

**CHECK AGAINST  
DELIVERRY**

**CHP (TURKEY) CHAIRMAN MR. KEMAL KILIÇDAROĞLU'S  
INTERVENTION AT THE MEETING OF THE SOCIALIST  
INTERNATIONAL COUNCIL**

**CASCAIS, PORTUGAL**

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**Mr. Chairman, distinguished comrades,**

I am very happy to be with you at this Council meeting. The main theme of this year's meeting is world economy: our vision for growth, employment, and sustainable development.

This is a timely discussion of the topic. We have been living the global crises together since 2008. World economy that experienced the strongest shock in 2009, has been striving to recuperate since 2010.

Lives of millions of people have changed during the crises. According to the International Labor Organization (ILO), since the beginning of the crises, the number of the unemployed increased by 28 million and reached 197 million. 74 million of these jobless are young people. This figure of the unemployed young people, is close to the population of Turkey; it is also larger than the population of 224 countries among the total number of 242 countries of the world...

There are a number of issues that differentiate the last crises from earlier ones. Contrary to the crises of the 1980's and the 1990's, the last crises developed in the heart of global capitalism.

For this reason, at the onset of the crises, we were discussing whether there would be any differentiation between developed and developing economies. However, at the later stages, we noted that we are all on the same boat; no one is exempt from this crises.

Many developing economies felt the negative impact of the crises either in trade or in capital flow, or in both.

Some other developing economies paid heavy prices with regards to growth and unemployment. For example, my country Turkey was one of the most affected countries. In 2009 Turkish economy shrunk by 4.8% and unemployment rose to 14%.

Rising economies that could, in 5 years, grow and develop 7.6% on average, could only grow one third of that (2.7%) in 2009. All these figures point out that no one is immune to crises.

At the second stage of the crises, developing economies came face to face with an important problem.

In order to promote growth, the central banks of developed countries provided markets with trillions of dollars of liquidity, and also lowered interest rates. Despite these efforts, due to lack of confidence, the money issued did not create demand for loans or increase domestic demand.

However, this cheap and abundant money pumped into the markets, turned to developing economies in pursuit of high returns. Consequently, developing economies immersed in liquidity, could not absorb this money. As a result, the monetary units of many developing countries became artificially over-valued.

#### **Distinguished Comrades,**

For developing countries, such as Turkey, with high demand for consumption, this abundance in liquidity provided an environment of consumption beyond their means. At the same time, this development also created serious accumulation of elements of vulnerability. Let me give you a few examples from my own country, Turkey.

In 2010 and 2011, with abundant liquidity, Turkey was able to achieve an average growth of 8.8%, an achievement much higher than her potential. The consequent price paid for this in 2011 was a current deficit of 77 billion dollars. In 2011, after the USA, Turkey ranked second in the world with the highest current deficit. In 2011 we developed a current deficit that was 10% of our GDP.

In 2010 and 2011, there was serious increase in the debt burden of households and the real economy due to debt-inflated economy. Yet, this last global crises showed us that growth, based on borrowing is not sustainable.



As a matter of fact, the rapid increase in debts and the global outlook that began to look fragile in the second half of 2011, scared the ruling party in Turkey. When the debt burden of households increased, but their income did not, domestic demand in 2012 actually collapsed.

Consequently, it is apparent that 2012 growth performance is to be below 3%. This is a percentage that is much below the growth potential of Turkey...

According to IMF data, Turkey ranks among the 10 economies that are slowing down most rapidly. With this sharp slowing down, the current deficit has dropped somewhat, yet compared to similar economies, it is still high.

Moreover, in 2012 the quality of current deficit finance also deteriorated. The share of portfolio investments in finance increased rapidly. The rapid increase in the influx of hot money in the form of portfolio investment, also gave rise to concerns about a new balloon in the stock exchange.

In 2012, the stock exchange in Turkey actually provided 63% returns in US dollars. After Venezuela and Egypt, the Turkish Stock Exchange was the third highest revenue bringing exchange in US dollars.

### **Distinguished Comrades,**

Abundant liquidity and low interest rates in the world seem likely to continue for sometime to come. Even though the US Federal Reserve is giving signals that, limits of monetary expansion have been reached, news from Japan show that loose monetary policy is still in demand.

There are increasing number of interventions in monetary policy. Consequently, there are arguments pointing to politicians' postponing reforms and the politization of monetary policies. On the other hand, there are notable efforts in seeking more flexible models for inflation targeting, as well as

targeting variables such as unemployment. However, we have also re-started talking about battles over exchange rates.

In the coming days, all countries competing in providing liquidity in order to devalue their money, may trigger new problems in global economy. No doubt, for developing countries, this process will mean new problems to overcome.

**Distinguished Comrades,**

Each country may have different issues or priorities. However, global issues can be overcome with global coordination and cooperation. Therefore, all international platforms, with G-20 being the most important, should be continued and be utilized in the most effective way possible.

What we have experienced in the last five years have shown us the importance of coordinated audit and supervision of the global financial architecture. Within this framework, we are in favor of the latest steps taken for a union of banks in the EU.

All these steps taken so far are important, but not adequate. There are still more steps to be taken by developed and developing economies in order to lead the global economy toward a better equilibrium and a healthier path.

**Distinguished Comrades,**

With your permission, I would like to make my evaluation within the framework of developing economies. According to the IMF, there are more than 150 developing and rising economies in the world. It is obvious that one cannot put all of them in one basket. Yet, some generalizations can be made: we can say that developing and rising economies cannot achieve sustainable growth by excluding industrialization or production.

The service sector is, of course, important. One should benefit from the quality work and employment opportunities that this sector can provide. However, it is highly difficult for countries, especially those with a young



populations, to go forward with policies that do not put industry at the center of their policies.

With their extensive links, growth in the industrial sector will trigger growth in all other sectors. It is again the industry that will save developing countries from falling into the trap of medium income countries. A strong industry also lights the fire of innovation in economy.

Within this framework, developing countries need to benefit, to the utmost degree, from high-added-value-creating-sectors such as information technologies (IT) and green economy that contribute to competitiveness, as well as to quality employment.

Production should also be remembered once again, in order to provide for medium and long term sustainable high growth rates. Therefore, developing economies should plan all their economic policies around this goal.

Recent global developments in this direction give us hope in this matter. I find the macroprudential framework policies positive. However, the effectiveness of these policies are still in the testing phase; we need some more time to comment on them.

Again, especially for developing economies whose realm of public finance enjoys maneuverability, it would be positive to expedite investments in human capital, with health and education at the top of the list. At the end of the day, steps toward information technologies (IT) and knowledge/information societies can only be realized with strong human capital.

Again within this framework, countries that have difficulties in reaching new markets because of their inadequate transport infrastructure, can expedite their investments in these areas.

All these steps will contribute both to long term growth of developing economies, as well as, to the establishment of a global economy following a more balanced growth path.

Then, there are those steps to be taken by developing economies that have savings deficits. Some countries are used to consuming without producing, and spending without earning. Financing such consumption and spending with especially speculative funds is a bed of nails! It is not possible to have healthy growth with such a model.

Therefore, such economies have to implement structural reforms to increase, first and foremost, private sector savings, as well as, total savings. This no easy feat. To increase savings there need to be different policies for companies, households, and the public sector.

### **Distinguished Comrades**

Another issue to be faced by developing economies in the future is the creation of strong domestic demand without disrupting macroeconomic equilibrium. Therefore, for the total management of demand, it is very important to have an organized society; an effective social security and assistance system.

In these times of crises, we should not leave alone the unemployed poor, crushed under debt. I believe it is highly important to inject minimum spending power to these social categories during times of crises.

We would thus be protecting the most fragile members of the society against crises. At the same time, we would also be supporting domestic demand through these people who have high spending tendencies. Therefore, it would be wise for developing economies that do not yet have any such social security or protection systems to take steps in that direction.

### **Mr Chairman, Distinguished Comrades,**

It is possible to emerge from the global crises by showing strong political leadership and international coordination. As developed and developing



economies, we are all on the same boat. With strong solidarity under the roof of Socialist International, I personally believe, we can find solutions to problems.

As I conclude my words, please accept my cordial greetings to each and every one of you.