

TÜSİAD

TÜRK SANAYİCİLERİ VE İŞADAMLARI DERNEĞİ

"TURKEY'S CHALLENGE FOR THE YEAR 2000"

Presentation made on the occasion of the visit of  
"JAPANESE DELEGATION-THE SOCIETY OF MODERNIZATION"  
with TÜSİAD members of the Board

March 1st, 1993, ISTANBUL

by Yavuz CANEVI  
Member of the Board  
TÜSİAD

TÜSİAD AVRUPA SANAYİ VE İŞVERENLER KONGRESYONLARI BİRLİĞİ (UNICE) ÜYESİDİR

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## I. INTRODUCTION

After the declaration of the republic, Turkey devoted herself to the transformation of the country from a Muslim monarchy to a pluralistic and secular democracy with western values. Since then almost all governments have repeatedly emphasized that it could only flourish in an economic order based on free enterprise and free functioning of a market system. Situated between Europe, Middle East and Central Asia, Turkey's chief value today lies in being to the region around her a living example of how a Muslim country can be a prosperous democracy and a full member of the modern world.

During the last decade, Turkey's efforts to further develop her decades old multiparty system into a full-fledged liberal democracy has achieved important strides, and the same was accompanied by the economic liberalization of the country.

In order to understand and appreciate today's Turkey one should be aware of the transformation taken place in this country specially since 1980.

The January 1980 program was qualitatively different from the previous ones as it aimed at far reaching structural changes in the Turkish economy towards establishing the basis of an outward oriented growth model.

In fact, the government was determined to attack the sources of the economic crisis after 1980, while previous attempts of reforms were only intending to deal with the symptoms.

The policy reforms introduced in the beginning of last decade aimed not only at redressing the economic situation but also at changing the development strategy Turkey followed for several decades.

That is why we always referred to the new economic programme as "Policies with dual goal".

**1. Stability was the first and immediate goal :**

One of the fundamental pillars of the free market economy is the ability to establish and maintain relative price equilibrium.

**2. Structural transformation was the second medium term strategy related goal :**

As a developing country who was in need of regaining the international credibility the programme sought for a Balance of Payment viability over the medium term.

On the other hand, ultimate target of the restructuring was to enter into a path of self-sustaining growth.

These two basic and interrelated objectives were designed to correct distortions, inefficiencies, and supply rigidities in the domestic economy developed during the long years of financial repression by restoring market signals as a principal guide to economic policy decisions and also quick adjustments to external developments.

Correspondingly two sets of reforms can be identified to achieve these goals :

a) Institutional (Behavioral) Reforms :

They are aimed at achieving a better, unified, efficient, coherent, responsive and productive, timely decision making and execution process in all fronts including Central Government, SEE's and private sector.

b) Policy Oriented Reforms

- ◆ Liberalisation of Foreign Trade
- ◆ Liberalisation of the Exchange Control Regime
- ◆ Exchange Rates
- ◆ Export Orientation
- ◆ Financial Sector Deregulation and Reforms
- ◆ Fiscal Reforms
- ◆ Foreign Direct Investment
- ◆ Privatisation
- ◆ Administrative Reforms- Decentralisation of Central and Local Governments

As a conclusion, Turkey's experience in market economy in order to design and implement a "growth oriented adjustment strategy during the 1980's, suggests that a set of comprehensive and coherent reform policies with a political determination and public support can make an economic recovery leading to a sustainable growth possible.

Indeed economic growth is an imperative not a choice. Without growth you can not achieve more. But what is important today is the model of growth which links growth with the life of people. So, the problem is now how to survive, not how to grow sufficiently for the new concept of sustainable development is based on structural, economic, human and environmental constraints.

I wish only stress one point. Success in a free market economy depends squarely on private initiative. In this process, Turkey discovered that it had some very good

entrepreneurs, a new breed of managers, disciplined and productive manpower and a service sector highly adaptive to new technologies. In other words, the new era found Turkey quite ready for new challenges in terms of human development. Our decade old structural adjustment and economic transformation program were in fact intended to build on the achievements and mistakes of the past. Similarly to impart a new element of dynamism and to inject a new momentum to the Turkish economy in which the problems are less severe and fundamentals are much stronger, all we have to do to look back and take stock of the developments and develop a skill for converting our mistakes into our assets. Because that is what they are. This does not mean that we don't have shortcomings. We still do, but one can easily identify them and reach the conclusion that we are also not short of solutions.

No one today challenges the achievements on market orientation in Turkey. But with this acquired momentum of the 80's people are looking for new dimensions, new weaves and wondering where to go from here. i.e. specially after the cold war is over, the question of identity has re-emerged with force.

At this juncture, on the way to the full membership of the European Community, Turkey's challenge is that she must pursue her uninterrupted transformation and adjustment for market economy and democratisation to secure a sustainable but rapid growth in order to provide the living standards that Turks have come to expect. However the real challenge, it seems, is "keeping the dynamism going". It is to believe that this dynamism looks solid, deep rooted, but it can be lost if it is mismanaged.

Consequently, what is striking today is the awareness of the Turkish people that to avoid an increasing marginalization of the country within the context of the 1992 Europe regardless of her temporary political and economic crisis,

and evolving world economy, not only the reforms will have to be consolidated as they go along but new attempts in reforming the public sector activities, including privatisation, will have to be accelerated to take full advantage of global opportunities. There are enough reasons, today, to believe that these opportunities will not be missed.

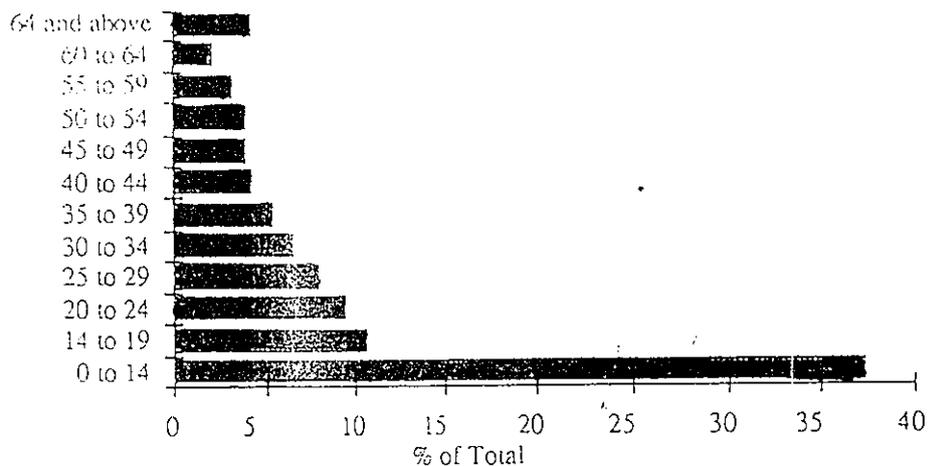
## II. PEOPLE AND THE MARKET

For many visitors Turkey may seem to be a land of contrast. For the businessman, a country where change means opportunity. A decade of rapid economic growth, trade liberalisation, financial deregulation and integration with the world market boosted private initiative and resurfaced the built-in dynamism of the society. Even better, over 55 % of the population are under the age of 25 confirms the confidence for the future.

### Population, Distribution

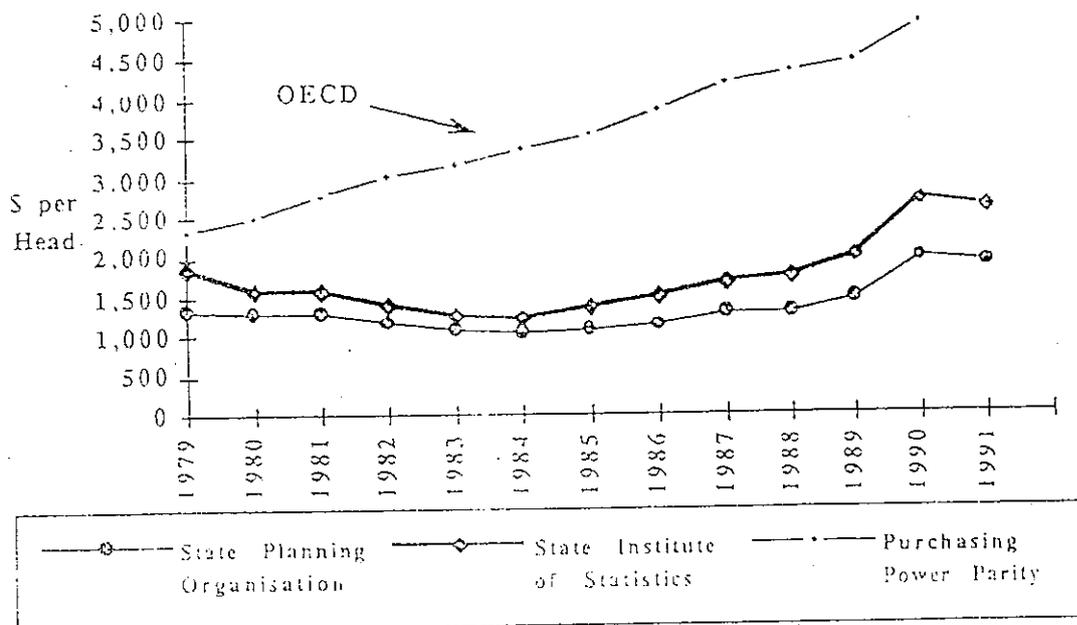
TABLE

POPULATION DISTRIBUTION BY AGE GROUP  
1985



On the other hand, an increased purchasing power during the last decades have led to a consumer society. Most Turkish households, having satisfied their demand for basic durable goods, have more income available for personal expenditures. This development will surely gain a new impulse with the initiation of the full customs union with the European Community, now agreed though with its details not negotiated from January, 1996.

DIFFERENT VIEWS OF TURKEY'S GNP



## TÜSİAD'S VIEW OF THE FUTURE

	<u>2000</u>	<u>2010</u>
GNP, \$ Billion	270	600
GNP, \$	4.500	7.500
Population, Million	59	80
Inflation	10	3-5
Exports, \$ Billion	38	100

Source : 21. Yüzyıla Doğru Türkiye, TÜSİAD

Based on the above developments some distinguished factors related to the human resources and self-supporting character of the domestic market are worth mentioning here :

- ◆ dynamic and challenging business environment in rapidly changing market place;
- ◆ highly motivated, diciplined and trainable, young, diligent work force;
- ◆ a new generation of strong and imaginative entrepreneural class,
- ◆ well trained, international standard managerial work force,
- ◆ due to the regenerated confidence in the country, almost a reverse braindrain,
- ◆ a GNP per capita level using OECD's Purchasing Power Parity measure which is further inducing already large domestic market expansion,
- ◆ Comfortable and sustainable Balance of Payments position, which has reversed the capital flight.

### III. ENVIRONMENT FOR FOREIGN DIRECT INVESTMENT

- A. It is certainly not misleading if one express the fact that Turkey's economic and geo-political outlook has positively changed from an investors point of view.

In fact, the following developments favoring Foreign Investment constitute part of this new landscape of opportunities :

- ◆ Turkey's Announcement to complete the Custom's Union with EC by 1996,
- ◆ Turkey's Agreement with EFTA to be completed in 1992,
- ◆ Shareholding membership of Islamic Development Bank,
- ◆ Shareholding membership of Asian Development Bank,
- ◆ Black Sea Economic Cooperation Council Project Participants : Turkey, Bulgaria, Romania, Russia, Moldavia, Georgia, The Ukrania, Azerbaidjan, Armenia,
- ◆ Revitalization of ECO, Economic Cooperation Oranization Parties : Turkey, Iran, Pakistan and the new CIS Republics

- B. On the other hand the program that has been made during the last decade in terms of both attitude towards and treatment of foreign direct investors were remarkable. In this connection protections that offered both internationally and domestically should be underlined.

#### i) International Protections

- ◆ Being a signatory to the OECD invisible and Capital Accounts Codes,

- ◆ Membership to MIGA, Multinational Investment Guaranty Agency-World Bank,
- ◆ Membership to ICSID, International Settlement of Investment Disputes-World Bank,
- ◆ Bilateral Double Taxation Agreements with Austria, Norway, Italy, Korea, Jordan, Saudi Arabia, Tunisia, Romania, Holland, Pakistan, United Kingdom, Finland, Northern Cyprus, France, Germany, Sweden, Belgium,
- ◆ Bilateral Accords on Investment Protection with Germany, U.S.A., Holland, Belgium, Australia, Switzerland, Kuwait, Bangladesh, Belgo-Luxembourg Economic Union.

ii) Domestic Protections and Opportunities

- ◆ Freedom for the transfer and repatriation of profits, revenues and royalties and capital reimbursement in the event of liquidation,
- ◆ Possibility of 100 % ownership by foreigners,
- ◆ One Stop Agency approach,
- ◆ Freedom of employment of expatriats,
- ◆ With over 50 million population domestic market gives first time the signals of a consumer driven market coming from over US 4000 purchasing power parity per capita income,
- ◆ Full convertibility of the Turkish Lira
- ◆ Duty-free access for its manufacturers to the EC market,

- ◆ A fully-functioning range of financial markets, banks and intermediaries,
- ◆ Privileged access to the new republics of the former Soviet Union,

#### IV. MAJOR INFRASTRUCTURAL INVESTMENTS TO SUSTAIN INDUSTRIAL GROWTH

##### a. Energy

The government plans to meet demand by focusing on :

- ◆ A major increase in state hydroelectric capacity, in particular following the GAP project,
- ◆ Use of Russian natural gas,
- ◆ Development of indigenous gas reserve and transmission capabilities,
- ◆ Continuing present large state thermal plant investments,
- ◆ Allowing the private sector to invest in large coal-fired coastal plants and in hydroelectricity generation. The legal framework is set out on the previous page.

In order to support this medium term plan authorities are investigating the feasibility of the following projects :

### New Pipeline Plans

- ◆ Building a 2.013 km pipeline from Kazakhstan to carry Kazakh, and Azeri oil (35 million tonnes/year, \$ 2 billion, 36").
- ◆ To build 56" natural gas pipeline from Turkmenistan via Azerbaijan, cost \$ 7.7 billion, capacity 20 million cubic metres/year.
- ◆ To build another pipeline to run 1,900 km from southern Iran.
- ◆ To construct a pipeline to carry products from Kırıkkale to a terminal on the Black Sea Coast.
- ◆ To build another to run from the refinery at Aliağa 425 km southeast to Isparta via Denizli.

In addition to the above, the studies are being carried on to explore the opportunities in nuclear energy and also, in unconventional energy resources, such as "Bituminous shale", "Solar Energy", "Wind Energy", "Geothermal Energy".

#### b. Telecommunication

The achievements during the last decade were more than visible. Today with PTT's privatisation plans a new jump in this sector is expected.

c. Transportation

While Turkey is a bond to complete her motorway projects already undertaken there are new complementary motorway projects in the pipeline. In addition to the motorways Turkey is planning both to upgrade and expand her port facilities.

d. GAP, Southeaster Anatolia Project

GAP is the largest development project underway in Turkey today, Atatürk Dam being the heart of it. It is a multipurpose river basin project using the waters of the Euphrates and Tigris basins and comprises :

- ◆ The irrigation of a total of 1.7 million hectares of land - over half the size of Belgium - through the construction of 15 dams and major irrigation tunnels. These would increase the irrigated area in Turkey by 40 %.
- ◆ Establishing 18 hydroelectric plants, which would almost double the current electrical energy production in Turkey.

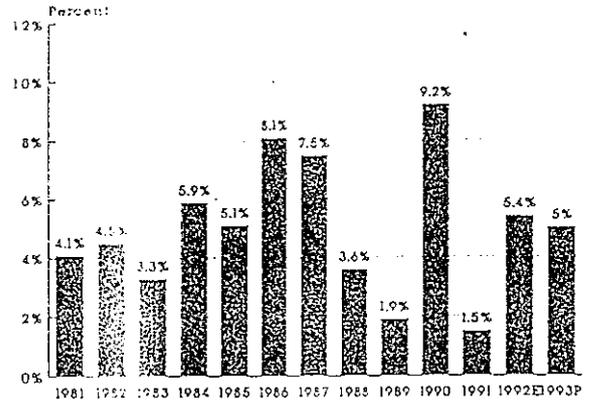
The electricity generation started in July 1992. The last sub-project is due to be completed in 2005.

TURKEY  
BASIC SOCIAL AND ECONOMIC INDICATORS

1992, UNLESS OTHERWISE INDICATED			
GNP Est.	USD	114	BN
GNP PER CAPITA-PPP Est.	USD	1,944	
TL PER USD		8,573	YEAR-END
INFLATION		61	PERCENT
THE LAND		781,000	SQ.KMS
AGRICULTURAL AREA		250,000	SQ.KMS
FORESTS		202,000	SQ.KMS
POPULATION		57	MM
URBANIZATION		51	PERCENT
UP TO 25 YEARS OF AGE		56	PERCENT
LITERACY RATE		90	PERCENT
LABOR FORCE		21	MM
UNEMPLOYMENT		3.5	PERCENT
GDP COMPOSITION		17	PERCENT
AGRICULTURE		24	PERCENT
INDUSTRY		59	PERCENT
SERVICES			
POPULATION PER PHYSICIAN		1,140	
AUTOMOBILE PER 1000 PERSONS		39	
TELEPHONE PER 1000 PERSONS		118	
TELEVISION PER 1000 PERSONS		197	
PER CAPITA CONSUMPTION OF ELECTRICITY		379	KWH
PRODUCTION			
ELECTRICITY	37,467	MM KWH	1992 QII
HARD COAL	2,811	TONS '000	1992 QII
LIGNITE	24,928	TONS '000	1992 QII
STEEL INGOT	5,738	TONS '000	1992 QII
CRUDE IRON	2,520	TONS '000	1992 QII
CEMENT	15,908	TONS '000	1992 QII
NITROGEN BASED FERTILIZERS	1,540	TONS '000	1992 QII
PHOSPHATE BASED FERTILIZERS	1,472	TONS '000	1992 QII
BOTTLE & GLASS ARTICLES	457	TONS '000	1992 QII
AUTOMOBILE	157,423		1992 QII
REFRIGERATOR	628,439		1992 QII
WASHING MACHINE	502,795		1992 QII
COOKER (LPG)	484,945		1992 QII
TELEVISION SET (COLORED)	1,264,141		1992 QII
VIDEO	42,335		1992 QII

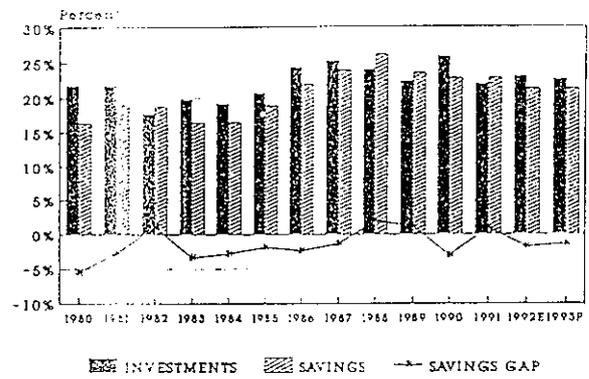
## GNP GROWTH RATE

Source: State Planning Organization



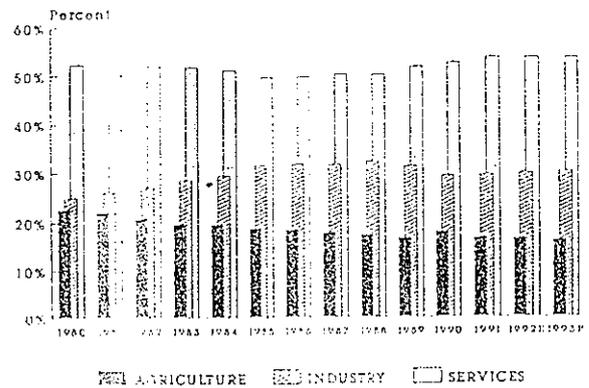
## INVESTMENTS AND SAVINGS SHARE IN GNP

Source: State Planning Organization



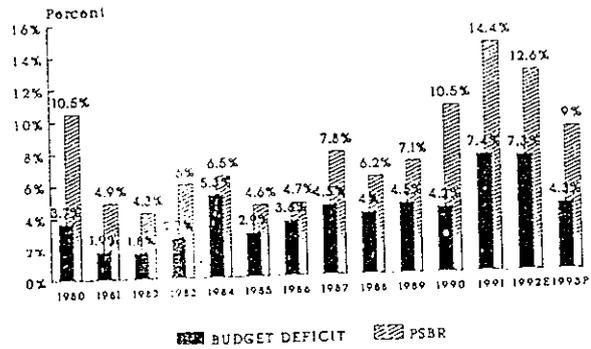
## COMPOSITION OF GDP

Source: State Planning Organization



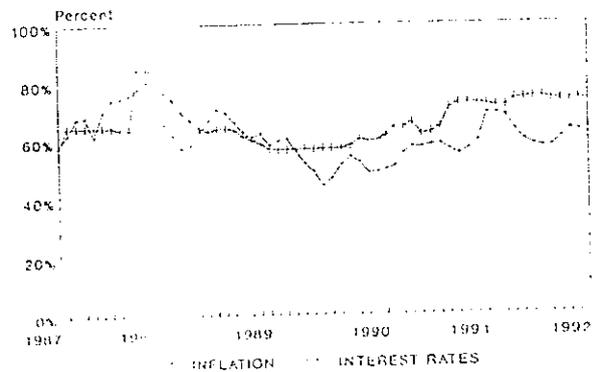
PSBR  
PUBLIC SECTOR  
BORROWING REQUIREMENT

Source: Undersecretariat of Treasury  
and Foreign Trade



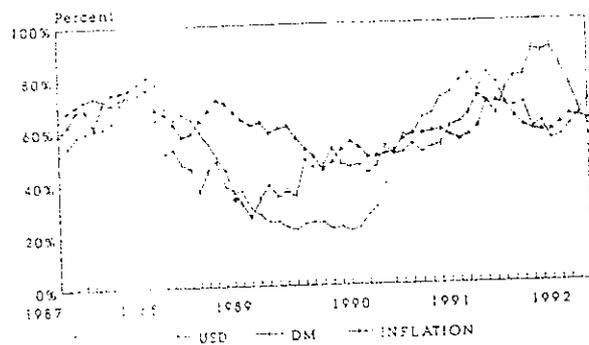
INFLATION &  
INTEREST RATES  
ANNUAL INCREASE IN WPI  
& 1-YEAR T. DEPOSIT

Source: State Institute of Statistics



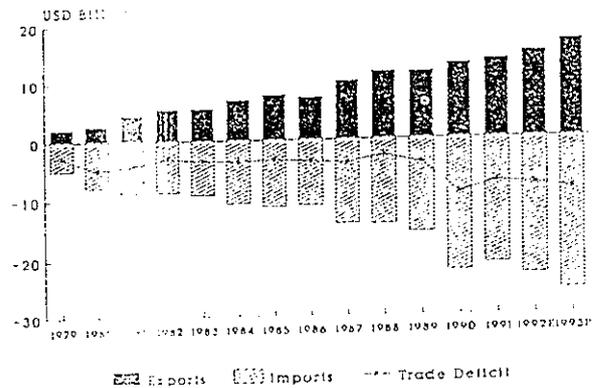
APPRECIATION OF USD AND DM  
AGAINST TL AND INFLATION  
ANNUAL PERCENT CHANGE

Source: Central Bank of Turkey



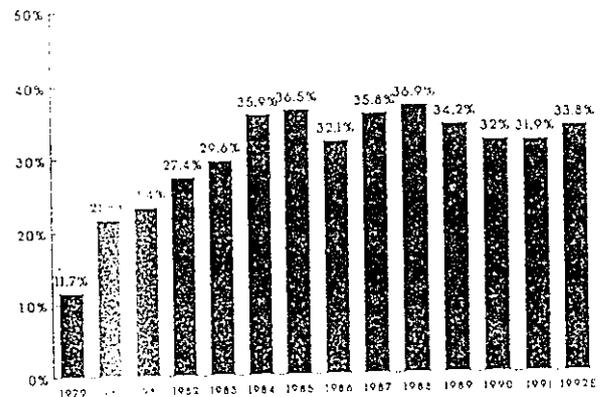
## FOREIGN TRADE

Source: State Institute of Statistics



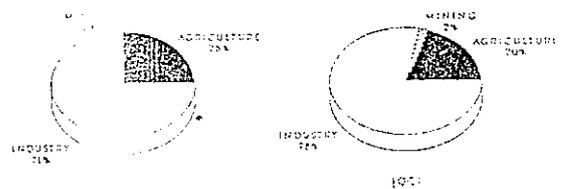
## FOREIGN TRADE / GNP

Source: State Institute of Statistics



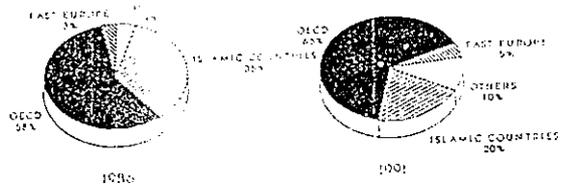
## COMPOSITION OF TRADE EXPORTS

Source: State Institute of Statistics



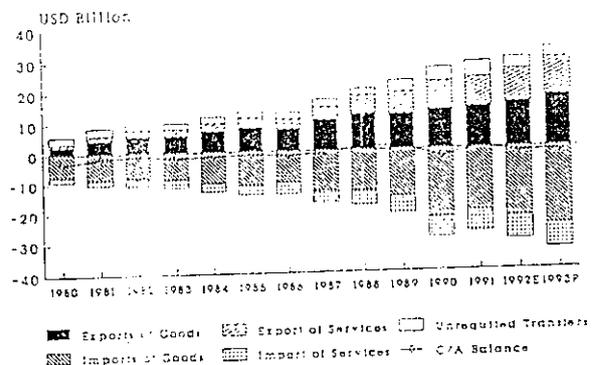
## DIRECTION OF TRADE EXPORTS

Source: State Institute of Statistics



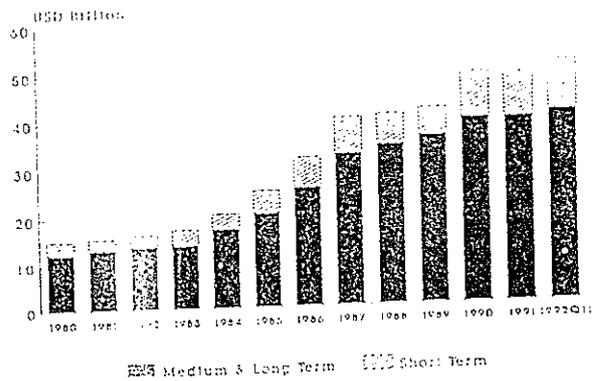
## BALANCE OF PAYMENTS CURRENT ACCOUNT

Source: Central Bank of Turkey



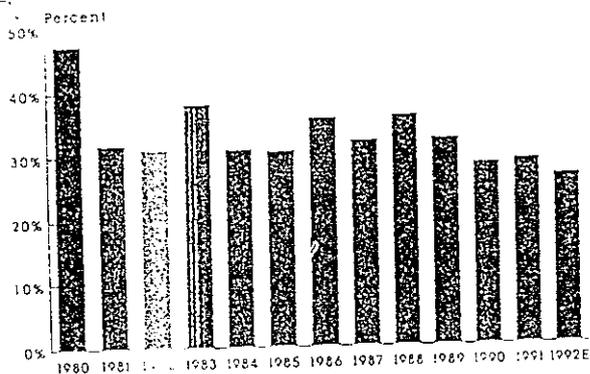
## OUTSTANDING FOREIGN DEBT

Source: Undersecretariat of Treasury and Foreign Trade



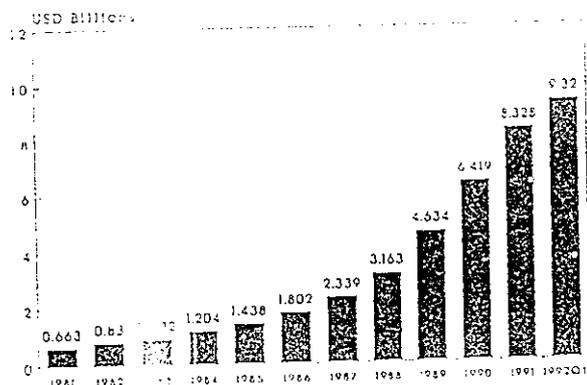
## DEBT SERVICE RATIO DEBT SERVICE / T. FOREIGN EXCHANGE RES.

Source: Undersecretariat of Treasury  
and Foreign Trade



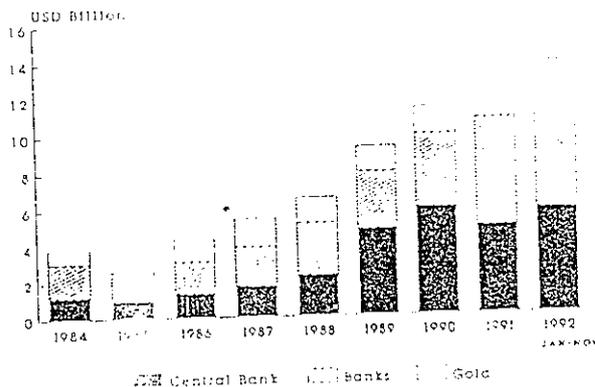
## FOREIGN INVESTMENT PERMITS ISSUED - CUMULATIVE

Source: State Planning Organization



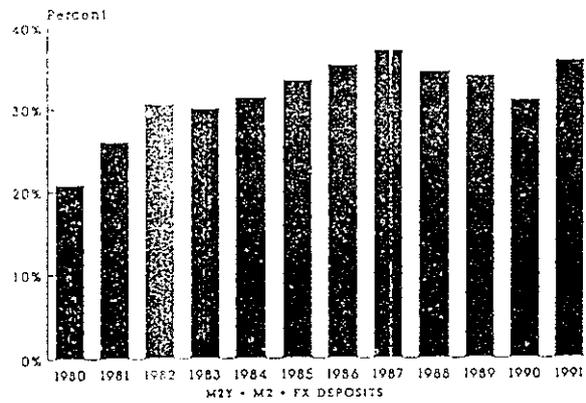
## INTERNATIONAL RESERVES

Source: Central Bank of Turkey



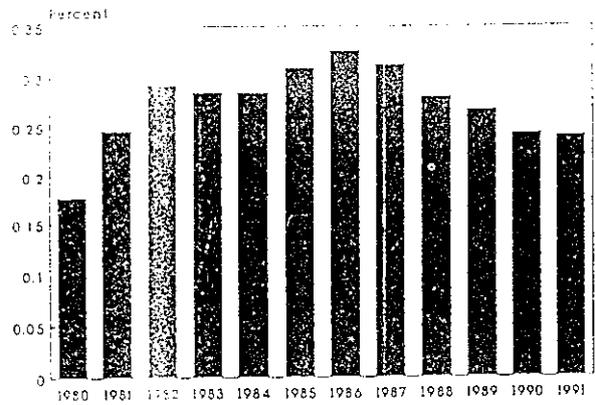
## MONETIZATION M2Y / GNP

Source: Central Bank of Turkey



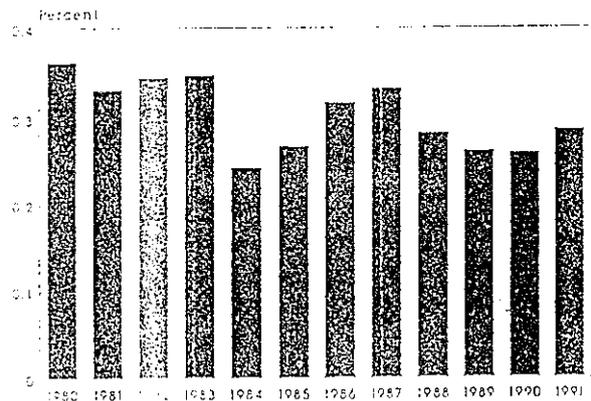
## DEPOSITS / GNP

Source: Central Bank of Turkey



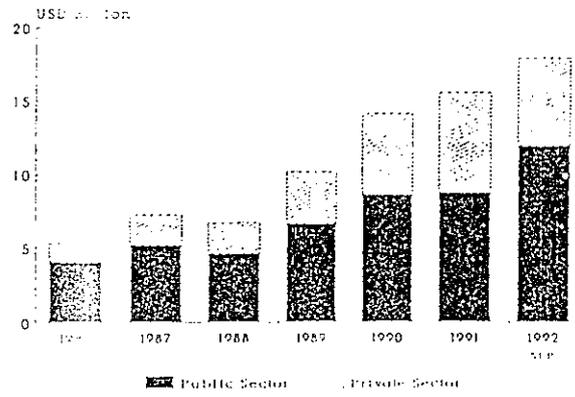
## CREDITS STOCK / GNP

Source: Central Bank of Turkey



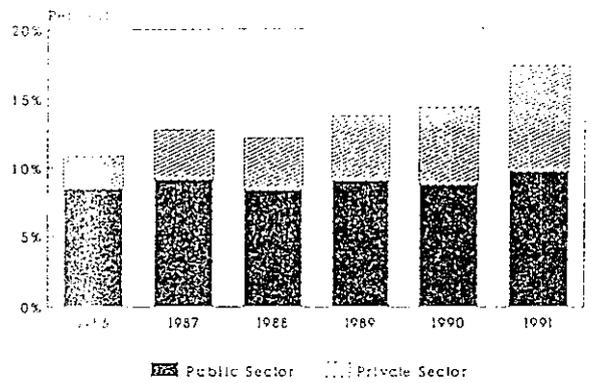
## OUTSTANDING SECURITIES

Source: Capital Market Board



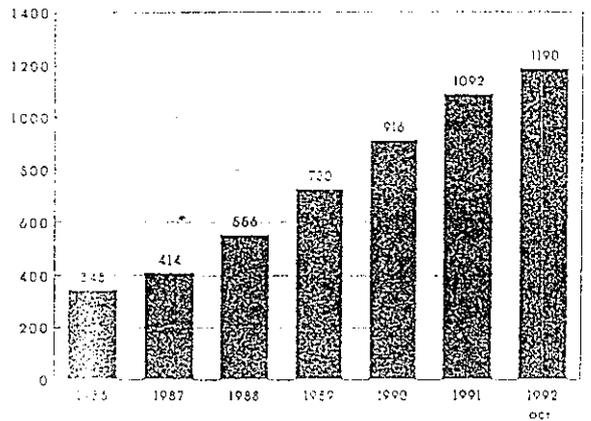
## OUTSTANDING SECURITIES RATIO TO GNP

Source: Capital Market Board



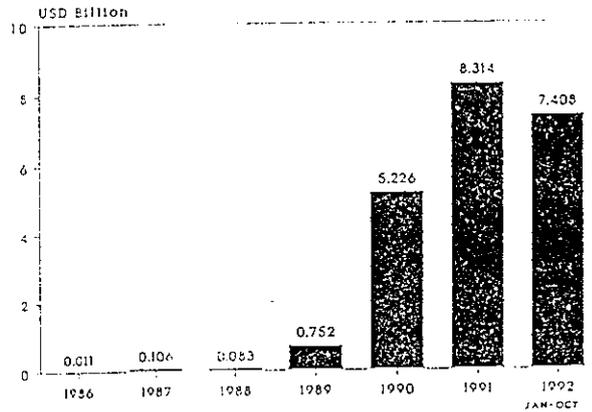
## CORPORATIONS QUOTED AT ISE

Source: Capital Market Board



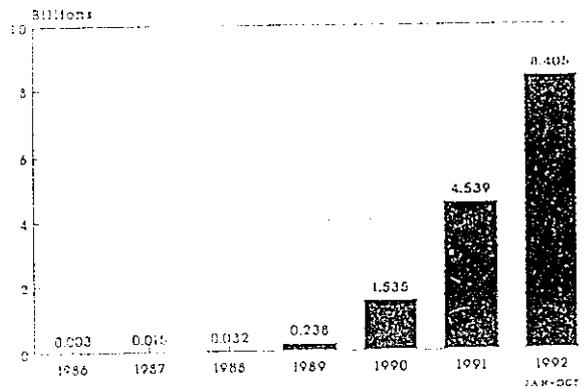
## ISE TRADING VOLUME

Source: Istanbul Stock Exchange



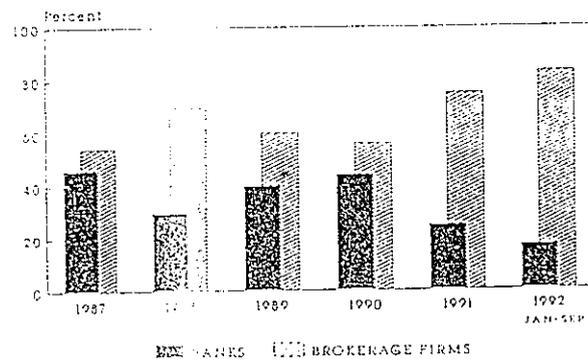
## ISE VOLUME NUMBER OF SHARES TRADED

Source: Istanbul Stock Exchange



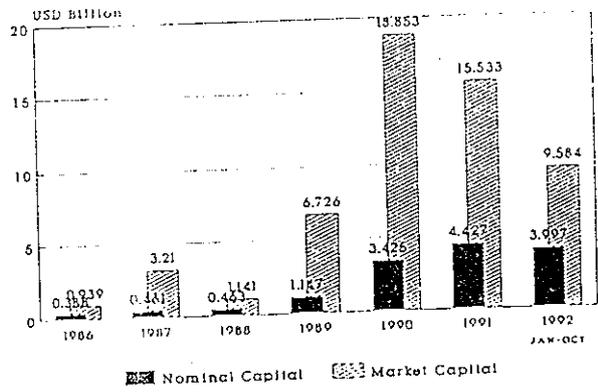
## PERCENTAGE SHARES IN EQUITY TRADING VOLUME

Source: Capital Market Board



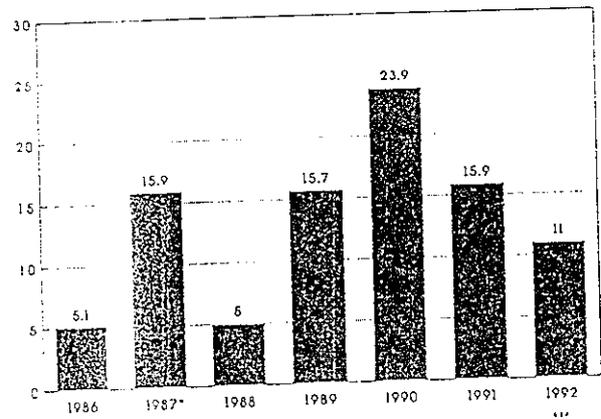
## ISE MARKET CAPITALIZATION

Source: Capital Market Board

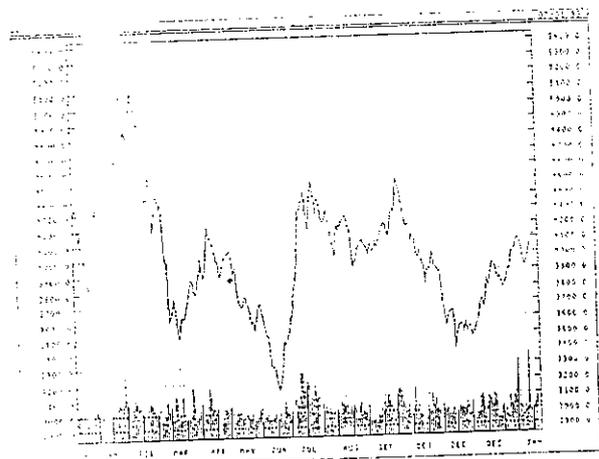


## PRICE-EARNINGS RATIO

Source: Istanbul Stock Exchange



## IMKB INDEX



SURNAME : CANEVI  
NAME : Yavuz  
DATE OF BIRTH : 1939  
NATIONALITY : Turkish

COMPANY ADDRESS : AVRUPA-TÜRK YATIRIM BANKASI A.Ş.  
(EUROTURK BANK)  
Büyükdere Cad.  
Yapı Kredi Plaza C. Blok D.22-23 K.8  
80620 Levent/Istanbul  
TELEPHONE : 279.70.70  
TELEX : 39460 atyb tr FACSIMILE : 264.14.00

EDUCATION : Ankara University B.S.  
University of Southern California, USA  
MA Economics  
Georgia State University, Atlanta,  
Georgia U.S.A., Teaching and Post  
Graduate Studies

LANGUAGE(S) : English  
CIVIL STATUS : Married, two children

BUSINESS EXPERIENCE: Ministry of Finance, 1960-76  
Central Bank of Turkey, General Manager  
1976-79  
Garanti Bank, Deputy General Manager,  
1979-81  
Central Bank of Turkey, Vice Governor,  
1981-83  
Central Bank of Turkey, Governor,  
1983-86  
Undersecretariat of Treasury and Foreign  
Trade, the Office of Prime Ministry,  
Undersecretary, 1986-1989  
Eximbank, Turkey, Chairman of the Board,  
1987-1989

CURRENT POSITION : ♦ EUROTURK, Managing Director and Member of  
the Board  
♦ FMC-Nurol (FNNS), Chairman of the Board  
♦ Member of the Board of Prime Ministry  
Advisory Council  
♦ Member of the Board of TUSIAD (Businessmen  
Association)  
♦ Chairman of the Board of YASED (Foreign  
Investor's Association)  
♦ Member of the Executive Board of the  
Turkish Japanese Business Council  
♦ Member of IFC's Business Advisory Council,  
Washington D.C., USA



AVRUPA TÜRK YATIRIM BANKASI A.Ş.  
**EUROTURK BANK**

**EUROTURK BANK**

Euroturk Bank was established in September 1989.

The bank's shareholders are :

Banque Indosuez  
Generale Bank  
Amro Bank  
Société Générale de Belgique

The bank began operations in the investment banking sector in March 1990, under the chairmanship of Viscount Etienne Davignon. Viscount Davignon has served as vice-president of the European Commission, and is still the chairman of Société Générale de Belgique, and a director of such major companies as Generale Bank, Compagnie Financière De Suez, Fiat and Kissinger Associates.

Yavuz Canevi, Managing Director and Executive Member of the Board, has served as governor of the Turkish Central Bank, Undersecretary for the Treasury and Foreign Trade and President of Turkish Eximbank.

As an investment bank Euroturk Bank specialises in the following activities, offering customers individual service :

- ◆ Privatisation, sale of shares in public and commercial banks,
- ◆ Foreign capital investment and portfolio investment in Turkey, feasibility studies, and consultancy services legal, administrative and financial matters,
- ◆ Joint ventures being undertaken by one or more than one foreign investor,
- ◆ Mergers and acquisitions, including feasibility studies and consultancy services on legal, administrative and financial matters,
- ◆ Issue of commercial paper, stock market transactions, bond transactions, portfolio management and consultancy on financial investment,
- ◆ Domestic and foreign syndicates, foreign trade financing, all types of non-cash credit, letters of guarantee.

Please call us for more information.