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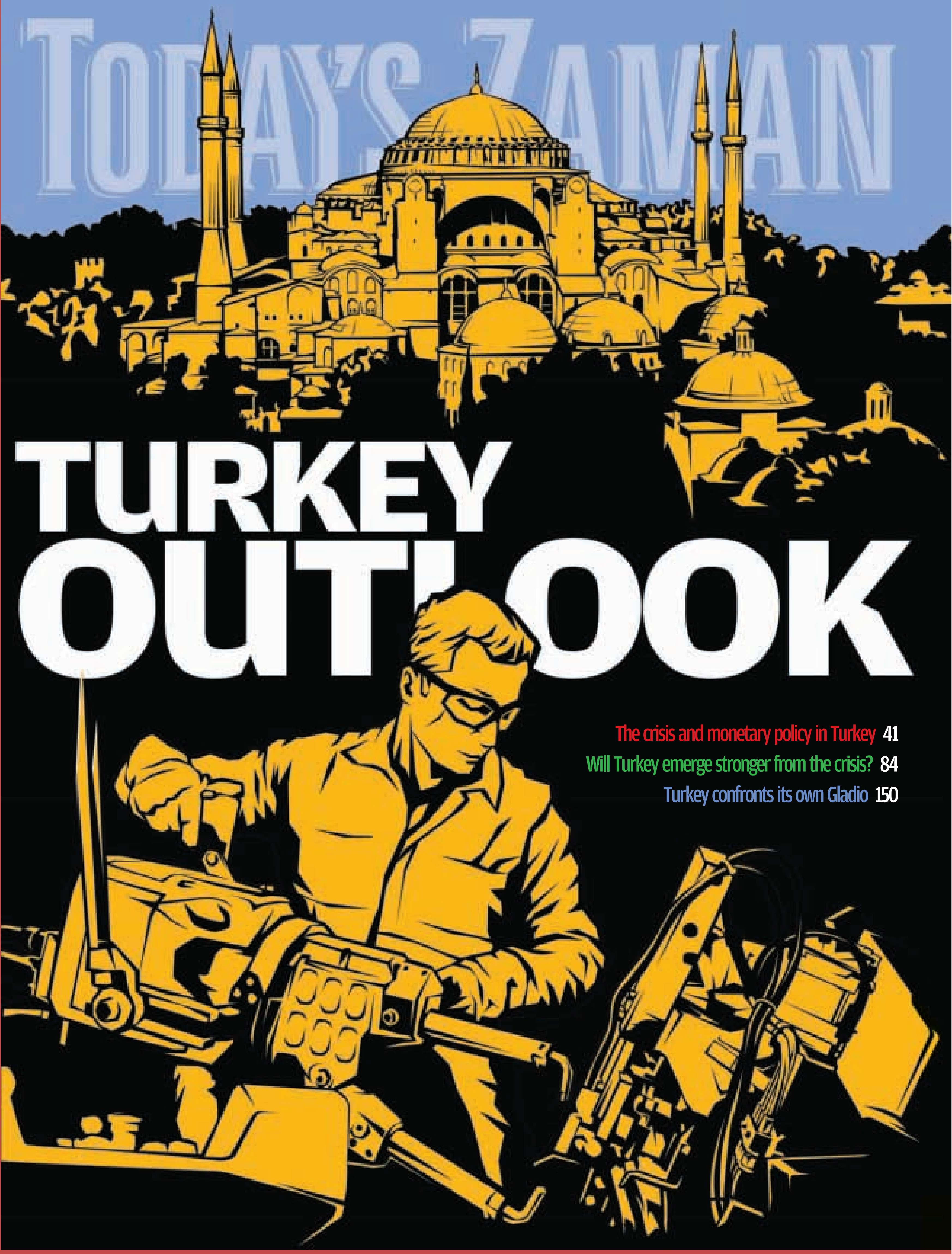
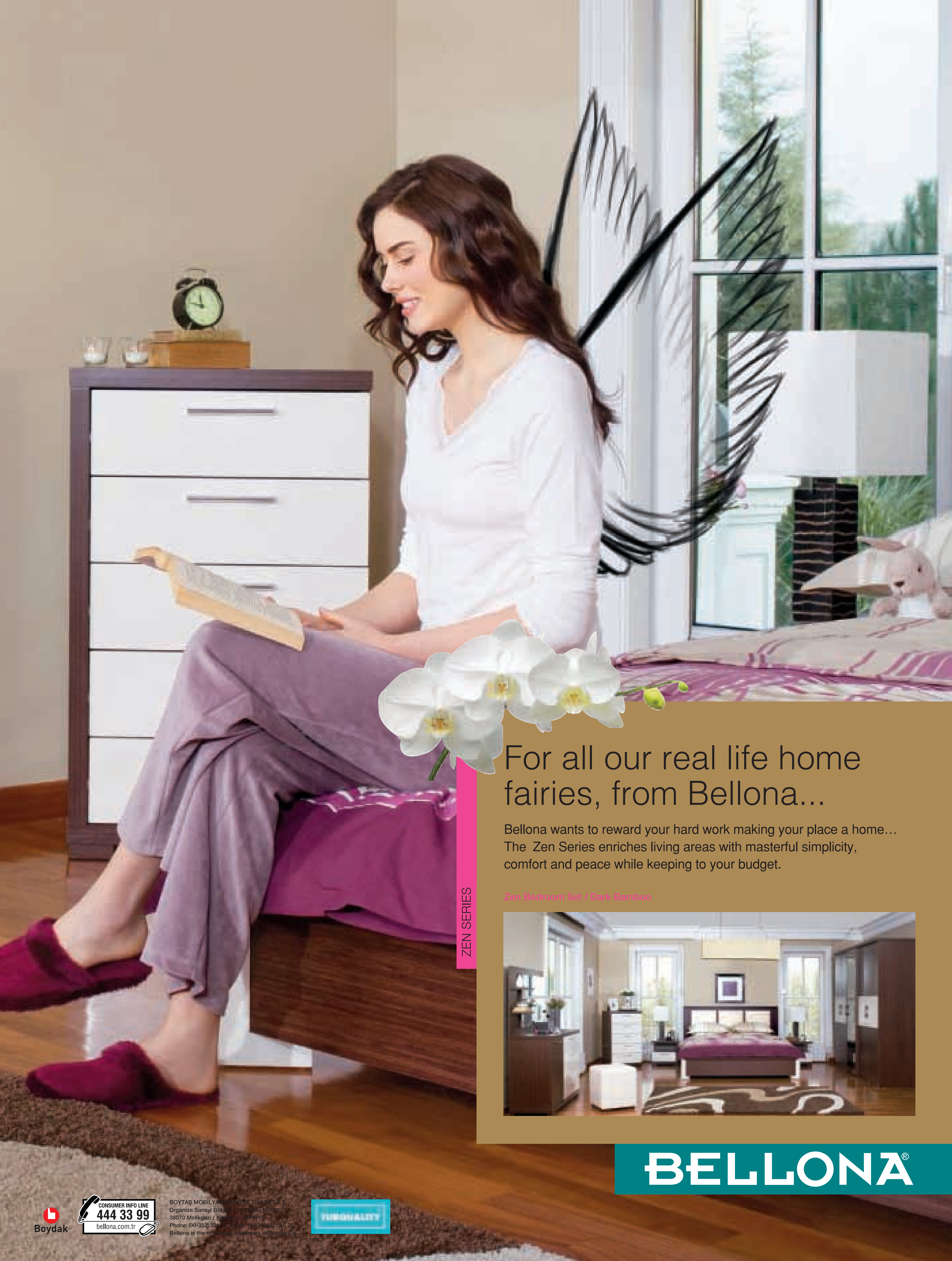


# TURKEY OUTLOOK



6-7 OCTOBER 2009 IMF AND WORLD BANK ANNUAL MEETINGS IN İSTANBUL



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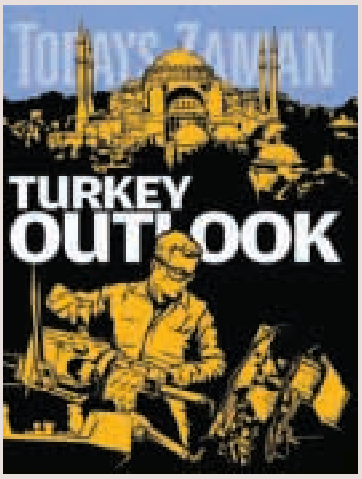


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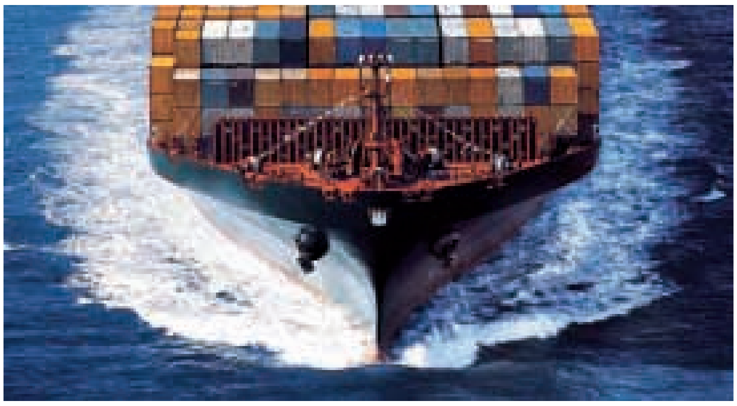



EDITORIAL

# Turkey in the limelight as global economy looks for a fresh impetus

İBRAHİM TÜRKMEN*

*Today's Zaman business news editor

More than half a century has elapsed since Turkey last hosted the Annual Meetings of the Boards of Governors of the International Monetary Fund (IMF) and the World Bank Group. Turkey, which had for a long time been in the spotlight on the global stage with a superb economic performance, is now once again undertaking the responsibility of providing a venue for capitalism's most important gathering. This year's meeting will make Turkey the only country to have hosted the Annual Meetings twice.

Turkey has been preparing for months for this event, the importance of which is magnified this year as it is being held at a time when capitalism is being tried by one of the most severe crises in its history.

The event will bring together nearly 13,000 people, including central bankers, ministers of finance and development, private sector executives and academics, who together constitute the top figures in capitalism. It offers them the facility in which to discuss issues of global concern, including the world economic outlook, the eradication of poverty, economic development and the effectiveness of aid.

The participants will be hammering away at a number of tough questions that need immediate answers for the good of the global economic system as a whole. The prospects of a recovery from the crisis will surely form the backbone of this year's convention. The attendees will debate the path on which the global economy is now traveling, and more importantly, where it is heading. Furthermore, IMF and World Bank officials will seek the views of its stakeholders on ways to strengthen the global financial system.

How the loan programs by the IMF and the financial supports of the World Bank are performing is another major item on this year's agenda. Discussions on simplifying and bolstering loan programs for poor countries will also be a focal point for capitalism's key decision-makers. In addition, the attendees will contemplate changing the IMF to enhance its effectiveness and to cement its legitimacy as an international organization with near universal membership.

Today's Zaman has prepared this special supplement to welcome those who are visiting İstanbul and are involved in this event.

This publication primarily aims to highlight Turkey's economy and politics and, to some extent, its culture. It covers a wide array of topics, from domestic political disputes to Turkey's efforts to soften the impact of the economic crisis to the currently ongoing Ergenekon trial. Readers of this supplement will become familiar with the basic arguments concerning Turkey's finance, tourism, real estate, energy and foreign policy, and more.

The economy-related ministers of the Cabinet were pleased to share their remarks on the crucial economic issues on the country's economic agenda. Numerous experts, including academics, businessmen and managers of national companies, joined us in our efforts to present Turkey. In addition, our correspondents have compiled incisive analyses and reports to render this book more colorful and meaningful. I also must express my appreciation for the arduous work of our copy editors, who spent many hours carefully reading all the articles for this supplement and meticulously editing them. This publication owes much to their dedication.

All in all, we have aimed to make this a reference on Turkey that you can consult whenever you want to refresh your knowledge of the many facets of this country. We hope it achieves this goal. ■

The picture below is a scene from the IMF/World Bank Annual Meetings in 1955 that took place in İstanbul for the first time. This year's meeting will make Turkey the only country to have hosted the meetings twice


**This publication primarily aims to highlight Turkey's economy and politics and, to some extent, its culture. It covers a wide array of topics, from domestic political disputes to Turkey's efforts to soften the impact of the economic crisis**

ANALYSIS

İBRAHİM ÖZTÜRK*

*An associate professor in the department of economics at Marmara University, Göztepe, İstanbul.

# Emergence of the Turkish economy as a powerhouse: 2002-2008

**Private sector investments played a critical role in Turkey's comparably high growthafter 2002. During this period, the public sector rapidly withdrew from competition**

Turkey underwent a substantial economic transformation in the seven years following its own economic crisis in 2001 until the global crisis that had deepened by the end of 2008. This transformation may well be tracked in almost all basic economic indicators.

Turkey has the potential to become a regional leader and one of the world's pioneering countries. Its young, dynamic and large population with its rapidly increasing purchasing power is perhaps the most fundamental pillar of this potential. Additionally, Turkey has been the only country in its region to create a production-oriented economy -- an ideal situation which other countries in neighboring regions, such as Egypt, Russia and Iran, have apparently failed to achieve. Turkey successively deepened and diversified its production, opened it to global competition and proved itself successful.

Moreover, Turkey has successfully shifted the core of its exports to manufacturing industry products, owing primarily to foreign direct investment (FDI) inflows, which played a vital role in increasing its exports fourfold from 2002 to 2008. The manufacturing industry accounts for half of its total exports.

As a last factor serving Turkey's exceptional potential, new sectors emerge constantly in parallel to the change and transformation of the Turkish economy; these sectors grow rapidly and become profitable sectors that pay off in the short term.

## Reforms toward sustainable growth

In technical terms, if a country can grow for five successive years, then it is considered to have achieved a sustainable growth path. Owing to the reforms implemented after the crisis, the support of international organizations and the convenience of external markets, Turkey quickly recovered from the 2001 crisis. Its gross domestic product (GDP) grew by 6.8 percent on average between 2002 and 2007. By the end of 2008, GDP had reached $750 billion. Meanwhile, per capita GDP rose from $3,300 in 2002 to $10,000 in 2008.

The volume of exports increased from around $30 billion to over $130 billion in this period. Contrary to what usually happens in times of high growth, the budget deficit, inflation rate, public debt stock and interest rates declined rapidly.

As a consequence, the investment environment improved, and Turkey became one of the countries attracting the highest amounts of foreign capital. All in all, it ▶

became the 17th largest economy in the world with near $750 billion in GDP as of 2008. It also ranks sixth in Europe, and the development gap between Turkey and Europe narrowed for the first time in real terms.

Although the high growth rates created new jobs, due to structural problems there were some side effects that increased the vulnerability of growth. These were:

**(i)** The unemployment that persisted at a high level of 10 percent on average and climbed to 16 percent during the latest crisis.

**(ii)** The ever-rising current account deficit (CAD), which resulted in the rapid increase in the foreign debt obligations of private sector companies.

**(iii)** Turkey's energy dependency

**(iv)** Turkey's excessive dependence on external markets for growth.[1]

## Investment-friendly environment

Turkey's basic macroeconomic data is displayed in **Table 1** and **Table 2**, while **Figure 1** depicts the comparative growth performance. Private sector investments played a critical role in Turkey's comparably high growth after 2002. During this period, the public sector rapidly withdrew from competition with the private sector in production, sales and the use of financial resources. The growth rate of investments and industrial output and the increase in capacity utilization rates are comparatively given in Table 2 for 1990-2001 and 2002-2008. In relation to these parameters, the following attract attention:

**(i)** Investments increased by a factor of 4.5.

**(ii)** Industrial production increased twofold.

**(iii)** Capacity utilization rates rose from the 75 percent range to the 80 percent range.

**(iv)** Throughout the 2001-2008 period, private sector investments increased by 300 percent, and public investments increased by 100 percent.

**(v)** Consumption grew by 39 percent in the private sector and 22 percent in the public sector.

According to this, it is seen that consumption expenditures were well below investment expenditures, and growth was mostly based on investments.

In addition to this, the performance divide between the private and public sectors in both investment and consumption expenditures attracts attention. Since the public sector committed itself to achieving fiscal discipline and mending the infrastructure of and creating stability in entrepreneurship after 2002, its presence in production, investment and consumption gradually waned. In fact, during the "lost decade" of the 1990s,

**Table 1 Basic Macroeconomic Indicators**

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 Q1 |
|---|---|---|---|---|---|---|---|
| **I . NATIONAL INCOME AND GROWTH** | | | | | | | |
| GDP (billion TL) | 454.7 | 559 | 648.9 | 758.3 | 856.3 | 950.1 | 210.9 |
| GDP (billion dollars) | 304.9 | 390.3 | 481.4 | 526.4 | 658.7 | 741.8 | 127.8 |
| Income per capita (dollars) | 3383 | 4172 | 4964 | 7200 | 9300 | 10.436 | 10.436 |
| Growth rate (%) | 5.3 | 9.4 | 8.4 | 6.9 | 4.5 | 1.1 | -13.8 |
| Unemployment rate (%) | 10.5 | 10.3 | 10.3 | 9.9 | 10.6 | 13.6 | 13.6 |
| **II . PUBLIC FINANCE** | | | | | | | |
| PSBR/GDP (%) | 7.3 | 3.6 | -0.3 | -2 | -0.1 | -1 | |
| Primary surplus/GDP (%) | 4.9 | 5.5 | 5.1 | 4.6 | 3.5 | 1.8 | |
| Budget deficit/GDP (%) | -8.8 | -5.2 | -1.1 | -0.6 | -1.6 | 1.8 | |
| EU defined debt stock/GDP (%) | 67.4 | 59.2 | 52.3 | 46.1 | 38.8 | 39.5 | |
| Net public debt stock/GDP (%) | 55.2 | 49.1 | 41.7 | 34.2 | 29.1 | 28.6 | |
| Total debt stock/GDP (%) | 47.3 | 42.1 | 35.1 | 39.4 | 38.4 | 37.3 | |
| Private sector debt stock/GDP (%) | 16 | 16.4 | 17.4 | 22.8 | 24.6 | 25 | |
| **III . INTEREST INDICATORS** | | | | | | | |
| Domestic debt interest rate (%, compound) | 45 | 25.7 | 16.9 | 18.2 | 16.5 | 17 | 9.2 |
| Domestic debt real interest rate (%) | 11.9 | 9.5 | 7.9 | 7.7 | 9.8 | 7.8 | 6.18 |
| Interest payments/tax revenues (%) | 71 | 56.3 | 38.2 | 33.4 | 31.9 | 30.1 | |
| Interest payments/GDP(%) | 12.9 | 10.1 | 7 | 6.1 | 5.8 | 5.3 | |
| **IV . BALANCE OF PAYMENTS** | | | | | | | |
| Current deficit (billion dollars) | -7.5 | -14.4 | -22.1 | -32.1 | -38.2 | -41.7 | -3.75 |
| Foreign trade deficit (billion dollars) | -22 | -35 | -44 | -54 | -63 | -71 | -14.1 |
| Current deficit/GDP (%) | -2.6 | -4 | -4.7 | -6.1 | -5.8 | -5.5 | |
| **V . PRICE STABILITY** | | | | | | | |
| Inflation (CPI, %, year-end) | 18.4 | 9.32 | 7.72 | 9.64 | 8.39 | 10.6 | 5.39 |

Source: Compiled from data released by the Turkish Central Bank, the Turkish Statistical Institute, the State Planning Organization, the Treasury Undersecretariat and the Finance Ministry.

**Turkey has to increase its GDP to the 30 percent range in order to close the gap with other countries, achieve an increase in the young population's wealth in line with the high consumption tendency and solve the unemployment problem**

not only was Turkey's growth very low (2.6 percent on average in 1993-2002), but the private sector had almost no role in this growth. However, the growth initiative of 2002 and afterward was championed by the private sector. Fixed capital investment performance by the private sector improved rapidly after 2002. Private sector investments, which amounted to TL 31.3 billion ($20.6 billion) in 2002, approached TL 100 billion ($67 billion) by the end of 2006.

As a result, the share of total investment in GDP hovered at around 25 percent. This ratio is in parallel with other emerging economies and is also the highest in Europe **(Figure 2)**. Despite this, Turkey has to increase this to the 30 percent range in order to close the gap with other countries, achieve an increase in the young population's wealth in line with the high consumption tendency and solve the unemployment problem.

## Encouraging productivity

The wealth of nations depends primarily on productivity rather than merely on the factors of production in the growth


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# İstanbul's place in the current global crisis

"We're all Keynesians again," an editorial in The Wall Street Journal recently declared, paraphrasing Milton Friedman's own tribute to the man who enshrined the dependence of markets on state intervention. But of course some nations have the ability to be more Keynesian than others. The annual meeting in İstanbul of the World Bank and International Monetary Fund (IMF) is likely to witness a confrontation between those countries hoping to spend their way out of the recession and those having to survive by tightening their belts.

Turkey is a half-way house between those governments with a track-record of effective governance who can therefore afford to intervene in the economy on a massive scale -- and those who don't

Turkey, the host nation, often prides itself on being a bridge between different worlds. In this case, too, it is a half-way house between those governments with a track-record of effective governance who can therefore afford to intervene in the economy on a massive scale -- and those who don't. Turkey borrowed credibility by signing (and sticking by) an IMF standby agreement when its economy hit the rocks in 2001. If the IMF feels comfortable in coming to İstanbul for its annual meeting, part of the reason is to acknowledge the success of its role in the Turkish recovery.

Ankara maintains that the reforms it made then, particularly to its banking system, have absorbed some of the shock of the current recession. Yet Turkey has been badly hit by the collapse of its export markets as well as the overall shortage of credit. The decline in gross domestic product (GDP) for 2009 will be in the same region as the annus horribilis of 2001. Unemployment statistics showing some 15 percent of the workforce without jobs are particularly grim. The instincts of its politicians, with an election to fight in 2011 at the latest, are to intervene more heavily, but the question is how much leeway the markets will give the Treasury to reinflate.

Turkey, like so many emerging markets, is looking enviously across the sea. Nobel laureate Paul Krugman in a recent column for The New York Times reassured American taxpayers that as long as their political nerves hold steady, the size of the nation's deficit is not a problem. A cumulative debt of $9 trillion over the next decade might sound large (!), but servicing that represents a manageable 1 percent of GDP, or 5 percent of federal revenue. The alternative solution of tightening belts and balancing books was the very thing responsible for prolonging the misery of the 1930s Great Depression. Deficits, he writes, "saved the world," and he argues that given the problem of mounting unemployment, Washington should consider being even bolder in spending its way to recovery.

What is sauce for the goose, in this case, is not sauce for the gander.

The developed world has developed the comfortable euphemism "quantitative easing" to describe what is called "printing money" or "spending at the expense of future generations" in other parts of the globe. The recipe for the world to emerge from recession is for consumers in the better-off parts of the globe to spend, spend, spend. At the same time, those who were already the victims of rising commodity prices before the crisis hit are now tightening their belts. According to a World Bank estimate, lower growth rates in 2009 are expected to result in about 53 million fewer people escaping poverty (defined as earning less than $1.25 a day) in the developing world.

In Turkey, where mortgages are still something of a luxury (still around 5 percent of GDP) and there were no toxic loans, the sentiment is that this year's projected 5.5 percent contraction in GDP is a price being paid for someone else's profligacy. It is a sentiment that has traveled around the globe to the world's second largest economy, and while the economic crisis may not be the sole reason for the collapse in the Aug. 30 elections of the party which has ruled Japan since the war, it clearly did not help. The ascendant Democrat Party of Japan (DPJ) is, if not openly protectionist, more inward-looking and more critical of the free-market Washington consensus than has hitherto reigned.

The real tension at the İstanbul meeting will be between the developed and the emerging markets who, according to IMF forecasts, will hold an increasing share (30 percent) of the world's economy. The G20 meeting in Pittsburgh in September was already a more newsworthy event than the meeting of the G8. The developed nations, which preached prudence and good governance, instead designed a system to conceal extraordinary risk. The good habits they urged on the rest of the world are the very thing they neglected themselves.

This leaves the host nation, Turkey, in an ambivalent position. That such a prestigious meeting is happening in İstanbul is recognition of the city's emergence as a financial center. The last and only time the governors convened in Turkey's commercial capital was in 1955. Then Turkey was at the edge of the Western alliance, and that meeting was very much a projection of the West's new postwar power and prosperity. Since then İstanbul has developed into something of a hub of a series of interlocking zones. Its population, too, has grown, from 1 million to well over 12 million, more populous than many of the countries Turkey borders. Since 2001, the year of Turkey's own self-inflicted economic crisis, İstanbul and Turkey both have become poster bonus for the efficacy of an IMF standby agreement. There was 40 percent real GDP growth between 2002 and 2007. Not only did Turkey swallow its medicine, it seemed to relish the taste. The current government won a nationwide local election in 2004 and was handsomely re-elected in 2007 while implementing the IMF standby.

However, as a result of the current economic climate many in Turkey would like to see Ankara go back to take an IMF refresher course. Turkey's last standby ended in May 2008, and talks have continued since then. In the public mind the IMF is associated with a strict tutelage and tough fiscal discipline. It is a taskmaster no government could wish for, and indeed, the United States -- the country at the epicenter of the current storm -- has followed a very different strategy.

Market sentiment is not entirely hypocritical. It rewards governments it calculates will ultimately to do the sensible thing. In the case of America, this means that the market expects that government will regulate an end to a system that appeared to reward excessive risk. "Despite the prospect

ANDREW FINKEL*

*A journalist and author of the forthcoming "Everything You Need to Know About Turkey," by Oxford University Press.

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of big deficits, the government is able to borrow money long term at an interest rate of less than 3.5 percent, which is low by historical standards. People making bets with real money don't seem to be worried about US solvency," Krugman writes.

Turkey does not, of course, command anywhere near the same degree of confidence. Even so, Ankara is enjoying a period of grace. It, too, has been trying to spend its way out of the crisis, albeit with not the same abandon. Aided by the current deflationary global environment, both inflation and interest rates are coming down. Partly this is reward for the Justice and Development Party's (AK Party) first period in government after 2002, when it produced primary surpluses of 6.5 percent. The question is how long it can sustain deficits of upwards of 5 percent before markets begin to scratch their heads.

Much depends on how it invests. Turkey clearly has an obligation to educate and provide employment for a large and young (mean age 29) population. Long after the İstanbul meeting is over, it will remain up to the government and private sector to cooperate in formulating and implementing a long-term strategy. Investment has to be coordinated. There are no magic bullets. Many of the government's pet multi-billion-dollar projects, such as a dam on the Tigris River at Ilısu or a third bridge across İstanbul's Bosporus, have an air of the pork barrel. The environmental impact of both projects has not been thought out. The bridge in particular could have a disastrous consequence on the city's microclimate -- raising the temperature in an important water table area, encouraging urbanization in currently green areas and having only a brief palliative effect on the transport congestion it is designed to relieve.

**The real tension at the İstanbul meeting will be between the developed and the emerging markets who, according to IMF forecasts, will hold an increasing share (30 pct) of the world's economy**

Regardless of whether a Turkish government signs a standby agreement, it will have to commit sooner or later to a fiscal rule and reassure markets that the current deficit is under control. It is true, too, that the IMF is now more flexible in its lending criteria and has introduced a new facility (Flexible Credit Line, or FCL) for countries with sound macro-indicators. A new program would act as an anchor for investors and would therefore be market friendly.

Yet the conventional wisdom is that until the government finds it difficult to borrow on international markets, it will try to sit tight. It will be happy to entertain the IMF for a few days at a conference but will encourage it to pack its bags for Washington once the meeting is done. ■


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OPINION

# Global development balances altruism and political influence

MICHAEL KUSER*

*A freelance correspondent in Turkey, currently accredited to Business Week and the Wall Street Journal Europe.

The World Bank was established after World War II to rebuild the shattered industrial bases of Europe and Asia, thus the bank's official name: International Bank for Reconstruction and Development.

The United States emerged from the war a superpower, its military having built a worldwide system of transportation and communication, but American business could not very well expand overseas trade while Germans and Japanese were busy scrounging their next meal.

The other great victor among the Allies, the Soviet Union, operated under a communist ideology diametrically opposed to the capitalist system favored in the US. While Stalin's Russia signed on to establish the United Nations, the so-called World Bank was a purely Western affair, a blend of altruism and profit motive to get the industrial societies of the world back up and running as functioning market economies.

Thus the bank and its several offshoots, mainly the International Monetary Fund (IMF) and the International Development Association (IDA), were Cold War creations meant to revive the old ways of doing business in the mold of the new world order as seen by Washington: the power of money and trade to bring people together and foster freedom and democracy. That's a tall order, but Moscow was promising a workers' paradise in a noble life of shared burdens: from each according to his means, to each according to his need.

Europe rebuilt its political economies on the basis of compromise among nations, classes, parties and groups. Governments tried to blend international integration with national autonomy, to balance global competition and domestic market needs, free trade and social reform. The United States dropped most of its trade barriers but understood the need for, and accepted, European and Japanese protection. Diplomats in Paris, Bonn and London negotiated an economic and political union that respected national differences. Labor and management cooperated to keep profits and wages high, trading labor rights for labor peace. Liberals and conservatives, socialists and secular liberals, teamed up to build the modern welfare states.

**The World Bank and the IMF meet this year after a worldwide recession stopped global economic growth. Nonetheless, it is as good a time as any to celebrate the power of development capital to transform lives**

The Bretton Woods institutions succeeded beyond their founders' dreams. As economist Jeff Frieden has written, "The post-war compromises grew out of the agreements signed at Bretton Woods in 1944. The Bretton Woods system maintained the spirit, if not always the letter, of the Bretton Woods Agreements: international integration tempered by government concern for national constituencies, markets tempered by social reforms, American leadership tempered by Western cooperation. The Bretton Woods system delivered the goods: economic growth, low unemployment and stable prices. Japan was the most dramatic success story: its output grew eight-fold in just 25 years."

## Protesting development

Some people plan to protest against the World Bank and IMF as the shareholders meet in İstanbul. The unhappy ones claim that the bank and its myriad agencies and development partners are capitalist tools of destruction.

A protest organization called "Direnistanbul" plans protests, panels, film screenings, exhibitions, workshops and concerts to coincide with the bank's annual meeting during the first week of October. The name "Direnistanbul" can either mean "Resist, İstanbul" or is a blend of the words "resistance" and "İstanbul."

Here is a sample of the group's rhetoric, from its Web site: "Spokesmen and bureaucrats of multinational capitalist corporations will be in İstanbul … where they will have decisions to destroy the lives of billions of people. No doubt, this will be another meeting to save the benefits of capitalist rulers. …

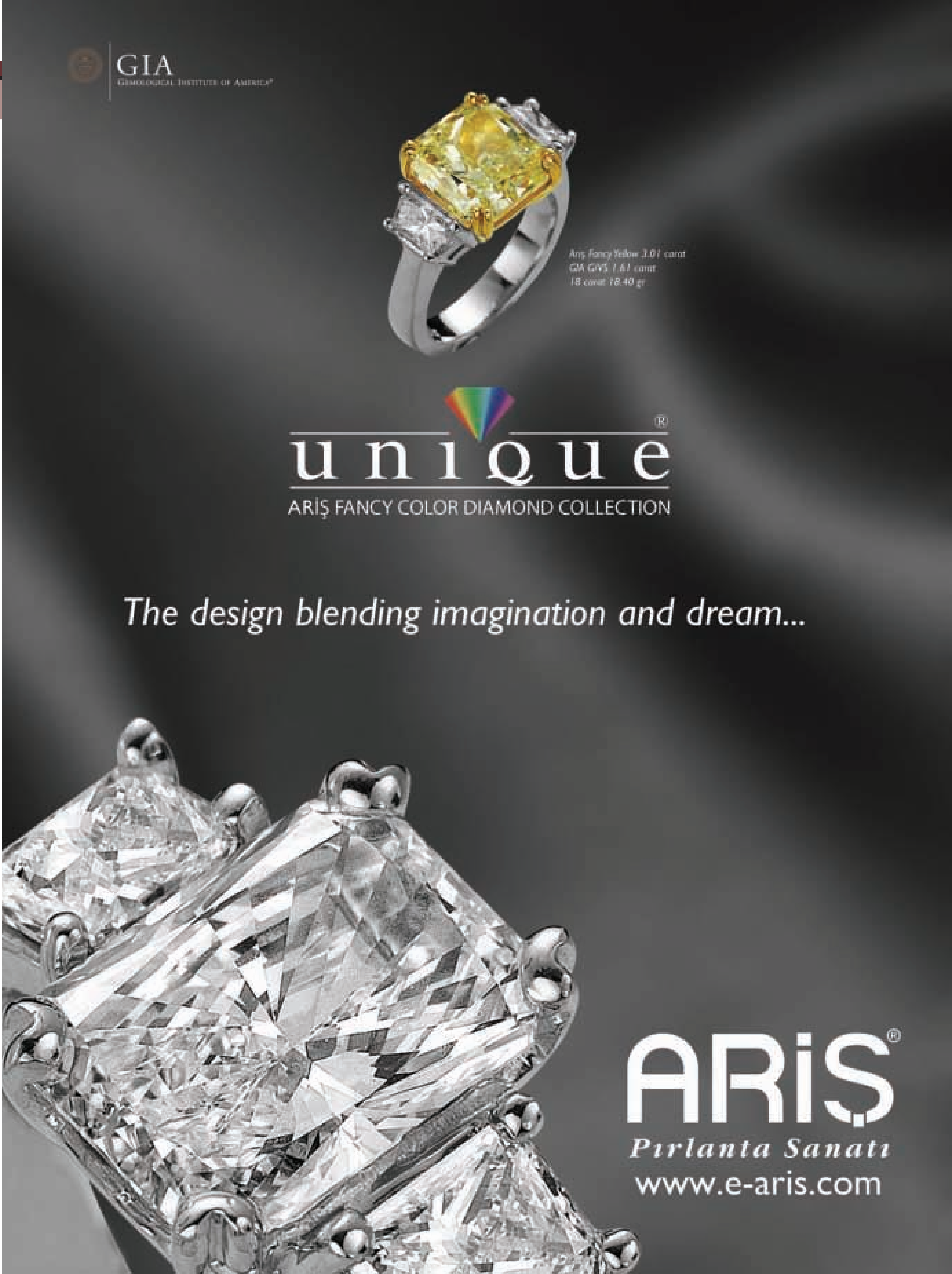
"First-hand experiences in Argentina, Jamaica, Nigeria, Kenya and elsewhere have long proved that the World Bank and IMF policies have no benefits other than indigence and exploitation. IMF and the World Bank, the leading architects of global capitalism, are the primary instruments of the banishment of the poor from their habitat and their homes by urban gentrification politics, commercialization and monopolization of water resources by selling it out to a few international corporations, the condemnation of the local farmers to global capitalist corporations with neo-liberal agriculture policies, and adding new rings to the chains of workers by implementing new employment legislations."

The protesters forget that the bank and its agencies were created by bankers and governments working together with labor, that the World Bank was meant to be a catalyst for growth, not the primary means of development. Shirley Boskey wrote of the founding of the International Finance Corporation in the in-house Bank Notes of April 1955: "In a statement presented at an informal discussion during the annual meetings of the Bretton Woods institutions in İstanbul on September 15, 1955, Robert L. Garner, the vice president of the Bank and future first president of the IFC [International Finance Corporation], reviewed the reasons why establishing the IFC had been necessary. The aim of economic development was the increased production of goods and services, with its consequent effect on living standards."

## Compromise on aid versus private investment

Public funds would be needed to support many key areas of development, especially in education, health and other basic services. But Garner argued that the essential entrepreneurship, venture capital, technology, trained labor force and management could best be provided, and perhaps only be provided, by private enterprise.

Unfortunately, the bank had no means of encouraging private enterprise. The government guarantees called for in its charter made it unable to provide venture capital. The bank had supported ▶



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public investment in roads, power plants and other basic infrastructure, which had created openings for private capital, but the amount of ensuing private investment had proven too small to fill the gap. The IFC was being created to clear the way for greater private initiative.

How the IFC would fulfill this mission, the charter described only in broad outline, leaving room for learning by trial and error. Nonetheless, some features of the founding charter would shape the basic character of the institution.

As Boskey wrote, "First, the IFC could use its resources only in association with private investors, and it was hard to foresee a situation in which the private participants should not put up the major share of the capital. Second, though a government interest in the enterprise would not necessarily preclude an IFC investment, the test would be whether or not the enterprise was essentially private in character. Third, the IFC was not to undertake any financing for which, in its opinion, sufficient private capital could be obtained on reasonable terms."

Lastly, the IFC would be forbidden from owning capital stock, but its contract authority would allow it to provide venture capital. The IFC's directors would thus be able to make the organization not merely supply capital, but act as a force multiplier to stimulate other investments.

**The creation of the International Development Association limited the autonomy of the World Bank secretariat, which increased the bank's dependence on donors and thus increased the amount of political leverage to which it was subject**

## Political leverage versus altruism

Yılmaz Akyüz, former director of Globalization and Development Strategies at the UN Council on Trade and Development, has written that "a very large proportion of development financing provided by the Bretton Woods institutions relies on aid rather than regular resources of these institutions. In contrast with the trading system where bilateralism is widely seen as a potential threat to the multilateral system, in finance it is taken for granted that bilateral and multilateral arrangements are complements. This approach also dominates debt initiatives such as the Heavily Indebted Poor Countries Initiative (HIPC) which combines multilateral debt with bilateral debt owed to donors in the Paris Club, enhancing the room for political influence."

The reliance of the Bretton Woods institutions on the whims of a small number of donors weakens their governance structures. "The practice of combining IMF money with contributions from major countries in financial bailout operations in emerging markets has enhanced the room for political leverage in IMF lending decisions by its major shareholders," according to Akyüz.

The creation of the International Development Association limited the autonomy of the World Bank secretariat, which increased the bank's dependence on donors and thus increased the amount of political leverage to which it was subject.

In the 1950s, as today, many private companies hesitated to make international investments, either lacking the resources to perform adequate due diligence or because they feared operating in a foreign environment of uncertain political and legal risks. Akyüz also wrote that in the last analysis, the Bretton Woods institutions' success would have to be measured not so much by the amount and profitability of their own investments as by the amount of additional investment they stimulated from other sources. ■

International Monetary Fund Managing Director Dominique Strauss-Kahn, right, and World Bank President Robert Zoellick, left, confer as they join other delegates at the joint IMF and World Bank Development Committee at World Bank headquarters in Washington on April 2009.

Economy Minister Ali Babacan (3rd right) lends an ear to a speaker amid a group of businessmen during the 2nd Euromoney Finance and Investment Forum in June. The government exploits every chance to meet international investors to attract them to Turkey.

# Foreign direct investments and Turkey's globalization

**ASIM ERDİLEK***

In recent decades, foreign direct investment (FDI) has been the leading instrument of globalization through the integrative activities of multinational corporations. Inward FDI (IFDI) accounts for the largest share of foreign capital inflows into developing countries, which have also become important sources of outward FDI (OFDI). Although a late comer to globalization through FDI, Turkey has performed remarkably well since 2003 as both a host country and a source country for FDI.

Before 1980, Turkey had, essentially, a closed economy as it pursued import-substitution industrialization behind tariff and non-tariff barriers. Turkey's globalization was primarily through the export of labor services as millions of Turkish workers went to Western Europe in search of temporary or permanent employment. During 1980-2000, the Turkish economy became progressively more open to international trade, reinforced by the customs union with the European Union in 1996. Turkey's integration with the world economy through FDI, however, lagged relative to many other developing countries. There were meager benefits from FDI in terms of the activities of foreign multinationals in Turkey and those of Turkish multinationals abroad.

**The AK Party government cut the corporate income tax rate from 30 percent to 20 percent and simplified the tax regime, as an indirect measure to attract FDI, reflecting its awareness of the intense tax competition**

Until 2003, chronic macroeconomic instability deprived Turkey of an attractive FDI environment, whether the official policy welcomed or discouraged IFDI. The 1990s were Turkey's lost decade in economic development. At the end of 1999, Turkey began a comprehensive IMF-supported three-year economic stabilization and structural reform program. In November 2000, the program experienced its first crisis, which was mitigated by an International Monetary Fund (IMF) emergency package. After its second crisis in February 2001, the program collapsed. In March 2001, Turkey was desperate to have the IMF and the World Bank (WB) to continue their support for its economy, which was on a knife edge facing default. One condition for that was to have Turkey commit explicitly to opening up to FDI. The Foreign Investment Advisory Service (FIAS), affiliated with the WB, was engaged to study the FDI environment and help with its improvement. After the Justice and Development Party (AK Party) government came to power in November 2002, restoring relative political stability after years of unstable coalition governments, it benefited from the FIAS recommendations in improving the country's investment climate.

The pro-FDI program of the AK Party has emphasized the importance of IFDI as an essential factor in the country's economic development. It has recognized that IFDI is critical for Turkey's development not only as a source of foreign savings to help finance the current account deficit but also as a source of technology


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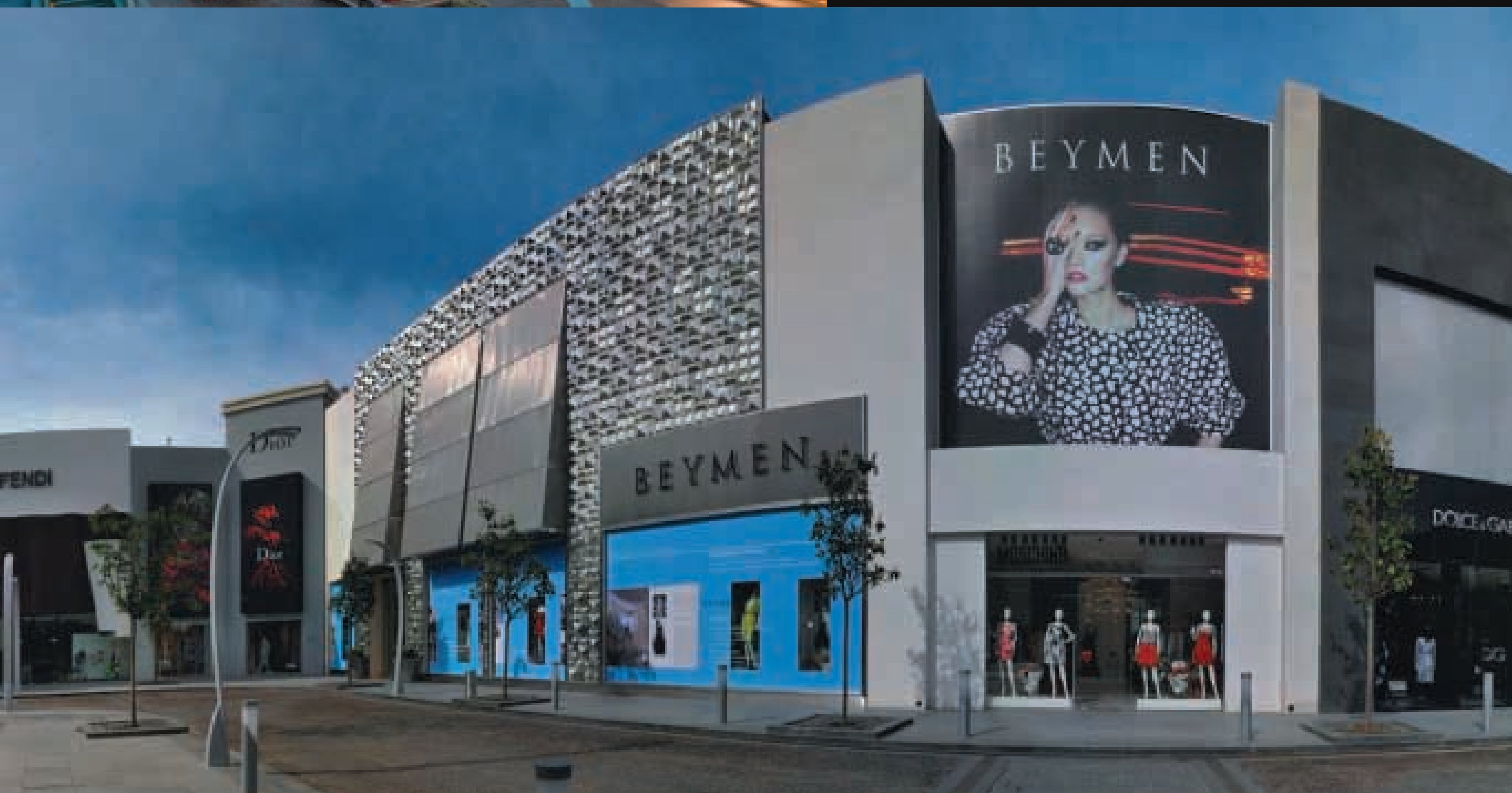
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and know-how. The AK Party government has proven through its actions that its pro-FDI stance is not just rhetoric aimed to please the IMF and the WB for short-term benefits. In terms of reforms affecting IFDI directly, the enactment of Law No. 4875, in June 2003, to replace the supposedly "liberal" but vague as well as obsolete Law No. 6224, dating to 1954, was a crucial step forward. Law No. 4875 for Direct Foreign Investments defines FDI according to current international practice, replaces the old FDI approval and screening system with a notification and registration system, bans nationalization without fair compensation, guarantees national treatment to foreign investors, does not restrict FDI in any sectors, does not impose any performance requirements, eliminates the old minimum capital limit for new FDI projects, grants foreign investors full convertibility in transferring their capital and earnings, allows foreign investors to own property without any restrictions and recognizes foreign investors' right to international arbitration.

The creation of the Investment Support and Promotion Agency of Turkey (ISPAT) in 2006 was another crucial step forward in Turkey's active promotion of IFDI. Thanks to its wide-ranging energetic and successful efforts, ISPAT now ranks high globally among investment promotion agencies in providing accurate and timely information to potential foreign investors and facilitating their site-selection processes.

As part of its active approach to attracting FDI, the AK Party government formed an Investment Advisory Council (IAC), consisting of the top-level executives of major multinational corporations. The IAC held annual summits during 2004-2008 with top government officials, including Prime Minister Recep Tayyip Erdoğan himself, to provide direct input for the efforts to improve Turkey's investment climate through the Coordination Council for the Improvement of the Investment Environment in Turkey (YOİKK). The AK Party government paid consistent and genuine attention to the IAC's criticisms and recommendations, evidence that the IAC was not a mere public relations gimmick.

The AK Party government cut the corporate income tax rate from 30 percent to 20 percent and simplified the tax regime, as an indirect measure to attract FDI, reflecting its awareness of the intense international tax competition. It was also more aggressive and effective than any previous government in its privatization program, which finally began to play a significant role in attracting FDI, following the successful examples of the Eastern and Central European countries in the 1990s. Privatization of Turk Telekom through FDI in 2005 was the most noteworthy success of the government in this area.

Finally, yet importantly, the AK Party government has pushed hard for Turkey's EU membership, taking an important step toward that objective with the start of the accession negotiations in October 2005. Although those negotiations have met obstacles recently, they are still on track. As had been the case in Spain and Portugal prior to their EU accession in 1986, the prospect of EU membership has been a powerful cause of Turkey's recent inward FDI surge.

**The decline since 2007 in Turkey's FDI inflows, although still substantial relative to their pre-2004 levels, reflects the global FDI slump, which itself resulted from the global financial crises**

During 2003-2007, Turkey's FDI inflows rose spectacularly, not only in dollars but also as percentages of gross fixed capital formation. Turkey was fortunate to benefit significantly in its IFDI surge from the favorable global FDI trends. The global FDI surge was driven especially by rising cross-border mergers and acquisitions (M&As). This was also the case in Turkey, with financial services, especially banking, accounting for the bulk of the M&As, which in turn accounted for the bulk of the FDI inflows. Another important factor behind Turkey's IFDI surge was that it had started from a very small base of IFDI stock, relative to Turkey's potential, after the country had been either ignored or avoided by foreign direct investors for many decades.

Although attention has focused on the recent surge of IFDI, Turkish OFDI has been increasing rapidly as well. New markets in the EU, the Balkans, the Middle East, the Caucasus, the Russian Federation and the Central Asian Turkic republics, North Africa, even in the Far East and the United States and the ability of Turkish firms to exploit them for either opportunistic or strategic reasons have driven OFDI. The bulk of Turkish OFDI is in the Balkans, the Caucasus, the Russian Federation and the Central Asian Turkic republics, regions either geographically or culturally close to Turkey. Most of the Turkish firms that have invested in these regions are small and medium-sized enterprises (SMEs) although large enterprises account for most of the total value of OFDI. The OFDI motives of large enterprises are mainly strategic, based on long-term planning, whereas those of SMEs are entrepreneurial, innovative and opportunistic, based on their attempts to exploit unique circumstances and to stay competitive. Turkish OFDI has strengthened the competitiveness of both SMEs and large enterprises, although in varied ways. Geographical risk diversification against both systemic and specific risks, through market access, has benefited most of them in terms of scale economies and quality improvements. Access to technologies and brands has benefited the large enterprises particularly. For some SMEs, OFDI has been not just a means to stronger competitiveness but a lifesaver for survival.

Despite the recent surge in its FDI inflows, Turkey still lags behind the world and developing countries by global benchmarks. That is the result of Turkey's ambivalence, and at times outright hostility, toward IFDI until the early 1980s, followed by its economic and political instability until the early 2000s, which had made Turkey chronically unattractive to foreign investors. In terms of its FDI outflows, Turkey's globalization is also still lagging by global benchmarks. Turkey's FDI outflows are still minuscule, relative to its inflows and relative to global outflows as well as outflows from many developing countries. Therefore, although Turkey's globalization through FDI, especially IFDI, has accelerated in recent years, it still has a great potential for further growth.

The decline since 2007 in Turkey's FDI inflows, although still substantial relative to their pre-2004 levels, reflects the global FDI slump, which itself resulted from the global financial and economic crises. The recovery from the global FDI slump, expected to begin slowly in 2010 and accelerate in 2011, should enable Turkey, ranked among the world's 30 most attractive host countries, to resume its IFDI surge, especially after the Turkish economy recovers rapidly from its most severe recession in 60 years. ■

** Asım Erdilek received his bachelor's degree in economics in 1967 from Brandeis University in Waltham, Massachusetts. He did his graduate work in economics at Harvard University. After receiving his doctorate in 1971 from Harvard, where he studied with Professor Wassily Leontief, a Nobel laureate, he joined the faculty of Case Western Reserve University in Cleveland, Ohio.*

FOCUS

# Ahmet Davutoğlu-style Turkish foreign policy

MAHİR ZEYNALOV İSTANBUL

Prime Minister Recep Tayyip Erdoğan appointed Ahmet Davutoğlu as the new foreign minister on May 1, 2009. His appointment has had a transformational effect, putting into practice Turkey's aspirations to become deeply engaged in Middle Eastern affairs.

Davutoğlu had been chief advisor to Prime Minister Erdoğan since 2003, and he is known as the architect of many peace processes in the Middle East. Even before his appointment, it is believed that it was Davutoğlu who designed Turkish foreign policy and brought a multi-dimensional aspect to Turkey's foreign affairs. As a scholar himself, Davutoğlu is the author of numerous books and editorials on political science and international relations in particular. His appointment was extensively covered by the Western media, signaling a new era in Turkish foreign policy. When he took up his post as foreign minister, he said he wanted Turkey to play a bigger role in the Middle East and the Balkans, although Turkey's relations with the West continue to be its primary foreign policy focus.

Attempting to make Turkey an "order-instituting" country in the region, Middle East expert Davutoğlu has already brought a new vision to Turkish foreign policy with his extensive diplomatic efforts since his appointment.

Davutoğlu is the only member of the Cabinet who is not elected to the Turkish Parliament. He was born in Taşkent, a town in the Central Anatolian province of Konya, in 1959. Davutoğlu holds a doctorate in political science from Boğaziçi University. He taught at Marmara University between 1996 and 1999. In 2003 he was named ambassador by then-President Ahmet Necdet Sezer and Prime Minister Abdullah Gül. Since then, he has been the chief foreign policy advisor to Prime Minister Erdoğan. As a political scientist and a scholar, his numerous books and writings relating to Turkish foreign policy have been the basis for his vision.

The idea that Turkey's biggest weakness since the foundation of the republic has been its foreign policy has many proponents. Turkey had a Western-oriented foreign policy until 2003, when the newly elected Justice and Development Party (AK Party) government turned its eyes to the Middle East. Top Turkish officials began paying visits to Middle Eastern countries, particularly Syria and the Gulf states, since then nurturing Turkey's increasing role in the region. However, the Turkish Republic had completely closed its doors to eastern neighbors in its early years, in the 1920s and '30s. The chief aim then was to establish a nation-state with good relations with its neighbors. Turkey acknowledged then that it was not appropriate or feasible to regain or retain former Ottoman lands. That was the reason why for many years Turkey isolated itself from the outside world and particularly the Middle East. Stressing that the Arab world had betrayed the Ottoman state and that this was the primary reason for its defeat in World War I, Turkey did not have any kind of relationship with Arab and other Muslim countries.


Foreign Minister Davutoğlu speaks after an informative visit to main opposition party CHP.

**Davutoğlu has many successful diplomatic achievements to his credit. His policy towards Iraq, for instance has been noteworthy in assisting the country to tackle its security and other problems**

Turkey and Syria had several problems in the early years of the republic over territorial disputes. Turkey even came to the brink of war with Syria in September 1998 as it believed Damascus was harboring Kurdistan Workers' Party (PKK) terrorists. Tensions between Turkey and Syria were alleviated through the efforts of Egyptian President Hosni Mubarak; yet, uneasy relations persisted. However, thanks to Davutoğlu's contributions from 2003 to 2009, Turkey and Syria have experienced a tremendous improvement in bilateral relations. Turkey has even mediated indirect talks between Syria and Israel. Davutoğlu is known as the architect of the negotiations as he laid the groundwork for talks between the two countries.

Turkey's ever-expanding geopolitical influence and increasing economic power have pushed Turkey to boost its engagement with its eastern neighbors. Turkey had long ignored its Arab neighbors and only had a modest volume of trade. Through Davutoğlu being an expert on the Middle East and with his considerable diplomatic efforts, the AK Party government's far-reaching foreign policy has now also embraced Middle Eastern Arab countries, particularly after Erdoğan's recent spat with Israel at Davos, which gained many allies for Turkey across the Arab world.

Davutoğlu has many successful diplomatic achievements to his credit. His policy towards Iraq has been noteworthy in assisting the country to tackle its security and other problems. The Ottoman Empire had ruled Iraq for centuries. Northern Iraq, which has particular importance for Turkey as it hosts a substantial number of ethnic Turkmens, has always been under scrutiny by Turkish foreign policymakers. The cities of Kirkuk and Mosul in northern Iraq have been under the sphere of influence of Turkey throughout the republican period. However, Turkey's attempts fell short in influencing the region until the appointment of Davutoğlu as the chief foreign policy advisor. He has paid three visits to Iraq since becoming minister of foreign affairs. Today, Iraq and other regional powers take into consideration what Turkey has to say regarding the northern Iraqi region. As a ▶

result of Davutoğlu's successful diplomatic efforts, Turkey is able to address many problematic issues faced by both Turkey and Iraq.

Iraq has repeatedly asked Turkey to allow more water to flow to Iraq due to increasing drought since May 2009. The water crisis between Turkey and Iraq has continued for two decades. The Iraqi administration has put the water issue on the table at every international meeting due to a severe drought since May 2009. Two primary rivers flowing to Iraq from Turkey through Syria, the Euphrates and the Tigris, fail to supply enough water for the arid Iraqi farmlands. The water supply has recently been decreased, which resulted in a "water crisis" between Iraq and Turkey. Turkey has repeatedly said it is not a water-abundant country and that the water from the two rivers can barely supply Turkey's own needs. The Iraqi parliament, through a law adopted in May, pushed the Iraqi government to include the water shortage problem in all its meetings with the Turkish government. Iraq claimed that almost half its farmers cannot access water due to Syria and Turkey's dams on the Tigris and Euphrates rivers. Iraq was lodging complaints against Turkey over the water crisis in the international arena and at every meeting. Davutoğlu made several visits to the region, and Iraq is now satisfied with the solution he put forward.

Turkey's links with Russia have also been strengthened in recent years. Recent visits by top-level Turkish officials to Russia and both the Russian president and prime minister's visit to Turkey have spawned an era of cooperation and subtle competition between the two countries, an unprecedented event in their histories. A huge trade volume has had a profound impact on diplomatic and political relations, which had spun out of control in the last decade. This fact was fueled by the recent visits of Prime Minister Erdoğan to Sochi and President Abdullah Gül and then-Parliament Speaker Köksal Toptan to Moscow. These three visits in the last five months have opened a new page in Turkish-Russian relations.

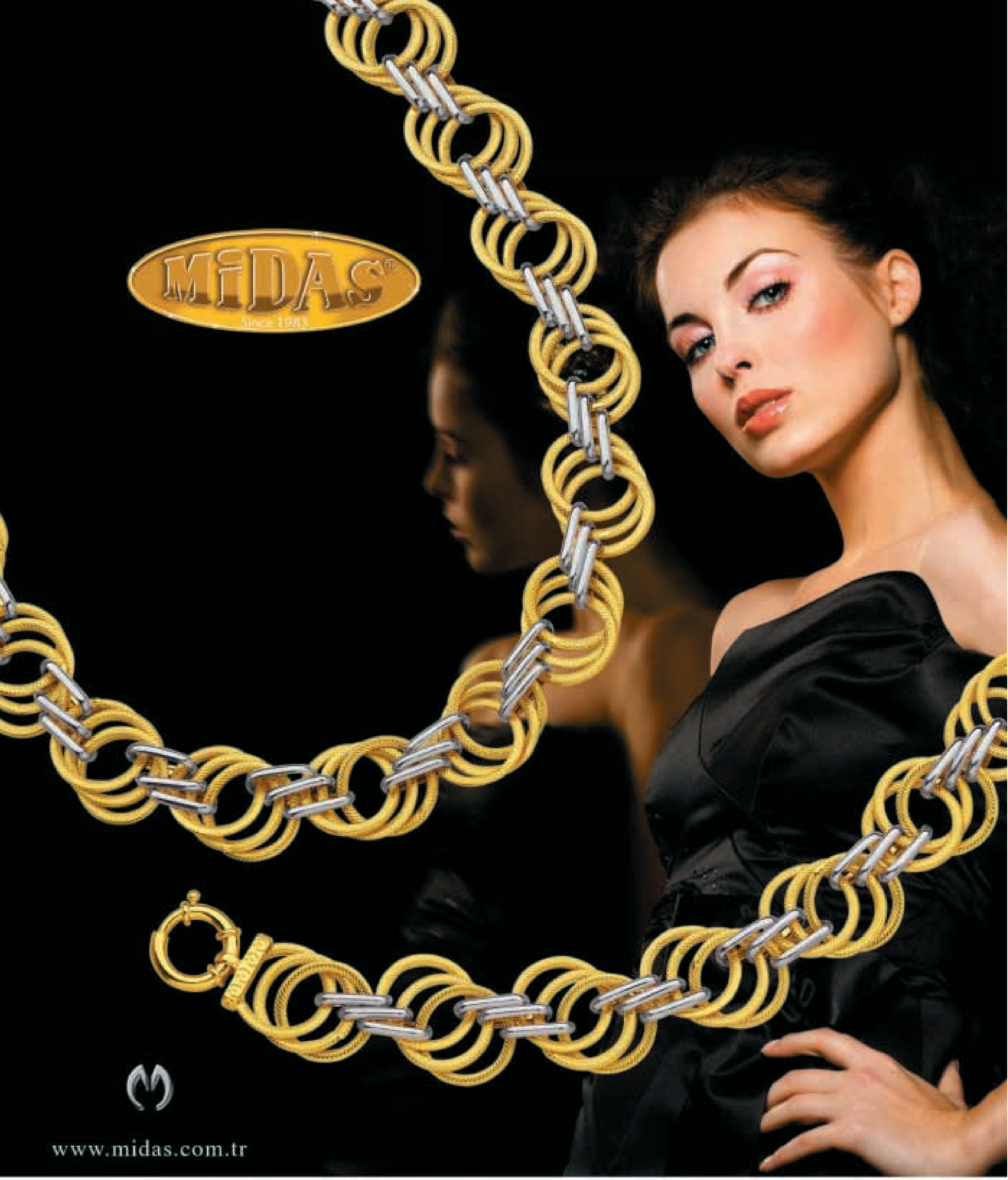
Oil and gas trade volume between Russia and Turkey carried the cooperation far beyond its initial point a decade ago, outperforming any other trade relations that Turkey has with its neighbors. Turkish-Russian relations represent a more sustained, albeit not untroubled, process of cooperation. During last year's food crisis with Russia, the Russians brushed friendship aside to the extent that local media were sounding the alarm over relations with Russia when it halted the import of Turkish fruit at the Russian border, claiming Turkey's standards were too low. This could certainly be seen as an attempt to blackmail Turkey into signaling a more pro-Russian policy in NATO.

ILLUSTRATION CEM KIZILTUĞ

Another achievement of Turkish foreign policy is in its engagement with the South Caucasus. Turkey has a friend and kindred country in Azerbaijan, the interests of which it has always protected at the expense of Turkey's own gains. Its troubled neighbor Armenia is another foreign policy challenge for Turkey. Turkey has also been engaged in a delicate balancing act in the Caucasus considering the heavy presence of Russia in the Southern Caucasus countries after the crisis in August 2008 between Russia and Georgia in a full-fledged armed conflict. In the wake of the Russian-Georgian conflict, the clash between Russia and Georgia posed a particular challenge for Turkey as it involved Turkey's friend and a major trading partner, Russia. Despite the fact that the conflict put Turkish-Russian relations under additional strain, Russia expressed gratitude for Turkey's neutral stance during the conflict after President Gül paid a visit to Moscow in the immediate aftermath of the crisis. This is crucial considering Russia's effective leverage as a result of its hefty surplus in bilateral trade. However, Turkish-Russian geopolitical interests in the Caucasus became more complicated.

During the Cold War era, serving as NATO's southeastern flank to prevent the spread of communism to Europe, Turkey had limited foreign policy options. However, since the collapse of communism in Eastern Europe and the demise of the Soviet Union, Turkey has taken on a more independent foreign policy in Europe, the former Soviet Union and the Middle East. Despite their attempts to have more engagement in foreign policy in the former Soviet Union and the Middle East, most foreign ministers were too weak to pursue Turkish national interests abroad, with only a few exceptions. Only since 2003 has Turkish foreign policy maintained a strict and serious stance in the international arena.

Although Turkey has made some outstanding achievements during Ahmet Davutoğlu's "hidden" efforts since 2003, Turkey has waged an impressive diplomatic campaign in the last four months since Davutoğlu was appointed minister of foreign affairs. This is particularly significant as the summer is a time of political stagnation. ■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From left, Turkish Prime Minister Recep Tayyip Erdoğan, Qatari Emir Sheikh Hamad bin Khalifa al-Thani, Syrian President Bashar Assad and French President Nicolas Sarkozy pose during a summit in Damascus examining ways to move toward a peace deal in the Middle East.

# Turkey's changing foreign policy and its growing soft power

MİNHAC ÇELİK İSTANBUL

In today's global world, capturing the attention of peoples around the world and triggering their admiration is regarded as a formidable form of power, namely soft power, and is starting to be considered as more effective than instilling a sense of fear. From that perspective, Turkey has taken bold steps concerning the expansion of its soft power during the era of the incumbent Justice and Development Party (AK Party) by changing drastically the mentality of its foreign policy.

As a result of this change Turkey is able to play a more effective role in the Caucasus, the Balkans, Africa and Central Asia in addition to the Middle East, where Turkey has emerged as a mediator working to settle decades-long disputes, such as that between Israel and Syria, Lebanon and Syria, and Israel and Palestine. Certainly, if Turkey is to resolve its Kurdish question with the democratic initiative recently launched by the government, the way will be paved for Turkey to become a regional power with a say in political and economic developments.

Previously, Turkey's foreign policy was thought to be reduced mainly to two issues. First are its prominent attempts to be a full-fledged member of the European Union. It saw this as a realization of the dream of Mustafa Kemal Atatürk, the founder of the Turkish Republic, who hoped to have Turkey reach the level of civilized countries and later surpass them in the areas of science, technology, economy, etc.

**Turkey has taken bold steps concerning the expansion of its soft power during the era of the incumbent AK Party by changing drastically the mentality of its foreign policy**

The second point that reflects the change in the understanding of Turkey's foreign policy is Turkey's attitude toward its neighboring countries. Relations with neighbors were largely based on security concerns and tended to view the near abroad as enemies plotting against Turkey. This view had come about mostly due to support extended by some of Turkey's neighbors to the outlawed Kurdistan Workers' Party (PKK), including Syria, Iraq and Greece. Turkey's aggressive attitude toward its neighbors was combined with its lack of interest in establishing links with Middle Eastern countries. Therefore, Turkey turned its back on the Middle East, a region all superpowers had their eyes on due to its strategic importance and natural resources.

Similarities between the Middle East and Turkey in terms of religion and culture were long overlooked and denied by Turkish foreign policymakers. As a result, Turkey had no effective posture in Middle Eastern countries. Its military connections with Israel and solid secular state establishment can be counted as two important factors distancing it from Middle Eastern countries. The general tendency in Turkish foreign policy in the '90s can be summed up as attempting to preserve the status quo rather than being active in the region.

Taking this past into account, Turkey ▶

ANALYSIS

has immensely modified its relations with neighbors, terming its new strategy "zero problems with neighbors." The thesis was formulated by former chief advisor to the prime minister and current Foreign Minister Ahmet Davutoğlu. The strategy has helped Turks overcome baseless fears, with most Turks today harboring no fear of Syria and Iraq. Furthermore, a large segment of society no longer sees Greece as an enemy but as a potential friend with many similarities in culture and lifestyle.

The country's "zero problems with neighbors" policy prescribes improvement of relations through bilateral diplomatic visits, establishing trade ties and, down the line, intensifying diplomatic consultations, not only among Turkey-neighbor country relations but also on regional issues, and forming coalitions to solve problems and develop initiatives.

This change in mentality has some implications on business relations as well as political conclusions, in addition to changing Turkey's image in the eyes of people throughout the world, but especially in the region within which Turkey has cultural, historical, religious and social ties.

One should keep in mind that the diversification of strategies and policies recently experienced in Turkey's foreign affairs has not extinguished the country's desire to join the EU; the focus of its foreign policy remains on becoming a full member of the EU. This diversification has enlarged Turkey's area of maneuver in international politics. Turkey is no more a country whose sole foreign policy goal is to be a member of the EU; it now pursues several strategies in an attempt to create strong links with both close neighbors and countries in the near abroad, an area that mostly overlaps with the Ottoman Empire's sphere of influence. As a result, Turkey is increasingly turning into a regional power.

## Turkey modified image in Middle East and improved relations with Africa

Turkey's changing foreign policy understanding toward the Middle East appeared to have created an awareness of the country's political capabilities on the international platform as well as in the region. The Turkish Parliament's 2003 rejection of a US request to use Turkish territory for deployment of military forces in the invasion of Iraq sparked enthusiasm about Turkey in the Arab and Iranian streets.

Furthermore, the "Davos incident," in which Prime Minister Recep Tayyip Erdoğan exchanged harsh words with Israeli President Shimon Peres on the Israeli assault on the Gaza Strip earlier this year, also resulted in an improvement in the image of both Turkey and its prime minister.

Turkey's improved image in Muslim countries has been accompanied by an increase in trade. Turkey signed its last trade agreement with Syria in 1987, during the era of Turgut Özal, a liberal prime minister who served in the 1980s. In 2000 came the establishment of a trade council with Syria and many other Middle Eastern countries, including Jordan, Lebanon, Iraq, Iran, Palestine and Egypt. By the end of the year, plans were in the works to create a free trade area in Gaziantep to improve trade between Syria and Turkey.

One of the more important moves to improve trade relations with the Arab world has been the establishment of the Turkish-Arab Economic Forum, which offers Turkey an unprecedented opportunity to discuss investment and cooperation opportunities with Arab countries.

**Turkey's changing foreign policy understanding toward the Middle East appeared to have created an awareness of the country's political capabilities on the international platform as well as in the region**

Turkey came into the spotlight with its mediation efforts in the region seeking the establishment of peace. Turkish Foreign Ministers Abdullah Gül, Ali Babacan and now Ahmet Davutoğlu paid frequent visits to Lebanon after the assassination of former Prime Minster Rafiq Hariri and served in an intermediary role between Lebanon and Syria, which is believed to be behind the assassination. Aside from Lebanon, Turkey is also a key party in Israeli-Syrian peace talks.

The Ankara office of Al-Jazeera is second only to Al-Jazeera's Washington office among the news agency's non-Arab offices in terms of the number of square meters it occupies, meaning viewers of the biggest international Arab television station care about what is going on in Turkey.

Moreover, in March 2009 almost a dozen Turkish scholars and journalists were invited to Al-Jazeera's Fourth Annual Forum in Doha. This was the first time so many participants from Turkey attended the forum. Bülent Aras, a professor from Işık University's department of international relations, tried to find an answer for the Arabs' interest in Turkey in his article on April 14 published by The Guardian, suggesting Turkey's soft power was behind the increasing interest of the Arab world.

Furthermore, the announcement of 2005 as the year of Africa in Turkey showed the government's eagerness to establish strong trade and political relations with African countries, paving the way for new market opportunities for Turkish businessmen along with African countries' support of Turkey during its run for a temporary seat on the UN Security Council.

Trade between African countries and Turkey increased threefold to $18 billion over the last three years, with Turkey's export figures to Africa rising from $2.5 billion to $9 billion. One of the main reasons behind this success is the immense efforts of the Turkish Confederation of Businessmen and Industrialists (TUSKON), which sought to build trade bridges between Africa and Turkey.

In August 2008 the Africa-Turkey Summit was held in İstanbul and attended by six heads of state and other senior officials from 50 African nations. This summit accelerated the development of relations with Africa. President Abdullah Gül, speaking on the benefits of creating links with Africa, said improved relations made it easier for African nations to back Turkey in its bid for a non-permanent seat on the UN Security Council.

Today, Algeria, with $2,364 million in imports and exports, tops the list of African countries with whom Turkey trades most. Egypt is second, with $686 million, and Libya follows with $384 million. Libya leads in imports with $1.98 billion. After Libya comes Algeria, with $1.69 billion, followed by South Africa, with $1.26 billion.

Unlike European superpowers, Turkey does not have a dark past filled with imperial intentions that are still fresh in the memory of African peoples. This is an important factor that helps it create strong and reliable relations with Africa.

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ENERGY

Russia's Prime Minister Vladimir Putin (L) extends hand to Prime Minister Recep Tayyip Erdoğan following a meeting in Ankara in August

# Turkey and Russia: Stronger partners in regional energy security, business

MEHMET ÖĞÜTÇÜ&DANILA BOCHKAREV*

**The crystal-clear message from Russia to Turkey was, 'We will make it worth your while to do business with Russia'**

How can an eight-hour prime ministerial visit possibly transform the basic tenets of the relationship between Turkey and Russia? This is what happened during the short visit to Ankara on Aug. 6, 2009, by Russian Prime Minister Vladimir Putin.

The crystal-clear message from Russia to Turkey was, "We will make it worth your while to do business with Russia." Hence, this visit has generated a series of unprecedented commercial and energy contracts worth $40 billion that will support Turkey's drive to become a regional hub for fuel transshipments while helping Moscow maintain its monopoly on natural gas shipments from Asia to Europe. Italy's Prime Minister, Silvio Berlusconi, also joined Putin and Turkish Prime Minister Recep Tayyip Erdoğan at the signing ceremony as Eni is a key partner in the equation for the Blue Stream, South Stream and Samsun-Ceyhan projects.

Seizing the opportunity created by Ankara's growing frustration with the European Union, Putin traveled to Turkey with his basket of tempting strategic and economic proposals immediately after a similar Nabucco agreement mission in July 2009 by his EU opponents.

Some commentators argue that the visit has served as a reminder of how much more effective the Kremlin's energy policy has been simply by offering more business and more supply to go through Turkey, while the United States and Europe have been relatively indifferent to Turkey's priorities and concerns. There are heightened fears in several capitals about Turkey becoming too cozy with Moscow at the expense of overriding some Western energy and strategic interests, with possible security ramifications in the long run.

A smart engagement strategy to keep Turkey plugged into the West's preferential energy strategy will therefore require a careful understanding of this country's interests. So far that is not what we have seen.

A key transit/terminal hub of both oil and gas to the heavy consumer nations of Europe, Turkey is a nexus of multiple important pipeline projects and provides access to the Bosporus Strait and the eastern Mediterranean via the Ceyhan terminal. The country is geographically located in close proximity to 71.8 percent of the world's proven gas reserves and 72.7 percent of oil reserves from Russia, the Caspian region and the Gulf and has thus become the "Silk Road of the 21st century."

No longer marginalized and becoming increasingly self-confident, Turkey views ▶

ENERGY


Russia's Prime Minister Vladimir Putin (C) seen during the inauguration of a Gazprom pipeline in Vladivostok in eastern Russia

itself as an unparalleled regional leader (by virtue of its $750 billion economy, largest military, huge cultural hinterland, unique geography and vibrant, young population full of entrepreneurs), and recognizes both the limitations of Russia's ability to bully such a vital country as well as the tremendous opportunity to advance its interests.

The country feels confident it can deal with the challenges and opportunities presented by Russia's power. Indeed, Moscow figures prominently in almost all of Turkey's energy designs and geopolitical calculus.

In other words, it would be a mistake to think that Turkey is simply awaiting its turn to be moved in the US-EU-Russia grand chess game. It is playing a game of its very own.

## From historic enmity to 'strategic' partnership

Once the worst of enemies, involved in 12 wars in three centuries, Turkey and Russia have suddenly become the best of friends, forging strong bonds to advance their own economic and geopolitical interests in Eurasia and often turning a blind eye to the concerns expressed by Brussels and Washington.

It is becoming increasingly evident that Moscow matters to Turks more than ever. Russia has become Turkey's biggest economic partner, replacing Germany -- trade between the two countries reached $38 billion in 2008, an eightfold increase in eight years, and is expected to reach the $100 billion mark in the next four years. Turkish construction firms are omnipresent all over Russia. Millions of Russian tourists flock to Turkish resorts every year -- 3 million last year. There are tens of thousands of intermarriages.

Russia has traditionally been the biggest regional player, having controlled the Central Asia/Caspian region for many centuries. However, its traditional dominance is being challenged by China and other new actors. Therefore, Russia tries to foster new partnerships, as in the case of Turkey, to regain some of the influence it has lost.

This is not to say that the potential for competition and lingering disputes between Russia and Turkey have totally disappeared. Some top military officials in Turkey consider an increased Russian military presence, including Russia-controlled Commonwealth of Independent States (CIS) peacekeeping forces in the South Caucasus, as a source of potential threat. Russia also has its own sensitivities, including Chechnya.

**It is becoming increasingly evident that Moscow matters to Turks more than ever. Russia has become Turkey's biggest economic partner**

Nevertheless, both countries have learned how to play a positive sum game and are increasingly aware of the mutually beneficial opportunities that bind them. Moscow tends to see Turkey as an emergent, strong player in Eurasia, with which it can cooperate and team up when necessary in its preferred multipolar system.

The two countries' growing closeness is probably helped by the similarities between Putin and Erdoğan: Both come from humble origins; both seem ready to bury historical enmities; and both are seen as strong leaders, firmly entrenched in power for years to come. "If there is the touch of a Czar in Putin, there is a Sultan in Erdoğan," said Himli Toros in an article on the Russian-Turkish relationship.

## Energy breakthrough for broader regional cooperation

Turkey, conscious of its critically important role as a corridor for energy, has been flexing its muscles, indicating its growing assertiveness and autonomy as a regional power to be reckoned with. This is happening at a time when Turkey's accession process is faltering in the face of opposition from several EU countries. Ties with Washington are yet to be reconsolidated after a painful Bush era of insensitivities towards Turkey's vital interests.

Russia's energy engagement with Turkey is based on several pillars supporting an overall "win-win" strategy. The Kremlin tries to capitalize on its energy "weapon" as a source of comparative advantage in the global system, trying (successfully or unsuccessfully) to combine the maximum efficiency

of a private management with state control of the "critical industries."

Therefore, Russia is seeking control over the three major elements of the "energy chain" -- production, transit and processing/distribution -- by supporting the international expansion of Russian energy companies (i.e., the acquisition of assets and the control of existing and prospective energy resources) and alliance with other energy producing and transit states, but also with the national oil companies (NOC) and international oil companies (IOC). It also supports Russian companies' access to the downstream markets (and mid-stream facilities) of the energy consuming countries.

In the second part of this article we will look at the recent Turkish-Russian energy deals within the aforementioned context.

A look at recent Turkish-Russian energy deals shows us that while news of the South Stream deal grabbed most of the headlines in Europe, perhaps of greater importance to Turkey was getting Russia to join the Samsun-Ceyhan oil pipeline that will be built by Turkey's Çalık Energy and Italy's Eni, which will connect the Turkish Black Sea city of Samsun with its Mediterranean oil terminal of Ceyhan.

It is designed to relieve the immense amount of traffic going through the Bosporus Strait, a bottleneck that handles about 3.7 percent of the world's oil supply every day. It is equally important to Russia -- about 25 percent of its oil exports go through the Turkish straits.

Turkey has regarded getting Russian crude for this pipeline as essential to raise Ceyhan, which is also the termination point for the BP-led Baku-Tbilisi-Ceyhan (BTC) oil pipeline, into a regional oil hub. However, prior to Vladimir Putin's visit, Moscow proved reluctant, instead promoting the Burgas-Alexandroupoli pipeline, which will run between Bulgaria and Greece. Now that Bulgaria's new government is dragging its feet and Putin has given his strong political backing, the Samsun-Ceyhan option has become "realistic" and "viable" in the words of Putin himself.

This quid pro quo is not officially acknowledged by Ankara and Moscow, but is widely noted by international observers. Eni would commit oil from its own and other companies' Caspian production for the Samsun-Ceyhan pipeline in addition to Russia joining the construction work and committing oil volumes to the pipeline.

Three factors explain the sudden shift in Moscow's decision toward the Samsun-Ceyhan bypass. First, American and European companies in Kazakhstan are reluctant or unwilling to finance the Burgas-Alexandroupoli pipeline project. Second, the new Bulgarian government, which took over in July 2009, has suspended its participation in this pipeline and other major Russian projects in Bulgaria, pending a detailed review of their terms. Finally, the Turkish government has pressured Russia to lend support to the Samsun-Ceyhan pipeline, allowing Russia in return to use its Black Sea exclusive economic zone waters for the South Stream pipeline project.

## Another Blue Stream in the making?

Gazprom also affirmed a commitment to expand an existing Black Sea gas pipeline (Blue Stream-1) for possible transshipment across Turkey to Cyprus and Israel. As in the case of South Stream (with its implausible promise of 63 billion cubic meters [bcm] per year), in Blue Stream-2 (at a more restrained 16 bcm), there is no word about the sourcing of gas (although Russia presumably hopes to redirect Turkmen gas into South Stream), financing this multi-billion dollar project and future market destinations for exported gas.

For instance, Syria is already importing gas from Egypt and prolonging Blue Stream-2 from Turkey to Israel seems a prohibitively expensive proposition, unless the construction costs are passed on to gas consumers, as has been the case with Blue Stream-1 in Turkey. Last but not least, Israel has discovered its own gas reserves and shies away even from LNG imports, let alone paying for the extra costs of Blue Stream-2.

## Nabucco vs. South Stream in a positive sum game?

The Nabucco pipeline has latently been seen in Moscow as an economic and political risk which poses a threat to Russia's energy domination in the Caspian region and creates a more competitive, consumer-oriented energy market in the European Union. Brussels (or parts of Brussels, to be correct) is keen on diversifying the routes and sources of supply through non-Russian gas and pipelines.

By skirting Russian territory, the Nabucco pipeline would undercut Moscow's monopoly on European (and Turkish, given that Ankara is Gazprom's second-largest customer in the world) natural gas shipments and the pricing power and political clout that come with it. That may explain why Nabucco, which cannot go forward without Turkey's support, has encountered a variety of obstacles thrown up by the Russian government, including efforts to deny it vital gas supplies in the East and a customer base in the West.

Turkey and other countries in the path of Nabucco have been eager players in this geopolitical drama, entertaining offers from both sides. Turkish authorities have even tried, without much success, to leverage the pipeline negotiations to further Turkey's bid to join the EU, while keeping options with Russia open, too. Turks do not see a clear political or economic benefit to shutting out or ceasing energy relations with Russia, on which they heavily rely for oil and gas supplies.

If both projects are realized (though not a likely scenario in the current investment and geopolitical context), Russia and Turkey would play a major role in meeting Europe's growing gas needs. The sustainable energy security for the EU is impossible without enhanced strategic cooperation with Russia and Turkey. Projects like Nabucco are not going to put a halt to Russia's energy business, but rather offer consumers important competing supply routes that should ideally deliver a more healthy business environment and efficient gas markets.

**The Nabucco pipeline has latently been seen in Moscow as an economic and political risk which poses a threat to Russia's energy domination in the Caspian region**

Turkey's standard position is that South Stream and Nabucco are not rival projects and that they can both coexist in Turkey. Ankara also welcomes Gazprom's participation in the Nabucco project as it will maximize gas volumes transiting via Turkey.

## Russians looking to play a role in Turkey's downstream sector

Russia defines energy security as security of demand for its producers -- meaning acquisition of downstream assets in the EU and other key markets such as Turkey. The strategy has worked well with Germany and Italy; for example, BASF and Eni have received access to the Russian upstream in return for Gazprom obtaining access in Europe's downstream.

Russians want to play a lead role in Turkey's lucrative downstream sector as well. In July 2008, LUKOil agreed to buy Turkish retailer Akpet, significantly boosting its downstream presence in Turkey. Gazprom is also keen on bidding for major city distribution projects and gas-fired power plants.

Putin's offer to move ahead with a Russian-built nuclear power plant in Turkey suggests a sweetening of the overall Russian offer on energy deals with Turkey, while both Western and Russian proposals are on the table. It looks as

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though Turkish energy dependency on Russia will further increase through the first nuclear power plant in Turkey to be built by the Rosatom/Atomenergoprom group of companies, pursuing an aggressive international expansion strategy.

## Russia and Turkey against or together with Europe?

Extensive energy and trade ties with Russia, in the new dynamic geo-strategic conjuncture, has also generated positive political ramifications for Turkey, making it more willing to cooperate with Moscow. Yet, it would be an overstatement to say that Turkey has been changing its traditional foreign policy direction or simply playing the Russia card against the West in order to strengthen its hand.

Turkey knows that a genuine single European energy policy is not expected anytime soon. Plus, the EU is unable, due to internal bickering, to open accession negotiations on the energy chapter of the acquis communautaire. On the contrary, Russia offers concrete proposals in the framework of a sound strategic context.

However, both Turkey and Russia are aware that Europe's economy needs to bring additional gas and diversify transit routes. According to estimates made by the International Energy Agency (IEA), the EU's import needs will be five or six times higher than its domestic gas production in the year 2030. There is a growing understanding amongst leading EU members that European energy security is impossible without Russia, taking into account its gas supplies, and significant presence in Austria's Baumgarten trading platform and storage facilities, where South Stream and Nabucco will literally terminate.

As the country in the center of gas flows, Turkey does not want to be a simple physical transit bridge and wants to secure a fair share from Baumgarten's "gas hub" role by bringing back some of these benefits to Central Anatolia. Therefore, the EU should also be aware that neither of the new pipeline projects is possible without taking into account Turkey's priorities and interests. Rather, the EU, Russia and Turkey need to join their efforts to develop energy solutions to the long-term benefit of all if they will be lasting.

## Prospects

Certainly, Putin has shown himself as a skillful "energy chess" player in the Turkish context as well. The Russian "energy offer" seems designed primarily for political effect in Europe and secondarily for drawing Turkey into a closer strategic alignment with Russia. They express Moscow's intentions to enlist Turkish cooperation in thwarting the EU's Southern Gas Corridor project.

Putin's offers reflect that intent, but they do not necessarily come with commensurate capabilities. It is still not clear whether Moscow's offers are backed by actually available gas and oil resources or financing. The agreements are non-binding and preliminary, in the nature of memorandums of understanding and protocols of intent.

There is a growing convergence of perspectives between Ankara and Moscow on issues ranging from Palestine to Iran to the Caucasus and Central Asia. Further, as energy looms larger in the domestic and regional calculus of both countries, especially in terms of their respective European relationships, the strategic importance of their rapprochement will undoubtedly grow stronger.

A closer Turkish-Russian partnership in energy should not be seen as a zero-sum game. It will no doubt help European supply security while at the same time address the demand security concerns of Russia, Caspian nations, Iran and Iraq. If Turks can turn this into a win-win proposition to serve these interests and dissipate deep-seated concerns, as they have been doing with regard to the disputes in the Middle East and the Caucasus, they could become a genuine regional power, and the role of a major energy hub comes with this. ■

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Turkey and Russia signed a deal this August for the construction of the South Stream pipeline through Turkish territorial waters in the Black Sea.

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process in the long term. On the other hand, a surge in productivity depends on:

**(i)** Productivity-oriented fixed capital investments over a long time period.

**(ii)** The localization of technology over time in order to keep wealth in the country.

**(iii)** Gradually achieving growth through national savings and not by creating debt.

**(iv)** Keeping the external deficit under control.

As a matter of fact, the bulk of growth achieved in Turkey after 2002 came for the first time from a surge in productivity and not from classical production factor inputs such as capital and labor. For instance, the level of productivity rose from 117 in 2002 to 168 in 2008 (the base year is taken as 1997). This increase has mainly been fostered by real wage suppression as well as an increase in labor productivity.

To give more detail on the nature of the change in productivity, in the period of 1999 to 2000, the share of capital, labor and total factor productivity (TFP) was 73.2 percent, 23.5 percent and 3 percent, respectively. What is striking here is that the TFP, the critical element of wealth creation and sustainable growth in the longer term, was almost absent at that time. In contrast, the share of capital, labor and the TFP were completely reversed, and the share of the TFP rose to almost 40 percent between 2002 and 2006. It has been projected in the pre-accession program to the European Union that the TFP will be stabilized at around 40 percent and that the remaining contribution to the final output will come from capital by another 40 percent and only 20 percent from labor inputs.[2]

Turkey's efforts to close the productivity gap resulted not only in high growth but also in convergence with the EU average after 2002, for the first time in recent history.[3]

## Revolutionary success in the fiscal sector

The high growth rate Turkey achieved in recent years differed from previous growth performance in the sense that it did not trigger a growth in public deficits. To the contrary, the budget deficit and the share of public debt in national income receded continuously despite the high growth rate. That is to say, after the reforms:

**(i)** Budget deficits that were up to 16.5 percent of GDP just after the crisis fell below 2 percent in 2004-2008. (The Maastricht criterion is 3 percent.) In parallel to the closing of the budget deficits, the share of the public sector borrowing requirement (PSBR) and public debt in the GDP receded rapidly, and by the end of 2006 the PSBR fell below zero for the first time and was 1 percent in 2008.

**Table 2 Long-term trends in the Turkish economy (%)**

| | 1990-2001 | 2002-2008 |
|---|---|---|
| Growth | 3 | 6 |
| Inflation | 76 | 13.4 |
| Growth in investments | 3.2 | 14.5 |
| Growth in industrial production | 3.9 | 6.2 |
| Capacity utilization rate | 75.8 | 79 |
| Growth in non-agricultural employment | 2.6 | 3.5 |
| Increase in exports (dollar) | 8.8 | 21 |
| Increase in exports (real) | 9.4 | 14 |

[illegible]

**The high growth rate Turkey achieved recently differed from previous growth performance in the sense that it did not boost public deficits. To the contrary, the budget deficit and the share of public debt in national income fell continuously despite high growth rates**

**(ii)** In the same period, the rate of gross public debt in GDP fell from 107 percent to 39.5 percent by the end of 2008. (The Maastricht criterion is 60 percent.)

**(iii)** While the share of interest payments in GDP reached 23 percent by the end of 2001, the figure had declined to 5.5 percent by the end of 2008.

**(iv)** The share of interest payments had decreased to the 30 percent range by the end of 2008.

**(v)** Real interest rates that exceeded the record rate of 30 percent during the 2001 economic crisis have been below 10 percent since 2005.

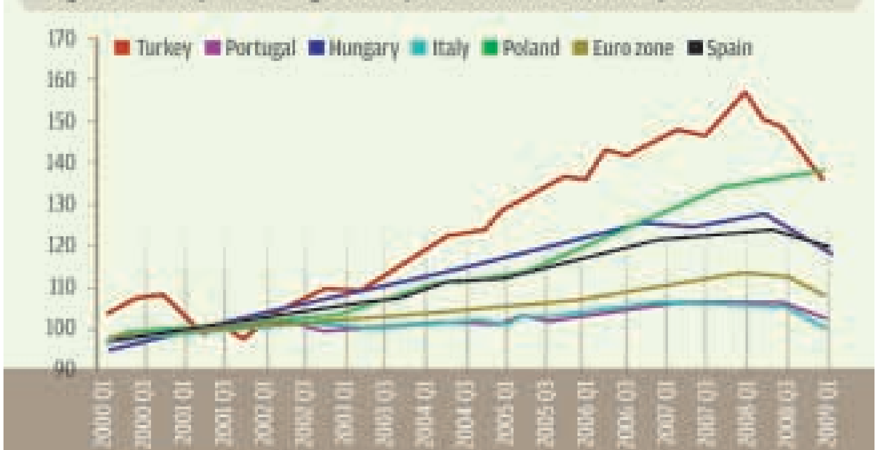
These achievements of the public sector owe to: **(i)** the reforms introduced; **(ii)** the revenues generated through privatizations, which gained momentum in parallel to developments in the investment environment; **(iii)** fiscal discipline, defined as a criterion of the agreement with the International Monetary Fund (IMF) which is called primary surplus (non-interest surplus [NIS]); and **(iv)** foreign direct investment inflows that accelerated in 2004 and after and reached 3 percent of GDP in 2006-2007.

## Big steps towards price stability

Inflation, i.e., price instability, is one of the main factors to destroy entrepreneurship in a country. As is known, money has three functions. Firstly, it is a medium of exchange in economic activity. Secondly, it is a store of value. Finally, it is a unit of account. Long-term and high rates of chronic inflation destroy all these functions of money.

After being reduced from 70 percent in 2001 to 8.4 percent in 2007, inflation increased a little in 2008 to 10 percent due to global price increases. By the end of August 2009, however, the annual consumer price index (CPI) had dropped to 5.33 percent due to falling overall demand and input costs throughout the world.

**Figure 1 Comparative growth performance in Europe (2001=100)**




Source: OECD, 2009


It is due to this data that in 2001 75 percent of demand deposits in the banks were kept in foreign currencies, while only 25 percent were kept in local currency.

Likewise, in those years Turkish currency ceased not only to be an article of accumulation but also an article of exchange. Contracts in Turkey were increasingly made in foreign currencies. For instance, it was observed that owners of houses rented their properties in foreign currencies and required consignation payments in foreign currency as well.

If money, which is a sign of independence, fails to fulfill its duty as a measuring, exchanging and value accumulation instrument, then the real economy is bound to collapse over time.

It is for that reason that the one phenomenon that differentiates the recent growth of Turkey from the past is that both interest rates and inflation fell rapidly despite a very high rate of growth and a wave of investments in industry and in the economy in general.

Actually, as proposed by monetarists, if one looks at the situation over the long run, Turkey's experiences since the 1970s have shown that sustainable development and inflation move in opposite directions. Although expansionist monetary policies function as a short-term stabilization tool against fluctuations, inflationist policies hamper long-term growth paths.

The dynamics behind falling inflation occurring simultaneously with high growth rates are the following:

- Decline in budget deficit: The most important factor behind the inflationary inertia when it was fluctuating at around 60 to 70 percent between 1990 and 2001 was the budget deficits and the way these deficits were financed. Owing to fiscal reform and discipline in the public sector, both the budget deficit and public debt started to decline rapidly.
- Productivity gains: In the growth process, the biggest contribution came from productivity gains as explained above.
- Suppression of real wages: It is seen that while production and productivity indices rapidly rose in Turkey, real wages in the private sector steadily decreased. Although this has had a positive effect on inflation, it is an issue of concern in terms of social welfare. The fact that the real wage index reached its 2001 level only in 2007 shows that laborers were unable to benefit justly from the increase of value added in recent years.
- Management of expectations: As is known, contracts hammered out during collective bargaining talks have reflected the inflationist expectations. Due to high inflation over the long term in Turkey, contracts were shaped due to the negative expectations of the past. Breaking the retrospective expectation and focusing the stakeholders on the future was made possible by the great increase in trust and confidence, and wage increases in line with this sentiment contributed to the disinflation process.
- Foreign trade channel: The positive effects of external world factors that assisted the fall of inflation between 2002 and 2006 are no longer a reality due to increasing energy, commodity and food prices in recent years. The weakening of the link between the exchange rate and inflation in Turkey requires reducing the import dependency of production and exports through the structural transformation of the economy. Otherwise, it is certain that the link between inflation and exchange rates will be lost.

**In 2001, 75 percent of demand deposits in the banks were kept in foreign currencies. Likewise, in those years Turkish currency ceased not only to be an article of accumulation but also an article of exchange**

- Real exchange rate index: During the long cycle after the 1994 crisis, the Turkish lira depreciated significantly against the US dollar. In parallel to such depreciations, foreign trade made relative improvements due to the temporary and artificial effects of competition.

After 2001, the lira started to recover, and erasing six zeros from the currency supported the confidence derived from the improving macroeconomic balances. The strengthening and appreciating lira made imports relatively less expensive at a time when investments were picking up and acted as a brake on the possible pressure of increasing oil and energy imports on the current deficit and costs.


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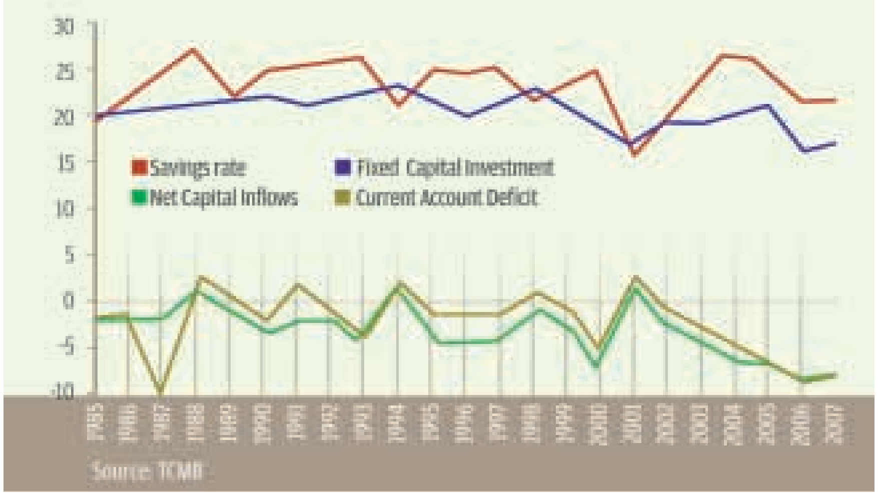
Figure 2 CAD reflects savings-investment gap (% of GDP)




**Economic production was delivered to anti-production 'finance capital' and, therefore, the short-term liabilities of the companies increased, and this has become one of Turkey's primary vulnerabilities during the global crisis**

## Challenge of growth financing

It was mentioned above that the driving force of growth in recent years was the private sector in both consumption and production. In the growth process, Turkey faced a problem of a savings-investment gap amounting to 6 to 7 percent of GDP. The fall in interest rates in Turkey, despite such high demand for funding, is striking.

It should be remembered that public deficits were the reason behind the high interest rates of the 1990s.[4] More important than that, these deficits were financed by short-term funds called "hot money." Such financing pushed Turkey into a line of vulnerability, which resulted in two crises, one in 1994 and the other in 1999.

After 2002, interest continued its downward trend despite growth, owing to the decrease in the PSBR and the start of the inflow of FDI that financed growth without causing long-term credit and debt.

In fact, in parallel to the said process, the interest rates of the loans the Treasury secured from the market had fallen to 17 percent by the end of 2008 from the 90 percent range that they reached in 2001. During the 2008-2009 period of transition, the central bank had decreased interest rates to 7.75 percent by the end of August 2009, the lowest level since 1980.

On the other hand, despite the relative deterioration of fiscal discipline (i.e., budget deficits and public debts are on the rise again) during the crisis environment, lending interest rates continued to go down in the first half of 2009. By the end of 2009, real interest rates are expected to be lowered to around 4 percent.

Big resources amounting to $15 billion attracted under the Cash Repatriation Law enacted at the end of 2008 supported this development in interest rates. Also, to secure non-interest, or Islamic financing, resources, non-interest investment instruments such as sukuk -- an interest-free Islamic finance instrument -- that the government is trying to develop will serve an important function.

## Rising external deficit and vulnerability in growth

As the Turkish economy grew, foreign trade improved substantially, and exports increased from $28 billion in 2000 to $131 billion in 2008, and imports increased from $55 billion to $202 billion in the same period. The foreign trade deficit increased from $15 billion to $72 billion. In this period, exports, imports and the foreign trade deficit increased by factors of 4.3, 3.8 and 4.5, respectively. Turkish exports enjoyed the highest growth rate in the world in the mentioned period.

However, due to the structural and rapid price increases in the international markets, the external deficits and short-term debts of Turkey's private sector rose in this period. As explained before, while domestic deficits were being eliminated, the growth initiative of the post-2001 period caused an unprecedented external deficit.

In the 2006 to 2008 period, the CAD fluctuated at around 6 to 7 percent of GDP. This has been the most significant vulnerability hindering Turkey's high growth. There are a variety of explanations for the rapid escalation of the current deficit after 2001.

## CAD as 'high interest rate-low exchange rate' syndrome

The overvalued Turkish lira is referred to as a factor triggering the current deficit in Turkey. It is claimed that the "high interest rate" policy pursued by the central bank to stimulate capital inflows and alleviate the burden of borrowing in foreign currencies is the dynamic behind this.

According to this opinion, the high interest rate-low exchange rate (overvalued TL) policy has the following drawbacks:

**(i)** A great amount of capital flowed in to take advantage of the high interest rates, and this demand resulted in the overvaluation of the local currency.

**(ii)** The overvalued TL boosted imports and caused trade and foreign exchange deficits.

**(iii)** Since sub-industries were substituted with imports, unemployment could not be reduced despite the high rate of growth.

**(iv)** High interest rates negatively affected investment, growth and the rapid transformation of industry.

**(v)** As a result of the proper conditions of the exchange rate, interest rates and the improvements in the withholding tax, the Turkish private sector was motivated by foreign borrowing to reap foreign exchange gains. Economic production, in the end, was delivered to anti-production "finance capital" and, therefore, the short-term liabilities of the companies increased, and this has become one of Turkey's primary vulnerabilities during the global crisis.

## Interest rate-exchange rate interactions

Although the opinion outlined above has a remarkable number of proponents, there are other dynamics that need to be understood. Before anything else, Turkey does not pursue a high interest rate policy, but rather follows a disinflation policy.

In an outward-oriented economy like Turkey's, the level of the interest rate is determined by complex relationships. One of these is the expected inflation. Short-term interest rates are one of the main instruments used by the central bank to combat inflation in this process.

Essentially, it should be pointed out that a simplified relationship between the exchange rate and interest rates will be superficial. Indeed, the exchange and interest rates have followed opposite paths in Turkey for the last 10 years. If investigated in detail, between 1995 and 2001, interest ▶

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Bundles of new liras are piled in a Ziraat Bankası office to be exchanged with old banknotes. Turkey removed six zeros from its currency in 2005.

rates fluctuated inconsistently between 190 percent at the maximum and 40 percent at the minimum. Despite this high rate of interest, the TL continued to depreciate in the above-mentioned period. Likewise, while the interest rates were substantially lowered after the crisis, the TL started to appreciate rapidly. This empirical data show that the value of the currency of a country is determined by many parameters simultaneously.

## Changing dynamics in capital movement

In a similar fashion, it would be wrong to reduce the large amounts of capital inflows to the "high interest rate policies pursued." It is known that extremely high interest rates in Turkey in the 1990s did not trigger foreign capital inflows except for the short-term hot money.

The volume and composition of the capital flowing in to a country is determined by: **(i)** the net real interest yield difference of the domestic and external markets; **(ii)** the country risk; and **(iii)** the potential yield of other sectors.

According to this, as risk and interest rates go up, short-term capital inflows are more likely. As risk declines and interest rates go down, more long-term capital flows into the real economy. Developments in Turkey from 1999 to 2008 in Turkey confirm this insight.

As interest rates receded between 2001 and 2008, the amount of capital inflows increased rapidly, whereas the share of short-term capital inflows decreased sharply. The short-term capital inflows plummeted to zero in 2007, and in 2008 Turkey experienced a net outflow in this category. In the same period, long-term capital inflows increased continuously, and the financing quality of the current deficit developed positively owing to FDI **(Table 3)**.

Research that has been undertaken shows that the fall in the share of hot money in total capital inflows depends on how established the production economy is, the achievement of price stability and the continuation of growth expectations.

**It would be wrong to reduce the large amounts of capital inflows to the 'high interest rate policies pursued.' It is known that extremely high interest rates in Turkey in the 1990s did not trigger foreign capital inflows except for the short-term hot money**

## External deficits as a function of savings, investment

In an outward-oriented economy, the current deficit is more affected by the savings-investment gap than the level of interest rates. In other words, the ▶

**Table 3 Remarkable improvement in volume and quality of capital inflows (billion dollars)**

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009(*) |
|---|---|---|---|---|---|---|---|---|
| 1. Current Account Balance | -0.6 | -7.5 | -14.4 | -22.1 | -32.1 | -38.2 | -41.3 | -6.7 |
| 2. Total Capital Inflows | 7.5 | 7.1 | 14.2 | 37.3 | 38.2 | 44.7 | 35.1 | -6.2 |
| - FDI Inflows | 1.1 | 1.8 | 2.8 | 10.0 | 20.2 | 22.0 | 18.0 | 4.2 |
| - External Borrowing of Non-Bank Private Sector (net) | 1.9 | 2.3 | 7.7 | 12.5 | 17.1 | 28.7 | 23.6 | -5.6 |
| - Others (net) | 4.5 | 3.1 | 3.7 | 14.7 | 0.9 | -6.0 | -6.4 | -4.8 |

* Jan-May Source: TCMB

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savings-investment gap is the sum of domestic deficits consisting of private and public sector deficits. Until structural problems and imbalances in an economy are eliminated, it is essential to choose between a domestic or external deficit.

Before the 2001 crisis, domestic deficits stemmed largely from the budget deficits, which were determined mainly by irrevocable and inefficient expenditure dynamics. The private sector had positive savings due to high net real interest rates. However, as may be understood, due to the crowding out effect created by high interest rates, resources were channeled away from the production economy. The agents responsible for this anomaly were the wild capitalism established by politicians, the bureaucracy and the private sector.

While the influence of the public sector on the deficits dwindled rapidly after the reforms, they were replaced by private sector deficits. To speak comparatively, it can be said that the external deficits caused by the private sector stem from more efficient and market-compatible expenditures and that they are more sustainable than the external deficits caused by the public sector. **Figure 2** shows that the net foreign capital transfers caused by Turkey's external deficits move quite in parallel to the domestic savings-investment gap.

As a consequence of the reforms implemented soon after the crisis, the budget deficits were largely closed. However, private sector deficits continue due to structural problems. To solve this problem, an industrial transformation based on high added value should be achieved on the one hand, and reforms aimed at increasing savings should be deepened on the other. Despite this, it would not be realistic to expect the deficits of the private sector to be closed in the short term. For this, the behavior of households and companies should be changed in the long term.

The driving effect of the national savings during the industrialization of Asian countries -- especially Japan and Taiwan -- is well known.[5] In Asia, it was the "development-oriented state" that designed the long-term entrepreneurship environment and channeled households to savings and companies to both savings and a high level of investment.

In Turkey, on the other hand, although the public sector was strongly involved in the economy during the period of import substitution industrialization (ISI) between 1960 and 1980, it could not contribute positively to the long-term entrepreneurial behavior of private companies, and the system collapsed in the early 1980s. In the neo-liberal world of the post-1980 period, Turkey opened up to the world and deregulated its markets but could not build a savings and entrepreneurship culture that had not previously existed.

**In the process of preventing foreign trade deficits, while realistic and stable exchange rates will be effective, the right thing to do is to remove the barriers before the production economy and thus eliminate import dependency in the major sectors**

In an environment where the nation-state lost power, economic borders and protectionism were being eliminated, globalization was gaining momentum and Turkey had tied itself to international mechanisms within the framework of the World Trade Organization (WTO) and the EU's rules, an "autonomous development-oriented state" argument was not possible, either.

In that regard, Turkey should be thinking over and trying different mechanisms to increase national savings. This issue is extremely important for the creation of sound entrepreneurship in Turkey.

## Excessive dependence on export markets in production

According to a third opinion, it is difficult to claim that Turkey's current deficit is an automatic result of domestic deficits only.

All other conditions being constant, the increase in the investment demand of private companies in 2002 and after raised the demand for the import of capital goods. Among these, the cost of energy, commodities and foodstuffs increased rapidly. Since Turkey's import dependency vis-à-vis these goods was high, these items were influential with regard to the rise in the current deficit.[6]

For example, it is evident that external dependence and the low exchange rates which triggered the import of intermediate goods in some sectors had an impact on the trade deficits, which reached $70 billion in 2008.

However, the Turkish economy is trying to shift gradually from a low value-added production economy to high value-added sectors. At this stage, foreign capital has weight in the relevant sectors. Since foreigners have a global chain of suppliers, the import dependency of production is high for the time being. In the process of preventing foreign trade deficits, while realistic and stable exchange rates will be effective, the right thing to do is to remove the barriers before the production economy and thus eliminate import dependency in the major sectors.

In other words, it is becoming more obvious that foreign trade deficits cannot be eliminated by short-term monetary and fiscal ▶

**Table 4 Foreign Direct Investments (million dollars)**

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| MANUFACTURING | 20,532 | 26,796 | 28,869 | 46,689 | 18,089 |
| Mining and Quarrying | 1,706 | 1,472 | 1,675 | 2,493 | 1,046 |
| Food, beverage and tobacco products | 2,733 | 4,115 | 5,540 | 7,935 | 3,247 |
| Chemical products | 1,510 | 2,546 | 2,910 | 5,048 | 1,745 |
| Nonmetallic mineral products | 1,255 | 2,357 | 2,131 | 2,953 | 1,219 |
| Metal products | 675 | 1,002 | 1,054 | 6,183 | 2,509 |
| Motor vehicles | 5,148 | 6,189 | 6,117 | 8,358 | 2,092 |
| Electricity, gas and water supply | 3,557 | 3,640 | 2,803 | 6,073 | 3,282 |
| SERVICES | 16,400 | 43,050 | 64,398 | 103,914 | 48,325 |
| Construction | 57 | 397 | 289 | 798 | 356 |
| Wholesale and retail trade | 3,068 | 6,834 | 7,942 | 14,152 | 5,486 |
| Transports, storage and communication | 7,564 | 19,556 | 30,805 | 33,379 | 15,428 |
| Financial intermediation | 3,527 | 12,091 | 17,284 | 40,431 | 19,204 |
| Real estate, renting and business services | 1,235 | 2,255 | 5,269 | 9,510 | 3,108 |
| Health and social security | 231 | 459 | 1,406 | 3,146 | 2,914 |
| Other community, social and personal service activities | 119 | 356 | 378 | 1,501 | 1,455 |
| TOTAL | 37,169 | 69,927 | 93,447 | 150,908 | 66,565 |


Oger Telecom Chairman Mohammed Hariri (L) hands in a symbolic check to then Finance Minister Kemal Unakıtan for Türk Telekom.

policies alone but require structural transformation policies in the medium to long-term.

## FDI in Turkey

Under the conditions studied above, the potential contribution of foreign capital to assist Turkey in catching up with the industrialized countries and converging with the EU's standards is gaining more importance.

In recent years Turkey has been able to attract an unprecedentedly high level of foreign capital. The foreign capital that was invested in Turkey gained momentum, especially in 2004 and after. The most striking categories within this capital are long-term loans and FDI. According to the "World Investment Report 2007" published by United Nations Conference on Trade and Development (UNCTAD), Turkey ranked 16th among the countries with the highest amount of foreign capital inflows, with $20.1 billion, and increased its share in the total world capital inflows for the first time to 1.5 percent.

Therefore, as the current deficit is financed by permanent capital inflows at a rate of more than 50 percent, Turkey seems to have rendered foreign capital inflows the driving force behind the growth. The importance of foreign capital should be seen in its capacity to carry positive externalities, such as know-how and technology, into the country.

Despite this, the disappearance of the convenient international environment of 2003 to 2007 in the 2009-2010 period due to the global economic crisis should be seen as a temporary situation, and Turkey should continue its attempts to "differentiate itself from its competitors" in attracting foreign capital to the country.

As can be seen in **Table 4**, the foreign capital inflows to Turkey are concentrated more in the service sector. For instance, capital inflows to the financial sector sped up in 2005 and peaked in 2006 and 2007. In these years, capital inflows amounted to $4 billion, $6.9 billion and $11.4 billion, respectively. But over time, the process shifted to the manufacturing industry. Foreign capital investments in the manufacturing industry were $1.8 billion in 2006, $4 billion in 2007 and $3.8 billion in 2008. The main destinations of capital inflows in the manufacturing industry have been the chemicals and foodstuffs sectors. Lastly, foreign capital inflows to real estate and the transportation and communication sectors are on the rise.

For the continuation of foreign capital inflows, the following points are important as well:

**(i)** Turkey should reduce its economic and political risk and have a stable government.

**(ii)** The bureaucracy must have a constructive mindset.

**(iii)** Sanctioning mechanisms should function effectively and fairly, and justice must be more transparent.

**(iv)** Policies aimed at securing competition should be effective and practical.

**(v)** Agricultural transformation should be managed more efficiently.

**(vi)** Social support should be made more effective in order to improve the situation of segments of society with low fixed incomes that lose ground because of reforms.

**(vii)** Technical education reform should be completed and implemented.

**The UNCTAD's 'World Investment Report 2007' stated that Turkey ranked 16th among the countries with the highest amount of foreign capital inflows, with $20.1 billion, and increased its global share to 1.5 percent**

Studies point out that the management and effective channeling of foreign capital is as important as attracting it. Institutional factors have an influence on the quality of FDI as much as macroeconomic indicators such as inflation, exchange rates, the GDP, the labor force, interest rates and the openness of the economy.[7] In that regard, Turkey should maintain the EU process and the disinflation initiative on the one the hand, and deepen the institutionalization that will open the ways to the market and complete the second-generation ▶

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reforms on the other. This is because institutionalization means rapid growth, macroeconomic stability and the improvement of the investment environment. Likewise, it should be emphasized that sectoral architecture and an industrial strategy should be defined according to the dynamic competitive advantages.

According to this, Turkey, which does not have the opportunity to be the best in all sectors, should try to be the best in the world and a center of attraction only in certain areas. According to recent experience, automotives, electronics, machinery, furniture and energy are a few of these advantageous areas on which Turkey may focus more.[8]

## Conclusion

The loss of momentum in Turkey's growth performance has been visible since 2007. One of the reasons for this is the rise of energy and commodity prices in the world, which increased almost all costs throughout the entire economy. Cost pressure has been reflected both in the CAD and in the rate of inflation of both consumer and producer categories. As a result, the persistence of the current deficit and inflation in between 2006 and 2008 was a factor that increased Turkey's "risk premium," thus hobbling its growth.

It seemed that Turkey's economy would contract by 7 to 8 percent in 2009. Yet Turkey sits at the top of the list of countries that will get back on the track of growth the earliest. That is because when energy and commodity prices declined during the crisis, the TL depreciated as needed and became more competitive, the CAD threat almost disappeared, inflation moved down into the ballpark of 5 percent and both the central bank's policy interest rates and the Treasury's borrowing interest rates have been rapidly declining. Therefore, Turkey will be able to turn back onto its growth path as domestic and external demand picks up, as Turkey revives the EU membership negotiation process and as it advances further on the necessary reforms. ■

GRAPHIC □ YUNUS EMRE HATUNOĞLU


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DIPLOMACY

Turkey's President Abdullah Gül (L) and Armenian President Serzh Sarksyan talk in the Armenian Presidential Palace in Yerevan.

# Overcoming borders: long road from dreams to reality

YONCA POYRAZ DOĞAN İSTANBUL

**Turkey and Armenia took a major step toward the establishment of bilateral relations and open borders on Aug. 31 with two protocols and a timetable for their implementation**

When Turkey announced early in September that the Turkish-Armenian border would be opened on Oct. 14 for Armenian President Serzh Sarksyan's visit to Turkey to watch a World Cup qualifying game between the two countries' national teams, Azerbaijan immediately welcomed the news, saying that the move will help progress toward a settlement of the Armenia-Azerbaijan conflict over Nagorno-Karabakh.

Good news like this would be icing on the cake, although it is only a pleasant dream for now. But will it ever turn into reality?

Indeed, it might be a reality soon, as Turkey and Armenia have taken a major step toward the establishment of bilateral relations and open borders. According to documents released on Aug. 31, they initialed two protocols in that regard and a timetable for their implementation. The protocols were accompanied by a joint announcement by the foreign ministries of Armenia, Turkey and Switzerland, which is the mediating country.

The announcement said that political consultations will be completed within six weeks, just prior to the Oct. 14 soccer game to be played in the province of Bursa.

According to the timetable agreed upon, the two protocols will be signed and submitted to the respective parliaments for ratification on each side. And both sides are going to make their best efforts for the timely progression of the ratification in line with their constitutional and legal procedures.

"The normalization of bilateral relations will contribute to regional peace and stability. The Republic of Turkey and the Republic of Armenia are committed to pursuing their joint efforts with the assistance of Switzerland," was the conclusion of the joint announcement.

Some critics think this document flies in the face of Azerbaijan's vital interests, arguing that it will give Armenia no incentive to resolve the Karabakh problem and return occupied territories to Azerbaijan. They remind Turkish Prime Minister Recep Tayyip Erdoğan of his promises made in Azerbaijan's parliament in mid-May that Turkey "will not open the border unless occupation ends."

And some of the critics go as far as saying that Erdoğan's ruling Justice and Development Party (AK Party) is about to betray Azerbaijan.

However, there are also some positive signs coming from Baku, which has hinted at possible progress in its conflict with Armenia over Nagorno-Karabakh. The positive statement was from Novruz Mammedov, a senior aide to Azeri President İlham Aliyev, who said the Armenian-Turkish rapprochement was contrary to Azeri "national interests." But he added, "I believe that before the border is opened, there could be movement in resolving the conflict and certain agreement." He went on, saying, "It is necessary for the Turkish side to keep its promises."

## Turkey, Armenia on a tightrope

The closure of the border by Turkey in 1993 in protest over the Armenian occupation of Azerbaijan's Nagorno-Karabakh region has

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devastated the Armenian economy because the country is dependent on other countries for energy supplies and most raw materials. Turkey and Armenia have been making positive signs that relations will improve, but Azerbaijan recently expressed displeasure about the situation, prompting Turkey's prime minister to repeat the traditional line "One nation, two states" in Baku in solidarity with Azerbaijan.

In the Armenian capital of Yerevan the optimism that followed both countries' gestures in September 2008, when Turkish President Abdullah Gül accepted Armenian President Sarksyan's invitation to watch a game between the national soccer teams of both countries, has been replaced with caution since no concrete steps have been taken, despite diplomatic contact between Turkish and Armenian officials as well as between Azerbaijani and Armenian representatives. Officials often referred to these contacts as being on separate but parallel tracks.

Armenian critics have been saying that

**And as both countries try to maintain a difficult balance, only time will tell whether optimists or pessimists will prevail in the process, which shows that the soccer diplomacy is still alive**


Turkey's relations with Armenia are linked to the relations of Armenia and Azerbaijan; and if a solution to the Karabakh problem will take a long time, then that means that a solution to the problems of Turkey and Armenia will take a long time, too.

In addition, Armenian opposition has been blaming the government. After Turkey and Armenia announced their first agreement on a roadmap for the restoration of ties just before US President Barack Obama's April 24 statement commemorating the World War I-era killings of Ottoman Armenians, the nationalist Armenian Revolutionary Federation Party (Dashnak Party) walked out of the country's coalition government. This has been interpreted as a warning sign.

Meanwhile, critics in Armenia and outside -- especially the US-based Armenian diaspora organizations -- blamed the government for the lack of reference to "genocide" in Obama's address, saying it was obvious that he would not use the word after the announcement of a breakthrough in relations with Turkey. Armenians say 1.5 million Armenians were killed during a systematic campaign in eastern Anatolia, while Turkey rejects the claims of genocide, saying the killings came as the Ottoman Empire was trying to quell civil strife and noting that Muslim Turks were also killed in the conflict.

On the other side, Turkish hard-liners have been critical of the rapprochement with Armenia because Turkey has long said the normalization in ties was conditional on Armenia's withdrawal from Azerbaijani territory, a change in Yerevan's policy to stop backing worldwide efforts to win recognition for Armenian claims of genocide at the hands of the Ottoman Empire and the formal recognition by Armenia of the current borders.

Now the current protocols seem to address some of the issues of concern by both sides. But it is never possible to please all. The situation is complex for Turkey, as it is for Armenia. And as both countries try to maintain a difficult balance, only time will tell whether optimists or pessimists will prevail in the process, which shows that the soccer diplomacy is still alive.

"The fact that peace is delayed doesn't remove the indispensability of that peace. All big peace starts with big dreams. The biggest obstacle in front of them is prejudice. There is a status quo in the Caucasus at the moment which is not useful to any of the three countries -- Armenia, Azerbaijan or Turkey. Expecting parallel developments in the Armenia-Azerbaijan dispute is part of our vision," said Ahmet Davutoğlu, Turkish foreign minister and the architect of the "zero problems with the neighbors" policy, following the announcement of the protocols between Turkey and Armenia. ■

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DIPLOMACY

# Turkey faces tough diplomacy challenge in South Caucasus

**LAMİYA ADILGIZI** İSTANBUL

**Subsequent to its independence from the Soviet Union, the region was open to Turkey as a regional power in the neighborhood. Turkish influence has gradually become more visible in the region**

The South Caucasus region, with its geo-strategic location as a bridge between West and East, has made powerful countries both in the region and beyond compete for a sphere of influence within it.

Sandwiched between the Russian, Persian and Ottoman empires, the South Caucasus has always experienced full-scale wars and rivalries among these empires, which frequently destroyed the infrastructure and negatively affected the standard of living. Situated on the shores of the Caspian Sea, which is well known for its hydrocarbon resources in the West, it attracted Western investors both during the early 20th century and after the fall of the Soviet Union. The South Caucasus is also on the Silk Road, the main trade route from China at one extreme of the world, to the West at the other extreme, showing the region to be one of the most valuable territories in the world.

The region has, therefore, been a battleground between major powers, especially Russia and the Ottoman Empire, for centuries. Although during the high points of the Ottoman Empire, the Turkish hand was seriously felt in the region, later with the annexation of the region to Russia as a result of the Türkmençay Treaty (1828) signed with Iran dividing the South Caucasus into two parts, the region became the eastern border of the Ottoman Empire. For 70 years, as part of the Soviet Union, the


Michael Saakashvili, Abdullah Gül and İlham Aliyev (from left to right) celebrate the groundbreaking of the Baku-Tbilisi-Kars railway project.

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South Caucasus was separated from Turkey because of the Iron Curtain, an ideological barrier separating the communist East from the capitalist West. These significant phenomena, which have affected the political processes and the economy and society in the countries of the region, drew the nations more towards the Russian influence which was, after their independence, apparent in their identity and psychological makeup.

Subsequent to its independence from the Soviet Union, the region was open to Turkey as a regional power in the neighborhood. Turkish influence has gradually become more visible in the region. Throughout history, being at the intersection of Turkey and Russia's national interests, the South Caucasus has returned to its traditional role of becoming a point of focus for Russia and Turkey since the end of the Soviet Union.

Although Turkey, after the fall of the Ottoman Empire, was unable to reach out to neighboring regions because of the ideology of the newly established Turkish Republic, in the early 1990s, Turkey's choice was to turn towards the South Caucasus to prove that this power was back in the region. It is similar to Russian Prime Minister Vladimir Putin's efforts to prove to the West that Russia is still a powerful actor in the region.

Regarding the current ongoing regional processes, we can see the importance of the South Caucasus in Turkey's foreign affairs and its reputation in the international arena. The continuing Russian influence in the South Caucasus, the importance of the region for Europe both in geo-strategic and energy security terms, the geographical closeness of Turkey to the South Caucasus and the continuing Turkey-EU membership negotiations make Turkey in the South Caucasus a most necessary partner for Europe and the US. Adding Turkey's NATO membership to the priorities listed above, Turkey becomes the most advantageous partner for the EU and the US. In effect, Turkish proximity to the region makes it more desirable for the EU to drive regional countries Armenia, Azerbaijan and Georgia towards the EU frame of Western values.

To meet all these expectations Turkey is concentrating its efforts on its relations with the countries of the region, which are also pursuing their own diverse foreign policies. Its relations with Armenia, the South Caucasus country following a mainly pro-Russian policy, occupy a special place in Turkey's EU membership bid.

Diplomatic relations with Armenia -- already tough because of ethnic complexities -deteriorated after the Nagorno-Karabakh territorial dispute. Turkey cut off diplomatic ties with Armenia and closed its border in 1993 in support of Azerbaijan. What has further soured relations is the agitation of some actors in Armenian domestic politics. For example, the main opposition Tashnaksutyun Party has in its charter that a large chunk of Turkey's eastern region must be annexed to Armenia since it was part of an Armenian state long ago. However, relations are now to be normalized due to Turkey's year-long policy toward Armenia to reach a lasting rapprochement. By pursuing a policy of "zero problems with neighbors," Turkey aims not only to ease tensions with its neighbors but also to smooth over the difficulties on its path towards EU membership with respect to the Armenian issue.

**Good relations with the most pro-Western country in the South Caucasus, Georgia, are of great necessity because of its strategic importance in being a transit country and, as a consequence, Turkey is seeking to increase its presence in Georgia**

International pressure and both Armenian and Turkish business circles are pushing Turkey to open the border for more trade. This, however, was halted until recently due to Azerbaijan's strong opposition. Nevertheless, the process has started again as the Turkish and Armenian governments have announced that they have started six weeks of discussions on protocols to establish diplomatic relations and to eventually open the borders, if a development in the Nagorno-Karabakh situation is seen.

Turkey attaches great importance to its relations with Azerbaijan. The ties linking Azerbaijan and Turkey are based on history and ethnicity. Possessing common cultural and ethnic roots and sharing a very similar language, Azerbaijan connects Turkey to Central Asia, the motherland of all Turks. Moreover, the special attention Turkey pays this country is directly linked to the energy resources Azerbaijan has in the Caspian hydrocarbon deposits. Along with transporting the oil and gas resources of Azerbaijan through its territories to the world market, Turkey has also signed several deals with neighboring energy-abundant countries such as Russia, Syria and Iraq, the reason Turkey is at the moment being called a hub of energy resources. However, over the past year, relations between Turkey and Azerbaijan have been somewhat shaky because of Turkey and Armenia's rapprochement. This is considered by Azerbaijani politicians and the public as the end of the Nagorno-Karabakh peace negotiations, which would lead to the easy solution of this long-standing dispute.

Good relations with the most pro-Western country in the South Caucasus, Georgia, are of great necessity because of its strategic importance in being a transit country and, as a consequence, Turkey is seeking to increase its presence in Georgia. Launched during the former Georgian President Eduard Shevardnadze's tenure, Georgian-Turkish relations have greatly prospered during incumbent President Mikhail Saakashvili's term. Saakashvili has said several times that Georgian-Turkish relations are at a high and possess great prospects which are expected to be beneficial for both nations.

Turkey's primary foreign policy focus toward the South Caucasus is to enjoy good relations with the countries in the region. Resting on the idea that other Turkic countries are more than neighbors and should be treated in a distinctive way due to their ethnic closeness, Turkey is determined to pursue its policy and prove itself to be a major influential power both in the South Caucasus and in the world. ■

OPINION

# What is the IMF's mission?

BARRY EICHENGREEN*

**The IMF's critics have not gone away; they have merely fallen silent temporarily. IMF encourages their criticism by failing to define its role. It needs to do so while it still has the world's sympathetic ear**

The International Monetary Fund has been one of the few beneficiaries of the global economic crisis. Just two years ago, it was being downsized, and serious people were asking whether it should be closed down. Since then, there has been a renewed demand for IMF lending. Members have agreed to a tripling of its resources. It has been authorized to raise additional funds by selling its own bonds. The Fund is a beehive of activity.

But the crisis will not last forever. Meanwhile, the IMF's critics have not gone away; they have merely fallen silent temporarily. The Fund only encourages their criticism by failing to define its role. It needs to do so while it still has the world's sympathetic ear.

The IMF's first role is to assist countries that, as a result of domestic policies, experience balance-of-payments crises. Their governments have no choice but to borrow from the Fund. To safeguard its resources -- that is, to be sure that its shareholders are paid back -- the Fund must demand difficult policy adjustments on the part of these borrowers.

The problem is that the IMF has bought into the rhetoric of its critics by agreeing to "streamline" its conditionality. In fact, where structural weaknesses are the source of problems, the Fund should still require structural adjustment as the price of its assistance. By seeming to give ground on this point in the effort to win friends and influence people, the IMF has created unnecessary confusion.

A second role for the IMF is to act as a global reserve pool. Countries have accumulated large reserves in order to insure against shocks. This is costly for poor economies, which could better use the resources for investment and consumption. Unfortunately, the recent demonstration of the volatility of global financial markets only encourages the tendency to stockpile reserves.

It would be more efficient to pool the reserves of countries that need them at different times. The IMF has moved in this direction by creating a Short-Term Liquidity Facility (STLF) through which countries with strong policies can draw from the Fund up to five times their quota without conditionality. But the STLF still requires a burdensome application process, which only Mexico, Colombia, and Poland have been willing to endure.

This made sense so long as the IMF's resources were limited, as the application process allowed the Fund to limit its liability. But, with the tripling of resources, this rationale no longer exists. The IMF should categorically announce which countries qualify for the facility, automatically making them members of the pool.

A third role for the IMF is macro-prudential supervisor. Recent events have made clear that someone needs to anticipate and warn of risks to global financial stability. The G-20 suggests that the Financial Stability Board (FSB), made up of national supervisory authorities, should take the lead in these tasks. The Fund, through its early-warning exercises and joint IMF-World Bank Financial Sector Assessments, is to only play a supporting role.

But why the FSB should head up this process is far from clear. The IMF, with its universal membership, is more representative, and it has a larger expert staff.

National supervisors may be reluctant to surrender this responsibility to a multilateral organization. If so, this is short-sighted. Financial markets and institutions with global reach need a global macro-prudential regulator, not just a loosely organized college of supervisors. Or it could be that national policymakers don't trust the IMF, given that it essentially missed the global financial crisis. If so, the Fund needs to win back their confidence.

This brings us to the IMF's fourth role, namely using its bully pulpit to warn of risks created by large-country policies. Small countries are subject to market discipline, as any Latvian will tell you. But when large economies whose currencies are used internationally need more resources, they can just print more money. Not only do they feel less market discipline, but they are subject to less IMF discipline, since they are not compelled to borrow from the Fund.

But, as the sub-prime mortgage debacle reminds us, large countries' policies can place the global financial system at risk. The Fund, wary of biting the hand that feeds it, has been reluctant to issue strong warnings in such instances. But if the IMF is to have a future, its management will have to issue stronger warnings about the next dangerously large US current-account deficit, the next unsustainable housing boom, or whatever large-country problem succeeds them. There can be no more mincing of words.

Finally, the IMF needs to coordinate reform of the international system. If, in the long run, a supra-national unit, the Special Drawing Right, is to replace national currencies in international use, then the Fund will need to guide its development. If stop-gap measures are required during the transition, the Fund must provide leadership there as well.

So far, however, the innovative ideas for reforming the international system have come from the United Nations, 10 Downing Street, and the People's Bank of China. The Fund has been notable mainly for its silence.

The crisis is not yet forgotten, but the window is closing. The IMF's Board of Governors is meeting early October in İstanbul. If the Fund does not provide a clear vision of its future by then, the opportunity will have been missed. ■

** Barry Eichengreen is professor of economics at the University of California, Berkeley.* 

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CHP General Secretary Önder Sav defends his party's prohibitive stance after submitting an appeal to the Constitutional Court to cancel a law that allowed headscarves to be worn in universities. The law was later exploited by the chief public prosecutor in a lawsuit to close the AK Party.

# Political stability is sine qua non of economic stability

**ALİ ASLAN KILIÇ** ANKARA

**The Turkish economy secured high growth rates in times of single-party governments, whereas it suffered from economic contraction under the rule of coalition governments**

The Turkish economy, which has grown by 4.6 percent per year on average throughout the Republican era, secured high growth rates in times of single-party governments, whereas it suffered from economic contraction under the rule of coalition governments and in transition periods in the aftermath of military coups.

Professor Üstün Dikeç of Çankaya University argues that there is a clear connection between politics and economics, adding that this is a fact that is more visible in the case of Turkey. Speaking to Turkey Outlook, Dikeç said the administration of 40 percent of the economy by state institutions is the most obvious reason for this. Stressing that economic policies of the government have determinative impacts on the overall state of the economy, Dikeç said these policies are also dictated by the level of stability.

Noting that politics is a key component in the state of stability, Professor Dikeç further said: "About 35-45 percent of Turkish gross domestic product [GDP] is administered by public institutions. Private institutions also have connections with state institutions in some ways. They serve as contractors in state investments and pay taxes. Because of these close relations, the decisions by politicians have immense impacts on the private sector because the state's infrastructure investments come to huge amounts. The state does not do it itself; contractors carry out these activities on behalf of the state and make huge amounts of money."

He further asserts that single party governments enjoying extensive popular support are able to concentrate on developing their initiatives, whereas coalition governments are vulnerable to external impacts. Dikeç said: "From the perspective of tax policies, the relation between politics and economy becomes even clearer. Most recently, the corporate tax rate has been reduced from 30 to 20 percent via an amendment to the corporate tax law. This is huge. This allowed the creation of capital corporations. And of course, corporations employing financial consultants now enjoy tax reductions, exemptions and exceptions in 18 different tax categories."

Recalling that uncollected taxes remain in the hands of the taxpayers, Dikeç drew attention to the importance of uncollected taxes in times of recession, where the need for fiscal and financial resources becomes

ANALYSIS

immediate. Dikeç, noting that the economy operates normally in times of political stability, underlines that this allows for the smoother and more effective collection of taxes. Dikeç further says that the relation between politics and the economy is related to the desire to win. Noting that not only the sale of goods and services but also market fluctuations are now viewed as methods to make money, Dikeç recalls that the economic model open to manipulative impacts is becoming dominant in every field of the economy. He also says: "Considering that some make money every time a fluctuation occurs, these people will keep making money. There was no requirement for tax payments or the declaration of income for the sale of movable assets up until recently. … However, the government introduced a new legislation under which people now have to pay taxes in connection with such activities."

**If transitions of power are fairly frequent, if strong governments are not formed, if coalition governments are unable to provide confidence and trust for economic players, markets will be directly affected by this. Developments affecting political stability and increasing political risk will be followed by economic fluctuations.**

### Turkish banks make money from economic, political stability

Recalling that Turkish banks have made huge amounts of profits during the ongoing global financial crisis whereas many big banks around the world have suffered from extensive losses, Dikeç says this should be analyzed with reference to the importance of the relationship between politics and the economy. Noting that major economic indicators including the fiscal structure of the economy, developments in financial markets and consumer and market confidence indexes are correlated to political stability, Dikeç holds that the economy will remain smooth and operative if political stability does exist. Dikeç further underlines that the ability of the Turkish economy to remain immune to the destructive impacts of the global economic crisis is a result of political stability in the country. Noting that the striking economic growth -- which was 6 percent on average per year -- before the crisis was due to political stability, Dikeç says: "The world economy was affected by a growing crisis of confidence. As a result of this, decreasing demand in oil and other major products led to a recession. However, the Turkish economy stayed relatively immune since it has long been enjoying the status of being one of the top five rapidly developing economies of the world [along with Brazil, Russia, India and China]."

Calling attention to the relation between politics and economics, Republican People's Party (CHP) deputy İlhan Kesici argues that from the people's perspective, this relationship is best viewed in the popular and personal profile of the political leader. Kesici further asserts that Turkish people praise politicians who promise growth in the overall economy of the country. The CHP deputy further says: "Actually, this is the case around the world. And this is what is supposed to be. Why should the people be expected to have trust and confidence in politicians unable to provide employment, food, social security, peace and confidence?"

Stressing that there is no excuse for economic failures in the eyes of ordinary citizens, Kesici says the majority of people hold that it is the duty of political leaders to overcome obstacles and barriers and achieve economic goals. Drawing attention to the election success of Bill Clinton in the US in 1992 and 1996, Kesici says: "A book titled 'It's the Economy, Stupid' was published to reveal the relation between the 1992 US presidential election results and the economy. Another book, 'It's Still the Economy, Stupid,' was published after the 1996 elections. The primary reason for the election defeat of the Republicans in 2008 was their failure in the administration of economy."

### Visible growth in Turkish economy and political developments

The annual average economic growth rate of Turkey over its 85-year history is 4.6 percent. The eras where the country has enjoyed high growth rates include the following:

**1923-38:** 7.4 percent Atatürk era

**1950-60:** 6.3 percent Democrat Party administration

**1966-70:** 6.3 percent political stability under the rule of Justice Party after military coup on May 27, 1961

**1983-89:** 5.1 percent Single-party government led by Turgut Özal, ANAP rule after the Sept. 12 coup

**2003-08:** 6.4 percent Era of economic stability and growth under AK Party administration

It is interesting to note that Turkey has suffered from low economic growth rates in times of multiparty governments, military coups and weak administrations lacking extensive political support. The CHP, under the leadership of İsmet İnönü between 1939 and 1950, is the most obvious example in this respect. The growth rate during this period was -0.5 percent; this failure resulted in the election defeat of İnönü.

### AK PARTY DEPUTY CHAIRMAN NURETTİN CANİKLİ

"To achieve economic stability, all indicators should be predictable and foreseeable. Uncertainty that will affect market players directly targets economic stability. Of course, there will be some fluctuations or changes; of course there will be changes in the currency rates. However, if these occur within the limits of predictability, nothing will happen. On the other hand, extraordinary changes and unpredictable developments discourage investors. Any unpredictable development directly affects the markets. Investments stop; your capital inflow is affected by this. In addition, developments that will destroy stability will necessarily follow. The primary reason for unpredictable developments in the economy is political fluctuations. If transitions of power are fairly frequent, if strong governments are not formed, if coalition governments are unable to provide confidence and trust for economic players, markets will be directly affected by this. Developments affecting political stability and increasing political risk will be followed by economic fluctuations. Huge devaluations happened during such times. Destructive devaluations and economic crisis took place in years of political instability in 1978, 1980, 1988-89, 1994, 1999 and 2001; these were all . Transitions of power were frequent in these years because of the pursuit for political stability after economic stability."

FOCUS

# What Ergenekon is and what it wants to do


ILLUSTRATION CEM KIZILTUĞ

**EVİN BARIŞ ALTINTAŞ** İSTANBUL

The Ergenekon trial, dubbed Turkey's "trial of the century," is currently one of the most frequently debated topics in the country. Although confusing for the uninitiated, the case of Ergenekon, a group that allegedly staged a number of crimes for the ultimate political purpose of bending the country toward its own political agenda and overthrowing the government, is key to unraveling the secrets of Turkey's recent political history, and it is important to understand what it is.

The Ergenekon investigation, in which nearly 200 suspects are accused of various crimes, began in July 2007 with a raid on a shanty house in İstanbul that police discovered was being used as an arms depot. The ensuing investigation revealed a bundle of unholy relationships among disparate individuals, associations and foundations, groups with a wide range of and even opposing political ideologies, and found links to past incidents -- such as unresolved assassinations, suspicious bombings and dubious public protests -- which seemed to have been organized by an all-knowing center to manipulate public opinion. The incidents include a surprising number of murders, assassinations and bombings earlier attributed to left-wing groups, Islamists or the outlawed Kurdistan Workers' Party (PKK).

In one of the recent highlights of the case, the İstanbul 13th High Criminal Court in early August ruled to merge the trial of suspects in the 2006 murder of a Council of State judge with that of Ergenekon. Prosecutors have scores of witnesses and documents serving as evidence that the Ergenekon terrorist organization was behind the Council of State attack. This is but one attack previously thought to have been committed by other groups, but later established to be the work of Ergenekon.

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SELAMİ ALİ
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NAMIK KEMAL
ATAKENT
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HER SEMTE ÇAĞRI...
Anadolu Yakası:
KARTAL, ÜSKÜDAR, BULGURLU, YENİ ÇAMLICA, BOSTANCI, ATAKENT, İÇERENKÖY, KÜÇÜKYALI, ÇEKMEKÖY, SELAMİ ALİ NAMIK KEMAL, FİKİRTEPE, KOZYATAĞI FINDIKLI (MALTEPE) DUDULLU
Avrupa Yakası:
ZEYTİNBURNU, GAZİOSMANPAŞA, MAHMUTBEY, ŞİRİNEVLER

FOCUS

## Who are Ergenekon's members?

Ergenekon suspects include retired army generals, active-duty officers, journalists, university rectors, politicians, lawyers and representatives from almost all professional groups. The links between these individuals are being established as the trial unfolds. The secrecy, the vastness of the organization, its long life and its successful penetration into every level of the state and every segment of society make for a highly tangled bundle that may take years to extricate.

Some believe that the Ergenekon trial is only a shake-up of the greater organization to get rid of elements that have been exposed or compromised. The prosecutors, they claim, are actually working for that cause. Given the history of Gladio, a NATO structure of the same kind, this theory is a possibility, although, one might optimistically add, an unlikely one. An overwhelming majority of writers, journalists, researchers and politicians do not believe that the trial is another long con on the part of deep state masterminds, but rather that this is Turkey's chance to really confront its own Gladio.

## What did Ergenekon want?

The prosecution now has evidence showing that the organization devised plots to assassinate dozens of people, including bureaucrats, judges, journalists, politicians and writers, which were prepared in graphic detail, including the names of the would-be hit men.

For example, the prosecution has reason to believe that an attack in 1993 by a fundamentalist mob in Sivas at a hotel where visiting Alevi poets and intellectuals were staying was orchestrated by Ergenekon. The mob set fire to the hotel, killing 35 Alevis. The incident is remembered as one of the darkest moments in Turkey's recent history. Other evidence indicates that the group was planning to assassinate members of the higher judiciary. Based on a blueprint of the Supreme Court of Appeals acquired at the Workers' Party (İP) headquarters in Ankara, the prosecution claims the group had obtained detailed drawings of the building as well as information of its inner structure and security systems. The Ankara Police Department has confirmed that the Supreme Court of Appeals' blueprint found in the investigation accurately reflects the details of the building.

## Plot to kill Armenian patriarch

The new indictment also includes details about a plot to assassinate Armenian Patriarch Mesrob Mutafyan, based on documents found in the home of İbrahim Şahin. The documents found in Şahin's home include a Google Earth map of the area where the patriarchate is located, notes about the patriarchate's security system and photographs of Mesrob taken from different angles. There are also documents explaining the details of a plan to kill the patriarch.

According to plans laid out in writing in a document titled the "Intimidation Plan (Mutafyan)," the group was going to use a light anti-tank weapon (LAW), a number of which were found hidden away in various places during the Ergenekon investigation. According to this document, police officer Kenan Temur was going to direct the attack while those who would carry out the plan would be appointed by Fatma Çengiz, Yaşar Oğuz Şahin, Fahri Kepek and an individual identified only as "Commander Talat."

The document further laid out the action plan, saying: "The periodic hours of the individual's entrance and exit from the [church] will be established. Two LAWs will be taken from the secret depot and placed in suitable places that face the patriarchate. Two men who will be assigned to the assassination will be positioned outside the patriarchate. If all is well, one of them will hold his watch in his right hand, letting it dangle down from his palm, while the other one will light a cigarette with his right hand, keeping his left hand in his pocket. Any other gesture will be interpreted as danger. In the last stage, as the target enters the street both gunmen will be ready and when one starts firing at him, the other one will also start firing indiscriminately."

**An overwhelming majority do not believe that the trial is another long con on the part of deep state masterminds, but rather that this is Turkey's chance to really confront its own Gladio**

## Assassination plan for Sivas Armenian leader

Another assassination the group planned was that of Minas Durmaz Güler, the head of the Sivas Armenian community. The prosecution is relying on evidence from phone conversations between Çengiz and Şahin to support this claim. The would-be hit men, Ersin Gönenci and Oğuz Bulut, were arrested before they could carry out the assassination, the indictment notes.

Other targets of the group included Alevi-Bektaşi Federation Chairman Ali Balkız and the federation's secretary-general, Kazım Genç, both very important figures in the Alevi community. Among documents found in Şahin's house regarding the planned assassination of the two Alevi leaders were detailed blueprints and maps of the two men's houses, their photographs and notes indicating that Balkız would be killed by a bomb planted in his car while Genç would be assassinated by a letter bomb sent to his house. The perpetrators were, as in other cases, already selected. Muhammed Sakarya was to be the cell leader in this operation. A document titled the "Intimidation Plan" also explains the purpose of the assassination as provoking Alevis and fanning conflict between the Alevi community and the country's majority Sunni population.

## Nobel Laurate author Orhan Pamuk on the list

In a document found at İP headquarters, it was clearly written that the group had tried to assassinate former Chief of General Staff Gen. Yaşar Büyükanıt in 2005 during a trip the general took to İzmir and Balıkesir. Based on information obtained from the interception of phone conversations of the suspects, the prosecution claims that the group had plans to assassinate journalist and author Fehmi Koru, Turkish Nobel laureate author Orhan Pamuk, Democratic Society Party (DTP) leader Ahmet Türk, Diyarbakır Mayor and DTP politician Osman Baydemir and DTP deputy Sebahat Tuncel. The indictment also notes that Selim Akkurt, one of the hit men recruited for these assassinations, was arrested shortly after a conversation between him and Ergenekon suspect Fikri Karadağ was heard by police monitoring the conversations, in order to avoid an "unwanted incident."

## NATO and shopping mall targets

The indictment also claims that the organization was planning attacks at a NATO command center in İzmir and a number of shopping malls, including the Optimum and Antras shopping malls in the capital. Most of these plans were discovered through documents found in Şahin's office. ■

FEATURE

# HIGH-RISE SKYSCRAPERS OVERSHADOWING İSTANBUL'S MONUMENTAL SILHOUETTE

BÜNYAMİN KÖSELİ İSTANBUL

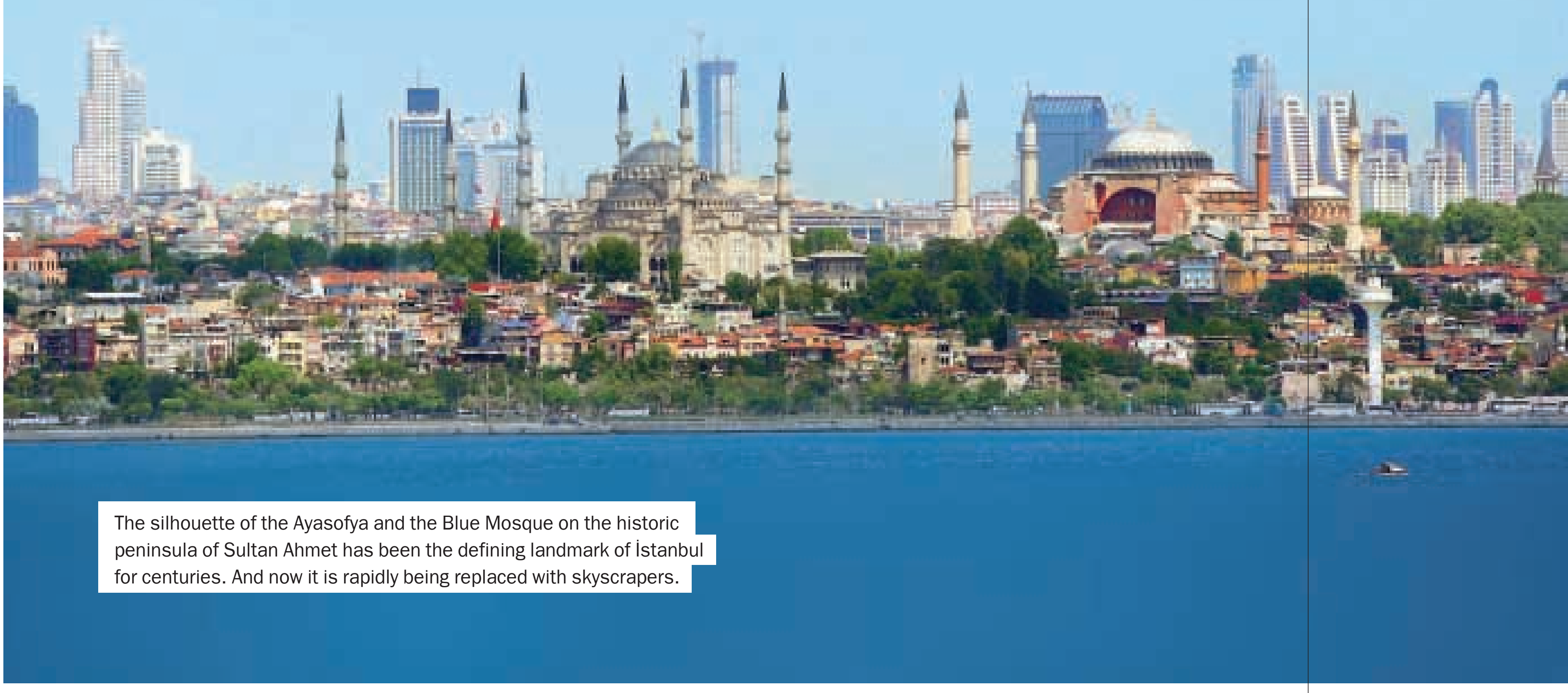
**Just as a skyline depicts the best image of Chicago, İstanbul is symbolized by the delicate mixture of minarets and domes of Ayasofya, the Blue Mosque and the Süleymaniye Mosque in the minds of many**

Just as a skyline depicts the best image of Chicago, İstanbul is symbolized by the delicate mixture of minarets and domes of the Ayasofya, the Blue Mosque and the Süleymaniye Mosque in the minds of many. The city's legendary heritage, the architecture on the peninsula and the silhouettes of the remnants of a splendid past are what make İstanbul a great place to explore.

Well, actually, this is rapidly becoming a delusion now because skyscrapers and high-rise buildings, which are regarded as indispensable for a modern urban life, are blocking the magnificent scene of the historical silhouette of the city. These buildings, higher than the highest hill in the city and higher than even the tallest minaret, take İstanbul closer to world cities like Chicago, New York, Beijing, Dubai and Sydney while they take it away from its eternal legacy. The historical peninsula now represents humility, whereas Maslak, the modern face of the city, presents a whole different side of the city.

Entrepreneurs and businesspeople have started a race to erect skyscrapers; large construction companies now push forward to build 300-meter-high buildings. Leading holdings, including Sabancı, Koç, Zorlu and Eczacıbaşı, view the size of their buildings as a matter of prestige. Lack of suitable land and the high price of real estate make the construction of tall buildings even more attractive. The Sapphire in Levent, which is still under construction, will reach 261 meters once completed. Meanwhile, another project, to erect Diamond of İstanbul, at 240 meters in height, was also started recently. Sama Dubai, established by Dubai Holding to develop real estate projects in Turkey, was planning to build Turkey's tallest skyscraper on a valuable plot of land in İstanbul's Levent district. It bought the İETT land from the İstanbul Municipality in 2006 but was unable to initiate the construction, having to deal with legal objections put forward by the Council of State. However, the company is still determined to succeed in completing the construction of Turkey's tallest building. A number of other buildings, worth $5 billion in total, will also be undertaken by this company.

The view of Mecidiyeköy, Gayrettepe, Levent and Maslak is no different from an American cityscape as seen in the



The silhouette of the Ayasofya and the Blue Mosque on the historic peninsula of Sultan Ahmet has been the defining landmark of İstanbul for centuries. And now it is rapidly being replaced with skyscrapers.

DEMMAK
DEMMAK

FEATURE


The Levent business district is İstanbul's main financial hub and is home to some of the tallest buildings in Turkey.

movies. The structure and skyline of the city are rapidly changing because of other similar buildings in other parts including Şişli, Ataşehir, Kozyatağı and Esenler. There are approximately 100 ongoing huge construction projects on both sides of the city including the Skyport Residence, 212 İstanbul, My World, Andromeda, the Flora Residence, the Selenium Residence and Mashattan.

## İstanbul's skyscrapers in competition

Turkey's first multi-storey buildings were erected in Ankara. The 24-storey Red Crescent (Kızılay) building, whose construction was completed in 1965, used to represent the changing face of the country. However, Ankara's lead in this field did not last long; the Maya Center and Sabancı Center, completed in 1992 in İstanbul, far exceeded the 100-meter limit. The number of skyscrapers dramatically increased in the city in the early 2000s. İş Kule, with its towers measuring 181 and 117 meters in height, the 152-meter Polat Tower, the 154-meter-high Süzer Plaza, the 118-meter Tekfen Tower, the 136-meter Beygi Giz Plaza, the 120-meter-high Metrocity, the 140-meter-high Elit Residence, the 143-meter-high Garanti headquarters and the 130-meter-high Kaya Ramada Plaza were built during this period. After the real estate markets gained momentum in 2005, new projects were introduced; the partial list of fairly recent skyscrapers includes Koza Plaza, Sun Plaza, Kanyon, Kempinski Astoria and Tat Towers. Many others will follow in the years to come. Currently, the construction of Sapphire, Diamond of İstanbul, Garden Plaza and Trump Towers is under way. A Kazakh construction company, Landmark, is to erect 250-meter-high twin towers in Levent, to serve as the headquarters of Renault in Turkey.

**Entrepreneurs and businesspeople have started a race to erect skyscrapers; large construction companies now push forward to build 300-meter-high buildings. Leading holdings, including Sabancı, Koç, Zorlu and Eczacıbaşı, view the size of their buildings as a matter of prestige**

## Maslak looks like a modern district of slum houses

At first sight, you get the impression that Maslak is a modern city; however, architects maintain that this place extensively suffers from poor urbanization despite its modern appearance. The skyscrapers in the region make the district look like an irregular combination of vast buildings. Architect Dr. Sinan Genim compares Maslak to a modern district of slum houses. Genim says: "Skyscrapers are good alternatives for the changing culture of houses. These are both safe and technological. However, if certain standards are not observed in their construction, there will be no difference between a skyscraper and an ugly slum house." Genim opposes the erection of large buildings in Eminönü, Beyoğlu, Beşiktaş and Şişli because this seriously damages the historical fabric of the city. Some crucial aspects should be taken into account during the construction of skyscrapers including distance, availability of parking, parks and recreational areas. Architect Hakan Kıran says: "To make sure that İstanbul will not suffer from chronic problems, certain standards should be developed with respect to the erection of skyscrapers considering that the city does not have a fixed culture of urbanization." ▶

FEATURE

Maslak is quickly rising to become one of the country's main business districts and is home to some of the city's prime Grade A office space.

## The 10 coolest skyscrapers

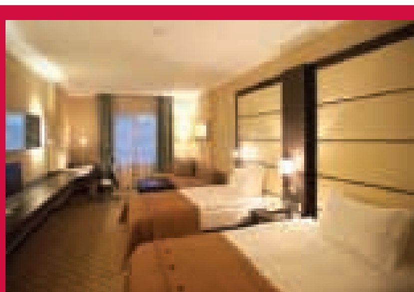
- İş Kule, 52 floors, 182 meters
- Tekfen Tower, 38 floors, 118 meters
- Sabancı Center, 35 floors, 139 meters
- Kanyon, 26 floors, 139 meters
- Sapphire, 57 floors, 261 meters (under construction)
- Diamond of İstanbul, 240 meters (under construction)
- Landmark Towers, 250 meters (project under development)
- Şişli Plaza, 42 floors, 160 meters
- Kempinski Astoria, 27 floors, 125 meters
- Tekstilkent-Koza Plaza, 44 floors, 168 meters

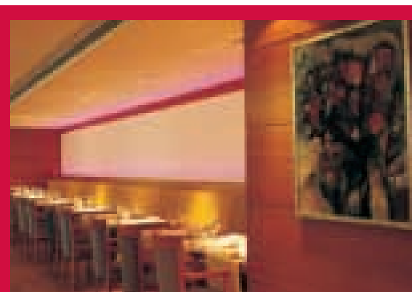
## Life in skyscrapers pretty comfortable

Skyscrapers are preferred because they are safe and comfortable. Most floors in these buildings are leased as offices; however, they are now used as apartments as well. The skyscrapers and residential plazas incorporate malls, restaurants, cinemas, pools, golf courses and luxurious apartments. Sapphire is to become the first green skyscraper in Turkey. The price of residential apartments in these plazas is pretty expensive. The monthly rent of an apartment at Metrocity can be as high as TL 10,000.

## Buildings change the climate of the city

There are 2,093 buildings whose heights exceed 35 meters in İstanbul, making the city sixth in world rankings. Seventy of these 2,093 are higher than 100 meters. The amount of electricity and water that a 100-meter-high building consumes is equal to that of a small town. For instance, 1,067,166 kilowatts of electricity and 5,508 cubic meters of water are consumed at the Sabancı Center every month. The highest building in Anatolia is the 52-storey skyscraper in Mersin. These buildings may affect the city's climate because of their impact on the direction of the wind. According to meteorologist Bünyamin Sürmeli, there is currently no danger for İstanbul; however, if proper measures are not taken, some changes in İstanbul's climate could be expected in the near future. ■





FOCUS

# The rising value of Turkish professionals worldwide

YASİN ALTUNKAYA*

**Though Turkey at one time was accustomed to importing its business managers from overseas, these days it is busy exporting its own professionals to countries around the world. One bright example of this is Coca-Cola's CEO Muhtar Kent**

Thanks to the advantages brought by experience in managing businesses in Turkey's rapidly fluctuating economy, Turkish managers are becoming quite sought after abroad these days.

Though Turkey at one time was accustomed to importing its business managers from overseas, these days it is busy exporting its own professionals to countries around the world. Two bright examples of this are Muhtar Kent, Coca-Cola's CEO, and Tuygan Göker, a regional president for Roche who is responsible for 99 countries.

There are, of course, some character and cultural differences between Turkish managers and their European counterparts. In the light of my own experiences, I am struck particularly by these differences in the arenas of open-mindedness, humility, flexibility, strategic perspective, planning and organization, problem-solving, feedback, values and leadership.

**Open-mindedness:** Turkish managers are generally more open than their foreign counterparts to new information, ideas and proposals. Turkish managers are quite interested in closely examining and learning from what they observe in terms of how their European counterparts run their businesses. On the other hand, European managers tend to be less open to data that comes to them, especially from other countries. Though like their Turkish counterparts they are focused on achieving optimal results for their businesses, they tend to operate along their own set of standards, without as much openness to outside input. While it is possible to use inspiration from developed and proven methods from other economies and cultures, this in itself cannot lead to deep-rooted changes.

**Humility:** Turkish managers generally do not enjoy speaking about their personal success. They tend to be less forthcoming on these matters than their European counterparts. On the other hand, European managers derive pleasure from letting others know about their strong sides and their superiorities.

**Flexibility:** Turkish managers tend to be comparatively flexible. The economy, political crises and rapid development of Turkey have led Turkish managers to develop more flexible sides and have improved their ability to be flexible and adapt to various sets of conditions.

At the same time, European managers are more accustomed to working under stable and consistent conditions, which means that they have not developed the ability to be as flexible as their Turkish counterparts.

**Strategic perspective:** European managers tend to possess a wider strategic perspective than their Turkish counterparts. Their view of situations that are ambiguous or confusing seems clearer and more superior to Turkish counterparts.

Turkish managers, on the other hand, tend to display a thinking style based more on expertise and tactics. But what is the reason

Muhtar Kent, Coca-Cola's CEO is one example of the Turkey's emerging managerial talent

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for this? Reasons in this difference in thinking and perspective might lie in education system differences, complexities in the work environment, working according to different sets of expectations and different levels of independence and freedom of creativity extended to employees by managers.

**Planning and organization:** European managers are famous for their discipline and accuracy. Their constant efforts to organize processes as well as plan and oversee them are realities acknowledged by everyone. So is their tendency to use time effectively and stick sharply to meeting times.

European managers are also extremely careful to stick to rules and regulations.

Turkish managers, by contrast, tend to be more relaxed about efforts at organization as well as the use of time and meetings. The bending of rules and regulations is seen more frequently with Turkish managers. This situation could be linked with the general category of "flexibility."

**Problem-solving:** European managers tend to follow a more direct and honest road when it comes to problem-solving processes. Critical problems are dealt with immediately and openly before being allowed to get larger. Expressing both positive and negative emotions is treated as a normal and acceptable behavior. By contrast, Turkish managers have a greater tendency to either ignore problems or approach them more indirectly. They also tend to feel very uncomfortable and unhappy when faced with problem-type situations, and for them expressing their true emotions at work could be a negative experience.

**Feedback:** European managers are more accustomed both to giving and receiving feedback than their Turkish counterparts. In fact, feedback in many different forms has become a standard piece of their working culture over the years. But this does not mean that they are so open to criticism! Their first reaction to criticism in fact can be to jump to self-defense or to disassociate themselves from the criticized points and enter instead into debates over the point itself.

**Turkish managers tend to be comparatively flexible. The economy, political crises and rapid development of Turkey have led Turkish managers to develop more flexible sides and have improved their ability to adapt to various conditions**

For Turkish managers, positive and negative feedback is still a relatively new concept, and one to which they are still adapting. When receiving feedback, Turkish managers tend to prefer to listen, but refrain from commenting on that which is being told to them. When offering feedback, it is very difficult for Turkish managers to understand what the director is thinking and to respond the same way.

**Values:** The values that guide the Turkish management culture are family and security, protection, tolerance, harmony and faithfulness. Rather than referring specifically to themselves or their accomplishments when speaking, Turkish managers tend to refer to themselves as a part of a greater group, using the pronoun "we" more than "me." In European management culture, values such as individualism, performance, personal development, success and rewarding success come at the top of the list.

**Leadership:** Leadership characteristics in both Turkish and European managers tend to resemble one another. Both Turkish and European managers are very authoritarian, with direct leadership styles. Neither of these managers tends to show their employees sufficient approval or support. In both Turkey and Europe, employees tend to wish for more autonomy for independent movement, for the freedom to use their own creative powers and to make their own decisions.

One striking difference in leadership tendencies, though, is that Turkish managers tend to be more paternal in their stance of authority, while European managers embrace a more typical "boss" figure stance. ■

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## Turkey now a nation that exports its managers

- Cihangir Koşu: Deputy president of Abbott Laboratories and responsible for 40 countries in five regions
- **Kaan Terzioğlu: Deputy president of Cisco's Middle and Eastern Europe division**
- Yağmur Sağnak: Regional president for JohnsonDiversey, responsible for 93 countries
- **Yenal Gökyıldırım: Director of sales and marketing in 90 countries for Philips**
- Sırma Umur: Director of two factories for P&G in Germany; deputy president in 16 countries
- **Sıddık Tetik: Responsible for P&G in China, Hong Kong, and Taiwan**
- Tansu Yeğen: CEO of Astelit Life (Turkcell subsidiary in Ukraine)
- **Gürcan Karakaş: Responsible for sales and marketing for Bosch in 60 countries**
- Mehmet Öğütçü: Responsible for contacts with governments in 28 countries for the BG Group
- **Ahmet Esen: Pfizer's general manager in China**
- Ebru Dorman: Deputy president of the French telecommunications company Orange
- **Ülkem Kırımlı: Sales coordination for Nokia in 14 countries**
- Hayati Yarkadaş: Business director for DuPont Global
- **Ali İhsan Kuralkan: Cisco Systems Middle and Eastern Europe general manager**
- Vahap Çoma: Director of European Planning, Hiring, and Training for Toyota Motor Corporation
- **Saffet Karpat: CEO for Procter & Gamble Turkey, Israel, Caucasus and Central Asia**


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FOCUS

# İstanbul financial center project: back on track soon

ERGİN HAVA İSTANBUL

First introduced by the government in 2007, the finance center project has remained on Turkish business circles' agendas for a long time, accompanied by heated discussions

Although it is true that an ongoing global financial crisis has overshadowed efforts to render İstanbul a financial hub in its region, including the Middle East and the Balkans, to some extent the project still maintains its priority on Turkey's agenda. The Turkish government had to deal with several problems in its economy with the emergence of the crisis, in the final quarter of 2008, and has had to concentrate more on finding solutions to several urgent matters than on anything else. However, as a long-term strategy the İstanbul finance center project is not a "stillborn" plan as some in Turkey have claimed. Now that the markets have started to see the light at the end of a dark tunnel -- as figures coming from world markets suggest -- the government is expected to intensify its quest and accelerate studies to finalize the project.

As early as Sept. 17 the government had taken a bold step and announced that they would reveal the details of a strategic plan for the İstanbul Finance Center (İFM) project during the IMF/WB annual meetings in the city. Public and private companies and civil society organizations along with universities have contributed to studies for the preparation of the plan. The government has long been working silently but ambitiously to introduce a macro plan for the project.

First introduced by the government in 2007, the finance center project has remained on Turkish business circles' agendas for a long time, accompanied by heated discussions. The issue was sensitive in a sense that some parties opposed the project, claiming that the government rushed headlong into it and also that the city lacked sufficient infrastructure to get through such a demanding project. A prominent factor that stirred the discussions was the project's central plans to move the headquarters of public banks, the central bank, the Treasury and other economy-related institutions from Ankara to İstanbul's

Above is a picture of the Central Bank's prime real estate in İstanbul's Levent district. The bank may opt to build its headquarters on this land.


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Ataşehir district. As some recent reports also suggest, there are some other major points that should be addressed before cudgeling brains on the issue of moving banking headquarters to İstanbul. This is a serious project that requires patience and common sense. Making İstanbul a finance center is not simply a mission that will be undertaken by the state; besides, the project, as a socioeconomic macro plan, needs contributions from the country's private sector, civil society organizations and the public itself.

At this point it is useful to mention a report by the Banks Association of Turkey (TBB) in 2007 which questioned whether it is possible to bring İstanbul to the focal point in its region. The TBB report says Istanbul has the potential to become a financial core should the necessary steps be taken at the right time. According to the TBB report, the project needs an estimated $2 billion of investment, and the country will see many benefits in the long run. Once the financial services are settled in, their contribution to the Turkish economy is expected to be $20 billion per year after 2025, a significant figure. All the same, the report emphasizes that political determination and healthy cooperation between successive governments -- turning the project into state policy, in other words -- is an absolute must to realize the goal of placing İstanbul at the center of its region's financial markets.

Another report, released by Deloitte, notes that decision-makers should act swiftly to eliminate obstacles such as inefficiency in the judicial system, an inadequate legal infrastructure and a harsh business climate that hinders İstanbul's vision, pointing to a potential threat of being eliminated by its rivals in the region.

**Home to the headquarters of all the major players in the financial industry and to one fifth of the population, İstanbul is the heart of economic activities in Turkey**

According to a recent report issued by the İstanbul Chamber of Commerce (İTO), on foreign capital in İstanbul for the January-June 2009 period, prepared on the basis of newly filed and cancelled company registrations, some 1,146 foreign investors have established companies with a capital volume of $152.8 million in the city.

Expected to eventually host the headquarters of numerous private and public banks, the central bank, the Treasury and other state institutions that are relevant to finance, Ataşehir has drawn a great deal of attention as giant contractors and world-famous hotel chains have invested in the region, having seen the future potential. A number of hotels, residences and shopping malls are going up in the region.

## İstanbul has its own dynamics

İstanbul is already the backbone of the Turkish economy and home to the headquarters of all the major players in the financial industry. The city hosts 20 percent of Turkey's population, and such fact alone is enough to make the city the heart of economic activities in the country. According to the City Competitiveness Index 2007-2008, compiled by the International Competitiveness Research Institute (URAK), measuring the relative degree of competitiveness of cities in Turkey, İstanbul comes first among the country's 81 provinces. The city provides 38 percent of total industrial revenues, 50 percent of service income and 40 percent of tax revenue.

The old city inherited the potential to be a center of influence from its long history as the capital of the Ottoman Empire, which spanned three continents and controlled vast territories extending from the Balkans to North Africa. The city's famous old Grand Bazaar served as a trade hub, appealing to this large region for centuries.

In an ever-changing world where both political and financial dynamics are being redefined, İstanbul looks forward to reclaiming its role as one of the most prominent trade centers in history. Turkey is among the few promising markets that will have a voice in the future's new global economic system. Also, considering that the Turkish financial sector has managed to overcome the difficulties of an ongoing global financial crisis with a strong capital structure and remarkable profits, confidence in the sector is at high levels, an important factor attracting more and more foreign banks to the country's financial system. ■

FEATURE

Sea cabs offered a viable solution to the need for a comfortable transverse of the Bosporus as a constituent of the highly vivid traffic of the sea buses. The municipality is incessantly in search of new alternatives to ease İstanbul's highly congested traffic with Metrobus lines and tunnels.

# İstanbul goes through huge transformation with transportation projects

**BAYRAM KAYA / HÜSEYİN KELEŞ** İSTANBUL

Transportation is one of the most serious problems in the historical city of İstanbul, with its millions of inhabitants. Lack of proper projects and investment in infrastructure has made the problem even more complicated. The fact that all municipal activities are somehow related to transportation is now being taken into account by local administrators, who are eager to adopt a stronger policy for transportation.

Both the local administrations and the central government have taken steps and measures to adequately address the traffic issue in the city. In addition to making huge investments, many other measures have been implemented. Ads and fliers were published and distributed to raise public awareness of mass transportation. An integrated transportation network was introduced to discourage individual driving. Investments made in sea transport particularly appealed to İstanbulites, an especially important and crucial focus given that the city is a bridge between Europe and Asia and sits astride a beautiful strait. This article aims to give some details on leading projects devised to make the life of İstanbul residents better and resolve the city's biggest issues.

## Marmaray: railway connecting two continents

The Marmaray Project, the initial work for which started in 2004, stands out as an important transportation project for İstanbul. It seeks to connect the Asian and European continents underwater. The project will preserve the historical fabric of the city and be based on the use of a minimum of electricity, ensuring the protection of the environment. The railway lines on both sides of the Bosporus Strait will be connected under the sea. The underwater line will start at Kazlıçeşme and continue through Yenikapı and Sirkeci; the line will reach Üsküdar and resurface in Söğütlüçeşme. The Marmaray line will be 76 kilometers long. It is estimated that the project, implemented by the General Directorate of Railways, Harbors and Airports Construction (DLH), Japanese contractor the Taisei Corporation, Gama-Nurol and the Avrasya consulting firm, will be concluded


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within a few years. The funds for the project, which will cost 2.5 billion euros, will be mostly covered by Japanese and German investment banks. Travel time between the two sides of İstanbul will be reduced to two minutes owing to the project, and the Halkalı-Gebze line will take 1 hour and 50 minutes.

## Sea transport fitting for İstanbul

Ships, boats and other craft are used in sea transport in İstanbul. İstanbul Seabuses and Fast Ferries Inc. (İDO), founded in 1987 to contribute to the city's transport system, merged with the City Lines Company in 2005 with an investment of TL 500 million. İDO operates 25 seabusses, 10 high speed ferries, 17 car ferries, 34 passenger ferries and passenger ships on 33 lines; the company has 103 ships in its fleet overall. This huge fleet enables the company to reach a substantial part of the city. It offers the opportunity to get to Bursa, Yalova and Bandırma from different points in İstanbul and visitors can go to tourist destinations via the company's sea routes. A vast network of sea transport connects Bostancı, Kadıköy, Yenikapı, Bakırköy, Büyükçekmece, Pendik, Kartal and Maltepe. The boats ease the burden of land transport around the city at some of its busiest points including Beşiktaş, Karaköy, Üsküdar and Eminönü; thousands of residents use these lines every day. Passengers can also travel in comfort on trips using the Haliç Line stopping at Üsküdar, Eminönü, Kasımpaşa, Fener, Hasköy, Ayvansaray and Sütlüce.

## Sea cabs make transport enjoyable

Sea Taxis, a new service introduced by İDO in July 2008, made sea transport even more pleasurable and comfortable. The introduction of this innovative form of transport has attracted a great deal of attention and interest from visitors and residents alike. For this reason, the company has decided to increase the number of sea cabs from six to 35 in two years. The 11-meter-long taxis have the capacity to carry 10 passengers. The İDO call center can be reached via text message, and the price varies depending on whether you travel during the day or at night. The fare is TL 10 per mile during the daytime or TL 15 at night. Getting from Beylerbeyi to Kuzguncuk, the shortest line, takes four minutes and costs TL 25; the longest distance, between Rumeli Kavağı and Kartal, costs TL 257.

## Metrobus connects two sides; no more traffic jams on the bridge

The Metrobus system, which was introduced by the local municipal authority as a means of mass transportation to reduce traffic and to offer fast and comfortable transport, is now celebrating its second anniversary. The system currently carries 750,000 passengers on its 40-kilometer-long line every day. The major motive for the introduction of the system was speed. The number of routes has been increased from one to three because of the high demand from commuters eager to reach their destinations as quickly as possible. The route between Zincirlikuyu and Söğütlüçeşme was launched on March 3, 2009; the route now connects the two sides of the city by the shortest distance. This appears to be a viable solution to the traffic jam over the Bosporus Bridge, a problem that drivers have been suffering from for years. The Metrobus system also attracts commuters because of its inexpensive fares and the convenience of traveling on one method of transport instead of having to transfer. Work is currently under way to construct a fourth route that will take the line to Beylikdüzü. Travel time between Beylikdüzü and Söğütlüçeşme will then be reduced to 80 minutes. The Metrobus system has been effective in greatly reducing people's commuting time across the city.

**The Marmaray Project, the initial work for which started in 2004, stands out as an important transportation project for İstanbul. It seeks to connect the Asian and European continents underwater**

## Railways connect the city

Large investments have been made in the development of İstanbul's railway systems. The length of the system has dramatically increased through work done since 2004. The investment made in the improvement of the railway system has totaled $4 billion in the last five years. Currently, the length of the railway system in the city is around 145 kilometers. Rail transport, operating on seven different routes, integrates with land and sea transport.

## Metro link from Aksaray to airport

The M1 Aksaray-İstanbul Atatürk Airport line, in service since 1989, carries 220,000 passengers every day. This line is particularly important because of its link to the main Esenler bus station.

## Subway connecting Şişhane to Atatürk industrial estate

A subway line, the construction of which started in 1992, has been in service between Taksim and 4. Levent since its completion on Sept. 16, 2000. The line was extended to include Atatürk industrial estate and Şişhane. The system also has a connection to Kabataş via a funicular which connects to the T1 Zeytinburnu tram.

## Zeytinburnu-Kabataş tram

The Sirkeci-Aksaray-Topkapı section of the tram line between Zeytinburnu and Kabataş was launched in 1992, the Topkapı-Zeytinburnu section in March 1994 and the Sirkeci-Eminönü section in April 1996. On Jan. 30, 2005 the line was extended to Kabataş, and the funicular line launched on the same day connects to Taksim. This enables Taksim subway passengers to get to the Aksaray-İstanbul Atatürk Airport metro line via the funicular and the Zeytinburnu-Kabataş tram.

## Güngören-Bağcılar tramway system

The Zeytinburnu-Güngören-Bağcılar route went into service on Sept. 14, 2006. Passengers using the system designed to integrate the T1 Zeytinburnu-Kabataş tramway and the M1 Aksaray-airport metro line are now able to have a nonstop trip from the Bağcılar-Güngören area to the airport, bus station and M2 Taksim-4. Levent metro.

## Kadıköy-Moda Tramway

The Kadıköy-Moda tramway, in service since Nov. 1, 2003, includes 10 stations in its 2.6-kilometer-long route. The Kadıköy-Moda tramway, where four trams operate, starts from Kadıköy Square, goes through Bahariye Street and arrives in Kadıköy again via Moda Street.

## Topkapı-Habipler tramway

The Topkapı-Habipler tramway, put into service on Sept 17, 2007, operates between Şehitlik and Mescid-i Selam; with the addition of the Edirnekapı-Topkapı extension, the route now has a line 15.3 kilometers in length. There are 22 stations on the line, which links with the Avcılar-Söğütlüçeşme Metrobus line at Şehitlik Station, the Aksaray-airport metro line at Vatan Station and with the Zeytinburnu-Kabataş tramway at Topkapı Station.

## Taksim-Kabataş funicular metro line

The Taksim-Kabataş funicular route, a project that connects several systems, was launched on June 29, 2006. The transport axes linked by this funicular system include the following: Taksim-4. Levent (Ayazağa-Yenikapı) metro, the Taksim-Tünnel nostalgic tramway, Taksim bus stops and taxi ranks, the Zeytinburnu-Kabataş tramway, the Kabataş İDO port, ferry and sea bus ports, and zones where sea transport is intensively used including Kabataş and Beşiktaş. ■

TRAVEL

## Exploring the jewel in Anatolia's crown:

# The beauties of the MARMARA REGION

The Marmara region, which attracts visitors with its magnificent historical monuments before dazzling them with its beauty, lets visitors explore the mysteries of history and experience the real splendor of nature.

Bursa, a historically significant city in the region, awaits visitors with its globally famous İskender kebab, a meat dish where shredded meat is served over buttered bread and drenched in yogurt and sauce. The city is also famous for its candied chestnuts.

Tourists who visit Yalova, a city in the southeastern Marmara, can see Yürüyen Köşk (the "Walking Manor"), which has become a symbol of the city, and take home pleasant memories.

Tekirdağ, a city close to İstanbul to the north of the Sea of Marmara, will provide you with an utterly breathtaking atmosphere with the blue of the sea and the perfect beauty of the shore.

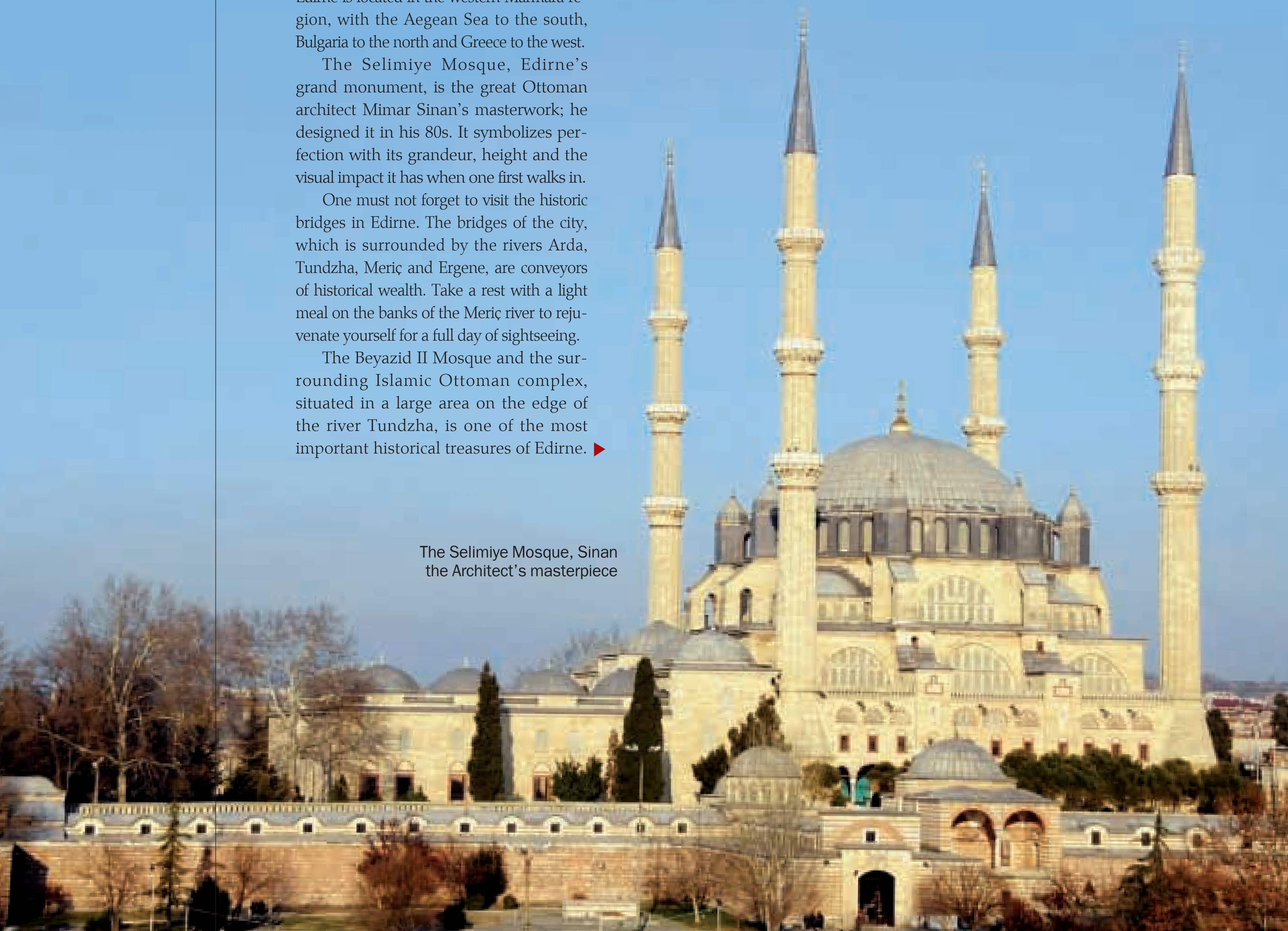
### Edirne: a city of sultans

Edirne is located in the western Marmara region, with the Aegean Sea to the south, Bulgaria to the north and Greece to the west.

The Selimiye Mosque, Edirne's grand monument, is the great Ottoman architect Mimar Sinan's masterwork; he designed it in his 80s. It symbolizes perfection with its grandeur, height and the visual impact it has when one first walks in.

One must not forget to visit the historic bridges in Edirne. The bridges of the city, which is surrounded by the rivers Arda, Tundzha, Meriç and Ergene, are conveyors of historical wealth. Take a rest with a light meal on the banks of the Meriç river to rejuvenate yourself for a full day of sightseeing.

The Beyazid II Mosque and the surrounding Islamic Ottoman complex, situated in a large area on the edge of the river Tundzha, is one of the most important historical treasures of Edirne.



The Selimiye Mosque, Sinan the Architect's masterpiece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İskender Kebap


Kırklareli Kapan Mosque

**Bursa offers visitors its world-famous İskender kebab and candied chestnuts. Visitors should also check out İnegöl köfte, a meatball made with few spices**

Edirne was one of the most important cities in the Ottoman Empire during the 16th century, alongside cities such as Cairo, Damascus, Aleppo and Bursa. The city's monuments that have survived from the Ottoman era include the Selimiye Bazaar, the covered bazaar and the Alipaşa Bazaar, which enable tourists to shop in historical ambiance.

The cosmopolitan structure of the city brings together people from all kinds of beliefs, which is evident from the variety of religions practiced here.

The St. George Church in the Kıyık district, the Sts. Constantine and Helen Church in the Kirişhane district, the Edirne Synagogue, which was modeled after the Vienna Synagogue, in Kaleiçi, and the Baha'i House make the city one of the most popular religious tourism spots in the country.

Gala Lake is one of Turkey's principal wetlands. It presents a visual feast to its visitors every year with more than 150 bird species, 42 plant species and 12 varieties of fish.

When it comes to specific foods that can be eaten in Edirne, the city's famous pan-fried liver comes first.

Pan-fried liver is a dish that tourists shouldn't leave the city without trying. It is prepared by slicing a fresh calf liver into thin shreds, washing and salting it before covering it in flour and frying it in a great quantity of oil.

Edirne cheese is a new flavor for many local and international tourists who visit the city. The fame of Edirne cheese is widely known all over Turkey.

If you want to buy souvenirs in Edirne, you will find many options in the bazaars.

Mirrored brooms, fruit soaps, china and wood carvings are some of the knickknacks you can choose from.

## Eat toast and papalina fish in Ayvalık; drink ayran in Susurluk

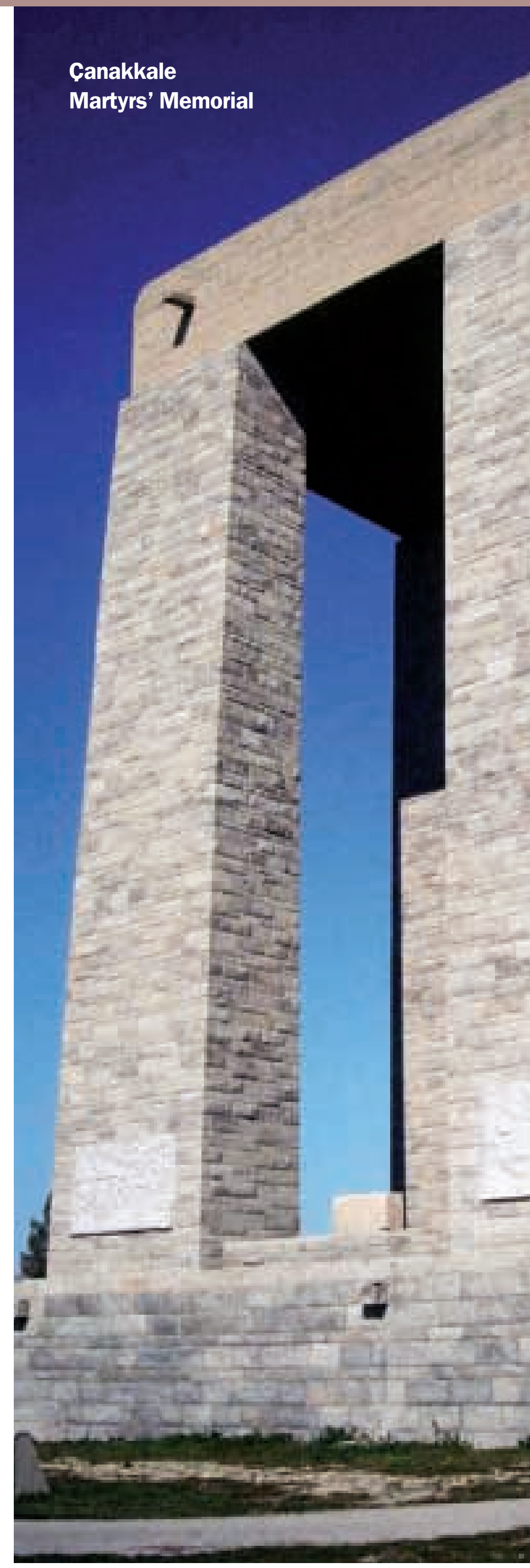
Balıkesir, a beautiful city with natural beauty and a great historical and cultural richness, has many spots worth seeing. It offers unique flavors to gourmands. Susurluk, a town located in the northeast of Balıkesir province, is a favored rest stop for those who are traveling to İzmir from İstanbul thanks to its ayran, a drink made of yogurt, while Ayvalık is favored for its signature toast. The renowned Ayvalık tost, which is a filling and delightful sandwich, contains cheese, sausage and salami. Ayvalık offers rich Mediterranean cuisine and also attracts attention because of the large variety of fish dishes prepared here. Papalina fish is a dish that should be tried in Ayvalık.

In the city center, tirit, which is a kebab that is unique to Balıkesir, and the Balıkesir kaymaklısı, a syrupy dessert stuffed with clotted cream, are two dishes that must certainly be tried.

The delight of swimming in the Mediterranean and Marmara waters, touring in the Kaz Mountains, where the oxygen is sparse, seeing the devil's footsteps on the "Ayvalık Satan's Table" and watching the sun set are experiences not to be missed.

## Bursa: famous for İskender kebab and candied chestnuts

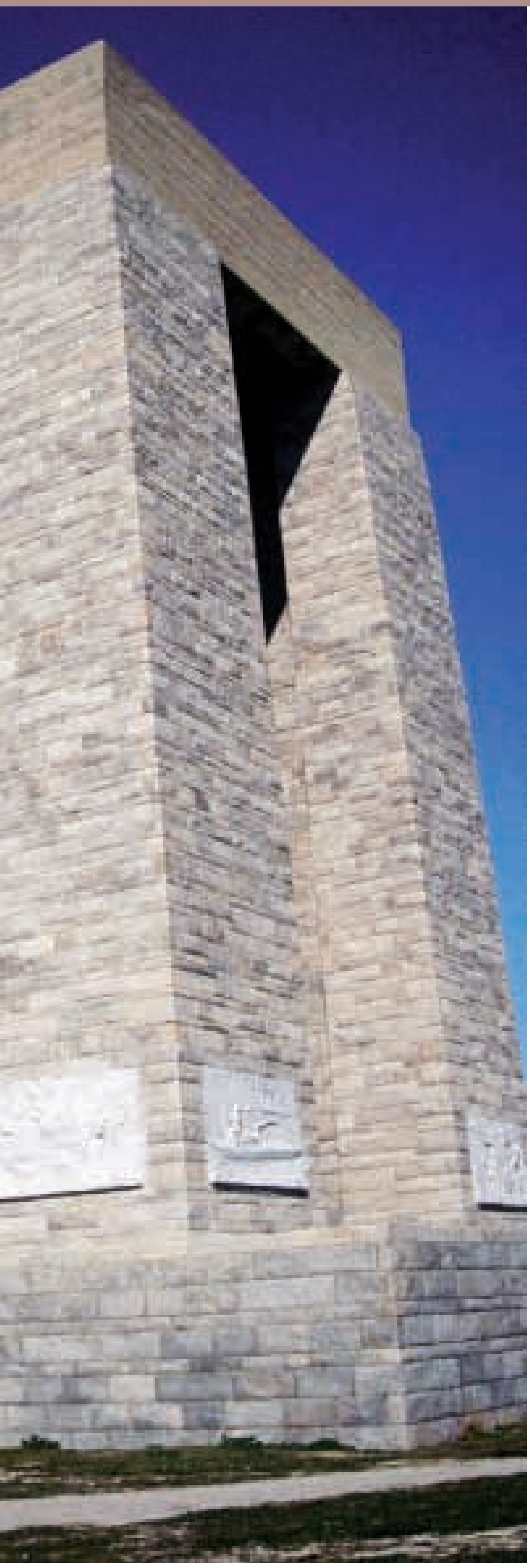
Bursa offers visitors its world-famous İskender kebab and candied chestnuts. Visitors who enjoy the city's kebab and candied chestnuts should also check out the İnegöl köfte, which is a meatball made with few spices. It is advised to try the Kemalpaşa dessert, which is made with cheese, as well as meat cooked on skewers on the shores of Lake İznik. Places to tour include Mount Uludağ, Trilye, Cumalıkazık -- a town that has preserved its Ottoman architecture -- and the Hanlar region in the city center, as well as İznik, a famous town located in Bursa province.


Çanakkale Martyrs' Memorial

## Eat the meatballs and the cheese dessert with ice cream in Tekirdağ

When you reach Tekirdağ, a city situated on the northeastern shore of the Sea of Marmara, you will be greeted by the blue of the sea and the stunning beauty of the shore. You can make a trip to the past while quietly sipping your tea in the Ottoman complex of Rüstempaşa, an architectural beauty designed by Sinan. You can continue your journey back to antiq-

TRAVEL



The Gallipoli peninsula is the first side-trip option for those traveling to Çanakkale. Apart from the war memorial, the peninsula is home to museums, battlefields and memorials of other countries

Assos Temple

Islama Köfte (meatballs)

uity by visiting the Tekirdağ Museum and seeing how the city honors its history of being home to many kingdoms and civilizations. Those who go to the Pearl of Marmara, a restaurant in Tekirdağ, can check out the Tekirdağ köfte as well as the city's singular ice cream and cheese dessert, two treats that will appeal to everyone. A traditional Tekirdağ dish of mutton or chicken and coarsely ground meat is consumed in rural areas nearby, where customs are adhered to strongly, on special occasions such as weddings.

## Drink hardaliye in Kırklareli

The historic Hızırbey, Karaşkabey, Kapan, Yayla and Kırkşehitler mosques as well as the Hızırbey hamam and the covered bazaar are just a few of the places to visit in central Kırklareli.

While in Kırklareli, if you want to rest and eat something, you should try the hardaliye, which is a local drink made of mustard seeds and grape juice. Some other foods to try when coming to Kırklareli are meatballs, yogurt made of sheep's milk, cheese made of sheep's milk, lamb ribs and steak.

If you are tired of the depressing atmosphere of İstanbul and want to spend a weekend on Kırklareli's shores, Kıyıköy in the Vize district and the Panayır dock and İğneada on Demirköy's shores are recommended for those who are uncomfortable with the Black Sea's sometimes ferocious waves.

The sausages in Kırklareli are wonderful. You should stop to try beetroot molasses in the village of Poyralı and strawberries and honey in Demirköy.

## Enjoy the incomparable beauty of the Kaz Mountains

The Gallipoli peninsula is the first side-trip option for those traveling to Çanakkale. Apart from the war memorial, the peninsula is home to museums, battlefields and memorials of other countries.

Along the way is the Çimenlik Castle, in the city center, which gives you a chance to remember the Battle of Gallipoli and the courageous defense marshaled by the soldiers here.

Tourists can find the horse used in the movie "Troy" while walking along the seaside in Çanakkale and take a picture in front of it, then sip drinks in the cafes just next to it while gazing on the Dardanelles. The Mirrored Bazaar, which has become a theme in folk songs, and the Yalı Caravanserai are places to see, and the cheese helva that can be purchased from the butcher's bazaar is the dessert to be eaten.

The restaurants situated in the İntepe area are perfect places to eat and enjoy views of the Dardanelles. Breakfast in the city consists of butter, olives, jam and a special type of cheese that is called ezine and is produced in this region.

## Don't forget to see the ancient city of Assos

Watch the sun set in the Aegean Sea is an entirely different experience in Assos. The stone houses located in the village of Behramkale, near Assos, await visitors. On the coast, ice cream sandwiched between wafers is something worth trying.

Ayazma Park, located in the village of Evciler on the outskirts of the Kaz Mountains, is worth checking out. When the snow on the mountains melts and streams form here, they blend with the greenery perfectly, creating an incredible scene. You can also catch a ferry from Kabatepe and visit Gökçeada to swim at any shore you wish and enjoy the sun.

In the island of Bozcaada, Turkish and Greek houses and orchards can be seen. The famous Bozcaada wine can be tasted. The local red tomato jam has a completely unique flavor that should be tried.

## Make sure you eat ıslama köfte in Sakarya

In Sakarya, which is close to many large cities, sea, lakes and rivers, nature is an alternative tourism facility. The city's ıslama köfte (meatballs) should be tried. With 97 years of experience making meatballs that appeal to the eye and the stomach, the Köfteci Mustafa and Köfteci İsmail restaurants present their customers a delicious and unforgettable meal. The turnip juice served with the meatballs gives them a different flavor. It would be a great loss to leave the city without tasting the ıslama köfte. **İstanbul** Today's Zaman with wires

# Tuzla Municipality's cultural enterprise

Tuzla Mayor Şadi Yazıcı says the area, mainly known for its rapidly growing industry, will become a center of education and culture

The Tuzla Municipality is getting ready to mobilize to improve the district both culturally and educationally.
The municipality has accelerated the pace of cultural and educational projects being implemented in the highly industrialized region. Tuzla Mayor Şadi Yazıcı explained that they will make Tuzla a cultural and educational center. Tuzla's historical homes will be restored to their original splendor, an educational base will be built and local handcrafts will be encouraged.

Pointing out that there are big industrial companies in the city, Yazıcı said: "Our city is mainly known for its industry. The potential of our cultural wealth is overlooked. However, with our educational and cultural endeavors in the period ahead, Tuzla will be referred to as an educational and cultural center."

Yazıcı noted that there are four universities in the district -- namely the Sabancı University, Okan University, Piri Reis University and İstanbul Technical University's maritime faculty -- and explained that by setting up a university-technopark-research and development link, the district will be transformed into a center for science and research.

Orhanlı and Akfırat, two areas that merged with the Tuzla Municipality after the government decided to close down town municipalities in İstanbul, have an important place in the educational project. Due to their spacious and quiet environment, the base of the educational project will be located in these neighborhoods. The project will make Akfırat and Orhanlı more appealing places by building primary, secondary and higher education institutions there. The aim of the project is to increase the overall quality of education while providing an opportunity to train personnel who are specifically qualified to undertake the municipality's services.

The restoration and renovation of Tuzla's old houses is part of Mayor Şadi Yazıcı's project to make the district a center of culture and education in İstanbul.

## Historical wooden homes to be restored

The historical homes in Tuzla, which add beauty to the district yet have been left to decay in many neighborhoods, will be repaired. The historical buildings of Tuzla will be restored without changing their fabric or original appearance. Most of the wooden homes in Köyiçi, which is a first-degree archaeological and municipal protected area, currently pose a risk to nearby construction. The municipality will restore the homes in a way that will be compatible with their original structure and turn them into tourist attractions similar to those in Ankara's Beypazar and Karabük's Safranbolu. Culture and Tourism Minister Ertuğrul Günay obtained information about the projects being undertaken in the city from Yazıcı and vowed to personally look into the projects awaiting approval from the Council of Monuments.

In the areas of the city where there are large fields, fair and expo centers will be an important part of the cultural projects. International fair centers will be constructed and Formula One events will be organized in Tuzla, giving it an international vision and turning it into a tourism center that local and foreign tourists will want to visit. Different projects will be prepared to make İstanbulpark a place where not only F1 races will be held but other events as well. In this way Tuzla will be given an active role within the scope of the events for İstanbul's year as a European Capital of Culture in 2010. There will also be efforts to discover ways to promote Tuzla's six famous varieties of hamburgers to the world.

As a result of modern technology, handcrafts are no longer as popular as they used to be. But, the municipality works to encourage those who make handcrafts. Artisans in the city will be identified and workshops will be set up for them to practice their arts. A women's club will be built in every neighborhood and basic-to advanced-level courses will be offered to women to enable them to make a living selling crafts.

Tuzla's newly elected mayor, Şadi Yazıcı

The historically and architecturally invaluable Ihlamur Kasrı still stands in Beşiktaş, which is also a home to the splendid Dolmabahçe Palace.

# İstanbul's other palaces:
## Yıldız, Ihlamur, Aynalıkavak and Maslak

**PAT YALE** İSTANBUL

Topkapı Sarayı and Dolmabahçe Sarayı may be the best known of İstanbul's imperial palaces, but they're also the ones where you can expect the longest queues and steepest admission charges.

Fortunately, the 19th-century Ottoman sultans also adorned the city with a number of secondary palaces and hunting lodges, including the beautiful Beylerbeyi Sarayı and the Küçüksu Kasrı on the Asian side of the Bosporus. Most of their hideaways were, however, on the European side, where the most important was Yıldız Sarayı (palace), a surprisingly little-visited complex just inland from the Çırağan Palace Kempinski Hotel in Beşiktaş.

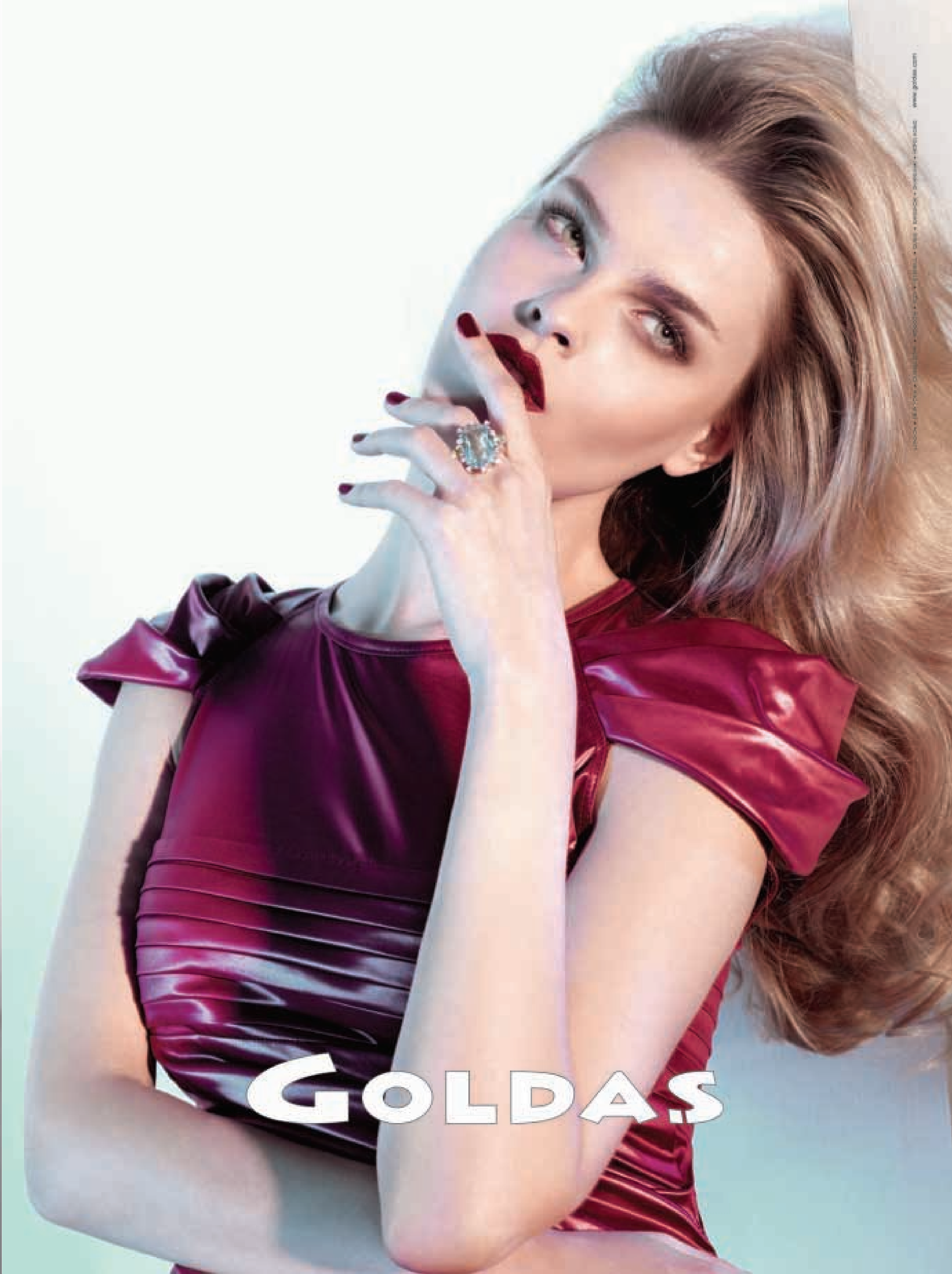
The complex at Yıldız began life during the reign of Selim III (r. 1789-1807) when the sultan had a park laid out here for his mother, Mihrişah Sultan. However, it didn't really come into its own until the reign of Sultan Abdülhamid II (1876-1909). In 1878 an attack on the waterside Çırağan Sarayı highlighted a potential weakness in security at the nearby Dolmabahçe Sarayı, causing the nervous Abdülhamid to opt for retreating inland to what he saw as the greater protection of Yıldız.

> The Ihlamur Kasrı was built for Sultan Abdülmecid I (r. 1839-61), who wanted a lodge where he could break the journey between Dolmabahçe Sarayı and the Golden Horn shipyards at Kasımpaşa

Once moved, Abdülhamid occupied the State Apartments built by Selim III, which are not currently open to the public. Instead, you can visit the Yıldız Şale (chalet), a completely separate guesthouse dating back to the 1870s. When Kaiser Wilhelm II of Germany paid a visit to İstanbul in 1889, the sultan had the small existing guesthouse expanded especially to accommodate him. Expanded again in 1898 when the Kaiser visited for the second time, it ended up as a suite of 60 rooms lurking behind a deceptively simple façade, rather fancifully described as resembling a Swiss chalet. What is more surprising about the building is that it somehow manages to look cohesive despite having been built in three different stages and under the supervision of architects with such different visions as the baroque supremo Sarkis Balyan and the Art Nouveau genius Raimondo d'Aronco.

Inside, the şale is predictably extravagant, the over-the-top decoration culminating in a magnificent dining room still set up as if the Kaiser might walk through the door anticipating a banquet. Almost equally impressive is the huge Ceremonial Hall, where guests used to be received. This is home to the largest Hereke carpet ever woven, which covers an impressive 400 square meters of floor.

Unfortunately, Yıldız is not a particularly visitor-friendly site. Unlike Dolmabahçe but like the much-older Topkapı, the palace consists of a collection of buildings, in this case


GOLDAS

TRAVEL

separated from each other by a wall through which visitors cannot pass. On one side of the wall, you'll find the State Apartments rubbing shoulders with the Yıldız Sarayı Müzesi (Yıldız Palace Museum) and the Şehir Müzesi (City Museum), which between them house a fine collection of paintings, Art Nouveau bric-a-brac and wooden furniture made by Sultan Abdülhamid, an enthusiastic carpenter in his spare time; on the other side of the wall, the şale presides over a landscaped garden at the top of Yıldız Parkı, which is also home to the Çadır and Malta Köşks. These lovely pavilions now serve as small café-restaurants, and the Malta in particular is a delight, with the small marble pool on the ground floor looking much like the larger model that graces the interior of Beylerbeyi Sarayı. Also inside the park is the Imperial Porcelain Factory, where from 1896, replicas of Sèvres porcelain were turned out for the palace to reduce the expense of importing the real thing.

Yıldız came to an unhappy end in 1909 when Abdülhamid was deposed and the palace ransacked. For the rest of the 20th century, its future looked uncertain. For some years, the şale served as a casino, but eventually most of the buildings were abandoned. Then in the 1980s, they were restored by Çelik Gülersoy's Touring and Automobile Club of Turkey before being returned to the state and opened to the public. Even today, though, there are many İstanbul residents who have never visited Yıldız, although the coming of the big new Dahill restaurant (Tel.: 0 [212] 227 49 28) behind the factory may help to publicize it. Weekend brunches here come coupled with breathtaking Bosporus views, and afterwards you can walk off the calories with a stroll in the palace grounds.

Not far from Yıldız, Beşiktaş is home to another small gem from the late imperial period. The Ihlamur Kasrı (pavilion) was built for Sultan Abdülmecid I (r. 1839-61), who wanted a lodge where he could break the journey between Dolmabahçe Sarayı and the Golden Horn shipyards at Kasımpaşa. The sultan commissioned Nikogos Balyan, who had worked on Dolmabahçe, to come up with the design, and the end result was a pair of pavilions in a small landscaped park, one of which, the Mabeyn Köşkü, would host the sultan and his guests, while the other, the Maiyet Köşkü, would host his harem. Like the slightly larger Küçüksu Kasrı, the Mabeyn Köşkü is thickly festooned with baroque carvings on the outside. Inside, however, it has only eight small rooms, each of them adorned with lovely parquet floors, porcelain fireplaces and indigo-colored glass. As at Küçüksu, there are no bedrooms since the sultan rarely spent the night at Ihlamur. Today, the steps leading up to the pavilion form the backdrop for myriad wedding photos since the Beşiktaş Registry Office is just across the road.

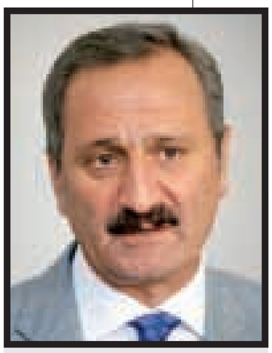
**In the Maslak Kasrı, you can at least stroll around the grounds, which make an astonishingly serene and inviting oasis just a hop and a skip away from the full-on business buzz of this district**

The importance of the shipyards on the Golden Horn meant that there was a need for somewhere close at hand where the sultans could stay while visiting them. The answer lay in the early 17th century Tersane Sarayı (Shipyard Palace), originally built for Sultan Ahmed I, who liked to practice his archery in the Okmeydanı on nearby Hasköy Hill. Today all that survives of the waterside palace is the Aynalıkavak Kasrı (Pavilion of the Mirrored Poplars), a pavilion added to the site by Sultan Ahmed III, who wanted a pied à terre within easy reach of the Kagıthane and Alibey streams (then the pleasure grounds known as the Sweet Waters of Europe), where he could throw his famous tulip-peeping parties. In 1730 the palace lost its raison d'être with the overthrow of the sultan and his powerful grand vizier, although it received a new lease of life in the late 18th century when the music-loving Sultan Selim III had it restored as a venue for private concerts. It was restored again during the reign of Sultan Mahmud II (r. 1808-39). In theory, it's once again under restoration, although the signs stating that fact have now been in place for so long that they're growing rusty with age. For the time being, you'll have to content yourself with inspecting the tiles at the base of the Eyüp funicular, which depict the pavilion in its heyday, with the sultan watching acrobatics taking place on the Golden Horn right in front of it.

One final set of imperial pavilions can be found just a short drive out of Maslak on the road to Sarıyer. Built by Sultan Abdülaziz as a gift for his son Abdülhamid, they too are currently closed for restoration. Here, however, you can at least stroll around the grounds, which make an astonishingly serene and inviting oasis just a hop and a skip away from Maslak's full-on business buzz. Hopefully, the Hümayun Kasrı (Imperial Pavilion) will eventually reopen to the public since it contains stair-rails and mirror frames made by Sultan Abdülhamid himself.

Like Beylerbeyi Sarayı and Küçüksu Kasrı, all the above palaces and pavilions are closed on Mondays and Thursdays. Both Yıldız Şale and Ihlamur Kasrı must be visited on guided tours, usually only available in Turkish. ■

OPINION



ZAFER ÇAĞLAYAN*

* State Minister for Foreign Trade

# The target: to become the world's 10th largest economy

**Sustainable economic growth, achieved within an atmosphere guided by trust and stability, will ultimately push Turkey quickly towards becoming the world's 10th largest economy**

Turkey aims to emerge as the world's 10th largest economy by 2023, the 100th anniversary of its foundation, and it has all the necessary qualities to achieve this target, such as a geographically strategic location possessed of innumerable advantages, a tendency toward sustainable growth it has achieved in recent years, a young and quite dynamic population and its already brisk economy, which is currently the 17th largest in the world. Turkey has huge potential with its highly developed industrial infrastructure, a wide array of production, competitive edges and steadily increasing trade relations with its neighbors and surrounding countries.

Of course, one of the most striking examples of how Turkey has already taken great strides towards achieving this goal is the achievement of 25 quarters of uninterrupted growth since 2002, which led to an increase in gross domestic product (GDP) from $200 billion to $750 billion by the end of 2008.

In reaching this goal, the greatest contribution is made by the achievement of "confidence and stability," two vital necessities for encouraging investors, entrepreneurs and industrialists. "Sustainable economic growth" achieved within an atmosphere guided by trust and stability will ultimately push Turkey quickly towards becoming the world's 10th largest economy.

Given that Turkey already possesses the potential for this, the critical point is to make sure that it puts this potential to work. As the government, we are taking every possible step to realize this potential.

Within this framework, the government is designing and implementing a number of important macroeconomic reforms, on one hand, and institutional reforms to increase integration in the global economy on the other. Besides the investments in improving infrastructure and logistical opportunities, Turkey's position as a bridge between East and West has only been strengthened.

At the top of the list of crucial investments to strengthen Turkey's role as a bridge between East and West are the agreements to turn Turkey into a "secure energy corridor."

The Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Nabucco natural gas pipeline project to carry Caspian gas resources to European markets are but two examples of these types of integral projects that will collectively render Turkey an energy hub.

## A new energy option for EU

Both of these projects underscore Turkey's position as a bridge between East and West and as a secure corridor not only in terms of geography but also in terms of realpolitik. Additionally, it should be noted that the Nabucco project has a distinctive significance, as it introduces a new energy option to the European Union.

Another critical condition to protect a sustainable economic growth rate is the ability to learn from the ongoing global economic crisis and to focus on the opportunities to benefit the most during the period that will surely follow the crisis.

In this sense, the new incentive system the government has recently launched will not only diminish disparities between the regions of Turkey but will also offer advantages that will pave the way for both local and foreign investors. To exemplify a few of the privileges offered to investors in the new incentive system, I should mention the state's undertaking of social security insurance premium payments for investors for between two and seven years, depending on which region investors establish their business in. Additionally, entrepreneurs investing in less-developed regions in Turkey will enjoy discounts in loan interest rates from ordinary banks. Interest rate support for large-scale investments and discounts on taxation for institutions and income profits are also among the benefits set out recently.

Turkey has also initiated an active set of foreign trade policies to reach its 2023 target of achieving $500 billion in exports and another $500 billion in imports. Thanks to the strategies implemented on foreign trade, Turkey's foreign trade volume rose from $87 billion in 2002 to $334 billion by the end of 2008. What this means in essence is that foreign trade volume was multiplied 3.4 times in six years.

Of course, essential in reaching the above goals are effective policies guiding our foreign trade. Thanks to strategies put into place, we are carrying out special initiatives with neighboring countries. We have also cast a primary focus on the nations from the Asia-Pacific, African and South American regions. We are particularly focused currently on carrying out certain strategic infrastructure reforms that will increase our trade and economic integration with our neighboring regional nations.

Immediately upon assuming the post of foreign trade minister, I started up the "Target Market Project," with an aim to create an alternative means to ward off the harms of the

Turkey's Foreign Trade Minister Zafer Çağlayan (L) holds a joint press conference with Chinese Trade Minister Chen Deming in Beijing. The Turkish minister rarely stays in Turkey and has traveled hundreds of thousands of kilometers in just five months to the markets where Turkey wants to further increase mutual commercial relations.

global economic crisis while boosting the country's foreign trade capacities, and set a deadline of 2011 to realize this project.

With this specific strategy, we identified two basic classifications: "nations with high potential," which were less affected by the crisis than the rest, and "primary nations with welcoming markets." One by one, we began to identify for ourselves the nations in the world in which we felt efforts to enter their markets would catch and hold. And now we are turning all of our energy to the results of these analyses and thus increasing our spending and exports along these specifically targeted markets.

We are also busy re-defining the structure of our Foreign Trade Undersecretariat in accordance with country and regional desks as sought in the "Target Market Project." Indeed, we have been forming special teams of foreign trade experts designated to deal with specific countries and regions envisaged in the target market analyses. These teams will head out into the world, examine the markets in full detail and then prepare "roadmaps" for our businessmen, industrialists and exporters.

In addition, in order to expand the spectrum of services provided by our Foreign Trade Undersecretariat, we are increasing undersecretariat foreign representation, currently found in 95 centers and recently opened in China, Sofia and Saudi Arabia. Within the framework of the priorities we hold for ourselves right now, we plan to open new representative bureaus in countries where we don't currently have representation, oversee active and effective participation in trade fairs and organize specific and targeted trade and procurement delegations. We are also striving to strengthen mutual commercial relations with neighboring and surrounding countries and other target markets by establishing free trade agreements (FTA), joint economic committees (KEK) and technical cooperation agreements as well as signing agreements to prevent double taxation.

**We plan to open new representative bureaus in countries where we don't currently have representation, oversee active and effective participation in trade fairs and organize specific and targeted trade and procurement delegations**

Another step we are taking to propel mutual business opportunities with target markets is that we are holding a series of events and activities aimed at promoting Turkish export products in countries where representation has thus far been insufficient. We are also working to see further increased cooperation between industrialists and representatives of industry in those countries and Turkish business interests.

Another crucial development within the framework of our foreign trade is the declining general share of the total percentage of trade conducted between Turkey and EU countries -- long considered our traditional trade market -- and the significant increase in the volume of our trade with countries and regions such as Russia, China, India, the Middle East and African countries.

While a 52 percent share of our imports in 2000 came from EU countries, the first half of 2009 -- in comparison to the previous year's first half -- shows that this share was at the lower figure of 39.7 percent. Our American Nations Strategy also aims to reach new markets on that continent.

At this point, I would also like to clarify that foreign trade and foreign policy cannot be thought of as two totally separate and independent ministries that act only on their own. From now on, our nation's political foreign policy and its foreign trade policy will be strongly bound together, and our Foreign Affairs Ministry and Foreign Trade Undersecretariat will be not only strategic partners, but also partners in implementation.

The main attributes of our "unifying foreign policy strategy" are to be our foreign affairs policies and our foreign trade policies. At the helm of this foreign policy strategy will be not only our Foreign Affairs Ministry and our Foreign Trade Undersecretariat, but also all related institutions, our private sector and our various civil society organizations, which will all also be partners and implementers of this new strategy. One example of a result of this unifying foreign policy strategy is the point we have reached in foreign relations and trade with Russia.

This approach, within the framework of foreign policies and foreign trade relations we will be implementing with other countries as well from now on, will make up the roadmap for our use from here on out. And so we, as Turkey, advance towards the goal we have set for ourselves with clear and resolute steps. And these new strategies that we have put into place are going to play a great role in helping us achieve our target and become the world's 10th largest economy. This target is quite possible, and Turkey will definitely succeed in reaching it. ■

‘Hand woven carpets with the touch of Ottoman splendor’

# Turkey rising from crisis as an investment magnet

NİHAT ERGÜN*

* Minister of Industry and Trade

OPINION

The most recent global economic crisis has clearly demonstrated the need for an international system, for a healthy and well-run structure which will make it possible to predict crises and work to prevent them. Both the IMF and the World Bank, which play critical roles within the framework of the global economic system, are set to lead the move to create such an international system. Of course, it is an undeniable reality that the economic policies of the nations which are members of these institutions have a great effect in all this.

As for Turkey, it remains resolute in its efforts to be one of the stronger fortresses within the global system. Turkey has continued its growth strategy based on increased exports, a strategy with its roots in the 1980s, and entered into the new millennium by making structural economic reforms a top priority. In fact, its financial systems have been greatly strengthened as a result of the reforms made in the wake of the 2001 economic crisis which took place in Turkey.

As a result of the combination of smart policy changes and a harmonious global climate, the Turkish economy performed extraordinarily well between 2003 and 2007, and was thus able to enter into a period of rapid growth. Growth that continued steadily and without interruption over 27 financial yearly quarters and which reached an annual average of 7 percent put Turkey's purchasing power up in the ranks of Europe's sixth and the world's 17th largest economy. It was in fact only due to drops in production and negative factors such as unemployment as a result of the spreading global economic crisis that led to a break in economic growth in Turkey.

Thus, the picture that appears before us now when we say Turkey is this: a giant economy whose gross national product has reached $750 billion, which exports to more than 200 nations around the world, whose total trade volume is up at $340 billion annually, and which produces much across a broad spectrum of industry. In fact, Turkey is currently the EU's sixth largest trading partner. Turkey is also a nation which exports a full one-third of its goods to the EU, North America and developed nations around the world, a nation with construction projects abroad that total $130 billion in revenue, and, of course, a nation chosen by more than 26 million tourists a year.

Currently, the role played by the liberal policies put into place regarding investments by foreign capital in Turkey is great. Since the start of the 2000s, there has been much done to better the climate of investment in Turkey and to see these new policies implemented. What's more, reforms made in correlation with European Union regulations have been carried out with success. Turkey has already signed off on free trade agreements with not only European Free Trade Association (EFTA) nations, but many other counties as well. In addition to Turkey's ever-developing foreign trade volume, its own national markets are so large and dynamic that they tend to pull and attract not only local but also foreign investment.

As a result, over the past five years, Turkey has attracted more than $70 billion in direct foreign investment, while the number of companies backed by foreign capital and active in Turkey is now more than 22,000. These are companies involved in retail and wholesale trade as well as production (textiles, chemical materials and products, food and drink, etc.), property rental and other sectors. In the meantime, despite the global economic crisis, the amount of direct foreign capital investment that entered Turkey in 2008 was $17.7 billion.

Putting aside for a moment the temporary negative effects of the latest global economic crisis on not only Turkey but, of course, the whole world, it is quite clear just how serious Turkey's real economic potential is. To wit, there are very few national markets in the world these days as large and dynamic as Turkey's. Additionally, Turkey possesses geographic proximity to other enormous economies only a few hours' flight away. It also owns growing groups of well-educated professionals in the workforce, strong family companies which are becoming more and more professional, a private sector that is competitive on a global level, a climate of investment much better than it used to be, an economy focused on production and export, a successfully guided economy and political stability.

**Turkey was ranked sixth in terms of the creation of new businesses, 15th in terms of size of national markets, 25th in terms of size of foreign markets, 32nd in terms of local suppliers, 39th in terms of the development of its financial markets and 45th in terms of its use of the latest technologies**

According to a global competition ratings guide put out by the World Economy Forum for the 2008-2009 period, Turkey was ranked sixth in terms of the creation of new businesses, 15th in terms of size of national markets, 25th in terms of size of foreign markets, 32nd in terms of local suppliers, 39th in terms of


Minister of Industry and Trade Nihat Ergün (C) addresses MÜSİAD members on the investment climate in Turkey. He has been striving to increase the appetite for investment since being appointed to the post in the most recent Cabinet reshuffle in May 2009.

**Turkey appears headed towards maintaining and securing its place as the final spot for strategic investments, high technology products and industrialists who can and are making investments everywhere in the world**

the development of its financial markets, 45th in terms of its use of the latest technologies and 48th in terms of use of technology by its companies. Turkey's comparatively high ratings out of 134 countries manifestly display Turkey's competitive superiority front and center.

This is the Turkey we see in 2009, and we can progress along Turkey's path into the future with great hopes and expectations.

There is a constant stream of new precautions and reforms being implemented in Turkey to ensure the continuing increase of Turkey's competitive strength. There is great importance being placed on technology-based, high-value production as well as on intensive research and development in industry, and, of course, innovative projects. Within this framework, there is also a current effort to increase the amount and variety of products aimed for export that rely on advanced technology. One satisfying example of the results from these efforts is that between 2002 and 2007, the number of mid to high-technology products being produced rose from 18.2 percent to 27.2 percent, while the share of total exports grabbed by these products went from 24.3 percent to 32.3 percent.

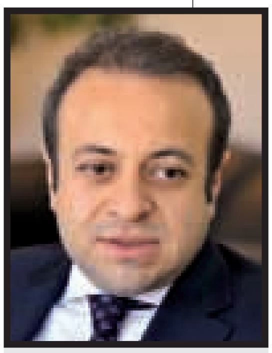
Of course, the importance of information, technology and innovations in the development of Turkish industry is undeniable. In terms of goals set for information and technology for the year 2013, we are planning to increase the share of the funds devoted to research and development over gross domestic product (GDP) to 2 percent. Other goals are to increase the number and quality of scientists, and to see the ranks of research and development personnel swell to 150,000. To wit, with the 119 percent increase in the spending on research and development in Turkey between 2002-2007 putting the nation at number two in world rankings in terms of this increase, when the total amount of spending on research and development are examined, we see that Turkey is currently ranked 23rd. With the newly started research and development support system that was put into place in 2008, a full 53 new research and development centers were set up within one year in Turkey. In addition, techno-entrepreneurial start-up capital was offered to 78 young entrepreneurs in Turkey. Another sign of the recent increased investments in technological production in Turkey is that the number of "techno parks" set up is now at 36.

In addition, Turkey's new industry strategy is strongly focused on high technology, high productivity, high added value, creating an attractive atmosphere for investment and employment, a quality workforce and the concept of sector-based competitiveness.

Turkey is currently on the brink of a completely new and hopeful period as concerns economy and industry. The nation appears headed towards maintaining and securing its place as the final spot for strategic investments, high technology products and industrialists who can and are making investments everywhere in the world. We thus invite you to discover, in this rapidly globalizing world of ours, the friendly investment atmosphere, the new and exciting opportunities for partnerships and the chance to become a name in global trade, all factors that exist in abundance in Turkey. ■

OPINION

# Turkey: part of the solution in the European economic recovery and beyond



EGEMEN BAĞIŞ*

* Minister for EU Affairs and Chief EU Negotiator of Turkey

Turkey is the world's 16th and Europe's sixth largest economy. Until the current global economic slowdown Turkey recorded the highest growth rates (around 6 percent) in the Organization for Economic Cooperation and Development (OECD) between 2003 and 2005. The OECD estimates that Turkey will be third among countries with the highest growth rates after China and India by 2017.

Turkey is an economy with a liberal and reformist climate; in the past five years, privatization worth $25 billion has been realized in Turkey.

Half of its 70 million people are under 28, and with approximately 400,000 university graduates each year, Turkey has a workforce of young, well-educated and motivated professionals. As an added bonus, the young, educated and vibrant Turkish population will be an asset for Europe's gradually aging workforce.

Turkey has been doing relatively well in terms of the economy despite the current global financial economic crisis. Turkey's strong economy is well placed to cope with the current global financial and economic crisis. Lessons have been learnt since 2001. As a member of the G-20, Turkey can help find global solutions.

We are probably the only European country whose financial and banking system has not been so badly affected by the crisis. No Turkish bank had even faced a failure or recorded a loss in 2008. The Turkish banking and financial sector managed to preserve its stability despite the harsh global atmosphere and registered a net profit of $13.3 billion at the end of 2008.

Despite the ongoing global crisis, Turkey is in the top 10 emerging markets after BRIC countries (Brazil, Russia, India and China).

Turkey, which is currently engaged in full membership negotiations to join the EU, continues to attract around 10 percent of total foreign direct investment (FDI) inflows to developing economies ($20 billion) and 30 percent of total FDI inflows to emerging Europe. The estimated FDI inflow for 2008 is $20 billion.

Turkish and EU companies benefit from the EU-Turkey customs union. Turkey entered the customs union on Jan. 1, 1996 and has amended its customs code in line with EU customs practices -- including removing barriers for industrial and processed agricultural goods and adopting the EU's customs tariff on imports from third countries.

Actually, in 2008 the number of Turkish firms in European countries exceeded 150,000, and their total turnover exceeded 50 billion euros, employing nearly half a million people. The increase of Turkish entrepreneurs within the EU in the last decade is 73 percent. If current trends continue, Turkish entrepreneurs could provide close to 1 million jobs in the EU by 2015.

**The prospect of EU membership has contributed to Turkey's promising economic figures. Turkey's full membership in the EU will lead to full confidence in terms of economic and business relations with a multiplier effect in the yields of Turkish and European economies and beyond**

Turkey offers straightforward legal and tax arrangements for investors, and according to the World Bank Doing Business database ranks well ahead of all competitors and OECD countries for average business start-up time.

Recently, the energy sector has demonstrated once again one of the great potentials that will increasingly be one of the key dimensions of Turkish-European economic cooperation. In addition to several oil and gas pipelines and projects connecting energy providers in the East to consumers in the West through Turkey, the Nabucco pipeline project is one of the most important projects in which Turkey and Europe are cooperating closely.

Even though it has not been so visible so far, Turkey constitutes a key partner in dealing with illegal immigration, which is a serious concern for the European labor market and internal security. The challenge is tremendous, and Turkey is a real bulwark in this regard.

Turkey's adoption of the Kyoto Protocol and its favorable position on climate change is a great asset for an environmentally friendly Europe. The significance of this can only be understood when one looks at the map of Turkey, with rich fauna and flora bordering several regions.

These striking figures make Turkey part of the European economic recovery and stimulus plan. But this contribution should not be limited to Europe but also beyond since Turkey is an important G-20 member. Turkey provides easy access to 1.34 billion consumers in Europe, the Commonwealth of Independent States (CIS), the Middle East and North Africa. Turkey has signed over 80 bilateral investment treaties with countries around the world and has free trade agreements with 15 countries, with more on the way.

Another dimension is that one in four of the largest companies operating in the Middle East and North Africa is Turkish. Of Europe's 500 biggest companies, 12 are Turkish, and there are over 1 million Turkish entrepreneurs across 80 countries.

The essence of Turkey's EU membership is integrating the world's 16th and potentially next trillion dollar economy with the world's largest economy, namely the EU.

Getting closer to EU membership for Turkey has contributed to these promising economic figures. Turkish full membership in the EU will lead to full confidence and more encouragement in terms of economic and business relations with a multiplier effect in the yields of Turkish and European economies and beyond. ■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# What lies beneath the success of the recent past?

The Turkish economy, as one of the largest economies in the world, provides a wide range of opportunities for foreign investors. During 2002-2008, thanks to prudent fiscal and monetary policies supported by structural reforms, our economy has demonstrated a strong and steady growth performance. In this period, the real gross domestic product (GDP) growth rate was realized as 5.9 percent on average, making the Turkish economy one of the fastest growing economies worldwide. Turkey's per capita GDP, spurred by this strong growth performance, had increased to $10,436 as of the end of 2008 from $3,517 in 2002. Turkey has become the 17th largest economy in the world with a strong potential to rise further in the near future.

The implementation of sound macroeconomic policy was instrumental in the strong growth performance in the 2002-08 period. The macroeconomic policy focused on maintaining fiscal discipline to significantly reduce the public sector borrowing requirement and ultimately public debt to GDP ratios. As of 2008 the EU-defined public debt to GDP ratio was brought down to 40 percent compared to the 60 percent threshold defined by the Maastricht criteria for government debt. The reduction in public debt was accompanied by the improvement of its composition and the fall in the cost of public borrowing. The government has also undertaken structural reforms to streamline the management of public expenditure. The Public Financial Management and Control Law introduced in 2003 strengthened the transparency, efficiency, effectiveness and accountability of the public financial management system. This was accompanied by a new Public Procurement Law and tax reforms. These reforms have paid off well so far, but the government is keen on moving ahead in further improving fiscal transparency and audit. In the coming years, fiscal discipline will continue to be the linchpin of economic policies as it enhances the resilience of the Turkish economy to adverse shocks.

**Turkey's structural reforms have paid off well so far, but the government is keen on moving ahead in further improving fiscal transparency. In the coming years, fiscal discipline will continue to be the linchpin of economic policies**

GRAPHIC YUNUS EMRE HATUNOĞLU

İBRAHİM H. ÇANAKÇI*

* Treasury Undersecretary

On the financial sector front, the bank restructuring accompanied by the comprehensive regulatory and supervisory reform undertaken following the 2001 crisis paid off well in terms of enhancing financial intermediation and strengthening the banking sector against shocks. The reforms encouraged successful risk management by banks, which was critical in weathering the negative spillover from the recent global financial crisis.

Turkey's current financial regulatory and supervisory framework is in line with best practices. Despite the global economic crisis, the Turkish banking sector managed to maintain its sound capital adequacy, well above the levels required by international standards. In addition, the banks' low reliance on external credit in financing their operations provided a cushion against risks from unfavorable global financial conditions.

The government also presented a sharper focus for dealing with the structural problems of the Turkish economy. In this regard, further strengthening public governance and fiscal management, deregulating the labor and energy markets, supporting R&D activities and innovation, improving the investment environment, increasing the effectiveness of the social security system and moving to a higher value-added production structure in industry and services have been instrumental in improving Turkey's attractiveness as a key investment destination.

The government has defined its role in the economy as a prudent regulator rather than an active player. In this regard, the government's role in key sectors such as energy, tobacco and

OPINION

OPINION

Çanakçı (R) and two former IMF Turkey desk chiefs Reza Moghadam (C) and Lorenzo Giorgianni are heading to a meeting in this 2005 photo.

communications was reduced with an ambitious privatization program, and fair and transparent rules to ensure a level playing field were set to increase the attractiveness of these sectors for the private sector. These market-friendly reforms contributed significantly to the investment environment. Moreover, tax policy and social security reforms have reduced the cost of doing business in Turkey. The reduction in the corporate tax rate from 30 percent to 20 percent and the lowering of the financial and non-financial costs of employment also made a significant impact in improving Turkey's attractiveness. In addition, as a candidate country for EU membership, Turkey has taken important steps toward convergence with the EU in economic, social and legal aspects.

In addition, two platforms were established to tailor Turkey's policies and efforts to advance the investment environment. The Investment Advisory Council and the Coordination Council for the Improvement of Investment Environment (YOİKK) facilitated consultations and continuous feedback between investors and policymakers. All of these efforts have so far paid off as the volume of international foreign direct investment in Turkey has reached record high levels in the last four years. Cumulative FDI inflows for the last four years of $70.2 billion were realized, which constitutes 6.7 percent of net equity investments to emerging market countries. Turkey ranked ninth among emerging market countries and 23rd in the world in terms of FDI inflows in 2007.

**With its proximity to main export markets, a stronger presence in main energy corridors, relatively less indebted households and a sound banking sector, doing business in Turkey is now much easier and less costly**

Turkey's image as an attractive investment destination is also reflected in the prominent global investment location indices. According to the World Bank's "Doing Business" report, which provides objective measures of business regulations and their enforcement across 181 countries, Turkey's ranking improved to 59th (according to the 2009 report) from 91st (according to the 2007 report) in terms of ease of doing business. Similarly, according to the World Economic Forum's "Global Competitiveness Report 2008-2009," another prestigious investment climate indicator, Turkey's ranking in the globally competitive economies improved to 63rd among 134 countries from 71st out of 117 countries in 2005.

To sum up, the remarkable economic achievements of the recent past have put Turkey in a better position in attracting FDI compared to earlier years. With its proximity to main export markets and a customs union agreement with the EU, a stronger presence in main energy corridors, relatively less indebted households, a sound banking sector and streamlined regulatory framework, doing business in Turkey is now much easier and less costly.

Turkey is expected to be one of the countries that will return to a high growth trajectory once the global economy recovers. Our guests in İstanbul will have the opportunity to see the dynamism of our economy for themselves. ■


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ANALYSIS

# Global developments and their implications for banking

The financial problems that erupted in developed countries in late 2007, which gained a global dimension after spreading to developing countries by mid-2008, caused a worldwide recession and a dramatic decline in the volume and size of world trade and financial transactions. These developments have had a serious impact on Turkey, where foreign trade constitutes 50 percent of the gross national revenue, since the last quarter of 2008. In addition to external demand, internal demand was seriously influenced by the global economic crisis. Both internal and external demand has declined, the production rate has dropped and opportunities for external finance have been limited. The unemployment rate increased, and the public budget deficit grew. On the other hand, interest rates as well as the inflation rate dramatically declined.

In terms of fixed prices, the gross domestic product (GDP) declined by 6.2 percent in the last quarter of 2008, whereas this decline was 13.8 percent in the first quarter of 2009. This means that the GDP, which had grown by 3.7 percent annually in September 2008, dropped by 3.9 percent in the first quarter of 2009 on the annual basis. The GDP is expected to decline by 5 percent this year. The unemployment rate was 13.6 percent as of May, a high figure which was largely due to new additions to the labor force. While the savings deficit to GDP ratio was 5.6 percent at the end of 2008, it is estimated that it declined to 3 percent in June 2009.

The budget deficit to GDP ratio was an estimated 4 percent in the first half of 2009; it is expected that this will reach 5.5 percent by the end of the year. The internal debt stock to GDP ratio was 29 percent in late 2008, whereas it increased to 32 percent in the first half of 2009. The consumer inflation rate declined to 5.4 percent as of July. It is expected that the annual inflation rate will be around 5 percentage points by the end of the year. The central bank's short-term interest rates have dropped by 11 percent, declining to 7.25 percent. The market interest rates have also dropped in accordance with the decline in the central bank rates. In annual terms, the trade volume declined from $348 billion in September 2008 to $270 billion in June. During the same period, the annual current account deficit declined from $47 billion to $20 billion. Inflow of capital dramatically slowed; the amount of capital flows declined from $48 billion to $5 billion.

The government, the Banking Regulation and Supervision Agency (BDDK) and the central bank took measures to limit the negative impact of the developments. Public expenditure was increased in an attempt to address the decline in internal demand and limit the rise in the unemployment rate. Tax rates were revised to support some sectors, and loans were provided to deal with the sharp decline in exports. Measures were also taken to restructure the loans of the banking system, whereas the central bank expanded liquidity opportunities.

**The positive implications of the monetary policy pursued by the central bank as well as the fiscal policy measures implemented by the government helped the banking sector manage the existing risks**

Measures taken in Turkey contributed to the preservation of stability in the banking sector because of the proliferation of global financial risks. These measures include steps taken by the central bank with respect to currency markets to make sure that the currency liquidity in the system is used more effectively and wisely and BDDK regulations introduced to restructure loans and reclassify movable assets. These measures affected the banking sector positively. Similarly, the positive implications of the monetary policy pursued by the central bank as well as the fiscal policy measures implemented by the government helped the banking sector manage the existing risks.

## Developments in the banking sector

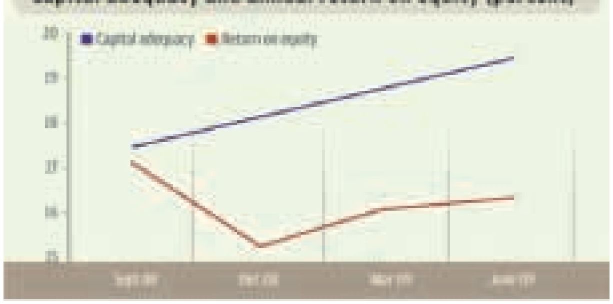
Global developments affected the banking sector as well. However, the impact of these developments has been relatively limited in Turkey. The reasons for this limited impact are high capital ▶

**Selected economic indicators (percentage)**

| | December 2008 | June 2009 | December 2009 (estimate) |
|---|---|---|---|
| Growth* | -1.1 | -6.5 | -5 |
| Inflation** | 10.1 | 5.7 | 5 |
| Budget deficit/GDP*** | 1.8 | 4.4 | 5.5 |
| Current deficit/GDP | 5.6 | 3 | 2 |

(*) Change in GDP in real base
(**) Annual change in consumer price index
(***) Central administration budget

**Capital adequacy and annual return on equity (percent)**




The Secrets of Leadership
FINANSBANK

ANALYSIS

**The rate of loans to GDP remains steady at 37 percent, whereas the loan-savings ratio declined by 8 points. The share of loans in aggregate assets decreased by 5 points to 47 percent. In comparison to the end of 2008, the increase rate in corporate loans was slower than the increase rate in individual loans**

adequacy, high asset quality, successful risk management and low currency and liquidity risks because of effective public supervision and the successful administration of interest rates and term risks.

Bank opportunities for external borrowing have been limited since the cost for external borrowing has increased and management of currency liquidity has become even more important. Demand for banking services declined suddenly because of narrowed economic activities. The demand for savings in TL currency continued to increase in real terms, whereas demand for foreign currency visibly declined.

In addition to the increase in the public demand for banking resources, the demand for loans decreased and a more cautious loan policy was implemented considering the growing risks. Because of this, no visible change was observed in loan stocks. The rate of loans to GDP remains steady at 37 percent, whereas the loan-savings ratio declined by 8 points. The share of loans in aggregate assets decreased by 5 points to 47 percent. In comparison to the end of 2008, the increase rate in corporate loans was slower than the increase rate in individual loans.

Loan risk has increased. The ratio of overdue receivables to loans was 3.1 percent in the third quarter of 2008, whereas it became 5.2 percent in July. Specific reserve at a rate of 79 percent was allocated for overdue receivables.

On the other hand, the share of the exported movable assets by the public sector has increased in the assets of banks. The share of the movable asset portfolio within the total assets increased by 3 points and reached 30 percent.

The impact of the currency risks of banks has been limited at a time when global developments started to affect the banking system. Because of the short-term sources and long-term assets, the interest rate risk increased. However, a sharp decline in the interest rates positively affected the interest rate margin. In the meantime, banks took measures to limit their expenditures. Owing to these measures, their activities have become more profitable; a slight increase has been observed in their profits. Increased profitability resulted in stronger and healthier equity capitals. Equity capitals had increased by 13.4 percent in the TL base by June since the end of last year, reaching TL 93.7 billion, and by 13.2 percent in the US dollar base, reaching $61.5 billion. The capital adequacy rate increased by 1.3 points in the same period to 19.4 percent.

### Selected balance sheet indicators (million TL)

| | September 2008 | December 2008 | June 2009 | Sept 2008-June 2009 Change | Sept 2008-June 2009 Change (percent) |
|---|---|---|---|---|---|
| Liquid assets | 85,965 | 104,803 | 108,076 | 22,111 | 26 |
| Securities | 178,358 | 193,964 | 220,749 | 42,391 | 24 |
| Loans | 343,201 | 349,967 | 348,513 | 5,312 | 2 |
| Receivables (net) | 1,907 | 2,416 | 3,254 | 1,348 | 71 |
| Receivables (gross) | 10,871 | 13,044 | 17,586 | 6,715 | 62 |
| Fixed assets | 19,131 | 19,095 | 19,807 | 676 | 4 |
| Other assets | 10,838 | 11,966 | 12,769 | 10,532 | 18 |
| Total | 656,204 | 706,949 | 738,573 | 82,370 | 13 |
| | | | | | |
| Savings | 400,895 | 435,554 | 444,992 | 44,098 | 11 |
| -TL | 266,764 | 283,158 | 289,916 | 23,152 | 9 |
| -FX | 134,131 | 152,397 | 155,077 | 20,946 | 16 |
| Non-deposit resources | 129,224 | 132,914 | 147,295 | 18,071 | 14 |
| Equity capital | 79,564 | 82,618 | 93,716 | 14,152 | 18 |
| Other passives | 37,726 | 41,074 | 44,397 | 6,049 | 18 |
| Total | 656,204 | 706,949 | 738,573 | 82,370 | 13 |

Source: BDDK

### Number of branches and staff (June 2009)

| | Bank | Branch | Staff | Total assets* |
|---|---|---|---|---|
| Savings banks | 32 | 8,799 | 165,959 | 714 |
| -Public banks | 4 | 2,459 | 43,955 | 232 |
| -Private banks | 11 | 4,309 | 82,080 | 378 |
| -Foreign banks | 17 | 2,031 | 39,924 | 103 |
| Investment Banks | 13 | 52 | 5,296 | 25 |
| Total | 45 | 8,851 | 171,255 | 739 |

(*) Billion TL

## General information on the banking system in Turkey

There are 49 banks actively working in Turkey. Thirty-two of these 49 are savings banks, and 13 are investment banks. Savings banks are now authorized to open participation accounts for their customers, whereas participation banks are now allowed to collect savings. Investment banks, on the other hand, are not allowed to export savings and participation assets.

Based on the breakdown of total assets, as of June, 93 percent of banks were savings banks, whereas 3 percent of banks were investment banks and 4 percent were participation banks. Savings and investment banks are members of the Banks Association of Turkey (www.tbb.org.tr), whereas participation banks are represented by the Participation Banks Association of Turkey (www.tkbb.org.tr)

As of June, there were 8,851 savings and investment bank branches that employed a total of 171,255 staff members. In terms of ownership, the banks are classified into four groups: public, private, foreign and private-foreign capital. The share of public banks in the total assets of savings banks was 33 percent as of June, whereas it was 53 percent for private banks in the same period and 14 percent for foreign banks.

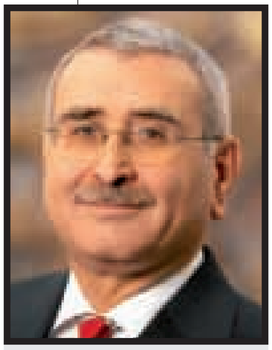
There are 24 savings and investment banks that have established strategic partnership with foreign actors. The main shareholders of these banks are based in the US (3), France (3), the Netherlands (2), Belgium (2), Germany (2), Greece, Portugal, Luxembourg, Iran, Pakistan, Israel, Bahrain, England, Saudi Arabia, Italy, Kazakhstan and Libya.

## Supervision of financial establishments in Turkey

The supervision of banks, leasing and factoring establishments are undertaken by the BDDK, an autonomous body. The capital market activities and transactions of banks are subjected to the supervision and control of the Capital Markets Boards (SPK). Insurance companies are subject to the control and supervision of the Turkish Treasury. ■

*This article was prepared by Banks Association of Turkey (TBB).*

# The global crisis and monetary policy in Turkey



DURMUŞ YILMAZ*

* Governor of the Turkish Central Bank.

The global financial crisis, which erupted in developed markets and spread across the world during the last quarter of 2008, continued to dominate the economic outlook during the second quarter of 2009. While recent data suggest that the worse may be over, improvements in leading indicators have been slow, problems in credit markets linger and employment remains in a precarious state, suggesting that the recovery will be anemic and protracted.

As with most emerging economies, Turkey was also hit hard by the crisis. The Turkish economy, which had been growing for 27 quarters in a row, experienced a significant contraction in the last quarter of 2008 and the first quarter of 2009. The higher share of cyclically sensitive exports, firms' dependence on external financing conditions and high production capacity just before the global downturn were all factors that exacerbated the severity of the recession.

Despite the marked deterioration in economic activity in Turkey, there were at least three factors that prevented an outright depression. These factors were the soundness of the financial system during the crisis, low levels of Turkish household indebtedness and an assertive monetary policy stance that aimed at mitigating the impact of the crisis on the economy.

**In addition to the sound structure of the financial system, the low level of household indebtedness relative to other emerging economies has also contributed to the resilience of the Turkish economy during the recent crisis**

## The resilience of the Turkish financial system

The Turkish financial system proved to be resilient to the financial crisis relative to many other emerging economies. Unlike some of its peers, the Turkish banking system did not require any rescue packages, deposit guarantees or other forms of government support throughout the crisis. The robustness of the Turkish financial system in this period was to a large extent a consequence of the financial reforms implemented in the aftermath of the 2001 crisis. Therefore, in contrast to many other countries that have recently revised or put into practice bailouts or better supervisory and regulatory frameworks, these had already been established in Turkey several years ago. Furthermore, leading into the recent crisis, in contrast with many other countries, the Turkish financial system was well capitalized with high capital adequacy ratios, had relatively low loan-to-deposit and leverage ratios, low levels of foreign exchange rate exposure and balance sheets that were free of the toxic assets that some economies are still struggling with.

In addition to the sound structure of the financial system, the low level of household indebtedness relative to other emerging economies has also contributed to the resilience of the Turkish economy during the recent crisis. Moreover, the share of foreign currency-denominated loans in the current debt stock of households is small compared to

Workers at the central bank are scrutinizing newly printed banknotes for faults. The bank has closely watched the monetary base during the crisis.

OPINION

OPINION

The cumulative reduction in policy rates since the fourth quarter of 2008 to support confidence in the economy was more than any other central bank in the world, across both advanced and emerging economies

other emerging economies, especially those in Central and Eastern Europe. Markets seemed to have appropriately appraised these factors, as the risk premium indicators in Turkey improved significantly when compared to those in many other emerging economies.

## An assertive monetary policy

Historically, Turkey has been one of the emerging countries most sensitive to changing perceptions of market risk and shifting investor sentiment. However, during the recent international capital market turmoil, Turkey witnessed a relative improvement of risk premium and financial market volatility when compared to other emerging countries. Moreover, the volatility in foreign exchange and capital markets has been relatively more limited. These developments have confirmed that the Turkish economy, after going through significant structural transformations in recent years, has a much stronger foundation and is therefore less vulnerable to external shocks than in the past.

The soundness of the financial system, healthy household balance sheets, and consequently the relatively limited deterioration of the risk premium have provided the Turkish Central Bank with more policy space relative to central banks in many other emerging economies. To this end, the central bank adopted a countercyclical strategy of front-loaded policy easing and has delivered sizeable cuts in policy rates since the fourth quarter of 2008 to support confidence in the economy. The cumulative reduction in policy rates was more than any other central bank in the world, across both advanced and emerging economies.

The central bank anticipated several critical developments which underpinned the policy stance during the crisis: Despite the significant depreciation of the Turkish lira in the last quarter of 2008 vis-à-vis the currencies of advanced economies, the central bank forecasted early on that the contraction in economic activity coupled with the sharp decline in commodity prices would limit the exchange rate pass-through and hence inflation targets would be undershot in the medium term. Therefore, the central bank focused on mitigating the impact of the global crisis on the Turkish economy without endangering its main objective of price stability.

During the central bank's easing cycle, data on inflation and economic activity together with the relatively benign course of key risk indicators vindicated its monetary policy decisions and in turn strengthened the impact of these policies on expectations. As expectations were further aligned with the policy intentions of the central bank, government bond yields decreased to historically low levels and therefore brought real interest rates lower than pre-crisis levels. This is an important development, because in previous crises real interest would tend to increase, thereby exacerbating the severity of the economic contraction.

The central bank's policy response to the crisis was not limited to rate cuts, but also included various measures to maintain confidence in the financial markets. In line with other countries, most of these policy measures aimed at supporting interbank liquidity and smooth-functioning foreign exchange markets.

## Conclusion

The experience of the recent global crisis has highlighted the importance of financial systems within a global scale. Emerging countries that entered the crisis with sounder financial systems tended to have a greater degree of policy flexibility. In this context, Turkey's well-capitalized financial system allowed the central bank to adopt a counter-cyclical policy and implement an easing cycle deeper than any other emerging economy, thereby helping to mitigate the severity of the economic contraction. ■

Durmuş Yılmaz

## PROFILE

Born in Uşak in 1947, Yılmaz obtained his bachelor's degree in economics from the City University of London and his master's degreee from the University College, University of London. Yılmaz started to work in the foreign exchange department at the Central Bank of Turkey in 1980. He worked in the areas of foreign debt rescheduling, exchange rates and foreign exchange reserve management. He became deputy director of the foreign exchange transactions division in 1993, director of the interbank money market division in 1995 and director of the balance of payments division in 1996. Yılmaz was promoted to deputy executive director at the markets department in 1996 to supervise foreign exchange risk management, loans, foreign exchange markets and open market operations. He was appointed executive director of the workers' remittances (non-residents foreign exchange deposits) department in 2002. Yılmaz was elected boarrd member at the shareholders ordinary general meeting on April 2003. After serving as a board member between May 2003 and April 2006, Yılmaz was appointed governor of the Central Bank of Turkey on April 18, 2006.

BU SAYFA YOK
DİKKATE ALMAYIN

INTERVIEW

# 'TURKEY confounds theory by securing financial stability before price stability'

**Banking sector watchdog head argues that recent economic developments defy the theory that suggests financial stability is not maintained in an economy where there is no price stability**

**ERCAN BAYSAL** ANKARA

The relatively mild impact of the global financial crisis on the Turkish economy, the continuing profitability of the banking sector and the stability in the credit markets have been attributed by experts and analysts to tight financial management. The Banking Regulation and Supervision Agency (BDDK), created to address the shortcomings of the financial system in the aftermath of the crushing economic crisis in 2001, has played the leading role in this story of success.

BDDK Chairman Tevfik Bilgin spoke to Turkey Outlook on the reasons for the striking success of Turkey in the crisis, the measures they have taken to cope with the crisis and the overall outlook of the banking sector in Turkey.

Bilgin argues that recent economic developments defy the theory that suggests financial stability is not maintained in an economy where there is no price stability. Bilgin says: “Other countries have used antibiotics and relied on the cure of serums as well as intensive care during the global crisis, whereas Turkey has relied on painkillers alone; the relative independence of Turkey from further treatment is the strength of the Turkish banking system and its stability.”

INTERVIEW

**What happens in the Turkish banking sector?**

The amount of total assets is TL 768 billion in the banking sector, where 49 banks were operating as of June 2009. Despite this fact, shrinking domestic demand for loans together with the deleterious impact of the global crisis on the entire economy has slowed the rate of increase in loans, which constitute the major component of assets. The total amount of loans extended by the sector had increased by 7.4 percent and reached TL 368 billion as of June. With the slowdown in the amount of loans, banks have grown more prone to focus on movable assets. The total amount of savings, the biggest component of the sector, is TL 468 billion. The strong structure of the sector is still visible; equity capital totaled TL 98 billion in June.

**What do all these figures mean?**

The financial stability indicators of the sector confirm that the impact of the crisis across the sector has been limited. The capital adequacy ratio (CAR) of the sector is 19 percent, a figure far greater than the legal limit (8 percent), and the target ratio (12 percent). The ratio of the foreign exchange net general position to equity capital is below 1 percent. The likelihood that the loans will be repaid in the sector seems to be adequate; the profitability performance of the sector is satisfactory; the total amount of profits of the sector is TL 11 billion. The equity capital profitability in the first half of the year was 18 percent, whereas the asset profitability was 2.2 percent in the same period.

**What is your general impression with respect to the national markets?**

The repercussions of the external shocks created by the ongoing economic crisis have affected Turkey. The growth rate, which started to visibly decline in early 2008, turned into economic contraction in the first quarter of 2009. However, the recent developments and indicators with respect to the industrial production index, the capacity utilization rate, the consumer confidence index and the real sector confidence index in the period between April and June 2009 as well as the moderate decline in the unemployment rate in April refer to a partial improvement in economic conditions. Measures taken to address the crisis, including tax reductions, contributed to the amelioration of the conditions. The introduction of further bold measures and the preservation of fiscal discipline will play an enormous role in achieving viable macroeconomic stability.

**Based on what you said, how is the current performance and state of the Turkish economy?**

The dire impact of the crisis on the Turkish economy is becoming less visible; its influence will be even more limited in 2010 because of the banking sector's stability and strength. However, obviously, we expect risks to emerge during this period when the economy returns to its normal track. The contraction in the economy particularly, as well as the increase in the unemployment rate will have some impact on credit as well as individual loans granted by the banks. In addition to such internal risks, there will also be some short-term changes in the global financial structure; these expected changes will increase the intensity of supervision in Turkey and worldwide. However, it should be noted that the amount and level of the supervision should be taken into account considering that excessive and extremely tight supervision may destroy the banking sector and may render its financial investment instruments ineffective. Greater emphasis on the sensitivity to risk and the intensity of supervision will not discourage the interest in Turkey's still fresh potential because of its current stability and strength. However, in order for the parties to this interest to find a suitable place in the sector, both the public and private sectors should be stable and reputable.

**Turkey's performance during the crisis attracted a great deal of attention; there are a number of views on this matter; how do you explain Turkey's success?**

The current experience in the Turkish economy defied the validity of a commonly held assumption which suggests that financial stability cannot be maintained without price stability. As the experience in Turkey and other countries tells, the achievement of financial stability and strength in the banking sector is a precondition for success in fiscal and monetary policy. Compared to many countries in Europe and in the US, Turkey is the only country that does not inject large sums of money into its banks; this suggests that the impact of the crisis across Turkey has been fairly limited. This is a fact that clearly illustrates the above argument. The most obvious reason for the current state of the Turkish economy is the ability to transform the collective experience during the financial crisis in 2001 into a national lesson well learned by the public and banking sectors as well as society as a whole.

During the global crisis, the other countries relied on some extreme methods for full recovery -- methods compared to the use of antibiotics or intensive care treatment -- whereas Turkey used painkillers alone; the most obvious reason for this was the strength and stability of the Turkish banking sector. Every treatment chosen by central banks worldwide during the crisis will have some repercussions in the future depending on the strength of the measures. The relative success of the Turkish economy during the crisis and the attractive performance of the Turkish banking sector during the same period brought attention to its stability and strength. This takes Turkey to an advantageous position. In particular, the banking sector's ability to achieve sustainable growth and profitability makes Turkey an attractive alternative for international portfolio investments despite recent cuts in interest rates. Moreover, Turkey's promising potential points to a market structure that hosts many opportunities; this means that the interest shown by big financiers from international markets in the Turkish banking sector will be permanent.

**It should be noted that the amount and level of the supervision should be taken into account considering that excessive and extremely tight supervision may destroy the banking sector**

The recovery in the real economy, the signs of which had started to appear by mid-2009, implies that a stable and strong banking system supporting the use of financial sources in the most effective way possible will be visible in 2010; this means that Turkey will eventually have a healthy and stable economy that will overcome the global financial crisis thanks to the stable banking system as well as the ▶

INTERVIEW

confidence held by global markets in this system. The stable state of the Turkish lira along with the strong indicators in Turkish financial investment instruments despite decreases in real interest rates show that the strength of the Turkish banking sector has been well perceived and well taken by global markets.

**So what is your opinion as to why Turkey was not dramatically affected by this crisis?**

Turkey restructured its banking sector in the aftermath of the huge financial crisis in 2001; bold steps and measures were taken to stabilize the banking sector during this period. While the banking sectors of leading countries were struggling with the ongoing crisis, Turkey's banks enjoyed the results of the measures taken before. So it is no coincidence that Turkish banks maintained profitability while banks in other countries suffered from the dire consequences of the crisis. Practices of good governance, transparent reporting standards and strict implementation of reforms to tackle the problems in the sector, the achievement of operational and financial restructuring in the banks and the improvement of the ability to supervise and inspect have all contributed to this process, during which Turkey strengthened its financial sector. The role of derivative products, which have grown excessively in the last decade and escaped full inspection and supervision, was not perceived in a timely manner during the ongoing crisis; the spread of the crisis through financial systems happened through some structured financial instruments and derivatives called toxic assets. The countries having such assets were the most affected by the crisis. The fact that the presence of such assets does not pose a threat or danger to the Turkish economy because of their limited size and amount has been a determining factor in Turkey's survival and success during the global financial turmoil.

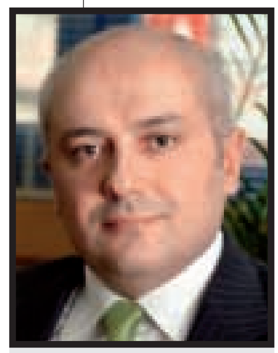
**Could you talk about the measures taken by the BDDK? To what extent were these measures successful?**

Before the crisis started, the minimum CAR for banks was increased from 8 to 12 percent; the BDDK wanted the banks to perceive the four-percentage-point difference as a buffer zone. None of the banks were allowed to reduce this ratio below 12 percent. Some financial authorities in other countries are now working on how to determine such buffer zones in times of crisis. They hold that such a rate is necessary for the preservation of financial stability. The flow of hedge funds into the Turkish economy and Turkish banks has never been permitted even in times when the whole world was enjoying the benefits of hedge funds and an abundance of liquidity. Banks have been encouraged to stick to the principle of "fit and profit" (avoiding risky assets and maintaining profitability, even in modest numbers) all the time. Products and derivatives -- similar to gambling instruments -- as well as instruments used as leverage were not allowed in the Turkish banking sector. Derivative products should be supported, but the instruments developed for excessive amounts of profits should not be permitted.

As a result of this, the banking sector's assets are eight times bigger than its equity capital; however, this leverage is around 30-40 times higher in other countries. A cautious approach was adopted vis-à-vis capital-like loans, and our agency repeatedly stressed the importance of the classic but very sound approach of holding cash capital in such hard times. To limit the impact of the global financial crisis on the sector and make the structure of equity capital stronger, restrictions were imposed against the distribution of profits by the banks; their distribution of profits was subjected to the prior approval of the BDDK. Lenient provisions were inserted in the relevant legislation on the restructuring of the loans and other receivables to improve the conditions for the banks to use credit opportunities. ■


**The stable state of the Turkish lira along with the strong indicators in Turkish financial investment instruments despite decreases in real interest rates show that the strength of the Turkish banking sector has been well perceived and well taken by global markets**

# Assessment of the banking performance during the crisis



SÜLEYMAN ASLAN*

* Halkbank Assistant General Manager for Treasury Management and International Banking

Regulations implemented after the financial crisis we experienced in 2001 have considerably reduced the vulnerability of the banking sector. Regulations applied in the last eight years have provided international standards and assisted in many areas such as the improvement of accounting, audit and capital adequacy rates, creditworthiness assessments, reinforcement of the risk management concept and introducing transparent and concise rules to managers' responsibilities. With this development, the Turkish banking sector and all employees have committed themselves to complying with each regulation. Such efforts have notably assisted in achieving the desired results.

On the other hand, if we consider the performance of the Turkish banking sector in the global crisis with the outcomes of previous crises, we will underestimate the successful results of this period. We should especially appreciate the results obtained in risk management, the analysis of the international conjuncture, loan risk management and profitability.

Measures introduced by the central bank and the Banking Regulatory and Supervision Board (BDDK) in Turkey, as in any other financial market, have helped banks improve their financial structures. Turkish banks whose financial structures have deteriorated continue to enhance their capital structure and profitability in the period of crisis, which distinguishes them from other markets. Of course, compared to other periods the banks have been reluctant to take on risk in periods of fluctuation. However, we must remember that the deterioration in loan quality of the banking sector is moderate in comparison with the shrinkage in gross national product. This reflects the significant amount of experience, audit and management capability in loan issuance.

**The interest rate cut by the central bank in particular had a positive effect on resource costs, and this has improved bank interest margins since the beginning of 2009, which has in turn stimulated profitability**

Although the Turkish banking sector has adopted a prudent approach to loan expansion, in 2009 their total assets increased 5 percent in the first six months, reaching TL 770 billion. The sector's total assets over gross national product (GNP) have grown with the effects of the economic contraction and have risen from 70 percent to 81 percent. Nearly half of total assets constitute loans, while almost 30 percent are securities. Its resources are mainly deposits, at 60 percent, approximately 83 percent of which are extended as loans. Accordingly, the resource requirement does not cause a problem in the short term in the current condition of the banking sector. Three-quarters of the loans provided by syndication, securitization and any similar means from abroad have been able to be transformed despite the contraction in financing possibilities. Liquidity introduced into the markets show that the availability of these loans may increase in the mid term.

We also observe that our banks have sufficient resources as well as foreign sources. If we bear in mind that the sector has a capital adequacy ratio of almost 19 percent, we conclude that the capital requirement resulting especially from the adverse worldwide economic climate has not affected the Turkish banking system. Foreign markets have experienced significant deficits because of problems caused by derivative instruments, products of financial engineering, the high leverage rate and working habits. Regardless, the Turkish banking sector has maintained its development of traditional banking products and services and is notable for its strong capital structure in this period.

At the same time, we clearly saw that the returns on equity of Turkish banks reached 25 percent in the first six months of 2009, thanks to their capital-supporting structure. Particularly, the interest rate cut by the central bank had a positive effect on resource costs, and this has improved bank interest margins since the beginning of 2009, which has in turn stimulated profitability.

Rising nearly 130 basis points compared to year-end, with an acceptable rise in the cost of risk costs, non-performing debts have been 5 percent of the total loans in the sector. It is expected that this rate will be remain 6 percent through the end of 2009. Those who thought that the deterioration in asset quality of Turkish banks would worsen have already accepted that they anticipated wrongly.

Many foreign investors have become aware of the successful performance of the Turkish banking sector. In 2009, we are witnessing an increase in activity, especially in the İstanbul Stock Exchange, under the leadership of the banks, and demands for more transaction volume to banks are gradually increasing. Turkish banks demonstrate that they are ahead of many financial institutions thanks to their price factors and financial statements.

We wholeheartedly believe that the banking sector will offer several appealing opportunities for their customer base and product usage in the coming periods. Efforts to make İstanbul a financial center, gradually increasing the strategic importance of this country, with a population of over 70 million, indicate that the Turkish banking sector will maintain its steady course of development.

We, as Halkbank, are already prepared for this progress and promise not to give up. We are certain that in the near future Halkbank will produce successful results within the sector and continue to grow. ■

# Rough trials for Turkish banks in the financial crisis

CAN AKIN ÇAĞLAR*

* Ziraat Bankası General Manager

Looking at the impact of the economic crisis around the world, we see that the crisis stems predominantly from the financial system and that banks, which are part of this system, are directly affected by it. Seeing the crisis period from this perspective, banks that have sufficient liquidity, that can manage maturity and interest risks, that do not have difficulty finding funds and that can maintain a well-established balance of gains and costs have a competitive edge over other banks, and they have managed to go through this period with minimal loss and even some gains.

In this regard, it can be said that Turkish banks have suffered less from the crisis due to the fact that derivative products are not very common, the number of housing loans is lower than developed countries and the sector has a strengthened capital structure. Moreover, in light of the experience gained from previous crises, public authorities have taken measures to contain the impact of the crisis on the banking sector. In a nutshell, the crisis has served as a time when the structural reinforcement measures taken during this period and the banking sector have been tested. By looking at the outcome of this test, we can safely assert that the banking sector has recovered from its former fragility and evolved into a security valve for the entire economic system. On the other hand, I would also like to note that the drop in demand for loans and the problems in the loan repayment process imply that there are still risks that have not been eliminated, but for the time being, there is no problem controlling these risks.

## The Turkish banking sector's potential

The Turkish banking sector has seen a growth trend since 2003 and managed to maintain this trend even in 2008 despite the effects of the crisis. Indeed, the rate of banking assets to the gross domestic product (GDP) was 77 percent as of the end of 2008. Nevertheless, this rate is still low in the face of all efforts for growth, especially when compared to developed European economies, where the rate in question is two or three times the GDP. In this framework, I think there is still much progress that the banking sector must make.

Still, I would like to stress the strong structure of the sector. While all around the world the large financial structures that are the players in all major economies have quit performing their primary functions and concentrated their efforts on minimizing their losses, the Turkish banking sector continued to grow and offer its potential for the stability of the country's economy.

**We can safely assert that the banking sector has recovered from its former fragility; the drop in demand for loans and the problems in the loan repayment process imply that there are still risks that have not been eliminated, but for the time being, there is no problem controlling these risks**

Moreover, the rate of deposits and loans to the GDP and the rate of loans to deposits are regarded as major indicators of financial depth and the extent of intermediation services. Recently, there has been a big improvement in these indicators. On the other hand, the profitability of the banking sector continued to increase during the first half of 2009, and the asset profitability, which can be defined as profit per unit asset, has increased. During this period, banks have continued to open new branches and have launched new initiatives to boost employment, which can be seen as their belief in their potential. Though curbed to a certain extent because of the crisis, foreign investors' interest in the Turkish banking sector is another major sign of this potential.

Turkey's economy was deeply impacted by the global financial crisis as economic growth declined by 6.3 percent in the last quarter of 2008 and 13.8 percent in the first quarter of 2009. Other macroeconomic effects of the crisis were seen mainly in foreign trade and employment. Exports and imports decreased 30 percent and 41 percent, respectively, in the first seven months of 2009 compared to the same period in 2008. In 2007, unemployment increased from 10.3 percent to 13.6 percent in May 2009. Globally, the effects of the global crisis have been decreasing and recovery from the crisis has been increasing. Increases in the capital market, improvement in the housing market, positive expectations, increases in the confidence index and positive data related to the industrial production and capacity utilization rate can be considered indicators of economic recovery.

As real interest rates rapidly decrease with the expectation that interest and inflation rates will drop, as external financing needs decrease in line with the decrease in the current account deficit

OPINION


and with the stability in the banking sector, developments in the economic and social fields and the EU process as well as with its dynamic structure and growth potential, Turkey is one of the first economies that will recover from the crisis.

The importance of the finance sector's uninterrupted support to the real sector during the stable growth period cannot be overlooked.

## Importance of public banks in Turkey

Public banks -- which were founded due to the inability of private sector capital to resolve failures in the market, support capital accumulation and create a healthy competitive environment -- have played an important role in the development of our country, increasing industries' competitiveness and eliminating development differences between regions.

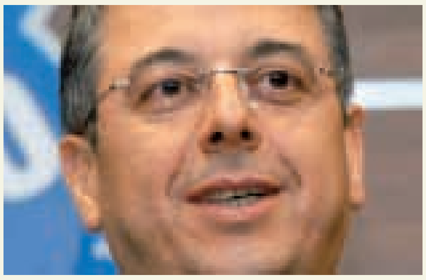
Particularly during the reconstruction period after the 2001 crisis, public banks underwent the most radical organizational and financial changes ever. As a result, public banks made significant progress toward having a stronger capital structure, diversity and high service quality, a more efficient organizational structure, more advanced technological infrastructure and better qualified human resources to meet efficient and effective banking criteria.

Public banks' active share in the Turkish banking sector is 32 percent, their credit share is 27 percent and their deposit share is 35 percent, as of July 2009. Public banks' net profit share in the sector is 34 percent. Public banks went from being in a situation where they were a burden on the public and caused damage to the sector to a situation where, with the dividend and tax payments made to the Treasury, they support public finance. On the other hand, while the total amount of loans provided by the entire sector decreased by TL 1.4 billion in the first seven months of 2009, public bank loans increased by TL 7.4 billion.

As a result, the ongoing global financial crisis has revealed the importance of public banks once again. From here on in, public banks will continue to support the country's economy in compliance with the purposes of their establishment mentioned above. ■

**The global financial crisis has revealed the importance of public banks once again. From here on in, public banks will continue to support the country's economy in compliance with the purposes of their establishment**

## PROFILE



Can Akın Çağlar was born in Sivas in 1962. After graduating from İstanbul University's faculty of economics, he earned his master's degree in money and banking from the same university. He acquired a second master's degree in banking and financial services at Boston University. He began his career at the Turkish Undersecretariat of the Treasury as a sworn-in bank auditor in 1985 and held the positions of assistant general manager in Egebank and general manager in Ege Investment Securities from 1995 to 1997. He also served as CEO of a private organization between 1998 and 2003. Çağlar has been serving as a member on the board of directors and as the general manager of Ziraat Bank since 2003.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# Turkey's mid-term economic program to focus on growth

DAVID NEYLAN İSTANBUL

Ali Babacan, the Turkish economy minister, announced Turkey's much-anticipated medium-term economic plan on September which experts had been speculating would be focused on putting budget balances back on track between 2010 and 2012. Although some feared that the plan might be unrealistic in its expectations, the consensus amongst pundits that Turkey Outlook spoke with was that the program is quite realistic in its outlook but has fuelled suspicions that the government may be planning to implement reforms without the input of an International Monetary Fund (IMF) stand-by agreement.

Commentators say that they find the creation of a "fiscal rule," the legal framework of which will be announced early next year, to achieve long-term fiscal sustainability to be the most positive of the statements.

The government foresees growth to contract by 6 percent by the year's end -- significantly higher than the 3.6 percent contraction envisaged earlier -- before experiencing a modest rebound to 3.5 percent in 2010, 4 percent in 2011 and 5 percent in 2012. The government also forecast a TL 62.8 billion budget deficit this year gradually falling to TL 50 billion in 2010, 45.1 billion in 2011 and finally, 39.1 billion in 2012. Primarily, balances were estimated at being -2.1 percent of GDP in 2009, and -0.3 percent in 2010 before barely climbing into positive territory in 2011 at 0.4 percent and 1 percent in 2012.

Unemployment was expected to recover modestly; however, it remains well above the 10.8 percent levels enjoyed before the crisis broke. It is forecast to ring in at 14.6 percent in 2010, close to this year's expectation of 14.8 percent, with the current account deficit set widen from $11 billion to $18 billion.

The government also expects the disinflation process to continue, with the annual rate of Consumer Price Index (CPI) inflation forecast at 5.9 percent for 2009 and 5.3 percent in 2010 -- 6.5 percent lower than the government's previous target. Fiscal balances were also predicted to improve slowly over the three-year period, with the budget deficit declining from 6.6 percent of gross domestic product (GDP) in 2009 to 4.9 percent in 2010, and the public primary deficit to slip from 2.1 percent to 0.3 percent.

The main priority on reforms appears to be directed at public investments, the restructuring of agricultural subsidies, the implementation of a global budget for health expenditures and the extension of flexible employment conditions.

Economy Minister Ali Babacan (L), Minister of Labor and Social Security Ömer Dinçer (C) and Treasury Undersecretary İbrahim Çanakçı center before announcing the economic program.

"The absence of any ambitious targets or projections for critical macro balances, primarily on the growth and fiscal sides, reveals a credible and sensible program, provided it is decisively implemented by the government," Banu Kıvcı Tokalı, from the Economic Research department of Finance Invest, wrote in a statement. "The adoption of a gradual improvement in growth and fiscal balances and the denial of any hike in corporate, income or value-added tax rates may also be seen as an indication that the government is inclined to conduct the program by itself [without an IMF agreement], as long as the global conditions worsen permanently."

But some feared that a lack of focus on government expenditures threatened to slow the recovery. "I am disappointed," Eylem Ünal, a strategist for private banking at HSBC in İstanbul told Turkey Outlook.

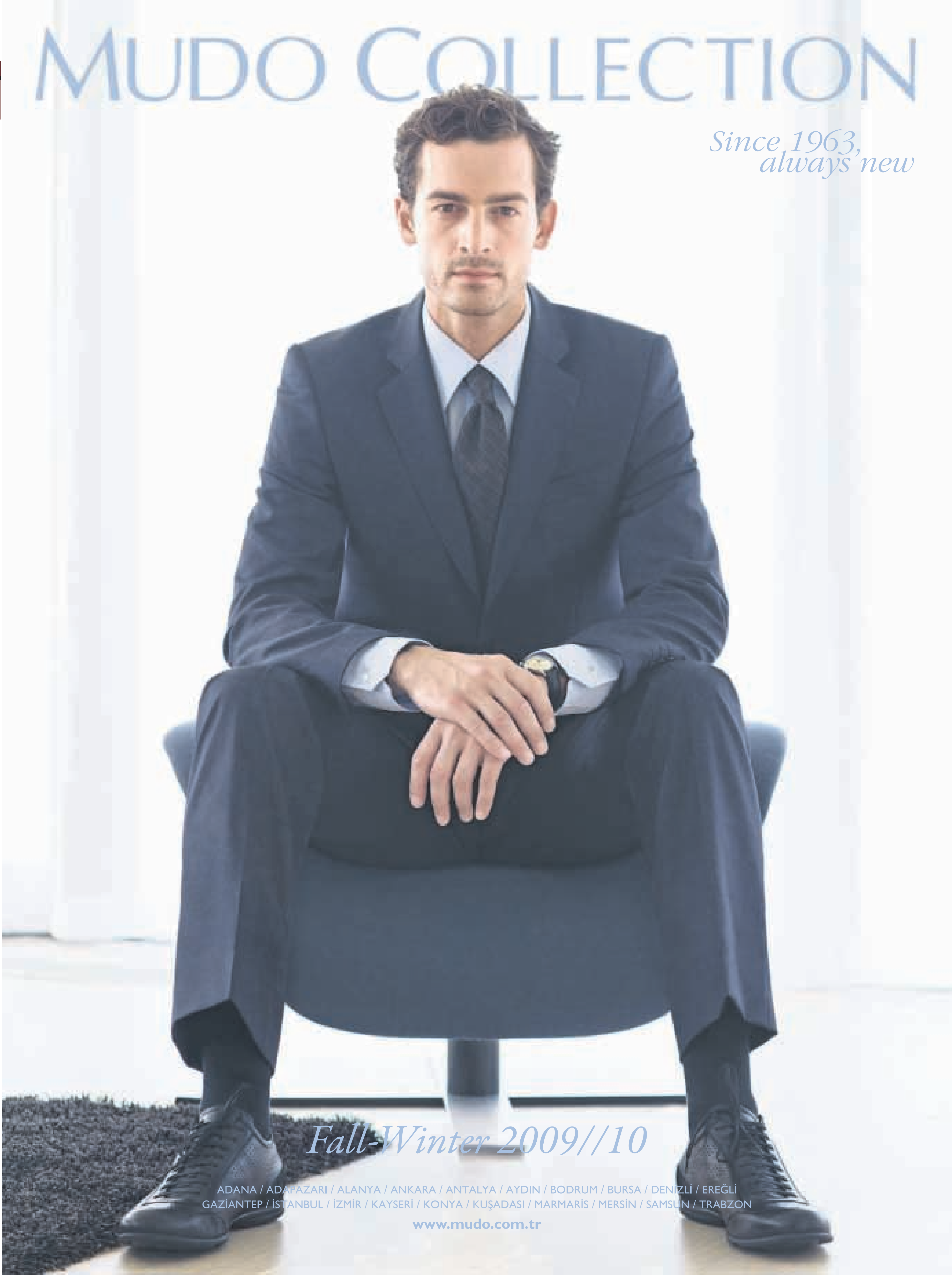
Babacan announced that the fiscal rule would be announced in the first quarter of 2010, however, it would be dependent on the budget deficit. The IMF has repeatedly said that while it certainly wants the deficit to be lowered, it also wants rules to be placed on spending. Babacan did not broach this subject in his speech. The income tax law -- an important structural reform -- is set to be renewed in 2010.

Because of no targets in terms of expenditures, some analysts felt that it would prolong any negotiations over an IMF stand-by agreement. "Without targeting the expenditures," Ünal said, "it reduces the likelihood [of an agreement]."

Ünal worried that the upcoming general elections expected in 2011 would place further strains on the public spending and feared that government inclinations to spend could reduce the foreign investment inflows. "If you place rules on the budget deficit but fail to explain forecasts about expenditures, then the inflows will be low compared to other emerging economies."

Economists were disappointed, expecting that the plan would be geared to cutting government spending and also unwinding this year's fiscal stimulus. Market analysts and most economists are also likely to be going over the plan for signs that the government may be signing an agreement with the IMF.

Analysts have been especially troubled in recent months by the government's tripling of the year-end budget deficit in the first eight months of the year. "Under realistic targets and projections, the initial market impact appears to be positive as the announcement of the program will fill the earlier significant gap in the government's strategy over medium-term economic policies," Tokalı said. "Nonetheless, without backing from the Fund, confidence in the program would only be sustained in the medium term if the government fulfilled the necessary policies to attain the program targets and projections.



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# İstanbul Stock Exchange: performance and prospects

HÜSEYİN ERKAN*

*The chairman and CEO of the İstanbul Stock Exchange (İMKB).

OPINION

The global economy went through a difficult period in two consecutive years, 2007 and 2008, leading to new challenges for both policymakers and investors. Demand contracted in most developed countries, economic development slowed significantly and unemployment rose. The adverse effects of the global financial crisis inevitably affected capital markets and stock exchanges, leading to a significant drop in the traded values and index values. In line with the global efforts and a variety of austerity measures introduced by advanced economies, capital market regulators and stock exchanges also took some precautionary measures to closely supervise the risks stemming from the highly complex and mostly over-the-counter (OTC) traded financial instruments. Moreover, the World Federation of Exchanges (WFE) also made some decisions to support liquidity and the price discovery function of stock markets and to ensure the proper supervision of capital markets.

Actually, the challenges during the last decade, including the pace of technological changes and the diversity of products, have pushed many stock exchanges to de-mutualize and to form alliances through mergers and acquisitions so as to create synergy and gain a competitive edge. The institutional restructuring has also shown its impact on the regulatory side, and new capital markets regulations such as the Markets in Financial Instruments Directive (MiFID) were put into effect in Europe. During this period, as a result of the tremendous growth of the derivatives market, securities exchanges have become more cautious in their risk management and integrated their surveillance systems.

The recent financial crisis inescapably had its effects on the İstanbul Stock Exchange (İMKB), as it did on all markets. During the period between August 2007, when the crisis erupted, and today, the benchmark National-100 Index (İMKB 100) showed a better performance compared to the average of developed and emerging markets. As of the end of July, the İMKB 100 had registered an increase of 66.38 percent and 73.93 percent in TL and US dollar terms, respectively, since the beginning of the year. Compared to global markets, the İMKB 100 has been by far the best performing index (in terms of local currency) since the beginning of 2009.

On the other hand, the decline in the İMKB stock market trading volume remained limited in the face of the financial crisis. While the total trading volume of emerging markets fell by 24 percent during 2008, the decline in the İMKB's trading volume was only 15 percent. The İstanbul bourse ranked as the eighth most liquid market among emerging markets in 2008, leaving behind prominent markets including Mexico, Malaysia and Ireland. In the second quarter of 2009, the total trading volume of the İMKB stood at $129 billion, with a daily average of $1.4 billion. The market capitalization of the bourse also increased by 78.45 percent by August compared to the end of 2008.

During 2008, the İMKB Bonds and Bills Market Outright Purchases and Sales Market fell by 15 percent, while the trading volume of the Repo-Reverse Repo Market registered an increase of 14 percent. The İMKB Bonds and Bills Market ranked fifth among all markets in terms of trading volume, following the Spanish and London exchanges, while leaving behind Deutsche Börse and Korea Exchange. The total trading volume of the İMKB Bonds and Bills Market Outright Purchases and Sales Market and Repo-Reverse Repo Market were realized at $134 billion and $958 billion, respectively, in the second quarter of 2009.

Throughout this period, the İMKB continued to appeal to international portfolio investors and thereby maintained its competitive position by making adjustments in its markets. The trading hours of the stock market were re-arranged, ability of our members to transmit orders was enhanced and İMKB members were given access to İMKB markets through a wide array of methods. During the recent financial crisis, the share of international portfolio investors in the free-floating shares of the İMKB stock market showed a limited decline compared to previous crises. The share of international portfolio investors in the free float, which receded from 61 percent to 36 percent during the 2001 crisis, fell only slightly from 71 percent to 63 percent in face of the recent credit crunch and stood at 66 percent as of August.

The İMKB also plays an active role in ▶

**During the period between August 2007, when the crisis erupted, and today, the benchmark index showed a better performance compared to the average of developed and emerging markets.**

the international arena. For instance, the head of İMKB is currently the president of the Federation of Euro-Asian Stock Exchanges (FEAS), which was established in 1995 and currently includes 32 member exchanges and seven affiliate members from 29 countries. In June, the Dow Jones FEAS Composite Index, created to measure the performance of companies across the Eurasian region, was launched. The İMKB also took a significant step toward establishing efficient cooperation among the capital markets of the Organization of the Islamic Conference (OIC) member countries within the framework of the mandate given by the Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Conference (COMCEC). Furthermore, the İMKB is currently working with the Athens Stock Exchange to launch a joint index. The İMKB plans to carry out similar projects with other neighboring exchanges in the future.

**We try to attract new companies to the İMKB by allowing companies that have more than 250 shareholders to trade without offering their shares to the public, provided that they are registered with the Capital Markets Board**

## Future prospects

The İMKB is working to launch new markets and offer new instruments to investors. Towards this purpose, the Emerging Companies Market and the Collective and Structured Products Market will be launched soon. The Emerging Companies Market aims to facilitate the application procedures for small- and medium-sized companies (SMEs) for trading on the İMKB, giving them the opportunity to raise funds through public offerings. Different from the continuous auction system on the stock market, trading in this market will be through a combination of the single-price method and continuous auction with a market maker mechanism. On the other hand, the stocks of investment trusts, real estate investment trusts, venture capital investment trusts, participation certificates of exchange traded funds (ETFs), warrants and other structured products will be traded on the Collective and Structured Products Market through a combination of the single-price method and continuous auction with market maker mechanism.

The İMKB also endeavors to increase awareness among companies regarding public offerings. Toward this end, we paid visits to cities with rapid industrial development and also signed a cooperation protocol with the Turkish Union of Chambers and Commodity Exchanges (TOBB). As a further step, we have recently started calculating "city indices" for cities with more than five companies traded on the İMKB, a minimum 50 percent of whose production is realized or operating income is derived in the relevant city. Currently, there are nine city indices. We also try to attract new companies to the İMKB by allowing trading of companies that have more than 250 shareholders without offering their shares to the public, provided that they are registered with the Capital Markets Board of Turkey. Although one firm has started to trade since the initiation of this policy, there is potential for over 200 firms.

The stock exchange industry stands at a turning point with increased competition, cost minimization and diversified revenues. Looking forward in this challenging environment, the İMKB plans to maintain its competitive power by offering new markets and instruments to investors and upgrading its trading system. Within this framework, we intend to establish a company that will serve all the securities and commodity exchanges operating in the Turkish capital markets, enabling them to operate on a common trading platform under an operationally integrated structure, which will consolidate the liquidity of the markets, and as a consequence, strengthen the international competitiveness of Turkish capital markets. ■

OPINION

# VOB: a stunning success story for Turkey's capital markets

IŞINSU KESTELLİ*

* Chairman of the Turkish Derivatives Exchange

**The volatility in the futures contracts based on foreign currencies during the crisis showed that the VOB has special and crucial roles and functions in the administration of currency risk**

The Turkish Derivatives Exchange (VOB) has made striking progress since it was launched by Prime Minister Recep Tayyip Erdoğan on Feb. 5, 2005. The overall turnover in the first year was TL 3 billion. The total trading volume had reached TL 208 billion as of the end of 2008, when the total size of the world derivatives exchange fell for the first time. In the same year, the increase in the VOB's trading volume was up 76 percent. Our goal by the end of this year is TL 300 billion. In other words, the VOB aims to have grown hundredfold by the end of this year.

Currently, eight different contract transactions are taking place at the VOB. Brokerage companies on the exchange number 88, with 770 representatives employed. The number of VOB terminal users is 12,000, and there are over 52,000 accounts with the VOB.

The VOB has become one of the key actors in Turkey's capital markets. The trading volumes of the brokerage institutions and banks reveal that the VOB trading volume of some corporations is greater than their spot transaction size. It can be seen that a number of local and foreign individual and institutional investors are interested in making transactions on the VOB and that a fairly noteworthy amount of revenue is being generated for the investors and brokering actors.

The VOB's performance is receiving international attention. According to recent data by the Futures Industry Association (FIA), the VOB is one of the largest 20 exchanges in the world in terms of transaction volume, leaving many renowned counterparts behind. The futures contracts based on the İstanbul Stock Exchange 30 (İMKB-30) traded in our institution are the most liquid instruments of the Turkish financial markets. The VOB index futures contract ranks 12th in the world, and its popularity has risen so high that it is now known in virtually all parts of the world. In addition, we offer consultation services for the countries eager to start futures contract transactions.

Stock exchanges are leading actors in economic and financial systems. The exchangeability of capital market instruments within a liquid market mechanism where the investor spends money is the basic foundation for effective and correct pricing in the market. In this way, the interplay between the fund suppliers and the actors in need of these funds becomes more effective and workable, and this adds dynamism to the economy. We are aware that we play a large role in this process.

The importance of the VOB for the real sector is also obvious in the case of currency risk. The importance of futures contracts based on foreign currencies is significant for the successful administration of the currency risk borne by corporations involved

Prime Minister Recep Tayyip Erdoğan rings the bell to symbolically announce the commencement of trade in the VOB in this 2005 photo.

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OPINION

in import and export businesses. The volatility in the futures contracts based on foreign currencies in the aftermath of the fluctuation in currency rates during the stagnation and crisis in the global markets which started in 2008 once more showed that the VOB has special and crucial roles and functions in the administration of currency risk. The number of corporations able to administer the currency risk accredited at the VOB is growing every day.

## 2009 important for the VOB

This year, we are seeking to conclude some projects that were initiated in the recent past. The first of these projects is to launch stock futures at the VOB. Our members have filed requests on this matter frequently, and the VOB has readied everything to initiate the stock futures and is awaiting approval from the Capital Markets Board (SPK).

The depth of the financial markets in Turkey, their liquidity and efficiency are improving thanks to contributions by the VOB. The most striking indicator for this is possibly the increase in the volume of transactions in the İMKB in parallel with the increase in the trading volume in the VOB. This highlights the existence of synergy -- rather than competition -- between the spot and derivatives exchanges, which are the İMKB and the VOB, respectively. It also shows that synergy between these two major actors of the domestic capital markets will generate the greatest benefit for the entire country.

Up until the launch of the VOB, there was no effectively organized market for futures in the Turkish financial market. The efforts to make some progress on this matter have all failed. The VOB was born out of this necessity, and it is obvious that it has performed its role and achieved its mission quite successfully so far. The contribution it makes to the financial markets will grow further with the addition of new products in its portfolio.


**We believe the creation of the VOB has served as a remedy for the long-standing stagnation in capital markets and that development in the markets will be beneficial for the diversification of products and expansion of the investor base**

This is the year of new moves and achievements for the VOB. We are still working on the establishment of an exchange platform where not only derivatives but also option contracts are traded.

Another mission of the VOB is to cooperate with the SPK in the supervision and regulation of the markets and to remove barriers to pave the way for further development of the markets.

The VOB is a joint stock company and does not benefit from any public loans or resources. The corporation's sustainability depends on the development of the markets to increase its revenue. Development in the markets is only possible via the expansion of the investor portfolio and the addition of traded items. For this reason, the VOB is working hard to cooperate with brokers and the SPK to ensure that the legal framework will become more encouraging to our activities. It should be reiterated that the VOB does not seek profit alone. The VOB is not a corporation taking high risks for the sake of high profitability or sizeable trading volume, and it will never be such an actor. The margins of security applied for the products traded at the VOB show that the figures are pretty conservative and that we are pursuing a policy to discourage transactions that have a high leverage effect.

We are eager to contribute to the development of a licensed warehousing system for agricultural products during the process of integrating our country with the world. This matter is particularly important considering that there has been no concrete improvement or progress in this field. In addition to this, we are also ready to assume a role in the creation of an analysis and laboratory company respected by all segments and actors. As the natural outcome of Turkey's new position as a transit country for energy transport, we would like to make a contribution to the energy market derivatives. We believe the creation of the VOB has served as a remedy for the long-standing stagnation in capital markets and that development in the markets will be beneficial for the diversification of products and expansion of the investor base.

In line with our work to expand the investor base, we have concluded a deal with a respected law firm in the United States to file a formal application with the Commodity Futures Trading Commission (CFTC), the authority that regulates futures contracts in the US. The commission will also provide a "No Action Letter," which will enable us to contact a larger number of individual and corporate investors based in the US, and we are expecting concrete developments with respect to this matter. ■

## PROFILE

Born in Konya in 1962, Işınsu Kestelli graduated from the İzmir American College for Girls in 1981 and from the faculty of economics and management at 9 Eylül University. Married with one son, Kestelli is a founder and partner of Agrilink Agricultural Production Inc., operating in the international vegetable oil sector. Elected as a board member in 1995 after serving as a member of the İzmir Mercantile Exchange Vegetable Oil Profession Committee since November 1992, Kestelli filled the post of deputy chairman of the İzmir Mercantile Exchange between 2003 and 2009. She was elected to chair the İzmir Mercantile Exchange Board in February of this year. Kestelli has been serving as chairman of the Turkish Derivatives Exchange since August 2007.

INTERVIEW

# ISPAT works to promote international investment in Turkey

**ALİ ASLAN KILIÇ** ANKARA

The Prime Ministry Investment Support and Promotion Agency (ISPAT) was established to promote Turkey's investment opportunities to investors abroad and serve as an information hub for them.

The agency's president spoke with Turkey Outlook, saying that Turkey's advantageous investment atmosphere makes their job easy. ISPAT President Alpaslan Korkmaz emphasizes that his agency uses the concept of love in its marketing language, which he says adds elements of sympathy and confidence to their serious work. The ISPAT uses the slogan "Investment Loves Turkey, Turkey Loves Investment" in much of its work, Korkmaz noted.

"We've based our promotional work upon love. Global brands love Turkey and Turkey loves them. This awakens a sympathetic, positive feeling. When we say 'Microsoft and Mango love Turkey and Turkey loves Microsoft and Mango,' we're also drawing attention to something else -- in the background it shows evidence of self-confidence; I can make jokes. Turkey trusts itself, it [this language] tells you," Korkmaz says.

Korkmaz is quick to note, however, that all the love is not in jest: "Beneath every joke or love-filled lighthearted comment is an explanation of why the CEOs of firms that have invested in Turkey have chosen Turkey and why their biggest foreign investment is in Turkey. For example, Microsoft's general manager of sales explains why they manage half of their global operations from Turkey. We are charged with promoting the investment side of Turkey, the economic Turkey.

**Beneath every joke or love-filled lighthearted comment is an explanation of why the CEOs of firms that have invested in Turkey have chosen Turkey and why their biggest foreign investment is in Turkey**

After all, doesn't the presence of very successful firms in Turkey do this as well?"

Korkmaz admitted that it was only after his ascension to the ISPAT presidency that he realized the sheer amount of investor interest in Turkey. "I've also been shocked by the presence of very powerful firms in Turkey -- I didn't know about Turkey's success in attracting international investment before, I learned that in my current position, but the world doesn't know this -- we [Turks] don't even know this," he said.

Korkmaz says that to boost the confidence of potential investors, the ISPAT promotes the satisfaction of those who already made the choice to invest in Turkey alongside its love-based slogans. The informa-

tional bulletins the ISPAT has been sending out for the past two years feature the views of representatives of companies with a strong presence in Turkey. "Microsoft's biggest base of operations outside Seattle is in Turkey; I didn't know this before, I learned this on the job. There are almost 90 countries [in which Microsoft operates] that have Turkey as their center [of operations]. There are roughly 200 countries in the world; Microsoft basically runs half of the world [operations] from Turkey," he said.

Korkmaz says he had phoned Microsoft to inquire as to whether they were pleased with Turkey as their second largest base of operations. "When they said they were happy, we asked if they would help us tell that to the world. … I went and did the same thing with Mango, Toyota, HSBC, Hyundai and other firms and all of the responses I got were positive," Korkmaz says, adding that it was after that point that an interesting development took place.

"Companies actually began calling us, saying, 'Hey, we have investments in Turkey too, why didn't you ask for our views in your campaign to promote Turkey?' We said come on over, we'll take those views as well. In the first year of our effort, we made some requests for statements, but by the second year we were being flooded by [companies'] requests. For example, DHL came to us with a great ini-

INTERVIEW


ISPAT President Alpaslan Korkmaz and Huawei General Manager Liang Zhihui congratulate each other after signing a protocol that embodies Huawei's commitment to create a research and development center in Turkey. Behind, Turkey's President Abdullah Gül (C) and several Turkish and Chinese ministers applaud the deal.

**The 1,000-year cultural memory of the Turks has emerged today as a remarkable intercultural ability. The Turks' natural inclinations could be paired with modern situations to be made more powerful**

tiative in mind. 'We send 150,000 parcels abroad each month. Let's promote Turkey,' they said. Now, stickers themed around our love concept and containing pieces of information [on Turkey] are being stuck on more than 150,000 packages [every month]. Everyone who receives a package gets this message [about Turkey]," he explained, noting that they have a similar project with the UPS. Messages on the stickers include questions such as, "Did you know that more countries invest in Turkey than anywhere else?"

## Human potential

When ISPAT President Korkmaz assembled his team he also emphasized the power of the love concept and a positive approach. He says he carefully selected 16 representatives for 13 countries and brought Turks living in all corners of the globe together at ISPAT's main office. He says his representatives posted abroad are well-known and highly esteemed figures and that they all began their work with an introductory tour of Turkey. "The representatives love Turkey, as anyone who knows the country well does," Korkmaz said. He says this is an important point and that the work and effort of someone who does not love the project they are trying to market is not very efficient.

Learning a foreign language is an inevitable element of success in the globalizing world, Korkmaz emphasized, noting that more important than the language itself is to learn empathy for the cultures associated with the language. With a diaspora of 6 million, Turkey is in an advantageous position in this field, he said, and so 40 percent of the team at the main office has lived and worked abroad for an extended period of time.

During his time as the ISPAT's president, Korkmaz says he's learned a great deal about how cultural specifics play into the international business and investment scene. "I didn't know about Turks' skills when it came to intercultural relations. What I've learned on this job is something that I've heard many times from people at many different companies. 'You Turks are incredible people. With Americans you're American, with Middle Easterners you're Middle Eastern, with Europeans you're European and with Central Asians you're Central Asian.' This is a very important detail," he said. "On a recent trip to China, we met with [a Turk who] teaches there, speaks impeccable Chinese and gets on very well with the people there. That person was still connected to their roots, but had also engaged with the culture and people of that place, marrying a Chinese person without any problems. Now, such [Turks living abroad] are serving as important bridges between their chosen countries and ours."

The 1,000-year cultural memory of the Turks has emerged today as a remarkable intercultural ability, Korkmaz asserted, saying the Turks' natural inclinations could be paired with modern situations to be made more powerful. Turkey's youthful population is an advantage for both Turkey and foreign investors, he said, noting that according to United Nations estimates, Turkey will remain the only European country with a population that is growing younger for the next 41 years. For this reason, he says it was not at all difficult for him to put together a team for the ISPAT. "The agency's main office had to know the world and we put together an amazing team in this regard. We provide services in 11 languages. Think about it, we brought in people from Tokyo, Seoul, Taiwan, Beijing and Bahrain; from Moscow and Almaty; from New York, Chicago, Munich, Berlin, Frankfurt and Paris. They had been living there and pursuing their careers for long periods of time, maybe 15 years. To compose a team of people who have lived and worked all over the world is an amazing thing," he said.

## Multinational firms investing in Turkey

One of the agency's most important goals is convincing foreign firms to move their global base of operations to Turkey. "When these brands consider Turkey as the headquarters for the management of their operations in tens of countries, they take into account Turks' savvy regarding intercultural relations," Korkmaz says.

Korkmaz recalled a global firm that moved its headquarters to Turkey last ▶


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INTERVIEW

year. "They came from London, moving their headquarters of operations in 84 countries to Turkey. We're talking about a turnover of $17 billion here. The employment generated from this might not seem so big; 250 people, but the thing is, the company's market policy for 84 countries -- from Kazakhstan to Moscow to South Africa -- is being determined in Turkey. When a company chooses to do this, it's saying something. It's saying I see something in [Turkey]," he said.

The ISPAT encourages new investors looking at the world map to look at Turkey a bit more carefully, reminding them of Turkey's central geographic location and the impact of this in terms of the nation, serving as both an economic and cultural bridge between different regions. Many multinational firms have realized and taken advantage of this, Korkmaz said. "They travel to Turkey and evaluate it in terms of its centrality and a lot of them end up setting up their main offices here," he said.

## Energy companies prefer to invest in Turkey

**How does the ISPAT work?**

We work on a location distribution scheme; we've established an international network. As an agency we have a personal network, with people in the US, Canada, England, France, Germany, Italy, Spain, Russia, Kazakhstan, Israel and Saudi Arabia, and we have a representative in Abu Dhabi for the Emirates, from Kuwait to Oman. Other than a couple of exceptions in China, Italy and Japan, our representatives are all natives [of the countries they're based in].

**What are the basic qualities of your representatives?**

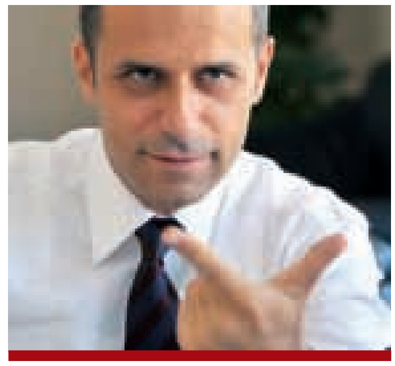
Our representatives [with a few exceptions] are all natives of the countries they're working in. They all come from the private sector and are professionals; they are esteemed in their regions. Every time they come to Turkey, they get to know it better and love it more. You have to know the product you're selling. I'm going to say something controversial -- if you're not in love with your product, then you can't impart that electricity when speaking about it. We had to create a love of Turkey in them.

**What are the most common difficulties investors face in Turkey?**

The most frequent complaints we receive are related to residence and work permits. A company comes and makes an investment; it needs to be easier for their management team to get working and residence permits. We've established direct communication with the Ministry of Labor and Social Security, speaking with the minister himself about this. Some changes have been made to speed up the process when applications come in. Applications from our agency and the services our agency provides to follow up on the process have done a great deal to decrease the complaints to an extent.

**In what direction are the trends heading? Investments coming into Turkey are usually in which fields?**

First and foremost is energy, without a doubt. … Energy and energy infrastructure. Now everyone's waiting for renewable energy. It has huge potential; renewable energy and energy infrastructure. The second is agriculture, both agricultural technology and farming investments, like the system we refer to as complete food processing.



> If you're not in love with your product, then you can't impart that electricity when speaking about it. We had to create a love of Turkey in them

**Does the agency, as a public institution, encounter any friction working with the private sector?**

We're a public institution but we show through the way we work that we speak the same language [as the private sector]. What we say is: "Hey, you may be the private sector, but we work like the private sector." Our system is constantly renewing itself and doesn't leave any space for the classic understanding of a public institution.

**How did the Hewlett Packard Foxcon investment come about?**

They wanted to establish a base in this region. "We saw you at a conference, we want to talk with you," they said. Our representative in California held a preliminary meeting. They wanted more information and after a year of meetings they were convinced to invest here.

**Are you ready for the questions that come in?**

Certainly, in this line of work you need to be proactive. We have prepared a list of answers to common questions by investors. For the sites of regional headquarters, we prepare information on a site-by-site basis on the distance to the airport, population density and other population demographics. I set up this system after working for six years as a private consultant. ■

OPINION

# Islamic finance in İstanbul: crossroads and bridges

PAUL WOUTERS*

What goes up comes must come down. And such things happen until a sufficient equilibrium has been reached. Numerous interesting macroeconomic theories have been developed on this axiom, and the Western-style free market was based on it.

The mere repetition of the rule gives, however, the illusion that one has isolated the phenomenon and therefore is able to control it. There indeed is no reason to be afraid of one's own shadow. Do not think that the regulators were not aware of the growing financial bubble, that they did not know about the risks of the exponential securitization wave coupled with unsafe subprime mortgage lending and unrealistic asset pricing. At regular intervals they were properly briefed, and they had sufficient access to market data and statistics. But instead of acting, they remained passive, and in the end they were hoping for a soft landing only.

And as the world is experiencing today, the markets are always right, and they are expressing it in an extremely efficient -- and unfortunately cruel -- way. What has gone up indeed has come down -- at the speed of light. But then again, if all is so predictable, why did the world get hit this hard by the present crisis?

Human greed, normally a driver for growth, distorts the smooth functioning of the model. When there is an easy way to make money, the market does not elegantly fill the gap but plunges into it with full force. And when things go bad, there is no talk about an organized exit; everyone storms out trying to preserve his own interests, at the same time destroying the smooth running of markets in the capitalist model. For some reason, the economic models and the regulators are blind to the predictably irrational behavior of market participants.

There are a few lessons to be learned here. First of all, human behavior is dangerous in a laissez-faire paradigm. Boundaries have to be set: things that can be done and things that cannot be done. Secondly, synthetic, multi-level financial structuring is bound to collapse, just as the dreaded pyramid schemes where the snake in the end has to eat its own tail. Thirdly, legal personality of corporate entities may lead to a lack of accountability. The financial risk did not get contained by creating an independent special purpose vehicle (SPV).

**With 4.6 percent of local deposits but with 5.2 percent of outstanding loans, participation banking, which is used synonymously with interest-free banking in Turkey, proves that it extends nearly all funds collected from depositors to the real economy**

Instead of isolating a financial mishap, the legal entities put the market players to sleep and allowed the crisis to splinter like a fragmentation bomb and cover the whole world.

Practitioners of Islamic finance will not be unfamiliar to the questions above as they are constantly addressed and questioned by them. For them, the market has its boundaries. The real economy is the driver of the model, and synthetic structures are not allowed.

Though some were slightly affected by the indirect fallout of decreasing asset prices and less market liquidity, it is no coincidence that Islamic banks around the world were not toppled by the domino effect that hit global conventional banking.

Conventional decision-makers and bankers should be ready to think outside the box, question their own fundamentals and open up to viable alternatives.

İstanbul is not only the bridge between East and West. It has also been the crossroads of ideas and international trade for centuries now. As a result of its openness to both the East and the West, Turkey hosts strong conventional banking together with Islamic banking. With 4.6 percent of local deposits but with 5.2 percent of outstanding loans, participation banking, which is used synonymously with interest-free banking in Turkey, proves that it extends nearly all funds collected from depositors to the real economy, instead of sparing a significant portion to finance the Treasury's borrowing.

The experience gained throughout the 2001 crisis and at present made clients aware of the proactive support of their bankers, and they instinctively feel the appeal of a finance model that they perceive to be sustainable and socially responsible.

For 10 years now, the Turkish participation banking sector has grown faster than its conventional counterparts. Diligent consolidation has created four solid market players that all rank in the top 50 of the largest Islamic finance institutions worldwide. Sound planning put them at the top of local banking IT developments and human resources, more than ever ready to face the competition. With sustainable growth projections, the target of a 10 percent market share within the next six years is not unrealistic. Conventional Turkish banks are aware of the challenge and investigate ways to get involved in the product, which also appeals to their own clients. And all this was achieved with a lack of sufficient government incentive. Still today, there is need for a suitable legal framework for bond issuance (called sukuk), for adequate money market instruments and for tax regimes that allow international competition.

Together with the initiative to make İstanbul a regional financial hub, sufficient attention should be paid to the enhancement of the Islamic banking sector not only to attract investments from the Gulf Cooperation Council (GCC) countries but also to build robust finance models that will serve the economy for decades to come and to develop financial instruments that assist Turkish companies in their international quest for growth. Thanks to its historical inheritance, Turkey has a large know how about the rules of this game and has an instinctive feeling about right and wrong.

Instead of merely saving the system, it has to be adapted to the new global environment. Interestingly enough, the journey back to the very source of financial behavior holds the key to the future. The present process of globalization and mass pooling of financial assets by a limited number of large players indeed will only magnify the danger. If not properly taken care of, future financial crashes will be even more disastrous. The international finance world is faced with the challenge to leave its own trenches and prejudices. It has the responsibility to reach out and learn. Over the last 30 years, Islamic finance has matured sufficiently to be an experienced guide. ■

* A Belgian lawyer, Paul Wouters has been active in İstanbul for several years. A member of the Advisory Board of Islamic Finance News (Kuala Lumpur, Malaysia), he consults, lectures and publishes articles relating to Islamic finance issues in Europe, the GCC, Turkey and Southeast Asia. He can be contacted via email at pwouters.law@gmail.com.

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# Averting crisis derives from diversification of foreign trade

RIZANUR MERAL*

* Chairman of the Turkish Confederation of Businessmen and Industrialists (TUSKON). He also chairs the Turkish Construction Equipment Distributors and Producers Union (İMDER).

OPINION

The global markets, which were hit hard by the global financial crisis, have started to recover from its effects in the last quarter of the year. Turkey has suffered less from the crisis than many countries around the globe, and it will able to eliminate the effects of the crisis in a short period of time and once again become a hub of investment, trade and logistics. The fact that many talks which were postponed because of the crisis have resumed and that long-term investment plans are being reintroduced implies that the year 2010 will be considerably brighter for the Turkish economy.

We, as the Turkish Confederation of Businessmen and Industrialists (TUSKON), continue to tell businesses that the best way to recover from the crisis is to engage in trade with countries that are relatively unknown commercially. There are numerous untouched markets in many places around the world such as African, Pacific, Latin American and Central Asian countries. Many of our members have recovered from the crisis by investing in these countries. If entrepreneurs keep themselves restricted by a certain market or geography, then they may suffer damage or losses even in the tiniest fluctuations. On the other hand, the firms that always seek new markets and regard the entire world as its playing field can become resistant to all sorts of shocks. With this idea in mind, we have organized a number of events to help our businessmen to become global players. The World Summits, at which our businessmen had the opportunity to meet and discuss business deals with foreign businessmen from many parts of the world, have been quite fruitful.

A total of 2,300 foreign businessmen from 139 countries and 3,300 Turkish businessmen attended the Turkey-Word Foreign Trade Bridge, held in June of this year. The ability to gather so many businessmen together while hundreds of trade fairs are being canceled around the world signifies an important truth. Some 5,500 businessmen made 55,000 deals with a trade volume of more than $7 billion.

We try to encourage businessmen to find new markets and direct them toward less popular markets with lower competition. For instance, Africa has turned into a market that is quickly growing rich. The small and medium-sized enterprises (SMEs) that make investments in Africa today may end up the largest corporations there in 10 years. The African Foreign Trade Bridge programs offer new opportunities, particularly for small and

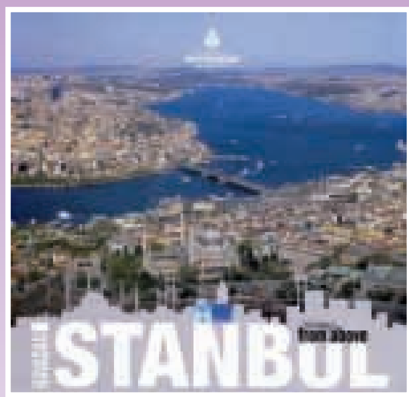
**We try to encourage businessmen to find new markets and direct them toward less popular markets with lower competition, such as Africa, whose economy is rapidly growing**

medium-sized companies. We have identified major investment opportunities in the field of agriculture, energy and other areas, especially in Tanzania. Many African countries have important underground resources, which means that they will develop in time. It is important that Turkish businessmen go there and make their investments because these countries are becoming rich and developed. As a matter of fact, the businessmen who settled in some African countries have already undertaken important projects. A beverage firm has become the most famous beverage company in Mozambique, while a facility which was established for $50,000 three years ago in the Democratic Republic of the Congo is sought for acquisition by Africans for $300,000. We can assert that the companies that go there as SMEs today will become leading companies in their respective countries in 10 years.

We are not limited to just one continent or region. We see the entire world as a market. We are finding markets that will relieve medium size companies. Export is the most important strategy for companies in Turkey; we have no other chance. While Turkey's exports to African countries were not as high as imports, after the Africa initiative was launched we started to have a trade surplus. Before the initiatives, exports to Africa corresponded to only 60 percent of imports, in 2005, but in the first six months of 2008 it rose to 106 percent -- in other words we started to have a trade surplus with Africa. The entire world has the African continent, which comprises 53 countries, in its sights because of its high potential for development. In addition to European companies, China and India have also increased their investments on the continent. Former US President George W. Bush displayed the US's interest in Africa by making five visits just to Tanzania, and German Chancellor Angela Merkel made her first official visit to Africa after taking office. The lack of industrialization on the continent is one of the qualities that make Africa, which only has a 2.4 percent share in world trade, important. The continent imports nearly 95 percent of all industrial goods, meaning it must pay more than $250 billion for imports each year.

TUSKON is the umbrella organization of businessmen's federations, providing services that contribute to the country's economic and social development. Comprising seven regional business federations, TUSKON was founded in İstanbul in 2005. There are 150 businessmen's federations from 80 provinces and 10,000 members that are affiliated with the confederation. TUSKON, which supports infrastructural efforts for the development of economic organizations that form the foundation of a country's development, aims to make our enterprises and entrepreneurs a part of the global business world. With this aim, TUSKON offers services as a leading organization in sharing the experiences of our businessmen, spreading such experiences and creating new business opportunities. ■

ADVERTORIAL

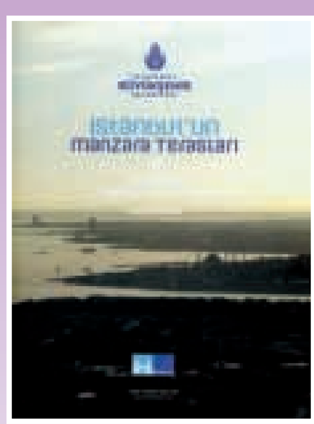



## İstanbul from the Air

“Havadan İstanbul” (İstanbul from the Air) is an album-like book containing aerial photos of the historic peninsula, the development centers of İstanbul, palaces, mosques, skyscrapers, junctions and other landmarks as well as brief explanations by Hüseyin Sorgun. “Havadan İstanbul” witnesses the unique beauty of İstanbul in its every frame.

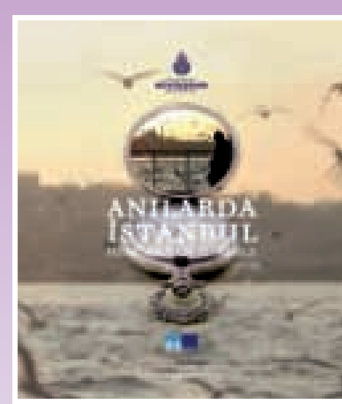

## İstanbul: Look and Discover

”İstanbul: Keşfetmek İçin Bak” (İstanbul: Look and Discover) offers us an image of İstanbul that we encounter through a mist being dispersed with the help of photos and texts. The book documents İstanbul in five headings. Photos and texts in this book share the same poetic language and aim for the profound.



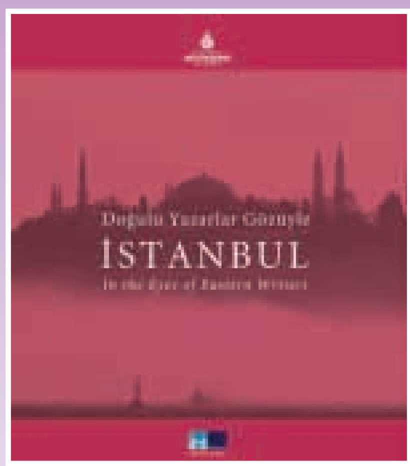

## Vantage points in İstanbul

The reason why the word “city” quickly brings İstanbul to mind since ancient times is no doubt the existence of beautiful scenery in this beautiful city. There are many vantage points in İstanbul that allow you to watch the city’s skyline, its interesting details and surprise cross-sections for hours without getting bored.



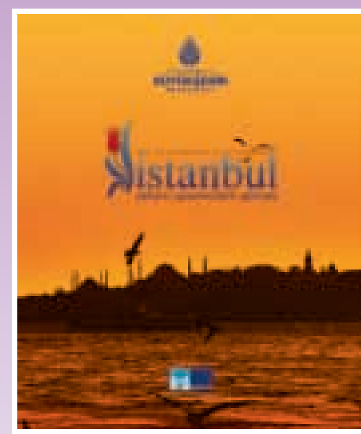

## İstanbul in Memoirs

“Anılarda İstanbul” (İstanbul in Memoirs) contains memoirs of 34 people who are closely associated with İstanbul. Kültür A.Ş. has to date published many books containing impressions of İstanbul written by many people from various groups (foreign sportsmen, foreign journalists, consuls, etc.). However, “Anılarda İstanbul” gives an insider’s look and describes the perspectives of the people who are identified with this city. It also documents a period of İstanbul based on personal lives, and with all these characteristics, it is a considerably attractive book.



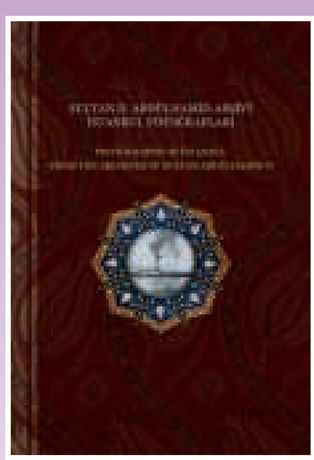

## İstanbul in the Eyes of Eastern Writers

“Doğulu Yazarların Gözüyle İstanbul” (İstanbul in the Eyes of Eastern Writers) “There are capitals of the past, even some that endure to this day. But İstanbul is different from them all. … Istanbul deserves to be the capital of the future world.” ADONIS



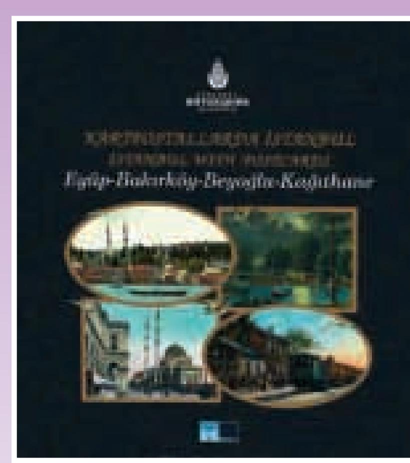

## İstanbul in the Eyes of Foreign Journalists

“Yabancı Gazetecilerin Gözüyle İstanbul” (İstanbul in the Eyes of Foreign Journalists) contains photos taken and articles written by foreign journalists working in İstanbul. We offer this unique book which provides a unique resource on the “us and them” perspective to your appreciation.



## Photos of İstanbul from the Archive of Sultan Abdülhamid II

Sultan Abdülhamid II had a strong liking for technological developments and would rarely go out of the Yıldız Palace. He instead watched his empire from photos taken for him. Photos concerning İstanbul from this archive, known as the Yıldız Photos, were published for the first time in a comprehensive book titled “Sultan II. Abdülhamid Arşivi İstanbul Fotoğrafları” (Photos of İstanbul from the Archive of Sultan Abdülhamid II).

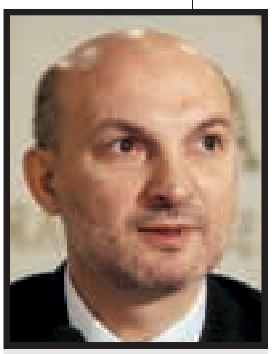


## İstanbul in Postcards

Postcards, once used as a means of communication, are now precious documents for today’s researchers and collectors. What makes postcards so precious are the stamps and seals on the cards mailed. “Kartpostallarla İstanbul” (İstanbul in Postcards) consists of an introduction on the Eminönü and Fatih quarters and on the history of postcards and a selection of photos concerning the two quarters from the rich postcard collection of the Atatürk Library.

OPINION

# Messages from a promising country to the world



ÖMER C. VARDAN*

* President of the Independent Industrialists and Businessmen's Association (MÜSİAD).

Economy is a field of science where risks are calculated on the one hand and expectations are calculated on the other. In real life, risks and crises are present everywhere.

We see that the US, a country that was always presented as a "risk free" country and therefore has been able to borrow at the lowest cost and whose currency is used as the international reserve currency, is currently undergoing many risks and is in fact struggling with bigger risks, more than other countries. Ultimately, there is no risk-free place.

Despite all these realities, in recent years some growing market economies, among them Turkey, are intentionally being presented as risky countries and are being kept under pressure. It is for this reason that borrowing costs are high and accumulating reserves is difficult.

However, the entire world has been forced to learn a lesson from what it has experienced as a consequence of the ongoing global financial crisis. Now the time has come for new expectations that envision countries will step forward with their economic potentials and buy and sell in the market according to realities. In this respect, Turkey is stepping forward with unparalleled potential. In terms of the current conditions, a new history is being written in Turkey. From economy to domestic and foreign policy Turkey is becoming the world's "common mind" and "country of big expectations." Turkey is exerting immense effort to create ground for consensus both inside the country and abroad.

First of all, to reach the level of developed countries and to become one of the top 10 economies in the world on the centennial of the republic, Turkey wants to free itself from the shackles that inhibit it from developing.

While doing this, with the belief that its problems are social, Turkey is trying to solve its problems by establishing social consensus. Turkey knows very well that in order to fully establish democracy in the country, to adopt personal rights and freedoms in the broadest sense and to devote potential to development, taking these steps is inevitable, and this is directly related to the strengthening of the economy.

On the other hand, in this "win-win" game Turkey has not only managed to build new bridges based on trust and brotherhood with all neighboring countries but also has enabled neighboring countries to become "stakeholders" and develop a common vision.


Turkey's increasing importance in diplomacy no longer fits the region and is overflowing into other regions of the world. Turkey has rapidly become a representative of the world's common conscience and common mind. Isn't the non-permanent membership in the United Nations' Security Council an indication of this?

Likewise, the cooperation with Russia and the positive performance in bilateral relations indicates that the same can be achieved with other important countries such as China and Japan. Turkey has become one of the indispensable countries of the world, as was the case in the Nabucco project. Turkey is becoming an important actor in energy, agriculture, agriculture-dependant industries and tourism. In addition to the commitments inside and outside its borders, Turkey is no longer a burden for the EU and is turning into a global solutions partner.

From this point on, Turkey is preparing for the post-crisis new world structure that will be created. It is for this reason that during this difficult period the state is not forgoing major infrastructure efforts and is preparing for further acceleration in privatization and foreign capital investments.

To this end, Turkey is taking major steps in the labor market, bringing in lucrative incentives to propel industry and drawing a roadmap to bring about more momentum for agricultural investment. In addition to this, the major, outstanding sectors that will ramp Turkey up are energy, agriculture, agriculture-based industry, machinery manufacturing, tourism, health, education, logistics and information technology.

It appears that in the future Turkey will be greatly different than the current Turkey. It will be more advanced. When local competition is not enough, it is clear that foreign capital will bring competition. Foreign interests that have been able to operate in harmony with the Turkish public will reap big gains from their investments in Turkey.

**In terms of the current conditions, a new history is being written in Turkey. From economy to domestic and foreign policy Turkey is becoming the world's 'common mind' and 'country of big expectations'**

As an assertive, leading institution that opens Turkey to the rest of the world and enables it to rediscover its self confidence, the Independent Industrialists and Businessmen's Association (MÜSİAD) is ready for the future Turkey. MÜSİAD represents a stance that gives importance to competition and efficiency, blends a local stance with universal values, protects its own essence and adopts a just and open sharing system with foreign interests.

From this point on the "MUSİAD perspective" described in this article, which includes self-confidence and trust in the country's strength and dynamics, will manage Turkey because this will is based on a 1,000-year-old "deep nation-deep civilization" reflex. To indicate that is the kind of will this world needs is us just pointing out the truth.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ANALYSIS

Federal Reserve Chairman Ben Bernanke addresses the Economic Club of New York regarding financial markets in New York in this 2008 photo.

# LOOKING AHEAD

## Countries must begin now to devise economic strategies to accompany recovery

CARLO COTTARELLI & JOSE VINALS*

**Fiscal authorities and central banks have fought the global economic downturn by replacing sagging demand from consumers and businesses and by providing substantial support for the financial and other key sectors**

The global economy is showing signs of improvement -- there is light at the end of the tunnel -- but prospects remain highly uncertain. So while it is too early to exit from crisis-response policies, it is vital to begin defining a strategy to accompany recovery. Failure to do so would destabilize expectations and weaken the effect of the fiscal and monetary support now being provided.

Fiscal authorities and central banks have fought the global economic downturn by replacing sagging demand from consumers and businesses and by providing substantial support for the financial and other key sectors. As a result, their balance sheets have grown -- and have grown riskier.

Not only did the crisis-related policies weaken public balance sheets, the surge in public debt took place while health and pension spending were increasing because of aging populations -- especially in advanced economies. The ongoing debt surge has overwhelmed more than a decade of efforts in many countries to strengthen public budgets in anticipation of an aging population. An easing of the monetary policy stance and the use of unconventional central bank policy measures may have been essential to preventing the collapse of the financial sector, but the substantial acquisition of impaired assets has exposed a number of central banks to potential losses and the quasi-fiscal nature of some of these policy actions may lead to political pressures on central bank independence.

What does this mean for policies to accompany recovery? First, the fiscal problems that stem from population aging must be attacked with greater vigor. Second, the capacity of central banks to control inflation must be preserved and even enhanced. Third, policies will have to foster strong and sustainable economic growth by restoring private sector control of the financial and other sectors to allow competition and the improvement in productivity this will bring.

Three factors are contributing to a major weakening in the state of the public finances:

- the plunge in economic activity and the slowdown in economic growth in the next few years compared to pre-crisis projections;
- fiscal stimulus packages; and
- government intervention operations in support of the financial sector.

The rate of debt to gross domestic product (GDP) is expected to rise to 115 percent in the advanced economies in 2014, based on the July World Economic Outlook (WEO) Update projections, from 75 percent in 2007. Debt ratios will be close to, or exceed, 90 percent by 2014 in all G7 economies except Canada.

This surge in public debt is unprecedented during peacetime. Major increases occurred in the 1930s, but started from lower levels (for example, about 20 percent of the GDP in the United States in 1929). Moreover, demographic trends were favorable in the 1930s.

Only a relatively small portion of the debt surge in advanced economies -- 6 percent so far -- is due to financial support operations. The bulk of the debt increase stems from fiscal stimulus and, especially, ▶

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tax revenue losses associated with the recession and the collapse in asset prices. Thus, the fiscal problem cannot be solved simply by unwinding financial support operations.

## Fiscal risks

Failure to address the trend of rising debt could lead to concerns that the debt will ultimately be "inflated away" or that default is inevitable. Interest rates would then rise, making the fiscal problem worse and potentially killing the recovery; debt maturities would shorten; and refinancing crises could occur. These concerns would be especially severe where perceived risks of currency depreciation are high.

Consensus forecasts and market indicators of expectations derived from inflation-indexed bonds in major advanced countries suggest that inflation is expected to remain low over the next decade. And, while interest rates on government paper have been on the rise for some months, they also remain low. Markets, however, often react late and suddenly, so the benign market response to date does not provide firm reassurance for the future.

Some commentators have suggested that inflation -- which could occur if central banks are unable to shrink their balance sheets and tighten monetary policy fast enough when the recovery begins -- could play a helpful role in reducing the debt burden. However, high inflation gives rise to sizable distortions of its own and may be costly to bring down again. And inflation in the single digits would not make much of a dent in the real value of the debt, especially if higher inflation expectations are reflected in higher interest rates when governments refinance themselves in the years ahead. In short, price stability, in the form of low inflation, is a critical public good. It is important to preserve it to support sustained economic growth.

## Central banks acted decisively

Decisive central bank action to provide liquidity and other financial support helped to prevent financial sector collapse and damaging deflation. Central banks substantially lowered policy rates. In their liquidity provision operations, they lengthened maturities and widened the range of collateral and the group of counterparties to ensure a smooth flow of reserve money into the system.

Central banks also engaged in various asset-driven and often unconventional operations, both to deal with short-term interest rates that were close to zero in some cases and to combat severe market disruptions, especially when bank demand for reserve balances rose sharply following the Lehman Brothers collapse in September 2008. Notably, unconventional instruments have


People wait to enter a government job center in Madrid. Spanish jobless claims rose in August for the first time in four months as the result of a slowdown in the tourism industry.

**Consensus forecasts and market indicators of expectations derived from inflation-indexed bonds in major advanced countries suggest that inflation is expected to remain low over the next decade**

involved quantitative and credit easing. Quantitative easing in this crisis has consisted of purchases of government securities to reduce longer-term interest rates, while credit easing has involved purchases of private sector assets to counter the widening of credit spreads in specific markets (becoming the buyer of last resort in a moribund commercial paper market, for example). In some countries, the combined impact of quantitative and credit easing on central bank balance sheets has been very large. For example, by the end of June 2009, the balance sheet of the US Federal Reserve more than doubled and that of the Bank of England nearly tripled from the onset of the crisis two years earlier, in both cases to some 15 percent of the GDP. The Eurosystem balance sheet expanded by 50 percent to reach 20 percent of the GDP.

Central banks may face tensions between the risks of rising inflationary pressures -- whether from domestic demand, commodity prices or a feedthrough from exchange rate movements -- and financial stability concerns during continued weak economic performance.

The extensive use of unconventional instruments has complicated both the setting of policy and communication of that policy. Normally, a single instrument -- the short-term interest rate, usually an interbank rate -- is used to signal a change in a central bank's policy stance. But the unconventional operations central banks have employed make it considerably more difficult to assess the overall stance of monetary policy. This difficulty might persist in the early stages of recovery if inflationary pressures re-emerge in some countries before markets have been fully restored, so that some use of unconventional instruments could continue even as interest rates rise.

So central banks could face important challenges in several related areas: determining the timing and extent of reversing policy easing; deciding what their future balance sheet should look like; coordinating with fiscal authorities and other central banks; and communicating strategy to the public. Beyond this, although price stability should remain the primary goal of monetary policy, there is a vital debate about the proper role of the central bank in ensuring financial stability.

## Returning to normalcy

As economies recover, it will be important to return to normalcy -- not only in government debt and central bank balance sheet positions, but in institutional responsibilities as well. To reduce the likelihood of a future crisis, fiscal adjustment -- including pension and health care reforms -- must take place as soon as the recovery is safely under way. Unwinding the central bank's interventions, while compensating for any related losses in the government's budget, will preserve the ability of the central bank to keep inflation under control.

The magnitude of fiscal adjustment needed in the next couple of decades is almost unprecedented, especially for countries with the highest debt. A study by the International Monetary Fund's (IMF) Fiscal ▶




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Affairs Department suggests that advanced countries with higher debt (over 60 percent of the GDP in 2014) would have to maintain an average primary surplus (revenue less expenditure before interest payments) of 4.5 percent beginning in 2014 to reduce the debt to 60 percent of the GDP by 2030 (Horton, Kumar and Mauro, 2009).

Fiscal adjustment will require reform of pension and health entitlements -- the key source of spending pressures over the coming decades. The net present value of future spending due to aging is more than 10 times as large as the fiscal cost of the crisis. Policy measures in this area are politically difficult and will require further technical groundwork, but are necessary. Measures such as raising the retirement age can make a sizable dent in the net present value of future public spending without undermining the effects of the fiscal stimulus on aggregate demand.

Still, fiscal adjustment will have to extend beyond pensions and health care, to revenues and expenditures more generally. Differences in circumstances and policy preferences will lead to different choices across countries, but there will be a few common themes. On the spending side, fiscal stimulus measures must not become permanent. On the revenue side, broadening the tax base will be the first step, but changes to the tax structure are likely to become more important than before. In this regard, externality-correcting taxes (such as carbon taxation) would be among the main priorities. To buttress the fiscal adjustment, institutional arrangements such as medium-term fiscal frameworks, fiscal responsibility laws, fiscal rules, and fiscal councils may play a helpful role, depending on country circumstances.

Policies should also ensure adequate recovery of the value of assets acquired during the crisis. Country authorities may occasionally face trade-offs between rapidly selling assets to the private sector as soon as the acquired banks or companies return to profitability and a more gradual approach that might ultimately yield larger gains to the government's budget.

Economic growth should be a top priority, given its power to improve a country's debt position. A 1 percentage point increase in economic growth for 10 years (holding spending constant and assuming a 40 percent tax rate) lowers public debt by 24 percentage points of the GDP. And if growth over the coming decade averages the same as over the past two decades, balanced budgets -- while a challenging objective -- would be sufficient to cut a country's debt ratio from 100 percent of the GDP to 60 percent. However, economic growth over the next decade or so is by no means guaranteed. The crisis could result in lower potential growth than in past decades and adverse demographic developments may also constrain growth. Thus, reforms to enhance potential growth are essential.

**In some countries, the combined impact of quantitative and credit easing on central bank balance sheets has been very large. For example, by the end of June 2009, the balance sheet of the US Federal Reserve more than doubled**

On the plus side, the basic arithmetic of debt dynamics means that, regardless of where it starts, the debt-to-GDP ratio converges to a level that depends only on growth and the deficit-to-GDP ratio. So efforts to boost growth and to contain the deficit can pay off even if debt positions are high now.

## Challenges to monetary policy

The ability of central banks to preserve price stability will be critical to the strong economic growth that is desirable in itself and is also needed to ensure debt sustainability. While deflation would have pernicious effects and exacerbate the recession, inflation rates higher than those consistent with price stability could also harm economic growth.

Stabilizing the financial sector and the real economy are critical in the short term. But as the crisis abates, the ability of central banks to maintain price stability could be compromised by expanded balance sheets that contain impaired assets:

- Large excess reserves might result in rapid credit growth and inflationary pressures.
- Certain assets could be hard to use for monetary policy and liquidity management.
- A reliance on quantitative tools would make it difficult to judge the stance of monetary policy.
- Losses and quasi-fiscal operations can lead to political pressures that undermine central bank independence.

## Elements of a strategy

The key elements of a central bank exit strategy are, in order of priority: limiting and unwinding unconventional operations; restructuring balance sheets; preparing instruments for monetary tightening; and defining and communicating policies to anchor expectations.


Unconventional operations: Some unconventional operations -- justified only by the crisis -- will be unwound as financial conditions normalize and demand for excess reserve balances will automatically fall. Other balance sheet positions will require more active management and policy.

Purchases of government securities under quantitative easing were made to reduce long-term interest rates. Outright sales could increase government borrowing costs, so the timing of these sales is crucial. While government securities could be used in open market operations to drain excess liquidity, there is no pressing need to sell because holding long-term securities is normal for many central banks.

Credit-easing programs (buying private sector assets to counteract credit spreads) are mostly time limited. As with quantitative easing, a running down of substantial credit-easing operations may imply an effective tightening of monetary policy. Here again, the timing needs to reflect an over-


**Economic growth should be a top priority, given its power to improve a country's debt position. A 1 percentage point increase in economic growth for 10 years lowers public debt by 24 percentage points of the GDP**

all assessment of economic conditions.

The most difficult issues arising from credit easing will be related to holdings by the central banks of often illiquid private sector securities whose value is uncertain. These assets may not be usable in normal open market operations and may thus create a drag on efforts to drain liquidity when inflationary pressures re-emerge. Moreover, these assets could be a prime source of central bank losses.

Restructuring balance sheets: The large unconventional asset positions now held by some central banks give rise to both market and credit risk. The associated losses on these positions may result in a negative net capital position for some central banks. Credit risk -- whether taken on through credit easing or riskier collateral -- may materialize. Market risk, mainly from longer-term assets purchased at low yields, could cause assets to lose value when interest rates rise.

The appropriate response for each central bank will depend on the structure of its balance sheet. If capital is still positive and operations show an overall profit, then over time the balance sheet should strengthen. But if credit losses are large, the government will have to transfer funds to the central bank to recapitalize it. A financially weak central bank would otherwise be more subject to political pressures, and more reluctant to take necessary actions, with serious repercussions for price stability.

Preparing to tighten monetary policy: Central banks must regain control of liquidity and re-establish the short-term policy rate as the key tool for setting the monetary policy stance so that they are prepared to tighten the monetary policy when the time comes.

As the economy emerges from the crisis, banks may still be holding substantial excess liquidity which must be reabsorbed to keep credit growth and inflation in check. Central banks can use many instruments and measures to this end, including reverse repos (selling government securities on their books that they agree to buy back later), issuing central bank bills and raising remuneration on bank reserves held at the central bank.

Increasing the remuneration for reserves will be important, but reliance on this type of standing deposit facility risks weakening incentives for interbank trading. Because central banks generally use an interbank lending rate as the policy rate, a smaller interbank market would affect the transmission of interest rate changes to the wider economy and this must be taken into account in setting monetary policy.

Central banks that have engaged substantially in credit easing may hold long-term assets that cannot be used in open market operations and will have to use term deposits or central bank bills to reabsorb liquidity.

Finally, tightening collateral policy may be important for some central banks to reduce the risk of future losses and avoid market distortions. This will require careful planning to avoid sudden shocks to the market.

## Communication

It is still too soon to tighten fiscal and monetary policy, but not too early for governments to anchor expectations by defining and communicating their strategies and proposed measures to ensure fiscal solvency. Markets must be reassured that longer-term concerns will be addressed and that fiscal policy will be tightened when the economy recovers. Moreover, some actions that have no risk of a negative impact on aggregate demand could be implemented now, such as institutional reforms to enhance fiscal transparency and medium-term fiscal frameworks (for example, credible commitments to cut the fiscal deficit in the medium term).

Markets will also react positively to monetary policy actions that reassure them of the commitment to keeping inflation in check. At the start of the crisis, markets were at times confused about the monetary policy stance, which was sometimes obscured by the extraordinary measures being used to ensure financial stability or to ease liquidity conditions. Avoiding such confusion in the exit will require clear communication by central banks. Drawing a distinction between the policy stance and the measures taken to implement it will be key. The use of a common terminology by central banks would assist the process.

## International coordination key to successful exit

International cooperation is necessary to ensure consistency across countries' fiscal and monetary policies during the exit process, building on and extending the experience during the crisis thus far. The almost simultaneous onset of the crisis in advanced economies helped facilitate coordination of the introduction of the unprecedented policy measures. However, recoveries may be less synchronized. As a result, ensuring international consistency of macroeconomic policies may be more difficult, with country-specific circumstances playing a greater role in governments' deliberations regarding their policy stances. ■

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**Reference:** Horton, Mark, Manmohan Kumar and Paolo Mauro, 2009, "The State of Public Finances: A Cross-Country Fiscal Monitor," IMF Staff Position Note 09/21 (Washington: International Monetary Fund).

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# Turkey owes recovery to exporters' toil and sweat

MEHMET BÜYÜKEKŞİ*

*The president of the Turkish Exporters Assembly (TİM).

OPINION

In a period where there are signs the global crisis is coming to an end, we have a positive outlook on the future owing to the recovery and structural change that is occurring in Turkey.

Turkey entered into a period of transformation after its 2001 economic crisis. After this transformation, Turkey improved significantly in foreign trade development. While in 2001 exports were $31 billion, imports $41 billion and the foreign trade volume $72 billion, in 2008 exports stood at $132 billion, imports at $201 billion and the foreign trade volume amounted to $333 billion.

As the numbers clearly show, Turkey owes its economic recovery from the 2001 crisis to the high performance of exports.

According to purchasing power parity, Turkey is the 15th largest economy in the world. This indicates Turkey's level of development and growth. Turkey's share in world exports is increasing every day, and Turkish exporters are discovering new markets every day. As a result, they are spreading Turkish goods and brands all across the world. Goods produced in Turkey and exported to more than 200 countries are among the most in demand goods due to their quality and price.

We believe the point we have reached today is not enough. For this reason, the Turkish Exporters Assembly (TİM) has launched a new project to increase Turkey's export growth, which gained momentum in the 2000s to the grand $500 billion target on the centennial of the republic. The $500 billion export level Turkey aims to achieve in 2023 means it will increase its share in world exports by 50 percent by 2013 and double it by 2023, placing it among the top 20 exporter countries in the world.

We are developing the strategy for the transformation that will enable us to achieve our grand target with Dr. Robert Kaplan and Dr. David Norton's company, the Palladium Group. Our goal is to put into effect Turkey's potential with its young and dynamic population of 72 million. While the methodology of the project was being developed, meetings were held with senior export pundits and workshops were held in the industry and agricultural sectors. The state minister responsible for trade, eight undersecretaries, senior level bureaucrats and the CEOs of major export companies attended these workshops.

**The $500 billion export level Turkey aims to achieve in 2023 means it will increase its share in world exports by 50 percent by 2013 and double it by 2023, placing it among the world's top 20 exporters**

Ultimately, the project is being shaped with the participation of more than 200 people at the senior level that are involved in export. The chief objective of the project is to design strategies to reach $500 billion in export trade in 2023 by increasing the value-added, focusing on technology production and diversifying products and markets. The goal of the project is to create a holistic "putting the strategy into practice" framework for Turkey's export endeavor. For this reason, answers are being sought to questions on what the predictions and expectations are for domestic and foreign markets in the near future, and research is being conducted to determine what kinds of revisions will be necessary for previous studies on Turkey's strengths and weaknesses, opportunities and threats.

New ideas are being created on how to remove obstacles in export. Together with this process, the stage of creating a strategy road map has started. This stage involves searching for ways on how to combine all previous strategic plan studies and determining what strategic targets we must achieve in consideration of our fields of focus.

To be able to implement a comprehensive strategy, a performance program must be developed because creating a good strategy alone is not enough to ensure success. For success and results, a good quality strategy must be united with good quality implementation. For this purpose, the structure of strategy management is presented and ways to measure and manage the success of strategic targets are researched. The main axis of the export growth project is to increase our market share in the contracting world economy and trade and increase the rate of products with middle and high technology in total exports.

It is an apparent fact that a gradual transformation should be perceived as a long process which won't happen in a short time. The challenge we face today sets the framework for the base which will lead the change. We believe we can form this framework with this project and can carry the change and transformation to a further stage with strategies we design.

Turkey is Europe's gateway to Asia and the Middle East because of its geographic location. In addition to this, Turkey is the most powerful economy in its region because of its deep-rooted cultural and social ties with its neighboring countries. In the meantime, Turkey is the biggest industrial exporter in the East Mediterranean and Southeast Europe region.

Turkey will be one of the brightest economies in the future because of its location. This reality is expressed in the investment reports of many global financial insti- ▶


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OPINION

**By giving precedence to neighboring and regional countries and to Africa and the Middle East, with which we had limited trade relations, we looked for ways to increase our export to these regions**

tutions. It is frequently expressed that Turkey is available for large opportunities and strong collaboration because of its bilateral foreign trade and investment relations.

A recently announced incentive law is a very important step for stimulating the investment environment in Turkey. Regional and sectoral incentives were introduced with this law. Firms investing in Turkey will benefit from these incentives, including tax and interest deductions.

The new incentive law identifies 12 prioritized sectors for large project investments. Important incentives will be provided to big investments in these sectors, which have high value-added, such as automotive, chemical, machinery and electronics.

We see that investors' interest in Turkey increased following the introduction of these incentives and believe this interest will continue to grow as the process of exiting the crisis accelerates. Developed countries, and especially the European Union, carry a heavy weight in Turkey's foreign trade. It is for this reason that the current global crisis negatively affected Turkey's exports, as was the case with most export countries. However, by implementing the strategy of leaning toward alternative countries, we enabled Turkey to survive this crisis with the least damage.

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By giving precedence to neighboring and regional countries and to Africa and the Middle East, with which we had limited trade relations, we looked for ways to increase our export to these regions.

When we look at figures, according to data from the first seven months of 2009, while the weight of EU countries in our total exports fell from 52 percent to 48 percent, the share of export to African countries increased from 6 percent to 11 percent and the share of exports to Middle Eastern countries increased from 16 to 17 percent. Trade with the Middle East alone increased to one-third of exports to the EU. At the current point, it is clear that our exporters are pleased with the strategy.

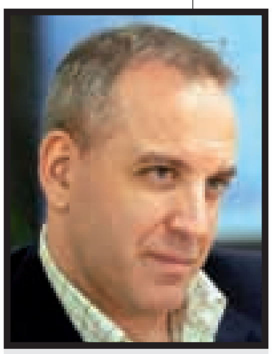
Turkey's sends 80 percent of its exports to 30 countries. Export developments to these countries give us a general idea of how things are going. Decreases varying between 30 and 40 percent were recorded in developing markets. We observed this kind of development in EU countries. In contrast, there were significant increases in export to nearby countries relatively more closed to the effects of the global crisis. Turkish exporters are following the right strategy to minimize the effects of the crisis. We are very pleased to see that we have entered the right markets to limit the effects of the crisis. On the other hand, our export volume to developed markets is dropping but the total import of these countries is dropping as well; therefore, we are sustaining the same market share.

In the aftermath of the global crisis, we see that there is an effort to make protectionism more prominent. But the fact is that with foreign trade development in the world, all countries that do trade can provide employment and prosperity to their people. It is for this reason that we do not insist on protectionism. As all economies of the world, we are going to both buy goods from abroad and sell goods abroad, and we are going to prosper together. We must not allow ourselves to become a contracted economy under the protectionism shield of global trade, and by showing a common reaction, we must open the way for more trade, more investment and more prosperity in the world.

In the coming period, by giving precedence to an export-based growth, Turkey will give weight to sectors that manufacture and export high value-added goods. By starting an investment effort in these priority sectors, accompanied with research and development and an innovation-centered understanding that will turn the crisis into an opportunity, Turkey will reinforce its position as a leader country in the region. ■

ANALYSIS

# Turkey: poised to emerge stronger from the global crisis



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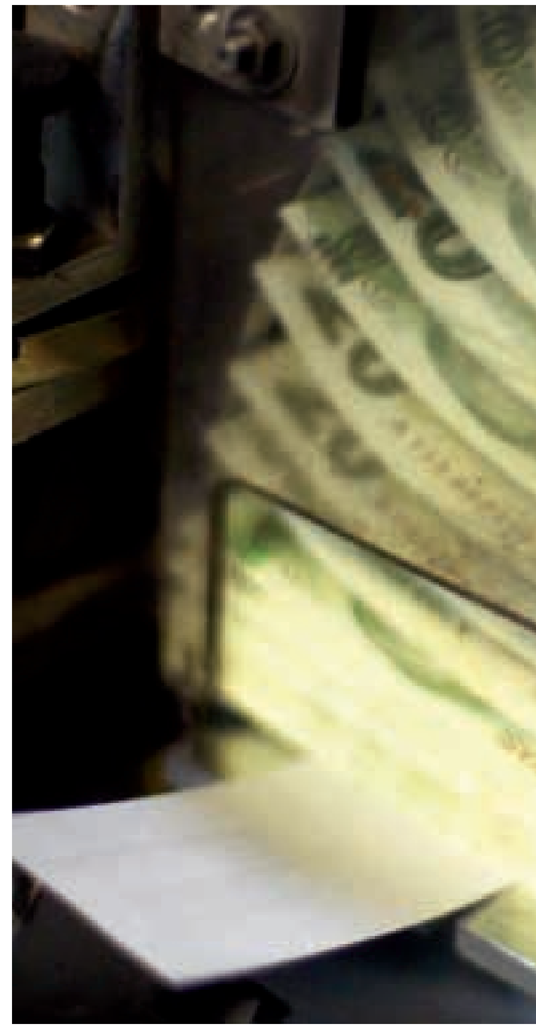
The global economy suffered from a destructive financial and economic crisis at the beginning of this decade. The Internet and technology bubble burst, false earnings and accounting fraud had been revealed for major corporations and the Sept. 11 disaster shocked the markets. Seeking a safe haven, foreign capital fled to emerging markets, turning the gloom into a global crisis from Eastern Europe to Latin America. The authorities had to intervene through radical measures to stop the crisis from turning into a deep recession.

The Turkish economy was also hit severely during that crisis. The public sector at the time was profligate. It yielded a high primary budget surplus on paper but was in fact bleeding through extra-budgetary spending, state enterprises and state banks. The overall public deficit was being fed by a reckless banking system running on bloated risks in their balance sheets, such as very high short-term borrowing from foreign wholesale markets, currency mismatch in sources of funds and their uses, and low capital adequacy (or very high leverage). And finally, the monetary policy was too rigid in the form of a currency board, which also ran on an exchange rate peg, preventing the central bank from extending a helping hand when needed in terms of both Turkish lira and foreign currency liquidity. As the global crisis came ashore, foreign capital fled Turkey and took its toll in the weak banking system. To pay off their short-term foreign debt, banks scrambled to find TL liquidity and then buy foreign exchange from the central bank, which did not have enough of the latter. As the currency board regime prevented the central bank also from printing local currency, the overnight TL interest rates hit four digits. The peg regime was de facto aborted, and the currency was devalued by more than two-thirds overnight as the regime had to switch to free float. The banks' balance sheets were shattered and about half of the system was taken over by the authorities. The real economy, deprived of much-needed funding from the frozen banking system, was quick to respond by contracting by 6 percent in 2001. The crisis also hit politics. The incumbent government, a tripartite coalition at the time, packed its suitcases by calling for elections, leaving most economic decisions to the International Monetary Fund (IMF). Indeed, none of the coalition parties were even able to enter Parliament in the elections of 2002.

Fast forward eight years; the global economy suffered yet again from another financial and economic crisis that was even more destructive than the one at the beginning of the decade. This time it was in the form of a credit bubble inflated by securitized over-the-counter derivatives helping the global financial system leverage itself beyond sustainable levels. The crisis, which was triggered by the ballooning delinquencies in US subprime mortgages, quickly spread to other parts of the world with the help of the globalized allocation of securitized derivatives.

This time, however, the impact of the global crisis on Turkey's financial markets was muted (with the exception of the stock exchange falling by half in a few months in the midst of the rising smoke). The TL did depreciate, but it was still much stronger than the levels it reached after the crisis in 2001, causing no panic on the part of investors. The TL overnight interest rate, which had climbed to four digits overnight before, actually fell this time. The initial impact on the markets was in fact so minimal that even the government believed (or perhaps wanted to believe) that it had simply bypassed Turkey. Why was the reaction muted this time?

**When the crisis began to spread globally, it did not coincide with the banking system in Turkey, with unsustainable risks in balance sheets such as currency and duration mismatch that would spark another panic in the financial markets**



The answer simply is that the radical restructuring both in the banking system and the public sector after the 2001 crisis made them much more resilient to financial crises. Most of the troubled banks, about half of the system, were stripped of their bad assets, after being taken over by the authorities, and then sold back to the private sector either as a whole or in pieces. The sector then worked prudently and was also supervised more effectively. The public sector put in force fiscal reforms that would rein in populist spending, and the ensuing privatization of state enterprises and the establishment of an independent banking supervision deprived politicians of spending through state enterprises and banks, respectively. Last but by no means least, both the exchange rate regime and monetary policy became more

**The policies from exchange rate regime to public sector spending must be devoted to bringing about global champions of sectors and companies. The global crisis offers an opportunity in that respect**

flexible and credible in the aftermath of 2001. The currency peg was replaced with a pure float, and the central bank, strengthened with operational independence, switched to targeting inflation instead of exchange rate and money supply, as was the case in the currency board. All these reforms paid handsomely in the following years. The economy grew by 7 percent a year on average in the next five years, and inflation was down to single digits from as high as 60 percent.

Therefore, when the crisis began to spread globally, it did not coincide with the banking system in Turkey, with unsustainable risks in balance sheets such as currency and duration mismatch that would spark another panic in the financial markets. The wholesale funding from abroad did diminish, but the system had a strong deposit base that it could rely on at 77 percent of total funding (excluding capital), while the central bank, much more flexible in monetary regime, was able to liquefy the system as needed both in TL and foreign exchange out of its much higher level of reserves this time. In an economy as underbanked as Turkey, where the assets of the banking system still remain well below 90 percent of gross domestic product (GDP), the system was yet to utilize domestic potential and did not need to indulge in the risky toxic assets of Western financial engineering to remain highly profitable. Thanks to a high capital adequacy of around 20 percent, or a very low leverage of 8.5 compared to its global peers exceeding 40 in some cases, foreign and domestic creditors, i.e. depositors, maintained confidence in the system.

As is well known, over time, risks typically do not disappear but only change location. The financial system and the public sector may have restructured themselves with more robust balance sheets, but the leverage and foreign currency borrowing had concentrated on the corporate sector since 2002. The economy, after all, was growing again on a high current account deficit of 6 percent of GDP, which meant substantial foreign flows in the economy, mostly in the form of corporate borrowing. Therefore, it was still a matter of concern for observers whether the corporate sector would be able to manage their risks. Indeed, thanks to a significant crisis experience in the past, companies had borrowed mostly long-term and flexible. They did not have major problems redeeming part of their debt when called using their fiduciary accounts abroad and TL liquidity in the country. Households that had a net foreign exchange position of as high as $81 billion at the end of 2007, mostly in bank deposits, were the generous foreign exchange providers as the TL began to depreciate and the reason why the currency market did not panic. As of mid-2009, banks and corporations are still able to roll over their maturing foreign debt at around 70 percent.

Yet the real economy was not able to escape unscathed as the global crisis quickly grew in density and contracted again at an annual pace of about 4 percent by the end of the first quarter. As the export markets choked and consumer confidence weakened, watching the world's biggest banks nearing bankruptcy, both consumption and investment growth inevitably turned negative. There was a well-functioning banking system, but demand for loans quickly diminished. The corporate sector rushed to run down swollen inventories, which hastened thanks to the government's somewhat delayed measures to assist the process. The real economy appears to have stabilized by the second quarter and may in fact register positive growth in the last quarter of the year.

The Turkish economy is certainly well positioned to take its place among the winners in the aftermath of the recent global crisis. The economy retains all the characteristics from a young and consuming population to a strong banking sector and a well-diversified real sector, which also exports 25 percent of the country's GDP. But Turkey also needs competent economic management with visionary policies to promote and nurture high economic growth (necessary to serve a big population of low per capita income). The sole objectives of fiscal and monetary policies should not become a high budget surplus and ambitious inflation targets on the basis of bitter past memories as was the case after 2002. Global consumption has inevitably shrunk in the absence of the once mighty US consumer and will likely remain tame in the next few years. The policies from exchange rate regime to public sector spending must be devoted to bringing about global champions of companies and sectors. The global crisis offers an opportunity in that respect since many old champions are in the process of restructuring. ■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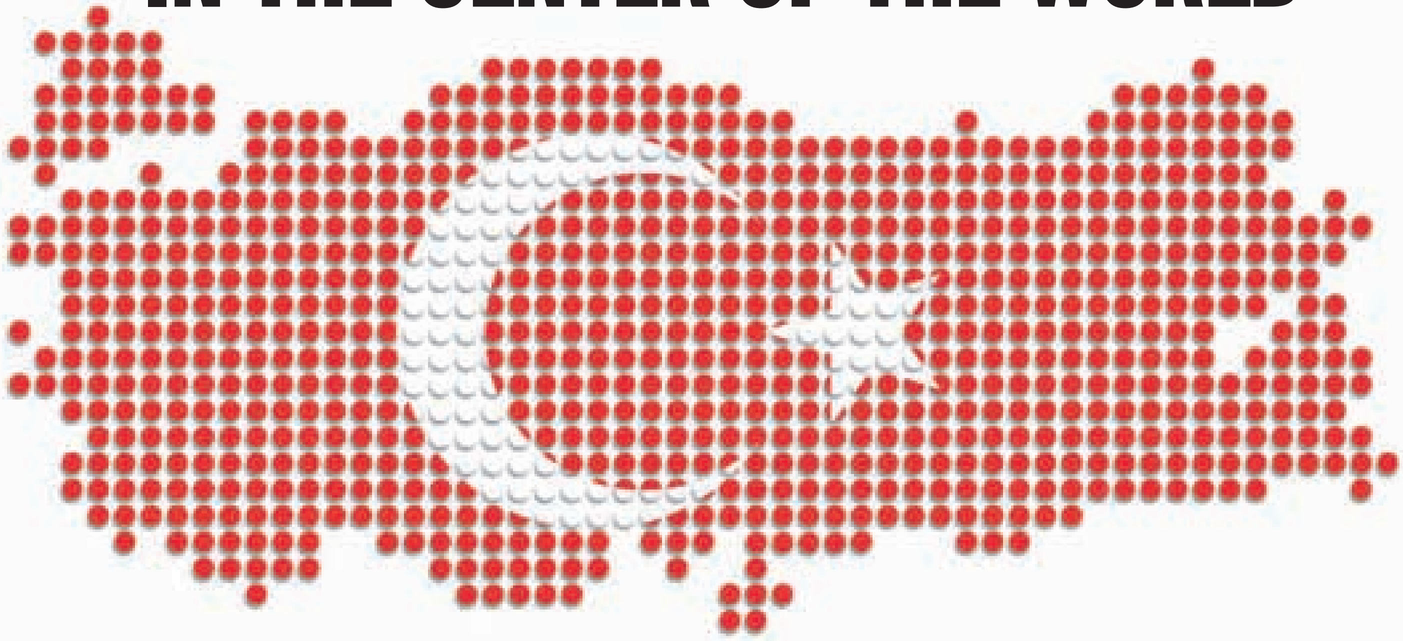
# THE IDENTITY CARD OF A COUNTRY IN THE CENTER OF THE WORLD



**ZEYNEP KALKAVAN** İSTANBUL

### GEOGRAPHY

**Area:** 780,580 square kilometers

**Major cities:** Capital -- Ankara (population 4.5 million). Other cities -- İstanbul (12.7 million), İzmir (3.7 million), Bursa (2.4 million), Adana (2 million), Gaziantep (1.6 million).

**Location:** Thrace, the westernmost, European part of Turkey, forms the southeastern extremity of Europe, east of Bulgaria and Greece. Some 8 percent of Turkey's territory is in Thrace. Anatolia, which comprises the bulk of Turkish territory, is a peninsula in western Asia situated between the Black Sea to the north and the Mediterranean Sea to the south. Thrace and Anatolia are separated by the Marmara Sea and the strategic Dardanelles and Bosporus straits.

**Land boundaries:** The land boundaries of Turkey are as follows: with Syria, 822 kilometers; Iran, 499 kilometers; Iraq, 352 kilometers; Armenia, 268 kilometers; Georgia, 252 kilometers; Bulgaria, 240 kilometers; Greece, 206 kilometers; and Azerbaijan, 9 kilometers.

**Length of coastline:** Turkey has 7,200 kilometers of coastline on the Mediterranean Sea, Aegean Sea, Black Sea and the Marmara Sea.

**Natural resources:** Turkey has abundant areas of arable land; its water resources are greater than those elsewhere in the Middle East. Rivers offer hydroelectric power generation and irrigation. Known oil and natural gas deposits are small, but relatively large amounts of coal are present. Other significant mineral resources are boron, chromium, copper, mercury and gold.

> **As of December 2008, the population was 71.5 million. The growth rate, which has decreased sharply in recent decades, was slightly more than 1 percent per year. In 2008, 75 percent of the population was classified as urban**

### SOCIETY

**Population:** As of December 2008, the population was 71.5 million. The growth rate, which has decreased sharply in recent decades, was slightly more than 1 percent per year. In 2008, 75 percent of the population was classified as urban. In 2008 the overall population density was 93 people per square kilometer. About 25 percent of the population is concentrated around the Marmara Sea. The fastest rate of growth is in the Southeast, which in 2003 accounted for about 10 percent of the total population. In 2008 immigration and emigration rates were equal.

**Demography:** In 2008, 26.3 percent of the population was 14 years of age or younger and 6.8 percent was 65 or older. According to 2009 estimates published by the Turkish Statistics Institute (TurkStat), the birthrate, which has declined significantly in recent decades, is 17.7 births per 1,000 people. The death rate is 6.4 deaths per 1,000 people and the infant mortality rate is 15.3 deaths per 1,000 live births. Life expectancy, which has increased dramatically since 1960, is 71.5 years for males and 76.1 years for females.

## Turkey's economy grows as mix of modern and traditional sectors

### ECONOMY

**Overview:** Turkey's dynamic economy is a complex mix of modern industry and commerce, along with a traditional agriculture sector that still accounts for about 30 percent of employment. In 2004 Turkey announced plans to privatize a wide range of industries, and by 2007 privatization in most sectors had been accomplished, though the state still remains a major actor in some sectors such as transportation, basic industries and the banking sector. From the 1980s, a number of cities in the Anatolian part of Turkey, known as the Anatolian Tigers, have shown particular economic growth in the private sector. The largest industrial sector is textiles and clothing, which accounts for one-third of industrial employment. However, other sectors -- notably ▶

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the automotive and electronics industries -- are gaining importance in Turkey's export mix.

**Gross domestic product (GDP):** In 2008 Turkey's GDP of $729.4 billion (at the official exchange rate) showed an increase of 1.1 percent over the previous year. Between 2002 and 2007 the growth rate has averaged 6 percent -- one of the highest sustained rates of growth in the world, it even reached 9 percent in 2004. Due to ongoing global economic turmoil, the GDP growth for the first quarter of 2009 was down by 13.8 percent over the same period of the previous year. The sector contribution to GDP for 2008 was as follows: services, 60.2 percent; industry and construction, 29.9 percent; and agriculture, 8.9 percent. In the early 2000s the agricultural contribution decreased, the industry and construction contribution remained approximately constant and the service sector contribution increased.

**Government budget:** In 2008 Turkey's state expenditures totaled TL 225.9 billion, while its revenues amounted to TL 208.9 billion, creating a deficit of TL 17 billion. In 2007 the deficit was TL 13.9 billion. From the early 2000s, the budget deficit was in a trend of decline thanks to a more efficient tax collection system established with assistance from International Monetary Fund (IMF) programs. As the drop in tax collection accelerated -- especially since the global economic crisis erupted nearly one-and-a-half years ago -- in addition to an increase in government spending, the budget deficit swelled to TL 23.2 billion in the first half of 2009, revealing a sharp rise compared to the TL 1.9 billion budget surplus seen in the same period last year.

**Inflation:** Between 1994 and 1999 the average yearly rate of inflation was 85 percent. However, in 2005 the rate fell to 7.7 percent, the lowest in 30 years, and it has remained at about that level since that time. The annual inflation rate as of July 2009 is 8.52 percent for the consumer price index (CPI) and 5.47 percent for the producer price index (PPI).

## SECTORS

**Agriculture:** Historically, the agriculture sector has been Turkey's largest employer and a prominent contributor to the country's GDP, although its share of the economy has fallen consistently over several decades. In 2008 it accounted for 8.9 percent of GDP, while employing about 23.7 percent of the labor force.

Turkey is one of the few countries in the world that is self-sufficient in terms of food, although some agricultural commodities are imported. A relatively large percentage of Turkey's land (about 30 percent) is devoted to agriculture, but the productivity of agricultural land varies greatly. The fields in western Turkey and along the southern coast are the most productive; physical conditions and greater transportation distances make agriculture substantially less profitable in other regions. The principal agricultural exports are cotton, fruits, hazelnuts, tobacco and wheat. Other important agricultural products are barley, corn, oilseed, 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 Southeastern Anatolia Project (GAP), a state program aimed at raising the development level of nine of Turkey's most impoverished provinces, has a substantial agricultural component. Among the project's goals is an extensive series of dams and canals in the 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, has often been poorly distributed and has been without proportionate returns. In the early 2000s, the government reduced agricultural support and began restructuring marketing systems.

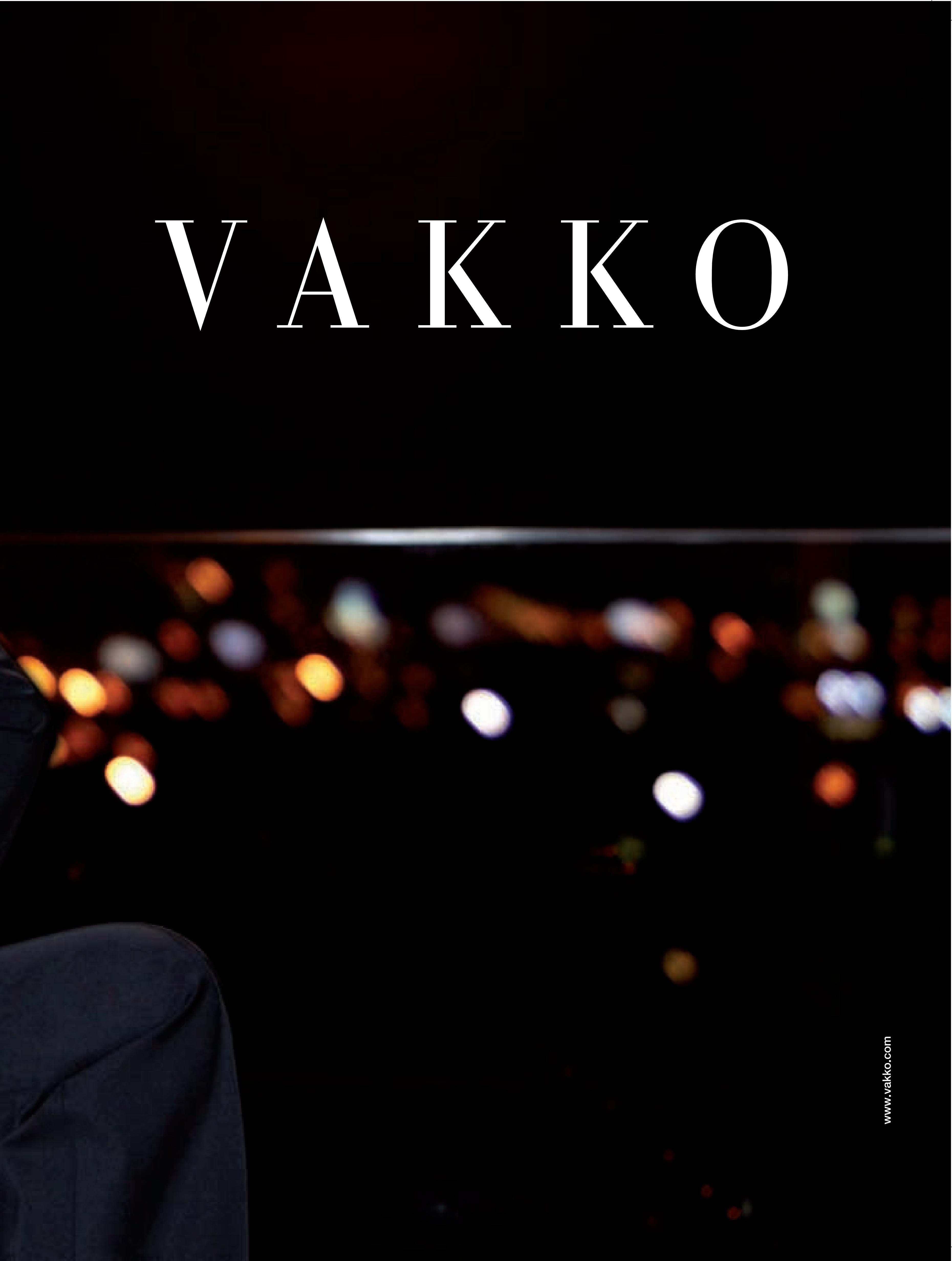
Turkey's agricultural product export is on an upward trend. In 2008 the export level of agricultural goods was valued at $3.9 billion, while it was $3.7 billion in 2007 and $3.5 billion in 2006.

**Forestry:** As of 2007, the extent of Turkey's forests was estimated to be 21 million hectares, which equals roughly 27.2 percent of the country's total land area. 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. Because poor management and infrequent felling have left many forests overmature, only about 44 percent of the total forested area is classified as commercially exploitable. In the past three years, an annual average of 11 million cubic meters of industrial wood and 12 million cubic meters of firewood have been produced. The protection of forests by the state is handicapped by the dependence of local populations on trees for fuel. Turkey's timber and timber products exports have been on an upward trend in the last five years, increasing from $181 million in 2004 to $482 million in 2008.

**Fishing:** 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 Marmara Sea. In 2008 Turkey's fishery production totaled 646,000 tons, a 16.3 percent decrease compared to the previous year. Anchovies accounted for 39 percent of the catch. A small aquaculture industry also exists; it totaled 152,000 tons in 2008, showing an 8.8 percent increase over the previous year. In 2008 fishing accounted for 0.3 percent of GDP.

**Mining and minerals:** Due to its highly varied geology, Turkey hosts several minerals and metals beneath its soil. Turkey's major mining operations, formerly controlled by state-owned companies, were increasingly privatized in the early 2000s. During that period, aluminum, chrome, copper and silver mines moved into the private sector. Boron, of which Turkey has almost 72 percent of the world's reserves, is the most ▶

Turkey is one of the few countries in the world that is self-sufficient in terms of food, although some agricultural commodities are imported. About 30 percent of Turkey's land is devoted to agriculture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important non-fuel mineral. Its extraction remains a state monopoly. Chrome is Turkey's biggest metal resource, being mostly export oriented. Based on new discoveries and foreign investment in the early 2000s, the output of gold has increased significantly. Gold reserves are estimated at 450 tons. By far, the most important mineral product is lignite coal, reserves of which were estimated at 10.6 billion tons in 2008. Turkey's low-quality lignite, burned mainly in power stations, is highly polluting. The output of hard coal has declined, reaching 3.3 million tons in 2002. Hard coal reserves are estimated at 1.2 billion tons. Marble is the most important mineral export. In 2008 mining contributed 0.8 percent of the GDP.

**Industry and manufacturing:** Turkey's diverse manufacturing sector satisfies domestic demand for a wide variety of products; the main manufactured exports are consumer goods. Textiles and clothing account for about one-third of manufactured exports. However, much of this production is unreported because it is in the "informal" sector. The value of textiles and clothing industry production is around $30 billion. Turkey exported $23 billion worth of textiles and clothing in 2008 and ranked fifth in clothing exports in the world. With this amount, textiles and clothing had a 17.5 percent share of Turkey's total exports. 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. 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. Multinational companies are present in many light and heavy industries. Foreign auto companies -- Fiat, Honda, Hyundai, Renault and Toyota -- have plants in Turkey. The industry produced nearly 1 million vehicles in 2006, which is a record for the Turkish automotive industry. Other industries, such as appliances, are mainly Turkish owned. A large proportion of the appliances, consumer electronics and vehicles manufactured in Turkey are exported.

## Foreign investment in construction sector increases

Traditionally, the construction industry has made an important contribution to the economy. However, construction's contribution declined in the late 1990s and the early 2000s 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, and in 2005 and 2006 the growth rate was about 20 percent per year. Due to the ongoing global crisis, the sector shrank by roughly 1.1 percent in 2008 and the contraction in the sector is expected to continue until the end of 2009.

**In 2008 Turkish contractors undertook 562 projects abroad with a total value of $23.6 billion. In 2008 the construction industry contributed 5.9 percent of the GDP**

In the early 2000s, the industry's foreign operations expanded, particularly in Russia, Turkmenistan, Kazakhstan, Saudi Arabia and Afghanistan. In 2008 Turkish contractors undertook 562 projects abroad with a total value of $23.6 billion. In 2008 the construction industry contributed 5.9 percent of the GDP.

**Energy:** Coal is the only fossil fuel that Turkey possesses in abundance, and it imports almost all of its natural gas and oil from abroad, spending several tens of billions of dollars every year.

Since the 1990s, Turkey has been attempting to substitute its highly polluting coal with relatively cleaner natural gas in generating electricity. 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. Russia is the main supplier of natural gas. Other major suppliers are Iran and Azerbaijan. In 2005 Turkey's domestic oil output was about 45,000 barrels per day, about half the level of 1990, and it was forecast to fall by nearly 50 percent by 2011. Turkey imports about 90 percent of its oil, mainly from Iran, Iraq, Russia, Saudi Arabia and Syria. Turkey's location along several international oil and gas pipelines eases transport. Ceyhan, on the Mediterranean coast, is the terminus of the Baku-Tbilisi-Ceyhan oil pipeline, which was completed in 2006. Turkey is positioned to play an even bigger role in linking gas producers in the Caspian and Middle East to consumers in southeastern and central Europe with the Nabucco gas pipeline project, for which the founding agreement was signed in July 2009. The Nabucco project is geopolitically


Beyoğlu's İstiklal Street is a symbol of the vitality of İstanbul with thousands of people wandering on this 2.5-kilometer-long avenue. İstanbul is the heart of the Turkish economy, supporting nearly half of its annual gross domestic product.

significant as it will secure access to new gas supplies from new sources in the Caspian region as well as in the Middle East. For this reason, it has been regarded as a vital part of the European Union's long-term strategy to boost supply security.

Because the demand for electric power doubled in the 1990s, Turkey became a net importer of electricity, as the domestic generating capacity was unable to keep up with demand. Turkey's demand for electricity is increasing by roughly 7.5 percent annually on average. In the early 2000s, the domestic power supply was inefficient because new plants came online slowly and industry privatization stalled. In 2008 a deal with Iran linked the two countries' electric systems, providing Turkey with a backup supply when its grid fails. In 2007 the Turkish Electricity Transmission Company (TEİAŞ) and the Electricity Generation Inc. Directorate General (EÜAŞ), the state power generation and distribution companies, still controlled 90 percent of the electric power market through their 15 thermoelectric and 30 hydroelectric plants. However, most of the plants in the next expansion phase are to be privately owned. Since 2002, an independent Energy Market Regulatory Authority (EPDK) has overseen privatization and distribution. The creation of this agency was considered an important improvement in Turkey's energy management. Turkey abandoned plans for its first nuclear power plant in 2000 and again in 2005; in 2007 a controversial new plan called for nuclear plants to open in Sinop and Mersin-Akkuyu in 2015. Turkey is considered to have substantial unused supplies of hydroelectric, wind and solar power.

**In the 2000s the contribution of service industries to the GDP increased from 53 percent in 1998 to more than 60.2 percent in 2008, particularly in the areas of trade, catering and personal services**

## Service sector emerges as largest contributor to Turkey's GDP

**Services:** In the 2000s the contribution of service industries to GDP increased from 53 percent in 1998 to more than 60.2 percent in 2008, particularly in the areas of trade, catering and personal services. Banking, the most important of Turkey's financial services, underwent significant changes in the early 2000s. The current system is based on the Banks Act of 2005, which improved the inspection system, raised the standards for institutional participation in the industry and simplified the process of bank mergers and takeovers. 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 percent of the total assets. Those five private banks are part of large conglomerates with interests in many other sectors. Three state banks control about 30 percent of the industry's assets; their privatization has been proceeding slowly. Beginning in 2005, the participation of foreign banks has increased substantially.

Since the 1990s the İstanbul Stock Exchange (İMKB) has been quite active, although political developments have caused substantial volatility.

Most of Turkey's large insurance companies are connected to banks or international insurance firms. Reform of the industry's regulatory structure, a requirement for membership in the EU, has been proposed and tabled for several years. Until such reform occurs, the national Treasury is the regulating agency.

Small enterprises have dominated retail trade. However, in the early 2000s gigantic chain stores such as Migros, Gima and Tansaş, along with a number of foreign companies such as Metro of Germany, Carrefour of France and Tesco of Britain, occupied an expanding share of the retail sector. Shopping malls and supermarkets are increasingly spreading throughout the country.

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 locally owned hotels and restaurants. Some 30.9 million tourists visited Turkey in 2008, creating revenue of $21.9 billion. The number of tourists visiting Turkey in the second quarter of 2009 increased by 1.6 percent to 7.7 million; however, its revenues decreased by 9.6 percent compared to the same period of the previous year.

**Labor:** In May 2009 Turkey's labor force was estimated to be 24.8 million. About 50.1 percent of the official workforce is employed in the service industry, 25.3 percent in agriculture and 24.6 percent in construction and industry. In the early 2000s the shift of labor away from agriculture and into services accounted for a significant increase in overall labor productivity.

In May 2009, unemployment was 13.6 percent overall, compared with 9.2 percent in the same period of 2008. The unemployment rate was 16.5 percent in urban areas and 7.8 percent in rural areas.

### BASIC INDICATORS

**Trade balance:** In 2008 exports amounted to $132 billion, while imports were $202 ▶

billion, leaving a trade deficit of $70 billion. In June 2009, both exports and imports decreased by 29.2 percent and 35.9 percent, respectively, when compared with June 2008. In the same month, the foreign trade deficit decreased by 46.1 percent, falling from $7.7 billion to $4.2 billion.

**Balance of payments:** In 2008 the current account showed a deficit of $41.3 billion and the capital account showed a surplus of $33.4 billion. The overall balance of payments for 2008 was a deficit of $2.7 billion. In June 2009 the current account deficit decreased by 65 percent to $1.9 billion in comparison to the same month of the previous year.

**External debt:** In June 2009 Turkey's external debt totaled $265.3 billion, amounting to a 4.3 percent decline over the fourth quarter of 2008.

**Currency and exchange rate:** In January 2005 a currency reform established the new Turkish lira (YTL), which was worth 1 million of the previous unit, the Turkish lira (TL). In January 2009 the "new" was removed and its official name became the Turkish lira (TL) again. In August 2009 the exchange rate was about TL 1.4 to the US dollar. Thus, in 2009 the lira was stronger against the dollar than it had been in 2003, when the average rate was slightly more than TL 1.5 million to the dollar.

## FDI breaks record by rising $8 bln to $22 bln

**Foreign investment:** In the first years of the 2000s, Turkey's foreign direct investment (FDI) was relatively low. Beginning in 2005, legislative changes stimulated substantial increases. Between 2005 and 2007 the total increased from $8.7 billion to $22 billion -- a historic record. The FDI increases in 2006 were based particularly on activity in the banking and telecommunications sectors. In 2008, FDI was about $18 billion. Between January and May of 2009, the total net FDI inflows fell to $3.58 billion from $7.5 billion in the same period last year, a precipitous drop of 52.2 percent, reflecting the effects of the global crisis.

**In the early 2000s, a larger share of Turkey's imports came from the Commonwealth of Independent States than had been the case during the 1990s, mainly because of reliance on natural gas from Russia**

By the end of May 2009 Turkey had 22,250 foreign capital companies, including newly formed ones, partnerships and branch offices. The number of new companies established with global capital decreased to 908 in the first five months of 2009, compared to 1,271 in the first five months of last year.

**Foreign economic relations:** In the 1990s, export subsidies were abolished and trade with the EU 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. In 1999 Turkey revised its customs legislation in accordance with EU standards. Between 1990 and 2007, the EU's share of Turkish exports remained steady between 51 and 56 percent, and the EU's share of Turkish imports also remained steady between 42 and 47 percent. In 2008 the EU's share of Turkish exports was 47.7 percent and its share of imports was 37.3 percent. Throughout that period, Germany remained among Turkey's primary trading partners, although that country's percentage of total trade -- 9 percent of exports and 9.2 percent of imports in 2008 -- diminished steadily in the early 2000s.

In the early 2000s a larger share of Turkey's imports came from the Commonwealth of Independent States (CIS) than had been the case during the 1990s, mainly because of the reliance on natural gas from Russia. In 2008 Russian products and resources accounted for 15.4 percent of Turkey's imports, overtaking Germany as the largest import supplier. Turkey also has bilateral trade relationships with the member nations of the European Free Trade Association (EFTA -- Iceland, Liechtenstein, Norway, and Switzerland) Albania, Bosnia and Herzegovina, Croatia, Egypt, Israel, Macedonia, Morocco, the Palestinian Territories and Syria.

In the early 2000s, agricultural products dropped to below 10 percent of Turkey's exports. In 2008 the share of agricultural products was only 2.9 percent of total exported goods. Minerals and mineral products accounted for about 1.6 percent. In 2008 textiles accounted for about 8.6 percent and wearing apparel for about 9 percent of exported goods. Other important exported manufactured products were steel, construction materials, appliances, televisions and motor vehicles. ■

BU SAYFA YOK
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# Turkey as an emerging regional and global player in energy

SOHBET KARBUZ*

ANALYSIS

With its young population, dynamic private sector and pivotal geographic location, Turkey is simultaneously an energy consumer, energy hub and corridor, and energy investor in the pan-European energy landscape. These characteristics make Turkey an emerging regional and global energy player.

Over the past few decades, the Turkish economy has undergone a significant shift from agriculture toward services and industry. Because of the social and economic development of the country, the demand for all types of energy, and particularly for electricity, is growing rapidly.

Turkey's total primary energy demand increased from just over 10 million tons of oil equivalent (Mtoe) to almost 100 Mtoe between 1960 and 2008. The growth rate of energy demand is expected to remain over 4 percent per year toward 2030, according to the Turkey Energy Model developed by Mediterranean Observatory for Energy (OME). This means that Turkey's primary energy demand will be about 250 Mtoe in 2030, or 2.7 Mtoe per capita.

Today, 90 percent of the energy consumed in Turkey is of fossil origin. By 2030 fossil fuels will account for 85 percent, despite a growing push for renewable energy sources and nuclear power plants. Natural gas, with its one-third share, will likely be the most important fuel in the Turkish energy system. And power generation will remain the largest energy-consuming sector.

Primary energy production tripled over the last four-and-a-half decades, increasing from nine Mtoe in 1960 to over 27 Mtoe in 2008. By 2030, it will more than double and reach 66 Mtoe. Coal will account for nearly half of total primary energy production.

Electricity demand and hence consumption in Turkey has grown spectacularly, stimulated by economic growth and rising living standards. In 1923, when the Turkish Republic was founded, electricity demand was less than 50 gigawatt hours (GWh). Today it stands at approximately 200,000 GWh. The tremendous growth will continue in the future, albeit at a slower pace than today, and electricity demand will exceed 700,000 GWh by 2030.

Turkey's installed electricity generation capacity was less than 33 megawatts (MW) in 1923. Today, it is about 42,000 MW. During that same period, gross electricity generation increased from about 45 GWh to some 200,000 GWh. Today, three-quarters of the electricity generated in Turkey comes from burning fossil fuels. Natural gas alone accounts for almost 50 percent. Natural gas will remain to have the largest share in electricity production by 2030.

**Turkey's energy need is expected to register tremendous growth over the next two decades so that Turkey will become one of the most energy consuming countries in the Euro-Mediterranean region**

Except for most of the 1990s and the last few years, Turkey has been a net electricity importer. In the very near future, Turkey will be hard pressed to meet its growing electricity demand, with its existing and planned power plants. Improvements in the efficiency of power generation as well as sharp reductions in losses will help to ease the burden on electricity generation.

Nevertheless, Turkey will have to triple its current installed electricity-generating capacity in order to meet the demand by 2030. This is one reason why the government would like to build nuclear power plants.

Natural gas use in Turkey became widespread only after the arrival of Russian gas in 1987, and since then it has grown rapidly, approaching 40 billion cubic meters in 2009. Gas consumption is concentrated in the power generation industry, which accounts for more than half of the gas demand. A fast-growing economy, industrialization and concerns about increasing air pollution in big cities have played a major role in the tremendous in-

ANALYSIS

crease in gas consumption. As a result, the Turkish natural gas market has become one of the most attractive emerging energy markets in the Euro-Mediterranean region. Over the next two decades gas demand in Turkey will more than double. The power sector will continue to be the driving force in that demand.

Coal production in Turkey has more than doubled over the last three decades. It is likely to double again by 2030, thanks to its rich lignite reserves. However, domestic production will not be able to satisfy demand. Like today, the majority of the coal demand will be satisfied by imports. Currently, power generation and industry make up over 80 percent of total coal consumption. These two sectors will likely account for almost 90 percent of the total coal consumption by 2030.

Oil has been the energy source most in demand in Turkey since the mid 1960s. Today its share is one-third of the total energy demand. Over the last five decades, the transport sector accounted for at least one-third of the total oil demand in Turkey. Industrialization, the growing use of oil-fired power plants and the entry of gas into the Turkish market have changed the rank of other sectors in oil use, but the transport sector has remained on top. This will be the case also in the future. As is the case today, by 2030 the transport sector will continue to account for half of the total oil use in Turkey.

In sum, Turkey's energy need is expected to register tremendous growth over the next two decades so that Turkey will become one of the most energy consuming countries in the Euro-Mediterranean region. At that time Turkey will rank third in terms of total energy use, second in terms of coal use and first or second in terms of electricity use.

Parallel with increasing fossil fuel use, Turkey's carbon dioxide emissions will continue to increase. By 2030 it will approach 640 million tons, compared to less than 300 million tons today. The good news is that Turkey is attempting to minimize the country's energy-related greenhouse gas emissions by adopting measures aimed at improving energy efficiency and conservation, increasing the shares of renewable energy sources in its energy supply, allowing for fuel switching from high carbon to low carbon fuels and implementing measures for emission reductions.

Nevertheless, Turkey's energy future will remain fossil fuel based. The bad news is that except perhaps for coal, Turkey is poor in fossil fuel resources. The chief indigenous energy resources are hydropower, mainly in the eastern part of the country, and lignite. Almost all oil and natural gas are imported, along with high-quality coal. Turkey is not endowed with oil and gas like its neighbors, but the inefficient and insufficient exploration to date raises some hopes for future discoveries. In the future, two main factors will help increase Turkey's oil and gas reserves: (1) increasing the average recovery rate, which is currently quite low compared with international standards; and (2) more aggressive exploration, especially offshore, and going deeper.

Today over 72 percent of Turkey's total primary energy demand depends on foreign sources. In other words, total primary energy production corresponds to only 28 percent of the total energy demand. This situation is not expected to change radically over the next decades.

Energy security remains a major concern for Turkey because of its limited domestic energy resources, its growing energy demand and thus its high level of dependence on imports. Therefore, Turkey has placed high priority on increasing its use of domestic energy resources by utilizing public, private and foreign sources to initiate new investments. It has undertaken successful studies to assess, improve and value the potential of hydropower, one of the country's largest domestic resources together with domestic lignite, and renewable energy sources so that it can expand the potential of these resources in a cost-effective way.

Turkey has long neglected renewable energy sources, despite their enormous potential. However, this ignorance recently gave way to greater interest, which has led to a massive focus on renewable resources. Today, they are very fast-growing and promoted energy sources. This trend will continue in the future, but despite that, their share will account for less than 10 percent of total primary energy demand in 2030.

Turkey is an important regional and global energy player not only because of its increasing energy use and production but also because of its key role as an energy gathering and dispatching center. Turkey is strategically located at the crossroads of several strategically and economically important regions, including the Middle East, the Caspian, the Black Sea, the Mediterranean and Europe. And energy is the most common denominator bringing all the actors in those regions together. Moreover, Turkey lies at the crossroads of various existing and future energy transport routes carrying both oil and gas from many core producer regions to the Western energy markets. In addition, it is a geo-strategic energy gateway for producers and consumers, international and national energy companies, and investors.


**Turkey is strategically located at the crossroads of several strategically and economically important regions, including the Middle East, the Caspian, the Black Sea, the Mediterranean and Europe. And energy is the most common denominator bringing all the actors in those regions together**

The groundbreaking ceremony of the Samsun-Ceyhan oil pipeline, under construction by Turkey's Çalık Energy and Italy's Eni, was attended by officials from both countries.

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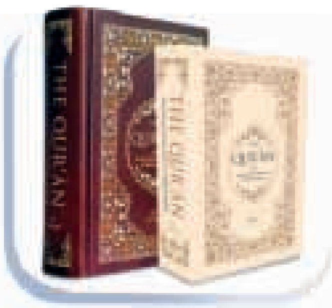


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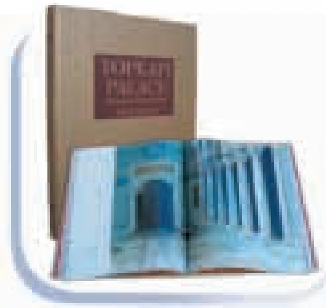

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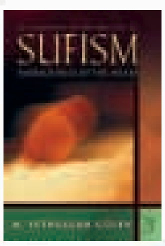


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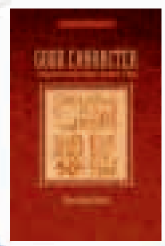

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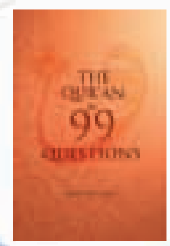


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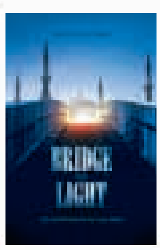


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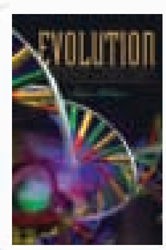


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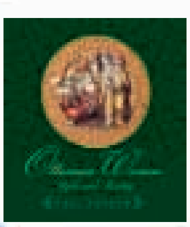

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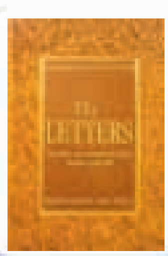


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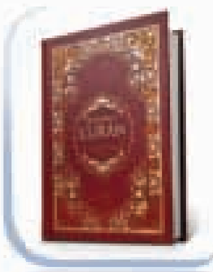

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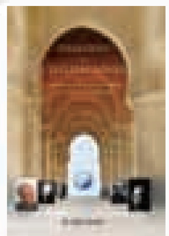

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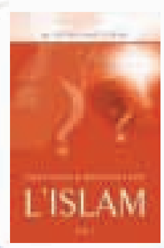


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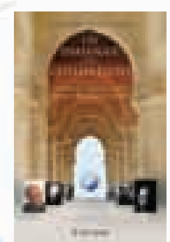

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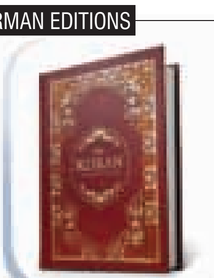

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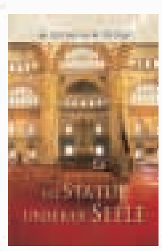

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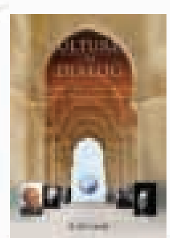

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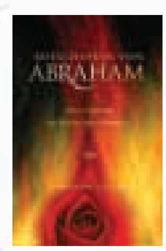


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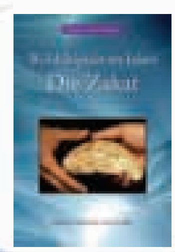

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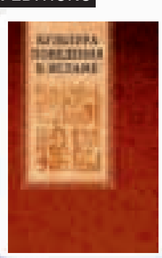

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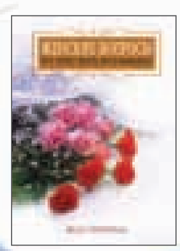

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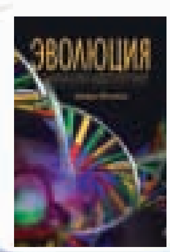


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# ANALYSIS

Turkey has achieved substantial progress by means of the East-West and North-South energy corridor concept. With the opening of the landmark Baku-Tbilisi-Ceyhan (BTC) pipeline in 2006, Caspian crude is now transported to the Mediterranean. The port of Ceyhan has already become an important outlet for Iraqi oil shipments from Kirkuk. The Bosporus is still regarded as a major shipping chokepoint for transit between the Black Sea and the Mediterranean, but the planned Samsun-Ceyhan oil pipeline will help ease the pressure from the Bosporus. If everything goes according to plan, crude oil will be further transported to Israel and then to the Asian markets.

Alongside the BTC runs the South Caucasus pipeline, carrying Azeri gas to Erzurum in Turkey. With the inauguration of the Greece-Turkey natural gas pipeline (or Interconnector) in 2007, Azeri gas is transported to Greece. This line allows for the first time the delivery of Caspian gas to Europe, bypassing Russia. Caspian gas will be further transported to Italy when Poseidon, an undersea line between Italy and Greece, begins operation. Finally the Nabucco gas pipeline project, whose intergovernmental agreement was signed in July 2009, intends to carry natural gas from the Caspian region, Egypt, Iran, Iraq and Russia to Europe. The line will contribute both to the diversity of supply and route needed for European economies.

**Turkey will surely go beyond its current efforts and policies to meet its energy needs in the future and will formulate a comprehensive, forward-looking energy (security) strategy**

Turkey's strategic importance for the Eurasian security of energy supply, demand and transit is obvious. If the European Union is serious about a more secure energy future especially beyond 2030, it must engage in non-discriminatory dialogue and cooperation with Turkey. Beyond 2030 many of today's suppliers to Europe will have hit or will have passed their peak production (especially Norway and Algeria) or their increasing domestic demand will prevent them from exporting significant amounts of gas. Meanwhile, new large suppliers such as Iraq, Iran and Turkmenistan are emerging. Turkey can become an essential gas corridor for piping their gas and even undercut Russia's monopoly position in Europe. Unless Turkey has a foreign energy policy, this goal will remain a pipe dream.

Turkey will surely go beyond its current efforts and policies to meet its energy needs in the future and will formulate a comprehensive, forward-looking energy (security) strategy. However unpopular such policies may be, the consequences of postponing sound energy policies are equally painful. Continuing business-as-usual policies over the next decades will not result in a desirable energy future. The reluctance of policymakers to tackle awkward structural problems must be overcome. Implementation is vital. ■

** Dr. Sohbet Karbuz was born in İstanbul in 1965. He received his BSc and MSc degrees from Istanbul Technical University, his Ph.D. from the Technical University of Vienna and postgraduate diploma from the Institute for Advanced Studies in Vienna. He has worked as a scientist and researcher in Turkey, Germany, Austria and Italy. Also a former official at the International Energy Agency in Paris, Dr. Karbuz currently works for the Mediterranean Observatory for Energy (OME) in France, as head of its hydrocarbons division.*

Skiers climbing a hill on a chairlift at the Kartepe Skiing Center in Kocaeli. Winter tourism is a good opportunity for Turkey to diversify its tourism options.

# Diversification -- key to unlocking Turkey's huge tourism potential

KLAUS JURGENS*

*Postgraduate degree from London School of Economics, columnist with Today's Zaman, extensive tourism sector-relevant management expertise (4-star hotel restaurant manager), Licensee (London).

ANALYSIS

Turkey is transforming itself into a high-end destination, moving away from the omnipresent image of a "sea, sand and sun only" holiday location. Today's buzzword in Turkey's tourism industry is diversification.

In 1980, 1.2 million foreign tourists visited Turkey. By 2000, the 10 million mark had been reached. From then on, growth rates have been stellar: Only five years later, in 2005, Turkey welcomed 21.1 million foreign arrivals, spending on average 689 euros per person, totaling 14.48 billion euros in annual tourism receipts.

After a slump in 2006, Turkey is back on track: Last year's figures (2008) stood at 26.4 million foreign arrivals, a 13 percent growth compared to 2007.

Turkey witnessed near-constant annual growth rates of both incoming tourist numbers and sector-related revenues except during the first Gulf War period. At the end of Q2 of 2006, the industry suffered a 19 percent drop and on aggregate a still-rather-severe 7 percent decline on an annual basis. The sector was in shock: Was the crisis due to an outbreak of bird flu that had occurred towards the end of 2005? Was an international

**Today's travelers are Internet-savvy, speak languages and know how to cut out the middleman if need be. Most of all, they do not wish to spend every vacation in the same location. Hence every season, new customers must be attracted**

row over a cartoon published in a Danish newspaper to blame? Had the issue of terror re-entered holidaymakers' agendas?

It took Turkey's tourism managers a considerable amount of time to adjust to the fact that a constant growth rate is impossible to sustain, not to mention that one day a certain inevitable ceiling will be reached due to market saturation and environmental considerations. Whether this maximum number stands at 35, 40 or 45 million annual visitors or even more is too early to say.

What can be said, however, is that neither bird flu nor cartoons published in foreign newspapers or a few isolated terror attacks were the reason for the drop in figures -- it had been a "logical" decline in the making for many years, similar to most, if not all, international tourism destinations, with Spain and the Canary Islands during 2009 as another example.

Today's travelers are Internet-savvy, speak languages and know how to cut out the middleman if need be. Most of all, they do not wish to spend every holiday in the same location. Hence every season, new customers must be attracted to visiting Turkey. In a cutthroat sector the "3Ss" -- sea, sand and sun -- are no longer enough. Tourism is a sector that works similar to a wave and it can be accommodated by foresight and clever business acumen.

## Diversification is the key

I will focus on eight sub-sectors highlighting Turkey's immense tourism potential

**1. Conference tourism away from İstanbul:** Conference, or "delegate," tourism

ANALYSIS

should not be limited to İstanbul or Ankara. Let me take you to central Turkey: Çorum is a town bustling with commercial activities located a few hours' drive from the Turkish capital. It attracts tourists who are interested in the Hittites and history in general. I met with an entrepreneur who planned to expand his hotel and transform it into a fully fledged 5-star facility. Modern day conference attendees like to explore foreign countries whilst being on location as long as transport and accommodation facilities are state-of-the-art. Many regions in Turkey need 4 and 5-star hotels and improved access routes.

**2. City tourism:** City tourism is distinctly different from conference tourism as it involves "regular" visitors who do not attend meetings. Few tourists would spend more than a week, let us say, in Paris, so anything from a weekend to five days seems reasonable from a Turkish perspective. The First World Tourism Forum in İstanbul (2005) discussed new paradigms in city tourism management. K. Paskaleva-Shapira summed up the event by saying, "City tourism is one of the fastest growing sectors in the world."

**3. Event tourism:** Small and large-scale public events can attract tourists to lesser-known locations and act as a catalyst to highlight local sites. They can also be used to balance the seasonal fluctuations associated with tourist revenues, with events in off-season periods. The required infrastructure investment is often the kick-start for serious growth in the community. Sports events spring to mind, as do trade fairs and expositions. İstanbul, as a European Capital of Culture in 2010, is another good example which would benefit from more proactive marketing.

**4. Wellness, health tourism:** The European concept of wellness tourism had its first peak in Austria in the early 1990s. "Wellness" implies that you allow your body and soul to be pampered while on holiday, including holistic approaches towards recharging your body's batteries. Besides, there is of course a trend towards undertaking serious medical treatment in Turkey due to its positive price-quality ratio. Again, many foreign guests and tour operators have so far totally neglected this market segment.

**5. Winter tourism:** Winter tourism could become the most serious domestic competitor when compared with the 3S segment. As long as environmental concerns are taken into account, Turkey could easily become an alternative to the entire Alps region. This requires serious investment and transportation facilities. It does imply a certain change of habit, though, as most winter tourists in Central Europe are able to drive by car or bus to their chosen destination, while going skiing in Turkey requires traveling by plane.

**6. Summer mountain tourism:** Many

**Turkey's EU accession process will be helpful, too, to adapt to more consumer-friendly legal frameworks, with health, safety, food and employment laws -- only four such important issues taken from a rather extensive list**

Europeans love summer holidays -- in the mountains, that is. Most resorts are open all year round and offer reduced rates during their off-peak season. It is ideal for families with children as well as older generations. Perfect climate, lots of sunshine and countless outdoor activities make for the perfect mix. From Manisa's more modest hills in Turkey's west (averaging 1,500 meters) to Van, close to Mount Ağri in the east (coming in at a stunning 5,137 meters), Turkey is a perfect destination for summer mountain tourism. Add new scenic routes, lure guests and spenders away from motorways and city centers, have them use a new bed and breakfast network, and you get the full picture.

**7. Youth tourism:** "Young adult tourism" no longer implies backpackers descending on quaint villages or living the high life in a metropolis -- without spending too much. These days they are well prepared, have read the "Rough Guide" and carry a booklet with the 500 most-used words of the language in their chosen destination. They pay by credit card and carry a mobile phone, too. They still want to meet other young adults, though, and prefer to stay in designated youth-oriented but nevertheless quality accommodations.

**8. Yacht tourism:** On Aug. 19 this year Prime Minister Recep Tayyip Erdoğan opened a new marina on Turkey's Aegean coast, D-Marin Didim. Privately constructed at a cost of $75 million, it positions the region as a key player in the yacht tourism segment and above all will boost the local economy by creating 650 much-needed regional jobs. The Turkish government itself aims at investing $750 million into yacht tourism, with 22 new marinas in the pipeline.

## SMEs -- a force to reckon with

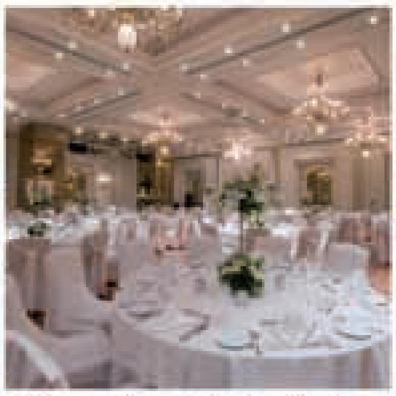
Nearly all of Turkey's companies active in the tourism sector (accommodation, travel agencies, related business) are small and medium-sized enterprises (SMEs) with no more than 250 employees. As a matter of fact, most are micro (up to 10 employees) or small (not more than 50 employees) businesses. This means that very few of them have access to adequate finance or government support. While by numbers SMEs are the backbone of the Turkish economy, they contribute to only 26.5 percent of Turkey's overall economic performance.

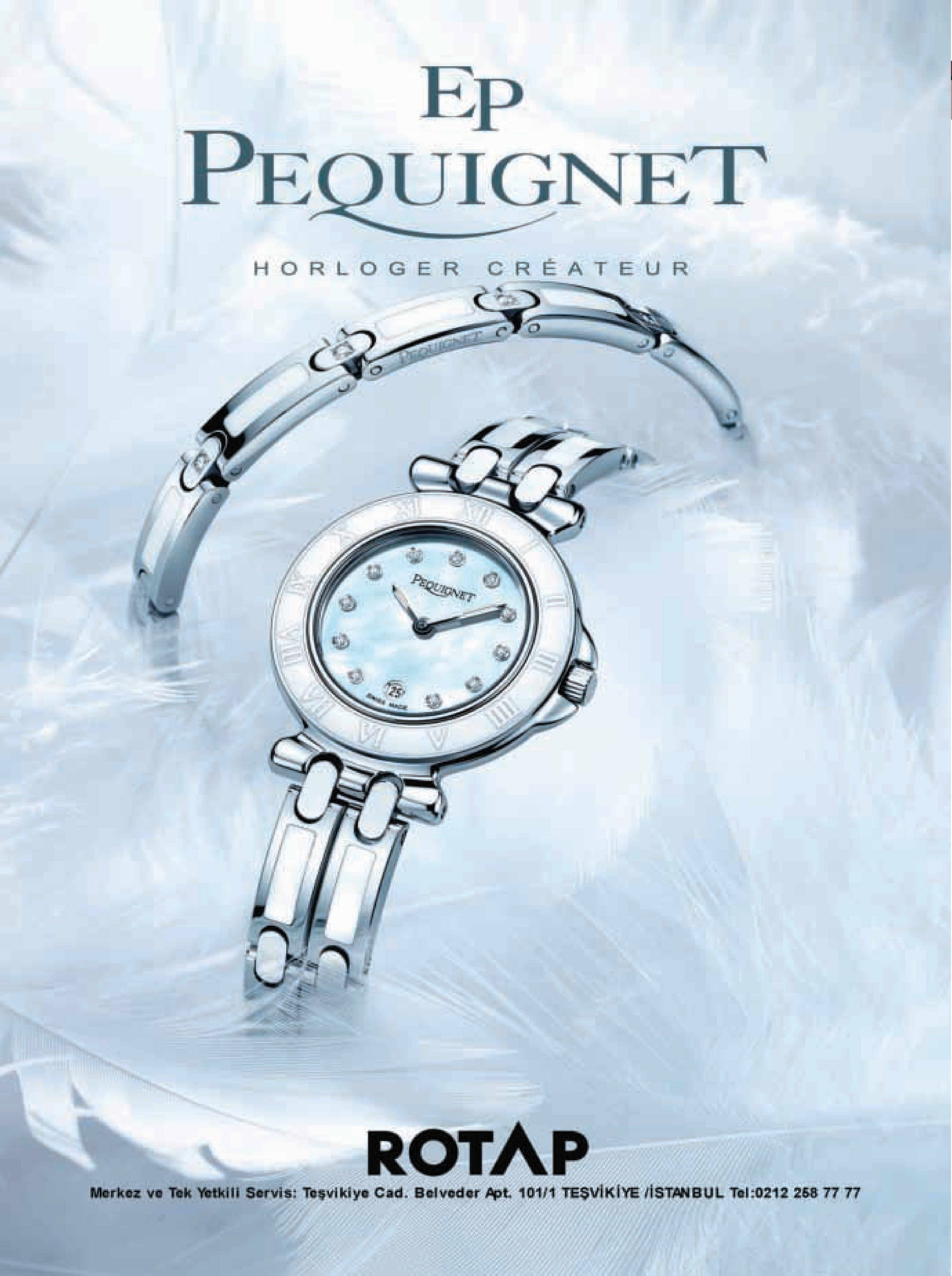
Changing the wallpaper or menu can be done at once; more extensive business updates, however, need financing, and both banks and government must do much more to help Turkish SMEs obtain funding to improve the quality of their products and services. The World Bank and the European Investment Bank have an important role in stimulating the local economy, too.

## Managing sustainable growth

Diversification would create a much-needed financial buffer zone, stabilizing tourism revenue with substantial extra turnover. To unlock the door to Turkey's immense potential, a number of measures are required: first, a much-improved product range and quality, including in the 3S segment; second, more up-market service standards; third, better intercity public transport focusing in particular on extended rail networks; fourth, improved infrastructure around hotels and tourism establishments such as roads, pavements, shops and local public transport; finally, streamlining legal provisions for foreigners who want to buy property -- hassle-free, that is. What are required now are more government, private investor and sector-based initiatives. Yacht tourism, as one example, has shown diversification works well for Turkey. ■



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# International events add to İstanbul's tourism potential

**ZEYNEP KALKAVAN** İSTANBUL

In recent times, İstanbul has become a hotspot for hosting large international events that attract thousands of people from all around the world. As the number of such events increases steadily, the economy as a whole becomes stimulated, but hotels and the tourism sector benefit most from the increased traffic caused by such occasions.

It all began with the 2004 NATO İstanbul Summit, which 62 heads of state, including then-US President George W. Bush, attended. Fatih Şahin, the chairman of Deneyim Event Planning and Tourism Services, believes this event helped increase trust in Turkey with regards to security concerns because the presidents of many countries were present. The event, he says, paved the way for the city to host other international events in various fields such as economy, politics, culture, art, science and sports.

Sports, and especially soccer, have played a special role in putting Turkey in the spotlight in the global community. İstanbul hosted the 2005 UEFA Champions League Final between Milan and Liverpool, a major global event in the field of sports that drew roughly 50,000 fans to the city. The match was watched by billions of people around the world and contributed about $1 billion to promoting Turkey, according to estimates from the tourism sector. This figure, a result of only one night, is more than 10 times the annual budget of the Ministry of Culture and Tourism. Hotels were also pleased, as fans who came for the match even booked rooms as far away as İzmit, Tekirdağ and Edirne in addition to İstanbul. Prices charged by some hotels shot up due to the demand, reportedly increasing 300 percent.

**Sports, and especially soccer, have played a special role in putting Turkey in the spotlight. İstanbul hosted the 2005 UEFA Champions League Final between Milan and Liverpool, which drew roughly 50,000 fans to the city**

The 2009 UEFA Cup Final, held in May, saw an exciting performance between Shakhtar Donetsk and Werder Bremen on the pitch of Fenerbahçe's modern stadium in İstanbul's Kadıköy district. However, it was a massive disappointment for the city's hotels. Only 800 people who came to watch the match checked into hotels on the city's Anatolian side, which have a total capacity of 10,000 beds. Even a reduction in hotel prices failed to help boost the number of customers during the event. Commenting on this situation, Turkish Hoteliers' Association (TUROB) President Timur Bayındır cited the low number of supporters in the city as the main cause for the dismal booking figures. Furthermore, he thinks the ongoing global economic crisis, which significantly hurt the incomes of Europeans, also played an integral role in the lack of interest in the match. Most of the fans who came did so for only one day and aboard planes chartered by the teams themselves.

Apart from soccer, car racing is another sporting event that attracts fans to İstanbul.

The world's most renowned racing championship, Formula One, has held an annual Grand Prix race in İstanbul since 2005. In addition to the tens of thousands of spectators the event attracts from all over the world, the races are also watched live by an audience of more than half a billion from 203 countries, making a valuable contribution toward promoting Turkey.

The Fifth World Water Forum also deserves to be mentioned as a recent event that brought many political figures, academics, scientists and businessmen to İstanbul. Held in March, the event broke a record with 33,000 participants, the highest ever among water forums organized so far.

There are many more examples of similar occasions that have cemented İstanbul's position as an ideal venue for fairs, conventions, massive events and so on. The Annual Meetings of the Boards of Governors of the International Monetary Fund (IMF) and the World Bank Group are just the most recent example, carrying İstanbul to the center of international finance.

In addition to all, it is worth mentioning that İstanbul will assume the title of 2010 European Capital of Culture (ECOC), as a great number of tourists are expected to visit the city throughout the year. Invigorating and developing cultural tourism, İstanbul's position as a European Capital of Culture will allow it to attract educated tourists who spend more time and more money during their travels than other visitors.

## Interest in İstanbul still alive

Bayındır cited the double positive impact of international events on the tourism sector: They contribute to the promotion of Turkey because the events have a prominent place on the world agenda and they bring in a comparatively higher revenue -- two or three times that of other types of tourism.

While the average tourist in Turkey spent about $650 in 2008, this figure was $1,000 in İstanbul thanks to international events that took place in the city. İstanbul's contribution to Turkey's overall tourism income is about 35 percent.

Bayındır noted that the number of tourists visiting İstanbul in 2009 is expected to rise despite the ongoing economic crisis, mainly thanks to major international event. According to Bayındır, the number of tourists visiting İstanbul is expected to rise to 9 million this year while the 2010 target is to attract 10 million tourists, mainly because the city will be the ECOC that year.

The total number of tourists who visited Turkey in 2008 was 26.3 million, of which 7 million came only to İstanbul, accounting for a 26.8 percent rise over the previous year, according to data released by the Ministry of Culture and Tourism. For the first seven months of the year, this figure was 4 million, accounting for a 28 percent increase over the same period last year.


**Apart from soccer, car racing is another sporting event that attracts fans to İstanbul. The world's most renowned racing championship, Formula One, has held an annual Grand Prix race in İstanbul since 2005**

## More hotels, convention centers

Hotel occupancy rates rise as more global events take place in the city. To meet the increasing accommodation needs stemming from such events, the capacity of İstanbul's hotels rose from 91,000 beds to 95,000 in 2008. This figure is expected to reach 107,000 by the end of the year and 118,000 in 2010 as newly established accommodation facilities begin operating.

Between 2006 and 2008, international hotel chains such as Four Seasons, Sheraton, Crowne Plaza, Ibis Hotel, Hotel Novotel, WOW Hotels and the Holiday Inn opened new hotels in İstanbul. During the course of 2009 and 2010, Öztanık, Rixos, Zorlu, Özbek, Doğuş, Koç, Aygün and Dedeman also expect to begin operations.

To meet the demands of the increasing number of international conferences held in İstanbul, new convention centers have been established in the city. The Haliç (Golden Horn) Congress Center opened in March. The Harbiye Culture and Congress Center, which features 11 auditoriums and a conference hall with a seating capacity of 3,500, opened on September.

WOW İstanbul Hotel General Coordinator Ziya Cihan notes that conference tourism significantly boosts city hotel revenues and is the engine propelling the city's economic life forward. "The greatest benefit of such international events is their contribution to the promotion of the country, directed at an audience that travels a lot with a high potential to consume," he said.

Armin Zerunyan, cluster general manager of the Hilton İstanbul, Hilton ParkSA İstanbul and Conrad İstanbul, believes the high degree of publicity that comes along with such large events cannot be purchased even with millions of dollars and added that this would eventually yield great revenue for the tourism sector. Noting that the occupancy rate of Hilton hotels during international events is high, Zerunyan cited various factors such as the internationally recognized name of the Hilton brand, their high bed capacity as well as assembly rooms they offers in addition to their central location, near event venues and sites of interest, as the main reasons behind his hotels' success. He also said that hotels he oversees expect a 100 percent occupancy rate for the IMF/World Bank meetings. "Almost all hotel suites have already been reserved by meeting attendees. We are also receiving requests to lease out assembly rooms for extra meetings."

Fatih Şenuslu, the general manager of the Ceylan InterContinental Hotel, said conference tourism in İstanbul has been advancing and that it has already surpassed other types of tourism. He explained that the majority of his hotel guests were either businessmen or attendees of conferences or meetings while other tourists accounted for only a small share of all guests. ■

OPINION

# Tobin tax reincarnates with worries over global system

DANI RODRIK*

The idea of installing a global tax on financial transactions would have been unthinkable in the years before the sub-prime mortgage meltdown. Now, however, it is an indication of how much things have changed

CAMBRIDGE -- Something happened in late August that I never thought I would see in my lifetime. A leading policymaker in the Anglo-American empire of finance actually came out in support of a Tobin tax -- a global tax on financial transactions.

The official in question was Adair Turner, the head of the United Kingdom Financial Services Authority, the country's chief financial regulator. Turner, voicing his concerns about the size of the financial sector and its frequently obscene levels of compensation, said he thought a global tax on financial transactions might help curb both.

Such a statement would have been unthinkable in the years before the sub-prime mortgage meltdown. Now, however, it is an indication of how much things have changed.

The idea of such a tax was first floated in the 1970's by James Tobin, the Nobel laureate economist, who famously called for "throwing some sand in the wheels of international finance." Tobin was concerned about excessive fluctuations in exchange rates. He argued that taxing short-term movements of money in and out of different currencies would curb speculation and create some maneuvering room for domestic macroeconomic management.

The idea has since become a cause-célèbre for a wide range of non-governmental organizations and advocacy groups that see in it the double virtue of cutting finance down to size and raising a big chunk of revenue for favored causes -- foreign aid, vaccines, green technologies, you name it. It has also been endorsed by some French (predictably!) and other continental European leaders. But, until Turner mentioned the idea, you would not have been able to identify a single major policymaker from the United States or the UK, the world's two leading centers of global finance, with anything nice to say about it.

The beauty of a Tobin tax is that it would discourage short-term speculation without having much adverse effect on long-term international investment decisions. Consider, for example, a tax of 0.25 percent applied to all cross-border financial transactions. Such a tax would instantaneously kill the intra-day trading that takes place in pursuit of profit margins much smaller than this, as well as the longer-term trades designed to exploit minute differentials across markets.

Economic activity of this kind is of doubtful social value, yet it eats up real resources in terms of human talent, computing power, and debt. So we should not mourn the demise of such trading practices.

Meanwhile, investors with longer time horizons going after significant returns would not be much deterred by the tax. So capital would still move in the right direction over the longer term. Nor would a Tobin tax stand in the way of financial markets punishing governments that grossly mismanage their economies.

Moreover, it is undeniable that such a tax would raise a great deal of money. Revenue estimates for a small tax on international currency transactions run into hundreds of billions of dollars per year. The receipts would be even greater if the base is extended, as was implied by Turner, to all global financial transactions. Whatever the precise amount, it is safe to say that the numbers in question are huge -- larger than, say, foreign-aid flows or any reasonable assessment of the gains from completing the Doha Round of trade negotiations.

Predictably, Turner came in for severe criticism from City of London bankers and the British Treasury. Much of that criticism misses the mark. A Tobin tax would raise the cost of short-term finance, some argued, somehow missing the point that this is in fact the very purpose of a Tobin tax.

Others argued that such a tax fails to target the underlying incentive problems in financial markets, as if we had an effective, well-proven alternative to achieve that end. It would threaten the role of London as a financial center, some complained, as if the proposal was meant to apply just in London and not globally. It can easily be evaded by relying on offshore banking centers, some pointed out, as if not all financial regulations face that very same challenge.

In any case, as Dean Baker of the Center for Economic and Policy Research in Washington observed, there are many imaginative ways in which a Tobin tax could be made harder to dodge. Suppose, he argues, that we give finance workers who turn in their cheating bosses 10 percent of the receipts that the government collects. That would be quite an incentive for self-monitoring.

What the Tobin tax does not do is help with longer-term misalignments in financial markets. Such a tax would not have prevented the US-China trade imbalance. Neither would it have stopped the global saving glut from turning into a ticking time bomb for the world economy. It would not have protected European and other nations from becoming awash in toxic mortgage assets exported from the US. And it would not dissuade government's intent on pursuing unsustainable monetary and fiscal policies financed by external borrowing.

For all of these problems we will need other macroeconomic and financial remedies. But a Tobin tax is a good place to start if we want to send a strong message about the social value of the casino known as global finance.

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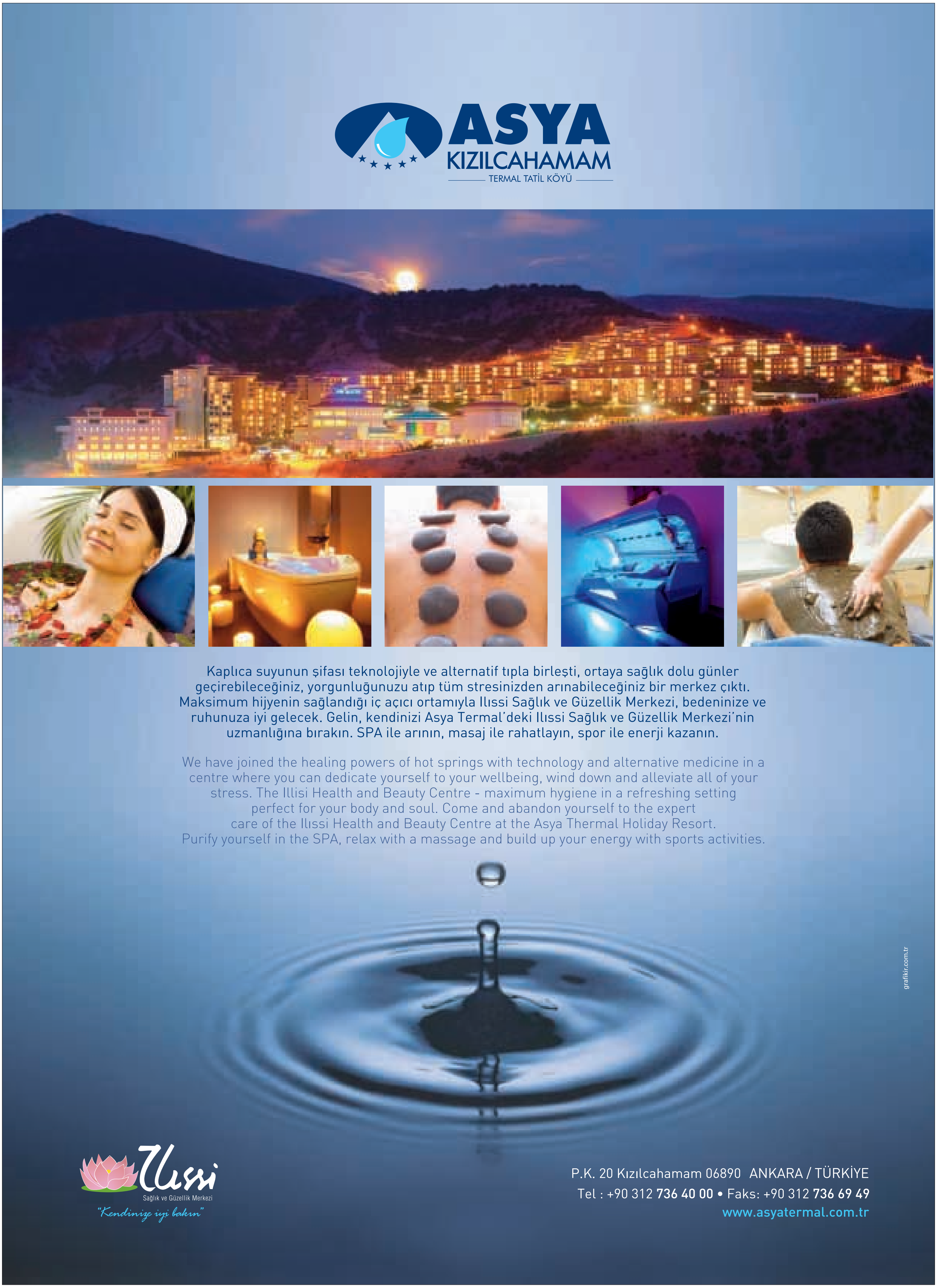
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KIZILCAHAMAM
TERMAL TATİL KÖYÜ
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