

**Opening Statement by the State Minister Ali BABACAN  
In The Asian Development Bank's 38th Annual Meeting  
(ISTANBUL, 4 MAY 2005)**

Governors and delegates of the Asian Development Bank's 63 member countries  
President Kuroda and The ADB staff,  
Distinguished guests and participants,  
Ladies and Gentlemen;

I would like to extend a very warm welcome to everybody.  
Welcome to Turkey, welcome to Istanbul!

I am grateful to all Governors and the ADB management that the honor of hosting this spectacular event has been granted to Turkey.

We are so proud to host you in the city of Istanbul, blessed by God with the magnificent view of Bosphorus. Once described by a traveler, "Bosphorus attaches and detaches two worlds and two seas with a single key". Two worlds are meant to be Europe and Asia and two seas are Black Sea and Marmara. Indeed, ancient sailors could easily recognize both continents as the sun rise from Asian shore of Bosphorus and set on the European shore. That is why Asia was called the land where the sun reigned. As it is said it "Ex Oriente Lux", light comes from the East.

This is the land where Asia meets Europe. This is the land where many cultures blended together. Our culture is built up on the concepts of peace, understanding and tolerance, what the world needs the most at the moment, in creating a prosperous and peaceful future for all. However, in order to build a peaceful world, we also need strong economies, reduced poverty and sustainable environment. In fact, this is exactly what the Asian Development Bank strives for from the very beginning. Turkey's membership to the ADB at the beginning of 1990s was a crucial step forward in opening up new frontiers for Turkey in a fast track globalization era. Our membership was a significant sign of the mindset change in Turkey; a move to become a more outward oriented country.

Our relationships with the ADB for the last fourteen years have always been very cooperative and constructive. I am confident that we will continue with the same spirit in years ahead. Hosting the Thirty Eighth Annual Meeting of the Asian Development Bank, will further strengthen our bonds and create an increasing awareness of the Bank's commendable activities.

Today, targeting to achieve Millennium Development Goals and adopting country focused, performance-based allocation of resources, the ADB finances a wide range of projects. Projects bringing electricity to poor in rural towns of Afghanistan, providing grant to promote primary education in Cambodia and helping to protect rich diversity of People's Republic of China's Sanjiang Plain wetlands are enough to demonstrate the determination and decisiveness of ADB in achieving its mission.

The region's giant infrastructure investment needs call for a greater involvement on the side of ADB. I would strongly advise that the Bank should continue to be a substantial provider of infrastructure finance.

Apart from providing development financing, I should also underline the Bank's role as a hub of technical assistance and expertise for the region. The Bank should discover more in this area. The Bank's ongoing role in facilitating in regional integration is also praiseworthy. We support these efforts and believe in the merits of regional cooperation and integration.

The Bank has made substantial progress in many of these areas under President Tadao Chino. Yet I very much believe, the energy that Mr. Kuroda would bring in the Bank will help us to better serve the region's needs. Mr. Kuroda is a very accomplished economist and policy practitioner with admirable personal skills. His wisdom and experience are invaluable assets for the Bank.

Mr. President, I sincerely wish you a successful term for carrying out the missions of ADB.

Distinguished guests, ladies and gentlemen,

I would like to say a few words on the disastrous tsunami of last December. The aftermath of the disaster was a human tragedy with 300.000 casualties and nearly 2 million people drifting in poverty.

The ADB acted in a very well prepared way. I would like to thank to the Bank and the staff for their timely and organized response to this humanitarian crisis.

The affected countries' call for aid has been responded by many countries including Turkey. In February, my Prime Minister Recep Tayyip Erdoğan visited the disaster region. We are committed to support further initiatives to rehabilitate and reconstruct the disaster area.

Distinguished guests, ladies and gentlemen,

I would like to move to recent developments in Turkish economy.

Turkey has entered into a phenomenal transition and transformation era. Given the global and geo-strategic importance of the country, the change process in Turkey is being very closely followed by the world.

I would like to briefly talk about this change process. The reforms in Turkey have been concentrated in two major areas, the political reforms and the economic reforms.

The political reforms were mainly made within the context of European Union accession. Turkey has been going through a 'silent revolution' during the last several years. In order to have a better functioning democratic system in Turkey, in order to make sure that human rights and freedoms are better and better respected in Turkey, in order to make sure that rule of law reigns in Turkey, we have been going through tremendous reforms.

As of end of last year, Turkey was able to complete the critical mass of political reforms so that the country was eligible to start official negotiations for full membership to the EU.

The negotiations will start in October 2005 and it is going to take long time for Turkey to adjust. What is important for us is the transformation process itself. What is important for us is the more reforms that Turkey will go through. By converging more and more to the EU, we believe that Turkey is going to be more and more of a sophisticated country in every sense.

European Union is an entity which embraces common ideals and values and these are universal ideals and values. Especially after 9/11, the change in this region is inevitable and it's very important which direction this change is going to happen.

If we can prove that a country like Turkey, which is a Muslim country by population, country can be thoroughly a democratic one if we can prove that this country can also achieve to share universal democratic values of Europe, this will change how the civilizations will evolve in the future.

Stability and the security of the region will be very positively affected. European Union will be the place where civilizations meet in harmony. Turkey will add a new strategic dimension to the Union. So the benefits of Turkey being in the Union is not important just for Turkey, is not important just for Europe, but for the whole world.

And that's why when the European Council made the decision about Turkey on December 17<sup>th</sup>, it was the number one news all around the world. So, Turkey is going to go through this enormous change process during the negotiations.

The second area that we concentrated our efforts of reforms is economy.

Turkish economy had huge chronic problems. We had double digits of inflation in Turkey year after year for more than three decades. And finally, last year we saw single digit inflation after more than thirty years. This year's target is 8 percent, next year's will be 5, and following year will be 4. Our inflation figure will be more and more in line with the rest of Europe.

Our growth has been quite significant. After an average growth of only 2,8 percent for ten years from 1993 to 2002, Turkey was able to achieve a growth percentage of 5,9 in 2003. Last year's growth was 9,9 one of the highest in the world.

Our interest rates have been shrinking, down to historical low levels. Still high compared to most of European countries, but is declining quite fast.

The main policy tool behind these achievements that we had in our hand was on the fiscal side. Turkey has been very careful with its budget for the last two years. Our budget deficit to GNP ratio peaked to 17 percent in 2001. This year we will be completing by a budget deficit of around 4,5 - 5 percent. Next years' budget deficit, which is overall government sector deficit is planned to be around 2 percent.

So fiscal discipline, fiscal adjustment was the key policy instrument behind the successful results that we got in the last two years. Also monetary policies conducted by our independent Central Bank in line with our inflation target were also crucial in bringing down inflation.

Turkey is becoming more and more of an open economy. Our external trade volume last year was 160 billion dollars, and our GNP last year was 301 billion dollars. So our external trade volume exceeded 50 percent of our GNP last year and it seems that this percentage will increase more and more.

Turkey is attracting more and more capital from overseas. We have a new FDI Law by which we no longer differentiate between foreign and domestic companies in Turkey. If a company is incorporated in Turkey, we don't care who the shareholders are. As long as it is incorporated in Turkey, it receives identical treatment. We also made it very easy to start a company. It takes literally just one day to start a company in Turkey.

All these made foreign investors more and more interested in Turkey. Historically for the ten years before our government, 1993-2002, the FDI inflows to Turkey on average was about 1 billion dollars, which is very low compared to Turkish foreign trade or Turkish GNP and so forth. In 2003 the figure increased to 1,7 billion. In 2004

it was 2,6 billion. From 2005 to 2007 we are expecting an inflow of an average of 5 billion dollars a year.

The more liberal economic environment, the less regulation and the less amounts of bureaucracy we have in our system, the more investments will be made in Turkey.

I would like to share just a few figures with you in order to explain how lively Turkish economy is.

In Turkey right now, we have 256 television channels. All but 5 are private. Around 30 of these are national channels, and the rest of them are local channels. These channels are surviving, even making profit by working on purely commercial basis. We have 1.100 radio channels nationwide.

Human resources of Turkey is going to be our biggest asset. Human capital is very crucial for Turkey. Turkey is the number one country in Europe in terms of sending students to the USA for higher education. All over the world we are number 5. We have young and also more and more well educated population.

This will help not only Turkey, but to the whole region. A country of 72 million people which has a per capita income of USD 4172 as of last year, is a sizeable market for any multinational company. If we adjust this GNP by purchasing power parity per capita income in Turkey is close to 8000 dollars. So, domestic market is quite a sizeable market.

And the country is in the middle of Europe, Central Asia, Middle East, North Africa, Russia, and it acts as a bridge between all these regions.

When you take Turkey as a center and draw a circle of a four-hour flight, this circle covers one fourth of the world's GNP and one fourth of the world's population. Ease of access to these huge markets, is also something which makes Turkey an attractive place for investments.

In terms of relations with the neighborhood, with Europe, with Russia, with Asia, with Middle East, also Turkish people are very well accepted all around the region. Turkish businessmen go to Afghanistan, and do business very easily. They go to Iraq or any Arabic nation, they go to Israel, they go to Greece and Russia, and they are very well accepted in each of these countries.

Turkish managers and professionals are more and more being promoted to oversee the region. When a multinational company comes to Turkey and starts doing business with Turkey, the local managers become promoted to be the regional managers because of the cultural reasons and ease of doing business with the region.

As I said, Turkey was able to attain a significant result in a relatively short time, both on the political and economic front. If you ask me, what was the most important factor behind this success; I can answer you just by one word which is 'confidence'.

We have been very consistent in our policy implementation. We were very careful about continuity of policies. Whatever we promised before the elections in terms of our economic policies, we delivered.

We were very transparent and detailed in terms of telling about our economic policies before the elections in November 2002. We had meetings in Turkey, and in Europe, in the US, in order to communicate what we intend. When you look at what we have done during the 2,5 years of our government, it is exactly whatever is promised before the elections.

So, this predictability, this transparency and delivering our commitments month after month, year after year helped us build a huge confidence. And what is more, by putting Turkey into the track of EU accession, we also brought long term predictability about the political environment in Turkey.

The EU process, defines very clearly what kind of a country Turkey is going to become ten years, twenty years from now on.

So, I don't want to take more of your time at the official start of these meetings. I hope that the meetings will be very successful.

I tried to share my views on the work of Asian Development Bank and give you a very brief picture of the most recent developments in Turkey.

I expect that Istanbul meetings will contribute to the progress of the ADB has achieved so far and prove to be most productive and fruitful.

I would like to welcome you again to this magnificent city of Istanbul. I hope that you find time from your busy schedule to see around also. There are lots of things not to be missed out there. I wish you a very fruitful and enjoyable time here in Istanbul

Thank you.

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