

## **Financing and investing in the current climate: challenges and opportunities**

Greetings ladies and gentlemen, honor guests and dignitaries. It is certainly a pleasure for me to be here today speaking to you all. This truly is an august crowd and I look forward to learning your comments at the ends of my speech. What I would like to discuss with you all is the idea of Financing and investing in the current climate. While we can all certainly agree that there are many challenges there are also a great number of opportunities that are offered by this climate. In order to address the challenges aspects, I would like to highlight some key information about the status of the global economy and then draw your attention to Turkey as one of the opportunities

When discussing finance and investing, I am always reminded of a famous quote by Edgar Fielder, who said “he who lives by the crystal ball soon learns to eat ground glass.” In many ways Fielder had an accurate perception of global finance and investing. In a word that is always precarious it is very difficult to make predictions. Well, let me revise that phrase, it is very easy for individuals to make predictions, I think they worked on Wall Street from 2006-2008. It is however more difficult to make predictions that ultimately are seen as accurate predictions. Even the most secure investments, due to inaccurate knowledge or external uncontrollable market forces at time can turn into a poor decision.

Therefore, without a doubt the past two years have been quite troubling for most of the world's major financial markets. While the impacts can be felt acutely in some circles and less prominently in others, the past few years has helped us to see the increasing connectedness between most nations, markets and currencies. If we take the recent example of the American housing market, our statements are once again confirmed as we can see the global interconnectedness as well as how a situation in one country has the ability to affect global currency and parity. If we look at the global challenges we can say that while there are a seemingly infinitesimal number the three main ones happen to be: providing access to markets, securing capital, as well as maintaining a reliable client based.

While each of these can individually have a negative effect on the global market, the aggregate effect has helped to cripple it to a great extent. When we discuss access to market we of course can mean a variety of things but primarily we can point to the fact that some countries due to national laws, tariffs or levies have a difficult time gaining access to certain market. In this case we can see that the EU is an operative example of lack of access. While the economic club works quite well for member states as well as other countries that are in the customs union, countries further afield have a more difficult time penetrating or becoming successful in such a forum. This however may not apply to every industry in that the energy industry. Companies in countries such as a Russia have quite easy access to these markets because they essentially power them.

Secondly, securing capital is another major challenge facing global businesses. While often companies themselves provide the capital, there are also cases in which logically unmet capital costs need to be provided or acquired from somewhere else. Yet in this climate, in which the attitude is still very wary, investors are going to be caught in a difficult position. Borrowing capital for an investment that may be no surer now than it was two years ago makes individuals. Yet global interest rates have seen some changes and ensure that the profits go towards paying the debt rather than reinvesting back into the business. Obviously if a company is paying more on its business loan than for the business itself, there seems to be a serious problem.

Thirdly, one of the most vital challenges of all is the ability to maintain and retain the clients that you already have. With an economic downturn and a meek economic revival, it is becoming more and more difficult for companies to reach former clients as well as obtain new ones. While this seems like one of the most basic principals of business, sometimes the basic steps require reviewing due to the limitations that clients and consumers themselves face.

Yet, I believe that there are opportunities in a recession or the present unknown status that we have. While magazines such as "the economist:" are busy coming up with catchy slogans for their headlines, such as "Grow dammit, grow" or "Are we there yet", which were the previous two, we should consider that in fact there are many opportunities as well as regrouping strategies that need to take place.

A time of economic downturn is a time to reflect on what makes a business strong and successful. While there are a variety of external factors, essentially if the product is sound, there will always be a market. During this economic recession, I have personally taken the time to reexamine my company's focus and use this to attract consumers. Also after the recession, we need to be ready for the upturn. If it happens quickly and we are not prepared then we could lose even more market share. I see recession as a way of preparing for the next round of business.

### **Why Turkey in the current climate?**

Why invest in Turkey is a question that I get asked all of the time. While I feel that bringing FDI into the country is beneficial for Turks as well as the investors there are actually many practical reasons for such a wise decision. I will discuss the answer to this question but I would like to present a bit of economic history that I am sure nearly all of you will be familiar with.

The investment and financing climate in Turkey was not always as rosy as it is today. In fact the 2001 crisis in Turkey was disastrous for the country and the region. While not the only factor for the economy's meltdown, it was clear that the 2001 crisis in Turkey was due to poor fiscal management on the part of the government. Yet the fact is that there were actually 2 crises one in 2000 and a more serious one in February 2001. The fact that the first one was not dealt with

in time compounded the problems in 2001. Continued spending without reigning in much needed reforms saw the lira decrease substantially in value and lead to inflation rates of nearly 35%. This had dire consequences for the financial sector in that capital was frozen and FDI came to a virtual halt. Unemployment reached 40% in some locations and the effects on individuals were disastrous. Having an unhealthy trade balance, not enough exports and a large dependence on imported energy sources did not assist the situation.

Yet as a result of this crisis Turkey was put on the road to improved financial health. The IMF was consulted and from 1999 to 2002 there was a net assistance of \$20.6 billions issued to Turkey to help improve the economy. The solutions to the crisis however were seen in three different ways. First was a new type of fiscal austerity that targeted achieving a 6.5 percent surplus for the public sector as a ratio to the GDP. The second was a contradictory monetary policy by an independent central bank, aimed exclusively at price stability, by inflation targeting, and thirdly the structural reforms consisting of many of the customary IMF demands: privatization, large scale layoffs in public enterprises, and abolition of any form of subsidies. After nearly 3 years of these Spartan measures, Turkey was able to regain some semblance of a functioning economy. A footnote that should be added is that the reforms in 2001 helped the country weather the 2009 global financial crisis. While it was not unscathed, Turkey was able to prevent another bottoming out of the lira by sticking to its policy of responsible spending and reformed fiscal policies.

## **So back to the question why Turkey?**

This is a valid question. Many of you want to know why I have selected Turkey as an “opportunity”. In other words, what makes Turkey such a viable partner for investing and finance? While it would take me too long to list every reason, I feel that we can summarize it in three major points, growing soft power in the region, which leads to stability; improved commercial connections with the EU as well as other major trading partners and finally its ability to act as a geographic energy conduit ensuring the delivery of fuel sources to Europe.

There is an old cliché about how Turkey is the bridge between East and West and that for centuries ideas, people and goods have flown freely from Europe to Asia. While the 20<sup>th</sup> century saw this reputation a bit tarnished by a self-imposed isolation on the part of Turkey, this is no longer the case because the country is a major player in the region for trade, politics and culture.

As Turkey has gained more and more clout in various spheres, including NATO, the EU Customs Union and UN, this has helped to reinforce its reputation as a leader in the region. With its high profile soft power and growing global influence, Turkey is a country that regional players are following. I would posit that in the strained energy markets of the world Turkey is showing more and more promise as a reliable partner.

Turkey's new multi-dimensional foreign policy has helped to change the passive approach of the previous decade in Ankara and give the country a much needed infusion of vitality that was lacking. As Turkey begins to take a stronger and stronger role in the region, we can see various collaborations in business and diplomacy. Turkey is beginning to realize how important it is as well as its ability to maintain strong relations with all its neighbors in the region. With developments on several fronts, a stable Turkey means a stable region. Recently Turkey has made many forays into politics with its cooperation with Brazil on Iran as well as its attempts to establish stronger relations with all of its neighbors. Turkey's agreement last year to normalize relations with Armenia is a revolutionary development in Turkish foreign policy.

Secondly within the region we can see that commercial routes within the country are well established. While looking at other neighbors in the region we can say that the physical commercial routes simply do not exist nor do the actual commercial routes with respect to business. When we discuss the area of trade and commerce, it is clear that Turkey is an established member of both European and Eastern trading units. As a member of the EU customs since 1996, Turkey has proved itself able to meet all European obligations. Also, since it is on track to join the European Union, it will become more and more integrated into the European project in the future. As the EU-27 is the major trading partner for Turkey, with its consumption of 57% of exports, Turkey has the history and reputation in Europe as a reliable partner. The already established markets and

trading channels make it a perfect candidate to delivery goods on a high scale to the continent. Turkey also has strong commercial ties to its eastern neighbors.

As Turkish businesses have some very strong connections to Europe, this has helped to boost confidence in finance and investing circles in other parts of the world. The spearheads of Turkish foreign trade are the automobile and textile industries, followed by the food industry, both raw and processed products, machinery and equipment and electronic equipment sectors respectively. The European Union is by far Turkey's leading customer with 56.4% of Turkish exports. Unfortunately the country has a high trade deficit level because of its high energy dependence on Russia and its Middle Eastern neighbors.

### **An investment for the future: Energy and Turkey**

Finally, Turkey has had stellar performance in presenting itself as the energy distribution cooperation guru. Acting as the East-West Southern Energy Corridor, the country is both a land and water bridge for both natural gas and petroleum.

Turkey is the ideal country through which to transport both oil and gas. As we are geographically blessed, our location makes for a perfect natural land bridge to connect the oil and gas rich regions of Central Asia to Europe. Furthermore there are no major geographic obstructions that impede delivery systems nor are there severe weather conditions that make delivery difficult. The variety of existing projects including the, Ceyhan-Kirkuk, Nabucco, Iran-Turkey, Turkey-Greece,

Baku-Tbilisi-Ceyhan pipelines, show it as an already established transport corridor. There are many projects in the works as well, such as the Samsun-Ceyhan and the planned Syria-Turkish section of the Arab Gas pipeline. Over the past 30 years, with the inception of the Ceyhan-Kirkuk pipeline, a project that put Turkey on the map as a potential energy corridor, the country has shown itself to be a reliable courier of oil with very little disruption. Furthermore our unblemished history in the delivery of energy sources has shown that regional politics aside, Turkey is able to meet its promises and provide a steady supply of energy. The great amount of projects that are present means that Turkey has some exciting opportunities in this sector for both investment and financing. Furthermore with all of these developments it is clear that Turkey has found its niche in the region. Developing closer and closer ties with its neighbors has allowed it to help the region and itself on to the road of prosperity.

Turkey also offers regional benefits in two other ways with respect to the delivery of energy. With its peninsular shape, Turkey is surrounded by water and has access to the Black Sea, Mediterranean Sea, Bosphorus Strait and Marmara Sea. This entire region offers a variety of different export and transfer options with major ports located all over the country. Should there be some disruption for a possible geopolitical or logistical reason, maritime delivery is also an alternative. The potential for maritime commerce shows the country's alternative delivery systems in case a contingency plan is needed due to a regional dispute. Secondly, Russia is known as a major player in the oil and gas market, yet it has

also been plagued with various issues that have discouraged individuals from wanting to purchase energy supplies from the country. Turkey offers an alternative by allowing Europe to access Central Asian oil by bypassing the energy giant. Since energy needs are so crucial to an economy, nations can not afford to have their energy delivery systems in precarious or unreliable situations; this refers to both supply and purchase price. As Turkey begins to develop more and more infrastructure wise and with respect to credibility in transport reliability, it is clear that more lines will be built, allowing the European and Western needs to be met on a large scale.`

**Conclusion:**

Ladies and gentlemen I thank you for you time and I appreciate this opportunity to share with you some of my observations about the present situation in both financing and investing. As we known investing in this present market is precarious because that is the nature of business. The diversity of products as well as unknown as well as “unknowable” factors in certain industries make investing and finance a complex field. The major challenges are clear now as investors and financiers we need to be able to parse our predictions that should be close to accurate. If we return once again to Fielder’s quote, we may feel that investing and financing can be understood with our crystal ball but that does not make for a very solid ground on which to rely.