# HSBC Global Connections: MENA – Turkey

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CONTENT



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**THE HSBC GLOBAL CONNECTIONS** program has been active across our worldwide network for one year now. Focusing on connectivity, a key component of our wider Group strategy, these Forums aim to bring together key business leaders to promote insight and discussion on the different trends we see as international trade flows flourish and grow.

Oil has been and will continue to be a strong component of MENA's long term trade with the world, but the region also continues to diversify itself. This has further attracted foreign investment from the West, and even more so, the emerging markets. It is because of the growth of MENA's trade corridors with the emerging markets that we have chosen to focus on this as the underlying theme of our Global Connections story. Indeed according to the HSBC Global Research "World in 2050" report, economies we currently call "emerging" are going to power global growth over the next four decades. As a result, in October last year we held our first forum on discussing trade flows between UAE and India. Earlier this year we focused on China. Today we turn our attention to Turkey. Turkey is one of the fastest growing emerging markets in the world. It has one of the fastest and most impressive economic growth rates, expanding by 8.5% in 2011 – ahead of IMF expectations of 7.5%. In the first quarter of this year, Turkey reportedly grew 3.2%. If we look at the last decade, its GDP per capital tripled, reaching USD 772 billion in 2011, up from USD 231 billion in 2002. To help put it in perspective, that is the approximate size of Saudi Arabia and UAE combined.

But what has made Turkey such an attractive market for Middle Eastern investors in terms of its exports and imports? The answer is made up of a multitude of reasons but it all boils down to the country's drive and ambition. The Turkish government has set forth a series of targets to be met by 2023 – its 100th anniversary year of establishment. Amongst these, Turkey aims to be one of the top 10 economies in the world (currently, it ranks at 16), it aims to achieve a gross domestic product of $2 trillion, increase annual Turkish exports to $500 billion and achieve a foreign trade volume of $1 trillion.

**Tim Reid**
Regional Head of Commercial Banking, Middle East and North Africa, HSBC Group


# Turkey-UAE Forging a Strategic 21st Century Partnership

By H.E Mohammed Ahmed Bin Abdulaziz Al Shihhi, Undersecretary of the UAE Ministry of Economy

**IT WOULD BE** an understatement to simply say that the UAE and Turkey enjoy cordial relations. The fact is that our two countries have a close bonding in possibly every area of strategic activity. UAE and Turkish people are so close to each other in many aspects. There is a particular harmony in our cultures and we share common values and faith, all of which are translating into greater economic partnership.

The policy of economic openness adopted by the governments of both countries for nearly two decades now has resulted in fast growing bilateral economic relations and increasing activity by companies of both countries, in addition to an increase in direct investments coupled with an exponential growth in tourism.

Today markets around the world are looking out for signs of stability and economic recovery. Countries which were once major economic players in their individual capacity are now reaching out to others and speaking the language of consolidation and cooperation. This is certainly a time for collective efforts, and only through collaborative actions can we make the global economic recovery a reality.

As strategic economic powers in the region, Turkey and the UAE are well placed to overcome any economic aftershocks. The significant challenges on the global arena underline the importance of closer bilateral relations between our two countries.

Our consolidated efforts will help us stave off any oncoming challenges effectively and efficiently. We are keen to enhance our relations through bilateral trade, joint ventures and investments in our priority sectors.

The UAE was one of the first countries to successfully take on the global financial crisis head on by employing a series of measures such as increased public spending on infrastructure, developing the private sector and supporting investments, both local and overseas.

As a result of such measures, the UAE's economy has achieved a real growth up to 4.2 percent in 2011 compared to 1.3 percent in 2010, the fastest expansion achieved since 2006. The UAE's economy has increased in terms of its relationship to the external economy, as exports and re-exports growth reached 31.9 percent for the same period of comparison. Official Figures also indicated that the non-oil sectors have shown a strong performance by recording a real growth of 3.1 percent in 2011 compared to 2010.

The GDP is now expected to grow by three per cent in 2012 despite global economic uncertainty and a recent dip in oil prices. The UAE's leveraged banking system continues to be more resilient to withstand any potential deterioration in economic growth.

BEING A STRATEGIC location between East and West for many global companies to expand into the GCC, Africa and Southeast Asia, the UAE offers huge prospects for Turkish investors. Allow me here to provide here some figures to illustrate such prospects.
There are currently over 850 Turkish companies, trade agencies and trademarks operating in the UAE economy. Turkey also takes part annually in about 120 exhibitions held in the UAE.

Trade between the Arab world and Turkey reached $32 billion in 2011, of which 11.25 per cent or around $3.6 billion was conducted with the UAE.

Prospects for the continued fast growth of Arab-Turkish trade are certainly positive, with the Turkish minister of science, industry and technology H.E. Nihat Ergun announcing at the 2nd Turkish-Arab Industrial Cooperation Conference in Benghazi, Libya, on 4 June 2012 that the government of Ankara targets to reach 100 billion USD of trade volume between Turkey and Arab League countries within the next five years.

Also, Turkey is one of the UAE's largest trading partners (18th). The bilateral trade between the two countries has registered considerable growth during the past 10 years, going up by 572 per cent to reach $3.6 billion in 2011, achieving a year-on-year growth of 30.3 per cent. This amount includes $2.439 billion in imports, $882.4 million in exports, and $303 million in re-exports, with the latter two achieving growth rates of 453 per cent and 112 per cent respectively.

In this area too, both sides pledged to further increase the volume of bilateral trade to reach the level of $10billion by the end of 2015. The UAE has also emerged as the largest Gulf investor in Turkey,



accounting for more than half, exactly 56%, the total assets controlled by the GCC countries in the Turkish market.

The latest available figures show that total investments by the GCC countries in Turkey are estimated at nearly $10 billion, including around $6.5bn invested during 2004-2011.

Overall investment flows between Turkey and the UAE are estimated to have reached some $10bn at the end of 2010, with UAE companies investing some $4bn in Turkish tourism and energy. Turkish investments in the UAE totaled $6bn, mainly in construction.

Investments are likely to increase, partly because of the recent Turkish decision to modify its long-standing principle of reciprocal regulation on foreign ownership of property by the removal of a law barring Gulf nationals from owning property.

In a nutshell, there are strong and certain mutual interests in driving economic ties and cooperation between Turkey and the UAE, especially given the importance of that cooperation for developing their economies and consequently the region's economy and its position in the international order at a time when the economic landscape is marked by a crisis in the European union and fears of a renewed slowdown in the industrialized economies with implications that may last for years.

One particular area of closer cooperation between the UAE and Turkey is the small and medium enterprises sector. The SMEs have become a vital element in the growth engine of the UAE economy.

The SMEs constitute an important sector in Turkey too, being a major provider of employment. A healthy SME sector can not only significantly contribute to capital accumulation, provide increased employment opportunities for a rapidly increasing workforce, and promote regional development, but is also crucial to increase the resilience of the economy to external shocks, like the one represented by the recent global crisis.

The UAE is eager to encourage greater investments in the SME sector and to achieve this we are drawing a new SMEs law, to be issued by the end of this year. Such investment will ensure sustainable growth by strengthening the non-oil sector.

I am sure our countries can create opportunities to work together to develop this vital sector further through cooperative efforts and exchange of expertise. Let the SME sector become a great driver in improving the competitiveness of our economies and in the process generating greater investment traffic.

The UAE is keen to uphold the appropriate institutional framework to enhance economic ties with Turkey through the Joint Economic Commission meetings which can help both sides understand the real requirements of investors. Based on that keenness, the UAE and Turkey held the Eighth session of the Joint Economic Commission in Abu Dhabi on February 8-10, 2011. Both sides affirmed the "strategic partnership" between the two countries and agreed to the delivery of specific short-term and long-term targets in the priority sectors, particularly infrastructure, agriculture, industry, energy, tourism, and transport.

However, I would like to add that while the governments are upholding their respective commitment, the business community too needs to come forward with more tangible action.

I URGE THE business community in both countries to leverage the opportunity for cooperation and strengthen investments.

The enthusiasm of the business community contributes in a big way in energizing the government further. When we see real and tangible action and positive response from the business community, we are further encouraged to support them and develop an even wider framework for growth and engagement.

I have to acknowledge that the awareness of business opportunities as well the networking and matchmaking meetings on either side have grown dramatically in recent years.

However, allow me to convey a very important message to the business community that what is needed are more efforts and action. There are plenty of opportunities for trade, investment, cooperation and integration that they can and should leverage. The economies of the UAE and Turkey are showing a solid macro-economic performance and a positive economic outlook that create many opportunities for companies not only from UAE and Turkey but also from MENA countries. We need transform hopes and wishful thinking into actual numbers, investments, exchanges and joint projects.

I am sure this forum will provide us more awareness and understanding of the mutual interests that lie between Turkey and MENA and the potential benefits that would arise from their full exploitation and which in turn lead to the development and progress of the entire region.

Let us work together for a stronger trade and investment partnership between UAE, Turkey and other MENA countries.

H.E Mohammed Ahmed Bin Abdulaziz Al Shihhi, Undersecretary of the UAE Ministry of Economy, made the comments at the "HSBC Global Connections: Turkey Edition" in Session A – "Turkey – MENA: From Adversaries to Partners"




# Turkey Turns Soft Power Eastward to Secure Contracts Rebuilding the Orient

By Tim Reid, Regional Head of Commercial Banking, HSBC MENA

**TURKEY HAS IDENTIFIED** a very unique selling point as a European country – it would like to project itself as an emerging Asian market with a very strong position in the Middle East.

It should. It is. It has.

For a nation that spent much of the 20th century seeking adoption from Europe and being spurned, it has spent much of this century rediscovering old trading relationships with its Eastern neighbors that has proved to be a very wise and fruitful bet as Europe wallows in auste rity triggered by the Great Recession while $100 oil has spurred an economic boom in the energy-rich Arab states.

Turkey's historic relationship with the Arab countries of the Middle East and North Africa has wavered between indifference and courtship, but the constant has been a layer of mistrust emanating from both ends of the neighborhood that appears to be set aside on this occasion of rapprochement – at least for the time being.

Turkey's ambition to secure membership of the European Union had almost by default compelled it to pass through a period of ambivalence towards its Arab neighbors, but that all changed in 2001 when the new Turkish government reversed the status quo and embraced a proactive policy of engagement that has successfully catapulted Turkey into a major economic player in the Middle East.

Turkish investment in MENA has soared six fold to over $30 billion in a decade, a period in which saw per-capita income in Turkey almost triple as it enjoyed Asian-Tiger style growth. Turkey's expanding trade with the region now accounts for approximately a fifth of Turkey's external trade and MENA now accounts for close to 10% of foreign direct investment into Turkey.

A cornerstone of Turkish policy, defined by the foreign minister as "zero problems with the neighbors", has delivered bountiful rewards over the past five years with Turkish firms securing almost $20 billion-worth of contracts on some of the largest construction schemes in the Gulf States. The deals include the $2.1bn contract secured by Yapi Merkazi for work on the Haramain High-Speed Rail Network in Saudi Arabia and Baytur's $800m contract for work at King Khalid University in Saudi Arabia.

Perhaps the most symbolic example of this new regional partnership was in June when Turkey's TAV Insaat led a consortium that included two of the largest Arab contractors – Arabtec Holding and Consolidated Contractors Co. – to win a $3 billion contract to build the new terminal at Abu Dhabi International airport, which is the largest construction contract ever awarded in the UAE.

Turkish contractors have a few inherent advantages when competing in the GCC market against more established regional and global players that should see this trend of success continue – they have some very capable companies that have moved up the quality curve and are as good as their international counterparts, but cheaper. Their cost advantage is bolstered by a geographic and cultural proximity advantage.

Turkish television soap operas have become massively popular across MENA from Morocco to Iraq, as millions of Arabs stop everything each day to view the latest episode of shows such as Hareem Al Sultan and Fatima, going along way to bolster a positive image of Turkey on the streets of the Middle East.

Tim Reid is Regional Head of Commercial Banking for HSBC Middle East and North Africa

The tumultuous Arab Spring, which over the last 18 months has seen social unrest and governments overturned in many Arab countries, has not disrupted Turkey's engagement in MENA. If anything the opposite has occurred as it has allowed Turkish companies to demonstrate their unwavering long-term commitment to their partners in the region. The result of this could be seen in the speed with which Turkish exporters have found new channels to the lucrative Gulf markets – the first cargo-ferry vessels left Turkey at the end of April to take Turkish goods to the Gulf Arab states via Egypt.

Making use of Egypt as a logistics hub, Turkish firms could significantly boost their exports to MENA. Turkey is now planning to establish a logistics center in Alexandria to allow Turkish exporters to continue to supply the Gulf markets as well as Africa. In addition, the government is considering setting up a second logistics center near the Libyan border.

Turkey is a major energy importer, consuming some $60 billion of oil and gas imports a year that account for about two-thirds of the country's current-account deficit. Energy security has become a key platform of government policy, resulting in support for projects such as the proposed oil and gas export pipelines from Iraqi Kurdistan, which reinforces the need for closer trade ties with Turkey's Middle Eastern neighbors from where it will continue to need to source more and more of its hydrocarbon needs.

Energy could anchor this new found partnership for Turkey presents Arab oil exporters with a useful alternative to ever-more treacherous sea routes as the old Ottoman foe is increasingly at the crossroads of world energy trade. Due to tanker traffic through the Bosporus and Dardanelles straits, Turkey has become an important north-south oil transit route, and the Baku-Tbilisi-Ceyhan oil and Baku-Tbilisi-Erzurum gas pipelines, as well as oil from Iraq, make Turkey an important east-west route as well.


# Turkey's Back to Basics Economic Reform Policies are Attracting More and More Arab Investors

Tim Evans, Regional Head of Trade & Receivable Finance, HSBC Group, Middle East & North Africa

**INVESTORS FROM** the Middle East and North Africa are ramping up their investments in Turkey, with a string of high profile deals announced in 2012 – with 8% GDP growth is it any wonder.

Abu Dhabi National Energy Co., known as Taqa, signed a preliminary agreement with the Electricity Generation Co. to develop a major power project in southern Turkey. Saudi Arabia's Advanced Petrochemical Co. and Turkey's Bayegan are investing $1 billion on a polypropylene factory on the Turkish Mediterranean coast. And Qatar's finance minister told a conference in July that investors from the Gulf state are targeting multi-billion dollar investments across Turkey.

These are not isolated stories.

Collectively, investment flows from MENA to Turkey are helping to drive economic growth, build vital infrastructure, boost company profits, create jobs and lift living standards. It's important to understand the main drivers of the current investment boom in order to help nurture this strong and growing relationship in the years ahead and also perhaps so that other countries and regions can emulate its successful model.

It turns out that the secret behind the success is not so secret after all. The twin pillars driving trade between Turkey and MENA have been a back to basics approach to politics and economics.

Politically, Turkey began a process of re-engagement with the MENA region around a decade ago, following the election of Prime Minister Recep Tayyip Erdogan's AK Party. This courting has been warmly reciprocated by historic neighbors from across the Middle East and North Africa.

A common culture and a shared religion in Islam have certainly helped to rebuild relationships that were previously aggravated by a history of colonial oppression from the Ottoman Empire. Still, there can be little doubt that a concerted diplomatic effort on both sides, sustained over several years is now paying rich dividends.

Prime Minister Erdogan has been a regular visitor to MENA throughout 2012; his visits are too numerous to list here, but his itinerary has included Gulf states Saudi Arabia, Qatar and the UAE, while a recent trip to North Africa saw cheering crowds welcome him in Cairo.

A new Turkish property law came into effect in May, making it easier for Arabs to buy property thanks to the removal of the rule of reciprocity under which only citizens of countries allowing Turks to acquire property there could enjoy the same privileges in Turkey. The new legislation also increased more than tenfold the amount of land foreigners could own.

This is the latest in a series of reforms that have transformed the Turkish economy since 2002 and contributed to attracting more than US$100 billion (Dh367.31bn) in foreign direct investment over the period. When we look at drivers of trade around the world, the first pillar required is political engagement. Enemies don't trade with one another. When you have political engagement you see a heightened level of trust, and that encourages people to do business.

This may seem like stating the obvious. Yet so many countries and regions get it wrong that it clearly bears repeating. Turkey and MENA in the early years of the 21st century are emerging as a classic modern case study of the link between political engagement and increased trade.

Tim Evans, Regional Head of Trade & Receivable Finance, HSBC Group, Middle East & North Africa

Economically, Turkey and MENA are embracing old-fashioned concepts of free trade and comparative advantage. It's nearly 200 years since the Scottish political economist David Ricardo outlined these basic ideas, but they remain effective.

Free trade has been achieved by formal and informal means. Formally, Turkey has signed Free Trade Agreements (FTAs) with a number of MENA countries, including Tunisia, Egypt and Lebanon.

Still, these agreements are welcome but not essential. So far, Turkey has failed to seal a multilateral FTA pact with the six-member Gulf Co-operation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE) despite several rounds of negotiations – an FTA between Turkey and the GCC falls into the 'nice to have' rather than the 'need to have' category.

This is true because trade is driven by strong, underlying fundamentals such as comparative and absolute advantage. Take a simple example: Turkey needs to import energy and has surplus food production. Many countries in MENA have an energy surplus and need to import food. Hassan Food, the agriculture arm of Qatar's sovereign wealth fund, is one of a number of Gulf investors eyeing farmland in Turkey.

The synergies are clear, and they extend far beyond this simple commodity play.

Many Middle East energy exporters have large current account surpluses, generating excess capital looking for a home – Turkey has a current account deficit. Middle East governments need expertise and capacity to build critical infrastructure projects – Turkish contractors are among the biggest and best in the world.

This represents an enormous opportunity for MENA investors, both state-backed and privately owned. Many have already woken up to the potential, illustrated by the flurry of recent activity. With both sides committed to building on their back to basics strategy, more deals are sure to follow.

# Turkey Seeks to Bolster Great Economic Leap Forward with MENA Trade

By Vural Altay, Turkish Ambassador to the UAE

**LET ME START BY** underlining that throughout its long history, Turkey has always found itself surrounded by opportunities and challenges. This fact is ever more evident today. Therefore, in addressing various challenges and risks, as well as making use of different opportunities, Turkey possesses many assets.

Above all, Turkey's most important asset is its human resources. The dynamism, pragmatism and spirit of entrepreneurship of the Turkish people are the main driving force behind the government's policies. With over 26 million young, well- educated and motivated professionals, Turkey has the longest working hours and the lowest sick-day leaves per employee in Europe – with 52.9 hours worked per week in 2011 and annual average of 4.6 sick days per employee.

Turkey is a strong supporter of universal values in its region and in the world, such as democracy, rule of law, human rights and good governance. The country's foreign policy, which can be summarized as 'peace at home, peace in the world', is of great significance for regional stability. Turkey perceives regional cooperation as a confidence building mechanism and therefore is an initiator of regional cooperation.

Our geography calls for caution and vigilance. Turkey's multidimensional foreign policy reflects a combination of realistic as well as idealistic factors. Consequently, Turkey is recognized as providing stability and security in its region and beyond.

With a population of 75 million and a GDP of $770 Billion providing a per capita income greater than $10,000, Turkey is one of the most dynamic economies and emerging markets in the world.

We are open to foreign trade flows and foreign investment, and have had a customs union agreement with the European Union since 1996. Turkey has so far signed freetrade agreements with 19 countries in Europe, Middle East and North Africa. As a result of this open trade policy, at the end of 2011 Turkey's exports had reached $135 Billion and its imports had reached $241 Billion.

With the exception of oil and natural gas, Turkey is self-sufficient as far as natural resources are concerned. Turkey is positioning itself as an energy transit hub (terminal), a reliable route to bring Caspian, Central Asian and Middle Eastern energy resources to the world markets and Europe.

The Turkish economy has defied global trends and has enjoyed strong fundamentals since the global economic crisis in 2008. In 2011 the Turkish economy grew by 8.5%, the second fastest in the world and the top in Europe, and is expected to be one of the fastest growing economies in Europe again in 2012 with an expected growth rate of 4%, which would represent a soft landing.

Since 2002, we have implemented a strong economic and financial program which involved fiscal discipline, prudent monetary policies, banking sector reforms and comprehensive structural reforms to increase the competitiveness of the Turkish economy. These measures will continue in the period ahead as well.

According to the Organization of Economic Cooperation and Development, Turkey is expected to be the fastest growing economy amongst the OECD members during 2011-2017, with an annual average growth rate of 6.7 percent.

Turkey's tourism revenues exceeded $23 billion in 2011, and are expected to go beyond $25 billion in 2012.

Turkey can celebrate its position as a global leader in many industries, which include:

- Second biggest flat glass producer in the world.
- Second biggest jewelry exporter.
- Third biggest manufacturer of gold and jewelry in the world.
- Third biggest TV exporter in the world.
- Fifth biggest fresh-fruit producer in the world.
- Sixth biggest cement producer in the world.
- Sixth biggest clothing exporter in the world.
- Top clothing manufacturer in Europe.
- Top fertilizer manufacturer in Europe.
- Third biggest iron & steel manufacturer in Europe

Turkey has come a long way, but its potential remains enormous with:

- 36 million internet users in 2011, up from 4 million in 2002
- 65 million GSM (mobile phone) users in 2011, up from 23 million in 2002
- 51 million credit card users in 2011, up from 16 million in 2002
- Over 90 million airline passengers in 2011, up from 33 million in 2002
- 31.5 million international tourist arrivals in 2011, up from 13 million in 2002

Turkey attaches great importance to relations between Turkey and the MENA countries – we closely cooperate and collaborate with



Turkish Ambassador to the UAE, Vural Altay, who was born in 1959 at Ankara, made these comments at the HSBC Turkey-MENA Forum in Dubai on Sept. 17. He graduated from Çankaya High School and Middle East Technical University- Department of Public Administration.

MENA on a wide range of important issues and we are determined to extend our cooperation into new areas of mutual interest.

In this regard, we are particularly keen to further strengthen our economic and commercial ties with the countries of the region. Turkey has already signed free trade agreements with Egypt, Jordan, Morocco, Palestine, Syria and Tunisia, and has started negotiations on a free trade agreement with the GCC, with 4 rounds of negotiations already completed.

In 2000, the Middle East and North Africa region was the destination for 13% of Turkey's exports, by last year that share had doubled to reach over 25 %.

Turkish contractors have been awarded many major projects in the MENA region for many years. They have completed hotels, towers, malls and also projects that require a high level of technical capacity, such as metro-projects, airports, pipelines and highways. As an example, Abu Dhabi Airports Company recently confirmed that a consortium including TAV Construction Company of Turkey was chosen as the winning bidder for the $3.2 billion construction contract on the Midfield Terminal at Abu Dhabi International Airport.

Having said all these, I would like to encourage Emirati and Arab brothers and investors to further boost their engagement in the highly lucrative Turkish market. Needless to say, Turkey offers rich opportunities for MENA companies in the areas of agriculture and food, energy, tourism, realestate, finance, healthcare and many others.

Today Turkey is one of the most important emerging markets which should be seriously taken into consideration for safe and profitable investments.

My message to the MENA business community in general and to the UAE business community in particular, is to utilize the vast opportunities that the Turkish economy offers needless to say to the benefit of both sides. If we can do that I am sure that our relationship and togetherness will reach higher levels.

# Case Study: Breaking into Turkey – Great Opportunities, But You Must Move Fast!

By Dr. Paul Doany, former CEO of Turk Telekom

**I LED THE LARGEST** single transaction of a foreign direct investment into Turkey of some $6.55 billion dollars on behalf of Saudi Oger with the privatization of Türk Telekom (TT) in 2005, one of three that year.

For people who understand the complexity of handling privatizations of this magnitude, you would realize what a significant accomplishment the Turkish government has achieved to get these types of projects off the ground -- to start, a process of this kind requires the passing of new legislation through the National Parliament; managing it through a tender process with international investors that ensures the best price for the selling government; finally to exit successfully by taking the company public.

The story of Turkey is so exciting, that you know going forward the trade-sale price you will get is going to be very, very high simply because Turkey will inevitably be elevated to investment grade ranking by the global credit rating agencies. And when that happens, the level of private equity interest in Turkey will be really incredible, and rightly so.

I have not only had the unique experience of bidding for this Turkish public sector company, but I was also CEO of the newly privatized Turk Telekom for five years. This involved managing 52,000 employees who at the time were basically civil servants, and though it was a great challenge, we managed to convince a cooperative staff to adopt a private company mentality, where people can be hired and people can be fired, which is incentive-based.

Turk's are doers, by the way, and that's the thing. If you're investing in a Turkish company, they get things done. I mean, it's amazing! There was an obligation to list Turk Telekom as it was part of the Privatization Law, but there was also an obligation to offer shares to the employees and offer shares to small business in Turkey on preferential rates. Unfortunately, not much of it was taken up, but still the fact is the government put those obligations in place.

Turk Telekom listed and reached a valuation of $18 billion dollars from its initial price of around $12 billion value on privatization. So this actually shows you how quickly you need to move in Turkey. I would just say one thing. If you're going to Turkey, you have to move very, very fast, because the Turks move very, very fast.

What drives this success in Turkey is clearly having a strong government with strong leadership that makes clear decisions and gets things done. As we all know, in life, making decisions, right or wrong, is very important. Making no decisions is a disaster. And this is one country that makes decisions and gets them done, and luckily for Turkey, almost all the decisions have proven to be right.

That said, it is also crucial to foreign investors, and especially for a privatization process and IPOs, to have a robust legal system and a regulatory environment, and in Turkey they have developed both using the EU as a model. So you know where things will go – you have predictability, you can predict five years ahead.

This is particularly relevant as Turkey is a country with a lot of litigation – we had enormous litigations against the privatization of TT, all kinds of stuff. It happened to all the privatizations, and fortunately all the cases have been won. In fact, the number of court cases that Türk Telekom had when it became a private company was 2.4 million. But do you know why – because TT was suing customers who hadn't paid their bills. And of course, that was resolved pretty quickly in our favor.

The Turkish exchange rate is also something worth mentioning because many potential investors are looking at Turkey's exchange rate as kind of problematic. But in reality, an exchange rate risk is present in all emerging markets, which is just part of the risk-reward opportunity. It's part of life.

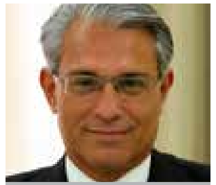
So, the simple thing is to work out what your exit strategy will be – at Saudi Oger we assumed a five year exit from TT and forecast an exchange rate for that exit date of 1.7 and hedged accordingly. At the time when we invested in Turkey the exchange rate was 1.26. And in fact, it dropped to as low as 1.16 – we were shocked! But the Turkish government didn't budge. They didn't budge! They said our policy is a fair value, but a strong Turkish lira, and they showed amazing discipline in that instance and they were proven right. The exchange rate is now about 1.8, so we weren't very far off.

One of the beauties of the Turkish story is that there's enough potential in the domestic market alone, with enough exits, either trade sale or public listing. And I'm very keen

on the public listing scenario because that allows you to keep an ongoing interest in the company.

Since leaving Turk Telekom last year I have remained living in Turkey to participate in the tremendous growth opportunity in the country's Information Technology sector – the first track I have followed is investing in IT companies directly at the personal level and taking a role in helping these Turkish companies develop into international companies; and secondly I invested into in an IT venture capital fund of which I am the chairman, and we are looking to engage with Turkey's new vibrant technology companies at a grassroots level, in such areas of e-commerce, social shopping, mobile games and also social networking platforms.

We're pursuing an IPO for at least one of these companies, which has already soared in value from a $3 million initial investment to $100 million valuation. And this particular technology company could easily reach a $500 million market capitalization within five years' time. So this is the kind of potential you can see in a market which is shockingly underserved.



Dr. Paul Doany, the former CEO of OGER Telecom, is now Chairman of Turkey-based GHV, (IT/internet venture capital fund) and SDS Enterji Vice Chairman (geothermal power company)



# Turkey's Banking Sector Emerges Stronger a Decade After Domestic Financial Crisis

Virma Sökmen, Head of Commercial Banking Turkey, HSBC

**TEN YEARS AGO** Turkey's banks were reeling from a domestic financial crisis that required a multi-billion dollar bailout. It was a difficult period, and implementing the reforms that followed was at times a painful process.

Today, Turkey is reaping the benefits of those tough but necessary reforms, more often than not now surprising customers and international peers by the advanced technology, skilled staff and smooth operational systems they engage.

The IMF recognised the strides Turkey has made over the past decade in its 2011 Financial System Stability Assessment: "The Turkish financial system has weathered the 2008-09 global financial crisis relatively well. This was due to the significant capital buffers built up following the 2000-01 banking crisis, more effective fiscal and monetary management, strengthened banking regulation and supervision."

Put simply, the Turkish banking system can get things done, especially the day-to-day fundamentals such as payment collections, foreign exchange transactions and letters-of-credit. These are hardly cutting edge banking functions, but experience teaches foreign investors in emerging markets not to take them for granted.

In Turkey, they can!

The country's geographical location makes it a natural bridge between the East to West and North to South axes, providing easy – cost efficient access to businesses around the world. It's young, dynamic and growing workforce also continues to be a key contributor which, according to the 2009 World Bank numbers, is the 5th largest among the European countries. And more recently, the World Bank stamped its belief in the Vision by awarding the country with $6.5 billion of financial support.

Away from the routine, banks have a growing appetite for financing long-term capital investment projects, either through various types of bank lending, or as intermediaries for non-bank financing such as private equity.

The privatisation and stock market listing of Turk Telekom in the last decade was a watershed for the country's financial system. The reforms and rebuilding in the early 2000s were severely tested by a $6.55 billion transaction that saw Saudi Arabia's Oger Telecom take a majority stake in TT.

Financially, it was quite complex: Oger leveraged the acquisition of its stake, while there were countless side arrangements with subsidiaries such as mobile phone unit Avea, and minority shareholders such as Telecom Italia. In short, the deal required a banking sector that was flexible, moved fast, had relatively deep pockets and could provide long-term loans at competitive rates. Not easy, but Turkey's financial system passed the test. Dr. Paul Doany, CEO of Turk Telekom at the time, has described it as "unprecedented" within the country.

This banking capability has underpinned rapid economic expansion over the past decade, which has seen Turkey's GDP per capita triple to about $10,000. And it must continue if Turkey is to achieve its ambitious economic goals in the coming years, such as raising that figure to $25,000 by 2023, the 100th anniversary of the founding of the Republic.

Let's be clear: the Turkish financial system is far from perfect, and further improvements are needed.

Strategic economic sectors such as infrastructure, energy, healthcare and education are in desperate need of major investment – projects will demand funding at a scale, duration and interest rate that will stretch banks beyond their current limits.



By Virma Sökmen, Head of Commercial Banking Turkey, HSBC

The IMF stability report, as well as heralding improvements, highlighted a number of concerns. Stress tests revealed that Turkish banks could come under strain from a protracted economic shock, particularly following a credit boom last year. Regulation, while improving, still needs bolstering in areas such as market and liquidity risks.

Credit ratings are a particularly thorny and emotive issue: none of the major ratings agencies has upgraded Turkey to investment grade, although it is getting closer.

The Turkish government earlier this year launched a verbal attack against the agencies after Standard & Poor's, one of the big three global agencies, downgraded its outlook on Turkish sovereign debt. S&P is concerned about Turkey's large current-account deficit, and its exposure to the crisis in the euro zone, which is the country's largest trading partner.

An investment grade rating would surely drive down the cost of funding for companies and individuals in Turkey.

Perhaps more important, it could help the banking system address a chronic maturity mismatch: today, the average tenor of deposits is just 45 days – far from ideal if investors want to borrow billions of dollars over five, 10 or 15 years to build a power station.

Analysts at the ratings agencies are particularly concerned about Turkey's twin deficits – fiscal and current account. Both the finance ministry and Central Bank are addressing these issues, although of course there are no overnight solutions.

Christine Lagarde, Managing Director of the IMF, acknowledged the progress being made during a visit to Turkey in May this year: "The IMF agrees with the authorities that it is important now to focus more on increasing domestic savings to reduce the vulnerabilities that can come from short-term capital inflows."

Turkey's banking and financial system deserves great credit for the turnaround since the dark days of 2001, but it remains a work in progress.


# Turkey's Future Success is Dependent on MENA's Future Success

By Dr. Ibrahim M. Turhan, Chairman & CEO, Istanbul Borsasi

**THE GLOBAL ECONOMIC** system entered into a stage after the North Atlantic Crisis of 2007. As developed economies are struggling with high rates of public debt and low rates of economic growth, emerging markets have appeared more reliable in the aftermath of the crisis. According to the predictions of IMF, annual growth rate for developed economies is around 1 to 3% until 2017. The prediction is between 4 and 6% for Turkey, MENA, CIS, and Sub-Saharan countries. A similar analysis can be made in terms of per capita income levels. The PPP –adjusted income level in Turkey is predicted to increase to around 18,000 USD in the coming six years. In the same manner, the per capita income of MENA region will exceed 10,000 USD that corresponds to an amount two times of the income level in all emerging markets. This picture points into the fact that there is huge potential for Turkey and the countries of the region to cooperate and succeed.

Let me share a story – it was during the age of Mohammed the Second, the Faqih. When he was planning on starting the campaign towards Istanbul, he started preparations. And the church in Istanbul was aware of his preparations and they sent two priests to Adana, which was the capital at that time. And the priests then went direct to the bazaar to learn a little bit about what was taking place and how the people were thinking. And to have a chat, they entered into one shop directly and they started to talk a little bit with a shopkeeper.

The shopkeeper said, "Well, you know, welcome, you are our guests. I can offer you whatever you want. Bu may I suggest something, if you don't mind? My shop is the first on the street, but my neighbor does not have as good a location as myself as he is back away from the street. I'm a merchant. His products are as excellent as mine. I have already made the first sale today, this morning that we call sifta, 'the opening'. Could you please go and buy from him, because he may not have made his first sale today."

And they were competing. They were selling almost the same goods. But yet, this is a different type of competition. This is competition, but at the same time, cooperation, collaboration, because we want everybody to win, not only ourselves. So this model, this type, may sound weird. It may sound archaic even, but we managed to have 6% or 7% growth over a decade in which we had two major global crisis. So it may work for our region to embrace.


In fact, the trade relationships between Turkey and MENA have increased remarkably in the last decade. While the Turkish exports have grown up by 8%, the imports have gone up by 4% during the last decade. As of 2011, Turkish exports to the region amounted to $34 billion, while the imports were $29 billion.

Especially after the successful implementation of diversification strategy, share of MENA's exports in total exports increased to 28% as of April 2012 from 15% in 2003, while the share of imports from MENA was 15%. As a meaningful example, I want to note that Iraq is today the second biggest partner of Turkey. The foreign direct investments from Turkey to MENA Region has boosted since 2007, as well.

However, we should confess that this increased trend in real economic side could not be achieved in the course of financial interactions. The bilateral amount of financial investments and flows are at very low levels as compared to the developments in trade relations. And I strongly believe that this gap will vanish in the very near future. There is a big area for improvement.

One possible case is the banking sector. Turkish banking sector has been relatively slow to realize the potential. It is an obvious fact that number of branches of Turkish Banks in the region is should be increased given the trade level. With their strong financials and soundness banks within the region can play remarkable role for economic development. A recent example to be noted is the Bank Audi case. Lebanon's Bank Audi has recently taken the license to operate in Turkey. This license was the first one in the last decade.

We believe that the East will play an enormous role in the shaping of global financial system. MENA is one of the key regions with its huge potential that will contribute to the regional and global economic stability. Therefore, the development of the bilateral relations with the region is one of the key elements of our strategy.

Dr. Ibrahim M. Turhan is Chairman & CEO of Istanbul Stock Exchange



# Turkish Firms are Well Poised to Raise Their Game in MENA to Hit Ambitious Trade Targets

Nicholas Levitt, Head of Commercial Banking UAE, HSBC

**THE TURKISH BUSINESS** community must raise its game for the country to achieve the ambitious goals it has set for trade volumes over the next decade with the Middle East and North Africa. Turkey's national champions – particularly in the construction industry such as TAV – have made great strides over the last few years of the $100 oil boom, winning lucrative contracts to build big government infrastructure projects across the region, including the $3 Billion Abu Dhabi Airport terminal.

Now it's time for Turkey to showcase the full range of its talents, including small and medium sized companies across a range of industries.

The good news is that Turkey has built a strong platform from which to launch the next stage of its export drive to MENA.

The Turkish International Contracting Services Sector has consistently exceeded annual targets over the last decade, reaching $19.4 billion in 2011. 33 Turkish construction/contracting companies are in the Top International Contractors List prepared by the Engineering News-Record, which makes the Turkish construction/contracting industry the world's 2nd largest - behind China.

As oil prices have quadrupled over the past decade MENA governments, especially in the Gulf, have gone on a building spree. Turkish companies have won their fair share – perhaps more than their fair share – of large deals, based on technical expertise, competitive pricing and blossoming political ties. At the same time, physical exports to MENA have flourished, ranging from raw materials such as iron and steel, to finished goods including jewellery and television sets.

Evidence of the scale of this Turkey-MENA trade boom is everywhere. Statistically, MENA will account for 34% of Turkish exports this year, according to official data – up from just 13 percent in 2000. It is well placed to grow when you consider the opportunities laid out on the table when the president of Qatar's public woks authority visits Istanbul to invite Turkish companies to help build facilities for the 2022 FIFA World Cup as he did earlier this year.

This is good, but not good enough to meet Turkey's own ambitious goals. The Turkish government has set forth a series of targets to be met by 2023 – its 100th anniversary year of establishment. Amongst these, Turkey aims to be one of the top 10 economies in the world (currently, it ranks at 16), it aims to achieve a gross domestic product of $2 trillion, increase annual Turkish exports to $500 billion and achieve a foreign trade volume of $1 trillion.

Look at the UAE, a wealthy but relatively small Gulf oil exporter. Last year, Turkey's trade with the UAE was $3.6 billion – up sixfold over the past decade, an impressive achievement. But when you consider that Turkey is targeting $10 billion of trade with UAE by 2015 and $100bn of annual trade with the GCC by 2023, the scale of the challenge is evident.

Small and medium-sized Turkish companies must follow in the footsteps of the national champions if these goals are to be achieved. We are already seeing that happening in our business at HSBC, as more Turkish SMEs approach us to finance their exports to MENA. Mostly they are smaller players in the construction sector, supplying materials or sub-contracted services.

Some of the more ambitious players are setting up shop in MENA countries such as the UAE, Qatar and Saudi Arabia.

The quantum leap will be when we see more diversity. Take retail brands -- how many Turkish retail brands do we see on the shelves or advertised on television in MENA today -- a tiny handful perhaps. Yet with some of the world's largest and most profitable malls, the Gulf region has a massive appetite for brands.

The big Arab family trading houses long ago tied up all the major international consumer brands, such as food, clothing, cars and electronics. Turkish companies produce all of these things, and do so to a very high standard, often as suppliers to the big global names.

The questions that Turkish manufacturers will revolve around the issue of whether they can make the leap and move from the low margin business of outsourced manufacturing to the higher margin – but higher risk – business of researching and developing their own branded products. This is no small challenge when combined with the necessary marketing nuance required to dust-off the made in Turkey banner so it can be seen as cool in the eyes of MENA consumers.

There is a template -- Korean factories have made that transition over the past decade. If Turkish companies are to make the most



of the burgeoning ties with the Middle East, some of them must step up and do the same.

I also see opportunities in my own industry, financial services, where it's clear that Turkish banks are massively underrepresented in the Middle East and North Africa market. Being selfish, I could argue that this creates an opportunity for HSBC. Taking a more mature approach, I think we can all agree that everyone would benefit from a greater presence on the ground from Turkish financial institutions.

All the evidence suggests that Turkish companies can and will hit the government's lofty targets. First, the political will clearly exists between governments to ensure that as many hurdles to trade as possible are removed.

Secondly, more and more Turkish companies are proving that it can be done – and this can only generate momentum. Where construction giants have led, others are now following. Turkish consumer goods companies have shown their entrepreneurial zeal, especially in Iraq where branded food items and household goods are commonplace.

And let's not ignore the recent success in selling services, notably tourism. It was a shrewd move by this summer's Istanbul Shopping Festival to invite Lebanese pop star Nancy Ajram to perform an open-air concert. Figures for the first half of 2012 show a 54% increase in visitors from the UAE, 64% from Kuwait and 92% from Qatar.

Turkey's Rixos group has this year opened its first hotel on Palm Jumeirah and announced its intention to build 12 more hotels in the country.

By emulating and building on the success of Turkey's regional trailblazers, the coming decade has the potential to offer even greater rewards than the last for Turkish companies in MENA and it would be a brave person to bet against this continued ambition.

Nicholas Levitt, Head of Commercial Banking UAE, HSBC

# The HSBC Turkey-MENA Survey: Review & Debate

By Simon J. Williams, HSBC MENA, Senior Economist,
Melis Metiner, HSBC Turkey, Economist


**Simon J. Williams, HSBC MENA; Sean Evers, Gulf Intelligence (Moderator); Melis Metiner, HSBC Turkey**

The Forum delegates participated in an electronic polling session survey in which the audience faced a series of questions on Turkey's economic transformation and what impact this has had on its posture and engagement with its neighbours in the Middle East and the wider world. The results of the poll were broadcast to the 200 guests and reviewed and debated in real time by Simon J. Williams, HSBC MENA Senior Economist, and Melis Metiner, HSBC Turkey Economist, with Moderator Sean Evers of Gulf Intelligence.

**Q1. The Middle East and North Africa is looking to Turkey with its increase in income and social outcomes from its recent reform programme, as an attractive market and possibly a development model to emulate – which country is most suitably positioned to adopt the Turkey free-market economy?**

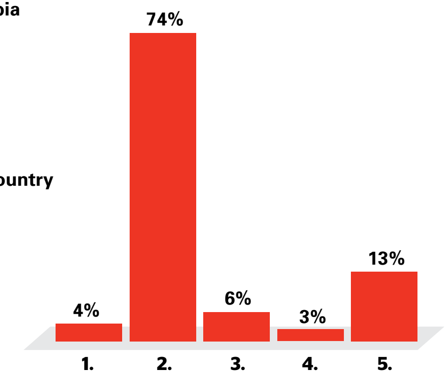
**1. Saudi Arabia**

**2. Egypt**

**3. Iraq**

**4. Libya**

**5. No Arab country**




**MODERATOR:**
It appears, at the moment at least, difficult thing to imagine Egypt making the kind of leap forward that Turkey has achieved in the last decade i.e. tripling per capita income. But, I sense that ten years ago it would have been equally as difficult to envisage that Turkey was going to progress the way it has – Melis, what were the building blocks of Turkey's success that one could point to and say, well, Egypt may be able to do that?

**MELIS METINER:**
If you go back and take a look at Turkey ten years or maybe twelve years ago, it was quite a different picture. From a macro perspective, I think it bears mentioning that fiscal policies weren't really in place. Public debt was extremely high, at around 80% of GDP. We were running chronic deficits. There was crowding out of the private sectors. There wasn't really any liberalization or privatization efforts. Turkey used to go through these boom and bust cycles, and had to battle with chronically high inflation. So none of that was particularly conducive to a long-term growth story, a sustainable growth story. And at the same time, none of that was very attractive for long-term investors who were hoping to come into the country and maybe stay there for ten, fifteen, twenty years.

A lot has changed since then, and probably the number one factor that's the most important for me, is that the macroeconomic stability has been established to a certain extent. Turkey used to have 135% inflation. Right now inflation fluctuates within a relatively narrow band of let's say 6% to 9%. It's still high, but the gains have been massive. The boom and bust cycles, they have been kind of subdued slightly, so we don't really go through this massive crisis. There was incredible fiscal consolidation, bringing public debt from 80% of GDP to 40% of GDP as of last year. There was crowding in of the private sectors, there were privatizations, and a lot of markets, especially in the utility sectors, were liberalized. Not fully, but they were liberalized. So putting all of those things together you get a very different picture when you look at Turkey in 2012. And right now it's much, much easier, from my own perspective, for instance, to make a long-term story, to make a long-term case for Turkey.

**MODERATOR:**
Do you think the Turkish people are surprised by the scale of the transformation Turkey has made – could you have envisioned it in 2002?

**MELIS METINER:**
I think the surprise factor came from the improvements on the political side. When we were talking about Turkish economics ten years ago, even, you know, five years ago, there was always this political cloud overhanging the discussion. Because we didn't have that stability. We didn't have that medium-term visibility. But that's no longer the case. We have a strong single-party government in office, and they have a strong mandate. So for the medium to long-term, it's easier to plan, and the uncertainty risk premium that Turkey watchers always had to account for, that has definitely decreased, I think.

**MODERATOR:**
Simon, what's your own assessment of the Survey result, and how valid is it to expect that Egypt could emulate Turkey?

**SIMON WILLIAMS:**
Egypt is the right answer.

Egypt, I think, does work. I think it does bear comparison to Turkey – both in its strengths and its weaknesses: a large population of locals, not of ex-patriots; Ninety million Egyptians, and an overwhelmingly young population at that sweet spot in terms of its economic development; Per capita GDP around two to three thousand dollar is the kind of point where you begin to see rapidly rising consumption and a big growth in demand for infrastructure; Egypt is hardwired into the global economy through the Suez Canal and through tourism, in the way in which Turkey is, as well, through the Bosporus. I'd also argue that in Egypt I see financial markets that are more developed, perhaps, but certainly more ambitious than I see elsewhere in the region.

There is the start of a new political order forming in Egypt, but we're still at the early phases of that political development process. We're perhaps at the end of the beginning of the transition in Egypt, but that new order is still not clear. The economic challenges that Egypt faces, again, are similar to those that Turkey went through over the last ten and fifteen years. Enormous fiscal account, I'm sure, falls in current account deficits as well, and a difficulty in managing the currency regime. I am enormously encouraged when I visit Turkey and see what can be done by the application of appropriate policies and through the development of a stable and functioning political order. Egypt, I think, has that potential within its reach. Whether it achieves that or not I think will be a lot clearer to us a couple of years from now than it is standing here right now, just eighteen months after the revolution.

**MODERATOR:**
It is, in a sense, as Melis has said about the anchor of Turkey's success, the political stability, the medium-term predictability that is the gateway to everything else – is that the same for Egypt?

**SIMON WILLIAMS:**
It all has to begin and fall from there. And then appropriate economic policies have to come on the back of it. And the Muslim Brotherhood in Egypt has only just begun to form a government, just begun to form policy. The early noises they're making are exactly the kind of voices you'd want to hear if you were going to see Egypt following that Turkish model.

Turkey attempted and failed to modernize itself several times over before the Turkey we see today really consolidated itself and established itself. It's possible that Egypt has to go through the same process.

**MODERATOR:**
About ten years ago at the beginning of the Turkish reform there was a massive devaluation to the Turkish currency – was that instrumental to the success of the Turkish story, and if it was, would the devaluation of the Egyptian currency be better than the current managed float?

**MELIS METINER:**
I mean, it's impossible to argue the counter-factual and say we would have had just as strong a recovery had that devaluation never taken place. I don't know that that's the case. But at the same time, we've had other periods of nominal lira depreciation, and in the very short term it helps the trade balance. It helps export growth. Obviously, it slows down imports' appetite. But in the medium to long-term – and by medium to long-term I mean more than a year, let's say – nominal lira depreciation doesn't really do anything. You need to have more of a structural perspective on the trade deficit, on the current account deficit, and on why Turkey's growth model is so import dependent and import intensive.

So I know it's not a perfect answer to your question. I don't know if that was absolutely necessary, but I do know it probably didn't hurt. Going forward, though, is

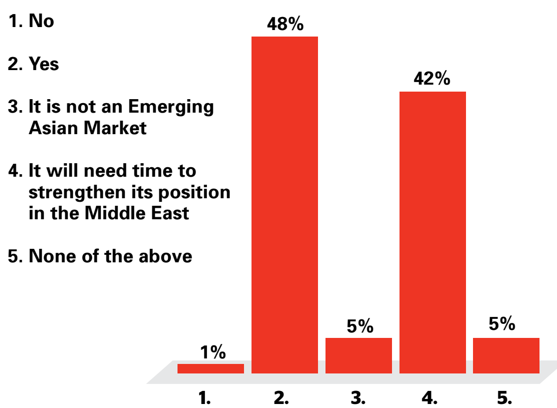
devaluation, or let's just say, is currency depreciation the best way to tackle some of these issues regarding external imbalances – My answer to that would be no.

**MODERATOR:**
Simon, could Egypt do with a good old-fashioned massive devaluation?

**SIMON WILLIAMS:**
Melis says it didn't hurt. I suspect it did hurt. I suspect it hurt a great deal for those who were in Turkey at the time relying on imported goods. And I'm not sure that it wouldn't also hurt in Egypt. I'm not sure there's the political will, or possibly the economic need, to go through that kind of shock therapy at this stage. I think you will start to see the Egyptian pound liberalize. It will remain initially a very heavily managed float, but as we begin to see political order consolidate and economy begin to function once again, you will start to see more volatility in the value of the Egyptian pound, that it will begin to appreciate and depreciate over the cycle by more than is currently the case.

But I share the view that an overvalued currency can cause enormous harm. But a massive depreciation of the kind that was seen in Turkey would be no panacea of the problems that Egypt currently has. Short term, I think, Egypt would find it very difficult to cope with the consequences of that kind of currency. What I'd say is the Egyptian central bank has actually done a remarkable good job over the last eighteen months managing the currency. Against a very difficult political backdrop they've kept the Egyptian pound — it's been a functioning market, it's been a freely exchangeable currency. And their success in doing that, in maintaining an orderly market I think will stand them in good stead as they try to draw capital flows back into the country in the years ahead. So yes, currency reform is not just imperative in my view, but I think it's something that the authorities would seek to pursue as well. I don't think that it would be either likely or right that there would be a sharp drop in the currency in the near term.

**Q2. Turkey has identified a very unique selling point, as a European country it would like to project itself as a rapidly growing emerging (Asian) market with a very strong position in the Middle East – is this a winning strategy for Turkey?**




**MODERATOR:**
Melis, what do you think of those results?

**MELIS METINER:**
I think yes. I voted for Answer number 2, and I'm glad to see I was right, partially at least. I think there are two cases to be made here. The first one has been made time and time again, and that's the fact that MENA is a very attractive export market for Turkey. We have been taking advantage of this. We have been able to diversify our exports away from Europe, which is essentially stagnating, towards these much more vibrant markets. Just to give you an example, in the year 2000 only 13% of Turkish exports ended up in the Middle East and North Africa. If you look at the first seven months of this year, that ratio has increased to 34%. It's coming from a low base, obviously, but the momentum is definitely there. So I think that's the one case that can be made for Turkey, viewing MENA as a very large and rapidly growing export market.

But the second case for Turkey is to attract investments from MENA -- long-term foreign direct investments coming from the region into Turkey. And if you look at that side of the equation, we don't see the same kind of diversification. Turkey is still overly dependent on Europe for long-term investments. And if you look at the existing stock of FDI that's currently in the country, less that 10% of that comes from MENA right now. So that's the second case I think that needs to be made. And that I think is equally important, because currently Turkey can only grow by also growing its trade deficits – this is the economy's weak spot. Turkey has always run a current account deficit and probably will continue to do so in the medium term. So what Turkey can do instead is try to improve its financing. Improve the financing of that deficit. Reduce reliance on short-term portfolio flow and draw more long-term investment into the country that's here to stay for the next twenty years. And I think if Turkey can draw that kind of attention from MENA as well, I think that will complete the story.

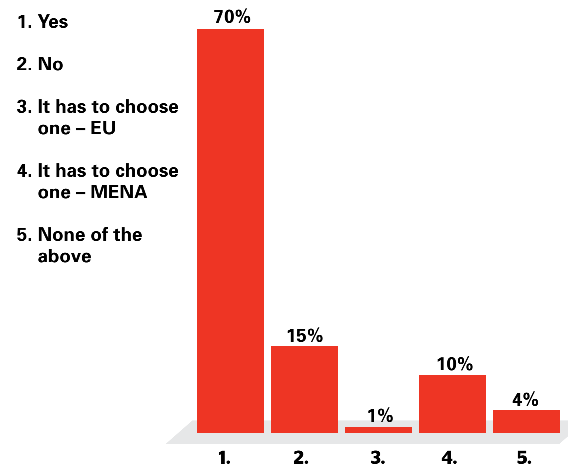
**MODERATOR:**
Simon, your thoughts – nearly as many people ticked answer four, that Turkey will need time to strengthen its position in the Middle East?

**SIMON WILLIAMS:**
I think the Middle East is much more important to Turkey right now than Turkey is to the MENA region. The MENA region is three times as large as the Turkish economy. MENA's a 2.3 trillion dollar economy and our population is substantially larger as well. The kind of growth trajectory that you've had over the last four or five years, that you'll see over the next two or three years as well, again, I think is much more appealing to Turkey, perhaps, than what we're seeing in Turkey is to the heart of the MENA economy.

I'm not sure that the real strength in that relationship, from our side going out, is going to be in manufacturing of the exports of goods and services – I'm not sure what we make in this part of the world that Turkey is desperate to buy from us. I do think, though, that you will start to see some of our national champion companies, like the Jumeirah Group, that have outgrown their local markets establishing themselves in Turkey.

What I would really expect, though, is to start to see capital surpluses being recycled out of MENA and into Turkey. Every time I sit with a central bank, with a sovereign wealth fund, the story they tell me again and again is about diversifying portfolios and looking for emerging market stories that they feel they understand and can get comfortable with. And to me, Turkey shouts out as a market for those funds to be deployed. And that's where I think I see the real potential to come from the Middle East as a very large, rapidly growing market drawing in Turkish exports, recycling our capital into Turkey, where I think it meets this region's need for diversification for yield. And also perhaps for geographical proximity to us and to Europe as well.

**Q3. Turkey's ambition to secure membership of the European Union had almost by default compelled it to pass through a period of ambivalence towards its Arab neighbours. That changed when the AKP party took power in 2002 and reversed the status quo and embraced a successful proactive policy of engagement with the Middle East – can Turkey have both EU membership and leading position with its MENA neighbours?**




**MODERATOR:**
Can Turkey have both EU membership and a leading position with its MENA neighbors – the Survey result indicates Turkey can have its cake and eat it! Melis, your thoughts?

**MELIS METINER:**
I really hope that's true. And in the medium to long-term,

I don't think these two goals are mutually exclusive. I don't think, you know, it's impossible to have them both. I would imagine it would be very, very politically challenging to have them simultaneously, to have these processes running parallel to each other at the same time. I would imagine that would be difficult to manage. So I think it is possible, just from a theoretical perspective. It's just a timing issue. And right now, for pretty much every country that doesn't belong to the European Union, it's easy to make the case: "Well, who needs the European Union? They have a lot of problems. The Euro Zone is struggling with forming a fiscal union, so on and so forth. Why join now? It would hurt us more than it would benefit us." It's easy to make that argument now. So the political will to push this process along may not necessarily be there.

But, you know, ten years from now, I don't necessarily think that that's going to be the case. Maybe I could take like thirty seconds to summarize HSBC's view on the Euro zone. We don't think that the Euro zone is going to break up. We don't think any of the peripheral countries are going to leave the Euro. We don't think that Germany's going to leave the Euro. We don't think any large sovereign like Italy or Spain is going to default. I think, and we think, that the Euro zone is gradually, painfully and gradually, going to move towards some kind of a banking union and some kind of a fiscal union. And that it will survive, in a slightly different format, but that it will survive.

So in the medium to long-term, my personal opinion would be that it would benefit Turkey to join the European Union. And even if Turkey never joins, I think the process of attempting to join would benefit Turkey from a variety of perspectives – from a macroeconomic perspective to a social perspective.

From a capacity point of view, I doubt Turkey currently has the ability to essentially engage and treat both with an equal commitment. I mean, if Turkey were trying to do that right now, I would imagine it would be a tremendous challenge. But imagine that ten years from now we are in the EU; yes, that comes with a lot of additional bureaucracy, but we are part of the European Union. We already have the customs union agreement but we're in the European Union. And at the same time, the trade relations with MENA have flourished despite that. Maybe that's kind of a naïve scenario, overly optimistic scenario to hope for, but it seems possible to me.

**MODERATOR:**
Simon, your views – 30% of the survey respondents are of the view that Turkey can't have both?

**SIMON WILLIAMS:**
I don't have the same kind of intuitive sense of Turkey's political directions as I do perhaps of the MENA region. I would expect though that that gap between Europe and the Middle East, it may narrow. But then again, given political trends, it could widen as well.

I think there's a political will in Turkey to explore the economic opportunities in MENA, at a time when Turkey is just beginning to punch its weight in MENA. Those economic relations, I'm sure, will deepen. I suspect, however, that if Turkey is granted EU membership, its political pull will be to the West, not to the East.