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Mustafa ALPER

Secretary General, International Investors
Association of Turkey - YASED



South-East Europe - A Region on the Move

Regional Integration in South-East Europe:

Cooperation in the Interre- gional and Intraregional Investe- ments

Mr. Chairman, Excellencies,
Ladies and Gentleman,

I would like to thank EIB for giving me the opportunity to talk about such an important subject. It is interesting to see that global trends of FDI declared by UNCTAD, it can easily be observed that today is the right time to talk about the regional integration concept more deeply. New regional players are emerging in the global investment and trade playground through policy developments at the regional level.

Let us take a quick look at the foreign direct investment (FDI) figures announced by UNCTAD just few days ago. Global FDI inflows rose substantially in 2005, which is the second rise in the last two years. In 2005, global FDI has increased from US\$10 billion to US\$ 916 billion which is 19% higher than in 2004. On the other hand, FDI inflows to developing countries rose to US\$ 334 billion from US\$275 billion having a share of 36% of the global FDI.

Among developing regions, South, and South-East Asian economies' FDI inflows reached to 165 billion dollars, which is half of the FDI to the developing countries and 18% of the global FDI. 2/3 of this was received by 2 countries: China (72 billion dollars) and Hong Kong (36 billion dollars). In 2005, developing coun-

tries mainly China, India and South Korea made 117 billion dollars FDI and strengthened their global positions.

When we take a closer look at these figures, we observe that more than two thirds of these transactions are interregional or intraregional. Recent developments indicate us that regional cooperations/relations are becoming more dominant in the trade and investments of the countries.

The astonishing global rise of the developing countries brings up re-establishment of the rules of the game as well. After all, when we talk about FDI, in the coming future it will not only be under the monopoly of the developed countries any more. Within the new FDI formation, while balance of power is reforming, some of the developing countries have strengthened their economic and political positions with the influence of large FDI inflows and make their significance increased within the global system. New economic formations could be expected in the coming gears.

The most striking component of this unexpected increase of FDI flows to developing countries is because of the regional transactions: Intraregional and interregional investment flows between the countries of Latin America or South and South-East Asia make those groups much more stronger to attract new FDI to the region. Due to strong regional integration plus development of new attraction mechanisms like improvement of the investment policies, enhancement of incentives, reduction of bureaucracy, simplification of transactions as well as governmental support to the intra-regional investment flows, these countries significantly increased the amount of FDI attracted to the region.

The investment flows from the developed countries to the developing countries still have a great importance. However, the inflow of investments from developing to developing countries is gaining more importance due to the global investment circulation trends. It is highly expected that in the coming years a significant increase shall be encountered in the intra-regional investment flows especially due to formation of strong regional integration groups.

The regions where the largest regional integration is recorded can be named as South-Southeast Asia and Latin America. A similar structuring can be developed within the South East Europe as well.

With the help of historical roots and long lasting trade partnerships in the regions, international investors were more focused to their own regions which promoted the interregional trade and investments.

Therefore, it is important that the countries should be well organized and should prepare their institutional infrastructures accordingly in order to increase the interregional trade and investment.

Turkey, having achieved a significant spring in investments, especially in the last couple of years, and being one of the top 20 economies of the world and being the greatest in South East Europe, with a GDP of 380 billion USD, could play a locomotive role in the regional integration.

According to the recently developed market forecasts declared at Davos by PWC and also mentioned at the UNCTAD World Investment Report 2006, Turkey took part in the economies which are the most attractive for foreign investors and the fastest growing

markets. These countries are known as Emerging Seven: Brazil, Russia, India, China (BRIC Countries), Indonesia, Mexico and Turkey.

Turkey, not being only an attractive country itself but also a gateway to Caucasian and Middle East countries, could be a jumping point and an access to potentially high market hinterland for the South East European countries.

Not only the good economic indicators or the geographically strategic advantage of the country but also the institutional restructuring and reform operations in Turkey can be a model for the countries of the region in this respect. The works of the reform program for the improvement of the investment environment that has been initiated in 2002, with the collaboration of public and private sector which we may call as «Turkish model of restructuring», can also be implemented in the countries of the region.

Another newly developed mechanism to improve the business environment and attract more FDI, is «Investment Advisory Council». It has been formed in parallel to the reform works in Turkey and successfully performing its duty for the last 3 years. The Council consisting of the CEOs of the world leading 20 transnational companies, Chairmen of 4 Turkish private sector NGO's, Presidents of the World bank, IMF and EIB, Prime Minister, Minister of Finance and Minister of Economy who is also the Chief Negotiator for the EU. It is a structure where the answers to questions such as «How can Turkey attract more investment, determining which areas require urgent reforms, execution of which improvements can enable fast investment inflow» are sought for at the macro and micro scales. At the annual declaration announced after each meeting, the targets for the following year are determined. A similar structure in each of the Balkan countries may be formed which could provide the cooperation among the Investment Advisory Councils of the Regional countries for common goals and benefits.

Existing efforts towards increasing the regional cooperation such as, BSEC, Business Councils and Mixed Cooperation Councils between Balkan countries should be facilitated. In addition to that, bilateral investment treaties and double taxation treaties should also be promoted among the Balkan countries. Supporting the trade co-operations with the investment oriented collaborations at the advanced stages by all means would be well advised for enabling the continuity of the regional integration.

Besides that, realization of full membership of Croatia and Turkey and other candidate countries in the South East Europe region to the EU shall be a factor in reinforcing the close cooperation environment. Harmonization of the legislations with the EU, gradual lowering of customs tariff and cooperation in trading with third parties will naturally promote the regional integration.

«Common policy development, follow-up, coordination and synchronization» of the existing cooperations in the region should be enabled by establishing a «supra institutional» structure in parallel to these institutional infrastructure efforts to promote regional integration. In order to realize this, a structure for the development of cooperation between the countries like «Regional Cooperation Development Forum» can be established by the participation of the public and private sector representatives.

In the light of the global developments, in the re-structuring of the Balkan region in terms of investment and trade, it will be well advised to form this «supra institutional structure» where all the parties shall be equally represented and to set some common interest.

It appears that in near future, ensuring development in terms of investments and trade shall be associated with strong intra-regional and inter-regional cooperation and regional integration. As for the Balkan countries, it will be wise to evaluate the expectations for the future within the framework of regional cooperation and thus, ensuring not to miss the global opportunities.

Thank you...

YASED
International Investors Association of Turkey

Who is YASED:

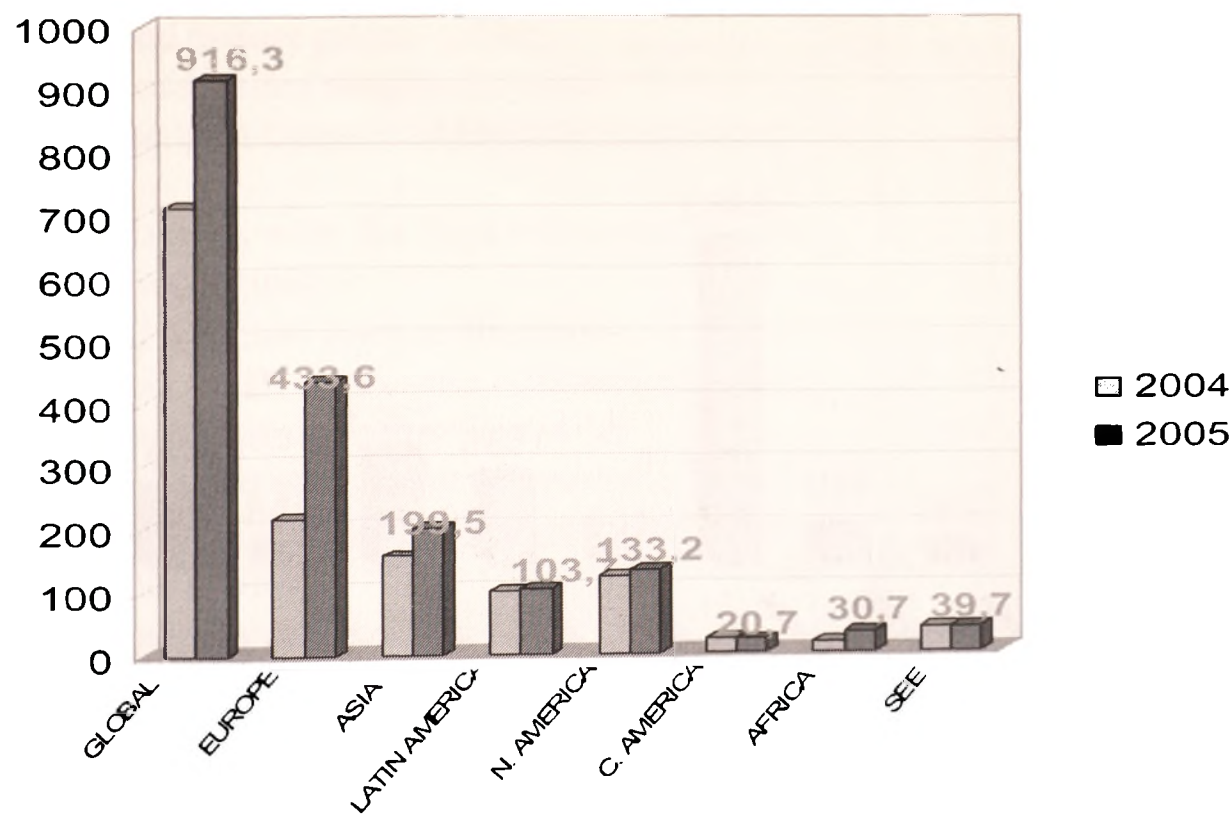
- A NGO
- A voluntary, non profit, independent Organization
- Founded in 1980 by 14 MNCs
- 365 members representing, 250 international companies
- 85% of FDI in Turkey

Mission of YASED: To promote proactively an environment for foreign direct investment which matches the best global business practices

Activities of YASED:

- Government Policy and Legislation
- Network and Parthnership
- Public Awareness
- Cooperation with International Organizations (WB, EU, UNCTAD, OECD)

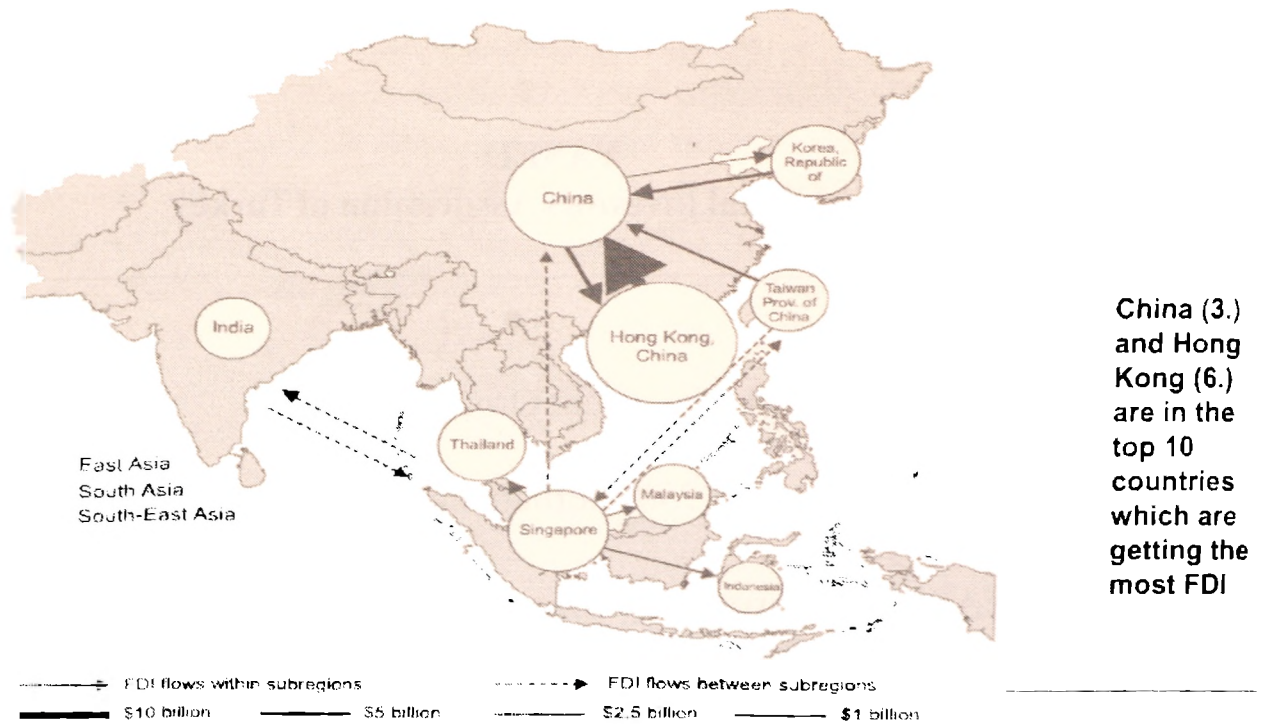
Global FDI Inflows w.r.t Regions
(billion US\$)



Sourec: UNCTAD

A Model for Regional Integration: South and South East Asia

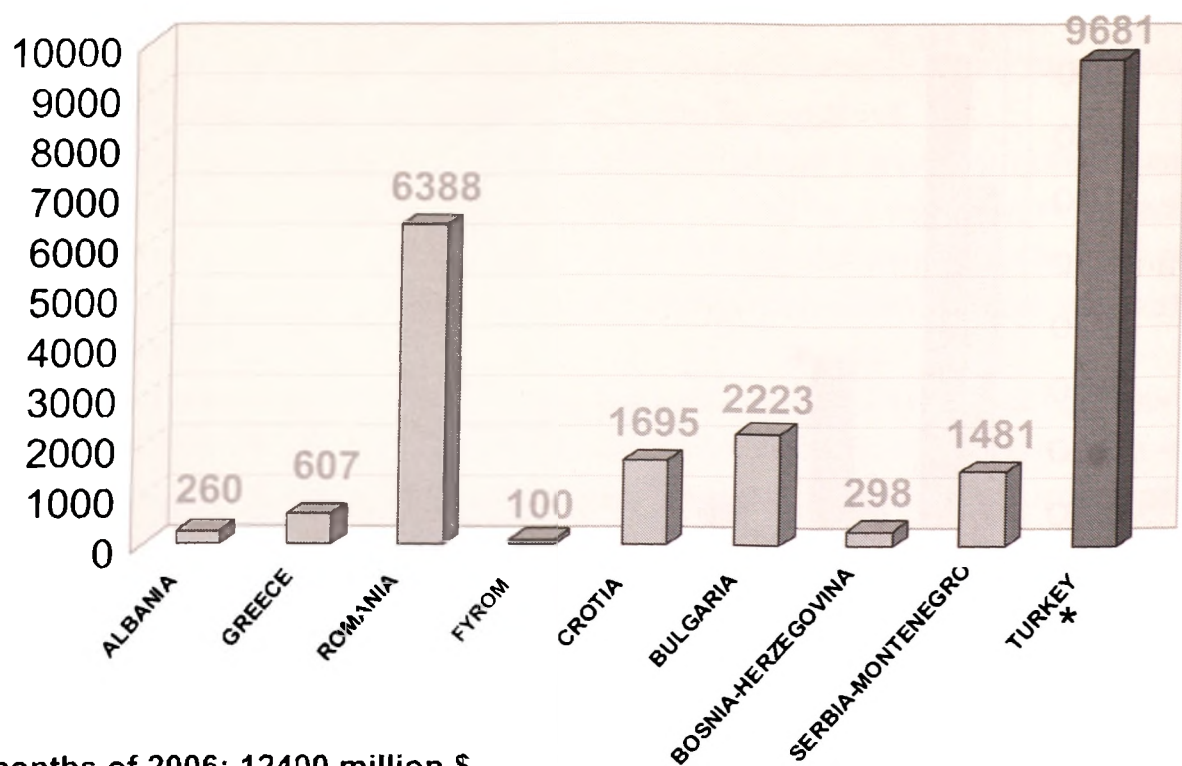
Figure II.10. Pattern of intraregional FDI flows in South, East and South-East Asia, 2002-2004 ^a



Sourec: UNCTAD

FDI Inflows South East European Countries (2005)

(million US\$)



*1st 8 months of 2006: 12400 million \$

Sourec: UNCTAD

Turkey as an Important Partner for Regional Integration

- 1) High FDI Inflows (billion US\$)
 2003 → 1,7
 2004 → 2,9
 2005 → 9,8
 2006 (8 months) 12.4
- 2) Expected **FDI** around **US\$ 18 billion** by the end of **2006**
- 3) High M and A and Privatization Deals
 2004 3 billion US\$
 2005 **12,5 billion US\$** (realized) - **45 billion US\$** (announced)
- 4) Turkey → as a regional headquarter for TNCs
 - Coca Cola, BASF, Pepsi, Microsoft, P&C, Unilever...
- 5) One of the most preferred investment locations in the world -BRIC+Indonesia, Mexico, Turkey E7 (Emerging Seven-PWC)

Turkey at a Glance

- Growing domestic market
 (A population of 72 million, %50 of population is under age of 25)
- Dynamic and mature private sector
- Regional base among neighbour countries
- Gateway for both Caspian and Middle East energy resources
 (Close relations with the Turkic Republics and Middle East Countries)
- Liberal and reformist investment climate
 - The process of IIE works since 2002 with the close cooperation of private and public entities
- Qualified and cost-effective labor force
- Customs Union with the EU and the start of the accession negotiations
- Institutionalized economy
 - 20th biggest national economy in the world (2005)
- Strong and effective government economic and political stability
- Developed infrastructure

**Κωνσταντίνος ΓΕ.
ΑΘΑΝΑΣΟΠΟΥΛΟΣ**

Καθηγητής Παντείου
 Πανεπ. Κοιν. και Πολ. Επιστημ.,
 Πανεπιστημίου Αθηνών (Επισκ.),
 Ex Ch.L.U.L. Bruxelles, Ex Int.
 I.I.A.P., Paris

ΘΕΣΜΙΚΟ ΠΛΑΙΣΙΟ ΠΕΡΙΦΕΡΕΙΑΚΗΣ ΑΝΑΠΤΥΞΗΣ

Τόμος Β'
 Νέα έκδοση

Αθήναι, 2004