate in Turkey has decreased from around 100% to 6% nowadays and on the public finance side the deficit or the ratio of the public debt to our GDP, which is nowadays very much written in Italian newspapers, especially regarding the Italian situation, because as you know in Italy the ratio of the public debt to the GDP is the biggest problem, it is around 128% by now, in Turkey it was around 90% in 2002 and today, thanks to our budgetary discipline measures and fiscal consolidation, this ratio is around 38%, which is one of the lowest in Europe.

Why today it is around 38%? Because, we tripled our GDP. The amount of our public debt is the same but as we tripled our GDP, the ratio of the public debt to the GDP has decreased to 38%. The big problem today in Italian economy is that: as there is no economic growth it becomes very difficult to decrease the ratio of the public debt to the GDP.

Regarding our banking system, again thanks to all those structural reforms, we have a very strong and solid financial system, which was very well controlled by the regulatory budget. During the financial crisis of 2008 our banking system did not face any kind of problem and also today Turkish economy or the Turkish banking system is very strong because, again thanks to our experience of the 2001 crisis, we were very much keen on the control of the financial system in Turkey. Turkey did not suffer from the economic crisis of 2008 directly but unfortunately it suffered from the side effect of the crisis which means that because of the slowdown of the EU economies, our export to EU countries has decreased and then of course our industry suffered from this decrease and in 2009 we faced a negative economic situation: our growth was negative, it was -4%. Despite this -4% the average was 6% during the last 10 years.

When we had the custom union with the EU we opened up our economy to the competition and this competition obliged Turkish industry to be more competitive and to restructure itself. And then thanks to this custom union Turkish economy increased a lot its export to the EU market and also we started to look for new markets because, in 2005, 56% of our export were done to the EU market and today only 39% of our exports are going to EU market.

In 2006 our export was around 100 billion dollar and this year our export is 150 billion dollar and only 39% is going to the EU market. It shows that during these last 6 years Turkey has done a lot of efforts to diversify its export countries. Just to give you an example: Africa. Africa's share in our export was around 1% only and today African countries' share is 12% which is a huge share. I can give the

example of Turkish Airlines: today Turkish Airlines is the only company which is flying to all African capitals. The Turkish company is the only one flying to Mogadishu. Today if you want to go to Somalia you have to go to Istanbul and take the Turkish Airlines: this is the only way to go to Somalia.

Regarding our exports I must again say that during those last 3 years we increased more than $\frac{3}{4}$ our exports also. In 2012 it was around 32 billion dollars and today at the end of this year we are expecting to have 152 billion dollars but again we are still suffering the same problem: our imports are always higher than our exports. When we have an economic growth our imports are increasing very fast and our export unfortunately are not following the same trend.

Today Turkish economy is the sixth biggest one in Europe and we are intending to be the sixteenth all over the world: sixth in Europe, sixteenth all over the world and we are intending to be among the ten biggest economies in 2023 which is the Centenary of our Republic.

If I have to say also something about our demographic profile, the average age of the Turkish population is 28 years old. We have a very young and dynamic population. Every year we have more than 500.000 students getting their diplomas from universities and joining the labor market. Of course it creates also the big problem to create jobs for those young generation. But I am always very proud to say that in 2010 in Turkey we have created 1.350.000 new jobs which is higher than all jobs created in all the 27 EU member States and in 2011 we have created 1.730.000 new jobs which is again higher than all jobs created within the EU member States. So when you will get your diplomas might be more easier for you to find a job in Turkey than to try to find a job in Italy so you have an open invitation to come and work in Turkey.

If I must give some outlines regarding the future of the Turkish economy for 2023 we have a very ambitious economic expectation. In 2023 which is the Centenary of our Republic, we are intending to be counted first among the 10 biggest economies, to increase our exports to 500 billion dollars and our foreign trade to 1.500 billion dollars of exports. We are intending to reach to trillion euros as our GDP and in parallel with those figures we are intending to make a lot of investment for our infrastructure, because without having a very efficient and modern infrastructure, with railways, airlines or highways, we cannot realize those economic expectations. So only in Istanbul for the upcoming 3 years we are intending to invest more than 42 billion dollars for infrastructure projects such as the new airport for 150 million people, a new tunnel under the Turkish Straits. There are a lot of infrastructural projects like these in Turkey.

If I have to sum up maybe another very important subject is the FDI, Foreign Direct Investment. As I told at the outset between fifties and eighties the economic theory for the development was to protect the internal market by high tariff barriers and to give a lot of incentives to the local industry and to have an import substitution policies.

Of course these policies at the beginning, created some kind of industry in the country but we noticed that it was too much artificial. I remember in Turkey we started to produce FIAT cars and for the price of one Mercedes we were getting one FIAT 131, because the market was protected by high tariff barriers and then the quality of the production due to the lack of competition was not good enough, thus our industry was not able to compete with other economies and the FDI during those years was considered as a tool of imperialism and there was not too much facility for the FDI.

The FDI was foreseen as some kind of envy in the mentality of the population. Today the trend is 100% different: all the countries are providing all kind of facilities to the foreign investors to come and to invest in their country and Turkey is doing the same.

Just to give you an example: until 2002 the amount of the foreign investment coming to Turkey was less than 1 million dollar per year and after the start up of the negotiating process with the EU, after the liberalization process and the restructuring of the Turkish economy in 2002, the level of FDI in Turkey started with 6 million dollars and reached 20 million dollars per year. In 2012 we will finish the year most probably by 12 billion dollars of FDI. So it shows the change of the mentality in the countries and in the governments also.

Today in Turkey we are providing all kind of facilities to foreign direct investors and as a Turkish Ambassador I am going to almost all Italian cities, visiting the local Confindustria representatives to encourage them to come and invest in Turkey because for Turkey it is very important to have foreign direct investors since. As I told you, we have very young generations and the Turks are consuming a lot. The savings in Turkey unfortunately is around 13% and normally if you want to realize your economic growth you must have more than 20% of savings in your economy. So, as we have a lack of savings we have to find the money from somewhere for our economic growth. There are two ways: you have to go to ask for credit or loans or you have to provide incentives for foreign investors to come and to invest in your country. In the past as we faced some difficulties to attract foreign direct investors, instead we always used credit and that's why we faced a lot of crisis. Every 10 years Turkish economy faced crisis and today we hope that the economic growth is more stable and more sustainable thanks to the change of our economic policy. So, today Turkish economy is open and liberal, our currency region is very liberal and we are providing all kind of facilities to the foreign direct investors.

If I have to come to the Turkish-Italian economic regions the good news for you is that the Italian exports are increasing, the bad news for us is that our exports to Italy are decreasing due to the economic crisis in Italy. In 2012 our export will most probably decrease for 12% and the Italian export will increase for 17% and the volume of our trade is 21 billion dollars, we have 9 billion dollars of export while Italy is exporting for 12 billion dollars in Turkey but in 2012 this gap will further increase.

There are a lot of Italian companies investing in Turkey. If I may give you some prestigious names: Unicredit has a huge presence in the Turkish market, Prelli is in Turkey since 70ies producing Formula1 tires, the latest technology, in their Turkish factories. There are a lot of construction companies operating in Turkey such as Astaldi, Salini. If I may give you an example: Unicredit has made 40% of its global profit in 2012 in their Turkish joint venture. Unicredit is one of the biggest banks in Europe, they have a presence almost in all EU member State and they made 40% of their global profit thanks to their Turkish joint ventures. It shows how healthy is our banking and financial system.

Today the number of the Italian companies operating in Turkey has reached 941 and there are more and more interest for the Turkish market from the Italian business community because they know very well that if they come and invest in Turkey they will not reach the Turkish market only but also all the surrounding economies such the Russia, the Balkans, the Middle East countries, Africa or Central Asia. They may have more competitive prices thanks to the productivity levels.

I must say very sincerely that during these last 10 years what we have done is a real success story: it is like the Italian economy in the 60ies and 70ies because Italy realized the same growth in the 60ies and 70ies and Turkey now has started to have the same adventure. We hope to continue thanks again to our young population for the future of our economic growth. I think that one of the biggest problems in Italy is that the age average is around 48 years old. I am also very astonished to see that in Italy they are calling even the people who are about 50 or 60 years old "giovani". It is not a joke!

Anyhow as I said we have very ambitious economic program for the upcoming 10 years and I am sure that what we have done during the last 10 years gave us enough trust to realize our economic prospects for the economic growth. I'm always saying this to the Italian business community: coming and investing in Turkey in the past was an opportunity. Today it is not an opportunity anymore but it became a necessity for the Italian entrepreneurs.

Thank you very much for your attention.