

Durmuş Yılmaz: Enhancing “ShamGen” banking – Turkey, Syria, Lebanon, Jordan

Speech by Mr Durmuş Yılmaz, Governor of the Central Bank of the Republic of Turkey, at the conference on *enhancing “ShamGen” banking – Turkey, Syria, Lebanon, Jordan*, hosted by the Central Bank of Turkey and co-organized by the AI Bank Wal Mustathmer Group, Istanbul, 28 March 2011.

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Distinguished Guests,

Welcome to the international ***“Enhancing “ShamGen” Banking: Turkey, Syria, Lebanon, Jordan”*** conference hosted by the Central Bank of Turkey and co-organized by the AI Bank Wal Mustathmer Group. We are delighted to host Governors and Deputy Governors of Central Banks, Chairmen of Banks Associations, CEOs of banks from Syria, Lebanon and Jordan as well as international economists and finance specialists.

During the two-day conference, issues towards improving banking and financial cooperation among Syria, Lebanon, Jordan and Turkey will be discussed in the context of Turkey’s recently developing relations with her neighbors and other countries in the region. The conference will address issues such as enhancing banking cooperation between these countries, Banks Associations’ possible contributions to the process, payment systems, Islamic banking implementations and prospective cooperation fields, funding of small and medium-scale enterprises in the region and the future political and economic outlook of ShamGen countries.

As we all know, the share of developing countries in the global economy has been growing and, in line with the increased importance of these economies, we witness significant changes in decision-making mechanisms worldwide. The fact that a wide range of important decisions on issues ranging from food and energy safety to repair and reconstruction of the financial system are made at the G-20, of which Turkey is an active member, clearly suggests that the global economy’s center of gravity is shifting.

Corresponding to the ever-increasing importance of the G-20, the weight of Turkey and her peer developing countries in international institutions, such as the IMF, is increasing as well. In his statement in the late 2010, IMF Managing Director Dominique Strauss Kahn described the changes in the Fund’s quotas and governance *“the most fundamental governance overhaul in the Fund’s 65-year history, and the biggest ever shift of influence in favor of emerging markets and developing countries”*. Once the IMF’s 14th General Review of Quotas is completed, Turkey’s share in the IMF’s total quota will be more than doubled compared to 2004.

Their outstanding economic performance and rapidly increasing share in the global economy over the past decade have considerably helped developing countries to have an increasing voice in the international arena. These countries, among which Turkey, with its economic performance, stands as one of the leading countries, have weathered the recent global crisis with less damage compared to developed countries and exhibited better performance in reverting back to pre-crisis production levels and growth rates. Recently, there have been debates about whether the developing country group has decoupled from developed countries. Although the decoupling of countries seems highly difficult in a global environment where all countries get increasingly interpenetrated via capital flows and financial integration, it is a fact that developing countries have ended up in a much better position in the recent global crisis in comparison to their economic performance in the past crises. It would not be wrong to assert that the main reasons underlying this transformation are the increased commercial, financial and economic relationships among developing countries, accompanied

by strong economic and institutional governance practices formulated in view of lessons learnt from past crises.

The increase in the volume of trade among developing countries has reduced the adverse effects of the weak course of external demand from advanced economies. Therefore, production and employment levels in developing countries have assumed a more rapid pace of recovery.

At this point, by using Turkey's export data, I would like to exemplify the importance of diversification of export markets driven by improving relations with countries in the region. As it is known, the European Union countries have the largest share in Turkey's exports. Nevertheless, the share of member states of the Organization of the Islamic Conference (OIC) in Turkey's exports is rapidly growing. During the period between end-2000 and end-2010, while the share of the European Union countries in total exports of Turkey declined from 56% to 46%, that of OIC member states rose from 13% to 29%. The significant increase in the share of OIC member states in our exports might be, at first sight, attributed only to the economic slowdown in the European Union. However, related figures indicate that the share of OIC members in Turkey's exports had already increased from 13% to 19% between 2000 and 2007 before the start of the global financial crisis. Besides, visa exemptions probably played an important role in the recent improvement in Turkey's trade with the region's countries.

Distinguished Guests,

Regional collaborations have made a significant contribution to the increase in the volume of intra-emerging markets trade. Although tradable products can be transported to markets of any distance owing to advancements in transportation infrastructure and technology worldwide, distance is no less important than it was previously. Due to increased competition among countries, factors such as distance and transportation costs continued to be among the leading determinants of competitiveness. Various academic studies also confirm that the distance elasticity of trade is on the rise. As it is known, complementary value added chains have been formed particularly among Asian countries, and having benefited from the proximity of neighbor countries and their individual advantages in different fields, these countries have experienced a high-speed development process through regional cooperation, where low-costs-for-all have boosted the competitiveness of all economies in the region.

The "zero-problem" policy Turkey has been trying to formulate in recent years with neighbor countries, the steps taken to lift visa requirements, and above all, the active part Turkey played in improving relations among the countries of the region, all pave the way for regional collaborations that are likely to generate favorable economic outcomes in future for all countries of the geographical area we live in. This conference that the Central Bank of Turkey hosts today is a step toward improving relations among the banking sectors of Turkey, Syria, Lebanon and Jordan in the short-term. Nevertheless, in the long-run, it is expected to contribute to efforts towards a common market surrounded by the Persian Gulf, the Red Sea and the Mediterranean with the participation of the region countries.

The Banks Association of Turkey, Central Bank of Syria, The Banks Association of Lebanon and The Banks Association of Jordan will be signing a ***Regional Cooperation Agreement in the field of Banking*** shortly. This agreement aims to enhance cooperation among the banking systems of these four countries and to improve communication channels between them. Thanks to this agreement, cross-border trade and investments among these countries will be supported and facilitated by this cooperation between our banks. Turkey signed free trade agreements with Syria, Jordan and Lebanon in 2007, 2009 and 2010, respectively. Moreover, visa-exemption agreements were made between Turkey, Syria and Jordan in 2009 and between Turkey and Lebanon in 2010. Besides, these four countries established a High-Level Strategic Cooperation Council in 2010. The regional cooperation agreement to be

signed at the ShamGen Banking Conference will complement these agreements and enhance their effectiveness.

The Turkish Banking Sector, which was restructured following the 2001 economic crisis, managed to overcome the global crisis with no apparent damage and verified its outstanding resilience. Turkish banks are also interested in venture opportunities in the Middle East and will contribute substantially to the betterment of the banking systems of the region countries. Moreover, I am of the opinion that also the participation banks in Turkey operating through the interest-free system will not only contribute to but also benefit from cooperation among these countries.

Intended as a long-term formation, the common market calls for not only political and economic, but also cultural cooperation. The fact that it is easier to establish commercial and economic cooperation between closer cultures is supported by both history and academic studies. Therefore I believe, it is significant that this conference is organized in İstanbul, a city that has hosted a great diversity of cultures in the past, as well as being the European capital of culture in 2010. At the end of this conference, a city tour will be organized for our guests who would like to get to know İstanbul better. I hope that you all enjoy this beautiful city.