ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM

JUNE 21–23, 2012

Securing the Future

TURKEY'S SHIFTING INVESTMENT FLOWS

Panel Discussion and Workshop

JUNE 21, 2012 — 16:00–17:15, Pavilion 5, Business breakfast Hall 5.4

St. Petersburg, Russia

2012

Moderator:

Suna S. Vidinli, Anchor, Haberturk

Panelists:

Denis Bugrov, Senior Vice-President, Sberbank

Erman Ilıcak, Chairman of the Board, Renaissance Construction

Stephen Peel, Managing Partner, TPG Capital

Dimitris Tsitsiragos, Vice-President, International Finance Corporation

Taner Yıldız, Minister of Energy of Turkey

Cuneyd Zapsu, Chairman, Cuneyd Zapsu Danismanlik AS

S. Vidinli:

Minister, ladies and gentlemen, dear colleagues and members of the press, welcome to our session on Turkey's Shifting Investment Flows. It is my pleasure to welcome all of you to our panel. I would like to start by introducing our panelists. I will start from over there. Denis Bugrov is the Senior Vice President of Sberbank. Next to him is Stephen Peel, who is the Managing Partner of TPG Capital. Alongside him is Erman Ilıcak, Chairman of Renaissance Construction. To his left is Taner Yildiz, the Energy and Natural Resources Minister of Turkey. Directly to my right here is Dimitris Tsitsiragos, the Vice-President of IFC, and to my right is Cuneyd Zapsu, Chairman of Cuneyd Zapsu Danismanlik. I would like to welcome all of the panelists to the discussion. As you know, we have been discussing Turkey a lot over the past few years. Both Turkey and Russia are regional leaders in their own spheres. We cannot really say that Turkey and Russia are strategic partners for, at the moment, they are more tactical partners than strategic. A strategic partnership may somehow imply a greater alignment of interests and that is what we hope to see in the near future. That is at least if the target remains USD 100 billion of total trade volume and both countries are trying to hit that target. But today we are going to talk more about Turkey, Russia's relationship with Turkey, as well as the investment environment in Turkey, and Turkey's energy politics and how it affects the region at large, especially Russia. So in that respect I would like to start with Minister Taner Yildiz. What can you tell us about how you are planning your future policy?

T. Yıldız:

Esteemed guests and panelists! I am very pleased to be here at the SPIEF and to meet all of you. I am here as Minister of Energy and Natural Resources and as Chairman of the Russia–Turkey Cooperation Commission.

For the past three years we have strengthened our contacts with Russia, and I would like to openly state that in selecting one project or another in the region, we are not rejecting other opportunities that are being realized right here. Turkey has made significant breakthroughs in a variety of industries in the last 10 years. We have achieved great results in the development of our economy and in the growth of our GDP. We practically doubled our domestic demand for energy. Considering our future goals, we plan to double our GDP and triple our energy consumption over the next 10 years. For these reasons, we need new projects. We are already involved in joint projects with foreign investors and with neighbouring states in order to increase our economic growth and thereby smoothly integrate into the European Union. Many countries rich in natural resources are among our neighbours, including Russia, with its bountiful natural gas and oil reserves. We must take all these resources into account. We must make use of our neighbours' capabilities to facilitate the development of our country. It is our neighbouring countries which supply our growing natural gas requirement. We receive more than 80% of the gas we use from the Russian Federation.

The entire world is developing, but the region I am talking about is developing even faster. We are evolving quicker than many other countries. Growth in energy consumption and the security of our energy supply are our paramount objectives.

The Turkish economy is fitting well into the global free market. In order to develop rapidly and actively, with the appropriate legislation, Turkey chose a path of liberal collaboration with all the countries which interest us.

Looking at the investments into the Turkish economy, we see that the main foreign investment now goes into the energy sector. Both the South Stream and the Nord Stream gas pipelines that we are now constructing in Turkey will further strengthen our country's status as a hub for natural gas transportation and consumption. Over the last two years, we have promoted the privatization of the natural gas supply sector. Today, private companies rather than state-owned enterprises handle practically all of the natural gas supply to Turkey. Turkey gave between 34% and 56% of capacity in the energy production and supply sector over to private companies. Over the next 10 years, we plan to raise the level of private companies' involvement in the production and transportation of energy. I will repeat once more that the Baku–Tbilisi–Ceyhan oil pipeline, the Baku–Ceyhan–Erzurum gas pipeline, and the Kirkuk branch of the oil pipeline enrich our country and elevate its status. Turkey is becoming a nexus for all the largest energy pipelines that run through the Middle East. In addition to becoming the country through which these pipelines run, we will also become the largest producer of electricity. We have begun to partially privatize the state-owned company BOTAŞ, which used to deal with all the gas and oil pipelines in our country. As I already mentioned, almost 40% of this sector has now been given over to private companies.

In conclusion, I must point out that the Akkuyu Nuclear Power Plant project we are implementing with Russia is not an exclusive project which precludes others. We are continuing negotiations for the construction of another nuclear power plant in our country with South Korea and China. Although these projects appear to be competing with each other, this is not a competition, but rather collaboration; because we are now actively moving towards the liberalization of the production and supply of electricity. We will build up the presence of foreign investments in the electricity production industry. We have seen investments from Iran, Azerbaijan, Russia, China, and South Korea in Turkey. We will continue to strengthen this presence.

I would like to leave more time for questions and answers, so I will stop here.

S. Vidinli:

Stephen I would now like to turn to you. You have heard the Minister speak about growth targets, especially in the energy sector, and the kind of foreign investment we are trying to attract to our country and our overall energy policy. When you look at that, TPG obviously manages investment funds, specializing in growth capital, venture capital, and public equity. You are very active in the region and have extensive experience. Taking into consideration the recent Eurozone crisis as well, what are some of the risks that you see regarding Turkey in that respect and would this really affect cross-country investment flows?

S. Peel:

Let me start by making a couple of comments on private equity in Turkey. In 2006, we were lucky enough to complete the first major international private equity deal there, with a company called Mey Icki, the alcoholic beverages monopoly. We were very successful and made 4.6 times our money over five years. Since then, Turkey has become a major draw for most of the major European-based private equity firms. Many of them have hired Turkish nationals to expand their team or have teams looking there, and there have been three or four other major deals done since then. A number of them are actually going quite well. So I would say that Turkey is today on the map of international private equity. That said, like all emerging markets, it is not for the faint of heart. While the economy has generally done well, from an investor's view, the market is not a straight line up to the right. When we first invested, between signing and closing the deal, we saw the currency collapse, with interest rates going up 20%, which would have probably defaulted our deal before we even closed. We swapped our currency back into dollars and took a major currency risk and mismatch, and we were lucky on that. We outlasted a competitor who did not pay excise taxes and took almost a 30% market share in about 18 months. In the end, we had very good support from the authorities, the government and the legal system in getting that competitor to shut their illegally operated business down. We survived the financial crisis, through which Turkey had a reasonably good ride. We also lived through high inflation and large increases in excise duty. We sold the business last year to Diageo. We found that we could make major improvements in business productivity and that a lot of opportunities existed to improve the business and the systems' production processes and consolidate plants, spend marketing funds much more effectively and expand the brands, products, and distribution. Fundamentally, we invested in a good business and made it a lot better and that more than compensated for the inherent volatility in a market like Turkey. I would say today, if you are looking at Turkey, you again have to understand that it is not going to be a straight upward curve. While Turkey has a lot of good metrics – it is one of the fastest growing economies anywhere, with great demographics – it runs a very large current account deficit. The good thing about this is that it needs foreign capital and foreign direct investment and therefore the environment is relatively good for that. But it obviously does create a major risk within the economy and, at some point, if policy mistakes happen, or external crises hits, you could see a run on the currency and a spike in interest rates and economic instability, which you must bear in mind when thinking about investing in the country.

S. Vidinli:

Thank you, Stephen. As we are talking about the foreign trade deficit, I would like to turn to Mr. Cuneyd Zapsu, who has been with the Prime Minister for a long time. He has known him personally and he was there when the AKP [Justice and Development Party] was founded, so he is one of the best individuals to assess how far the AKP has come over the past 10 years. Mr. Zapsu, we see that, in recent years, there has been concern in some circles about the foreign trade deficit. In that respect, political stability is also obviously very important. When you look at the Turkish influence in the region, what we are doing as a regional player and what are we doing for domestic stability? How do you see the outlook, and how would you say that political stability will affect concerns over the foreign trade deficit?

C. Zapsu:

If I had known you would ask so many questions I would have written them down. Maybe let me try to start from the beginning. You asked what happened over the last 10 years. Economically speaking, I have written down a statistic and I do not think I need to say more than this. Ten years ago the ratio of state debt to gross domestic product in Turkey was around 110%. To give you an idea, 10 years ago the Maastricht criteria for that stood at 60%, so our European friends were very safe in the knowledge that we would never reach that level, as they were at around 30% to 40% in their own economies. Well, in Turkey we started at 107.5% to be exact, and last year we went down to 39%. This year, at year end, we hope to see 32% to 33%. Now, to give you an idea, there are only a few countries in the EU that are hitting the Maastricht criteria of 60% and even the oh-so-wonderful Germany is now at around 78%. Only a few Scandinavian countries are below that level. By the way, the United States is at around 120%. I do not think I have to bore you with numbers – interest rates have reduced from 78% to 8% or 9% and inflation is down as well. We all know that. But perhaps what is of interest is what we did well and what we did badly, owing to the foreign trade deficit. I think what we did well is clear. We just need to implement good policy, by means of transparency, opening up the market, free trade, liberal economy, and privatization. Everybody knows what you have to do but not everyone can implement it. I think what we did was a matter of implementation. I believe that was why we were not successful until very recently with our famous foreign trade deficit, which was near USD 80 billion last year (I think it was around USD 77 or 78 billion). I remember the days when I worked closely with the Prime Minister when my party came to power. We barely slept because we did not know how to pay the next month's civil servants wages. We were totally dependent on the next bond issue at 70-80%, in order to be able to get the money to pay the civil servants. That is how we began at the end of 2002, which is not even 10 years ago – nine and a half years ago. We were very happy when we went one or two points down from those 70% figures. Then another crisis arrived, followed by the second Gulf War, Cyprus, and yet more crises. We did not have a very smooth transition to full democracy. It had its hiccups and jumps, especially in 2004-5. Precisely when the government was ready to tackle the real issue of the foreign trade deficit, we had another big crisis – the European or American global crisis, whatever you want to call it. But we were lucky to have had our own financial crisis back in 2001, so we had very good measures in place like tough banking authorities. Our financial system was brave enough and the banks were very good, even during the crisis, so we passed quite smoothly through the crisis and continue to do so now. It was only then that the AKP government got more time to act instead of react, because the first years were just spent reacting. You may know that the foreign trade deficit is split approximately 50-50 between energy and other issues. Of course I do not dare go into the energy questions related to the trade deficit. I am pretty sure that Minister Yildiz will do that. But they are going to do something and have already started acting on that. However, the other matters were easy to explain. I always use this example: we are exporting hazelnuts and importing the hazelnut spread Nutella. So, in short, that is what happened in Turkey and why we still have this USD 40 billion of foreign trade deficit, which means that too little value is added. I believe the government right now, with its latest broad range of incentives, is tackling this issue. Even bringing it up made it a few points lower and I hope that this year we are not going to see USD 80 billion but much less.

S. Vidinli:

Thank you, Mr. Zapsu. I will come back to what Mr. Zapsu said. I would like to turn to Denis Bugrov. Denis, as you heard, Mr. Zapsu talked about the banking sector and the crisis we went through, which perhaps helped us fundamentally reform our banking system. Now you represent Sberbank, which commands over 50% of the profits of the whole Russian banking system. It is very important for the Russian economy and you have decided to purchase a Turkish bank, DenizBank, which is the country's eighth largest bank. This was a recent acquisition in June 2012. Would you tell us about your experience? Why did you choose to purchase a Turkish bank? Are you happy with this decision? What kind of investment environment have you found yourselves in?

D. Bugrov:

Obviously, having just signed the deal to acquire the bank, we are great fans of the Turkish banking system. We are great fans for a number of reasons. Number one, we believe that DenizBank, the bank we hope to finally acquire, is a very good bank. Hakan Ateş is sitting here and I have great respect for what he and his team have done through the years. But we also think that, from a structural and regulatory perspective, what has happened to Turkish banking over the past 10 years or so is remarkable. We believe that the quality of the supervision, the competitive dynamics in the market, and the technology investments that Turkish banks have made have really made the Turkish banking sector world-class. We are very excited about what we see as we get more and more acquainted with the market. That, combined with the usual background of long term macro-economic, demographic, and regional potential, makes us extremely bullish on Turkey in general and on the Turkish financial services market in particular. So we see this as one of the most interesting and exciting financial services markets in the world.

S. Vidinli:

Do you sometimes feel that Turkey has gone through what the United States or Europeans are going through now, back in 2001? They have done it and have moved on? Do you get that feeling?

D. Bugrov:

I am not sure if that is an ideal analogy, but it has certainly learned its lesson really well. We feel what makes the sector and its key players much stronger, so we believe Turkey is an exciting place to be and we are very happy to be there.

S. Vidinli

Our next speaker is the Chairman of the Board of Renaissance Construction. He has been working on the Russian market for a long time and is very successful and well known in Russia.

E. Ilicak:

First of all, thank you very much. I am very pleased to be here today.

I have been living in St. Petersburg for 10 years now. My connection with Russia began in 1998. I represented one of the first construction companies to come and work in Russia in 1998. Since then, we have been strengthening our position in the Russian market. In 1994, I created Renaissance Construction and was involved in all the stages of development of Russian-Turkish economic relations up to the year

2000. I witnessed economic upheavals as well as successes in the relationship between our two countries.

I can certainly say that the Russian attitude towards Turkey and its economy has changed quite a bit in the last several years. I know that many Russian companies today are ready to enter the Turkish market. We have experience working in Russia. We already know how to work here. We know where all the pitfalls lie.

The 2000s were very constructive years for Turkish companies. We actively developed during that period. The trade turnover between Russia and Turkey is more than USD 30 billion. In 2001 it was only USD 3.6 billion. In 10 years we increased the volume of our trade tenfold.

Now, where the banking sector is concerned, Turkey is not very well known as a power in banking. But the truth is, Turkey is one of the most progressive and experienced countries in the banking business. We have many banks, and our specialists are considered some of the most experienced and stress-resistant in the world.

Perhaps not everyone knows how actively Turkey has been developing in recent years. Let me assure you, though, this is really the case. Turkey today is the most actively developing country in the world. Take the brewing industry as an example. As you know, Turkey is one of the largest beer brewers in Russia. Our banking sector is also very well represented in Russia. Approximately 10,000 Turkish companies are successfully working in Russia today, as well as in the countries of the Middle East and the CIS. We are certain that the trade levels we now see will continue to increase every year because our knowledge of each other and each other’s potential is improving. We are beginning to trust each other. We occupy the same geographical space. Turkmenistan, Azerbaijan, Kazakhstan, and Kyrgyzstan are all our geographical and strategic partners. I think that Turkey, like Russia, will be able to actively work in this market.

S. Vidinli:

Dimitris, I want to give the last word in the first round to you, perhaps in the hope that the IFC will draw a broader picture for us. You have heard our speakers talk. Obviously the Eurozone crisis is still ongoing. We have learned that Europe was actually the biggest creditor to the emerging world, with most of the credit that went out to the world – almost 75% – was given by Europe. We are now afraid that Europe will want to take that money back. How would that affect emerging markets? Turkey has been attracting good money, but what does it take to sustain that attractiveness? What would you say?

D. Tsitsiragos:

First of all, thank you for inviting me here. I would like to break this one down into two parts. I think that, when you talk about Europe taking money back, one point is the equity funds – the FDI – and the other is the commercial banking money. I think that where you see a withdrawal today is on the lending side. European banks, who were the biggest players in financing projects around the world, are withdrawing, albeit quite selectively. They are withdrawing from places like Latin America, Asia, and Africa. But, here in Europe, they are staying close to their existing clients. I think what we have seen is that long-standing clients are being honoured. The concern we have, as a member of the World Bank group with the objective of funding the private sector around the world, is that there will be a global liquidity crisis and that smaller and medium sized enterprises are not going to have access to finance. When you look at a country like Turkey, small and medium enterprises are a big driver of the economy. They are the engine, not only for economic growth but also for employment creation. The challenge for us all in Europe is to support growth and job creation. As some of the other panelists mentioned, so many changes have taken place over the past 10 years in Turkey. The banking crisis of 2001 has somehow prepared Turkey well for the situation today. So far, Turkey has weathered the crisis. Growth has perhaps slowed down, but it is still double that of other European countries and that is a plus. At the same time, Turkey is very much integrated into Europe, so, if you have many external shocks, there is a situation where Turkey could be exposed. We are talking here about Turkey and Russia. Both of them run the same type of risks for slightly different reasons. I believe that the challenge is to keep growth going and to work domestically and I think one of the opportunities we see going forward is that the reliance on external funding will slow down. If you look at what has happened in Southern and Eastern Europe, we see that most of the funding has come from European banks. Look at the countries in Southern and Eastern Europe and the banking sector is 80-90% controlled by Western European banks. Today they have capital needs and are not looking to increase their presence in these countries. So how will you provide domestic funding? I think the challenge is to develop local capital markets. If I look at Turkey, one of the challenges and opportunities (and we are working jointly with the World Bank and the government on this) is to develop the local capital markets. If, for example, you consider the size of the Turkish bond market compared to Turkish GDP, it is very small. The last statistic I saw said something like 1%. In a country like Malaysia, it is 36%. If you examine how countries like Turkey and Russia will address situations like the European banking crisis, it is through the development of local capital markets, which is an opportunity because, in Turkey and Russia, there are large corporate firms and financial institutions that need access to markets. If you develop strong domestic markets, you can also draw domestic funds as well as help areas that are important in both Turkey and in Russia, such as infrastructure, which has a need for long-term funds.

S. Vidinli:

Mr. Dimitris Tsitsiragos mentioned that evaluating domestic markets is necessary. Now I have a question for Mr. Taner Yildiz. How would you assess capital investments in Turkey?

T. Yıldız:

Our politics and strategy are directed towards market liberalization and the expansion of the private sector. This frees the government and the national budget from financing energy projects. We have already achieved great success in this area and now the involvement of private capital in production in the state sector is between 34% and 46%. Is this enough? Yes, it is. But, we are certain that in the next few years we will be able to raise this to 55%.

This year we would like to complete large investment projects in 12 regions of the country. If we can accomplish this during this year, then the amount of private investment flowing into this sector will increase.

Private companies will dominate the natural gas sector as well, and service most of the regions in Turkey except for Istanbul and Ankara. They will provide natural gas supply distribution services in these regions. This very fact increases competition. We are striving to lower the prices of natural gas. Our main reasoning is that attracting more investments into this sector will increase competition and lower energy prices, thereby improving the conditions for energy use for the people. Besides, private companies are much more in tune with people's demands. We are always open to the needs of the people and the country. Of course, we would like energy prices in Turkey to be as low as possible, but for now the electricity price in Turkey is still quite high.

I would also like to point out that recently, we have been investing heavily in renewable energy. We have to ensure, however, that various energy sources are equally present in the market. For example, we must develop our energy sector to include nuclear energy.

The capitalization and privatization of the natural gas market, however, is moving at a slower pace. At the moment, private companies own 25% of this sector. We are planning on raising this level in the next 10 years to 55%, but there are factors that prevent us from actively privatizing this sector. However, we are doing all we can for this privatization to proceed harmoniously. I think we will succeed.

S. Vidinli:

Thank you. I would like to turn to our audience right now and we will then return to the panel. But if you have any questions to direct to our panelists, now is the time to do so. I am looking for a brave hand. Gentlemen, brief questions please.

From the audience:

So my question goes to Dimitris. How do you see the IFC's role in terms of integrated businesses in the Middle East after the Arab Spring and how do you see Turkey becoming a role model in the area, in the Middle East and Southern Mediterranean Region? As Turks, we believe that we can be role models, owing to our political stability and economic growth over the past eight or nine years. Thank you.

D. Tsitsiragos:

Well I have the luck or the misfortune of looking after Europe and the Middle East at the same time, so one has a financial crisis and the other has a political crisis that could become a financial crisis as well. I hope it does not get there, for, at least in some countries, there is concern about a financial crisis. I think the Middle East is an opportunity for Turkey. It is not only a matter of historical ties or geographical position, but the entrepreneurship of Turkey also puts it in a very good place to take advantage of the changes in the Middle East. The best example today is that, if you look at countries in the Middle East that are growing, one of them is Iraq. The biggest investors in Iraq are currently Turkish companies. As the reconstruction of Iraq progresses, you will see more and more Turkish companies taking a position there. You are familiar with the position of Turkish construction companies in Libya. They are going to go back. Tunisia, where we have supported some Turkish companies, is again an opportunity for Turkey. The same is true of Egypt. There is an opportunity for Turkey, following some of the political transitions, but also after the economic transition. People can learn from Turkey's example in the Middle East and adopt some of the policies that the Turkish government has been following in recent past years. So, for me, the Middle East is an opportunity for Turkey. The other important thing to note is the agility of Turkish entrepreneurs because, if we look at the statistics – and my colleagues here have better statistics than I do – in 2008 the biggest trading partner was Europe. Then the 2008 crisis hit Europe and all of a sudden the Middle East opened up for Turkey. The Middle East closed at the beginning of 2011 and, by the middle of the year, Europe was again the largest trading partner. So that shows you something about Turkish agility. The other point is that the Middle East is also an opportunity for attracting funds into Turkey. Today, you have a large current account deficit and rely heavily on external funding. There is a need for more foreign direct investment in Turkey and I think the DenizBank acquisition by Sberbank is a good sign because it represents a large flow of funds coming into Turkey. Nevertheless, the Middle East is another area because a lot of the Gulf countries look at Turkey as an opportunity and, in the infrastructure sector; we today see more and more global infrastructure in the Gulf looking at Turkey, given its large energy needs. Turkey is a place in which to invest. The same happened with private equity firms. So I think that Turkey can be both a source and a recipient of funds from the Middle East.

S. Vidinli:

Thank you, Dimitris. One small note – I think Turks are referring more to the 'Turkish example' than the 'Turkish model' these days. We find that less intimidating and friendlier for our Middle Eastern friends. So there has been a change of rhetoric. Are there any more questions?

T. Yıldız:

Where natural gas and crude oil are concerned, we are actively collaborating with Russia. Last year we re-examined natural gas prices with Russia because they were set in 2001. Since then, of course, prices have changed dramatically. Turkey is also actively trying to generate renewable energy sources. Approximately 6% of all electricity used in our country comes from hydroelectric power plants. Turkey is planning on raising this level to 30%. This way, we will increase the supply of renewable energy.

In regard to solar power, we are starting with 600 MW and building up this capacity, especially in the agricultural regions. Since Turkey is rich in sunlight, we are investing in the development of solar power for agricultural regions.

Aside from that, nuclear energy is a priority for Turkey right now. We have signed an intergovernmental agreement with the Russian Federation. Our first project will be with Russia. In the next few months, we plan to sign an agreement pertaining to the second and third nuclear power plants in our country.

S. Vidinli:

Our minister has pointed out that our nuclear project with Russia is worth over USD 20 billion. It is a very important project that we have undertaken with the Russians. Any other questions?

From the audience:

Having caught our minister here, I would like to ask him a few questions. You spoke about Turkey's large foreign trade deficit, which is a sad consequence of high energy consumption and energy imports. Do you suppose that by means of developing renewable energy sources we will be able to slightly balance our trade a little more and reduce our country's foreign trade deficit?

T. Yıldız:

When we looked over the recent government package of proposals regarding economic development for the next few years, we again saw that Turkey will remain energy dependent. This deficit will not be covered since we purchase most of our consumable energy. Do you know that Turkey is a totally energy dependent country? We can only produce a very minute amount of energy in our country. Almost 60% of our demand is met by the oil and gas we buy. Every year we manufacture 1 million cars. The number of cars increases every year by 1 million. At

the moment, there are 60 million cars in our country. If we reject external sources of natural resources, then we will not be able to meet our country's energy demands.
Of course, we also use coal; but as you know, coal is not the healthiest energy source. It pollutes the environment. We use coal and have definite coal reserves. I am not going to go into the details right now. On our return to Turkey, we plan to publicize several projects concerning the use of domestic coal resources. I think that this increase in availability of coal will reduce the deficit of our foreign trade budget.
Did you also know that we invest heavily in environmental protection and making sure that energy projects do not harm the environment? We have quite a few energy projects. If any of the investors would like to take a closer look at these, we will be able to provide them with more information on our return to Turkey.

J. Corrigan:

Hello, my name is James Corrigan and I represent Sberbank Investment Banking, covering Real Estate. I have a question for Stephen Peel. Having observed TPG's private equity strategy in Russia, where it invested with large state-owned banks, notably VTB, have you been doing the same thing in Turkey and, if not, how does your strategy there differ from the Russian strategy that we have observed and why?

S. Peel:

Good question. Actually, in Turkey, we had a small 10% partner who was a private equity fund run by a very well-known and well-connected individual who provided the eyes and ears on the ground but, frankly, not the sort of political resource that we have and need with people like VTB in Russia. I think this goes to the heart of the differences between the investment environment in Russia and Turkey. I would say that Turkey has a more developed set of institutions, in terms of its legal and tax system. It is more investor friendly today and provides a good road map and pointer for Russia. They are not miles apart but significantly different and you can invest in Turkey without needing a large domestic powerful partner alongside you.

S. Vidinli:

Are there any more questions? Actually, we could share an anecdote with the audience. One of the reasons that Sberbank came to Turkey is that they had a good experience working with a Turkish company and that was a good reference for them to come into the Turkish market and invest there. Perhaps one good example leads to another and nothing succeeds like success. The fact that Turkish businessmen had been doing credible jobs in this country and in Turkey helps to bring other major banks, in this case Sberbank, into Turkey.

From the audience:

I will ask my question in Turkish.

There are probably many of our Turkish colleagues here today. I would also like to add that we need to turn our attention to the government's position on attracting foreign investment. Did you know that Turkey passed a package of strategic measures that paved the way for foreign investments into the Turkish economy? In addition, Turkey's image on the global market has really changed over the last few years.

I would like to ask another, somewhat provocative question relating to another field. Unfortunately, Russian-Turkish relations are developing rather traditionally. We do not see any large, science-based joint projects. As a rule, we only collaborate in traditional fields. Maybe Turkey should become actively involved in other facets of the Russian economy like culture or politics. What do you think the Russian and Turkish governments can do in order to vitalize the cultural connection between our two countries? For example, Russia and Turkey have common problems with European countries. Perhaps taking advantage of these problems in order to create a strategic partnership makes sense. After all, Russia and Turkey are faced with particular difficulties, even limitations and obstacles in the European market. Maybe we should bring together our negative experiences and create a force that would mean we no longer have to go cap in hand to the European market?

E. Ilicak

I do not think that we can enter the third countries' market together with Russia and collaborate in those markets, because there is a conflict of interests in many ways. Therefore, a partnership is unlikely because each of us will be trying to increase our own profits in some way.

I can say with absolute certainty that Russia is one of the most difficult countries for business. I speak for the Turkish businessmen who work in Russia. We all know that it is very difficult to work here. To achieve success in Russia, one must consider an enormous number of factors.

The Akkuyu project is undoubtedly a breakthrough for us in the field of science-based technologies. We are very pleased that finally our collaboration will move beyond traditional fields, and will open up new opportunities and set new horizons for high-tech collaboration.

Having chaired a joint Russian-Turkish trade and economic commission for the last three years, I have examined a variety of questions, which were always problematic in the Russian-Turkish relations, beginning with meat exports and ending with energy imports and exports.

The fact that we are in the same economic and geographical region is a great advantage to Turkey and Russia. Turkey is actively building up its experience and considering the experience and the mistakes of other countries in order to establish a healthy economy. We are certain that our thoroughness in forming a legislative and financial base for investments in our country will allow us to become a very profitable investment market.

As often happens, you can have common strategic interests with certain countries, but no trade turnover. With other countries you have very active trade connections, but you cannot move on to a political partnership. Political relationships change, diplomacy stands custodian for politics, and countries' economic interests do not always coincide either. We cannot guarantee that Turkey and Russia will always remain strategic partners, but for now, we must take advantage of this unique and historical opportunity. We need each other, and we must use that to develop our own as well as the Russian economy in order for this collaboration to be mutually rewarding.

Considering that it will be a while before Turkey can become a member of the European Union, it has no choice but to create and take advantage of the many alternative ways of obtaining energy. We are forced to consider the prospect of remaining on the outside of the European Union economy and must, for example, develop active economic collaboration with Russia because that guarantees us stability and independence from Europe.

From the audience:

I am a Turkish journalist from the Hurriyet Daily News and I would like to ask Stephen Peel, Dimitris, and maybe Cuneyd Zapsu to comment on my question. After spending 20 years in such international forums, it is really gratifying to hear such nice things about Turks. Do not get me wrong, I am very happy about that, but as a journalist we must sometimes stay on the cautious side. I was wondering whether you get the feeling that Turks are getting a bit overconfident. There is no problem with some confidence, but perhaps they are overconfident? Is there a sense that this might curb some of the necessary, but difficult, steps that Turkey should be taking?

S. Vidinli:

Let me give priority to Mr. Zapsu in answering this question.

C. Zapsu:

Thank you very much. I spent most of my lifetime outside of Turkey. I started primary school in Germany, in Bavaria, so I spent most of my life explaining that no, my dad does not have 40 wives and we do not ride on camels. I am not exaggerating, I really mean it. Please, allow us just one or two years to relax and say “we did it”. Thank you.

S. Vidinli:

Stephen, do you have anything to add?

S. Peel:

I think your point is correct. I mean, what has been achieved in Turkey over the past 15 years is remarkable. In 2000, nobody would have expected Turkey to be where it is today. The policy has generally been good, the banking system is in great shape and consumption growth has been phenomenal. However, the trade deficit is a real issue. It is the second largest trade deficit in the world after the United States in absolute dollars and, at some point, that has to be addressed. Ideally, Turkey's domestic saving rate will increase, which is going to create a slowdown in the economy, but it is too big of a trade deficit to manage without putting the economy at major risk, particularly in a world like today's with massive volatility, where we will and should expect external shocks. So, if I were in the Turkish administration that would be my number one concern: how do we quickly steer the deficit down to a more manageable level?

S. Vidinli:

Thank you. Many years ago, when Western historians spoke of the Ottomans and how magnificent they were at expanding into Europe, they said that it seemed that God was on the side of the Turks. So it seems that, for a few years now, God has been on the side of the Turks and I hope it continues that way. I would like to thank Minister Yildiz and my esteemed panelists for coming to the session and for speaking. Thank you so much for coming.