Association des Chambres de Commerce
et d’Industrie de la Méditerranée

Association of Mediterranean
Chambers of Commerce and Industry

ASCAME

ASCAME:

The Tunisian Economic and Business Guide

The official publication of the Association of Mediterranean Chambers of Commerce
and Industry and of the Tunisian Chambers of Commerce

G.E.O.C.

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EDITORIAL

Mr Jilani BENM'BAREK,
President of ASCAME

Forging a Mediterranean of Shared Peace And Prosperity

For centuries the countries of the Mediterranean have established and maintained close economic and commercial ties.

It was with a view to paying tribute to this important heritage that a group of pioneers, conscious of the important role of the Mediterranean region, decided to establish the Association of Mediterranean Chambers of Commerce in Barcelona on the 1st of October, 1982.

In doing so, the Mediterranean chambers of commerce took the first steps towards forging closer cooperation between the region's businesses and institutions in order to boost economic and commercial relations.

The following objectives of the Association of Mediterranean Chambers of Commerce and Industry are worthy of mention:

- Improved communication between the business and public sectors.
- Bringing elected representatives and members of chambers of commerce into direct contact in order to achieve greater consensus on and understanding of the region's economic problems.
- Setting up and coordinating inter-sectorial and inter-regional partnerships in the countries of the Mediterranean.
- Widening the scope of exchanges in the fields of technology and know-how.
- Studying the means of developing certain sectors such as tourism bearing in mind that these should compliment each other and that competition should be free and fair.

In order to achieve the goals it has set, the Association of Mediterranean Chambers of Commerce and Industry has taken a series of measures ranging from organizing and participating in special events to the training of professional of the chambers of commerce of the Southern Mediterranean countries by members of Northern Mediterranean countries.

The Association's undertakings do not exclude any sector of the economy. A case in point is the concept of franchising which has been able to develop and flourish as a result of forums organized in Barcelona and

ASCAME

Marseilles, which are now in their fifth round. These forums have, in turn, led to rival forums being held in Morocco, Algeria and Tunisia.

The organization of the two Meditour Forums on tourism investment in the Mediterranean held in Tangiers in 2003 and in Anatolia in 2006 greatly benefited the tourism industry.

The fishing sector is expected to make rapid strides as a result of the ERMES project. Other examples are manifold.

The Association of Mediterranean Chambers of Commerce and Industry concerns itself with the environment and research as well as other issues. It was with environmental issues in mind that the Association took part in the European Union Project named "A Blue Mediterranean on the Horizon of 2020". As regards research, the Association is one of the organizers of the Euro-Mediterranean Convention on the transfer of technology. This convention brings together the world of academia and the business sector in order to bolster research by giving researchers the opportunity to see the fruits of their labour.

For a quarter of a century the Association of Mediterranean Chambers of Commerce and Industry has make its mark as a promoter of meetings and dialogue not only among chambers of commerce but also between businesses, public institutions and governments in order that the future of the Mediterranean region be seen in a different light and one in which the words peace, tolerance, dignity and shared prosperity will not be said lightly.

At its heart, the Association of Mediterranean Chambers of Commerce and Industry no longer dreams of a Mediterranean that is blue, peaceful, prosperous and fair – it firmly believes it can be achieved.

In a world that has become a global village we are striving to make our own modest contribution to ensuring the Mediterranean is a good place to live for the generations to come.

I ask your help in taking up this great challenge.

Jilani BENM'BAREK
President of the Association of Mediterranean Chambers of Commerce and Industry


ASCAME: The Association of Mediterranean Chambers of Commerce and Industry

Your Gateway to do Business in the Mediterranean

The Association of Chambers of Commerce and Industry of the Mediterranean or the ASCAME is an international organization of international reach and purpose, voluntary and with no aim to derive benefit from its activities. It unites the Chambers of Commerce and Industry as well as other similar institutions originating from the Mediterranean pool. Any Chamber of Commerce and Industry or institution established on the shore of the Mediterranean Sea linked to the purposes of the ASCAME may become members if apply with a written demand to the President of the Association. All the demands of membership should be first accepted by the Executive Committee and then ratified during an Ordinary General Assembly on simple majority. The status of member may be lost consequently to the decision of the General Assembly for instance for non payment of membership duties for three consecutive years. The members have also the voting status and may be elected to the Executive Committee as well as to the Board at the sole condition that the member belongs to a Chamber of Commerce and Industry of the Mediterranean area.

The ASCAME is the result of a fundamental agreement between the institutional actors to intensify and institutionalize the cooperation between the Chambers of Commerce and Industry of the Mediterranean shore. The first initiative of its kind dates back to the first assembly of the Chambers of Commerce and Industry in 1982 held at the Chamber of Commerce and Industry of Barcelona at will of its president, M. Josep M.Figueras. Since then the association has kept growing in scale and depth. At present day more than 240 institutions are members of the ASCAME which correspond to the total number of countries boarding the Mediterranean, but the total potential of bodies that could become member overcome 500. It represents hence the most extensive association, in the region. It has obtained wide recognition among the most important international institutions such as the European Union. This is precisely due to the fact that the official purpose of the association corresponds to the aims set by the Barcelona process.

The Euro-Mediterranean Conference of Ministers of Foreign Affairs, held in Barcelona on 27-28 November 1995, marked the starting point of the Euro-Mediterranean Partnership (Barcelona Process), a wide framework of political, economic and social relations between the Member States of the European Union and partners of the Southern Mediterranean.

The latest EU enlargement, on 1st May 2004, has brought two Mediterranean Partners (Cyprus and Malta) into the European Union, while adding a total of 10 to the number of Member States. The Euro-Mediterranean Partnership thus comprises 35 members, 25 EU Member States and 10 Mediterranean Partners (Algeria, Egypt, Israel, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia and Turkey).

The Barcelona Process is a unique and ambitious initiative, which laid the foundations of a new regional relationship and which represents a turning point in Euro-Mediterranean relations. In the Barcelona Declaration, the Euro-Mediterranean partners established the three main objectives of the Partnership:

1. The definition of a common area of peace and stability through the reinforcement of political and security dialogue (Political and Security Chapter).
2. The construction of a zone of shared prosperity through an economic and financial partnership and the gradual establishment of a free-trade area (Economic and Financial Chapter).
3. The rapprochement between peoples through a social, cultural and human partnership aimed at encouraging understanding between cultures and exchanges between civil societies (Social, Cultural and Human Chapter).

The Euro-Mediterranean Partnership comprises two complementary dimensions:

The bilateral dimension: The European Union carries out a number of activities bilaterally with each country. The most important are the Euro-Mediterranean Association Agreements that the Union negotiates with the Mediterranean Partners individually. They reflect the general principles governing the new Euro-Mediterranean relationship, although they each contain characteristics specific to the relations between the EU and each Mediterranean Partner.

The regional dimension: Regional dialogue represents one of the most innovative aspects of the Partnership, covering at the same time the political, economic and cultural fields (regional co-operation). Regional co-operation has a considerable strategic impact as it deals with problems that are common to many Mediterranean Partners while it emphasizes the national complementarities.

The multilateral dimension supports and complements the bilateral actions and dialogue taking place under the Association Agreements.

The existing MEDA program, funded and managed by the European Commission, is the main financial instrument for the Euro-Mediterranean Partnership. From 1995 to 2003, MEDA committed 5 458 million euros in co-operation programs, projects and other supporting activities, the regional activities comprising around 15% of this budget. The other important source of funding is the European Investment Bank that has lent 14 billion euros for developing activities in the Euro-Mediterranean Partners since 1974 (at least 3.7 billion only in 2002-2003).

The beneficiaries of support measures may include not only the Euro-Mediterranean partners but also local authorities, regional organizations, public agencies, local or traditional communities, organizations supporting business, private operators, cooperatives, mutual societies, associations, foundations and non-governmental organizations.
The strategy is to establish the Euro-Mediterranean area as a common space of peace, stability and prosperity by fostering supranational cooperation and dialogue. A sustainable economical association has to be developed with regard to the most valuable assets in the region which are culture and the human resource. Understandably the ASCAME is in close relationship with the MEDA program and is widely supported by a whole range of European Union projects.

The ASCAME presents some very specific features if compared with similar organizations which definitely explains its dynamic development and firm striking root in the region. Mostly thanks to the rewarding collaboration and support of the European Commission, the reports and studies presented at the General Assemblies of the ASCAME have an unquestionable interest and shed light on the core issues of regional importance such as infrastructure, communications, tourism industrial and commercial cooperation and education. The sole studies being not enough ASCAME helps to apply the strategies of cooperation and coordination aimed at the comprehensive social and economic development of this supranational geographical area which is the Mediterranean.

ASCAME's headquarters are located at the Chamber of Commerce and Industry of Barcelona in Spain at Casa Llotja del Mar – Paseo de Isabelle II – with possibility to be transferred in any place member of the organization after decision by an Ordinary General Assembly. The ASCAME possesses its own legal identity in the frame of Spanish legal statute regulating the right of association.
The current dynamics could not have been achieved without the enthusiasm of all of the associated institutions and especially of some individuals who have greatly contributed to fill this mission with a concrete sense. If it is not surprising that the chambers of commerce usually represent the driving international force of a country's economy, the less usual fact is their association in recognition of the interest of adding up the synergies while working closely together at related issues. However it must be underlined that the growing interdependence of the economies at a global level but more importantly in regional subsystems compels the interactions between influential institutions of authority such as the chambers of commerce and industry.

As already mentioned the establishment of the ASCAME on the first of October 1982 fits in a more global move towards cooperation between the national organizations of commerce. Its main objective is to sustain and further a constant link between its members so as to engage for instance in common research activities or actions. The primary motivation behind these activities being always the pursuit of commercial technical and industrial development the ASCAME acts therefore as a powerful tool of harmonization in the region. Originally the considerations leading to the establishment of the ASCAME have been the following. First of all, from the historical point of view the Mediterranean countries have a common cultural pool as well as a long track of commercial and economic relationships. At the same time the potential of economic development in this area is well known offering a rich reserve of primary resources, a high level of cultural development and a dynamic tourism industry. However the cohesion and the growth in the area have slowed down at the down of the 20th century. It is the goal and the ambition of the Mediterranean countries to win back their prestige and their geoeconomical situation by working closely together. Any objective is virtually at reach through constant common effort and cooperation especially between the Chambers of Commerce and Industry of the member countries.

To resume the rationale behind the establishment of the ASCAME is not only to further interregional cooperation but also to assemble a unique blend of expertise and synergies provided by the chambers of commerce and industry so as to become a valuable partner and advisor to the governments. Indeed the chambers of commerce and industry represent the most proficient institutions in questions relative to the specific features and issues of the economies of the member countries. The interregional perspective adopted by ASCAME adds a supplementary strategic edge to the questions treated by the Working Commissions. In other words, ASCAME is a privileged observatory of economical and commercial activities within the Euro-Mediterranean Area.

The specific actions put forward by the ASCAME are as follows. The organization initiates programs, makes recommendations and influences policies so as to promote entrepreneurial culture and a common corporate spirit in the region. One of the objectives is to improve and to harmonize up to a common level the corporate communication tools so as to establish a solid and sustainable link within the region. It is commonly admitted that corporate communication abilities are a sine qua none condition for a flexible and reactive market and furthers therefore the flows of information as well as the synergies within a given economical region. From this point of view the implementation of an E-business project corresponds to the comparable ambition to make the vital information available directly to the concerned business and institutional actors. Moreover a special emphasize is put on the spread of sector specific information which is managed by the organization of Sector Forums. These actions are directly dedicated at the support of Mediterranean businesses within one sector, sharing the same worries and interests. These conferences create a forum of debate encompassing all concerned groups or individuals an active space of dialogue and exchange of ideas and projects. After all ASCAME constitutes a group of dynamic and dedicated leaders of the business community which proactively participate in the elaboration of the pivotal role of the private sector in the economic activity. One suitable example of such a forum is the Meditour dedicated to support investment in the tourism industry in the Mediterranean region. Organized by the ASCAME with the special support of the Tangier Chamber of Commerce and Industry the objective of this forum was to promote a gathering of agents from the tourist industry, which will be particularly focused on the Mediterranean region. The forum was also designed to encourage the exchange of projects and experiences in order to facilitate agreements and foster international alliances across different sectors. These activities are all geared towards the objective of laying down the foundations of a truly Mediterranean brand, which will act as a main axis within the global tourist industry. The forum is conceived for tourist industry professionals and companies, in addition to public officials and tourist industry specialists and consultants. Participation in MEDITOUR is open to ASCAME member states and to companies from other regions (USA, Japan, Canada, Germany, UK, as well as countries from the Gulf area etc.).

And finally, taken as a whole, ASCAME's action is aimed at creating and reinforcing an independent strong brand specific to the Mediterranean and focused as much on its historical content as on its current dynamics and qualities. Generally speaking this work is to result in a powerful marketing tool for the specialties and products manufactured in the considered area.

The structure of the current organization has been shaped and adapted during the regular general assemblies of the organization staged in a different member country each time. However the first moves towards the establishment of the organization itself have not been without obstacle. Though the determination of the initial promoters has been firm the apparent diversity of cultures, religions, languages and levels of economical development has brought prejudice upon the initiative. On the other hand a comparable association of chambers

of commerce and industry between the northern and the southern shores of the sea has never existed before.

The first General Assembly has been prepared and promoted under the presidency of M. Josep M. Figueras (CCI of Barcelona), MM. Paul Fabre (CCI of Marseilles), Manolis Niadas (Le Piraeus), Antonio Pellizetti (Genoa), Mohammed El Abbassy (Tangier), Soubi Dib Joub (Lattakia), Mohamed Zerzeri (Tunisia) and Nikola Pavletic (Rijeka) there a first act of agreement has been signed.

According to the document of continuity every 18 months a General Assembly takes places assembling all the members of ASCAME.

Upon the initiative of the Executive Committee the prerogatives of the General Assembly are as follows:

- The determination of the policy, the strategy and the agenda of the ASCAME allowing meeting its objectives.
- The admission of new members or their exclusion from the Association
- The adoption of the budget
- The approval of the membership payments
- The approval of the elections to the Executive Committee
- The approval of the election of the President of the Association by the Executive Committee.

A General Assembly is per definition composed of all the members of the association. It defines during the meetings the general strategy and politics of the association. The Assembly may meet as an Ordinary General or Extraordinary General Assembly.

The first General Assembly presided by M. Figueras was devoted to the questions divided in five fields: Transport and Communications, Energy and Primary resources, Commerce Technology and investment, Tourism and finally Environment. The status of the president of the Assembly has been determined as well as his main duties which are precisely to maintain a constant link between the members so as to promote and coordinate joint research activities and studies. The first General Assembly also determined the basic structure of the organization. It had been decreed that an Executive Committee composed of the Presidents of each chamber of commerce and industry would represent each member country and a permanent secretariat has been established. The number of Vice-president Chambers has been established at 4 in 1983.

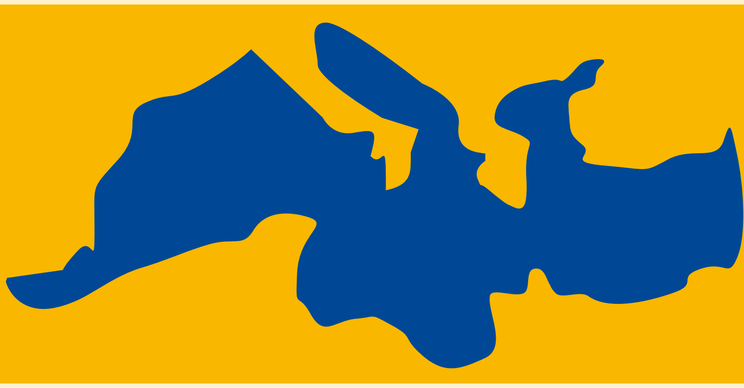
Established n April 1983 the Executive Committee was first composed of the President of the ASCAME and another 16 members which are the CCI of Marseilles, Genoa, Rijeka, Tirana, Le Piraeus, Istanbul, Nicosia, Lattakia, Beirut, Cairo, Tripoli, Malta, Tunis, Alger, Tangier, Barcelona. This committee holds regular meetings directed by the President and concerning the nominations of the president or the vice-presidents, the approval of the different reports by the Commissions as well as it coordinates the future activities of the ASCAME and its exterior relations. The Executive Committee assembles upon convocation of the President or upon the demand of at least one third of the members. The agenda has to be fixed at least one month before the meeting. Two meetings at least are to take place every year with one of them taking place at the same moment as the General Assembly. The decisions of the Executive Committee are taken at simple majority of the present voters.

The Board of the ASCAME is composed of eight Chambers of Commerce and Industry chosen between the members of the Executive Committee. It comprises a President, six Vice-presidents and a treasurer. The choice of its members is to reflect the natural equilibrium in its human and geographical dimension in the Mediterranean area. The Board acts on behalf of the Executive Committee in the current matters and establishes regular reports. The President of the ASCAME is elected by the Executive Committee which is to ask for the approval of the General Assembly. The President is acting as a representative of the General Assembly. In other words he is to embody the Association. He is to convoke the meetings of the Executive Committee as well as of the board and the General Assembly. The execution of the decisions taken during the General Assembly is also part of his duties. The function of the President is not a gainful occupation and its mandate last for two years. Mandates can only be renewed once.

As concerning the permanent secretariat it is in charge of the organization of the conferences and the assemblies of the executive and working bodies of the organization. The publication of a regular bulletin is also part of its responsibilities. The General Secretary is linked to the chamber where the headquarters currently are. This chamber supports then all the charges of the General Secretary. It is in charge of the following functions:

- The control of the decisions taken by the General Assembly, the Executive Committee and the Board under the authority of the President.
- The archives of the ASCAME including the scripts of the Assemblies, the documents, the press articles etc
- The secretariat of the meetings of the General Assembly, the Executive Committee and the Board.
- The treasurer is a full member of the Board. He is nominated by the Executive Committee and his nomination has to be ratified by the General Assembly. Among his functions is the establishment of the budget, the continuous control of the accounts and the annual establishment of the financial report. His mandate is a one-time renewable two year function.

The Working Commissions and the Committees of experts have represented the central part of ASCAME since its foundation. Already at the first assembly five Working Commissions have been assembled. Their main themes are the "Transport and Communication" issue, "Tourism", "Industrial and Technological Cooperation" and finally the equally important "Relations with the EU". These four permanent Working Commissions select during their meetings before the General Assemblies the priority issues to be discussed, do the research and elaborate reports which are to be presented to the Executive Committee. These reports present precise strategies to be undertaken as well as the argumentation and criteria used in each specific situation.



INTERVIEW

Mr Jilani BENM'BAREK, President of the Association of Mediterranean Chambers of Commerce and Industry (ASCAME)

The Association of Mediterranean Chambers of Commerce and Industry celebrates its 25th anniversary in 2007. What do you consider to be the Association's greatest achievements over the years?

Having been created on the 1st of October, 1982, the Association will celebrate its 25th anniversary in Barcelona in October, 2007. These celebrations will take place under the patronage of His Majesty King Juan Carlos I, who has always given his support to the Association as well as shown a keen interest in all matters related to the Mediterranean.

Among the Association's major achievements in this quarter of a century one can point out the following:
the creation of two Franchising Forums held in Barcelona and Marseilles, the result of the initiatives of the Barcelona Chamber of Commerce and Industry and the Marseilles Chamber of Commerce. These Forums are now in their fifth round. The most important aspect of these two forums has been the fact that they were directly responsible for the development of the concept of franchising in the countries of the Southern Mediterranean. As a result, Morocco and Algeria have set up their National Franchising Federations. Tunisia, Lebanon and Egypt are committed to doing the same. Malta and Turkey are moving quickly in the same direction and Libya and Syria are showing great interest.

- The success of the two tourism events: 'MEDITOUR 2003' held in Tangiers,
- Morocco and 'MEDITOUR 2006' held in Anatolia, Turkey.
- The third MEDITOUR event will be held in Hammamet, Tunisia in 2008, and the fourth in Malaga, Spain in 2010.
- Participation in the creation of a tourism observatory in Malaga instigated by the Malaga Chamber of Commerce.
- Participation in the setting up of several specialized events such as a Transport
- Logistics Trade Fair, an Environment Trade Fair, a Cosmetics Industry Trade Fair and a Fishing Trade Fair etc.
- The signing of important conventions with organizations that have much in common with our own. In this vein a charter of cooperation and good will was signed in Barcelona on the 13th of March 2002 by five major organizations, these being the International Chamber of Commerce, The European Chamber of Commerce, AICCC, the Association of Mediterranean Chambers of Commerce and Industry and the Spanish Federation of Chambers of Commerce.
  This ceremony took place in the presence of His Majesty King Juan Carlos I as well as the then Head of the Spanish Government Jose Maria Aznar and Jordi Pujol, Chief of the Generalitat of Catalonia.
- The starting up of the Mediterranean Institute of International Commerce to be established in Tunisia and attended by students from all the Mediterranean region. This Institute will award higher education diplomas.

The Association's achievements are many. Perhaps its major achievement has been the fact that it has remained in existence while other organizations created at the same time have disappeared like shooting stars. This denotes the commitment of the Mediterranean business sector to making the region one of peace and prosperity.

What were the aspirations of the Association at the time of its creation, back in 1982? What are its present concerns and how are these different from those of 25 years ago?

In October 1982, the pioneers who took the initiative to set up the Association and who came from the Chambers of Commerce of Barcelona, Marseilles, Tunis, Istanbul, Tangiers and Cagliari, had great ambitions but never imagined the Association would grow to its present size. In fact, the Association was really set on its present path on the 6th of May 2001 following the adoption of new organizational statutes during an extraordinary general assembly held in Tunis. This assembly brought together more than two hundred delegates, representing the entire Mediterranean region. The new statutes, the result of more than a year's work opened the door to allow all Mediterranean chambers without distinction to be able to participate as full members in the development of business in the region and in forging closer links between those actively involved in the Mediterranean economy.

The countries of the Mediterranean have very different economic conditions. Nevertheless, they have numerous common interests and shared characteristics. What, in your opinion, are the major economic forces at play in Mediterranean countries?

It is true that while the countries of the Mediterranean have different economic conditions they at the same time share many common interests and characteristics due to their geographical location and shared past, as well as having certain products, particularly in the agricultural sector, in common, together with a jovial disposition of character. The principal power of the countries of the Mediterranean countries lies in the realization that in this world in which markets are becoming more globalized as each day passes it is in their own interest to work together and accept each other, despite any differences that might exist, particularly those between the North and the South, thus making their differences a force in itself. It is in this way that the Association contributes to bringing businesses together in the context of the Mediterranean through organizing economic forums and events, special partnership days and joint missions.

What are the Association's major current projects aimed at reinforcing economic cooperation among the countries of the Mediterranean?

My answers to your previous questions will already have given some idea of the Association's major projects. Without wishing to repeat myself, the sectors in which the establishment of regional ties are envisaged are:

- The training of professionals and technicians of the chambers of commerce of the Southern Mediterranean countries by their colleagues in Northern Mediterranean countries. This kind of training, within the Association itself, ensures a general training likely to be of interest to all the different sectors through the transfer of technology and know-how from the North to the South and among the Southern countries themselves.
- Cooperation in the tourism sector, the principal source of revenue in the Mediterranean region, at the same time freely accepting that competition exists and ensuring that the latter be loyal and transparent.
- Setting up a Mediterranean 'Common Market' in which goods and individuals are allowed to circulate freely and in which regional products are granted privileged status.
- Investment by the countries of the Northern Mediterranean in the countries of the Southern Mediterranean in attempt to counter some of the problems of immigration.

What do you see as the Association's role as regards and what measures can it take regarding the economic challenges facing its member countries?

The Association's role is more of a moral than a material one. The Association itself does not have the means to finance projects and programmes. The only finances currently at the Association's disposal are its member's annual fees. In terms of the moral support it can offer, the Association can play a major role by intervening on behalf of individual businesses in order to resolve disputes that could, potentially, lead to law suits through conciliation, mediation and arbitration.

The Association should furthermore constitute an information resource serving businesses and chambers of commerce alike.

To what extent do you believe that the liberalization of world business has so far favoured the Mediterranean countries' development? What steps should they take to benefit fully from this liberalization?

The effect of the liberalization of world business has only become apparent since China joined the WTO. The is, nevertheless, reason to believe that the 'Tsunami' that China could cause in the Mediterranean could have a positive effect for at least two reasons:

- several European countries whose businesses moved their production plants to China have changed their tune.
- the Mediterranean countries have reacted by relocating their goal posts to adapt themselves to the situation. A case in point is the textile industry which after suffering considerable losses in 2004 and 2005 has begun, since the end of 2006, to find its feet again.

Generally, the liberalization of world business will, in the long term, have a positive effect on the countries of the Mediterranean. The latter must carry out major reforms if they want to compete successfully.

What do you believe the Association should do to improve business relations in the Euro-Mediterranean Zone?

In 2010 the Euro-Mediterranean Free Exchange Zone will become a reality unless there are some nationalist inspired surprises lying in wait. This concept of free exchange zone encompassing Europe and the countries of the Mediterranean has its origins in a shared desire to bolster commercial and economic relations in a general sense within an area encompassing eight hundred thousand consumers.

For this reason commercial relations cannot improve, develop and expand unless good will prevails on the part of all involved. There are serious potential dangers to be contended with if the agreements are only partially implemented, as would be the case, for example, if the free circulation of goods was permitted, but not the free circulation of individuals.

We place great hopes on this Euro-Mediterranean free trade zone in which all those involved should be engaged on the same path - the path to a win-win situation and shared prosperity.

Competitive advantages and specialization are the keys to accessing international markets. What way are the countries of the Mediterranean moving in this direction?

The countries of the Mediterranean enjoy several advantages. There are several aspects in this regard, notably:

- The quality of Mediterranean agricultural products such as olive oil, dates, fish, citrus fruits etc. These have proven beneficial effects on health and people often speak of the 'Mediterranean diet'.
- The fact that there are products which are specific to the Mediterranean such as cork.
- The proximity of the countries of the Southern Mediterranean to those of the North, a factor which reduces transportation costs and shipping delays.
- The availability of skilled Southern Mediterranean manpower, which is furthermore very competitive in terms of cost.
- The level of university education professionals have received, not only in Tunisia and Morocco, but throughout the Southern Mediterranean.

What projects and plans does the Association have for the future?

The Association is already involved in some major projects including:

- The European Union Commission Project 'A Blue Mediterranean on the Horizon of 2020'.
- The Euro-Mediterranean Free Exchange Zone envisaged for 2010.
- Follow up on the deliberations held in Barcelona from the business sector's standpoint.

The Association would like greater involvement in European Union projects in a limited consultational capacity or to meet specific requests in several domains such as tourism, information technology, renewable energy, new sources of energy, the environment, arbitration etc.

The Association is a valuable tool. One should know how to use it for the good of the Mediterranean region, not forgetting the African Continent which could one day make up the third side of the triangle.

Mr Jilani BENM'BAREK,
President of ASCAME

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Executive Committee Members of ASCAME

Mr. Miquel VALLS, President
Chamber of Commerce, Industry and Navigation of Barcelona
452 Av. Diagonal - 08006 Barcelone
SPAIN

Mr. Louis ALOCCIO, First Vice President
Chamber of Commerce & Industry of Marseille-Provence
Palais de la Bourse BP : 1856 - 13221 Marseille
FRANCE

Mr. Murat YALCINTAS, President
Chamber of Commerce of Istanbul
Resadiye Cad. Eminönü - 34112 Istanbul
TURKEY

Mr. Mounir MOUAKHAR, President
Chamber of Commerce & Industry of Tunis
1, Rue des Entrepreneurs - 1000 - Tunis
TUNISIA

Mr. Ibrahim BEN DJABER, President
Algerian Chamber of Commerce & Industry (C.A.C.I)
Palais Consulaire 1er Novembre - 16003 Alger
ALGERIA

Mr. Abdessalem ARBAIN, President
Chamber of Commerce, Industry and Service of the Tanger Wilayar
Angle rue Hariri et Ibn Taimia - 9000 Tanger
MOROCCO

Mr Houssam KOBAYTER, Vice President
Chamber of Commerce & Industry of Tripoli
BP 47 - Rue Boulevard - Tripoli
LEBANON

Mr George KASSIMATIS, President
Piraeus Chamber of Commerce and Industry
Pl. Odissou - 18531 Le Pirée
GREECE

Mr. Ahmed EL WAKIL, President
Chamber of Commerce & Industry of Alexandria
31 Rue El Ghorfa Etougariya - Alexandrie
EGYPT

Mr. Slobodan MILOSAVLJEVIC, President
Serbian Chamber of Commerce and Industry
Resavska 15, 11000 Belgrade
SERBIA

Mr. Mohammed KANOUN, President
Tripoli Chamber of Commerce and Industry
First September Street. – Tripoli
LIBYA

Mr. Louis APAP-BOLOGNA, President
Malta Chamber of Commerce and Industry
Republic Street Valletta
MALTA

Mr. Giancarlo DEIDDA, President
CCIAA de Cagliari
Largo Felice, 72. 09124 Cagliari
ITALY

Mr. Vassilis ROLOGIS, President
Cyprus Chamber of Commerce and Industry
38, Grivas Dhigenis POB 1455 - Nicosia
CYPRUS

Mr. Gjoke ULDEDAJ, President
Chamber of Commerce and Industry of Tirana
Rruga e Kavajes 6 – TIRANA
ALBANIA

Mr. Kamal AL ASSAD, President
Lattakia Chamber of Commerce and Industry
POBox 124 Latakia
SYRIA

WELCOME MESSAGE

His Excellency Mr Recep Tayyip ERDOGAN
Prime Minister of the Republic of Turkey

Dear Readers,

It gives me great pleasure to introduce my country book with my views on recent developments and business opportunities in Turkey, with a special emphasis on our vocation towards the European Union membership.

Over the past two decades, the Republic of Turkey has undergone a profound economic transformation. Combined with an outward oriented trade policy, the Turkish economy has been recording progressive growth in most sectors. We are placing a particular emphasis on structural reform efforts. Starting from the financial sector, and with the accelerated privatization process, sweeping reforms in the fields of agriculture and social security, energy and telecommunication have been successfully carried out by my Government. Our major efforts are aimed at increasing the production capacity and export of Turkey, and expanding the sustainable development and welfare much more equitably all over the country.

Macro-economic indicators have been following a positive trend for our country. Major objectives of the program, namely, decreasing the inflation rate to single digit numbers, providing a higher and more stable economic growth and realizing structural reforms have been achieved. During the process, the Central Bank was made independent, inflation has been under control, interest rates are falling, exports are strong and productivity has soared. Banking system is also being restructured. These developments we achieve, owe much to fiscal policy of recent years. Currently Turkey is in the midst of an IMF-led austerity program that relies primarily on fiscal restraint.

Being one of the leading members of the OECD, Turkey also became a founding member of the World Trade Organization in 1995 and established a Customs Union with the EU in 1996. Free Trade Agreements were also signed with various countries. Turkey conducts most of its foreign trade with the EU and the OECD countries.

Membership to the EU is a process, which has its roots back in the late 1950's. Turkey was declared a candidate destined to become a full member in 1999 at Helsinki. Since then, Turkey has undergone a very comprehensive reform process for meeting the membership criteria as stipulated by the EU. The start of the accession negotiation on 3 October 2005 has opened a new page in Turkey - EU relations. Now, Turkey is an accession country. We know that this status brings along new expectations, as well as new responsibilities and take steps accordingly. By starting accession negotiations with Turkey, the EU has become a stakeholder in the continuation of the political, economic and social transformation of my country.

In the last progress report released by the EU on November 2005, it is noted that, Turkey, in terms of economic criteria, can be regarded as a functioning market economy, as long as it firmly maintains its recent stabilization and reform achievements. It is worth reassuring that my Government will strictly follow the reform process to this end.

Turkey is situated in a geography where one fourth of the world's GNP and one fourth of the world's population exist. Easy access to these huge markets is also something that makes Turkey an attractive place for foreign investors. Our population is young, our location at the crossroads of East and West is strategic, our entrepreneurs are renowned for their dynamism, and our labor force is skilled and industrious. Today, my country has raised its income per capita to a level of USD 5000 with its qualified labor force. When we take into consideration that this figure reaches to 8000 USD when adjusted by "Purchasing Power Parity", Turkey, as a country of 72 million people, is a sizeable market for any multinational company.

With its dynamic economy, large internal market and competitive industry, Turkey offers numerous opportunities to foreign investors. To be more precise, the new "Foreign Investment Law" grants equal rights to foreign investors and abolishes minimum foreign investment capital requirements, special foreign investment permit requirements, and the prohibition on purchases of Turkish real estate by foreign individuals and firms. For instance, it takes now literally just one day to start a company in Turkey. Furthermore, as part of the liberal trade and investment policies launched after 1980, a "Free Zones Law" was enacted laying the framework for the establishment of free trade zones in 1985, thus paving the way for the acceleration of capital inflow and export-oriented investment. There is no restriction on transactions conducted in Turkey's 20 free zones.

The ongoing privatization program and huge energy and infrastructure projects have also made Turkey more attractive to foreign investors in recent years.

Our recent performance suggests that as long as the public sector keeps its house in order, private sector is ready and has the potential to take the lead both in Turkey and all around the globe. Turkey's recent strong macro-economic performance has been a reflection of both the dynamism of the region and the activating of the high potential of its economy. My country has proved that confidence, consistency and continuity in macro-economic policies are the key to produce better macro-economic results. Behind this success rests an atmosphere of "confidence" and "stability" which is created by a strong political will. My Government has been committed to the implementation of its economic policy. It has also been very transparent and detailed in explaining the essences of these economic policies. Hence, predictability, sustainability, transparency, determinacy and delivering on its commitments enabled Turkey to build confidence not only in the domestic market, but also among foreign business circles.

My message to the outside world is quite clear: The resolute implementation of the adjustment policies and structural economic measures are the best way to tackle present difficulties and to move towards a new period of prosperity with social benefits. The progress attained by our country can be clearly seen by the economy figures.

I am confident that this book would help to promote further Turkey's increasing potential as an emerging market. Concluding my remarks, I would like to express my utmost gratitude to those who contributed to this book with their enormous efforts.

The Turkish Economic and Business Guide

1. General Picture of Economy

Non-agricultural economic activity in Turkey is concentrated in four regions, centred respectively around the Sea of Marmara, Edirne on the west coast, the Adana-Mersin-Ýskenderun triangle along the Mediterranean Sea, and Ankara. In 2005 a large share of Turkey's major enterprises remained in state hands. These included all of the transportation, utilities, and communications infrastructure, many basic industries, and about 30% of the banking sector. After failing to fulfil earlier privatization plans, in 2004 Turkey announced plans to privatize a wide range of industries, including tobacco and sugar processing, communications, and energy. No target dates were set, however. The economy has been plagued by high inflation and high fiscal deficits. Those conditions improved somewhat in 2004, when private investment increased significantly and the inflation rate declined. Beginning in 1999, the International Monetary Fund (IMF) has exerted strong pressure to reform the economic system. The IMF responded to Turkey's serious economic crisis of 2001 with stand-by assistance programs contingent on reduced state spending and debt, banking reform, accelerated privatization, and reduced inflation.

In 2004 Turkey's GDP of USD307.5 billion showed a real increase of 8.8% over the previous year, when the total was USD 239 billion. In the first half of 2005, the GDP grew at a rate of 4.5%. The growth between 2002 and 2003 was 5.8%. Between 1999 and 2002, the average annual GDP increase was 2.9%, but the economy recorded decreases in 1999 and 2001. In 2004 the per capita GDP was USD 4,414. The sectoral contribution to GDP was as follows: services 59.6%, industry and construction 29%, and agriculture 11.4%. In the early 2000s, the share of agriculture has decreased, the share of industry and construction has remained approximately constant, and the share of services has increased.

In 2004 Turkey's state revenues totalled USD86.4 billion, and its expenditures totalled USD108.1 billion, creating a deficit of USD21.7 billion. In 2003 revenues were USD 66.8 billion and expenditures were USD 93.3 billion, resulting in a deficit of USD 26.5 billion. In 2002 the deficit was USD21.1 billion. An important component of the budget deficit has been the 40% of state expenditures devoted to interest payments on debt.

Inflation which was a chronic problem in Turkey's economy has now been brought under control and the New Turkish Lira has replaced the old at the rate of one to one million. The rate for 2004, estimated at between 8.6 and 9.3%, was the lowest since 1982. For the first three quarters of 2005, the rate was about 8%. Between 1988 and 1999, the annual inflation rate varied between 60% and 90%.

Turkey's diverse manufacturing sector satisfies domestic demand for a wide variety of products; the main manufactured exports are consumer goods. Most manufacturing enterprises are privately owned, but the size of such enterprises varies greatly, and the state has influenced the relative growth of industries by providing disproportionate investment and incentives.

The largest industry is textiles and clothing (16.3% of total industrial capacity in 2005 according to the State Institute of Statistics), followed by oil refinery (14.5%), food (10.6%), chemicals (10.3%), iron and steel (8.9%), automotive (6.3%), and machinery (5.8%). Textiles and clothing also constitutes the largest share in total exports (19% in 2005), followed by automotive (18%), iron and steel (13%), white goods (10%), chemicals and pharmaceuticals (9%), and machinery (7%).

Multinational companies are present in many light and heavy industries. Foreign auto companies—Fiat, Honda, Hyundai, Renault, and Toyota— have plants in Turkey. Other industries such as appliances are mainly Turkish-owned. A large proportion of the appliances, consumer electronics, and vehicles manufactured in Turkey are exported. The largest privately owned industrial company is the Arcelik firm, which manufactures a wide variety of consumer products. Textiles and clothing are by far the largest products of light industry, accounting for about one-third of exports. However, much of this production is unreported because it is in the "informal" sector. The most important textile product is cotton cloth. Besides textiles, the most important consumer items produced are televisions, automobiles, refrigerators, washing machines, and vacuum cleaners. The most important heavy industrial products are processed fuels, steel, cement, tractors, and fertilizers.

Traditionally, the construction industry has made an important contribution to the economy. However, the share of construction's contribution has declined since the late 1990s because of a reduction in demand for domestic and foreign building projects and because of Turkey's 2001 economic crisis. Expansion resumed at a moderate rate in 2004. In 2003 the construction industry earned USD 900 million in foreign contracts. In the early 2000s, the industry's foreign operations expanded, particularly in Russia, Turkmenistan, Kazakhstan, Saudi Arabia, and Afghanistan.

Throughout the five-year development plan periods implemented since 1963, "industry based growth" has been one of the main objectives in Turkey. However, the industrialisation strategies adopted and economic policies followed have shown great differences before and after 1980. An import substitution policy had been implemented until 1980. However, after 1980, significant progress has been made towards establishing the principles and fundamentals of a market economy through the introduction of export-oriented industrialisation.
These reforms made significant contribution to the dynamism of the private sector and improved the adaptability of Turkish economy to internal and external impacts. Therefore, the source of industrial growth in recent years has been investments and the dynamism of the private sector.

As a result, industry has shown a great performance, except the years in which economic crises occurred. Considerable increases were recorded in industrial value added, in the volume of exports and share of manufacturing industry in exports. As a result of economic growth, the volume of imports especially for investment and intermediate goods has also increased.

Following a severe contraction in industry in the year 2001 as a result of the recent economic crises, signs of recovery was observed starting from the first quarter of 2002 and continued at a higher rate with positive developments in the Turkish economy. Due to recovery in domestic demand and sustained export performance, there has been a considerable increase in production and capacity utilization in the manufacturing industry since then.

Turkish industry mainly depends on the private sector activities. The share of public sector in the manufacturing industry has been decreased through privatisation activities in recent years. Currently, more than 80 % of production and about 95% of gross fixed investment in the manufacturing industry are realized by the private sector.

The main objective for the improvement of industrial sectors emphasized in the Eighth Five Year Development Plan is to increase competitiveness and productivity of the industry, and to promote and maintain sustainable growth within an outward oriented structure, in the face of increased global

competition. This objective will be achieved within the framework of market principles and in compliance with international agreements.

In that respect, Turkish industry shall have a structure, in which it will utilise, as possible, domestic resources, produce in compliance with environmental norms, consider consumer health and preferences, use well-qualified labour, apply strategic management techniques, attach importance to R&D, generate technology, create original designs and trademarks and thus take its proper place in international markets.

In order to reach those targets it is of vital importance that private sector gives emphasis to investments, which aim at creating high value added, enhancing competitiveness, increasing employment, productivity and exports and enabling development and/or transfer of appropriate technologies. Foreign direct investment will certainly play an important role in that process.

Information and technology intensive industries such as defence and aviation, machinery, chemicals, electronics, software and biotechnology will be promoted, the use of advanced technologies in industry will be increased and the competitiveness of traditional industries will be enhanced.

Banking, the most important of Turkey's financial services, has undergone significant changes in the early 2000s. The current system is based on the banking law of 1999, which calls for transparency and accountability. The financial crisis of 2001, for which the banks were partly responsible, had a severe impact on the sector. The resulting rationalization of the banking system reduced the number of banks by about one-third to 36, leaving the five largest banks with more than 50% of total assets. Those five private banks are part of large conglomerates with interests in many other sectors. Three state banks control about 30% of the industry's assets. In 2004 government securities constituted about 40% of the assets of Turkish banks.

Bad loans accounted for 14% of assets, a very high figure. Long-term loans such as mortgages are rare, and both credits and deposits are mostly very short-term. Since the 1990s, the Istanbul Stock Exchange has been quite active, although political developments have caused substantial volatility. In 2004 the exchange listed 309 companies, including most of the largest in Turkey. Most of Turkey's large insurance companies are connected with banks or international insurance firms. Per capita insurance expenditures are the lowest in the industrialized world. In 2004 total premiums reached USD 4 billion after a 20% increase in 2003. In 2005 a new agency was expected to replace the National Treasury in regulating the insurance industry.

Small enterprises have dominated retail trade. However, in the early 2000s large Turkish chains such as Migros, Gima, and Tansas and foreign companies such as Metro of Germany, Carrefour of France, and Tesco of Britain occupied an expanding share of the retail sector. Turkey has taken advantage of its wide variety of scenic and historic locations, particularly along its southern and western coasts, to build a substantial tourism industry based on local ownership of hotels and restaurants. Some 17.5 million tourists visited Turkey in 2004, an increase of 25% over 2003. This activity generated revenues estimated at USD 15.9 billion and provided an important source of foreign currency.

In 2004 Turkey's labour force was estimated at 24.3 million. However, a large part of this labour force works in the "informal sector," making measurement of its activities difficult. In 2003 about 34% of the official workforce was occupied in agriculture, 43% in services, and 23% in construction and industry. Industrial labour is heavily unionized, and unions exert strong political influence. In the first half of 2005, unemployment was estimated at 10.5% overall, the same rate as in the previous three years, but unemployment among the youngest workers was estimated at 20%. Another 6% of the workforce was considered underemployed. Despite substantial wage increases in the 1990s and the early 2000s, the real value of wages has been depressed by inflation. However, in the early 2000s a series of sharp increases brought the 2005 minimum wage to USD 360 per month. Wage disparities are great between eastern and western Turkey. Women account for only about one-quarter of the overall workforce but for 60% of the agricultural workforce. Remittances from Turks working abroad, chiefly in Germany and Saudi Arabia, have been an important source of national income. However, after reaching a peak of USD 5 billion in 1998, remittances in the early 2000s have been substantially lower. In 2004 an estimated 3 million workers remitted slightly less than USD 1 billion.

Beginning in the late 1970s, Turkey liberalized what was a policy of import substitution and protection of domestic industries by import restrictions. In the 1990s, export subsidies were abolished. Beginning in the early 1990s, trade with the European Union (EU) has increased slowly and steadily. Turkey was admitted to the World Trade Organization (WTO) in 1995. In 1996 a customs union was established between Turkey and the EU, abolishing tariffs on industrial products for both sides. An agreement on agricultural products retains tariffs on some agricultural imports from EU countries.

In 1999 Turkey revised its customs legislation in accordance with EU standards. Between 1990 and 2004, the EU share of Turkey's exports remained steady between 51 and 55%, and the EU share of Turkey's imports also remained steady between 44 and 47%. Throughout that period, Germany remained Turkey's primary trade partner, although that country's percentage of total trade (13.9% of exports and 13.6% of imports in 2004) diminished steadily in the early 2000s.
The level of trade with the United States generally has increased since the late 1990s. In 2003 exports to the United States increased by 11.5% over 2002, and imports increased by 10.4%. In 2004 the export share of the United States decreased slightly, and its import share remained the same as in 2003. In 2004 the United States accounted for 7.7% of Turkey's exports and 5% of its imports. In the early 2000s, a larger share of Turkey's imports came from the Commonwealth of Independent States (CIS), mainly because of reliance on natural gas from Russia, than had been imported during the 1990s. In 2003 and 2004, Russia accounted for 7.9% of Turkey's imports, and the CIS as a whole accounted for 6.3% of exports.

In the early 2000s, agricultural products dropped below 10% of Turkey's exports. Minerals and mineral products accounted for about 5%. In 2004 finished textiles accounted for about 28%. Other important exported manufactured products were steel, construction materials, appliances, televisions, and motor vehicles. The main customers for Turkey's exports were the EU countries, the United States, countries of the Middle East, CIS countries, and Turkey's neighbouring countries in South-Eastern Europe. Substantial unofficial trade occurs with neighbouring countries of the Middle East and the CIS.

The value of such trade in 2004 was estimated at USD4 billion. Fuels are the leading "official" imported commodity. Others are chemical products and machinery and transport equipment.

Russia and Saudi Arabia are the chief suppliers of fuels. Other major suppliers of imports are the EU countries, Switzerland, Japan, and China. Between 2002 and 2004, imports from China increased by 170%.

In 2004 Turkey's imports had a total value of USD 94.5 billion, and its exports were valued at USD 69.5 billion. Thus, the trade deficit for 2004 was USD 25 billion, continuing a persistent trend. Between 2000 and 2003, the trade deficits were, respectively, USD26.7 billion, USD 10.1 billion, USD 15.5 billion, and USD 21.8 billion.

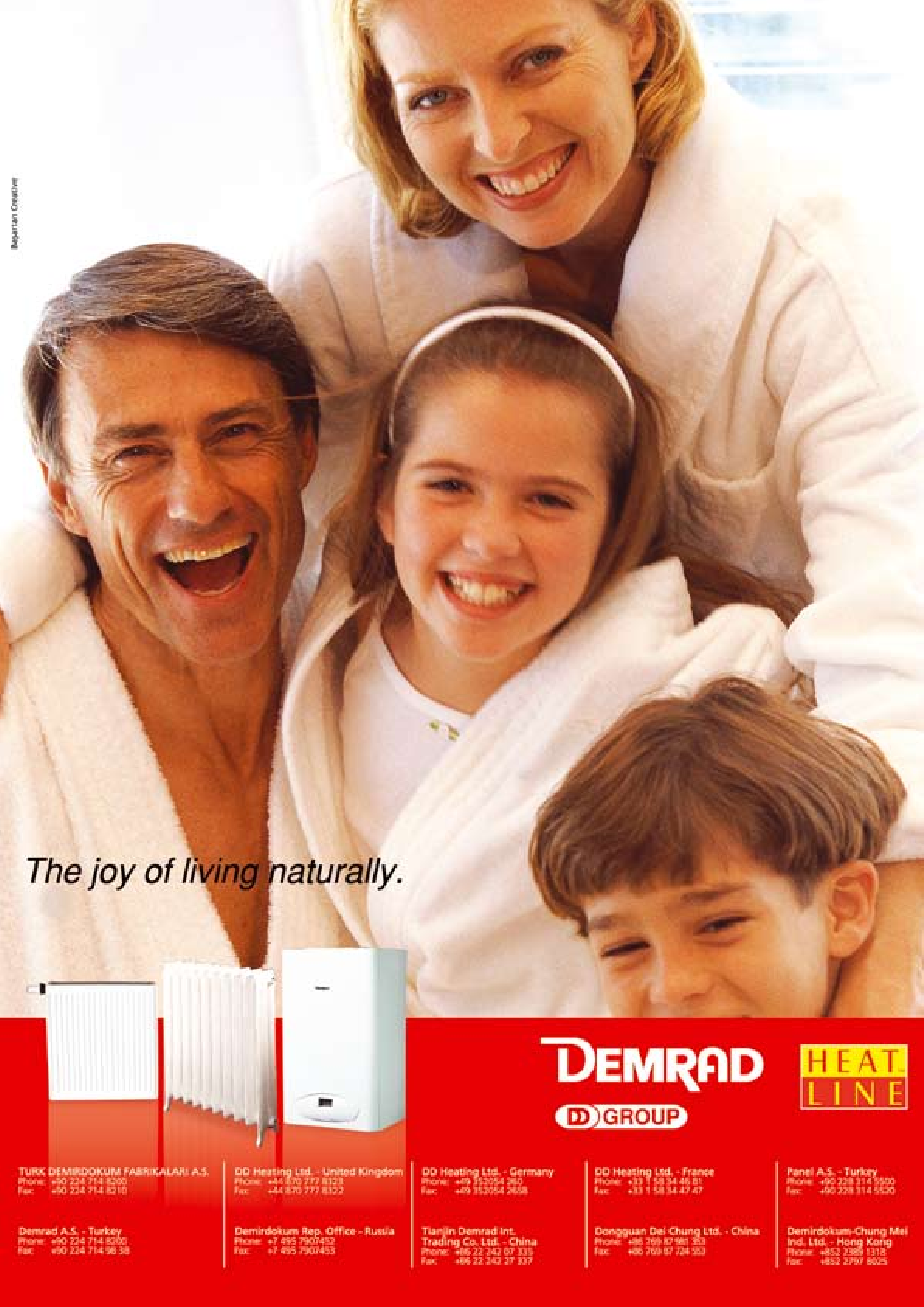


In the early 2000s, Turkey's balance of payments has varied widely, although it was negative every year from 2000 through 2004. The financial crisis of 2001 increased the balance-of-payments deficit to USD 12.9 billion, but in 2002 the deficit was only USD 214 million. In 2004 the current account showed a deficit of USD 15.3 billion, and the capital and financial account showed a surplus of USD 12.9 billion, creating a negative overall balance of USD 2.4 billion.

In 2004 Turkey's medium- and long-term foreign debt totalled USD 129.8 billion, compared with USD 124 billion in 2003 and USD 116 billion in 2002. In the same year, short-term foreign debt increased from USD 23 billion to USD 31.9 billion.

Foreign direct investment has been relatively low, exceeding USD 2 billion in only one year since 1999. The total for 2004 was about USD 2 billion. Portfolio investment, however, increased substantially in 2004 over previous years. A reform of foreign direct investment laws in 2003 streamlined procedures and improved the investment climate. A USD 1.5 billion power plant near Iskenderun, completed in 2004 by the STEAG utilities company of Germany, is the largest direct investment ever by a German company in Turkey. Automotive companies in France, Italy, Japan, South Korea, and the United States have plants in Turkey. In 2005 a Japanese consortium will begin building a railroad tunnel under the Bosporus. The United States-based General Dynamics Corporation has invested substantially in fighter plane manufacture in Turkey.

In January 2005, a currency reform established the new Turkish lira, which was worth 1 million of the previous unit, the Turkish lira. In January 2006, the exchange rate was 1.34 new Turkish liras to the U.S. dollar. Thus, in 2005 the new lira was stronger against the dollar than the old lira had been in 2002 and 2003, when the average rate was slightly more than 1.5 million to the dollar.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EDITORIAL

H.E. Mr Ali COSKUN
Minister of Industry and Trade

21st century is an astonishing period, which is considered as "the age of opportunities" by many countries. A significant political and economic transformation, which wasn't even imagined in the past, is being realized.

The world now is much smaller than it was 15 years ago; the parts that make it up are now much closer to each other and countries and societies interact much more. Our century where globalization process is rapidly going on will be a century in which new balances oriented by economy, technology and regional forces will take place and competition will stick out while trade restrictions and custom barriers are abolished.

Globalization and regionalization are the two main characteristics of the world economy. Therefore, in the globalization process, in order to create and maintain a competitive economy and sustainable growth, the establishment of regional economic cooperation groups is inevitable and obligatory.

In this transformation process, Turkey has significant comparative advantages like a strategic geographical location, huge internal market, qualified and cost-efficient labor force, a strong local industry that can provide intermediate goods with high quality, a rich cultural structure and a strong tourism potential where four seasons can be lived at the same time.

Furthermore, it is essential to emphasize that Turkey has entered into the process to comply with Acquis Communautaire by sharing the future perspectives and vision of the EU. Liberalization efforts in Turkey being carried out since the beginning of 1980's have gained a new momentum with the membership to the Customs Union with the EU in 1996. Now, Turkey entered a new period which she is performing accession negotiations with EU in 2006.

As known, the countries, which are parties to the Euro-Mediterranean partnership process, have gathered to develop cooperation at the region and identified the objective to establish a free trade zone before 2010 by signing Barcelona Declaration.

Having strong historical and cultural ties with Mediterranean countries Turkey has signed Barcelona Declaration to establish a Euro Mediterranean area in which prosperity is shared and expressed her willingness to develop cooperation among region countries.

There is no doubt that the free trade area, which will be established in Euro-Mediterranean region, will be a sample of balance for globalization.

Today the understanding of diplomacy has changed. Businessmen, passing from the doors of brotherhood established by the statesmen and politicians, reinforce the political and economical relations among countries and the political relations on this new basis are further enhanced. Within this context, the chambers and the businessmen, which are their members, have very important tasks.

It is extremely essential for Mediterranean region, which will be one of the most important regions in the following decade by its young and dynamic population to form a competitive structure. More effective operation of Euro-Mediterranean cooperation states great importance in this issue.

As a matter of fact, the Free Trade Agreements signed between EU and many Mediterranean Countries are being considered as a very significant step.

I hereby would like to thank Mr. Jilani BENM BAREK, President of Association of the Mediterranean chambers of commerce and Industry, for publishing this book, which will contribute to the further enhancement of cooperation in Euro-Mediterranean region and congratulate all people who have worked during the preparation of this book.

In conclusion, I do hope that this booklet, "The Business Gateway to Turkey 2006", which includes comprehensive information about Turkish economy and industry will be beneficial in the course of your studies on Turkey.

H. .E. Mr Ali COSKUN
Minister of Industry and Trade



2. *Setting up a business in Turkey*

Strengthening private sector activity in the Turkish economy is an integral part of the Government's overall macroeconomic stabilization program. The aim of the program is to achieve a sustainable growth level with a vibrant private sector and a smaller but more effective public sector.

Key structural reforms in major markets such as agriculture, pensions, banking, telecommunications and energy and accelerated privatisation program have been adopted, which will pave the way for a more dynamic private sector.

The trend towards better business environments; regional integration; technological change; industrial consolidation; sharper global competition; and opportunities in emerging markets will all underpin renewed strong expansion in FDI. The recovery which began in 2004, and accelerated from 2005 is now showing that the growth in global FDI from 2004-2008 will be much stronger than the growth in world trade or GDP.

In today's challenging economic environment all of the countries try to utilize domestic and international resources to maintain a sustainable growth.
Since the developing countries can be identified as more capital-scarce compared to developed countries, they need more external resources to expand their productive capacity and maintain a sustainable growth.

Turkey has one of the largest economies in the World and with GDP of over USD 299.5 billion; it is the largest economy in Eastern Europe, the Balkans and the Middle East.

Well-known with its skilled and flexible workforce, huge domestic market and sizeable nearby external markets, Turkey is located in the heart of a region with more than one billion population and almost one quarter of world output. The domestic market of 70 million is growing rapidly both in numbers and spending power. Turkey is adjacent to the 600 million strong high-income market of Europe. Access to the emerging markets of Russia, the Caucuses, Central Asia and Africa and the diverse market of the Middle East make Turkey the key-trading nation of the future.

Despite its competitive advantages and diverse market opportunities, FDI inflows have not lived up to the potential of an economy of that size. Recognizing the importance of this issue, the Government placed efforts for improving the investment climate at the top of the political agenda. Turkey decided to replace its cumbersome, cost creating administrative procedures with a cost-effective structure that is competitive with other countries where investors might alternatively locate.

The Government of Turkey has therefore initiated a comprehensive reform program to streamline all investment-related procedures and to attract more private direct domestic and foreign investment. The Government has established a Co-ordination Board for Improving the Investment Climate (YOIKK). The Board assigned specialized technical



committees to work on developing concrete proposals and strategies in order to overcome all main obstacles. Productive collaboration between the public and the private sector is the key in this process. To ensure that policy reforms truly reflect and address private sector concerns, intensive and direct involvement of companies and investors in this process is critical. Each technical committee therefore consists of private sector and government agencies' representatives. The Board's mandate is to make specific recommendations to the Council of Ministers who will take the required political decisions to remove the obstacles impeding the improvement of the investment climate.

The key reform areas have been determined after a comprehensive study conducted by the Under secretariat of Treasury of the Prime Ministry in cooperation with Foreign Investment Advisory Services, a joint service of the International Finance Corporation and The World Bank. Nine Technical Committees are responsible for the following topics: (I) company establishment, (II) employment, (III) sectoral licenses, (IV) location of investment, (V) taxes and incentives, (VI) customs and standards, (VII) intellectual property rights, (VIII) small and medium sized enterprises, (A) promotion of investment, (B) foreign direct investment regulation.

This comprehensive reform program has begun to give fruit. The laws enacted by the national assembly and draft laws submitted to prime ministry are as follows:

Enacted laws as a direct result of the YOIKK process to-date include: law on employment of foreign personnel; the law on the investment allowance system which enables a shift to an automatic state aid system in line with EU requirements; and the new up-to-date FDI law that serves as a declaration to foreign investors of their rights and will enable a shift from an "investment permission system" to an "investment monitoring system" in conformity with international best practices.

The law that redesigns company registration process which diminishes the prior 19 required steps to 3 steps and reducing turnaround from two and a half months to one day. The company registration procedures which previously were taking almost two and a half months and requiring excessive documentation and approvals from several authorities have been simplified and streamlined. Now the registration can be done in a day. All that is required is to fill out a standard form at one point without applying to several different authorities for necessary approvals.

One of the key issues in the reform agenda of the Government of Turkey is attributing great importance to the role of collaboration between public and private sector. Therefore necessary platforms have been created where the representatives of public and private sectors come together to discuss and provide solutions on key issues facing Turkey's business climate. While achieving quite positive results in improving the environment for business by means of national platforms like the Coordination Council for the Improvement of Investment Climate, another structure with an international perspective:

the Investment Advisory Council (IAC) for Turkey was established in 2004 with a view to raising the competitive position of Turkey in the world economy as an investment location. The high-level IAC meetings in 2004 and 2005 brought together the top echelons of leading multinational companies, international organizations and heads of Turkish private sector associations and both were entirely chaired by the Prime Minister Recep Tayyip Erdogan.

The inaugural meeting of the Investment Advisory Council for Turkey was held on March 15th, 2004 in Istanbul. Council members identified 13 priority areas on which the government should focus attention, advising that strengthened implementation of measures in these areas would lead to improvements of the investment climate and scaling up of private investment in Turkey.

As decided by the Council, an interim progress report which was also published on the web page of the Undersecretariat of Treasury was prepared and submitted to the IAC Members before the 2005 meeting and informed them about the improvements made in Turkey's investment climate. Thereby the valuable proposals generated in the IAC platform have been successfully transferred to the reform program on improvement of the investment environment. The second meeting of the Investment Advisory Council was held on April 29, 2005 in Istanbul. According to the official statement, which was declared to the public by the Council Members after the meeting, Turkey has made remarkable achievements in one short year since the first meeting of this Council. It was emphasized that major determinants in an investment environment, such as economic and political stability, have been broadly addressed in Turkey.
During these meetings, IAC Members made valuable contributions in developing many proposals that will help attract FDI in Turkey. The Undersecretariat of Treasury as the Council's Secretariat informed the heads of technical committees of the Coordination Council for the Improvement of the Investment Environment (YOIKK) and relevant Ministries about the priorities for Turkey to improve its investment climate listed in the statement of outcomes of the IAC meetings and requested them to take possible quick actions in these fields.

Given the importance of a strong legal framework for foreign direct investment, the existing relevant legislation was reviewed to assess the needs for as well as the content of new investment legislation. A new foreign direct investment law has been drafted taking into consideration international best practices and recommendations of the FIAS study assessing the foreign direct investment legislation. The objective was to have a legal framework in conformity with the most up-to-date international standards.

The new FDI law has been enacted and published on June 17, 2003. With the new FDI legislation notification based system instead of screening and approval system will be in effect. Also this law defines investment and investor in line with the international standards and abolishes minimum capital requirement of USD 50,000 per real or legal person for foreign investors.

The new law is aiming to provide a broader viewpoint to foreign direct investment. Precise definition of the rules and regulations and abolition of some requirements causing delays in the entry, transfer of shares and increase of capital processes further liberalized the already liberal FDI legislation. Some of the important features of the new law are as follows: broader definition of investor (now including: foreign nationals, Turkish nationals resident abroad, foreign legal entities and international organisations) freedom to invest, internationally-accepted FDI definition (all kinds of assets), national treatment, guarantee to transfer proceeds, key expatriate personnel, protection against expropriation, access to real estate and international dispute settlement.

In addition to these legislative features, Turkey is a member of several international organizations and is a party to many bilateral and multilateral agreements, to provide a more secure investment environment for foreign investors: Turkey is a member of the leading economic and trade organizations of the world, such as the: IMF, World Bank, OECD, and WTO.

Furthermore, in order to create a secure and predictable investment environment for foreign investors, Turkey has signed Promotion of Investment Agreements with 73 countries 54 of which are in force. Turkey is also a member of ICSID (International Centre for the Settlement of Investment Disputes and MIGA (Multilateral Investment Guarantee Agency) of the World Bank, and WAIPA (World Association of Investment Promotion Agencies). Avoidance of Double Taxation Agreements with 60 countries have been signed and entered into force.



Despite its strong potential, Turkey has not benefited greatly from increased FDI flows brought by globalisation. However, thanks to remarkable performance of economy and pro-business government policies in recent years, FDI inflows have gathered pace. Taking into consideration, new steps to improve investment environment, the positive macroeconomic developments, and the EU perspective, the government expects that Turkey will attract more than USD 15 billion of FDI between 2005 and 2007.

According to the balance of payment statistics published by the Central Bank of the Republic of Turkey, the capital (inflow) of USD 1753 million in 2003 increased by 55.9 % in 2004 and reached USD 2733 million. In 2000, 2001 and 2002 total direct foreign capital (inflow) was USD 982 million, USD3266 million and USD 1063 million respectively.

In 2004, 24,52 % of the capital inflows are in manufacturing sector, 69,07% in services sector and 6,04%in other sectors. In year 2004, 81,13% of the inflows was from the EU countries.

The foreign investment regime of Turkey is governed by the Foreign Direct Investment Law No.4875/2003, which is based on the principle of equal treatment of domestic and foreign investors. The objective of this Law is to encourage foreign direct investments; to protect the rights of foreign investors; to define investment and investor in line with international standards; to establish a notification-based system for foreign direct investments rather than screening and approval.

As of July 2005, there are 11084 companies with foreign capital in Turkey.

Out of these, 9325 are of new company and branch establishment and 1759 are of foreign capital participations into existing companies. In 2001, 2002, 2003 and 2004 the number of companies with foreign capital were 507, 517, 1114 and 2162 respectively.

In terms of accumulated foreign capital commitment up to today; the leading investors are Germany, USA, the Netherlands, Greece, United Kingdom, Switzerland, Belgium and the Russian Federation.
In year 2004, 247 incentive certificates were issued for investments to be carried out by companies with foreign capital, and the estimated total value of these investments within these certificates amount to USD 3882.1 million, of which 41.2% will be undertaken by foreign shareholders.

Within the manufacturing industries, the leading sectors are: automotive and transportation equipment; food, beverage and tobacco industries; chemical and petroleum products; electrical machinery and electronics within the services sector, the leading sectors are: banking; trade and retail chain stores; telecommunications; tourism. As of the end of 2004, 9446 foreign capital companies were operating in Turkey. The foreign partners of these companies include 149 of the 500 companies which are listed in the Top 500 companies list of the Fortune magazine.

The general incentive regime is applied varying to the location, scale and subject of investments. In terms of application of general incentives, Turkey is divided into three types of regions. Developed regions include such areas as the city boundaries of Istanbul and Kocaeli; and the municipality boundaries of Ankara, Izmir, Bursa, Adana and Antalya). First priority regions include 50 cities determined by the Council of Ministers. Normal Regions include the remaining cities.

To be eligible for these incentive measures, the minimum amount of fixed investment must be USD 130,000 (NTL 200,000) for the first priority regions and USD 260,000 (NTL 400,000) for the developed and the normal regions.

The main incentive tools granted to investors by the current legislation are; exemption from customs duties and fund levies, investment allowance, VAT (Value Added Tax) exemption for imported and locally purchased machinery and equipment, exemption from taxes, duties and fees.

Exemption from customs duties and fund levies: This incentive measure ensures that the imported machinery and equipment for the investment can be brought to the country with the exemption of customs duties and fund levies.

The machinery and equipment, which are to be imported under this measure, must be included in the imported machinery and equipment list to be approved by General Directorate of Foreign Investment. Within this context, raw materials and intermediate goods cannot be imported.

Investment allowance: Investment allowance is a corporate tax exemption applied to taxpayers. The expenses incurred within the scope of their investment, those relating to buildings, machinery and equipment are entitled to benefit from the investment allowance. With the latest amendment in the income tax law all the investments which amounted above USD 3350 are entitled to benefit from the investment allowance.

Investment allowance rate is fixed at 40% for all types of investments regardless of region or value. The withholding tax which has been levied up on the taxable income before deduction of the investment allowance prior to the amendment is abolished in order to provide more effective rate of 40%with a net value. There is no need to obtain a prior approval or permission like an investment incentive certificate for the investment to be eligible for investment allowance incentive. The corresponding percentage amount of the fixed investment cost can be deducted from the future taxable profits starting with the year the cost realized. Investment allowance amount can also be readjusted for inflation.

A new VAT exemption for imported and locally purchased machinery and equipment is another boost for foreign investors considering Turkey. The Value Added Tax, which is due to be paid for both the imported and locally purchased machinery and equipment, shall be exempted by this incentive measure. The imported machinery and equipment, which are included in the imported machinery list approved by GDFI, can be brought to Turkey without paying Value Added Tax. The locally purchased machinery and equipment should also be included in the locally purchased machinery list to be approved by GDFI. With this approved machinery list, the investor can purchase the local machinery without paying the VAT to the seller.

3. Turkish Transportation Sector: A Natural Regional Hub

Turkey's geopolitical position as a link between the East and the West makes the transport sector crucial for the economic development of the region. Turkey is a major player both as a transit country and as an origin and destination of freight. The recent external developments with regard to EU accession and the growing role of Turkey in trade between Central Asia and the South Caucasus make the focus on transport even more important.

The development of efficient domestic transportation systems in Turkey has been slowed by long distances, difficult terrain, and low investment. Major investment projects are expected to improve the national road and railroad systems by 2010.

Transport demand in Turkey has grown significantly over the past five decades. Overall, demand (as measured by passenger-kilometres and ton-kilometres) has grown at an annual rate of nearly 8% since 1950. Demand for road transport has grown at an annual rate of about 7.6% while rail transport demand has grown at about 2%, demand for water transport by 5% and air at over 16% per year. As in most developing countries, road transport is becoming a much more significant factor for both freight and passenger transport.

Transport in Turkey has grown beyond the railway. Rail market shares have declined. It is not likely that much new traffic can be attracted to the railway without significant investment in new and very expensive railway infrastructure, or major changes in railway service.
Roads: Roads are Turkey's most important domestic transportation system, although only 130,000 kilometres of paved roads were in service in 2004, and little expansion has occurred since the 1950s. More than 250,000 kilometres of existing roads are unpaved. The state and provincial system includes about 65,000 kilometres of roads, of which 1,900 kilometres are classified as highways. Main highways radiate from Ankara in central Anatolia, Istanbul and Izmir in the west, Adana in the south and Erzurum and Diyarbakır in the east. The most important recent addition to the system is the Ankara-Istanbul toll road. Because the number of motor vehicles increased by more than 5 million between 1983 and 2004, Turkey's city streets are very congested. In 2004 several major road and bridge projects were under discussion to link Anatolia more effectively with Europe.

Road transport represented about 37% and rail 55% of the total transport market in 1950. By 2000, road transport represented 93% of the total market, rail about 4%, water about 2% and air 1% of the total intercity transport market in Turkey. While the current rail transport task is not insignificant, it is certainly much less important to the economy of Turkey than in the past. Although TCDD's rail traffic market shares have declined significantly, overall railway traffic has grown somewhat. Total TCDD railway traffic units have grown at about a 2% annual rate.

The road agency (KGM) has annual estimated budgets of about USD 1.3 billion 60% of which is dedicated to an investment program particularly for new motorways. Total expenditures on the program reached about USD 13.3 billion in 2001 with annual allocations in the last few years of about USD 600 million.

The World Bank is currently supporting the institutional strengthening of KGM (roads administration) through the introduction of performance based management information technologies, the elimination of congestion in main export corridors, and the establishment of a systematic, multidisciplinary system to address the traffic safety issues.

A strategic alliance has recently been formed between the Dutch programme Partners for Roads and the World Bank to jointly contribute to further the development and incorporation of safe road design and to facilitate the transfer of knowledge in Turkey as well as in a number of other countries. The intention is that, via a series of training courses, representatives from the public sector bodies involved in road safety will learn to observe a road from a road safety perspective. The outputs from the project are expected to be specific short-term recommendations that will both prevent accidents and increase the capacity of the road, whilst also building capacity in the recipient countries.

Railroads: In 2004 Turkey had only 8,671 kilometres of railroad, all standard gauge and mostly in service for more than 60 years. Most major population centres are connected by rail. From a ring around the Anatolian Plateau, rail lines radiate to Zonguldak and Samsun on the Black Sea; Istanbul, İzmir, and Bandırma in the west; and via Adana to Syria and Iraq in the south. Three lines go into eastern Anatolia. The state-owned system is slow and unprofitable. In 2004 only 4 percent of freight transport and 2 percent of passenger transport were by rail. Between 1990 and 2003, passenger trips decreased by 50 percent. Planned improvements include limited privatization, upgrading of the Istanbul-Ankara trunk line to include high-speed trains, and improved rail links between Anatolia and Thrace. The Marmaray project, scheduled for completion in 2008, aims to improve rail transportation through Istanbul. It will include a railroad tunnel under the Bosporus. Plans call for some private railroad operations to supplement the state system in the future. Ankara, Istanbul, and İzmir have metro systems; lines in Ankara and İzmir were expanding in the early 2000s.

Ports: Turkey's ports have suffered from overcrowding and inefficiency. The main facilities are located at Antalya, İskenderun, and Mersin on the Mediterranean; Gemlik, Istanbul, and İzmit in the Marmara region; İzmir on the Aegean Sea; and Hopa, Samsun, and Trabzon on the Black Sea. The ports of Istanbul, İzmir, İzmit, and Mersin are particularly vital because they are outlets for large industrial regions. The state railroad manages all the largest ports, but six of them were on the government's privatization list in 2005. In the early 2000s, Turkey's 11-million-ton merchant marine has carried a decreasing share of the total freight passing through its ports; in 2004 less than 30 percent of port traffic was under the Turkish flag. Passenger ships in Istanbul are important commuter carriers.

Turkey has about 1,200 kilometres of inland waterways, none of which offers a vital line of transportation. Not included in that amount is the channel formed by the Dardanelles, the Sea of Marmara, and the Bosporus, linking the Black Sea with the Mediterranean Sea and forming one of the most important water connections in the world. In the early 2000s, safety and environmental factors have made expansion of traffic through this heavily travelled route problematic.

Of Turkey's 87 mainly state-owned airports with paved runways, 16 have runways longer than 3,000 meters. Some 14 heliports were in operation in 2004. The three largest airports are located at Istanbul, Ankara, and İzmir. Istanbul-Atatürk, the largest airport, was expanded in 2000, as was the primary tourist airport at Ankara. The state-owned national airline, Turk Hava Yollari (THY, Turkish Airlines), is a state-controlled enterprise that flies from Ankara and Istanbul to 79 international destinations, including major cities in Europe and the United States. In 2004 THY, which is scheduled for privatization, flew 11.4 million passengers. Private airline activity increased in the early 2000s, carrying about 2 million passengers in 2004.

In 2004 Turkey had 3,177 kilometres of natural gas pipelines and 3,562 kilometres of oil pipelines. In the early 2000s, controversial pipeline issues were Turkey's role in new routes bringing oil and natural gas from the flourishing Caspian Sea region into Europe and the configuration of a new pipeline that would connect Russia with the Mediterranean and bypass the Bosporus. The potentially lucrative Baku-Tbilisi-Ceyhan (BTC) line, 1,000 kilometres of which passes through Turkey, began bringing oil from the Caspian in 2005. That line is advantageous because it bypasses both Russia and the crowded Bosporus corridor. Because the BTC line is considered insufficient for future volume, Turkey is involved in international discussions of several other pipeline routes that would bypass the Bosporus.

Telecommunications

In the 1980s and 1990s, Turkey's telecommunications systems underwent substantial modernization, including nearly complete digitization and advanced intercity trunk lines. In 2004 some 19 million main telephone lines were in use. A satellite system links users in remote areas. The use of cellular telephones has increased rapidly since the late 1990s, reaching more than 50 percent of the population in 2004. In the early 2000s, three private mobile services, the largest with more than 20 million subscribers, were operating. However, in the early 2000s demand has exceeded the supply of Internet and data services. In 2005 an estimated 10.2 million people were using the Internet. Initial steps for the privatization of Turk Telekom, the state-owned telecommunications monopoly, were taken in 2005.

Key Sectors of the Turkish Economy

Our vision is to make our country one which grows in stability, has a just income distribution, is globally competitive, has been transformed into an information society and has completed the EU compliance process for EU membership.

The Ministry of Finance has an important place in the regulations and implementations necessary for the realization of this vision. Therefore, the implementations and regulations done in the scope of our Ministry's mission contributed much on the road to our vision up to now; and similarly in the future, the contribution of our financial policies will be significant.

The Factors Underlying the Economic Results That Turkey Realized

Certainly, the outcome of our financial policy based on market economy has been very positive; as seen in the decrease of the inflation rate from % 63.5 in 2001 to one digit numbers in 2006 and in the increase of the 2,123 USD income per capita in 2001 to 5,000 USD in 2005. Most important factors which ensured this performance have been as follows:

- Structural reforms that increased effectiveness and strengthened the transparency and accountability in public sector have been realized.
  These reforms enabled us to have stronger legal, institutional and technical infrastructure. Public Financial Management and Control Law, Public Procurement Law, reorganization of the Revenue Administration, simplification of tax laws and reduction in the tax rates, sophisticated IT systems in both spending and revenue sides, privatization of the huge government owned businesses, were some of the transformational reforms we completed.
- Floating exchange rate system, which ensures immediate adjustment of the exchange rates to the national or international developments.
- Independence of Central Bank and Institutionalization of monetary policy,
- Strict financial implementation based on the fiscal discipline, which enabled us to meet our % 6.5 primary budget surplus target for the years 2003-2005 and reduce public sector net debt to GNP.

Liberalization And Privatization

Flexible foreign investment policies have been introduced as a part of the liberalization of Turkish economy. The foreign investment legislation provide a secure environment for foreign capital, granting such capital the same rights and obligations as local capital, while guaranteeing the transfer of profits, fees and royalties, and the repatriation of capital. In Turkey, developments in foreign investments accelerated since January 1980, when there were dramatic changes in the economic and social structure of Turkey. The deregulation of interest rates, establishment of organized financial markets for money, foreign exchange, stocks and securities, liberalization of capital movements and reforms in the banking sector are just some of the major economic policy changes during this period. One of the major policy decisions was the adoption of liberal and flexible foreign investment policies. As



a result of the changes in the foreign investment legislation, the investment climate was made more efficient and suitable for potential investors, from 1980s up to now.

To make the government more efficient and to improve the competitive economic environment, the privatization efforts have been increased. The revenues that were provided from privatization process in 2003, 2004, and 2005 were respectively 833; 1,377 and 8,221 million USD.

Legal Framework to Attract and Ease Foreign Investment and Incentives

Turkey's new Foreign Direct Investment Law enacted in 2003 emphasizes the key elements of the liberal investment environment in Turkey. Our new law is the "legal guide" to international investors about their rights and obligations, with explicit messages. With this Law, all permits granted by the General Directorate of Foreign Investment are abolished. As a result, all transactions for establishing a company with foreign capital will be the same as with local companies. It is clarified that expropriation can not take place with any reason other than the above-mentioned regulations. In the new Law, the right of free transfer of profits, dividends, proceeds from sale or liquidation of all or any part of an investment, amounts arising from license, management and similar agreements, reimbursements and interest payments arising from foreign loans, banks or special financial institutions is clearly stated. Legal entities with foreign capital, established and registered under rules of Turkish Commercial Code can acquire real estate with the same principles as Turkish nationals. According to the new law, for the settlement of disputes arising from investment agreements subject to private law and disputes arising from conditions and contracts made with the administration under which concessions concerning public services are granted, foreign investor can apply, beside the authorized local courts, to national or international arbitration, or other means of dispute settlement, provided that the conditions in the related regulations are fulfilled and the parties agree thereon. Foreign personnel can be employed for investments in Turkey.

The incentive tools granted to investors are; exemption from customs duties and fund levies; VAT (Value Added Tax) exemption for imported and locally purchased machinery and equipment; exemption from taxes, duties and fees; land allocation. According to the location and other characteristics of the investment, in the developed, developing parts of Turkey, the free zones and technoparks several types of incentives can be granted.

The Law Regarding Investment Support and Publicity Agency which recently entered into force will also be an important step in improving the environment for investments.

Foreign Capital Movements

Before 2003, the net annual average inflow of foreign investment in Turkey had been below 1 billion dollars. However, in 2003, 2004 and 2005, foreign investment amounts have been respectively, 1.752, 2.847 and 9.673 million USA dollars. While the number of firms that came as foreign investors into Turkey in 1954-2002 had been 5.626, in 2003-2005, this number has been 6.905.

Other efforts to increase foreign capital investment can be summarized as follows:

- Abolishing the administrative and bureaucratic impediments in order to simplify business procedures,
- Harmonization of technical standards and regulations with EU,
- Increasing the effectiveness of customs in the process of imports and licensing,
- Increasing the potential of exports and strengthening Turkey's R&D base for the sake of benefiting more effectively from the human resources of Turkey,
- Improving the infrastructure in the areas of telecommunication, energy and transport,
- Allocating more resources in human capital, technology, education and instruction
- Protection of intellectual property rights.

The Next Steps for The Expansion of the Turkish Economy

We are well resolved to continue to transform Turkey so as to make it one of the best countries in terms of growth and stability. Our tight schedule related to aforementioned reforms and targets will be strictly pursued. Also we will try to make Turkish economy more robust in parallel with the process of EU Accession.

Furthermore, privatization will be on track in the coming period. The great and important privatization works related to PETKİM, TEKEL, HALKBANK, and Electricity Distribution and TCDD (Turkish Republic State Railways), ports (Bandırma, İzmir, Samsun, and Derince ports) will be fulfilled soon.

Turkey, from the point of her geographic and cultural accommodation, with her position as a bridge between countries and regions, her importance in the region, her young and dynamic population, her improving markets, human and natural resources, her communication and transportation possibilities provide better opportunities for investments.

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4. The Energy Sector

Coal is the only fossil fuel that Turkey possesses in abundance, meaning that large amounts of oil and natural gas are imported. In the early 2000s, the domestic distribution of fuels and electricity has been reformed to meet European Union standards. Distribution of natural gas, nearly all of which is imported, is to be privatized by 2009. Since the 1990s, Turkey has attempted to substitute cleaner natural gas for highly polluting domestic coal. In the early 2000s, about two-thirds of the 1.1 billion cubic feet of natural gas that Turkey imported was used by the electric power industry.

In 2005 authorities reduced their predictions of rapidly increasing natural gas consumption for the rest of the decade. Russia is the main supplier of natural gas; its share of total imports is expected to rise from the 2003 figure of 25% to 58% in 2010. Other major suppliers are Iran and Azerbaijan. In 2004 Turkey's domestic oil output was 43,000 barrels per day, about half the level of 1990. Turkey imports about 90% of its oil, mainly from Iran, Iraq, Russia, Saudi Arabia, and Syria. The demand for oil is expected to grow steadily during the next decade. Turkey's location along several international oil and gas pipelines eases transport. Ceyhan, on the Black Sea coast, is the terminus of the newly completed Baku-Tbilisi-Ceyhan oil pipeline, which may gain Turkey substantial transit fees. However, recent downward revisions of the Caspian's estimated potential oil deposits may reduce the value of that line.

Because the demand for electric power doubled in the 1990s, Turkey became a net importer of electricity as domestic generating capacity was unable to keep up with demand. Although in 2004 Turkey's generating capacity of 32,000 megawatts exceeded demand, another 13,000 megawatts of capacity was being added in anticipation of increased demand in the following 10 years, and some power is imported from Turkmenistan. In the early 2000s, domestic power supply was inefficient because new plants came online slowly and industry privatization stalled.

Turkey abandoned plans for its first and only nuclear power plant in 2000. Since 2002 an independent Energy Market Regulatory Authority has overseen privatization and distribution.

This agency is considered an important improvement in Turkey's energy management.

INTERVIEW

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1. THE FACTORS UNDERLYING THE ECONOMIC RESULTS THAT TURKEY REALIZED

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- These reforms enabled us to have stronger legal, institutional and technical infrastructure. Public Financial Management and Control Law, Public Procurement Law, reorganization of the Revenue Administration, simplification of tax laws and reduction in the tax rates, sophisticated IT systems in both spending and revenue sides, privatization of the huge government owned businesses, were some of the transformational reforms we completed.
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4. THE NEXT STEPS FOR THE EXPANSION OF THE TURKISH ECONOMY

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 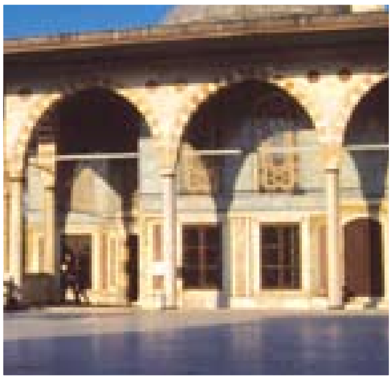 

5. Banking Finance And Insurance

After the set back due to the crisis of 2001, the banking system has returned to high growth and profitability. An increasing range of services, for both investment and trade purposes, is on offer to businesses and individuals in Turkey. A number of foreign banks operate in Turkey, mostly as branches. Foreign businesses have the same access to all sources of domestic finance as domestic businesses have.

In Turkey, the banking sector represents approximately 75% of the entire finance sector. There are four types of banks functioning according to their shareholder type: (1)The Central Bank of Turkey; (2) Commercial Banks including State Banks, Private Banks, Foreign Banks (both established in Turkey and those operating one or more branches in Turkey) (2) Development and Investment Banks; including State Banks, Private Banks and Foreign Banks (4) SDIF banks - Banks transferred to the SDIF (Savings De-posit Insurance Fund).

Turkish commercial banks are not allowed to engage in the following two types of activities: trading goods or immovable property for commercial purposes, leasing.

There are 36 commercial banks in Turkey including 3 state-owned, 18 privately owned, 13 foreign and two SDIF banks. Additionally there are 14 development and investment banks including 3 state owned development and investment banks, 8 privately owned and 3 foreign.

Under Banking Law No.4389, no distinction is made between different types of banks, although some provisions of the Banking Law are not applicable for investment banks and development banks (e.g. contingency reserves). Within the banking system there is a wide range of institutions, from very large full-service banks active in both the wholesale and retail sectors to smaller institutions specializing in wholesale or merchant banking, as well as certain state-owned banks

Under the leasing law, banks may engage in leasing through non-banking affiliates. The financial crisis in 2001 has made it vital for the Turkish economy to establish a sound and healthy banking system in line with international standards. Major regulatory changes were put in place to aid the impressive recovery of the Turkish economy.

Standards for providing loans were improved in line with conservative banking principles of Basel. The definition of "consolidated own funds" and "connected lending" were introduced in compliance with EU directives and, calculation of lending limits and standard ratios on a consolidated basis in compliance with this definition was ensured.

New regulations for risk management and CAR calculation in line with Basel I rules were introduced. Certain incentives were introduced to facilitate mergers and acquisitions of banks. A new scheme abolishing full deposit guarantee was introduced. Regulation for the establishment of Asset Management Companies and changes in the Bankruptcy and Execution Law were introduced with an aim to facilitate non performing loan collections.

New financial reporting standards similar to IAS were introduced. In addition to these changes a special audit to be conducted by two independent auditors for 2001 accounts was made compulsory for depository banks.

According to the results of the special audits, recapitalization scheme was introduced for banks that are not able to cover their losses with the legal reserves.

The Central Bank of the Republic of Turkey is the focal point of the Turkish banking system. The Central Bank administers government's monetary policy, holds the foreign exchange reserves and acts as lender of last resort to other banks. It controls the supply of Turkish liras in circulation and fixes the reference for exchange rates of the lira with other currencies, from which the commercial banks may only deviate within specified limits. It approves certain foreign currency transactions made by Turkish citizens, although in respect of the framework decree and Law No. 6326 entities (petroleum industry) most transactions require the approval of either the FID or the Treasury.

The Central Bank also establishes the minimum reserves that the commercial banks must place with it, and is responsible for supervising the banking system through the various returns filed by the banks.

In 1988 the Central Bank started to exert significant influence on interest and foreign exchange rates through open market operations. Future policy intentions include three main goals: complete segregation of the Central Bank from the Treasury, along the lines of the German Bundesbank; stabilization of the foreign exchange and interest rates; and reduction of the spread between deposit rates and interest rates on credits (largely determined by regulations).

36 commercial banks and 14 investment and development banks currently operate in Turkey under Law No. 4389.These conduct all banking transactions on behalf of the public. Three of them are state owned banks and concentrate on specific fields, such as agriculture (Ziraat Bankasi). Others carry out general business. The majority has the right to process properly authorized foreign exchange transactions on behalf of their customers.

Private banks are generally owned by family industrial concerns or the banks' pension funds. Although the banking law limits the use of such banks for investment purposes with restrictions on lending to affiliates and equity participations, the profitability of trade finance has made banking licenses highly desirable from the point of view of family businesses.
Foreign banks are welcome in the Turkish market. Under the framework decree, foreigners may invest in a Turkish bank or may set up a branch or subsidiary banking operation. Some 16 foreign banks are established in Turkey, mostly as branches. Because the lending limits are tied to capital and because they do not have access to a large customer deposit base like the Turkish banks, the high rates of inflation and devaluation have reduced potential profitability in terms of volume, but the value of their international connections and their innovative ability for new products, particularly in the fields of trade and corporate finance, have led to continuing development of profitability.

There are many investment development banks, including: Türkiye Sinai Kalkinma Bankasi (TSKB), Tekfen Yatirim Bank, Birlesik Yatirim Bank, Avrupa Yatirim Bank, Yatirim Bank, Parkbank, Tat Yatirim Bank, Türkiye Kalkinma Bankasi. These channel funds from interna-tional development agencies such as AID and IFC to projects within approved industrial development sectors.

The Export Credit Bank of Turkey (Eximbank) was established by a Council of Ministers' Decree with the objective of assisting exporters by providing specialist services.

Banks, investment funds, mutual funds, and insurance companies are the investment institutions that dominate the reopened Istanbul Stock Exchange. Activity centres on government bonds and commercial paper partly in view of the small number of quoted shares and partly because, under the Capital Markets Law, the requirement to distribute between 50% and 75% of the profit after taxes and legal reserves produces a much lower rate of return than the interest on bonds and commercial paper.

The only active stock exchange is in Istanbul; Traditionally, Turkish investors have channelled their savings into property and commercial banks. Despite the high rate of inflation and the financial crises in 1994, resulting in the collapse of three private banks,

the interest of investors in the securities market has shown rapid growth.

Modern financial instruments such as futures, options and swaps have begun to be implemented in recent years. The Istanbul Gold and Izmir Commodities Markets and the Clearing and Settlement Bank have also been opened; these are considered to be major steps in developing financial markets.

The continuing tight monetary policy, high inflation and high interest rates mean that venture capital is in short supply and the major source of business finance is, traditionally, the banks. Low returns, as described above, currently preclude the stock market as an effective source of equity capital, although established companies have found commercial paper marginally cheaper than bank borrowing. However, mandatory publication of audited financial statements will, in the future, result in the availability of information to competitors, which may be considered undesirable.

Interest rates have been declining gradually along with the declining inflation rates. Currently, the official Central Bank overnight rate is 20%.

No distinction is made between local and foreign investors on the availability of sources of finance, although certain subsidized loans from the development banks may be extended primarily to develop local industry.

Banks are required to invest their contingency loss reserve (5% of pre-tax profits) under the banking law, and their legal reserves in Treasury bonds under the Turkish Commercial Code. Insurance companies are required to deposit cash and security for these guarantees under the insurance law with a national bank designated by the Ministry of Industry and Commerce. Otherwise, there are no restrictions on the use of un-repatriated funds.

Insurance

In 2002, 62 companies, of which 59 are insurance companies and 3 reinsurance companies, operated in Turkish insurance industry. In 2002, domestic direct premium production increased by 45.03% compared to the end of preceding year. Considering the increase of 30.8% in the WPI at the end of 2002, the above figures reveal an increase in the total premium revenue in real terms. This rate is much greater than the growth rate of 41.06% in 2001.

Agriculture and engineering insurance had the highest growth rates, rising by 78.56% and by 51.16% respectively while the lowest growth occurred in the casualty insurance by 41.25%.

6. Construction And Real Estate

The construction sector is highly developed in Turkey with contractors operating nationwide as well as abroad. The third largest sector of the country after foodstuffs and textiles, Turkish construction accounts for around 5 - 6.5% of the countries GNP.

Today, the share of Turkish contracting in international global contracting services is about 2-3%. Therefore, a large number of the countries in the region rely on Turkey as a major supplier of building materials and construction services.

More than 5,000 local producers manufacture most building materials domestically. Turkey is primarily self-sufficient in conventional building materials. However, imported building materials are also increasingly being used, especially in modern world-class hotels, tourist centers, and in the country's more affluent residential areas.

The building materials market reached nearly $3 billion in 2003, of which nearly one-third is met by imports. Total local production approached nearly $4 billion, with fifty percent of local production going to exports.

Best sales prospects in the buildings material industry are: flooring, prefabricated wall panels, wall paper, doors, windows, paint, insulation, sanitary wares and plumbing fixtures, prefabricated homes, roofing and siding materials, and earthquake resistant structures/materials.

The Marmaray project, one of the world's most ambitious urban transport projects, a milestone international railway link and massive construction project, will connect the Asian and European sides of the Bosphorus.

The European Investment Bank (EIB) is extended a loan of 568 million USD to the Republic of Turkey to part-finance the infrastructure of the urban rail system including an international railway link as well as an urban rail commuter project.

The 76 km railway line will connect Halkali on the European side of the city with suburban Gebze on the Asia side, sharply reducing travel time between the two and helping relieve the city of the growing traffic congestion. The rail system will carry 75.000 passengers and hour and link with the municipal light-rapid rail system and metro. Some 63 km of the system will be above ground, while 14 km will be underground including a 1.4 km tunnel under the Bosphorus. Thirty-seven existing stations will be upgraded while three underground stations will be constructed.

The project, scheduled for completion in March 2010 will receive a further 315 million USD loan from the EIB to complete the funding. The Ministry of Transport's Directorate General for Railroads, Ports and Airports' construction is overseeing the project.

Despite a rigid adherence to a programme of tight budgetary policy the country is going ahead with several large infrastructure projects ranging from urban transport and inter-city express roads to hydroelectric dams and water and sewerage systems receiving large government funding. Foreign banks, governments and international lending institutions are encouraged by the country's strong economic performance, falling inflation and dropping interest rates and the perspective of joining the EU.

Enterprises with fewer than 250 employees constitute over 99% of the 210,000 acting manufacturing enterprises in Turkey. They account for 77% of the overall employment, provide 27% of value added; and represent 38% of fixed capital investments.

In Turkey more than 80% of production and 95% of gross fixed the investment is realised by private sector.

  

7. Turkish Garment Industry

The textile industry is the largest and one of the oldest industries in Turkey. The present clothing industry was established in the 1950s when it served domestic consumption, its development remained limited until the end of the 1970s. However, the textile industry has started to develop through the influence of incentive measures applied after 1967. After January 24, 1980 economic reforms, the textiles and clothing industry has developed mainly due to the export oriented economic policies, the rational use of incentive measures for investment, and the supports introduced for the import of machinery equipment and auxiliary materials.

As a result, the international competitiveness of the textiles and clothing industry has increased, and important increases have been achieved in the exports. As of today, the textiles and clothing industry is an outward oriented industry which uses modern technology, and can compete with other countries in international markets.

The textile and clothing sector in Turkey accounts for 11-12% of Gross National Product, one third of exports, and 10% of industrial output by value. Turkey is among the world's top ten textile exporters. 49.000 small and medium enterprises are active in the sector. They represent 23% of manufacturing SMEs and employ 2.3 million people.

The value of textiles and clothing industry production was around 27.7 billion USD in 2002 and exported 44 percent of that amount. Its share in manufacturing production in 2002 was 21.5%.

Textiles and clothing industry exports increased significantly during the last two decades, from 595 million dollars in 1979 to 12.5 billion USD in 2002 by more than 20 times. During the early eighties Turkey was exporting mostly textile products like fibers, yarns and fabrics. Since 1986 the export of apparel increased steadily and in the early nineties exports of value added apparel products has started. The important part of the textiles and clothing exports, nearly two thirds, has been directed to European Union (EU). Geographical proximity, duty free access to the EU, relatively low wage levels, high quality of goods demanded by the EU are the main causes of the increase in the textiles and clothing industry exports. The shares of the textiles and clothing industry in total exports and in manufacturing industry exports in 2002 were 33.7% and 36.2% respectively. In other words, more than one third of total exports is realized by the textiles and clothing industry.

The textiles and clothing industry imports was around 2.9 billion dollars, in 2002. The shares of the textiles and clothing industry's imports in total imports and in manufacturing industry imports in 2002 were 5.5% and 6.7% respectively.

There were significant capacity improvements in textiles and clothing industry starting by the 1970s. The machinery stock increased to 5.7 million spindles and 459,600 rotors in 2001. Even though the capacity utilization rate differs by sub sectors, overall it is around 80% for the textiles and clothing industry.

In the past, the state played an important role in the textiles and clothing industry, but now there are only two public economic enterprises, Sümer Holding and Sümer Halı. But these two enterprises have a minor role in the textiles and clothing sector. Altogether, textiles, clothing and leather industries provide for more than one third of employment in the manufacturing industry.

The share of foreign capital investment has been limited. There are 337 foreign capital textiles and clothing companies operating in Turkey, accounting for 5.2% of total number of foreign capital firms.

The main reason behind the good performance of the textile and clothing industry in Turkey is the increase in modern machinery imports and new investments in recent years. The performance of textiles and clothing industry affected positively by domestic cotton production, proximity to the EU market, trained work force, the progress achieved in infrastructure and telecommunication systems, together with the existence of large domestic market.

The Turkish leather sector, which has a history dating back 500 years, is today on the way to becoming a leading sector in the leather world. The Turkish leather industry, which occupies a place of prominence in the Turkish economy, has developed rapidly by combining both its technology and its historical background.

The Turkish leather garment industry is producing the finest womens' and mens' leatherwear. The sector is creating its own fashions by using an unsurpassed blend of colours, patterns, manufacturing care and quality materials. This is the reason the
Turkish leatherwear industry is appreciated all over the world, and has become the fourth largest exporter in the world. Most of the companies in the sector are producing original collections with their own brand name.

Initial efforts to modernise the leather industry began in the 70s but significant progress on a real industrial scale only began in the mid-80s. The sector has developed very rapidly in the recent years. At present, there are two organised leather industry zones in Turkey and wastewater treatment plants for these zones have been completed.

In addition, the construction of nine organised leather industry zones is continuing. The sector produces according to international standards and is becoming more sensitive to health and the environment; 90% of the production is based on health and environmental standards.
Technological advancement, which is a must for a competitive industry, is growing rapidly and the Turkish leather sector has reached the point that it now exports its own technology. Turkey can now produce all the machinery and 90% of the chemicals which it needs for leather making and export them as well.

Leather manufacturers are mainly located in Istanbul (Tuzla), Izmir (Menemen), Çorlu, Uak, Denizli, Gerede, Bursa, Gönen, Manisa, Bor and Kula. Zeytinburnu (Istanbul) is considered the most important production and trade centre for the Turkish leather garment industry.

Today, the annual leather processing capacity of the industry is 400 000 tonnes. The sector is the 10th largest industry in Turkey with its 3.3 % share in the manufacturing industry. As production methods are modernised, the Turkish leather industry ranks second in the world in leather processing. Leather clothing production was 4.3 million units in 1998 and it reached 5.5 million units in 2000 with an increase of 28%. At present, the leather garments industry is exporting 85% of its production.

Turkey exhibits its unique collections, capacity and products in two fairs, which are organised in Istanbul and Antalya. The International Leather Days is organised in Istanbul once a year, and the world leather industry meets in Istanbul during this fair. The International Leather Days covers various processed natural leather and artificial leather for garments, footwear, leather goods and upholstery dyes, linings, all kinds of leather chemicals, shoe-uppers, leather goods, travel sets and many other things related to leather articles. The Turkish leather wear companies prepare a fashion show called "Leatherist" during the fair.



8. The Turkish Tourism Sector

Turkey is the 18th most visited country in the world and ranks 13th in tourism income. The Turkish Ministry of Tourism expects the country to be the 11th most popular tourism destination worldwide in 2005, with over 20 million tourists. The period from1960 to 1997 was mainly investment-driven; the country enjoyed high growth rates in terms of tourist arrivals and tourism income. Emphasis was put on the creation of supply (such as accommodation and infrastructure) rather than on the promotion or marketing of products. Since the beginning of the nineties, the number of incentives to construct hotels and restaurants has declined, resulting in a more demand-driven growth. In the 20 years 1985-2004, annual average growth rate in the Turkish tourism sector was 12% in terms of tourist arrivals and 15% in terms of tourism revenues.

According to the Turkish Tourist Board, both domestic and foreign tourism are growing. Overnight stays of domestic tourists have doubled since 1991. This is mainly due to the increasing wealth of high-income groups. Business travel abroad is also rising sharply because of liberalisation policies. Nevertheless, the most important aspect of tourism in Turkey is international tourism, which accounted for 71% of total overnight stays in tourism accommodation in 1999.

In 2004, the number of tourists visiting Turkey has increased 25% compared to the previous year and reached 17.5 million. Tourism revenues from foreign tourists amounted to 12.1 billion USD increasing 12% compared to the previous year. In 2004, among the tourists visiting Turkey, 61.2% were from OECD countries and 27.6% were from Eastern European countries. The trend reflects an increase of incoming tourists especially from the neighbouring and near countries including Russia, Greece, Iran.

The total investment stock in Turkish tourism is 35 billion USD, ¾ of which was realized by the private sector. Following the Tourism Incentive Law in 1982, tourism was listed among "sector of special importance for development". Some monetary incentives such as cash grants and long term-low interest rate credits were introduced following the examples of countries still implementing similar incentive measures. As a result, annual tourism investments rose from 140 million USD in 1985 to 1 billion USD in 1990. Turkish investors built 200,000 new beds in 8 years 1985-92, that is, 25,000 thousand new beds on average every year. 90,000 beds (20% of the present bed capacity) have been built on public lands leased to investors.

The total foreign investment portfolio in Turkish tourism is around 3 billion USD which constitutes 10% of the tourism investment stock. Foreign firms operate 65,000 thousand beds (around 15% of total beds) in Turkey.

INTERVIEW

H.E. Mr Attila KOC,
Minister of Culture and Tourism
External Relations and EU Coordination Department

Turkey is a major tourism destination. What are the main assets of the tourism sector in your country?
Our country has comparative superiority from the standpoint of mass tourism based on sea-sand-sun triple due to its geographic, climatic, historical and natural features. Furthermore, our country has also great historical, cultural, natural and traditional tourism diversity such as health and thermal tourism, yacht tourism, cruiser tourism, congress tourism, winter and mountain sports, plateau and nature tourism, faith tourism, which already exist potentially but do not have enough opportunity to develop. Tourism can be made in all of the country and for twelve months.

Turkey has the ability to submit its natural beauties and all tourism products provided by sea-sand-sun triple to the visitors and people concerned due to its location in Black Sea, Marmara, Aegean, and Mediterranean basin.
Moreover, our country is located as an open–air musum, because Anatolia had hosted lots of civilizations in history like Pers, Lidya, Urartu, East Rome, Seljuk, Otoman, Hittites and succeded carrying the concrete and non-concrete heritage of these civilizations to our date without making any change.
With this regard, our country is a destination that has the capability of submitting both main tourism products such as sea, winter, culture, faith, congress, health and alternative tourism products.

Turkey had welcomed 13.2 million foreign visitors in 2002, 14 million in 2003, 17.5 million in 2004 and 21.1 million in 2005. Our expectations for 2006 are in the direction of a development above world average.
With the purpose of benefiting from the rich culture and tourism potential of our country, studies are continuing intensively for spreading tourism into four season and in all country; diversfying the culture and tourism products and presenting our culture and tourism values in homeland and abroad.

After being well renowned for being a mass tourist destination, are you rather willing to develop high standard quality tourism, like specialized tourism such as medical or exhibition tourism?
With the investments and practices realized through the sea-sand-sun triple and with existing investment policies, the region has reached to a satiation; therefore it is felt a necessity to develop new investment fields and policies. Alternative tourisms and coast tourism are evaluated with an understanding of racing with each other; not destroying each other but existing together.

Turkey is one of the first seven countries of the world in the issue of jeothermal source richness and potential, and it is in the first place in Europe. For more effective and productive usage of pure geothermal sources, it is trying to be developed a different understanding and approach from traditional hot spring usage. Through the development of thermal tourism, it is aimed to increase the tourism income, the number of tourists and also the number of well-qualified resorts which have international standards and provide cure park, cure centre and accomodation integration in their structure.

History and Culture treasure Turkey is located as a door of the exciting opportunities universe. On the combining point of Europe and Asia, Turkey is a wonderful place for meetings and congresses. Turkey, today, has all necessary equipment to prepare all kinds of meetings, intensives and conferences with suitable comfort and style.
With the openings of intenational well-qualified golf resorts in recent years, Turkey has transformed into a qualified golf centre in which politeness, quality and prestige meet and golf fans of the world come together. Especially Belek, located in 30 km east of Antalya, has a unique golf tourism potential not only with its cultural, historical and natural structure but also with its well-qualified golf resorts. Furthermore, golf resorts which have international standards were planned in İstanbul, Ankara and Muğla.

Turkey, whose three sides are surrounded with seas, is a suitable place for yachters with its bays, gulfs and well-equipped marinas.

The number of tourists has significantly surged recently. Does Turkey have all the necessary communication infastructures and the hotel facilities to welcome a higher number of visitors? What are the necessary investments required to host the number of tourists in good condition?
Our country has been an adequate ground in qualified accomodation facilities and other resources. It had been implemented many works related to the improvement of urban infastructure. Furthermore, with the framework of tourism counties project, on the basis of our endavours; the properties and demands of the area in which project will be carried, the harmony of this area with general environment merits and its physical, social and cultural environment, effects that it will bring about on its environment and technical infastructure, approaches related to solution of these effects and their contributions and the added value will be constituted by this area improving with the quality of its product and content, bringing up diversified tourism demands, guiding enterprise and marketing strategies have been considered in accordance with general tourism development policies by our Ministry.
Having tourism cities a rapid and stable organization will provide Turkey to get out its risky bed advertising and to become a tourism destination that whole Europe and all of the world has supported and this can be considered as an important vision on this way.
The main objective is the entrance of capital to our country through investments and by this way reducing the risk. This fact, which can be an important contribution for Turkey to become a destination adopted and protected by the whole world, can be achieved by founding high-qualified facilities and cities and by supporting other tourism investments.

As the tourism industry has recently witnessed an important boom, many foreign bodies might be interested in investing in the sector. What are the most intersting fields in the sector for foreign investors?
In the scope of the Tourism Counties Project, from the projects of

- Oymapınar Tourism County
- Çeşme-Alaçatı Tourism County
- Muğla-Dalaman Tourism County
- North Antalya Tourism County
- Didim Tourism County; Çeşme-Alaçatı and Muğla-Dalaman Tourism County Projects have come to the implementation point.

Also, beside thermal tourism destinations which were rediscussed and developed with a new understanding by our Ministry, and notable tourism destinations, 656.131 bed capacity at 165 tourism centre, 20.000 person/day for the day, 6000 person/day camping, 1300 yacht capacity is constituted.

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Minister of Culture and Tourism
External Relations and EU Coordination Department

9. Heavy Industries

TÜPRAŞ (Turkish Petroleum Refineries Corporation) and ATAŞ are the two main companies in the petroleum refining sector of Turkey. The refineries of TÜPRAŞ located strategically across the country (Kõrõkkale, İzmir, İzmit, Batman) with a primary focus on the main markets of İstanbul, İzmir and Ankara, ATAŞ refinery is located in Mersin.

Total crude oil processing capacity of Turkey is 32 MT/Y (million tons/year). TÜPRAŞ has a combined capacity of 27.6 MT/Y representing 86 % of Turkish refining capacity while ATAŞ has a capacity of 4.4 MT/Y and a share of 14 %. After the completion of Kõrõkkale Refinery which has a capacity of 5 MT/Y in 1986 and the commissioning of an expansion project at the İzmir Refinery between 1987-1989 TÜPRAŞ. s crude oil processing capacity reached 27.6 MT/Y and total refining capacity of the country reached 32 MT/Y and since 1989 total refining capacity of Turkey remained the same.

Turkey is located at the gateway of Middle East and Caspian petroleum and Central Asian natural gas to the west, which are regarded as the important energy reserves of the world. This proximity to the energy sources creates an attractive investment environment for the producers and increases the competitiveness of the country. The national policy of constructing crude oil and natural gas pipelines also supports this advantageous investment environment.

In 1989 TÜPRAŞ launched a comprehensive investment program covering the years 1989 to 2004 known as the Master Investment Plan.. This program seeks to increase the company's profit potential and competitive strength by modernizing the refineries and bringing production processes and products into compliance with European Union (EU) environmental standards. Total investments provided for this pan amount to 2 billion USD in value of which 1.3 billion USD was completed as of year-end 2002.

In 1990, the decision on the privatization of TÜPRAŞ has taken and by year 2000 34.24% of the Company had been privatized. Finally, the bidding deadline of the remaining 65.76 % of TÜPRAŞ via block sale was ended on 24 October 2003. After the completion of the evaluation process 100 % of the company will be privatized.

In 2001, Yarõmca facilities, the first complex set up by PETKİM (Petrochemicals Holding), was turned over to TÜPRAŞ and renamed Körfez Petrochemicals and Refinery Complex. Also, in 2002 TÜPRAŞ acquired another 50.98 % stake in DİTAŞ (Marine Operations Corp.) in addition to its existing 29 % stake thus bringing its total stake in the Company to 79.98 %.
The main policy of the refining sector is to satisfy Turkey's need for petroleum products safely and economically. For this purpose existing and/or new firms in this field may set up, purchase and operate petroleum refineries and new units both in Turkey and abroad. Also improving product quality and achieving compliance with EU specifications are the main objectives of the ongoing investments. Also, as it was mentioned in the 8th Five Year Development Plan, another basic policy is to encourage the construction of a new refinery plant in order to meet petroleum products requirements of the country.

The Petroleum Law, 6326, in effect since 1954 regulates prospecting, exploration and production under permit, license and lease. The law also governs pipeline transit and refining.

Major legislative change was occurred by the acceptance of the new Petroleum Market Law on 4 December 2003 which has an objective of creating a competitive market, as the state's gradually withdrawing from the industry and enhancing its role of supporting industry, regulating and monitoring the market within the framework of international rules. By the new law all licensing issues and regulation of the market is handed over from the Ministry of Energy and Natural Resources to the Energy Market Regulation Board.

Although Turkey is an importer of crude oil which is the main input for petroleum refining activities, the advantageous location of the country enables the companies to maintain their crude oil requirements continuously and economically. In addition to the domestic production and the conventional suppliers of Turkey like Saudi Arabia, Iran and Libya, the refineries may also have term contracts for crude oil supply from Syria, Algeria and Russia in the region.

TÜPRAŞ which is the biggest refining company of Turkey has also considerable capacity among the European refineries. After the completion of the Master Investment Plan it is expected that the Company's refineries will attain the level of sophistication of Spanish and Italian refineries. Also ongoing Bakü-Ceyhan crude oil pipeline project will provide improved economies for crude oil delivery as well as an attractive investment environment for the domestic and foreign investors in this sector.

Chemical

Turkish chemical industry production, with about 45.000 employees, grew at an annual average rate of 4.3% over 1990-2002. The capacity utilization in 2001 is 72.1%. More than 1000 entities are operating in Turkey. Private entities mostly invested on consumption goods such as soaps, detergents, paints and pharmaceuticals and there is considerable foreign involvement in detergent and cosmetics sub-sectors.

As regards to general structure in Turkish chemical industry, 2% of existing companies have more than 150 employees and the number of companies with 0-20 employees is much higher. 54% of the demand for chemicals is met by imports which is mostly raw materials. 84 percent of production originates from private sector. 80 percent of the total production (excl. pharmaceuticals) is intermediate goods. Boron chemicals, soaps, detergent, cosmetics, paints subsectors have export potential.

There have been considerable improvements in terms of quality, productivity and protection of environment. The responsible care, the chemical industry™s trademarked initiative on environmental, health and safety issues, has been successfully implemented since 1992.

The industry will become more import dependent as new investments are mostly small expansion and modernization projects. In chemical industry, which is technology and capital intensive, large scale investments can be realized by domestic and foreign companies provided that the investment environment is improved and economic stability is ensured. In the context of the Reform Program for Improving Investment Environment in Turkeylm, problems regarding chemicals and pharmaceutical sectors mainly related to environmental and certification procedures are determined. The efforts directed towards the solution of these problems are continuing.

Iron and Steel

In the early 1980s, three government-owned integrated steel producers controlled a substantial majority of the capacity. Over the past two decades, significant capacity has been added through private mini-mill investments. As a result, Turkey has become one of the top players in the global steel market.

Currently, the Turkish steel industry consists of three main types of player: Integrated steel producers, mini-mills using electrical arc furnaces and processors.

Integrated steel producers: Integrated producers use iron ore and coal as raw materials and produce iron using coke plants, sinter and blast furnaces. Iron is then converted into steel in basic oxygen furnaces (BOF). There are three integrated steel producers in Turkey: Erdemir, Isdemir, and Kardemir. Erdemir, a semi-private company traded in the stock exchange since 1985, is the only flat product producer in Turkey with 3 million tons of crude steel capacity. Currently, 44.12% of Erdemir is in the scope of privatization. Isdemir was transferred to Erdemir in January 2002 by way of privatization and with the condition that the plant transforms some of its production capacity from long to flat products. Kardemir was privatized in 1995 through transferring the ownership to its employees. These three integrated producers account for 28% of crude steel capacity and 31% of crude steel production in 2002. They represent approximately 50% of employment in the steel industry.

Electric Arc Furnaces (EAFs): These players purchase (mostly imported) scrap metal and melt it in electric arc furnaces. There are 16 mini-mills in Turkey, which produce long products, with the exception of a few producing specialty steel. These mini-mills account for 72% of crude steel capacity and 69% of crude steel production in 2002. They represent approximately 25% of employment in the steel industry.

Processors: These players import semis or purchase them from integrated steel producers and mini-mills. With the exception of one cold rolling company that produces flat products and a few companies producing specialized products such as spring steel, most of these players are sub-scale rolling mills supplying low-value-added, often very substandard, long products to the construction industry. More than 300 re-rollers produced almost 3 millions tons of rebar and profiles in 2002. Processors account for the remaining 25% of employment. (McKinsey). Turkish iron and steel industry has witnessed privatizations, close downs or changes in the ownership status of some enterprises over the last decade.

Currently, the steel industry is an important part of the Turkish economy, with about 0.8% share of GDP and 0.2% share of the employment, and it constitutes 7.0% of total exports of Turkey. With its 16.5 million tons of crude steel production, Turkey ranked 13th in the world steel output in 2002.

Turkey was the 9th biggest exporter of the steel products in 2001. When it comes to imports Turkey was the 15th biggest steel importer in that year. (International Iron and Steel Institute) Exports of Turkish iron and steel industry have been continuously increasing in recent years. Among the markets that Turkish steel products are exported; the EU is the primary export market, Middle East is the second and the Far East is the third biggest export market. According to regional breakdown the biggest importers of Turkish steel are the Russian Federation and Ukraine, the second region is the EU and the third region is comprises the Central and Eastern European countries. Turkish iron and steel industry constitutes 7.8% of total exports and 4.1% of total imports of Turkey in 2002.

Total employment in the steel making industry fell from 43.7 thousand in 1990 to 26.7 thousand in 2002. In spite of several periods of economic recovery during the last 20 years and a fast growing population, the use of steel in Turkey has remained below potential levels, in global terms and per head. Apparent steel consumption per capita is around 200 kgs.

As a result of the economic crisis in Turkey that occurred in November 2000 and February 2001, steel demand from the main sectors such as constructions, infrastructure, automotive and machinery have diminished. With the decrease in the domestic demand and the competitive advantage gained from the devaluation of the Turkish Lira, the producers tended towards the export markets and steel imports were also limited. Increase in the exports and decrease in the imports resulted in the iron and steel industry being less affected from the crisis situation. Thus, the growth trend in the production of the sector has been continued. 2003 is even a better year in terms of sales and consumption figures.

Auto Industry

According to the Automotive Manufacturer's Association [OSD], the total automotive production rose by an impressive 13.1% reaching to a total of 234,844 units in the first quarter of 2006. Passenger cars surge by 16.1% reaching to 119,644 units while commercial vehicles show a relatively poor progress of 9.6% striking 105,791 units.

Domestic retail sales in the first quarter rose by 10.2% year on year benefiting from back of the competitive campaigns and best fit loan options attaining to a total of 138,875 units including farm tractors.

In the first quarter of 2006, total domestic automotive vehicle wholesales -including farm tractors reached 64,709 units, witnessing 12% increase y-o-y. Passenger cars, boost by 19% while commercial vehicles and farm tractors surge by 3% and 46% respectively, compared with the first quarter of 2005.

Total exports surged by an impressive 7% reaching to a sum of 154,116 units -including farm tractors- in 1Q06 y-o-y. Both passenger cars and commercial vehicles exports grew by 8% while farm tractors shrank by 7% coming down to 2,535 units.

The automotive figures in the first quarter were piquant in terms of confirming that the sector is becoming more and more stabilized after the breathtaking 2004 and 2005 figures. The production in the first quarter grew by 13% reaching 234,844 units including farm tractors whilst domestic market eased up by 10% -thanks to relatively eased loans and firms attaining to 138,875 units and exports performed under a sustainable growing path surging by 7% reaching to a total of 154,116 units.

On the macro side, the 2005.s 7.4% GDP growth lays off one important thing. Catching a steady annual 6-7% increase in productivity supported by investments and increase in CUR would boost 5-6% GDP growth on average.

Cement

The Turkish cement sector consists of 57 facilities, 39 of which are integrated facilities and 18 of which are grinding and packing facilities. All of these facilities belong to the private sector. Klinker production capacity of the sector is 33 million tons/year and cement grinding capacity is 65 million tons/year. The sector has shown a rapid export growth in recent years.

In Turkey the Cement Sector is among the strongest industries. Turkey has the first rank in Europe and the second rank in the world in cement exports. The country is rich in cement raw materials and the facilities have the latest technology and equipment. The machinery and equipment used in cement facilities and their spare parts are produced locally. The sector has shown a steady growth in both production and export volumes. Since some of the firms in the sector continue to increase their capacity with bottleneck removal and plant expansion investments, the volume of the exports is expected to increase. On the other hand, the relatively high energy costs will have to be decreased in order to achieve the export goals.

Ceramics

Ceramic sector accounted for nearly 1% of manufacturing production with a value of1179 million USD in 2002. It consists of 36 large and medium scale enterprises and 300-350 small scale workshops. All production facilities belong to the private sector. The sector has shown a steady export growth in recent years.

Turkey is rich in ceramic raw materials and the factories have the latest technology and sufficient number of workforce. With the modernization investments undertaken in recent years, the production technology has been renewed. Great improvements in product quality have been achieved by means of product standards and quality assurance certificates. As a result, the competitiveness has improved and the volume of the exports has increased. The producers export to countries such as European Countries, USA, Canada, Australia, Middle East and Central Asian Countries, and also compete with leading countries, such as Italy and Spain.

  

10. Agriculture And Mining

Turkey is self-sufficient in most foods, although some agricultural commodities are imported. The principal agricultural exports are cotton, fruits, hazelnuts, tobacco, and wheat.

Other important agricultural products are barley, corn, oilseeds, olives, potatoes, sugar beets, and tea. The most important livestock are cattle, chickens, goats, and sheep, but animal husbandry has declined significantly since the 1980s. The efficiency of the agricultural sector is limited by the predominance of small, non-mechanized farms on which a disproportionately large segment of the population depends for its livelihood. Output varies substantially according to weather conditions. The South-Eastern Anatolia Project is an extensive series of dams and canals in the Firat (Euphrates) Valley, scheduled for completion in 2010. The project will provide irrigation to improve agricultural productivity in the southeast. State support, an important component of agricultural enterprises, often has been poorly distributed and without proportionate returns. In the early 2000s, the government reduced agricultural support and began restructuring marketing systems.

In 2000 the extent of Turkey's forests was estimated at 10.2 million hectares. However, the forests of eastern Anatolia are not suitable for harvesting. The only usable timber comes from the Black Sea coastal region, and timber does not make a significant contribution to the economy, only about 20% of the total forested area is classified as commercially exploitable.

In 2003 Turkey's timber industry produced a total of 16 million cubic meters of wood products, about 32% of which was fuel-wood. Forest protection by the state is handicapped by the dependence of local populations on trees for fuel. In 2004 forestry contributed 0.4% of GDP.

Despite Turkey's long coastline, fishing is not an important contributor to the economy. The fishing industry is concentrated on the coasts of the Black Sea and the Sea of Marmara, where output has been cut by pollution and over-fishing. In 2002 Turkey's fish catch totalled 567,000 tons, a substantial decrease from the annual totals of the 1990s. Anchovies accounted for more than 60% of the catch. A small aquaculture industry also exists. In 2004 fishing contributed 0.4% of GDP.

Mining and Minerals

Turkey's major mining operations, formerly controlled by state-owned companies, have been increasingly privatized in the early 2000s. During that period, aluminium, chrome, copper, and silver mines have moved into the private sector. By far the most important mineral product is lignite coal, of which Turkish mines yielded nearly 50 million tons in 2002 and of which reserves are estimated at 8.4 billion tons. Turkey's low-quality lignite, burned mainly in power stations, is highly polluting. The output of hard coal has declined in the early 2000s, reaching 3.3 million tons in 2002. Hard coal reserves are estimated at 1.1 billion tons. The most important non-fuel mineral is boron, of which Turkey has an estimated 60% of world reserves production of which remains in state hands. Gold, of which Turkey is estimated to have 450 tons of reserves, is receiving increased investment. Marble is the most important mineral export.

The Turkish Chambers of Commerce and Industry

Ankara	Union of Chambers and Commerce, Industry, Maritime Commerce & Commodity Exchanges of Turkey	Atatürk Buluari, 149 BAKANLIKLAR 06640 ANKARA	0090 312 418 42 88 0090 312 418 42 90 0090 312 418 72 35 0090 312 418 43 27	00 90 312 418.32.68 00 90 312 425 12 31 00 90 312 417 19 83 00 90 312 417 97 11	webadmin@info.tobb.org.tr ferd@info.tobb.org.tr
Antalya	Chamber of Commerce and Industry of ANTALYA	Kazim Özalp Caddesi 2 Sokak No. 4 07040 ANTALYA	0090 242 2489900 0090 242 2489605 0090 242 2489900 0090 242 2489303	0090 242 244 2789 0090 242 244 2789 0090 242 244 25 66	euinfo@atso.org.tr asuman@atso.org.tr olcay@atso.org.tr
Istanbul	Chamber of Commerce ISTANBUL	Resadiye Caddesi. 34112 Eminönü ISTANBUL	0090 212 455 6038/39/31 Fugen 0090 212 455 6000 0090 212 455 6412 (direct) 00 90212 455 60 32 00 90212 455 61 07 (Melle Aylin Odabas)	0090 212 5121063 0090 212 5201526	fugen.camlidere@tr-ito.com ticoda@attglobal.net senem.cesmecioglu@tr-ito.com disilskiler@tr-ito.com
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ASCAME General Secretariat:
Av. Diagonal, 452 – 08006 Barcelona – Spain

Groupe Eric Ohayon Communication – GEOC Group: 49, Rue de Ponthieu - 75008, Paris - France
Phone: +33(1)39.90.97.88. – Fax: +33(1)39.90.95.47.
Website: www.geocfrance.com
E-mail: geoc.france@gmail.com

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For any editorial or advertising enquiry,
Please call + 33 1 39 90 97 88 or contact us at geoc.france@gmail.com

ASCAME

ASCAME - SECRETARY GENERAL
Av. Diagonal 452, 08006 BARCELONA - SPAIN
ascamesecretariat@mail.cambraben.es

G.E.O.C.

49, Rue de Ponthieu, 75008 PARIS - FRANCE
geoc.france@gmail.com
www.geocfrance.com