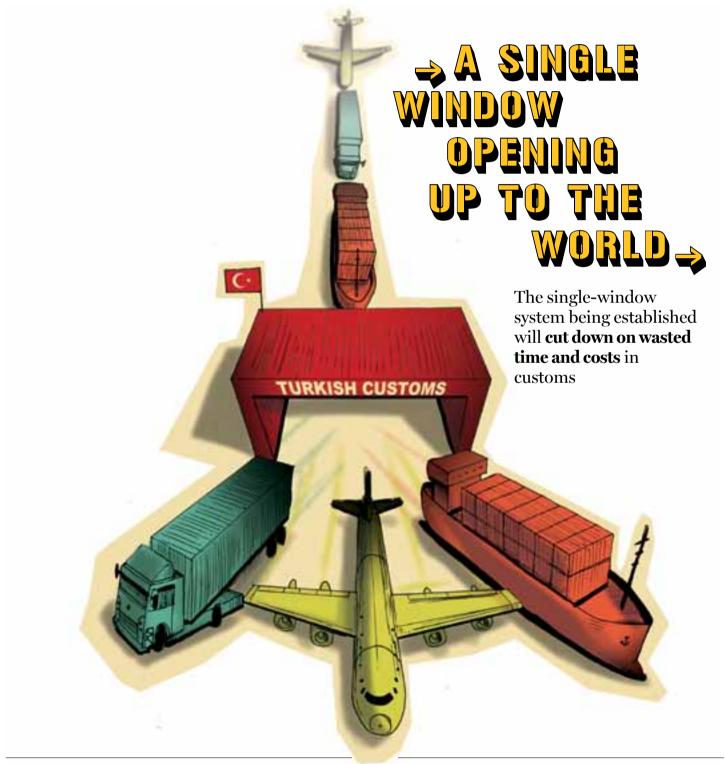
# ırkish SEPTEMBER-OCTOBER 2012 ISSUE 12 ECONOMY | BUSINESS | FOREIGN TRADE | ANALYSIS









# Contents

- **05** | We Are Getting Ready For Innovation Week
- 06 | Trade Deficit Shrinks
- 07 | Unemployment Falls
- 08 | Exporters Hopeful of Turkey's Economy
- 09 | New Pilots on the Way
- 11 | Turkey in the Design Spotlight





#### 32 COVER

#### A SINGLE WINDOW OPENING UP TO THE WORLD

Providing a system of integrated management between related institutions and organizations, the single-window system is being established to cut down on wasted time and costs in customs

#### **44 IN DEPTH**

#### HOW DID THEY FAIL?

Why are some nations rich and others poor, divided by wealth and poverty, health and sickness, food and famine?" In their recent book: "Why Nations Fail: The Origins of Power, Prosperity and Poverty" Daron Acemoglu and James Robinson answers this question that has stumped the experts for centuries



#### 12 PANORAMA

#### AN ECONOMY TRANSFORMING WITH **DISINFLATION**

Prof. Dr. Erhan Aslanoğlu of the Marmara University Department of Economics analyzes the positive transformation of the Turkish Economy with the process of disinflation



#### 14 BRIEFING

#### 14 TURKEY SHIFTS INTO HIGHER GEAR IN TOURISM

Bearing the traces of scores of civilizations, Anatolia holds a great advantage in tourism with its rich cultural heritage

#### 17 A RISING STAR IN THE FISHERY MARKET: TURKEY

The Turkish seafood and aquaculture industry's exports in 2011, to a total of 75 countries, were worth \$447 million

#### 19 INNOVATIVE, POWERFUL, AND HIGH-QUALITY

The driving force behind industrialization, the machinery industry will be drawing \$40 billion in investments with its innovative mission

#### 21 MAJOR LEAGUE STEEL

In its steel exports, Turkey is utilizing the advantages of its geographical location and acceding to its well-deserved spot in the big leagues

#### 22 | TURKEY'S SWEET SUCCESS IN THE FIG AND CHERRY INDUSTRY

Producing more than 43 million tons of fresh fruits and vegetables annually, Turkey is advancing confidently toward the export target it has set for the year 2023

#### 24 THE CHEMICAL INDUSTRY OPENS NEWS DOORS

The chemical industry continues to grow with the foreign direct investment it receives and increasing exports

#### 26 CONFIRMED SUCCESS

Besides ranking third among European airlines in terms of passengers carried, Turkish Airlines boasts certified success with three awards in this year's Skytrax World Airline Awards

#### 28 TURKEY STRENGTHENS ITS GLOBAL POSITION AS AN ATTRACTIVE FDI DESTINATION

Turkey became the 23rd FDI recipient in the world in 2011, according to the World Investment Report, prepared by UNCTAD

#### 30 | ICT GIANT FOCUSES ON TURKEY

The ICT giant Huawei is exporting R&D to the world via the R&D center it opened in Turkey

#### **48 IN DEPTH**

#### 48 | INVESTORS BULLISH ON THE ISTANBUL STOCK EXCHANGE

Will the Istanbul Stock Exchange, the eighth-largest stock exchange among developing countries, climb even higher?

#### 52 ISE CONNECTS TO EAST ASIA

Mr. Nihat Giimiis, advisor to the chairman of the ISE, spoke to The Turkish Perspective magazine about the recent performance of the exchange in Turkey

#### **54 BRANDS**

#### 54 VAKKO: TURKEY'S STYLE WITNESS

Having witnessed the modernization of Turkey, aesthetic changes in the Western lifestyle, style, and luxury, Vakko is venturing out to the world with its own labels

#### 57 A TASTE OF TURKEY: ÜLKER

Ülker, the cookie brand founded years ago by Sabri Ülker, today advances confidently toward becoming a global brand with its acquisition of such world-class brands as Godiva

#### **60** TAKING ACCESSORIES TO THE NEXT LEVEL

Once an OEM contractor working behind the scenes, Trexta is growing into an internationally recognized brand for mobile device accessories

#### 62 BUILDING UP A BRAND

Hakan Plastik, a pioneer in the Turkish plastic industry, is quickly increasing the number of countries to which it exports its products.



#### **38 EXCLUSIVE INTERVIEW**

#### **FASIFST AND SAFFST**

Hayati Yazıcı, the Minister of Customs and Trade, provided to The Turkish Perspective his assessment of the successful foreign trade policy being followed by Turkey during this time of global economic tumult and the country's practices to speed up customs procedures





#### 64 THE GIANTS OF ICT IN TURKEY

With regard to its goals for 2023, the ICT industry is expected to grow fourfold with successful brands like Karel and AirTies

#### 66 FROM ADANA TO THE WORLD

The journey Doğanay Food started in Adana continues in 35 countries today

#### 68 AGENDA

FAIRS, EXHIBITIONS, SUMMITS, MEETINGS IN THE NEXT OUARTER

#### **70 FIGURES**

THE BASIC INDICATORS OF TURKEY IN THE FIRST HALF OF 2012

#### MANAGEMENT

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TIM TURKISH EXPORTERS ASSEMBLY





# Editorial



PRESIDENT (TIM)

# DESPITE THE STORM, TURKEY SAILS STRAIGHT AHEAD

Turkev's exporters find refuge from the gusts of the global crisis in the safe harbor offered by new markets

T HE GLOBAL CRISIS THAT HAS-shaken the world's economies and ever-tougher competition in foreign markets continue to stir up world trade. As the shrinkage in Hungary's economy points to a recession, Greece, Spain, Italy, Spain, Cyprus, and Portugal are among the countries stricken with stagnation. The economies of Germany and France have entered a recovery, however little. In the second quarter of the year, growth in Japan slowed due to negative effects of the euro zone crisis upon exports and

continued low domestic demand, while the US economy saw a growth rate of

1.5%—the lowest yet since after the

crisis—and China reported 7.6%.

We hope to finish the second half of the year before the stagnant climate of the global economy takes hold over Turkey's economy. We believe the Turkish economy will surpass the 4% growth rate it is targeting for the end of the year. One gladdening aspect of the increase in the growth rate is taking place as unemployment rates continue to fall. Having dropped to 8.2% this past May, the unemployment rate went down as the lowest in the last 11 years. The Turkish economy's reduction of unemployment to 8.2% despite unemployment rates increasing worldwide, particularly in the euro zone, is a great success. As exporters announce continued increases in hiring in coming terms, we believe these figures will be drawn even further below.

Despite the stagnancy in world trade and the drop in our exports to the EU market, our exports increased by 10% over the first seven months of the year. Thanks to our employment-friendly, dynamic exporters' overtures in new markets, our export to the Middle East, North Africa, other Asian countries, and the Commonwealth of Independent States is continuing to exhibit a great increase. While Europe's high share in the export of our leading export industries, like automotive and ready-to-wear clothing, may drag down our general export performance, we are compensating for this drop through our overtures in new export markets. Our exports to the Middle East, North Africa, other Asian countries, the Commonwealth of Independent States, and North America continue to exhibit significant growth. With the shrinkage in imports, the recovery especially in the current account deficit excepting energy is reducing the risk posed by the current account deficit.

We wish to underline once again the point that the newly implemented incentives code will be quite effective at reducing our current account deficit. We are much closer to our 2023 targets of \$500 billion dollars in exports, \$1.1 trillion in foreign trade volume, and ranking among the world's top ten biggest economies thanks to the new, export-supporting incentives system. Wandering Anatolia step by step, we continue to inform

people of the incentives package especially in provinces that suffer from deficiencies in development, and we closely follow the investors who come from both Turkey and abroad. With our economy minister and a crowded delegation of businessmen, we explained the new incentive system to businessmen in Japan and Singapore on visits to those two countries. We set up contacts to develop our commerce reciprocally. We took yet another new step with China, aiming for cooperation in investment. With the Turkish-Chinese business forum hosted by TIM, we met numerous times with representative from more than 150 leading companies in Guangzhou.

Turkey continues to reap the fruits of success from its business forums and trade delegations, and the figures express this very clearly. While Turkey ranked 23rd among 211 countries attracting the most foreign direct investment in 2011, foreign capital inflow increased by 21% in the first half of relative to the same months last year, rising to \$8.2 billion. So long as Turkey attains the dynamic it desires and continues its export-focused growth, we will be ever closer to the \$500 billion export target.

Through focused innovation, R&D, skilled human capital, and information technologies, and the correction of foreign trade-hindering political, social, and economic instability, we will progress much more quickly on this road.



# More than 30,000 foreign companies have already invested in Turkey. How about you?









































### **INVEST IN TURKEY**

- One of the fastest growing economies in the world with robust GDP growth rates of 9.2% in 2010 and 8.5% in 2011.
- 16<sup>th</sup> largest economy in the world with \$1 trilllion GDP at PPP (2011, WEO IMF)
- A population of 75 million with half under the age of 30.

- Access to Europe, Caucasus, Central Asia, the Middle East and North Africa
- The World's 13<sup>th</sup> most attractive FDI destination in 2012 (A.T. Kearney FDI Confidence Index 2012)
- Highly competitive investment incentives as well as exclusive R&D support
- Around 600,000 university graduates per year

REPUBLIC OF TURKEY PRIME MINISTRY INVESTMENT SUPPORT AND PROMOTION AGENCY



YOUR ONE-STOP-SHOP IN TURKEY

# FIFST EXPORTS, MEETINGS, AVIATION, AGRICULTURE, PHARMACEUTICAL, AWARDS...



# "WE ARE GETTING READY FOR INNOVATION WEEK"

Indicating that dynamism in exports goes by R&D and innovation, Mehmet Büyükekşi is preparing to once again bring to the agenda the indispensability of innovation and design with the second Innovation Week Turkey, scheduled for December

### T HAS BEEN FOUR vears since the

global crisis started in 2008, yet the world economy has still not returned to its normal programming. As the general stagnancy in the global economy slows down world trade, Turkey exhibits outstanding performance. Turkey's exporters are successfully practicing a process of market diversification, by which losses caused by shrinking in one market can be compensated in alternative, new markets. "And this helps our exports continue to increase without slowing down despite worldwide constriction and the

crisis in Europe," says Mehmet Büyükekşi. Design and innovation are especially important-it is necessary for the structure of exports to change in the area of innovation, and efforts to do so have been sped up, says Büyükekşi.

Organizing R&D project markets in seven industries and design competitions in 24, TIM is preparing to further expand its reach by bringing these to all 26 export industries. Büyükekşi said the innovation week held last December, which was attended by President Abdullah Gül, will have the air of a festival this year, and he adds that they

will once again bring the indispensability of innovation and design to the agenda with Innovation Week Turkey. Works that win awards in the R&D project markets and design competitions will be on display for a week, contributing to the spread of innovation culture.

#### BALANCE OF TRADE

## TRADE DEFICIT SHRINKS

Exporters predict that the foreign trade deficit will fall beneath \$60 billion



CCORDING TO interim foreign trade data for June 2012 compiled by TurkStat in collaboration with the Ministry of Customs and Trade, exports increased 16.9% in that month over June 2012 to \$13.266 billion, while imports fell 5.4% to \$20.441 billion. The trade deficit fell in this period from \$10.255 billion to \$7.176 million. The coverage ratio of exports to imports rose from 52.5% in June 2011 to 64.9% in June 2012.

Minister of Economy Zafer Çağlayan stated that the foreign trade deficit has continued to drop, falling beneath \$100 billion. "With the exception of energy, our foreign trade deficit is at 43.1 billion dollars, the best level in the past 17 months after January 2011. Although the energy deficit is increasing continually, the improvement to our foreign trade deficit is the result of our covering the world step by step with our importers, and making distant markets that have not reached new markets closer. It is the success of the Turkish exporter's transformation of the crisis in Europe into an opportunity," he said.

The trade deficit fell from \$10.255 billion to \$7.176 million in June 2012

#### **AGRICULTURE**

# ORGANIC AGRICULTURE FLOURISHES

Turkey's export of organic produce has exceeded \$15 million

THE EXPORT of organic produce, which began to develop based on emerging export demand in the 1980s with traditional products like grapes and figs, is continuing to flourish with an expanded range of both products and markets. Exporting organic produce to a total of 13 countries, notably to those in the EU, Turkey's export has exceeded \$15 billion.

The 13 countries to which Turkey exported the most organic produce in the year 2011 were Germany, France, Iraq, Denmark, Belgium, Switzerland, the UK, Sweden, the United Arab Emirates, Poland, the US, Russia, and Ghana. Of Turkey's 3.37 ton organic produce exports in 2011 worth \$15.5 million in total, Germany took the largest share with a value of \$9.96 million, followed by France with \$2.1 million, Switzerland with \$948,000, and Sweden with \$387.000.

The most popular organic export products 2011 were hazelnuts and hazelnut-derived products (\$4.8 million), raisins (\$3.7 million), apricots and apricot-derived products (\$1.8 million), figs and fig-derived products (\$1.8 million), lentils (\$692,000), and cotton and textile products (\$421,000).

In the domestic market, there are 15 marketplaces that sell 100% organic products. Located all over Turkey, seven of these marketplaces are set up in Istanbul, two in Ankara and İzmir, and the others in Bursa, Antalya, Eskişehir, and Samsun.



#### **EMPLOYMENT**



## UNEMPLOY-MENT FALLS TO 10.1% IN CITIES, 4.5% IN THE COUNTRY

Overall unemployment in Turkey dropped by 278,000 individuals to 2,272,000 people nationwide, with the unemployment rate falling by 1.2 points to 8.2%. The unemployment rate's drop to 8.2% signifies its lowest level in a long time. Data filtered of seasonal effects shows unemployment as 9%. According to the Household Labor Force Survey for May 2012 by TurkStat, the unemployment rate fell in urban areas by 1.2 points to 10.1% and in rural areas by 0.9 points to 4.5%. The 8.2% unemployment rate for May as the lowest in the period post 2005, when TurkStat started using the new population projections in its

#### AVIATION

# **Best Again!**

The excellecence of Turkish Airlines' service is validated once again at the "Oscars of aviation"

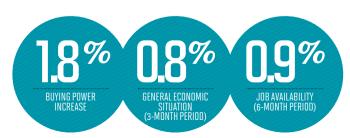


TURKISH AIRLINES HAS proved its quality to the world by taking awards in three categories, including Best Airline in Europe, in the Skytrax Aviation Awards, the "Oscars" of the aviation sector, which rank airline product and service standards through programs that compare service quality and reviews of the airline and

airport sector. Turkish Airlines was voted Best Airline in Europe this year as last in the Skytrax awards, which are based on the votes cast by close to 18 million air travelers from 100 different countries. Turkish Airlines was also named Best Airline Southern Europe and earned Best Premium Economy Seat or its Comfort Class seats.

## **CONSUMER CONFIDENCE RISES**

The Consumer Confidence Index rose 1.1% over the previous month in July 2012 to reach 92.8%



#### STATE FUNDING

## TRY 300 MILLION FUND FOR ICT

An R&D fund of up to TRY 300 million has been created to support the ICT industry.

Binali Yıldırım, Minister of Transport, Maritime Affairs, and Communications. said the ministry has created an R&D fund providing up to TRY 300 million annually in support of the ICT industry and has determined its code of practice, "We have created an R&D fund exclusive to ICT. We have determined the code of practice. We have an R&D fund of up to 300 million liras a year. This fund is only for ICT," said Yıldırım.

#### FDI

## \$8.2 BILLION DIRECT INVESTMENT INFLOW

Minister of Economy Zafer Cağlayan announced that the amount of FDI entering Turkey in the first six months of the year increased 21% to reach \$8.2 billion. Foreign direct investment in June will total \$1.766 billion, said Çağlayan. Between January and June, he said, the inflow of FDI increased 21% compared to the same period last year.

calculations.

#### AVIATION



## **WE ARE CONTINUING TO GROW**

Flying to 195 cities in 161 countries on five continents, Turkish Airlines is continuing to expand its flight network. The airline's Istanbul-SAW (Libva)-

Istanbul flights are getting under way on September 2. The flights will be three times a week on Tuesdays, Thursdays and Sundays.

#### TRADE

# FTA WITH SOUTH **KOREA**

A free trade agreement has been signed between Turkey and South Korea

B EARINGTHE distinction of being the first FTA signed by Turkey in East Asia, the Turkey-South Korea Free Trade Agreement will not only facilitate free trade, but also initiate negotiations geared toward investing and the services sector one year after coming into effect. Following ratification procedures, the FTA will come into effect at the end of the vear.

Minister of Economy Zafer Çağlayan spoke at the signing ceremony of the FTA between the

two countries, saying, "Last year, 92 percent of the volume of trade between our countries was comprised of imports. 6.3 billion dollars in imports in contrast to 527.8 million dollars in exports took place. I hope we will increase this to 10 billion dollars within two to three years and make it as balanced as possible." Zafer Çağlayan also announced that the volume of trade between Turkey and South Korea, which was around \$7 billion in 2011. would be increased to \$10 billion.

#### SURVEY

# **EXPORTERS HOPEFUL OF** TURKEY'S ECONOMY

The Q2 2012 results for the Turkish Exporters Assembly's Exporter Tendency Survey of the medium- and high-level managers of 508 exporting companies are hopeful

Exporters Assembly released the results of the Q2 2012 Exporter Tendency Survey, according to which exporters indicated that they expect the relative stagnancy to continue into the quarter ahead. The survey showed that the exporters in the lower half of the top 1,000 countries do better at market diversification than

those in the upper

half, and that the

2023 export target set

by TIM has started to

influence exporting

**THETURKISH** 

companies as well. Based on polling the medium- and high-level managers of 508 exporting companies in July, the results, which were announced by TIM President Mehmet Büyükekşi, highlighted an increase in input costs relative to Q2 2011 in the April-June period this year. Increased costs were reported by 64.5% of exporters, while 45.7% noted a drop in general profitability and 47% in export profits. On the other hand, increases relative

to Q2 2011 were reported in exports by 44.9% of companies and in production by 42.2%. Companies pointed out relative stagnancy in Q3 compared to the same period last year, and TIM President Büyükeksi stated that the prevailing view is that many of the elements affecting companies' performance will not change in comparison to that period last year. The results of the survey further prove that exporters have fully adopted the 2023 goals.

#### **WEB AWARDS**



## ALL FOR OUR PASSENGERS

Turkish Airlines was deemed worthy of two separate Golden Spiderweb awards in the category of Tourism-Travel, as well as in the category e-Commerce for its

www.turkishairlines. com website, in this year's tenth annual Golden Spiderweb competition. Abroad, Turkish Airlines was also voted best website of 2012 in the

Airline category at the Interactive Media Awards, which are given by the Interactive Media Council (IMC), one of the leading firms in the industry.

#### **AWARDS**

## **WE CAN'T GET ENOUGH** PRI7FS!

URKISH

Airlines was the recipient of a Vision Award in the League of America Communications Professionals (LACP) Annual Report Competition. in which some 5,500 applications made by 800 legal entities from more than 20 countries were evaluated. Turkish Airlines' 2011 Annual Report was also singled out for a Bronze Award for meeting all the requisite criteria in terms of content and visuals. In the annual report point system based on 100, the airline earned 29/30 for first impression, 9/10 in the categories of report writing, letters to partners, and accessibility of information, and 10/10 for narrative writing, financial reporting, creativity and clarity of communications for a grand total of 96 points.

#### FLIGHT TRAINING

# New Pilots on the Way

Turkish Airlines Flight Academy offers young aviators-to-be a path leading from single-props to professionally piloting passenger jets



# POUNDED IN 2005 WITH three flight instructors,

an administrative staff of one. and two single-prop planes, the Turkish Airlines Flight Academy graduated 38 students in the last month. The 118 cadets who have graduated since the Academy's inception

joined the Turkish Airlines flight staff with the rank of copilot. In addition to its 118 flight staff cadets, the academy operates today with 21 flight instructors and administrative personnel, ten single-prop and two twin-prop aircraft, and two training jets.

#### PHARMACEUTICAL



## TURKISH PHARMACEUTI-**CAL INDUSTRY DOUBLES IN** SIZE OVER PAST DECADE

Turkey's pharmaceutical industry—an important subindustry within the chemical industry-has grown double compared to a decade ago, reaching a market size of \$15 billion. Istanbul Chemicals and Chemical Products Exporters' Association Chairman (İKMİB) Murat Akyüz said, "The pharmaceutical industry has made serious progress over the past ten years," and he indicated that the Association's pharmaceutical exports have exhibited an increase of 58.6% over the past five years. Last year, Germany, Iraq, and Switzerland were the top recipients of the pharmaceutical industry's exports. Also among the top ten recipients were the UK, Northern Cyprus, Slovenia, Belgium, Azerbaijan-Nakhichevan, the US, and Algeria.

## INDUSTRIES THAT MOST INCREASED THEIR EXPORTS IN FIRST 6 MONTHS OF 2012

DEFENSE TOBACCO **JEWELRY** 

#### **FURNITURE**



## TURKISH FURNITURE MAKERS MAINTAIN SPEED IN EXPORTS

According to Q1 2012 export and sales figures released by the Association of Turkish Furniture Manufacturers (MOSDER), furniture exports increased 19% over last year while furniture imports fell 7%. Turkey, whose export is growing day by day, is about to reach a very high rank in the world furniture industry. It is predicted that furniture exports, which have been growing 20% for the past two vears, will continue to rise in the future, helping to make Turkey one of the world's top ten exporting countries within five years. Should Turkey's furniture exports rise from the level of \$2 billion to \$3 billion, Turkey will replace Canada as seventh in exports.

#### **AGRICULTURE**

# BASIN-BASED SUPPORT FOR AGRICULTURE

The best citrus cultivation areas are receiving government support

TURKEY'S CITRUS production was examined in every aspect at the Citrus Summit organized in July by the Mediterranean Exporters' Unions. Stated at the festival was the fact that Turkey, which has risen to 7th place from 11th worldwide in terms of agricultural economic size, also rose from 10th place to seventh in the citrus industry. As fresh fruit and vegetable production increased from 39 million tons to 44.5 million tons over the past ten years, citrus production increased from 2.5 million tons to 3.7 million tons.

Deputy Permanent Undersecretary Ferhat Şelli of the Ministry of Food, Agriculture, and Animal Husbandry

said at the meeting that the ministry has created a strategic road map for citruses in order for this success to continue at ever-greater levels. Stating that they are in preparations to provide support for agricultural basins for the first time ever in Turkey, he said a basin-based model of support would be adopted in the citrus and fruit-and-vegetable industry. The best locations to cultivate citruses in Turkey's 30 agricultural basins were determined as part of the basin-based support model with the intent of increasing the current harvest period of three to four months to six or seven months.

#### INVESTMENT

## Incentives Encourage International Investors

A study conducted by YASED shows that foreign investors have sped up their investment plans following the announcement of the incentives package in 2012.

#### ↑ CCORDING TO THE RESULTS

of the second International Investors Association (YASED) Barometer Survey 2012, international investors who predicted a slowdown in economic growth both worldwide and in Turkey during the first survey of the year hold positive thoughts regarding Turkey. Sixty-five percent of the participants expect economic growth in Turkey to maintain its current levels or speed up. Fifty-three percent of the international investors in the survey expect \$15–20 billion of foreign direct investment in Turkey this year.

The survey indicates that YASED members accomplished to a great extent their aims for the first six

months of 2012. While 38% of members said they exceeded their revenue targets, 44% said they largely accomplished their aims in profitability and 64% in market share.

International investors listed their predicted leading areas of investment in Turkey as energy, financial services, and the automotive and auto parts & components industry.

Within the scope of the new incentive system, 40% of the international investors planning to invest stated that their planned investment program is as of yet uncertain, while 30% sad they could invest up to \$50 million within three years and another 30% said they expect to invest more than \$50 million.

#### MINING

## MINING EXPORTS IN FIRST HALF OF 2012 TOTAL \$1.9 BILLION

The mining and natural stones industry, which as a leading industry in economic development employs 750,000 people, is striding confidently toward its 10% growth target for 2012. Over the first six months of the year, the export of mining products reached a value of \$1.93 billion by value, having increased 5.29% by value compared to the same period last year. In June, Turkey's mining exports broke the \$400 million line for the first time ever, reaching \$411.8 million. Natural stone exports accounted for 44.3% of total mining exports, growing 11.29% by value over last year. The export of mining products to India contributed notably as well, having increased 63% in this period.



#### FINANCE

# Participation Banks Association and Eximbank Hand-in-Hand with **Exporters**

The Turkish Exporters Assembly (TIM) welcomed the Participation Banks Association Board of Directors and Eximbank executives. The exporters' joint request of the participation bank was to reduce costs



PEAKING AT THE opening of the meeting, TIM President Mehmet Büvükeksi criticized the Central Bank's attitude toward the valuable Turkish lira. "We believe the policy interest rate needs to be reduced," said Büyükekşi, and he emphatically stated that exporters are under pressure from two ends with market loss in Europe and falling currency exchange parity.

Ufuk Uyan, Chairman of the Participation Banks Association and General Manager of Kuveyt Türk, said, "As per our financing model and system, we work entirely with the real sector. And for exporters to have a very significant share in the sector is our desire—our wish— too."

Also speaking at the event was Eximbank General Manager Hayrettin Kaplan, who reported that the institution had

provided a credit increase of over 100% to credits following the transformation program they did last year, and that they have surpassed last year's figures with the figures as of the end of this past July. "This transformation period came out not only in terms of volume, but also on the point of new products that can meet our exporters' needs," said Kaplan. "We convened with our exporters and entered close dialogues with them, and we are continuing this. With respect to participation banks offering more services to our exporters, I would like to state that Eximbank is ready to expend every kind of effort," he said in conclusion. With support from Eximbank and participation banks, exporters will continue to make up the driving force of stable growth.

#### DESIGN

### TURKEY IN THE DESIGN **SPOTLIGHT**

Turkey and Turkish designers ranked in the platinum at the A'Design Awards

Architecture, design, and engineering agencies from all over the world find the chance to compete at the annual A'Design contest. Covering a wide range of categories and focusing on innovation, technology, design, and creativity, the contest presents the A'Awards in a scale ranging from iron to platinum. Earni ng 40 awards from 2010 to 2012 thanks its successful designers, Turkey ranks second in awards after the US's 43 awards, and

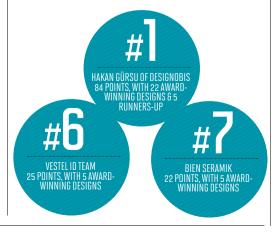
first in points with its cumulative 163 points. Number one in Turkey was Hakan Gürsu. owner of the design firm Designnobis, with the 22 awards and 79 points he gathered. Gürsu also earned first place out of the 223 designers at the competition with the number of awards and points he won. Nine design firms from Turkey participated in the festival, with Vestel Id Team coming in sixth with its 25 points and Bien Seramik as seventh with 22 points.

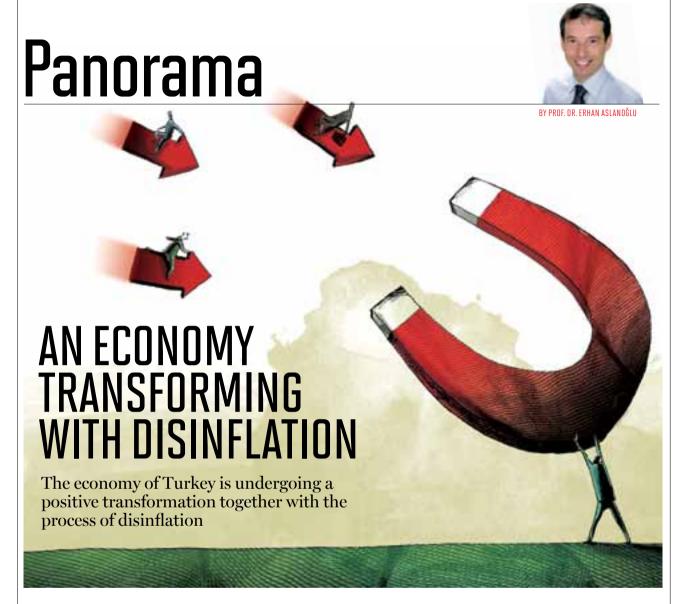
#### Current Aggregated World Design Rankings: Years 2010 - 2012

Rank	1	2	3	
Country	TURKEY	USA	HONG-KONG	
Score	163	158	115	
Awards	40	43	31	

#### Turkey, winning 40 awards in total, ranked second

Award	Platinum	Golden	Silver	Bronze	Iron
TURKEY	5	14	8	5	8





O SAY DISINFLATION IS MOST IMPORTANT CHANGE that has been occurring in the past ten years in the Turkish economy wouldn't be off the mark. The economy, which experienced very high inflation in the 30 years previous, entered a period in which inflation rapidly fell after the 2001 crisis. This process brought an important change to the economy of Turkey in every area, and it appears as if it will continue to do so.

High inflation means high interest. High interest means low investment, low employment, and low production. Due to high interest, production and investment are unable to be the primary point of focus for companies. Nonoperating income—that is to say, interest income—drive companies outside their main areas of operation. High inflation also means uncertainty and a cloud of fog in the economy. It means the investing environment is poor. Producers are pushed away from investment because expenditures cannot be calculated well and easily.

Low inflation, on the other hand, bears positive results, contrary to the inflationist process. With reduced uncertainty, the investing environment improves. Not only does the investing environment improve, but also falling inflation and interest encourage investment, production, and employment. Increased production means higher total and per-capita income. Looking at the economic indicators for the past ten years, we see that the economy of Turkey has started to experience the positive change created by the disinflationary process. As inflation fell from triple-digit to single-digit figures, growth speed rose from the level of around 4.5% to around 5.5%. Fixed capital investments, which were 3% in the ten years previous, have come to the level of around 12% in the past ten years. Per-capita income, too, rose from the level of \$3,000 to \$10,000 in the past ten years.

One of the most important factors in the rapid descent over the past ten years of the inflation that could not be dropped for years was the concentrated entry of extremely price-competitive products from South and East Asia, most of all from China. Starting with China's membership in the World Trade Organization in 2001, this process created pressure to disinflate not only in Turkey, but also in many of the world's countries. As highly price-competitive products poured in from the countries in question, local companies started to either enter a great competition by increasing productivity or shift their investments to new industries in which the country could have high competitive ability. In the economy of Turkey, the province of Denizli can be given as an example of this on a micro level. A leader in textiles, Denizli was seriously shaken up in this industry due to the competition from Asia. But a while later, those who were able to become brands and those who were successful in design maintained their competitive power. More importantly is that capital owners in Denizli started shifting toward areas like tourism, mining, and agriculture. This is a natural reflex—finding a rational exit in order to survive. Denizli is an example; on the macro level, this is exactly how what the economy of Turkey has experienced and will continue to experience appears.

This pressure on prices from Asian countries in particular, China most of all, looks like it will continue for quite a long period. In time, of course, costs and prices will rise in these regions as well, and pricing pressure on the economy of Turkey will be reduced. But in all likelihood, other regions in the world—Af-

rica, for example—will take on the role of the Asian countries and continue pricing pressure on many manufactured products and services.

The economy of Turkey appears to have entered a hard-to-reverse process that will take the disinflation pressure on it to the very limit. Together with disinflation, a transformation in which units of production are moving in focus from nonoperating interest income toward operating incomes. A positive feedback loop is being created that brings about increased demand from production and income increases, which in turn goes back to support production and income increases again. In this respect, the economy of Turkey is in a process where new industries with high competitive ability are and will continue to emerge at the forefront. Among the industries that immediately spring to mind are tourism, agriculture, mining, finance, contracting services, and the production

of motor vehicles, ships, and yachts. Turkey is one of the leading countries in tourism and contracting services. It is among the world's top ten countries in tourism, and it is one of the two countries receiving the most work in contracting. Istanbul could be a new center in finance—it has the potential to, at the very least. Producing automobiles in China and selling them is very difficult in terms of expenses. A country like Slovakia, Hungary, or Turkey will be the new center in automobiles. If certain conditions and supports are realized, it wouldn't be surprising for Turkey to be an automotive center. On the other hand, growth and increasing income means increased demand for energy, too. On this point, the energy industry, too, looks like it will be and continue to be one of the hottest industries in Turkey.

The rapid growth of China and other developing countries is increasing the demand for raw materials. Similarly, the increase of these countries' incomes is raising worldwide food demand and prices. Furthermore, with global warming, food supply is

being affected negatively. Therefore, it is harder for us to see in raw material and food products the pricing pressure we see in many manufacturing industry products and the service sector. Agriculture and mining products, for which demand and prices have risen, are drawing the interest of investors as industries that have inadequacies in supply and promise profitability. As in the example of the province of Denizli, Turkey as a whole is a candidate for drawing investments with its natural wealth in the fields of agriculture and mining. The economy of Brazil, whose agriculture and mining industries grew much bigger after inflation was reduced, is also an important example for Turkey.

We think there are two important points that economic policies vis-à-vis the continuation of the disinflation processes have started to focus on but must be constantly developed. The first: in the disinflation process, companies unable to shift the burden to prices and work with high profit margins as in the past are naturally focusing on reducing costs and increasing productivity. For this reason, while the disinflation process does increase growth, it

is unable to reduce unemployment adequately. In theory and in practice, unemployment is expected to fall to natural levels at the end of a process of disinflation—that is to say, when inflation permanently reaches levels of around 2-3%. These levels are the periods in which growth and investments shift into higher gear. Macroeconomic policies that will speed up the disinflation process and support growth are of very high importance for the struggle against unemployment, too. On a microeconomic basis, policies like training to raise qualified employees or like unemployment benefits are of great importance. The second point concerning the disinflation process is to emphasize structural reforms geared toward solving the current account deficit problem in the economy of Turkey. The increasing current account deficit carries with it the risk of both triggering inflation and slowing down growth by creating financing and exchange

rate risks. Microeconomic and macroeconomic structural reforms to combat the current account deficit must be continued uninterruptedly.

To conclude, the economy of Turkey has transitioned from the high inflation it experienced in the 1972–2002 period to a process of disinflation, in which more production activities can be given focus and which is accelerating the increase of income. Unable to focus on production and investment due to thigh inflation, the economy had entered a trap in which it could not increase its average income. Disinflation, on the other hand, has started a process that will lead to the convergence of the average income to that of countries in the high-income group. High income means a growing market and decoupled demand. As we have tried to summarize above, the economy of Turkey bears investment and growth potential in many industries from agriculture to automotive and mining to finance. The speed of structural reforms will determine the speed of this process, too.



to automotive and

mining to finance

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Content: Turkey Shifts into Higher Gear in Tourism P14 A Rising Star in the Fishery Market: Turkey P17 Innovative, Powerful, and High-Quality P19 Major League Steel 21 Turkey's Sweet Success in the Fig and Cherry Industry P22 The Chemical Industry Opens News Doors P24 Confirmed Success P26 Turkey Strengthens Its Global Position as an Attractive FDI Destination P28 ICT Giant Focuses on Turkey P30 Editor: Can Gürsu

# Briefing steel, airlines, chemicals, fishery, agriculture, machinery, electronics...



TOURISM

# Turkey Shifts into Higher Gear in Tourism

Bearing the traces of scores of civilizations, Anatolia holds a great advantage in tourism with its rich cultural heritage

BY DERYA ENGÍN KUTLU

**66** T IS IMPOSSIBLE for **▲**a country like Turkey, where there are the footprints of numerous civilizations, to remain content with a few accepted permanent heritage sites," says Minister of Culture and Tourism Ertuğrul Günay on Anatolia's position in the

UNESCO World Heritage List. "We are trying to compensate for this," he adds.

In many countries, cultural heritage is seen as tourism's keystone. Countries closely bound to their heritage, like France, Italy, and Spain, are continuing to take their slice

of the pie and raise the bar. One would do well when mentioning such countries not to forget Turkey, which has been shifting into higher gear as of late. Drawing high numbers of tourists in the summer with its seas, sun, and natural beauty, Turkey has set

for itself another objective: to put more of its heritage in the UNESCO World Heritage List. According to Secil Birkan, an expert archaeologist and historian, Turkey has the potential to be the world's number-one spot for tourism with the cultural heritage it

possesses. The way things are progressing confirms this: in 2012, Turkey turned over a new leaf in its world heritage venture, with 12 more historic spots in Anatolia—the junction of many civilizations—becoming candidates for entry into the UNESCO World Heritage List thanks to the Turkish government's successful efforts. World Heritage candidacy aside, two more important items of cultural heritage are now entering the protection of UNESCO: the Hittite Capital of Hattusha (Boğazköy) and the Selimiye Mosque and Social Complex in Edirne.

Other places in Turkey that are on the list include Istanbul's historic areas. the city of Safranbolu, Mt. Nemrut, Xanthos-Letoon, the

Great Mosque and Hospital of Divriği, the archaeological site of Troy, Hierapolis-Pamukkale, and Göreme National Park & Cappadocia. Assessing Turkey's ventures in this area, Ertuğrul Günay said, "This much is still not enough for us: we want to add more to this number every year," stating the ministry's aim in this matter.

#### THE GLOBAL VISION BROUGHT BY UNFSCO

The future is very bright for the cultural heritage sites that entered the UNESCO Tentative List. Besides facilitating the flow of funds to the region, it is earning prestige for it, too. Gaining increased worldwide recognition for the region, the UNESCO name comes to signify change for the regions

The cultural heritage sites that enter the UNESCO Tentative List facilitate the flow of funds to the region while also earning it prestige

on the list. In a statement about the archaeological site of Zeugma and the Yesemek Quarry & Sculpture Workshop in Gaziantep, which entered the UNESCO World Heritage Site Tentative List in 2012, Asım Güzelbev, Mayor of the Metropolitan Municipality of Gaziantep, said, "We skipped an age." Also entering the tentative list in 2012 is Mamure Castle in Mersin, for which the Young Businessmen Association of Turkey (TÜGİAD) said the decision was very pleasing and that Mersin-Anamur would gain even more prominence in international tourism.

Also in 2012, the Selimiye Mosque and Social Complex. which the legendary Ottoman architect Mimar Sinan called his "most flawless work,"

### UNESCO WORLD HERITAGE SITES IN TURKEY

Boasting a very rich range in its cultural heritage, Turkey continues at full throttle to add new candidates to this list.



gained World Heritage status. Pointing out that this is a very important development, Gökhan Sözer, the governor of Edirne, stated, "Edirne has now become world city," and added that they have gained prestige, too.

The biggest World Heritage List entry for Turkey in 2012, however, was that of Çatalhöyük, which shines a light on the ancient history of civilization. Representing one of the most important stages in human history, Neolithic Çatalhöyük dates back to the 7400s BC. Turkey's stature in the list is increasing day by day with Çatalhöyük's new status. UNESCO experts said in a

statement that an important deficiency in the World Heritage List has been filled in and that this constitutes an important development in terms of the list's coverage of all eras of humankind. The good condition of Çatalhöyük-a challenging site in terms of preservation and suitability to the list's criteria—is regarded as an important criterion. Lucienne Senocak of Koc University's Department of Archeology and History summarizes Turkey's success as follows: "Turkey has been accomplishing lots of great work with the significant steps it took in the past ten years, and tourism, too, is among these, and the

"Every site Turkey adds to the World Heritage List means advertising the country in the international arena without any spending at all"

loveliest proof of this is the sites it has newly added to the tentative list. Especially of great importance is the rapid inclusion in the list of Selimiye Mosque and Social Complex and Çatalhöyük, which shines a light on human history, through the government's successful effort. But I believe more sites should enter."

Boasting a very rich range in its cultural heritage, Turkey continues at full throttle to add new candidates to this list. As this happens, many more sites of cultural heritage are waiting in line with successful, complete applications, and new ones are being added to these day by day.

## ASSOC, PROF. LUCIENNE SENOCAK, PhD

Department of Archaeology and History, Koç University

Being on the UNESCO World Heritage List or on the tentative list wins big pluses for a country. The listing of a site by the World Heritage Organization is a kind of international mark of approval of "good practice" in terms of how heritage is valued and preserved in a country. Being on the World Heritage List does not however, in and of itself, bring immediate financial benefits as the World Heritage Organization does not allocate a significant amount of money to support listed sites. But there are many statistics showing that the revenues from tourism and especially cultural tourism increase significantly when a site become a world heritage site. Cultural tourism is a growing sector of that industry so this is important to try to attract that type of tourist rather than the mass tourism that can be quite destructive of natural and cultural resources. A second very important aspect of becoming a world heritage site is that you are part of an international information network of heritage experts who have a great deal of experience with different types of heritage sites—and /or intangible heritage —and can advise about the many challenges that face world heritage sites.







#### **SEÇİLBİRKAN**

Expert Archaeologist & Historian

Turkey's potential is such that the area has the potential to be world's number-one spot for tourism. I would like to express this as follows-possessing a very wide range, Turkey, with its historic, cultural, and natural beauties, is at a position that is advantageous in many ways. Turkey's realization of this potential, which it did not use for years, has brought it gains in many areas of tourism. One of these potentials is UNESCO. While the monuments and historical texture put under conservation by UNESCO in countries like Spain and Italy benefit from many resources, Turkey has started to see these pluses just now. Because each site Turkey adds to the World Heritage List means advertising the country in the international arena without any spending at all, this "plus" needs to be utilized well. A big tourism boom was observed in Safranbolu, one of the regions that gained big pluses, once the historic houses there were placed under conservation. For Turkey to come to a position of leadership among the world's countries for tourism, it must further speed up such activities.



# A RISING STAR IN THE FISHERY MARKET: TURKEY

The Turkish seafood and aquaculture industry's exports in 2011, to a total of 75 countries, were worth \$447 million. The industry aims to finish the year 2012 with even better figures

BY AYNUR ŞENOL ALTUN

**▼ URKEY, WHICH IS** sur-I rounded on three sides by sea, is presenting its potential to the world. The rise of the seafood and aquaculture industry in Turkey, which benefits from the ecological diversity in the Mediterranean, Black Sea, Aegean, and Marmara Sea, continues. Industry representatives are quite pleased with the interest they receive at the numerous fairs they attend around the world, where they

share the deliciousness of Turkish fish and other seafood with participants. In competition with Greece until recently, Turkey pulled ahead in this race as government incentives and subsidies in the crisis-stricken country were withdrawn. "Demand for gilt-head bream and sea bass has shifted to Turkey," savs Tuncav Sagun, chairman of the Istanbul Fishery and Animal Products Exporters Association. He points out that

production in Turkey has likewise increased during this time. Sagun emphasizes that Turkey is using its geopolitical advantage to great effect and says the Turkish fishery industry will soon rise to the rank of world's largest producer and seller.

The chairman of the Aegean Fishery and Animal Products Exporters Association, Melih Isliel, says, "Turkey's being surrounded on three sides by sea, proximity to target markets, diversity of species, EU-norms-compliant production and processing capacity, with its high export potential the value-add it creates, are of great importance for the economy of Turkey."

The seafood products exported most by Turkey are gilt-head bream, sea bass, tuna, and trout. Marketspecific production does take place, too-sea bream and bass for the European market, trout for the Turkic nations, and tuna for East Asia. Sea bream and bass are well known in many countries, according to Melih İşliel. They can be found easily in markets and they appear on restaurant menus. What isn't so well known is that these are produced in Turkey. Trout—generally smoked—is consumed widely in Europe. On this point, Turkey's

participation in fairs abroad increases recognition of Turkish fishery products.

Tuncay Sagun says producers in Europe have withdrawn from the market because of the crisis. Thanks to a strengthened Turkish economy. Turkish producers have started searching for new markets, he adds. As this searching takes place, Turkish producers are also continuing to compete in the international arena. Sagun lists the countries Turkey is up against as follows: "We are competing with countries where the production ability of fishery is high, like Greece, Spain, and Norway."

Tuncay Sagun is also the CEO of Group Sagun, where he maintains the aforementioned stability. The company. whose export revenue was \$135 million, provides jobs to 1,000 people in its eight production facilities. Sagun says new offices will be opened in Russia and the Turkic nations in the near future.

#### TURKEY AT INTERNATIONAL FAIRS

Turkev is demonstrating its strength at international fairs via its Seafood Promotion Group, of which Melih İşliel is the president. He says this demonstration is an important step for their promotional activities. Industry representatives from Turkey are at work promoting the country all around the world, from America to Russia, Belgium, and India. As activities geared toward markets determined to have potential continue, so do domestic efforts-especially for the benefit of primary school students, the industry is holding fish sandwich festivals, highlighting the benefits of fish, and distributing various promotional materials. "Our efforts to hold the Fish Sandwich Festivals, which until







MELIH İSLİEL

Chairman, Aegean Fishery and Animal Products Exporters' Association; President, Seafood Promotion Group

In 2011, fishery products were exported to 75 countries. Our aim is, together with increasing our present exports, to take part in yet-unentered markets. For this purpose, we are participating heavily in international fairs.



TUNCAY SAYGUN

Chairman, Istanbul Fishery and Animal Products Exporters Association

Gilt-head bream, sea bass, tuna, and trout, which are aquaculture products, are the products Turkey exports most. Other than these, marketspecific products are being bred, too. For example, sea bream and bass are being bred for the European market, trout for the Turkic nations, and tuna for East Asia.

The production of trout in the Keban Dam and caviar in the province of Adana contributes significantly to the fisher products industry's exports

today have been conducted mostly in İzmir, in other cities are in progress," says İşliel. He adds, "Additionally, efforts to increase seafood consumption are taking place by way of speeches and press releases after every event."

The export of fishery products has advanced greatly with the activities run so far, savs İsliel, but he emphasizes that there is potential to do much better. According to him, the fishery products industry is regarded as a prime export industry. The promotional activities being conducted are aimed to increase recognition of Turkish fishery products in foreign markets, strengthen the image of these products, and increase the market share held by the companies making them, thereby increasing export value and diversifying its markets. The market for fishery products—almost all of which used to be exported to EU countries—is diversifying thanks to promotional activities. The export increase as observed at the end of 2011 is expected repeat in 2012. Initially aiming to contribute \$3 billion to the \$500 billion national export target by 2023, the fishery products industry revised its target to \$4 billion as a result of the success it obtained in recent vears. Should the industry utilize its potential more effectively, it could set its sights even higher.

#### MACHINERY

# INNOVATIVE, POWERFUL, AND HIGH-QUALITY

The driving force behind industrialization, the machinery industry will be drawing \$40 billion in investments with its innovative mission

BY DERYA ENGÍN KUTLU



\*\*ELOVE TO produce things, but everyone produces. What's important is how you do it and how vou market it," savs Adnan Dalgakıran, President of the Central Anatolia Machinery and Accessories Exporters Union, explaining how the push carried out by Turkish machinery exporters in recent years is actually rooted in the way of doing work and the excitement of promoting it. In the rankings of average export growth over the past decade, he adds, Turkey placed fourth, after China, the Czech Republic, and Poland. The Turkish machinery industry,

which accounts for 0.5% of world machinery exports, is expected to draw \$40 billion worth of investment from Europe in the next five years. Currently, it ranks 28th in world machinery exports. Advancing with confidence toward the vision of "Turkey, a country that is growing in stability, sharing more equitably, is globally competitive, and has fully completed her coherence with the European Union," as stated in the government's Ninth Development Plan, is on a rapid rise in the machinery industry, as it is in many other industries. Turkish machinery

"We are aiming for 100 billion dollars in machinery exports for 2023, taking a 20 percent share of the total 500-billiondollar export target," says Dalgakıran

exports had a volume of \$1.8 billion in 2002; last year, this figure reached \$12 billion. and the industry is exhibiting success not only in terms of success, but also in areas like the capacity utilization rate, increased value added, and R&D investments.

While the US, EU, and China exhibited growth beneath expectations, the Turkish machinery industry has set for itself a goal of a \$100 million export volume in 2023, with a targeted annual growth rate of 10%. The products exported most by this industry in 2012 are air conditioners, coolers, and freezers, with engines and their parts and components coming second. Third are machinery and parts for construction and mining.

#### TURKEY IN THE GLOBAL MARKET

These figures bear meaning beyond the fact that Turkish machinery has started to be used worldwide. The still-ongoing global financial crisis, which transformed into a debt crisis in the countries of the European Union, which is Turkey's largest export market, has seen developing countries shining brightly, and it caused investors to shift their bearings toward Turkey. Investors are cognizant of the glow of Turkey's machinery industry. One of these investors is French giant Atlantic Group, which invested in Erensan, a maker of furnaces and heating systems, at the end of 2011. Active in the climate control and heating industry, Atlantic Group, whose yearly revenue is in excess of €840 million, is expanding its production chain with Erensan, buying a 25% share to become a partner in the company. Within the scope of this partnership, Atlantic has shifted production of some of the furnaces

and heating systems in its product range to Erensan's factories in Istanbul and Yozgat. Erensan Board Chairman Ali Eren, speaking at the signing ceremony for the partnership, characterized the partnership as a "venturing out to the oceans," continuing with, "We have been receiving partnership proposals from numerous global brands for vears. And we were looking for an international strategic partner in line with our growth and export targets." Exporting to 72 countries with 100% local production, Erensan doubled its capacity and hired 30% more employees to serve this partnership.

Some, however, believe they can progress with their own financial resources and brand equity in spite of proposals from foreign investors. Türk Traktör, one of Turkey's first tractor makers, increased its unit exports by 138% and export income by 147% in the first half of 2012. Considering the general export of machinery and parts used in agriculture and forestry increased by 56% in the first half of 2012 relative to the equivalent period in 2011, Türk Traktör's growth is quite above average for its industry. Türk Traktör General Manager Marco Votta said in his statement about the matter that with the new models they produced, the company's sales to international markets increased by record levels over the first six months of 2012, and he added, "The share of export income in our total revenue rose from 15 percent to 30 percent in the first six months of this year, while at the end of June, the revenue gained by our company from sales abroad increased by 147 percent to reach 346 million Turkish liras." Türk Traktor, whose revenue is roughly TRY 1.2 billion, sold 7,873

tractors over the first half of this year, compared to 3,331 in the same period last year.

#### GEARING UP FOR \$100 BILLION

The manufacturers' successes are also causing expectations for the future of the machinerv industry to rise. Aiming to put Turkey, which is aiming for \$500 billion in exports in 2023, among the ranks of the world's largest machinery exporters, the industry estimates that it will reach \$100 billion in exports itself in the centennial of the Republic of Turkey. Significant steps are being taken to achieve this. Adnan Dalgakıran emphasizes that Turkish machine manufacturers rank beside the technological giants in world exports and points out the 10% growth of the machinery industry according to figures for the first six months of the year, relative to the same period last year. "While Turkey's overall exports increased by 3.4 percent, we managed to triple that,"

The industry is expecting \$40 billion in investments from East Asia and Europe in particular over the next five years

says Dalgakıran, once again underlining the industry's remarkable performance. The machinery industry has already started to benefit from the new incentives package announced in April. The industry is expecting \$40 billion in investments from East Asia and Europe in particular over the next five years.

While the global crisis is expected to continue especially in Europe, even if it does with peaks and dips, expecting \$40 billion worth of investment in the industry may seem too optimistic. Turkey's cautiously optimistic approach, which it has been

following since the start of the financial crisis, has been at the center of the machinery industry's primary policies in this period, too. While it is true that the industry, which exports to roughly 200 countries, sends 60% of its exports to EU countries and the US. by pursuing a strategy to reduce risk via market diversification—the foundation of the cautiously optimistic approach—countries in the Middle East and Commonwealth of Independent States have also become important markets for Turkey. The top five recipients of exports in the first half of 2012 were Germany, the UK, the US, France, and Iraq, with the highest increase of exports to countries in the top ten being claimed by the US with 75%. This is significant not only quantitatively, but also qualitatively in a way that should not be overlookedthat the top export recipients of the machinery industry, a technology-heavy industry, are the US and countries in the EU proves this. "Sixty percent of our machinery exports are to countries like the US and those in the EU, which possess advanced technologies," says Dalgakıran, highlighting this point, and he states that by finding and opening up to new markets, the industry has managed to deflect some of the effects of the crisis. The increased allocation of resources for R&D and technology investments on the part of the approximately 20,000 machinery manufacturers in Turkey will multiply their power in the global competitive environment, indicates Dalgakıran, and he adds, "Our industry, which realized six billion dollars' worth of exports in the first six months of 2012, has started to take on a more innovative role."



#### ADNAN DALGAKIRAN

Chairman, Turkish Exporters' Union Board of Machinery and

Whether Turkey will achieve its \$500 billion exports target. too, is dependent on the development of technologyproducing industries like the machinery industry. The machinery industry is the locomotive industry of developed countries around the world, and it is becoming ever more important strategically in Turkey, too. There are as many companies in Turkey as half that in 15 EU countries, showing how far the industry has progressed.

General Secretary, Machinery Exporters' Union (MIB)

Developed countries are focusing more on intellectual property-based and hightech products more so than physical manufacturing. They are shifting the manufacture of medium/medium-high tech items for daily use to developing countries. Our manufacturers are using this opportunity to their advantage by proving their quality and sustainability. The yearly average increase in machinery exports between 2001 and 2011 was approximately 22.5%.



STEEL

# MAJOR LEAGUE STEEL

In its steel exports, Turkey is utilizing the advantages of its geographical location and acceding to its well-deserved spot in the big leagues

BY DERYA ENGÍN KUTLU

**■ HERE NOW IS A VERY I** powerful name in the steel industry, in which many world giants have invested and gained value-added for their economies: Turkey. According to a report by the World Steel Association (WSA), Turkey ranks second among European countries in world raw steel production. In a time when many world giants wrestled with the economic crisis and stability issues, Turkey started to make its name heard quite often in steel exports. Veysel Yayan, PhD, General Secretary of the Turkish Iron and Steel Producers Association indicates that Turkey strengthened its position with its raw steel production in 2011 of 34.1 million tons, and he underlines the fact that Turkey was the country to increase its production the most among the world's top thirty steelproducing countries. With this rise in production, Turkey now ranks eighth in steel exports. "We are the world leader in the export of construction iron. We market our high-quality products to 160 countries with our competitive prices and expertise," says Mustafa Çıkrıkçıoğlu, Deputy Chairman for TIM.

The reasons behind the success obtained in the steel industry, in which great developments have occurred, are clear: as a reflection of increased total economic activity in the world and the growth of national economies. demand for housing, cars, and home appliances is increasing. Thanks to the foreign policy pursued by Turkey, among the countries to which the steel industry exports are those in the Middle East and Persian Gulf, the 27 EU member

states, and countries in North Africa. Veysel Yayan says the share and weight of these regions in Turkey's exports have been decoupled and shaped within the context of political and economic developments. In summary of the current situation, he says, "In 2011, 68 percent of our total iron and steel products exports were to the countries of the Middle East and Persian Gulf, the EU 27, and North Africa. Regional



Turkey is planning to raise its share in world steel exports to 4.3% in 2023

Turkey was the country to increase its production the most among the world's top thirty steel-producing countries

shares in the total iron and steel product exports, which totaled approximately 18.54 million tons, were as follows: 38 percent to the Middle East and Persian Gulf countries. 20 percent to the European Union, and 10 percent to North Africa."

Mustafa Cıkrıkcıoğlu, as Deputy Chairman of the Istanbul Iron and Steel Exporters' Union, emphasizes the importance of the trade and buying delegations created to increase exports by opening up new markets to companies. The focus is on regions with high buying potential but low import rates, indicates Cıkrıkcıoğlu, and he says, "Following studies covering more than 180 countries, we organized steel trade delegation visits to Chile, Peru, and Colombia in October 2011, to Pakistan and Bangladesh in March 2012. and to Nigeria and Ghana in July 2012." Besides organizing such visits to countries in East Africa and Latin America, says Çıkrıkçıoğlu, they are bringing buying companies from abroad- to Turkey where they meet with the producing companies and see the production facilities first-hand—so far, they have brought important companies from the Czech Republic, Egypt, and Thailand to Turkey.

With its proximity to both Asia and Europe, Turkey is putting its great geographical location to good use, too. Adding new brands to the world steel industry every year, Turkey appears on the "World's Biggest Steel Producers" list by the London-based Metal Bulletin with the companies Erdemir Group, Habas, Icdas, Diler Group, and Colakoğlu Metallurgy. Specifically, on

this list of 116 companies, Erdemir Group ranked 47th with 7.1 million tons, Habas 72nd with 4.4 million tons. Diler Group 108th with 2.3 million tons, and Colakoğlu Metallurgy 110th with 2.1 million tons. Turkish companies have been starting to draw interest from foreign capital, too-Arcelor Mittal, a giant in the global steel industry, joined a partnership with Erdemir by purchasing 18.7% of its shares in order to make use of its production capacity in Turkey.

Accounting for 1% of total employment in the industrial sector in Turkey and 10% of the sector's total exports with a \$17 million volume in 2011, the steel industry in Turkey has set its sights high for the future, as summarized by Veysel Yayan: "Our steel industry aims to become the seventh largest steel producer in the world, leaving Germany behind as well, and to increase its production volume by the vear 215, while concentrating

on high value-added, qualified structural and stainless steel products." TIM Chairman Mehmet Büyükekşi also spoke on the matter: "The export target in the steel industry in 2023 has risen to 100 billion dollars," said Büyükekşi. The industry accounts for 0.058% of world trade, and Büyükeksi's desire is to raise this to 2.63% and its share in Turkish exports from 6.9% to 18.34%. The volume of the worldwide trade in the industry is \$1.4 trillion, he stated. He estimates that this figure will reach \$3.8 trillion in 2023. Mustafa Çıkrıkçıoğlu, who indicates that they are aiming for \$55 billion in steel exports within the scope of the 2023 targets, as led by the Ministry of Economy with the coordination of TIM, says, "We are planning to raise our share in world steel imports to the level of 4.3 percent," he announced. The progress Turkey has exhibited in steel exports shows that this goal is not so



#### VEYSEL YAYAN

PhD – General Secretary, Turkish Iron and Steel Producers

Growing at a rate more than double the world average, Turkey has increased its steel production by 10.4% as of the first five months of 2012. Turkey now ranks as the world's eighth-biggest producer. New investmentsin flat steel products especially-helped our steel industry to achieve these. A positive start to 2012 fueled a gradual rising trend in May and June, and over the first five-month period, the industry grew by 6.1%.



Deputy Chairman, Istanbul Iron and Steel Exporters' Union, TIM

The main factors that will play a critical role in Turkey's development in the coming years will be changes in scrap demand and prices, and new investments to be made in high value added products. In the name of guiding and supporting the industry in this area, we have started our efforts to develop the Turkish steel industry's strategy for 203. In the coming period, we hope these efforts, which are being done with globalscale consulting firms, will shine a light on the industry's future.



**AGRICULTURE** 

Turkey's Sweet Success in

# THE FIG AND **CHERRY INDUSTRY**

Producing more than 43 million tons of fresh fruits and vegetables annually, Turkey is advancing confidently toward the export target it has set for the year 2023. Its production of cherries and black figs play a key role in the global fresh produce trade

BY CAN GÜRSU

**→ HE DEPENDENCE TO** a large extent of agricultural production on the whims of nature and the long period of production compared to artificial goods causes the industry to be characterized as "difficult" for many countries. In a world where nutritive resources drop day by day as the population increases constantly, the importance of the agricultural industry, which is tasked with feeding the people of the world, is becoming ever greater. With all of these qualities, the agricultural industry has started to rise to the position it deserves to have in world trade and play a significant role in Turkey's foreign trade. Turkey aims to

have multiplied its fresh fruit and vegetable export by five in 2023, bringing it to a figure of \$9.8 billion. The increase in cherry and black fig exports is contributing toward achieving this goal.

With its fecund, expansive agricultural fields suited for cultivation and the broad ecological spectrum represented in its regions, Turkey is one of the few countries where a great number of fruits and vegetables can be grown to high quality in good conditions. The agricultural industry is of key role to Turkey's exports, accounting for a 13.1% share. The industry's export increased 11% by quantity and 7% by value in

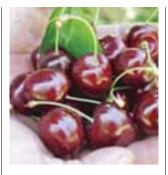
2011, respectively reaching 3.2 million tons and \$2.3 billion, signifying a stable increase.

Turkey occupies an advantageous position geographically not just in terms of cultivation, but also by virtue of the markets. A genetic center for many fruits and vegetables, Turkey ranks among the important players of the market with the advanced technology used in recent years to preserve produce during and after harvest, Kemal Kacmaz, Industry Council Chairman of the Fresh Fruit and Vegetable Exporters Unions, says, "Cherries and figs are among our most demanded export products among fresh fruit and vegetables," and adds, "Our country is in an important position for both their production and the world in the two of these products." The leading producer of cherries and figs in the world, Turkey seems set to continue its leadership by bringing to consumers its quality, trustworthy product for the best price.

Processing for exports of cherries from gardens and fields as soon as they are picked is done under the watch of the representatives in Turkey of European auditing companies. The safety of Turkish cherries is proven by international certificates such as HACCP, GLOBALGAP, and ISO. Kemal Kaçmaz indicates that Turkev's climate conditions provide a great advantage with regard to cherry cultivation, which he says is expected to increase even more in future years. Turkey is also exhibiting rapid progress in organic cherry cultivation geared to satisfy demand for organic produce, which is developing in parallel with people's consciousness of human and environmental health.

Cherry production in Turkey is increasing gradually every year. Salih Çalı, PhD, Chairman of the Uludağ Fresh Fruit and Vegetable Exporters Union (UYMSİB), savs. "Turkey ranks first in the world with its cherry production of 417,000 tons, and we export 50,000-60,000 tons of this." They are now aiming to bring the rank of exports in line with that of production—first place. In overall exports of fresh fruit, vegetables, and citruses, a growth took place of 19% by quantity and 11% by value took place in 2009 relative to the previous year, and in 2010 of 5% by quantity and 12% by value. The US ranks first worldwide among cherry-exporting countries, followed by Chile, Turkey, Spain, and Italy.

Turkev is continuing the success it has achieved in cherry production and exports in the production of black figs, too. In line with production, black figs have managed to maintain a rising trend in exports since 2007. Kemal Kaçmaz states that Turkey ranked first



<u>"Turkey ranks fir</u>st in the world in cherry production and third in cherry exports"

in world fig exports with a sizeable share of 54%, worth \$180,800. Turkey is followed by Egypt, Algeria, Iran, and Morocco respectively. "Considering Turkey's fig export in 2010 was 184,600 dollars, one sees that 72 percent of our production is exported," savs Kacmaz, and he underlines the fact that production in Turkey is world class

and export oriented. Having attained a rising trend with sound agricultural practices. Turkey, the world's seventh biggest country in agriculture, is presenting a positive outlook for the future, too, with its strategic planning.

The fresh fruit and vegetable industry of Turkey is advancing toward the target it has designated for 2023 with the confidence brought by its product diversity, too. The agriculture industry is of great importance with respect to meeting the necessary nutritive needs of the country's population, providing raw material to industry, creating demand for industrial products, and the national income. Making a positive contribution to employment, the fruit and vegetable industry is among the most important fields in agriculture. As it maintains its rising trend, Turkey is aiming to rise ever higher in global rankings.



KEMAL KAÇMAZ

Industry Council Chairman, Fresh Fruit and Vegetable Exporters

Our country's climate conditions are very well suited for the production of fresh fruit and vegetables. Should climate conditions be good, we expect our production to increase even more in the years to come. Once the outcomes of our undertakings emerge. we expect cherries to occupy an important spot in the fresh fruit and vegetable exports of the year 2013. Our entire strategy was prepared with the aim of becoming number one in cherry exports globally.



SALİH ÇALI

Chairman, Uludağ Fresh Fruit and Vegetable Exporters' Union

As a country, we are aiming to have multiplied our fresh fruit and vegetable export by five, raising it to \$9.8 billion. Therefore, we will thus be able to increase our share in world fresh fruit and vegetable exports, which are expected to total \$120 billion, to 8.2%. Various strategic targets required by the industry in everywhere from production to marketing and sales, and from product development to human resources and laws, have also been set in the name of overcoming the barriers before attaining the designated export target.



YAVUZ TANER

CEO, Alara Fidan Co. & Alanar Co

Turkish cherries and the black fig of Bursa are among our champions in global quality. Having launched in the 1980s with exports to the European countries, the export of cherries and black figs are today playing for leadership. Fruit producers re following developments in cherry and fig production, and they are working in harmony with exporters. It is time for Turkish cherry and Bursa black fig exports to "leap" and "jump" in the market.



**CHEMICALS** 

# THE CHEMICAL INDUSTRY OPENS NEW DOORS

The chemical industry continues to grow with the foreign direct investment it receives and increasing exports

BY AYNUR ŞENOL ALTUN 🗳 BY CEVAHİR BUĞU

\*\*Expect Highlysig-nificant investments especially in the chemical industry." These words belong to Minister of Economy Mr. Zafer Cağlayan, commenting on the signing of a partnership agreement between the Advanced Petrochemical Company of Saudi Arabia and Bageyan of Turkey to create a \$1 billion polypropylene factory in the Ceyhan, İskenderun region. Çağlayan, who said the ministry has been encouraging the production of goods that Turkey currently depends on imports for with the incentives package announced in April, said of this news, "The \$1 billion

investment in the petrochemical field, which Turkey has imported close to \$3 billion in, is the greatest indicator of and the greatest good news from this," and he followed with the statement that significant investment is to be made in Turkey, especially from Europe. As Çağlayan says, the Turkish chemical industry is going through an excellent period. The biggest exporting industry in Turkey after automotive, the chemical industry is bearing great results especially for a nonoil-producing country. Export figures for the past ten years show the chemical industry's developments quite clearly.

While chemical exports ranked seventh ten years ago, today it ranks second. That they have grown from a volume of \$2.5 billion in 2001 to \$16.3 billion in 2011 shows the progress made by the industry. Istanbul Chemicals and Chemical Products Exporters' Association (İKMİB) Chairman Murat Akyüz says this success is the outcome of the strategy being pursued. Nothing that orders to Italy, Spain, and Greece in particular have shifted to Turkey after the slowdown and crisis in the EU, Akvüz savs European countries have abandoned production. European producers have retooled their

While Turkey's chemical exports ranked seventh ten years ago today it ranks second in total

strategies to choose Turkey as a production base while they continue to employ their own brands and marketing. Akvüz attributes this preference for Turkey to quality, and he adds that the chief rivals in this area are Germany. France, and Italy. One of the global companies investing in Turkev is Henkel. It has been 50 years since Henkel, an important world brand in its industry, which has investments in many countries, chose to enter Turkey. While Henkel Turkey was founded in 1963. Henkel's decision to enter Turkey dates back to 1916 with Turvağ, a small oil-maker established to meet Turkey's oil supply needs in the WWI era. Later, through partnerships and investments with Henkel of Germany, it was the first spark of what is now a giant industry in Turkey.

Today, Henkel Turkey is a company headquartered in Istanbul, with three production facilities in Ankara, Gebze, and Tuzla and a yearend revenue of roughly €360 million in 2011. Investments over just the past five years total €50 million.

#### THE ALLURE OF ALTERNATIVE MARKETS

Having shifted focus to alternative markets in the post-crisis period, Turkish chemical exporters are now reaping the rewards of this strategy. The share in exports accounted for by European countries, which were the greatest market for chemical exports five years ago, is dropping constantly. Turkey has determined the Middle East and North Africa as prime export markets, and

meanwhile it is also venturing to explore new markets like South America, China, and East Asia. Another of the most important indicators of this change is that Egypt, Iraq, and the United Arab Emirates are three top recipients of the exports of the chemical industry, whose export volume increased by 8% to \$10 billion between January and July. The 83% increase to \$1.11 billion in exports to Egypt following the Arab Spring makes that country one of the most important markets in the Middle East. The other countries that received the most of Turkev's chemical exports from January to July are listed in order as Germany, Malta, Russia, Iran, the US, and China.

The bulk of the chemical industry's \$1.3 billion exports in July are accounted for by, again, Egypt, Iraq, and Russia. Exports to Russia totaled \$63 million, while exports to the US gained significant momentum, increasing 130% to \$60 million, bringing the US to fourth place.

## THE KEY: PROGRESS IN R&D AND SUBINDUSTRIES

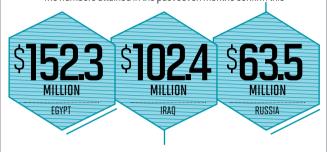
The chemical industry in Turkey is relatively young, but it is promising. Foremost among the elements needed to further strengthen the position in the world market of the chemical industry—one of the top export industries—are R&D investments. According to Akyüz, every step that Turkey takes in this area will add one more notch of success on the chemical industry's belt.

Comprised of a number of subindustries such as mineral oils and fuels, plastics, rubber, cosmetics, dyes, and pharmaceuticals, the chemical industry is growing in parallel with many of these. Turkey is currently the third-largest

### REACHING ALL MARKETS

The Turkish chemical industry exports to many countries around the world.

The numbers attained in the past seven months confirm this



plastics processor of plastics, one of these industries, and it is aiming to reach second place by the end of 2012. "Plastics have become an essential part of our lives. Their use in many places, from packaging to the automotive industry, summarizes the degree of importance they have. Adding value to our economy, the Turkish plastics industry realizes close to 10 billion dollars in exports directly

and by the channel of export industries like automotive, home appliances, and electrical/electronic goods," says Plastics Industry Association of Turkey Chairman Mehmet Uysal. Direct exports rose to \$4.8 billion in 2011, he says. The plastics and plastic products industry, which ranks second among the chemical export industries, exports to more than 190 countries. Participation in

trade fairs held abroad and new markets play a large role in this success. Speaking on this matter, Uysal said, "Uncertainty is dominating the world economy. That we are continuing our exports with increases in such an atmosphere is proof of our industry's success."

In the January–June 2012 period, plastics and plastic products accounted for a 26.45% share of chemical exports, equaling \$2.32 billion. In light of the numbers achieved by the industry in 2012, it is predicted that it will realize roughly \$5 billion in direct exports by the end of the year. The chemical industry is also of considerable importance to the national \$500 billion export target for 2023. The industry aims to contribute to this goal through \$50 billion in chemical exports, which it plans to achieve by further diversifying its markets.



#### MURAT AKYÜZ

Chairman, Istanbul Chemicals and Chemical Products Exporters Association (IKMIB)

## "Our market search continues"

We aim to reach an exports figure of \$18 billion by the end of the vear. This means a 10% growth compared to 2011. We believe we will achieve our targeted figure easily. Our market search continues. By analyzing in detail the markets we will newly enter, we are setting a road map for our exporters. We organized 17 fairs last year. We are providing good participation especially in the area of medical and medicinal products. Work done in the cosmetics and dye industry are also quite noteworthy.



#### MEHMET UYSAL

Chairman, Plastics Industry Association of Turkey (PAGEV)

#### "The subindustries have a share in the success of the chemical industry, too"

We can state that the industry has reached a great point especially with developments in production quality and technological infrastructure in the past ten years. The competitive power of the industry, which has become the supplier of many products abroad as well, has reached high levels. Several of the subindustries have a share in the success of the chemical industry, too. Plastics and plastic products also have a large share in chemical exports. We are Europe's thirdlargest plastics processor. We aim to reach second place by the end of the year.



#### HASAN ALEMDAR

Executive Committee President, Henkel Turkey

#### Turkey Will Continue to Play an Active Role in Henkel

We attained our highest ever revenues as Henkel Turkey in 2011. All our business units contributed to this success. Our 2011 revenue increased 28% to reach 6360 million. Our success is not limited to just 2011— in the past ten years, we grew fivefold in cosmetics & personal care and threefold in adhesive technologies. Henkel is aiming for 3-5% growth in the fiscal year 2012, and Turkey's aim is to contribute to this growth.

AVIATION

# Confirmed Success

Besides ranking third among European airlines in terms of passengers carried, Turkish Airlines boasts certified success with three awards in this year's Skytrax World Airline Awards

BY CAN GÜRSU

UR AIM IS TO BE a big global player and to hang on there," says Temel Kotil, General Manager of Turkish Airlines, who continues to state that Turkish Airlines has risen to the upper levels in terms of both service quality and the number of people it carries. Turkish Airlines gained the title of third place among European airlines in terms of passengers carried, after Lufthansa and the Air France-KLM partnership.

Having left British Airways behind, Turkish Airlines is further notching up its trend of success with a 47% increase in the number of transit passengers it carried-41 of every 100 passengers flying on the airline, which carried 38 million passengers, are transit passengers. "Istanbul, together with Turkey itself, is located in the center of the world," says Temel Kotil, and he adds that the airline's growth will further speed up with the construction of Istanbul's third airport. The share Turkish Airlines takes from the world aviation market, which is in a constant trend of growth, is increasing every year.

The industry is estimated to have reached a size of \$500 billion. The traffic from Europe to Asia accounts for more than \$36 billion. Turkish Airlines flies to 84 locations in Europe from Istanbul alone, and by increasing this figure to 100, it aims to take an even bigger share of the market. Having added Djibouti to its flight network, Turkish Airlines will be flying to 200 locations worldwide once this destination comes into service.

With aims to be one of the best airlines of not just Europe but also of the world, Turkish Airlines is receiving heavy demand from the Persian Gulf region, too. Turkey is a leading touristic destination among those chosen by Arab travelers, and Turkish Airlines is the airline that carries them. "Reservations made from the Gulf region increased by 30 percent over last year," said Kotil, and he indicates that the wellplaced campaigns have been especially influential over this increase.

As it climbs the steps to becoming Europe's greatest one by one, Turkish Airlines



proof of its high quality time and again—Turkey's flag carrier received three accolades, including Best Airline in Europe, in the Skytrax World Airline Awards, considered the "Oscars" of the passenger airline business. Skytrax, an independent consulting firm, provides auditing and service comparison programs to the passenger aviation industry and inspects the quality of products and services offered by institutions in the business.

The Skytrax Awards are given based on surveys of passengers—this year, numbering close to 18 million-from 100 countries. Turkish Airlines won Best Airline in Europe in the awards last year, too, as well as Best Premium Economy Seat with its Comfort Class offering and Best Airline in Southern

Europe. With its repeated



Turkish Airlines aims to expand its fleet to 200 aircraft by the end of 2012 and 213  $in \, 2013$ 



"We aren't the biggest, but we proved that we're the best," said Kotil

ish Airlines has proven that its accolades are no coincidence. Holding Skytrax's 2010 title for World's Best Economy Class Catering and Skyscanner's award for Best Catering, Turkish Airlines is a leader in cabin service and catering as well, and it ranks among the pioneers in this area with its exclusive "Flying Chef" catering for Business Class passengers on long-haul flights.

The winners of the 2012 Skytrax Awards were announced at the Farnborough International Airshow. Skytrax CEO Edward Plaisted presented Turkish Airlines' awards to General Manager Assoc. Prof. Temel Kotil, PhD on July 12, 2012. In his speech at the award ceremony, the Skytrax CEO said, Turkish Airlines continues to consolidate its position as one of the world's leading airlines, and

BEST ECONOMY CLASS CATERING

### SKYTRAX 2011

**SKYTRAX 2012** 







BEST AIRLINE SOUTHERN EUROPE









**BEST AIRLINE** SOUTHERN EUROPF



the awards they have received today for Best Airline in Europe and Best Airline Southern Europe demonstrates their continued popularity amongst passengers." Plaisted continued, "Turkish Airlines' Premium Economy cabin product has proved increasingly popular and the award Turkish Airlines collected for the Best Premium Economy Class Airline Seat is a clear reflection of the success of this high quality product," clearly showing the success Turkish Airlines has achieved with its well-chosen investments. Confirming its success with the awards it receives every year, Turkish Airlines already shows signs of the successes it will achieve in future years thanks to its sound strategy and customer satisfaction levels.

"We are a European carrier. The biggest airline in Europe, after Germany and France, is the Turks'. We aren't the biggest, but we proved that we're the best," said Kotil, speaking on the topic of the airline's back-to-back Best in Europe title. With a \$7.8 billion revenue target this year, Turkish Airlines might even surpass this figure as its fleet constantly grows as aircraft deliveries continue to roll in. With aims to expand its fleet to 200 aircraft by the end of 2012 and 213 in 2013, Turkish Airlines stands as a worthy challenger to its rivals with its stable growth that makes no concession of its quality.



INVESTMENT

# TURKEY STRENGTHENS ITS GLOBAL POSITION AS AN ATTRACTIVE FDI DESTINATION

Turkey became the  $23^{\rm rd}$  FDI recipient in the world in 2011, according to the World Investment Report, prepared by UNCTAD. The report also highlighted the new investment promotion strategy adopted by ISPAT

NEARLY JULY 2012, the United Nations Conference on Trade and Development (UNCTAD), a UN agency tracking foreign direct investment (FDI) trends worldwide, released its annual World Investment Report, which analyzes the global trend of FDI on a national and regional level, the direction of market movements, and the top countries preferred for international direct investments. According to the findings of the report, Turkey became

the 23rd FDI recipient in the world in 2011, up from 29th in 2010. Moreover, "Turkey stood out as an exception to regional trends, with inflows registering a 76 percent increase to USD 16 billion, maintaining the country's position as the region's second largest FDI recipient and increasing its share in the region's total from 16 to 33 percent." As the report finds, this increase was mainly due to, inter alia, Turkey's FDI promotion policy shifting

towards a more sector-specific approach, aiming directly at high value-added, high-tech and export-oriented projects. In this regard, the report also highlighted the new promotion policy adopted by the Investment Support and Promotion Agency of Turkey (ISPAT).

As part of this new strategy, ISPAT has recently facilitated two new greenfield investment projects. On July 17th, Abengoa, a Spanish company providing innovative techno-

logy solutions for sustainable development in the energy and environment sectors worldwide, and ISPAT jointly announced that Befesa, a leader in the recycling and treatment of industrial residues operating under Abengoa, will set up two plants for steel dust recovery in the Turkish provinces of Izmir and Adana at a cost of USD 120 million. Spanish Befesa's investment is highly significant as the facilities will help recover steel dust, a hazardous residue

generated in production of steel from electric arc furnaces, with the safest and most environmentally-friendly methods. Currently, Turkey is estimated to produce around 500,000 mt of steel dust annually. Thanks to Befesa's latest investment, approximately 45 percent of this amount will be recovered. Commenting on the new investment, Mr. İlker Avcı, President of ISPAT, said Befesa and ISPAT have been cooperating for the past 20 months, and added: "This investment is of great significance not only in terms of transferring technology, creating employment and contributing to Turkey's exports, but also of bringing in environmental benefits. Befesa has now included Turkey in its list of operational hubs such as Germany, France, the UK, Spain and Sweden. We are proud to attract this investment to our country." Meanwhile, Mr. Javier Molina Montes, Chairman of Befesa, said, "We are glad to contribute to Turkey's sustainable development in the field of recycling and recovery of industrial waste with this investment. I would like to thank Mr. İlker Avcı and his team for their efforts and contributions to this project from the very beginning in 2011."

Another important announcement came from the Bank of Tokyo-Mitsubishi UFJ Financial Group Inc., the largest bank in Japan, and the 8th largest bank in the world. The bank announced that it will apply for a full-fledged banking license in Turkey next month as it joins Mizuho Financial Group Inc. in a bid to take advantage of the country's accelerating economy. Japan's biggest lenders are looking abroad for growth as low interest rates and a declining population hamper loan profitability at home. Mizuho Corporate Bank Ltd.. a unit of Japan's third-largest lender by market value, has also indicated its intention to obtain a banking license in Turkey or to acquire a stake in a Turkish lender.

The Bank of Tokyo-Mitsubishi UFJ Ltd. unit will initially make a USD 300 million capital investment. The bank is expected to start its operations in October 2013, and will be based in Istanbul. "We hope to triple our exposure to Turkey to reach USD 5 billion in three to five years," said Shoji Nakano, the bank's Head for Europe, the Middle East and Africa, adding, "We may increase our capital investment as our business grows through the Istanbul branch in Turkev over the next three to five years". Bank of Tokyo-Mitsubishi aims to finance as much as 85 percent of Japanese companies in Turkey as their number is expected to increase threefold in five to seven

Turkey attracted USD 16 billion of FDI in 2011 with a 76 percent increase year-onyear, well above the 16.5 percent global FDI flow increase and maintained its position as the region's second largest FDI recipient

vears. It may also offer credit to "non-Japanese blue-chip companies". The bank will provide funding for infrastructure projects, particularly in energy production, and also in the service and manufacturing industries such as automotive, electronics, medical equipment production and cosmetics. The bank may also provide financing for the Turkish government's planned sale of power grids later this year, should the projects prove feasible.

There are around 150 Japanese companies in Turkey. They have been increasing their investments in Turkev in recent years. FDI inflow from Japan to Turkey was hovering below the level of USD 25 million until very recently, but as Turkey's attractiveness as the preferred destination for investments became more well-known in the later years, this level increased to about USD 300 million per year since around 2010. Kev investments made during this period included the acquisition of a local insurance company Fiba Sigorta by Sompo Japan in 2010 for USD 341 million, and the acquisition of a local air-conditioner manufacturer Airfel by Daikin in 2011 for about USD 258 million. In late 2011, Mitsui & Co. announced that, together with a Malaysian sovereign wealth fund, it bought the majority shares in Acıbadem, a Turkish hospital operation company, for about USD 1.3 billion.





# ICT GIANT FOCUSES ON TURKEY

The ICT giant Huawei is exporting R&D to the world via the R&D center it opened in Turkey

BY CAN GÜRSU

**TURKEY** is continuing to **1** grow positively despite the difficulties under way in the global economy. Solidifying its growth through the FDI it is receiving, Turkev also hosts foreign companies. The tech giant Huawei placed its second R&D center outside China in Turkey. Based on the united powers of Turkey and Huawei, the center today exports technology to the whole world. Mr. Wu Congcheng, General Manager of Huawei Turkey, discussed the company's R&D center and future investments with The Turkish Perspective.

Can you discuss your R&D center in Turkey a bit? How much did Huawei invest in it? How many people are

#### employed? What kind of operations take place here?

Huawei established its operations in Turkey in an office opened in Ankara in 2002. Huawei continued growing by opening offices and support centers in İzmir, Diyarbakır and Trabzon in 2007 alongside its local headquarters in Istanbul. In 2008, Huawei Turkey's office started serving

as a management hub to nine countries in addition to Turkey in the Central Asia and Caucasus (CA&C) Region.

Employing 770 people as of August 2012, Huawei Turkev makes a contribution to the Turkish IT industry and economy with an overall employment figure of 5,000 including the business partners and 60 suppliers in its ecosystem.

In 2008, Huawei's Turkey

office started serving as a management hub for nine more countries in the Central Asia and the Caucasus

Huawei Turkey serves to all operators such as: Avea, Vodafone, Turkcell, Turk Telekom. In 2011, Huawei went through a restructuring process globally and decided to continue with new business opportunities and new product and solutions in addition to telecom sector by concentrating on 3 major business units; carrier, enterprise solutions and device solutions to serve operators, enterprise and consumers.

What contribution to the industry does the Huawei R&D center provide, in your opinion? Can you discuss the value added that will be created? Which countries and regions does this center serve?

The R&D Center Huawei Turkey set in operation in Istanbul in 2009 is the second international R&D center the company operates outside China. Built with a total investment target of more than \$50 million in the three year period since its establishment in 2009, the Huawei Turkey R&D Center now employs around 350 employees.

Combining Turkish engineering and genius with European concepts and design as well as Asian platforms and work processes, the R&D Center houses value-added services, pricing and billing, call center, and customer

Laboratory

established

jointly with the Istanbul Technical

University.

2009

3G contracts

signed with Avea, Turkcell,

and Vodafone

Turkey.

#### **Huawei Turkey Milestones**

2003 2007 2008 2002 Istanbul office established. Huawei Turkey First office First FAS Investments in Turkey agreement office becomes expanded in opened in signed Decision made the hub for 10 Turkey. The to conduct ITU-Huawei with Türk countries. New Generation Turkey operations out Telekom Technologies

of this office.

SEPTEMBER-OCTOBER 2012 ISSUE 12

relations management. Other operations the R&D Center is engaged in include software products, wireless technologies (2G/3G/4G) and All-IP; fixed/mobile convergence; analysis and planning for next-generation networks, product planning, optimization, performance development, and market adaptation. Signaling the emphasis Huawei places on Turkey, the R&D Center also have operations in Turkey, Europe and the Commonwealth of Independent States. The R&D Center also works on software development, providing products and solutions, and supporting Huawei's R&D projects in the region.

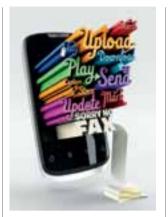
## What is your assessment of the IT industry in Turkey?

Huawei has been operating in Turkey for a decade and we have witnessed first-hand the increasing coverage of voice communications and continuous improvements in telecom technologies. Whether we look at the increase of broadband users from half a million in 2004 to 12.5 million last year, or at the ICT sector which is increasing at an annual compound growth rate of 14%, the developments in Turkey over the last decade have been remarkable. And they have served as an important enabler of social services such as education. business, and trade and as a key driving force of Turkey's economic growth. In short, as what happened in a number of developed countries, Turkey continues to prove how the ICT industry fuels GDP growth and social development.

Huawei strongly believes this remarkable growth and development will continue, and the ICT industry has an important role to play in that prosperity. According to projections of 2023 Vision, the ICT industry will contribute 8% to your GDP in just over a decade. The world and Huawei behold a rapidly developing country and an ICT industry that enjoys dramatic growth.

Zafer Çağlayan, our Economy Minister, often emphasizes the significance of R&D for the development of technology-intensive products in particular. However, some believe that R&D investments do not produce the needed value added in countries whose GDPs are below a certain threshold. What are your views on this subject?

Indeed, continuous investment in R&D is the key to developing an innovative and prosperous society. These investments are not only in the interests of the country, but also provide significant long-term returns to the enterprises who undertake them. On the other hand, these investments are not short term. To achieve the



Huawei has been operating in the telecom technologies field in Turkey for a decade

benefits, enterprises must commit to invest substantial amounts in R&D over time. In this respect, we hope that the Turkish government can become a stable incubator that supports enterprises' R&D by providing long-term and stable incentives (e.g. tax incentives) to R&D companies that choose to invest in Turkey's future. This ensures that enterprises remain confident that they can get returns on their investments. Also we expect that the government can treat local R&D and local manufacturing equally, as local R&D can create jobs and improve intelligence and technologies.

# Can you provide us with your assessment of the investing environment in Turkey, as a foreign investor?

Huawei always considered Turkey to be a very important location in the region. As you know, 2013 is the Turkey Culture Year in China. We believe that, the Turkish government will help more Chinese enterprises to have a better understanding of Turkey, including its 2023 Vision. We are hopeful that the event will also help Turkey attract more direct investment from China. Huawei is a proud leader of globalization among Chinese enterprises, and its development and success in Turkey have received a lot of attention. We look forward to sharing our practices and experience with other Chinese enterprises that will invest in Turkey.

Did you work with any local companies when investing in Turkey? What matters did you pay special attention to when investing? Were you provided with the necessary conveniences during the execution of the investment? Did you face any difficulties? Huawei is experienced in

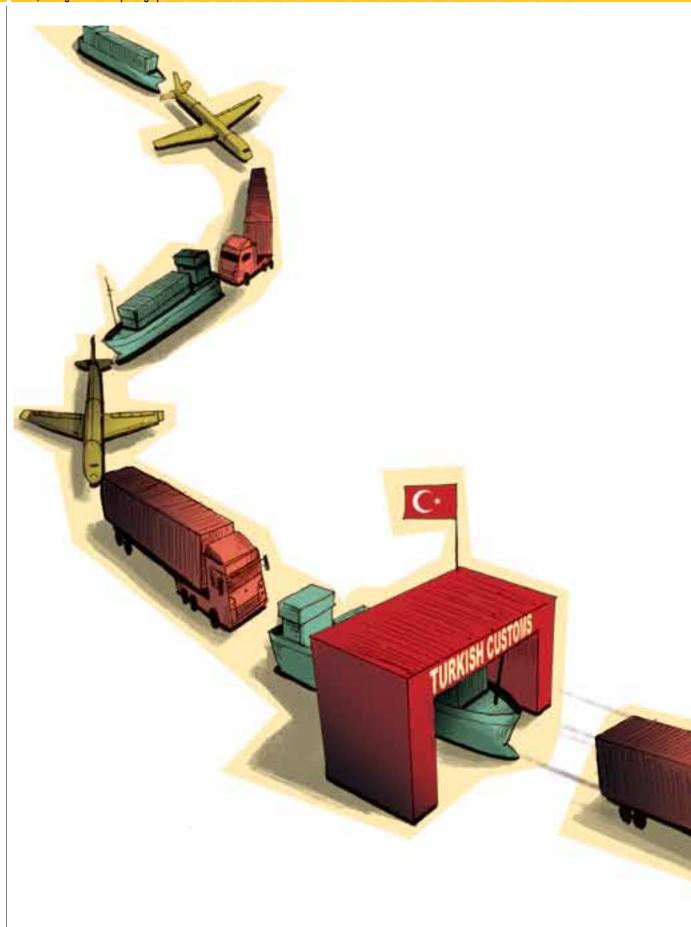
Huawei is experienced in global production. For Turkey we would like to make local production. Huawei takes quality very seriously, and aims to find partner to be more efficient in local operations however the main challenge is in taxing, which affects the cost of the product.

# 2010 2011

Management of Turkey operations shifted to the headquarters building in Ümraniye, Istanbul. Huawei's second largest international R&D center opened in February 2010 with the Minister of Transportation in attendance at the ceremony.

Huawei Turkey joined the YASAD (Software Industrialists Association) and the TUBISAD (IT Industrialists Association of Turkey) to enhance cooperation with nongovernmental organizations.

Huawei Turkey started Enterprise Solutions business Huawei shipped smartphones to the market. Ideos and X5 models warmly welcomed by the Turkish market Huawei signed the contract with Savronik to provide world's fastest data transmission (DWDM) systems for Turkish Railways' highspeed train project between Ankara and Eskisehir. Operations of R&D and Technical Support Centers were approved by the Information and Communication Technologies Authority (BTK.) The
Information and
Communication
Technologies
Authority (BTK)
announced the
official results
of 3G 1st year
inspections.



# A SINGLE WINDOW

PROVIDING A SYSTEM OF INTEGRATED MANAGEMENT BETWEEN RELATED INSTITUTIONS AND ORGANIZATIONS, THE SINGLE-WINDOW SYSTEM IS BEING ESTABLISHED TO REDUCE WASTED TIME AND COSTS IN CUSTOMS



BY MERVE KARA

urkey is currently one of the world's fastest-growing economies. This achievement is the result of a ten-year-long, rapid, and intense effort. Understood and felt by the country's young population of 80 million, this situation shows how much has been accomplished in a short time when remembering snapshots of the recent past. Today, anyone who has a tax number in Turkey significant portion of whose economy is based on exports—is able to conduct exports. A good number of entrepreneurs tour foreign markets with briefcase in hand, observe the needs of the market, determine what they can sell, return to the country, and send goods as necessary. There are even entrepreneurs that do this in front of the computer... "Yet until 1996, you needed to have an exporters' certificate to export," says Niyazi Cömez, Tax Services Partner in Charge for Deloitte Turkey. The expert manager underlines the fact that Turkey has made incredible progress in foreign trade in the time that passed since, and he points out the interest in relaxed bureaucracies on part of Turkey's international trade network,



which started to expand in the 2000s. Before examining how bureaucracies are relaxed, let's have a look at Turkey's progress in international trade since the early 2000s. In 2001, Turkey's exports totaled \$31 billion. By 2011, this figure reached \$134 billion, representing growth of more than four fold over a decade. On the other hand, over this period, total imports increased by more than six fold, from \$41 billion to \$240 billion. The country owes this dramatic increase to its opening up to its neighbors, the African markets (which it did not know well before), and all markets to which it was a stranger in the 2000s. Thanks to this, Turkey's total exports neared \$145 billion in a one-year period from June 2011 to June 2012. The increase of the volume of exports was

FROM

THE SINGLE-WINDOW SYSTEM

WILL REDUCE IMPORT COSTS

also the result of the diversification of its export markets. One of the most significant improvements in this respect for Turkey's exports was realized in the countries of the Near and Middle East. While Turkey's export figures

totaled just \$3 billion in 2001, in 2011 they approached \$27 billion. This change has reflected upon import figures in a similar way. Turkey's imports from African (particularly northern) countries used to be around \$3 billion: in 2011, they hit \$9 billion. Imports from Asian countries soared as well, rising from \$4 billion to \$53 billion. Turkey's share in world trade grew to 0.8% with the recent changes and improvements to the structuring of its foreign trade.

While manufacturers in Turkey have their own undertakings to buy and sell goods from different countries in various continents, global economic

the volume of its exports to \$500 billion

growth too has contributed to this change in Turkey's international trade. "The main reasons for that are the improved commercial relations with these countries and the free trade agreements signed with these countries. Furthermore, the effective communications and relationships with these countries positively affected the growth rate in international trade," says Sercan Bahadır, Ernst & Young Turkey Senior

Turkey, aims to increase

Manager. Turkey recently signed free trade agreements with 15 countries as a result of these efforts: recently: Albania, Bosnia & Herzegovina, Morocco, Palestine, Georgia, Croatia, Israel, Montenegro, the Republic of Macedonia, Egypt, Serbia, Syria, Chile, Tunisia, and Jordan. Additionally, the country has set up close contact with economic cooperation and development organizations such as the Economic Coopera-



houses over Turkey's past ten years of growth can be said to be among the leading factors in the progress achieved in foreign trade so far. Turkey, which aims to increase the volume of its exports to \$500 billion with progressive targets, took a great step toward this goal in recent months, a step that will ensure major progress in customs—in June, the Turkish Exporters Assembly (TIM) and the Ministry of Customs and Trade signed a protocol of cooperation titled "The Single-Window System." In essence, this protocol will bring losses of costs and time that take

advantage of the single-window stem is that digital applications will be used in Lieu of traditional Documentation, Thereby speeding up document tracking and increasing the reliability of Documents

tion Organization and the G-8 group of countries.

It is important to note that along with trade agreements, the procedures and cost of customs transactions have been of a significant importance for both importers and exporters. In order to increase the growth rate of international trade and to remove barriers to trade, the customs duties were either reduced or removed, while

customs operations with neighboring customs administrations have been simplified mutually and gradually. In import and export transactions with the aforementioned countries, the customs duties have been mutually and gradually decreased or removed. Decreasing the import costs and speeding up import transactions directly affect producers. In this respect, the reformminded practices followed in customs

place in customs to minimal levels. and it presents many advantages that will serve to increase Turkey's momentum in foreign trade.

The value of a single entry point (single-window) for traders to governments so as to fulfill import- or export-related regulatory requirements has taken on increased importance in the new security environment and the emphasis on advance information and risk. The single-window system, which is included under the Modernized Customs Code (accepted with EU Council Regulation no. 450/2008), is intended to reduce transaction costssuch as port transactions, customs transactions, technical controls, and licensing—to a more competitive level and to establish a system of integrated management between related institutions and organizations, thereby reducing wasted time and money in customs. In summary of the single-window system, Emin Taylan, Tax Partner in Turkey for the international research and consulting firm Grant Thorton, says, "It is an enterprise formed on the principle that the person conducting the trade should be able to present all the information and documentation needed to a single point of application using a standard format." He adds, "This method will make the business of people conducting trade faster and more problem-free, and it will increase the competitive power of producers who are active in the export of imported goods especially."

Niyazi Çömez's opinion is that the single-window concept should not be considered independently from activities to ease trade-the WTO-led efforts to ease trade are primarily aimed to bring into compliance and simplify bureaucratic procedures in the movement of goods. Designed so as to suit this

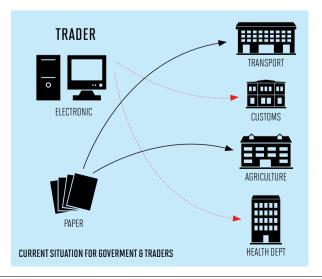


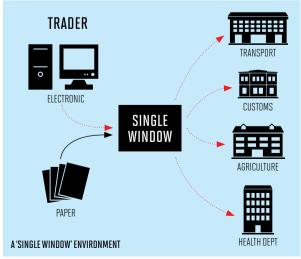
goal, the single-window system will first bring speed to customs in Turkey, states Cömez. And he adds, "And this is what trade professionals want most in terms of competition, anyway."

The single-window system is a hot topic for the advantages it provides not only to traders, but also to the publicthe system is expected to establish a standard for transactions in the public and to make easier the coordination of public services offered by different administrative units. Additionally, because the system that will emerge

is designed to be easily audited, it will become easier to measure transaction performance and interfere accordingly. According to a study conducted by the Ministry of Trade and Customs with regard to the issue, 330 different documents are used in customs transactions and 309 of these documents are to be collected from institutions/administrations other than the customs administration. Considering these figures, it is clear that other institutions have document involvements during import transactions. Once the single-window system is set up, the documents and information required for the goods subject to foreign trade and transportation can be submitted to a single point, with a standard form that is accepted internationally, by the parties subject to the trade and transporters. The approvals required within this context will be submitted to the same application point in electronic form, and the controls of the goods will be made by the same institution or organization in the

In the single-window system, the obliged party digitally submits its declaration to a single place. All administrations conduct their operations on this declaration in the background. It therefore becomes easier to coordinate the numerous different administrations involved, based in the type of good subject to customs.





#### WHAT ARE THE ADVANTAGES OF THE NEW SYSTEM?

#### BENEFITS FOR GOVERMENT

- Correct revenue yields
- Improved Trader Compliance
- Enable the use of sophisticated 'risk management' techniques for control and enforcement purposes
- · More effective and efficient deployment of resources

#### **BENEFITS FOR TRADE**

- Cutting costs through reducing delays
- Faster clearance and release
- Predictable application and explanation of rules
- More effective and efficient deployment of resources

same time and place, within coordination and cooperation. Sercan Bahadır emphasizes that important customs costs such as warehousing, demurrage, and loading-unloading expenses will be reduced via the single-window system. "Considering that this customs transactions expenditure brings an additional burden around the rate of 7-10 percent depending on the industry, it is expected that single-window practice would reduce importation costs to 3-5 percent."

In can be said that the single-window system was made necessary not only by the expansion of Turkey's international trade network, but also by the shifting of the focus in world trade. "In recent years, one notices decreased tax levies in world trade and increased focus on the public security and health of customs administrations or border controls, intellectual property rights,

The single-window system is targeted to draw the cost of transactions such as port transactions. Customs Transactions, technical controls, and licensing to a more competitive level.

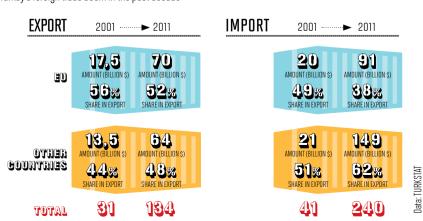


commercial reliability, and preventing unfair competition," says Sercan Bahadır. As Bahadır says, approvals and permissions of different institutions are required in import transactions. This practice, which represents a significant cost of time and money for the party who performs the customs transactions and the importer, will become simpler via the single-window system. The advantages of the singlewindow practice in this particular case are that digital applications will be used between entities in lieu of traditional documentation. This will both hasten the document tracking

and increase the reliability in documents. Since each entity will upload its own document with regard to customs transaction to the system, there won't be any actual document circulation. Therefore the possibility of document misuse will also fall. "We are of the opinion that with the single-window system, there will be acceleration in inventory management and production planning of the companies as a result of the acceleration of many transactions in customs transactions, the companies will be indirectly affected positively and they will have competition advantage," says Sercan Bahadır.

#### TURKEY'S FOREIGN TRADE BOOM

Turkey's foreign trade boom in the past decade







HAYATİ YAZICI. THE MINISTER OF CUSTOMS AND TRADE. PROVIDED TO THE TURKISH PERSPECTIVE HIS ASSESSMENT OF THE SUCCESSFUL FOREIGN TRADE POLICY BEING FOLLOWED BY TURKEY DURING THIS TIME OF GLOBAL ECONOMIC TUMULT AND THE COUNTRY'S PRACTICES TO SPEED UP CUSTOMS PROCEDURES

# AFEST

BY MERVE KARA - CAN GÜRSU

AKING TURKEY A country in which trade is done in the easiest, safest manner is one of our main goals," said Havati Yazıcı, Minister of Customs and Trade, in the speech he delivered at the opening of the Biga, Canakkale Customs Administration, in which he pointed out that the total value of Turkev's exports grew from \$36 billion in 2002 to \$135 billion. Since the start of the global economic crisis, Turkey has become one of the world's safest places to invest, and with its export-based growth strategy it is leaving many world giants in the dust.

Over the past ten years, Turkey has developed commercial relationships with several countries with which it had no trade before. How did this affect the activities of the Ministry of Customs and Trade? Can you speak of your role as the ministry in this expansion and development?

Looking at Turkey's foreign trade statistics, we see that our foreign trade volume more than quadrupled from \$88 billion in 2002 to \$376 billion in 2011. In this same period, our exports were multiplied by 3.7 from \$36 billion to reach \$135 billion. And when looking at the distribution of exports by country groups, one sees that the share taken by EU countries, which was 57 percent in 2002, fell to 46 percent in 2011, while in our exports to other countries in this period, one observes a notable increase. For instance, while exports in 2002 to countries in the Near and Middle East accounted for a 10 percent share in 2002, this reached the level of 21 percent in 2011.

While in 1996 exports were conducted to 180 countries and customs zones. this figure reached 228 in 2002. After this date, in line with our exports, which exhibited great increases, the number of countries and customs zones to which exports were made increased, too, such that in 2011, Turkey exported to 236 different countries and customs zones.

The increasing volume of foreign trade and market expansion has, as in the whole world, increased the significance given in our country to practices that ease trade. On this point, our ministry's priority is to make legal trade as easy as possible, because making legal trade easier will make it possible to fight more effectively against illegal trade by shifting existing resources to controls and auditing in risky areas, and to minimize customs processing costs due especially to the reduction of formalities caused by customs operations. Meanwhile, being able to conduct foreign trade for a lower cost will provide important contributions to increasing our country's volume of foreign trade, elevating national competitive power, and supporting its economic growth.

Turkey's foreign TRADE VOLUME MORE THAN QUADRUPLED FROM \$88 BILLION IN 2002 TO \$376 BILLION IN 2011

#### TO BRIEFLY MENTION OUR PROJECTS:

#### The Single-Window System

The single-window system, which ranks foremost among the world's modern customs systems, will be one of our ministry's most important achievements. "Single-Window" is a system that makes it possible for the information and documents necessary for the goods being traded and transported internationally to be presented to a single point of submission in a standard format that possesses international validity with the concerned parties and carriers of the trade in question. The single-window system will facilitate the following:

- More effective and productive use of resources
- Faster procedures
- Error-free (and usually increased) tax
- Increased compliance to the system on part of merchants
- · Increased security
- Transparent, predictable processing periods
- Fast, accurate confirmation of information
- Establishment of clearer, easier communication between the state and merchants
- Reduced costs due to delays
- More effective execution of administrative auditing
- Increased international competitive
- A more productive business and investing environment

# PHOFOGRAPH BY AA

### Do you have any other new undertakings?

We have some very comprehensive undertakings. And one of these is the Authorized Economic Operator (AEO) system. We are starting the AEO system so that customs processing can be done as easily and quickly as possible for trusted merchants and for the proactive determination of risky transactions. In the short term, the AEO system will benefit our exporters and overland transporters, and in the medium term our importers and other actors. Special privileges such as on-site customs and authorized senders, as well as relaxed controls, will be available for our trusted merchants. Another of our undertakings is the joint customs gates... With the purpose to support the recent increase in trade volume between our country and our neighbors, ease and speed up the operations of customs administrations and legal trade, and cooperation in the struggle against smuggling, the joint use of land border gates has been offered by Turkey for the evaluation of the authorities of neighboring countries.

Aimed with the joint use of customs gates between two countries are the prevention of repetition in customs transactions and the one-time execution of processes and data input. This project does not bring any change to the borders of the two states. We are also bringing to action a system that makes it possible to conduct trade registry operations and access registry records electronically.

Citizens will be able to complete company establishment operations, including contract preparation, over the Internet with electronic signatures, trade registry records will be able to be stored in a centralized fashion, and national-scale unification will be facilitated in registry operations. Information required on legal personalities will be accessible securely, quickly, and easily, and integration will be facilitated with the European trade registries network.

Significant changes have and are continuing to occur during this time in trade and customs practices in the world, too. A considerable part of world trade has now shifted east. How has Turkey's participation in world trade changed in this period?



### How has the Ministry of Customs and Trade been responding to this?

As you too have indicated, we are seeing an eastward shift in the world in both production and trade.

The increased need for cheap labor, rich natural resources, and more economical production costs due to global trade has contributed in the axis shift in trade from west to east. Eastern countries' gradual departure in identity from being the ones to fulfill the West's need for raw material, and their acquisition of the capability to produce technology-heavy goods, too, is increasing the importance of the East in global trade. As regards this matter, Turkey has started negotiations for a free trade agreement with South Korea. The agreement has been signed and internal approval procedures are ongoing. Free trade agreement negotiations are continuing with Malaysia, and exploratory meetings have been conducted with China. Looking at the distribution of our exports in the year 2011, our export to Asian countries and Middle Eastern countries has entered a stage of great progress in countries in these territories, with a \$40 billion transaction volume and a rate of 28 percent.

Again in suit with our country's general foreign political and trade policies, steps have been taken toward developing trade with our neighbors and efforts that can be done in the customs field to ease trade with all neighboring countries with which we have relations, without exception, have been accelerated. Regular meetings have been held in this context with the customs administrations of neighboring countries at both the upper level and the technical level; problems have been determined and ways to solve them have been found. Again with the aim to expedite and ease border crossings with our neighbors Georgia, Iran, and Syria, there have been projects conducted and agreements signed for the joint use of land border gates via data exchange.

Besides these, the Silk Road Customs Administrations Cooperation project launched by our ministry's initiative in 2008 with the aim to revive the historic Silk Road is of great importance. Being targeted in this context are the improvement of border gate infrastructure on one



hand, and on the other the reduction of waiting times at border crossings by being party to fundamental international agreements relating to the easing of trade and border crossings, bringing border crossing procedures into compliance, and developing a common understanding in customs practices.

#### The burden of customs procedures is one of the parameters of the Global Competiveness Index. How has Turkey's trade capability and customs procedures changed in this context?

The presence of the "burden of customs procedures" in the Global Competitiveness Index is important in how it shows the relationship between efforts to ease trade and competitiveness. For customs procedures to be fast, transparent, and reliable makes import and export processes more effective, and makes savings in terms of both time and cost possible. In this regard, it is clear that the efforts being done in the context of easing trade will contribute to increasing competitiveness.

As the ministry, we are bringing to life our projects geared toward easing trade

THE SILK ROAD **CUSTOMS** ADMINISTRATIONS COOPERATION PROJECT WILL REVIVE THE HISTORIC SILK ROAD

and are therefore continuing our undertakings toward the vision of "becoming the country in which trade is conducted the fastest and most reliably." In this context, the projects we have that directly affect customs procedures are as follows: authorized economic operators, paper-free manifests, the computerization of permits, transitioning to the New Computerized Transit System (NCTS), and, of course, the single-window system.

#### In June, you signed a protocol of cooperation with the Turkish Exporters Assembly (TIM), titled "Single-Window." Can you discuss this system and the benefits it is expected to bring?

Data sharing-oriented cooperation efforts between our ministry and the Turkish Exporters Assembly started in 2003. Data transfer is facilitated by the Protocol Concerning the Exchange of Foreign Trade Data between the Undersecretariat of Customs and TIM dated July 10, 2006. Since this protocol was signed, changed export-related practices and the increased need for cooperation bore the need to update the existing protocol.

In parallel with our ministry's practices to ease exports, such as authorized economic operators, on-site customs in exports, and authorized senders, this protocol will make positive contributions to our exports. This newly signed protocol will contribute to shortening export times. and for our exporters, reducing bureaucracy, bookkeeping, and also costs. Through this, our country's export capacity and our exporters' competitiveness will increase.

As the Ministry of Customs and Trade, you recently launched efforts to modernize the customs gates with

#### an agreement between the Union of Chambers and Commodity Exchanges of Turkey (TOBB) and Customs & Tourism Enterprises Co. Inc. Can you discuss the highlights of this project and similar activities?

It is of great importance in terms of both for our national security and economic and geopolitical concerns for the customs gates to be equipped with the modern means provided by technology and gain an infrastructure that is healthy in every respect. For this reason, hard work is being done to modernize the facilities of customs administrations firstly on our borders in a way that can satisfy the conditions of today and the increased trade volume while preventing illegal trade. Considering that those who enter our country from abroad get their first impressions from the customs gates, it can clearly be seen that improvements in these gates will contribute greatly to the economy and promotion of the country.

On this point, the Built-Operate-Transfer (BOT) model makes it possible within a very short time to create a healthy infrastructure, properly set up the flow of customs operations, ease border crossings with this suitably set up system, and therefore benefit merchants with the effect of reduced costs. With this model, which constitutes an example of good practice to other countries, makes possible the execution of the joint gate initiative. Likewise, Turkish customs gates that were renewed within the scope of BOT in the Silk Road Project, which is being conducted with upon our ministry's initiative, can be a model for other countries on the Silk Road path.

To summarize, expedience in operations and reliable trade have started to be conducted with the BOT model.

As the Ministry of Customs and Trade, we are structuring the customs facilities—the land customs gates most of all—with the BOT model. Toward this. within the scope of efforts that began in 2001, the modernization of eight customs gates (Gürbulak, İpsala, Habur, Cilvegözü, Kapıkule, Sarp, Hamzabeyli, and Nusavbin) via the BOT model, with no burden on the budget, were completed, and seven are in service. As for the Nusavbin Customs Gate, the investment in is complete,

Additionally, an Implementation Agreement was signed between the Union of Chambers and Commodity Exchanges of Turkey and Customs & Tourism Enterprises. Co. Inc., the contractor company, regarding the restructuring with the Built-Operate-Transfer (BOT) model of the building and infrastructural facilities needed by the Dilucu, Esendere, Cıldır/ Aktas, and Kapıköy Customs Gates and the Halkalı Customs Administration. The approximate cost of these projects is 249,370,719 Turkish liras. The BOT model, which imposes no burden on the budget, was chosen to realize these projects, which increase our country's esteem.

Meanwhile, work on our High Planning Council-approved projects to renew the Akçakale, Karkamış, Öncüpınar, Pazarkule, Yavladağı, Dereköv, Türkgözü, and Ali Rıza Efendi Customs Gates and the Erenköy Customs Facilities.

#### In 2013, Turkey will be entering the Policy Committee of the World Customs Organization. What kind of responsibilities to the WCO and advantages will this bring to Turkey?

To facilitate and develop the effective, productive operation of customs administrations, the World Customs Organization, which currently has 177 member countries, has adopted the following duties:

- · Facilitating the harmonization of customs regimes and transactions concerning international goods trade and transnational human crossing by simplifying them
- Developing international instruments (agreements, recommendations, etc.) that will facilitate the application of customs regulations as specified
- Implementing measures to create an environment of cooperation that will facilitate effective practice of regulations and active combat against customs crimes while simplifying customs transactions
- Providing member countries with technical support for adapting to changing conditions and regulations
- Engaging in efforts to develop cooperation among member countries or other international institutions
- Supporting human resources manage-



A CUSTOMS **ADMINISTRATION** THAT IMPLEMENTS FAST, BELIABLE **CUSTOMS** TRANSACTIONS WILL BE THE BACKBONE OF THE BUSINESS WORLD

ment, transparency, and honesty in customs administrations, as well as efforts that will improve working methods and administrative matters

Turkey occupies an important place in the history of the World Customs Organization, which sets the international standards for global trade. Besides being among the founding countries, Turkey pioneered several of the WCO's projects. As the Ministry of Customs and Trade, we currently convene at least once a year with our collocutors in the countries of the region to discuss the measures to take in order to speed up customs operations as much as possible. For example, we are running a project to modernize the customs administrations of Tunisia and Libva with the WCO, with the support of the Islamic Development Bank.

The organization conducts its efforts via the Council, Policy Council, and various committees and working groups. Turkey's joining the WCO Policy Commission is important when assessed in terms of Turkey's approach to be effective on international platforms within the scope of its vision, expressing the policies set forth by our country, and turning these into decisions.

Turkey has been a World Trade Organization (WTO) member since 1995. Can you talk about Turkey's changing role over the period that has passed since? Russia is joining the WTO this month (August) following years of negotiations. How will Russia's membership affect its trade relations with Turkey?

Our country joined the WTO as a founding member in 1995, and as of January 1, 1996, it has been party to the Customs Union with the EU. In connection with our Customs Union responsibilities, the diversity and quality of the goods produced in compliance with EU standards have increased, thanks to which competitive ability has been gained. When in this context it comes to complying with the requirements of international trade and taking a share of this trade, great progress has been made in comparison to many other WTO member countries. Similarly, while our country had just one free trade agreement by the end of 1995, this figure has risen to 18 today. Once three more FTAs, which are not yet in

effect, gain currency, our country will have preferred trade arrangements with many countries in an expansive geography stretching from Chile to South Korea and Iceland to Mauritius.

Russia, which is expected to become a WTO member, is our country's secondlargest trade partner with a total foreign trade volume of approximately \$30 billion in 2011. Higher standards in all kinds of the country's practices in foreign trade are expected when Russia becomes a WTO member, and our country will provide every kind of support to Russia with its experience in this matter. Of this membership, we expect much smoother completion of customs transactions for goods exported to Russia and easier execution of the flow of trade for the country in question.

#### Can you, as the ministry, talk about your efforts to increase security at customs points?

With regard to our ministry's battle against smuggling, a separate department has been formed within the General Directorate of Customs Security with the purpose of preparing and implementing projects to strengthen infrastructure and pursue developments in security technologies. Founded in 2002, this department has created and implemented numerous projects thus far.

The most important of these efforts is, without a doubt, the Scanning (X-Ray) Systems, also known as "physical intervention-free detection technologies." Various types and models of scanning systems that can scan every kind of vehicle and load from cars to semitrailers and individual baggage to containers have been installed at land gates, seaports, and airports.

#### How is the Ministry of Customs and Tourism preparing for Turkey to reach its export target for the year 2023? What can you say about your goals for the next ten years?

In the heated environment of international trade today, the element of time constitutes one of the most important expenditures. For this reason, waits and delays at customs are an important cost element for traders. In this regard, the Ministry of Customs and Trade is of key importance for the realization of the \$500 billion export target [the national target for 2023 ]. A customs administration that implements fast, reliable customs transactions will be the fundamental element of the business world and, therefore, the national economy.

#### IN ADDITION TO THE **AFOREMENTIONED UNDERTAKINGS, WE ARE:**

#### Computerizing permits

Efforts to computerize internal processing permits administered by customs administrations within the context of internal processing regimes and digital tracking of these are being conducted within the corpus of our ministry.

#### Modernizing our customs administrations with the Build-Operate-Transfer model

Among the works our ministry will do by 2023 is the restructuring of all our land customs gates to the level of providing modern service. The Kapıköy, Esendere, Dilucu, and Çıldır/Aktaş Customs Gates and the Halkalı Customs Gate implementation agreements have been signed in this context, with the aim of structuring them with the BOT model. Additionally, by 2023, it is being aimed that the modernization will be completed of the Akcakale, Karkamıs, Öncüpinar, Pazarkule, Yayladağı, Dereköy, Türkgözü, and Ali Rıza Efendi Customs Gates and the Erenköv Customs Facilities and Logistical Base.

#### Standardizing customs administrations

An "Action Plan for the Standardization

BESIDES BEING AMONG THE FOUNDING COUNTRIES. TURKEY PIONEERED SEVERAL OF THE WCO'S PROJECTS

of Customs Administrations" has been created to bring to customs administrations a standard appearance and method of operation. With this method, it will be possible to review the flow of transactions in our border, harbor, airport, and internal customs; detect the problems we face; and determine which business processes are unnecessary. Through this, processing times in customs administrations will be reduced, thereby speeding up bureaucracy; the effective and productive use of personnel and all equipment will be facilitated; all structure—including physical infrastructure—will be modernized according to new business processes; and customs auditing will be rendered effective to facilitate reliable trade.

#### **Revising logistics**

The most important infrastructural element upon which foreign trade operations rest is that of logistical processes. For this reason, it is necessary for our capacity utilization in the logistics industry to reach a certain quantitative and qualitative level to achieve our 2023 targets. In this respect, national-scale efforts like the preparation of the Logistical Centers and Logistics Master Plan are being given special importance, closely followed, and provided with contributions by our ministry.

#### Receiving the views of our partners concerning our practices

Whether with our intra-institutional meetings or external partner workgroups held with the participation of various public institutions, private institutions, nongovernmental organizations, and press representatives, assessments have been conducted using participatory methods to determine our ministry's mission and the purposes and aims of its vision. In particular, we have tried to collect views and suggestions concerning reducing bureaucracy, easing transactions, reducing costs, and thereby removing barriers before and easing trade. Additionally, with our polling activities, the assessments of a wide segment have been taken note of. At the end of all these efforts, policies and priorities to contribute to reaching the 2023 target will be determined as well.



# THEY FAIL?

"Why are some nations rich and others poor, divided by wealth and poverty, health and sickness, food and famine?" In their recent book, "Why Nations Fail: The Origins of Power, Prosperity and Poverty," Daron Acemoğlu and James Robinson answer this question that has puzzled experts for centuries. The authors suggest that economic success or failure is rooted in the health of political institutions. Their theory for world inequality shows how political and economic institutions interact in causing poverty and prosperity

BY MERVE KARA

HE COAUTHOR OF Why Nations Fail, Professor Daron Acemoğlu is currently the Elizabeth and James Killian Professor of Economics at the Massachusetts Institute of Technology. He is among the ten most-cited economists in the world according to IDEAS/RePEc. He was awarded the John Bates Clark Medal in 2005.

What about today's changing global economic order where some developed nations failed and many once failed nations became prosperous? Professor Daron Acemoğlu answered the questions of The Turkish Perspective magazine on current issues in global development.

#### Can you give us more details about the making of "Why Nations Fail?"? How long did the research process take?

Why Nations Fail is the outgrowth of 16 years of research that James Robinson and I have been engaged in. During this time, we wrote several papers and another book. We started working actively on "Why Nations Fail" in 2009, but much of our research before then was motivated by the same questions and the book draws heavily on that research.

In "Why Nations Fail?," which gives a tour throughout the world and our human history, you hypothesize a new reasoning for economic developmentand hence global poverty and prosperity: the institutions as the determinant of the fate of nations by negating current theories. Can you explain how institutions can be key in development?

The most popular theories emphasize geographic factors, cultural factors, or a sort of enlightened leadership as the most important root causes of long-run prosperity. Our research shows that these perspectives are not very helpful for thinking about large disparities we see around us. Look at the Americas. The South is much poorer than the North. But this has nothing to do with geography—that is, it 

"WE'VE SEEN THE GAP BETWEEN THE RICH AND THE POOR IN THE WORLD WIDEN OVER THE LAST 60 YEARS. BUT I THINK THIS WILL BE REVERSED IN THE NEXT 50 YEARS"

has nothing to do with climate, disease, environment, or soil quality condemning the South to poverty. In fact, before Europeans colonized the Americas, the South was generally more prosperous. It has nothing to do with culture. Though the Spaniards who colonized much of South America had a different culture than the English who colonized much of the north, the intentions and strategies that the English and the Spaniards used were remarkably similar. At the end, the differences emerged because the civilizations that the colonizers encountered were very different. In the South there were the centralized densely populated civilizations such as the Aztecs and the Incas, which enabled the Spaniards to create hierarchical, repressive and extractive colonial societies, while the English, who also wanted to do the same thing, were left with the less desirable, less densely populated northern parts and couldn't do the same. It also has nothing to do with enlightened leadership. In some sense, the Spanish conquistadors and their leaders succeeded in what they want to do, while the English failed. Instead, it is related to different institutions that colonizers setup in different parts of the

Americas, and these institutions matter because they shape incentives, both economic and political.

It is true that countries with inclusive institutions are more developed than the ones with extractive institutions. Today, however, we see developed countries facing problems related to unemployment and growth as the outcome of global financial crisis. Did the crisis bring out the question of whether even the developed nations can fail? If so, how?

Yes of course, developed nations can also fail. First, their institutions are not always as strong and as inclusive as might first appear. Take Greece. From the outside you might think it has relatively good institutions---after all, it's part of the European Community and it has a relatively high GDP per capita, and of course it has elections and parliaments and all. But when you look at the details, Greece has terrible institutions. And its growth so far has been despite its institutions---thanks in part to transfers from the outside. Of course it can fail. But more importantly, inclusive institutions can revert back to extractive institutions. If the European Union was to collapse entirely, that could not be ruled out.

But more importantly, the world of course is not black and white it's shades of gray. So European institutions have inclusive elements and some elements that have been badly designed and are still captured by special interest groups and politicians (think of the role of French and German banks for example). So it's always a struggle about which aspects of institutions will triumph.

And finally, of course a society can have inclusive institutions and still go through crises. The role of institutions is much more important for medium and long-run growth than for short run fluctuations.

#### What do you think about the sovereign debt crisis in the euro zone? Is it a system failure or is it another wave of creative destruction hitting the shores of a capitalized world?

It's largely a system failure. The European Union has been a very important part of



"DEVELOPED NATIONS CAN ALSO FAIL, FIRST, THEIR INSTITUTIONS ARE NOT ALWAYS AS STRONG AND AS INCLUSIVE AS MIGHT FIRST APPFAR"

the European institutional tapestry, and it has played a major role in underpinning stability, peace and economic growth in Europe. But it has been a political project, and in the process, it did create some economic distortions. The most important one, in my opinion, lies in the implicit guarantees it implied for the sovereign debt of all member countries. This came unhinged and we are now seeing the consequences of that. So in this sense, the problem is partly institutional, and the solution has to be institutional also. The European monetary system and European Union have to be reorganized. They have to choose either greater fiscal centralization (something that makes sense but is not supported by any of the countries other than Germany and perhaps a few others such as Finland and the Netherlands) or European Union has to admit that monetary union does not mean fiscal guarantees and let several European countries (Greece, Portugal and perhaps Spain) default on their loans. After all, the most successful monetary union, the United States, does not guarantee state debts. This solution is blocked at the moment because French and German banks would lose a lot of money if this happened.

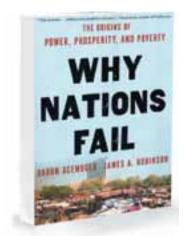
How do you view the Arab Spring in terms of its roots? Do you think the main reason is political or is economic? Your analysis of the Arab Spring in "Why Nations Fail?" draws a similar picture with the French Revolution as it was a very strong reaction of public against the government. Do you think it is possible to discuss the Arab Spring on the same ground? If so what made people create this awareness? Is it simply the Internet or social media effect, as some argue?

I would say it's both economic and political. Mostly it's political. People did not want economic handouts or higher minimum wages or more food subsidies. They wanted political change. But I think a lot of people weren't satisfied with the political system because of its economic consequences. And yes, the parallel to the French Revolution is obvious. In both cases, you have an extractive, despotic government benefiting a small elite the expense of society

Why now? That's hard to answer. I don't think it's just social media, though social media helps organize people and gave them an excellent forum (but social media is not going to get you a revolution in China). I think it was partly random. After all, no social theory can explain why a street vendor decided to self-immolate at that point in Tunisia and why this captured the public imagination there. But I think the contagion of this event throughout North Africa and the Middle East have plenty to do with the fact that there was a lot of pent-up dissatisfaction especially with these aging elites still hanging on to power despite all the poverty and carnage that they were creating.

# You also mention that China's growth will not last unless it fosters the degree of "creative destruction" that is so vital for innovation and higher incomes. And you make a bold projection: Chinese will ultimately follow the Soviet trajectory. Can you shed more light on this argument? How might the fastest-growing country of the world come to fail?

China's growth has been under extractive institutions. Market forces are heavily curtailed and the power of the Communist Party is close to absolute. But the Communist Party has so far encouraged investment, and China, starting from very very low levels of income, has managed to grow by importing technology and becoming integrated into the world economy. But this is not growth based on innovation or creative destruction. Many countries have engaged in such growth, and as long as there are low hanging fruits, it continues. Once it's time for innovation-based growth, there will be problems. That's



#### WHY NATIONS FAIL

Daron Acemoğlu and James Robinson have crafted a new theory of political economy that has significant relevancy to many of the important questions facing the world today in "Why Nations Fail: The Origins of Power, Prosperity, and Poverty". Here are excerpts from some notable reviews of this masterpiece

"Should be required reading for politicians and anyone concerned with economic development." —Jared Diamond, New York Review of Books

- "...bracing, garrulous, wildly ambitious and ultimately hopeful. It may, in fact, be a bit of a masterpiece."—*Washington Post*
- "For economics and political-science students, surely, but also for the general reader who will appreciate how gracefully the authors wear their erudition."—*Kirkus Reviews*
- "Provocative stuff; backed by lots of brain power."—*Library Journal*
- "This is an intellectually rich book that develops an important thesis with verve. It should be widely read." —Financial Times
- "A probing . . . look at the roots of political and economic success . . . large and ambitious new book." —*The Daily*
- "Why Nations Fail is a splendid piece of scholarship and a showcase of economic rigor." —The Wall Street Journal
- "Ranging from imperial Rome to modern Botswana, this book will change the way people think about the wealth and poverty of nations...as ambitious as Jared Diamond's *Guns, Germs, and* Steel."—Bloomberg BusinessWeek

what we saw with the Soviet Union, for example. Of course, China can avert this outcome by fundamentally reforming its political institutions and then changing its economic structure. But given the control of the Communist Party this doesn't seem to be on the cards.

If this perspective is right, then the end of Chinese growth will not come with a bang, but with a whimper. Growth will slow down gradually and this will distort political incentives, creating a downward spiral. But as I said, it's not unavoidable if Chinese leaders have the courage to undertake political reform.

#### Turkey has undergone an extensive transformation in the last decade. How do you assess the development of the country? Can you evaluate the government's performance of distribution of wealth in the country?

I think it has been doing reasonably well economically. It's no longer ruled by the military, the bureaucracy, and the few large companies that dominated the country for the last 80 years. Only a broad-based economy has the power to move to the next stage of growth, which Turkey badly needs. But while Turkey has made great strides towards a healthier democracy and the military is finally out of politics, it is also important to recognize that if political power becomes monopolized, economic inefficiency starts setting in.

# How do you see the future of income inequality between countries? The gap between the poorest and the richest is widening, is it possible to reverse this within the free market economy?

We've seen the gap between the rich and the poor in the world widen over the last 60 years. But I think this will be reversed in the next 50 years. Several countries are going through institutional transformations, such as India and Brazil and perhaps Turkey. And several other countries, such as Rwanda, Ethiopia and China, are growing despite their extractive regimes, and even if this is not as good as inclusive growth, it's often better than stagnation under extractive institutions.





This year, Jim O'Neill has been helping to popularize an acronym for a new group of nations that seem likely to replace BRIC for many investors: MIST, or Mexico. Indonesia, South Korea, and Turkey, the four biggest markets in the Goldman Sachs N-11 Equity Fund (GSYAX). Launched in February 2011, this fund has grown 12% this year, while Goldman Sachs' BRIC fund gained just 1.5%. Of the four MIST countries, Turkey and Mexico are the most attractive at the moment, O'Neill was paraphrased as saying in a related article published August 6 by Bloomberg. Positive expectations for the economy of Turkey, one of the most promising members of MIST, reflected upon the stock market with an incredible performance despite the heavy effects of the crisis still being felt in the global economy: since July, Turkey has been passing through a period in which records in the stock market are being broken one after the other.

Garnering a credit rating upgrade on June 20 by Moody's to Ba1, one level below investment grade, was important as it provides Turkev with means for lower-cost international financing and loans. Measures implemented to control Turkey's more sensitive parameters, such as its current account deficit, play a role in the upgrade and are expected to bring in the long term more sustainable growth and economic stability. It is important to note that Turkish stocks rallied after the government cut its fiscal deficit to 1.3% of GDP in 2011 from 3.6% in 2010. The increase in direct investment, an important instrument for the quality financing of the current account deficit, can especially increase from-scratch "greenfield" investments.



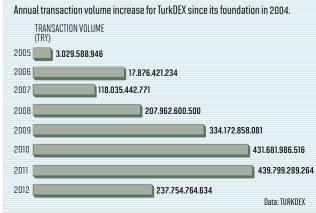
The ISE ranks 20th among world stock exchanges in terms of trading volume and 32nd in terms of market value, according to the World Federation of Exchanges. The Market Trends Report prepared jointly by the Investor Relations Association of Turkey (TÜYİD) and the Central Registry Agency (MKK) in June demonstrates the recent positive performance of the stock market and foreign investors' positive contribution to market value. According to the report, a performance increase of 8% on the Turkish lira and 11% on the US dollar has been observed over the first five months of this year. While just 7,683 of the total 1.1 million investors were foreign, they account for a 19% share of transaction volume and 62% share in market value. TÜYİD President Funda Güngör Akpınar states that interest in the ISE has increased significantly especially since June. Comparing the ISE's performance over the first six months of the year to global markets, Turkey exhibits relatively very good performance and its rate of growth on the dollar since the New Year has surpassed 20%, she says. Data from the Cambridge,

COMPARING THE ISE'S PERFORMANCE OVER THE FIRST SIX MONTHS OF THE YEAR TO GLOBAL MARKETS. TURKEY EXHIBITS RELATIVELY VERY GOOD PERFORMANCE AND ITS RATE OF GROWTH ON THE DOLLAR SINCE THE NEW YEAR HAS SURPASSED 20%

Massachusetts-based research firm EPFR Global supports this viewpoint—according to EPFR Global, investors added a net \$104 million this year to funds focused on Turkey.

"It can be easily said that Turkey's economy is remarkably stable compared to its neighbors in the euro zone and Middle East, which has been an important feature to attract foreign investors," says Philipp Reuter, Turkey Director of international research and consulting company Frost & Sullivan. The additional costs imposed by the crisis and instability in currency exchange rates in neighbor-

#### RAPID GROWTH OVER EIGHT YEARS



ing countries and beyond, as emphasized by Reuter, incited the private sector in Turkey-SMEs in particular—to adopt a more active approach to public offerings, another important source of financing. A total of 27 initial public offerings took place in 2011, while over just the first months of 2012 there were 19. The increase in public offerings and higher transaction volumes are expected to continue through the end of the year, and they are quite significant with respect to increasing market players' sense of trust by deepening Turkey's capital markets, reducing fluctuation, and therefore reducing risk premium. Attila Köksal. President of the Association of Capital Market Intermediary Institutions of Turkey, which launched a campaign to encourage public offerings by signing a protocol of cooperation in 2008 with TOBB, SPK, and the ISE to better inform companies about capital markets and public offerings, states that there are 13 companies that have applied to be listed on the market as of mid July, and he adds, "We can expect the public offering trend observed in the first half of the vear to continue in the second half. But the international economic conjuncture will be an important factor in public offerings."

Turkey is one of the countries least affected by the crisis in 2008 and 2009.

Thanks to the past bitter experiences of the '90s, Turkey has managed to develop better financial policies to regulate the investment and banking environment, which also gives birth to opportunities via market liberalization. According to Philipp Reuter, this current business environment drives the regional geographic expansion plans for Turkish companies which is likely to be expected to boost their M&A

activities in global markets. "We are expecting the volume of M&A activities to increase in the following two years, which will create a better awareness for the investment society. So this will cause the number of public offerings to increase more between 2013 and 2016," he adds.

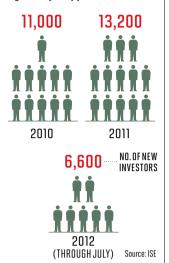
Together with the ISE, Turkey's largest exchange, TurkDEX—the Turkish Derivative Exchange—is exhibiting vibrant, buzzing performance. The exchange celebrated its eighth year this past February. The exchange's transaction volume of TRY 423 billion in 2010 increased by 2% in 2011, but because

the number of transactions increased 16%, TurkDEX maintained its position among world derivative exchanges. TurkDEX is expected to grow 4% in 2012.

Turkey's high-trending markets continue to instill hope in many investors. Thanks to this victory of sound measures like technology policy, Public offerings, and product diversification, Turkey seems likely to continue to climb within MIST, the new favorites of the world economy.

In the ISE, where individual investors are more than institutional investors, the total number of investors is increasing significantly every year.

In the ISE, where individual investors are more than institutional investors, the total number of investors is increasing significantly every year.





CUMBA GÜNGĞO AKPINAD

President, the Investor Relations Association of Turkey (TUYID)

When this interest in the ISE is examined in terms of contribution to interna tional direct investment, it can be said to be critical in terms of the expansion of the investor base and therefore Turkey's recognition. The development of capital markets is a significant promotion tool for many countries that will invest in Turkey. Several companies making portfolio investments can also be active in private equities. An international fund entering as a stock market investor today could, with knowledge of the economy of Turkey and the opera tion of its markets, bring its direct investments to our country, too. The ISE's posi tive performance is another door opening on to Turkey for investors in this respect



Association of Capital Market Intermediary Institutions of Turkey (TSPAKB)

Turkey is a country that has been under watch by global capital for quite some time. Especially in recent years, Turkey has never had a hard time drawing sources of capital from abroad. On the capital side, it is expected that both strategic and portfolio investors (private equity funds especially) will continue to be interested in Turkey. Since the start of 2010, the number of stock market investors in Turkev grew 9% to reach 1.1 million. Although there is no definite data that can measure the effect of public offerings on the number of investors, it is known that the public of ferings made recently have eained new investors for the



PHILIPP RELITER

Director, Frost & Sullivan

Unlike the US or EU, Turkey is very promising for investors. Even if the expansion ary policy of US central bank had a positive impact for a while during 2010, fluctua tion continued in 2011 and still does. Additionally, the uncertainty of Greece and the falling ratings of Europe an banks are strengthening Purkey's position to receive foreign investments. Hence, in Q12012, foreign investors purchased almost \$1 billion in stock. The vast majority of foreign investors are from the US, which accounts for a 20% share, and we expect. this number to increase alongside uncertainty in the European economy. Additionally, the venture capital inflows have been affected positively due to intense activities by the ISE depending on its offer of an additional exit option through public listing of a company.exit option through public listing of a company.



Mr. Nihat Gümüş, advisor to the chairman of the ISE, spoke to The Turkish Perspective magazine about the recent performance of the exchange in Turkey

BY MERVE KARA

#### What do you think about the ISE's performance over the past year, in terms of the contribution made to drawing international investors?

The market value of companies listed on the ISE had increased by the end of 2010 to more than three times the figure attained by the end of 2008, reaching approximately \$307 billion. Our market value fell in 2011 due to global liquidity conditions and obvious issues that emerged in Europe, but in 2012 it recovered and again attained levels of \$260 billion in the first seven months.

This performance, taking place in a time when the North Atlantic crisis still affects the world, reflects the behavior

of nonresident international investors in our exchange. Nonresidents' net purchases in the stock market over the first six months of 2012 totaled approximately \$2.8 billion. These nonresidents' share in total transaction volume has shot back up to levels of 18–19% in the first six months of 2012. These figures indicate that the position of nonresident international investors in the ISE has risen with their performance over the past year.

2012 has been a very fruitful year in terms of public offerings in the stock market. What is your assessment of this situation? Do you expect this trend to continue?

The public offering campaign that started in 2010 with the initiative of all actors in the capital market, our exchange and Capital Markets Board above all, started to show its effects from the first year onward. The shares of 23 of our companies were offered to the public in 2010, and of 27 in 2011. In the first half of 2012, this figure reached 19. As the outcome of these public offerings, we have provided our companies with TRY 420 million in resources. We will conduct three more public offerings before July is over. And in light of the existing applications, it is possible to say that this trend will continue to increase. Another matter we will be focusing on in relation to public offerings is to make public offerings widespread especially among Turkish companies that rank in the top 500 and 1,000 companies listed by ISO. We will be working intensely next year both to introduce large companies [in Turkey] to the exchange and to increase the public offerings of already listed large companies.

#### What kind of activity has the large number of public offerings created in the stock market? How will this draw small- and medium-scale investors?

Since the public offering campaign began in 2010, the transaction volume of our stock exchange rose from \$316 billion in the previous year to \$425 billion. The year 2011 ended with a transaction volume of roughly the same level. Looking at the first seven months of 2012, one sees that the volume has maintained its levels.

As is known, approximately threefourths of the total transaction volume on our exchange is accounted to individual investors. Therefore, another indicator one must keep in sight is the increase in the number of investors. The number of investors opening investing accounts and participating in public offerings for the first time has increased consistently since 2010.

#### Do you expect the rise in the stock market that followed Turkey's credit rating increase to continue?

International credit rating agencies'

evaluations of countries, institutions, and financial products became one of the most important topics on the agenda after the 2007 financial crisis. One of the most serious criticisms concerning these evaluations has been that the models on which they are based are built to an extremely large degree upon historical data and do not reflect the future-facing potential and risks carried by an economy. Generally, I agree with these assessments. The evaluations conducted by credit rating agencies in time become built on top of an assumption of constancy and are unable to capture the structural transformations and breakdowns undergone by an economy over time. For this reason, the credit rating of Turkey, which should have long been raised to "investment worthy" by virtue of the country's structural reforms, macroeconomic performance, and finance sector strength over the past ten years. only came to the stage before this level in recent months. As another outcome of the extreme reliance of the models on historical data, the fact that the rating of Italy, whose economic condition is clearly dire, is still A- while Turkey's is still at BB+ can be shown as an example. But the markets are moving ahead of the rating agencies. While the treasury of Turkey was able to secure a 30-year loan with 5-6% interest, Italy's loan rates are clear to see.

To return to your question, the increase in credit ratings can of course be said to positively influence the amount of investment in companies listed on our exchange. But the truly significant effect will be seen when Turkey possesses an "investment worthy" credit rating. My expectation is that Turkey's rating will rise to this level as of next year.

#### Can you provide some information about the ISE's process of incorporation? How will this situation contribute to the development of the exchange?

Historically, in many countries in the world, exchanges were established as cooperative-like structures formed generally with the participation of their members. But since the 1990s, there

has been a rising trend for exchanges to turn into profit-focused corporations with public offerings. Examining the examples of the exchanges of Stockholm, Italy, and Australia, and the exchange s of Korea and Brazil, which were incorporated in the second half of the 2000s, significant increases in their market values were observed following incorporation. If the new Capital Markets Code is fully ratified in the General Council of the Grand National Assembly of Turkey is October, we expect to complete this process by the end of the year.



There is no reason for our exchange not to strengthen its leadership in its region and become one of the world's distinguished exchanges

Can you discuss the work you have done to increase the ISE's international competitiveness and depth?

In order to survive and develop in this competitive environment, we as the ISE believe that we must first secure vertical and horizontal consolidation internally. In this way, we are aiming

to create a technological platform on which resident investors both local and international can buy and sell many products over one trading and storage account. Also in this scope, we are engaged in an effort to establish regional partnerships by making agreements with exchanges in our region, many of which are members of the European Federation of Exchanges over which we currently preside anyway. With memorandums of understanding and protocols we signed with the exchanges of South Korea, Macedonia, Morocco, Bosnia, and Egypt, we have started projects to make it possible to mutually connect these exchanges. Also in the coming term, we aim to make such agreements with exchanges in our region and in East Asia.

#### Where do you predict the ISE will be among global markets for the next five years? What data supports your predictions?

As of 2011, our exchange ranked eighth among World Federation of Exchangesmember developing markets in terms of stock market transaction volume with a figure of roughly \$500 billion. In terms of volume, and hence liquidity, our exchange is a leader in the region. But we must raise the market value of our companies in the stock exchange. I think this is a viable—surpassable, in fact-target under normal conditions. The Turkish banking industry has accomplished this, after all: growing roughly fourfold over the past eight to ten years, our banking industry has come to its level today.

Macroeconomic indicators like the structural reforms that took place after 2002, the reduction of public pressure on usable funds, our high performance in growth, low inflation, and our strong banking industry show that capital markets are next line. With the needed technological policies and the expansion of public offerings and product diversity, and with activities to inform investors, the value of our exchange will rise to levels in proportion with our national income. There is no reason for our exchange not to strengthen its leadership in its region and become one of the world's distinguished exchanges.

# Brands textile, mobile accesories, piping, electronics, fmcg...



# **VAKKO: TURKEY'S STYLE WITNESS**

Having witnessed the modernization of Turkey, aesthetic changes in the Western lifestyle, style, and luxury, Vakko is venturing out to the world with its own labels

BY DERYA ENGIN KUTLU

**66 P UT SIMPLY**, we are a fashion brand," says Vakko Group, "Fashion Is Vakko," its unchanging motto, defines its approach to design. Vakko, which has maintained the level of its aesthetics, design, and stylishness perpetually, dates back to the Republican era. Born at a time when modern

ideas and innovations came to the country in rapid succession, Vakko reflects Turkey's modernization after the declaration of the republic, the aesthetic transformations in the Western approach to living, style, and luxury—in short, the history of fashionbeautifully. "Throughout this entire adventure, Vakko set

out as a pioneering brand not just in dress, but also in the transformation of ideas," says Vitali Hakko, the founder of Vakko. Hakko's story began in Şen Şapka, a small hat shop. In 1938, he started producing the latest-fashion scarves using Turkish silk, cotton, and wool. Positive reception of these scarves all



over Turkey convinced Hakko to set his sights higher. A small silkscreen printing workshop was thus opened in Kurtuluş, Istanbul for the first-ever Turkish print fabrics, which Vakko continues to manufacture today with unmatched mastery.

Later, when its ready-towear production launched and Vakko Beyoğlu store opened in 1962, Vakko laid the foundations of modern retail in Turkey. In 1968, the company founded one of Turkey's first modern factories, boasting 29,000 square meters of space. Since 2008, it has been continuing its high-quality production in its 33,000-square-meter new building. In 1982, Vakko founded Vakkorama, Turkey's first youth clothing store. This isn't the only subsidiary brand Vakko founded-together with Vakko and Vakkorama, Vakko is active in the Turkish market with Vakko Home, Butik Vakko, W Collection, Vakko Wedding, Vakko Outlet, and V2K Designer.

#### SOUND DESIGN, SOUND STRAT-EGY. SOUND MANUFACTURING

Meltem Kazaz, Director of Corporate Communications for Vakko Group, states that the brand has always proudly wielded the energy given by being a Turkish brand. She also underlines the fact that they are a boutique retail chain, saying, "From manufacturing to retail, we follow a boutique approach." Uniting many concepts from chocolate to perfume, wedding dresses, and menswear under one roof domestically, Vakko possesses an understanding of retail and brand positioning like few others in the world. This success is obtained thanks to its strong de-



sign team, manufacturing facilities, and sound brand strategies.

#### VITALI HAKKO'S GIFT: THE ART OF PRINT FABRICS

What makes Vakko "Vakko" is its possession of one of the world's select print fabric workshops and its experienced artisans. Every season, more than 600 Turkish designs are brought to life in the Vakko Manufacturing Center by the company's expert print fabric makers.



"Maintaining and increasing competitiveness to obtain sustainable growth and sustainable profitability" Vakko, which uses the same dves as the world's leading scarf companies, offers approximately 250 designs on average in just one of its stores. Vakko's designs are made by experienced creators in its design workshop. After being poured into molds in the gravure department, the completed molds are used to shape silk, satin, and highquality decorative fabrics in order to make Vakko scarves, ready-to-wear items, or decorative items. Since the day of its founding, Vakko has been creating marvels with its talent in fabric printing, and it has maintained Vital Hakko's approach just as it was on the very first day.

#### VAKKO IN THE GLOBAL Market

Vakko's first foray into the global market came as it opened its first international store in Frankfurt. Since opening its second store in the Azerbaijani capital Baku in 2007, the reach of Vakko's high-quality creations has been expanding with each day. In 2008, Vakko opened a store in Cairo, and in 2010 in Girne (Northern Cyprus).



Vakko's strategy for success in the international market is quite clear: "Maintaining and increasing competitiveness to obtain sustainable growth and sustainable profitability." For 2012, Vakko set a growth target of 15%. Vakko Group continues its investment in new stores, which it started in 2011, and with the stores and corners it is opening, it appears that it will easily reach the aforementioned goal.

Vakko has set its focus in international growth on the Middle East. In early 2009, the brand concentrated firstly on countries in the Middle East, the Persian Gulf, and neighboring countries in its international development plan. In 2010, following the successful general elections in Northern Iraq and the maintenance of stability following the US withdrawal for the region, Vakko became one of the first Turkish companies to invest in the area. The greatest factor in the region's allure for investing is the high demand for the Vakko brand and products

here. Vakko's stores abroad besides its Corner marque are increasing in number every day. Meltem Kazaz indicates that demand from Azerbaijan and Iraq in particular has multiplied. The company has put its focus on Lebanon, Qatar, Kuwait, Abu Dhabi, Dubai, and Russia as well, she says. In Australia and Saudi Arabia, Vakko Home products created with specially designed fabrics draw heavy interest. The company has been opening Corners in these regions in which it has identified potential. Vakko Group, which is a beneficiary of the Turquality state brand support program, believes that official recognition of its global brand power is an important turning point in its progress abroad. "The fact that we have the support of Turquality, which is highly respected internationally, helps us advance more quickly in markets abroad. Foreigners look at a state-supported Turkish brand very differently," says Vakko Group.

Vakko's medium-term goal is to become more active in China, India, and Brazil. Vakko Group summarizes its efforts in these regions as follows: "We are conducting detailed analyses for these regions, and we are meeting with companies that represent brands. These regions are markets that must be studied very well, whether in terms of geography or consumption habits. And we are studying hard for these regions. Brazil especially stands out among these. Both the state of the economy and relations between the two countries [Turkey and Brazil] have gained much strength. In this respect, our meetings with Brazil are moving forward quite fruitfully. And. in a surprising manner, it is quite a promising market even for the Vakko Scarf collection alone."

Meltem Kazaz says that Vakko Group has for the past two years successfully reaped the rewards of the profitable growth model it set for itself.

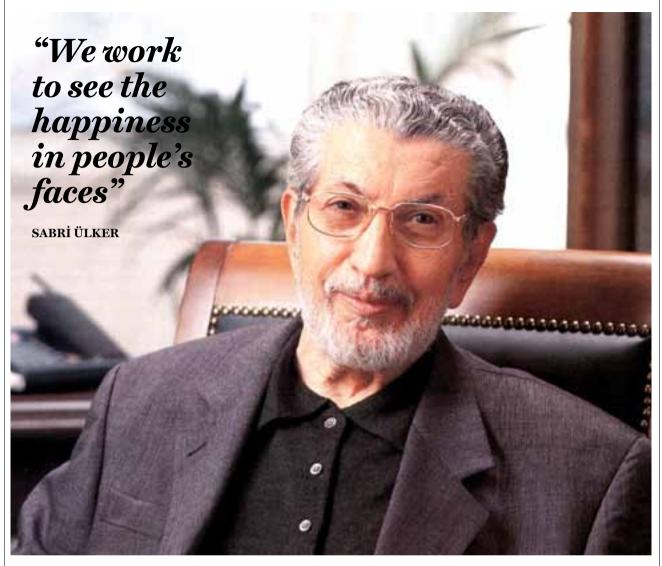


DIRECTOR OF CORPORATE COMMUNICATIONS

#### **ΜΕΙΤΕΜ ΚΔ7Δ7**

The export and business development departments within Vakko assess opportunities in the target markets constantly and with great detail. We are in close contact with commercial attachés on this point. We establish contact with the administration of shopping centers that have started to be built in the markets we have targeted. Additionally, we also conduct fairly detailed efforts concerning the investment request we receive and investors.





# A TASTE OF TURKEY: ÜLKER

Ülker, the cookie brand founded years ago by Sabri Ülker, today advances confidently toward becoming a global brand with its acquisition of such world-class brands as Godiya

BY DERYA ENGÍN KUTLU

WE WORK TO SEE the happiness in people's faces"—a sentence summarizing Ülker founder Sabri Ülker's vision for the company. The story of Sabri Ülker, who set out to create a brand that would eventually be found in every house and conquer every child's heart, is one that starts in a tiny

workshop and winds up with



Yıldız Holding has a total of 55 factories, nine abroad and 46 in *Turkey* 

a giant brand whose value is today expressed in millions of dollars.

### EVERYTHING STARTED WITH A

Sabri Ülker completed his higher education during WWII, after which he decided to produce cookies with his older brother, Asım Ülker, for children who

forgot what cookies tasted like over the course of the war. That the Ülker family had operated a confectionery shop for a while and that the two brothers worked in a factory in their youth contributed to a certain amount of experience. Confident in this experience, the brothers decided to establish their own cookie business at a





workshop in the Nohutcu Han building in Eminönü. The late Sabri Ülker said of those years, "In the year 1944, I arrived in Nohutçu Han in Eminönü, which was Istanbul's commercial nexus in those times. I entered the workshop located on the third floor. Examining the cauldrons. ladles, molds, the furnace in the back, and the other tools in the roughly 100-squaremeter area, I said to myself, 'I must succeed in this."

The brothers bought the workshop and set to work. First, they put the old machines through a trialbeing as old as they were, it was hard to find spare parts for those machines. Sabri Ülker therefore also learned to fix the old machines. The two brothers produced 200 kilograms of cookies every day in the first year. It is in those years that the foundations of Ülker-today one of Turkey's foremost brandswere laid. Ülker, which continues to operate under Yıldız Holding, Today, it is a deep-rooted brand with manufacturing in several countries and exports to more than 80 countries.

#### SABRI ÜLKER'S FLAVOR SECRET

Sabri Ülker once explained the secret to his success as follows: "At the foundation of success is, first of all, to work without growing tired or bored. The second is honest work, and



the third is quality work. The goods produced must be good and answer the customer's deeds—in other words, it must be worth the money charged for it. Fourth, promotion should be given much importance." "We have been advertising Ülker since 1950. Especially when advertising a quality product, the result obtained is great," said Sabri Ülker about his company, which valued advertising from its very first day.

#### A PIONEERING BRAND

Back in those days, Sabri Ülker called what is now known as "vision" as "foresight." He discovered the business ideas Turkey was introduced to in the 1990s quite some time before then and enacted them at Ülker. These characteristics made him one of the pioneering entrepreneurs in Turkish industry and the food industry in particular. In order to be able to compete against international brands, Ülker put its R&D departments to the task in the '70s. In the '80s, it started competing with imported goods. During that time, Ülker became the first cookie company in Turkey to bring in experts from abroad. Ülker established partnerships with many foreign companies.

Yıldız Holding obtained TRY 1.6 billion from exports in 2010. In 2011, this figure reached approximately TRY 2.4 billion

It utilized these companies' mastery and experiences, and it established its first hygiene department. In a speech he once made, Sabri Ülker provided his assessment of that era as follows: "We followed all global developments and caught up with the pace of the world. We invested in expanding our capacity. W therefore started to produce new products that gained the heart of our customers.

#### AN EXPORTS STAR

An adventure that started in that tiny workshop has today become a giant brand that exports to more than 80 countries around the world and whose reach extends from Australia to Canada. This is supported both by the development exhibited by the brand and its progress. Cem Karakaş, PhD, CFO of Yıldız Holding, states that the company's income

from international activities grew from \$1.6 billion in 2010 to \$2.4 billion in 2011. Yıldız Holding, which has a total of 55 factories—nine of them internationally and 46 domestically—is engaged in the production of chocolate, cookies, and cake in eight of its factories abroad. The company obtains 21% of its income from exports. Ülker—Yıldız Holding's main marque—and certain subsidiary brands like Biskrem and Içim possess market leadership in the region. Yıldız Holding, which possesses an expansive sales range, follows an expert strategy as expressed by Karakas here: "By making additions to our existing export markets, we aim to facilitate the continuance of income during regional economic stagnancy, increase in number our manufacturing facilities abroad, and from there we plan to open out onto new regions."

#### **GODIVA EXCELLENCE**

Yıldız Holding has gained respect in Turkey and in various countries around the world with the brands it has created. Beyond this, the conglomerate has been adding world-famous brands to its corpus as well. Yıldız Holding acquired Godiva, a giant in chocolate since the early 1900s, in 2007. "As Yıldız Holding, we act with a vision to be an institution that possesses brands first in its own region and then at the international level. There are certain parameters brought by being an international institution. To be an international institution requires possession of large companies that boast advanced management, international-scale revenue,

and world-class status in certain categories," says Cem Karakaş on Yıldız Holding's goals. As Yıldız Holding, says Karakas, they might buy new cookie and chocolate brands in Europe, the Middle East. and northern Africa in order to bolster their strength in those regions. He adds, "We will push our strategy to establish partnerships with companies that are experts in their fields and are among the world's respected companies for categories with a promising future in the Turkish market."

#### A LOCAL FAVORITE: COLA TURKA

Ülker has also added a name to the ranks of the cola market in Turkey, which has long been dominated by American brands. Ülker released Cola Turka in 2003 with the slogan, "It's cola as we know it, but Turka's alla Turca." Domestic consumer choice in the cola market, whose principal product is generally regarded as being American, tends to favor foreign brands. In such a time, Cola Turka presents a brand that caters to the local palate in a local way. Suited to Turkish taste,

Cola Turka gained a decent position among cola brands within a short time, rising to the rank of second in the year



with an authentic, relatively low-sugar, aromatic flavor, Cola Turka is the product of a year-long effort. Cola Turka gained a decent position among cola brands within a short time, rising to the rank of second in the year 2005. In 2006, with a new branding campaign, Cola Turka continued along its path with the slogan, "All together now." Additionally, the brand renewed its packaging with a logo designed by Emrah Yücel, who is known for his notable work for Hollywood.





CEM KARAKAS, PHD Chief Financial Officer. Yıldız Holding

Our strategy in exports can be summarized as facilitating sustained income during regional economic stagnancies by adding new markets to our existing export markets and proliferating our manufacturing facilities abroad, thereby opening out to new regions from those areas. On this point, we are continuing our efforts to purchase new companies in the Eastern Europe, Middle East, and northern Africa markets in the future.



# TAKING ACCESSORIES TO THE NEXT LEVEL

Once an OEM contractor working behind the scenes, Trexta is growing into an internationally recognized brand for mobile accessories

BY ALTAN ORHON





VERY ONCE IN a C while, a revolutionary product comes along that changes everything," said Steve Jobs, speaking at the Macworld Conference & Expo in San Francisco on January 9, 2007. It was on that day that the late tech visionary introduced the iPhone to the public. The device would very soon take the world by storm, changing the entire cellphone industry almost single-handedly and introducing a new era in mobile computing. More or less simultaneously, it also birthed a demand for third-party accessories that today nourishes a thriving multibillion-dollar industry. Since the launch of its iDevices line in 2007 with the iPhone, Apple sold 315 million such devices cumulatively by January 2012.

These devices were relatively expensive at the time of their release, encouraging customers to purchase cases and other protective items both to protect their investment and to express a certain level of personal style. Furthermore, Apple's model for cases and similar accessories differed from many other cellphone manufacturers in that instead of selling cases under its own brand, it directly encouraged a third-party market of products it would certify with the "Made for iPhone" label and sell in its own stores. The low number of form factors—at that time, one—for Apple cellphones relative to their sales figures, too, made it easier to enter the market. This massive, easy-to-access user base is precisely what drew the Turkish company



Trexta brings 22 years of experience to the market to create a line of unique cases and *snap-on covers with high-quality materials* and craftsmanship for Apple, BlackBerry, Nokia, and Samsung products

Trexta to the market.

Trexta Inc. was founded in 1990 in San Francisco by Attila Kutbay, a young Turkish entrepreneur who had just graduated with an MBA from National University in San Diego. The company's corporate headquarters remained in San Francisco for some time, but manufacturing took place in Turkey from the start. The company began by making leather accessories for Nokia phones. Trexta initially used subcontractors for its manufacturing. A major deal with Nokia in 1996 led them to set up their first factory in Çerkezköy outside Istanbul. Trexta enjoyed success for a very long time as an OEMtype manufacturer, directly supplying unbranded products to companies including Nokia, BlackBerry, Vertu, and Leica. Trexta's OEM products are very well regarded—Leica once wrote to say that their patent leather case contributed to a growth of as much as 30% in the sales of a particular model of camera.

As a brand of its own. however, Trexta made no real attempts until the introduction of the iPhone. To enter the iPhone market, the company needed to promote its own brand, as Apple had little interest in OEMs. The economic crisis that started in 2008 made the fast-growing Apple market even more attractive for Trexta—being so dependent on orders from other companies was a disadvantage in that environment.

Trexta launched its brand in January 2009 at the Consumer Electronics Show in Las Vegas. Most of the devices at its stand were prototypes designed to get a feel for the market; these were presented to companies and potential customers for feedback, revised, and released for international sales

in April. Even so, Trexta's early attempts attracted great interest and praise from those who attended CES, with one blogger lauding the use of "soft, buttery patent leather" of a quality rarely seen in such accessories until then. "Even at the start, we managed to enter the race with a decent advantage over other brands in the market in terms of both quality and innovation," savs Aslıhan Sengül, Trexta's creative brand manager. "In 2009, when we first entered the market, we had a product called 'iHug,' a case shaped like a person who was embracing your iPhone. Sales weren't so high, but we didn't expect them to be anyway—there are some products we use as strategic marketing tools alongside the moneymakers that sell in great volume. This is often the case in fashion, too," she says. Trexta continued to release product after product, expanding to the iPad too. Its products have received much praise at trade shows and in various publications—an unreleased neoprene case called the Magic Back for iPad won Best Product Design in the "60 Seconds to Convince" contest at DISTREE XXL 2010 held in Moscow, and its iPhone case Sketch Up was named Best of Show at Macworld. The key feature of the Sketch Up, an innovative case made entirely of recycled paper and plastic, is that users are able to draw on it with markers included in its box. This creative, eco-friendly product serves as a testament to the kind of brand that Trexta sought to build.

In time, Trexta expanded its range of branded products to accessories for other devices. BlackBerry maker RIM publicly unveiled its "Built for BlackBerry" program in January 2011, which mirrors

Apple's model of maintaining some degree of control over accessories without being directly responsible for them (yet still earning a share of their profits). As one of RIM's OEM suppliers, Trexta had avoided competing with them. With the official sanction provided by the new program, Trexta felt free to expand its own brand to the BlackBerry market, too. Accessories for the Amazon Kindle as well as Samsung's Galaxy line of phones and tablets are also part of Trexta's current product range.

The company has recently started focusing on designing products targeted to specific markets. Up until now, all of its collections were designed with the global market in mind, catering to American and European tastes. Developing countries in the Middle East and Asia have drawn Trexta's interest as a growing middle class translates into a huge potential market for its wares. Trexta's international reach is considerable—the company has offices focusing on trade, logistics, and design in six countries, and a total of four manufacturing facilities, with two in Turkey and one each in India and China. Trexta's first factory, the one in Cerkezköv, is primarily used today for the manufacture of their leather items and as a logistical center. They also have a plastics manufacturing and molding facility on the outskirts of Istanbul. Plastic skeletons for the cases are sent from the latter to the former, where they are subjected to Trexta's patented in-mold covering application technique, resulting in smooth, ridge-free cases with leather, fabric, wood, or paper exteriors. Trexta's branded products are mostly manufactured in their Turkish facilities. Its Asian factories are



"People want to express their individuality. The things we make allow just that, adding value to existing products in the process"

used mostly for high-volume OEM production for Nokia and RIM, especially the production of items included in the box with the device itself, which imposes severe cost restrictions—with great competition in the OEM field for cellphones, and with most device manufacturing taking place in China, device manufacturers often award contracts to the lowest bidder.

Why, then, does Trexta do most of its manufacturing—especially for its own products—in Turkey? Access to high-quality raw materials, a skilled workforce, and Turkey's unique geographical position are the key advantages Trexta finds in this country. "Incredible things are being done in Turkey when it comes to leather, and it really is no less outstanding than Italy in this area. Italy may indeed be one step ahead in terms of color and pattern options, but there is no difference in the quality of the

leather," says Aslıhan Şengül. Turkey is indeed becoming a brand of its own in leather. with an estimated \$3 billion export of leather—including tourist purchases—in 2011. "The factory in India was established because it's easier to find quality leather there than in China, but Turkey is still far ahead," notes Sengül, adding, "Because Turkey is so centrally located, we are in an excellent position to distribute our wares to Arab countries, Europe, and the US. When we consider transferring the production of a product to China or India, the logistical costs often end up being excessive."

In three years, Trexta has succeeded in transforming itself from a quiet OEM company into an internationally recognized brand with products sold in more than 65 countries. And although the OEM side is still an important part of the business, the agility and independence Trexta discovered with its own brand caused it to channel its energies in that direction. As the number of unique form factors in devices continues to fall, with the dozens of handsets released yearly by certain manufacturers being replaced by a small set of smartphones simply to streamline production processes, people will rely even more on accessories for self expression. "People want to express their individuality. The things we make allow just that, adding value to existing products in the process," says Şengül. It therefore stands to reason that the Trexta brand has nowhere to go but up—and thanks to its global reach, innovative approach, fresh thinking, and access to markets provided by its location, this Turkish company seems poised to do just that.

## **BUILDING UP A BRAND**

Hakan Plastik, a pioneer in the Turkish plastic industry, is quickly increasing the number of countries to which it exports its products

BY AYNUR ŞENOL ALTUN

**▼** HE PLASTICS INDUSTRY is growing. By field, the 6,000-company-strong plastic industry breaks down into packaging with 27%. construction with 14%, textile with 11%, housewares with 10%, automotive with 9% and technical parts also with 9%. Another 20% is engaged in production destined for other industries. Setting new records in exports, the industry aims to have conducted roughly \$5 billion worth of direct exports by the end of the year. Turkey is now Europe's third-largest producer of plastic, and the numbers it has obtained so far confirm its claim to this title. A leading area in the Turkish manufacturing industry, the plastics industry possesses great potential and dynamism, and it has exhibited an ability to adapt quickly to new developments. One of the foremost actors in Turkey's plastics industry is Hakan Plastik. Established in 1965, Hakan Plastik started producing indoor pipe systems using extrusion and injection-molding machines it imported from Germany. In 1992, it additionally started production on PP-R hot and cold water pipe systems, and as of 1997 it started to speed up its export activities to serve its planned growth targets. Producing solely in Turkey and only in the plastic pipe systems field, Hakan Plastik ranked among the Top 500 Industrial Enterprises listing of ISO 500

in 2011, proving in a sense its business volume. With its modern facilities built on a 200,00-square-meter area in the Cerkezköv Organized Industrial Zone, experience in exports and logistics, and solid technological infrastructure, Hakan Plastik has managed to become one of the most important actors guiding the direction of the world plastic pipe industry, which is valued at more than \$100 billion.

#### THE CHOICE OF PRESTIGIOUS **PROJECTS**

Hakan Plastik is active with its brands in three fundamental fields of business. namely superstructural engineering, infrastructure, and agriculture. It represents itself in the first field with its Silenta silent wastewater piping systems, the second with its Hakandrip irrigation systems, and the third with its Duramax PP corrugated infrastructure systems. Having entered global markets with Silenta, which is still Turkey's quietest wastewater pipe, Hakan Plastik is notably the only Turkish brand used in Dubai's Burj Khalifa-Dubai Mall project, which is the world's tallest building. Hakan Plastik products are also chosen for prestigious projects all over the world, such as Istanbul Trump Towers, Dubai Rolex Tower, Dubai Versace Hotel, Emirates Park Tower Hotel, and Latifa Tower.



Şanlıurfa and the contribu-

tion made to the region's economic development has been rewarded. Bestowed upon Hakan Plastik, this award, organized jointly by the Sanlıurfa Chamber of Commerce and Industry and the Sanlıurfa Industry Exchange, and with the partnership of the Union of Chambers and Commodity Exchanges of Turkey, showed how well placed and correct our efforts are. Our gladness will increase even more due to the jobs that will be created in the region our factory is built and the contribution we will provide to the economy of Turkey." Aiming to increase the size of its workforce in parallel with the growth of its business volume, Hakan Plastik





factory enters operation at the end of the year.

#### **ACTIVE IN MEXICO**

Having diversified its export markets in 2011, Hakan Plastik achieved significant growth in this regard, too, reaching the markets of 12 new countries to raise the total number of countries to which it exports to 67. "One of the markets we opened up to this year is Mexico. We also have the distinction of being the first pipe company to export to this company," says Zafer Karadeniz. He lists some of the countries Hakan Plastik exports to as follows: "Sweden, Spain, Poland, South Africa, Iraq,

Hakan Plastik ranked 443rd in the ISO 500 list with TRY 177.4 million in sales from *production* 

Turkmenistan, Ethiopia, Iran, Azerbaijan, Russia, the United Arab Emirates, Qatar, Nigeria, and all the Balkan countries."

The Hakan Plastik chairman says one problem faced by the entire plastic industry worldwide is the great amount of incorrect and incomplete information about plastic. He emphasizes that transparency and declarations must be given weight to eliminate the public conception that plastics negatively affect human health.

Hakan Plastik aims to appear in prestigious projects

### REINVESTING INTHE INDUSTRY THROUGH SOCIAL RESPONSIBILITY

**PROJECTS** 

In cooperation with the Çerkezköy Vocational Training Center, Hakan Plastik last year opened the Hakan Akademi Apprenticeship Training Class to train individuals aged 15 and up and provide them with guaranteed jobs in the fields of plastics technologies and computeraided manufacturing (CNC). "This project, which aims to provide a vocation to children who were unable to continue their education, makes both us and the families of the children participating in the training happy," says Zafer Karadeniz.

in Turkey, too, as it does in the rest of the world. Zafer Karadeniz says, "What we are emphasizing is the perception of quality that the Hakan brand creates in people. By bringing this perception to the forefront in our country or in the many countries we export to, we are moving forward with a lasting, sustainable approach to commerce." Hakan Plastik is confident in building up its brand, aiming to achieve this through the universality of the products it makes, its investments in technology, and its policy of constantly improving its products.

## THE GIANTS OF ICT IN TURKEY

With regard to its goals for 2023, the ICT industry is expected to grow fourfold with successful brands like Karel and AirTies

BY CAN GURSU

HE ICT INDUSTRY IS One that is growing and rising rapidly in Turkey and the world. The ICT industry in Turkey is expected to quadruple in size by 2023, reaching a volume of \$160 billion. Possessing significant market potential and economic dynamics, Turkey today ranks as the world's 16th largest economy. In terms of qualified human resources. Turkey ranks among the top 15 countries in the world, whether in the category of IT skills or that of qualified engineers. The incentivization of production and R&D and the direction of the government's buying power to domestic brands constitute a significant driving force for the industry in Turkey. With their power and experience behind them, Turkev is home to world brands in information and communication technologies. Among the foremost of these companies are Karel, which answers the communication needs of enterprises of every size and is one of Europe's top three PBX makers, and AirTies, which is known for its home networking products and works closely with many telecommunications companies around the world.

#### \$2.2 BILLION CONTRIBUTED IN 25 YEARS

Founded in 1986 with 100% local capital, Karel today ranks as one of the first companies in the world to have entered the electronic telephone exchange business. By introducing

its private branch exchange (PBX) products to this market, Karel was a pioneer in Turkey's transition from electromechanical to fully electronic systems in communications, and today recognized as one of the world's leading brands in the area. Besides being one of Europe's top three makers of PBXs, it is among the first 15 companies in the world in this area.

Karel, which develops its communication systems in its own R&D department, is Turkey's largest communication electronics institution with no foreign share-



Leading Turkish brands Karel and AirTies rank among the most successful actors in their industry not only in Turkey, but  $also\ in\ international$ markets

holders. Deputy General Manager Osman Duman indicates that there are more than 575,000 businesses in Turkey alone and close to 10 million users in the world. and that the company has contributed \$2.2 billion to the Turkish economy over the past 25 years. Products that ease corporate users' lives and can be customized according to needs, together with good support and service, has contributed to this success, he says, "What's truly meaningful is to have sustainable success," says Duman, Karel, a market leader in Turkey for many years, constantly works and invests to maintain this status.

Karel, whose main field of operations is telecommunications, produces private branch exchanges using various technologies-VoIP most of all—and in every



capacity segment. Developing and manufacturing hundreds of kinds of various peripheral systems exchanges for the convenience of companies' communications are also among Karel's activities. Duman indicates that the company has made a rapid entry into the video communications and security solutions markets, too. For this purpose, Karel is expanding its activities in video communications, security, process management. resource management, and customer management, in addition to audio communication, intensifying its efforts geared toward these fields. Karel is preparing to enter not only new product markets, but also new national markets.

Karel today exports products and technologies to more than 30 countries. "Our aim is to bolster our activity in markets where we are already present—like the Commonwealth of Independent States (CIS) countries, India, and the EMEA countries—with new products, solutions, and business models, and to enter in a focused fashion new markets such as countries in America and East and Central Europe," says Duman. At a time when lifestyles and business processes are changing very rapidly alongside technology, Karel is setting ever-greater targets as it has constantly renewed itself since the day it was founded. Through this, Turkish brands are gaining more and more recognition abroad.

### FROM TURKEY TO SILICON

Another tech giant like Karel is AirTies. Competing in the same arena against world giants with

its home wireless connectivity technologies, AirTies was founded by a Turk who previously had risen to the rank of CEO in global IT companies. AirTies develops products that wirelessly connect electronic devices to each other, the Internet, and people. In its product range are devices that provide broadband Internet access (ADSL/VDSL), wireless local area networking, Voice over IP (VoIP), and Internet Protocol Television (IPTV). Engaging in production custom tailored to the requirements of the country and region it is in, AirTies is accomplishing a worldwide first in this field, too.

AirTies started as its founder fused know-how and an engineering foundation from Silicon Valley with entrepreneurship.

Developing Mesh Networks technology upon recognizing the barrier occasionally imposed upon wireless Internet connectivity by the walls used in Turkish buildings, AirTies successfully achieves much wider reception of wireless signals with this solution custommade for Turkey. "Producing technology, creating a world brand in this field, and exporting have always been an exciting subject of discussion for all of us," says AirTies CEO Bülent Çelebi, and he adds, "And in truth, this is what we aimed."

After studying electronic and computer engineering at UC Berkeley, Bülent Celebi had the opportunity to gain work and industry experience in a great variety of countries, such as China, Taiwan, Malaysia, and India, amid a number of different cultures. Celebi continued to work with Silicon Valley after returning to Silicon Valley, and in 2002, he was listed as one of the "Top Ten Entrepreneurs" by Red Herring. As he continued his duties as CEO of a Silicon Valley firm in the US, despite having had such great success in his career, he never lost his desire to create a global company. Celebi decided to position the headquarters of the company he would establish in this industry, in which he had a great deal of experience, in Istanbul, Turkey. "I put together my business plan in my home's backvard, and with a sudden decision I followed my dreams and returned to Turkey," says Çelebi in a recollection that leads up to the founding of AirTies, which is now a solutions partner of many telecommunications companies around the world.

Focused on Western and Northwestern Europe among its foreign markets today, AirTies exports to many European countries including Russia, Denmark, the Netherlands, France, and the UK. "IPTV is one of our areas in which we are most confident abroad," says Celebi, and adds, "We developed Turkey's first set top-box product and started exporting it. Working with leading industry operators in this field, we facilitate the transmission of IPTV broadcasts to thousands of TV viewers in numerous countries." An ongoing solutions partner with Danish triple-play operator WAOO and Icelandic IPTV and fiber operator Siminn, AirTies has also been working on new projects in Andorra, the country that possesses the world's fastest Internet access.



**BÜLENT ÇELEBİ** CEO, AirTies

Turkey is a country and market that is proceeding with incredible speed in the adoption of new technologies, is open to innovation, and has high energy. We are a society that is open to new technology and accepts it into life, learns, and practices it quickly. Technology is a sector that contains opportunities in every one of its fields—it's not important where you are. What matters is focusing on the correct product/ service in line with one's expertise, never forgetting that R&D is the greatest investment, and satisfying the needs of this. I believe sincerely that developments can occur much faster with correct reading of the market and local feel in Turkey, and by understanding the needs of the Turkish consumer well, listening to them, and speaking the same language with them. We practiced this and succeeded.



OSMAN DUMAN Deputy General Manager, Karel

I must indicate that the information and communication technologies industry is of incredible strategic importance for Turkey to realize its growth target. With the provision of the needed support, Turkey has the potential to become a regional force especially in the Asia-Middle East-Africa territory. For this, the production of policies geared toward the industry's development and the consistent application of these policies become important. And for this, it is of critical importance that production and R&D are incentivized and that the state's buying power is used as an incentive along this road.



### From Adana to the World

The journey Doğanay Food started in Adana continues in 35 countries today

BY AYNUR ŞENOL ALTUN

FTER FINISHING HIS studies in political science in Germany before entering the food business, his family profession, Rafet Doğanav entered the retail industry by opening a market, and afterward expanded his vision to the global arena with "şalgam," a pickled purple carrot-based drink that is Adana's local drink. Before entering this industry, Doğanay toured all the manufacturers and noticed the lack of a wellsystematized manufacturing process. He therefore set a goal of bringing increased professionalism to the business, taking global beverage giants as an example—he followed their example in facilities and used similar systems in bottling lines. In other words, he entered the industry with great motiva-

tion and excitement. Şalgam wasn't so widely recognized in that era, and Doğanav is still working toward his goal of elevating it from the status of a local to drink to that of a national one. He started producing the savory beverage in 1997, in a factory built on a 1,300-square-meter plot of land in the Adana Organized Industrial Zone. The company continued its investments up through 2012, and in time it expanded its product range as well. With such products as 100% natural wine vinegar, 100% natural apple cider vinegar, 100% natural lemon juice, lemon sauce, lemonade, 100% concentration pomegranate molasses, and 75% concentration pomegranate molasses sauce, it became a well-known brand in the market, and over time it expanded its indoor manu-



European and Middle Eastern countries are the top export markets for Doğanay Food, which today exports to approximately 35 countries

Doğanay Food also supplies large chains by contract manufacturing of its products

facturing space to 35,000 square meters. Doğanay Food now exports to roughly 35 countries. Among its export markets, European and Middle Eastern countries stand out the most. Doğanav Gida, which possesses fairly high recognition in the market and by consumers. has been continuing to grow stably since 1997.

#### CAREFULLY SELECTED RAW MATERIALS

Rafet Doğanay, speaking as board chairman of Doğanay Food, says they procure the raw materials for their production—for which they boast an annual production capacity of 290 million liters—from carefully chosen regions. According to Doğanay, they cultivate purple carrots—the main ingredient in şalgam, which is known to have properties that aid digestion-on agricultural land in Ereğli, Konya and Ulukışla, Niğde, with Ministry of Agriculturesubsidized "Good Agriculture" certification. The other regions he lists as follows: "The 100 percent natural wine vinegar is made from carefully selected grapes in the Gaziantep – İslahiye and Nevsehir region, and the 100 percent natural apple cider vinegar is made from fresh select apples from the Mediterranean, Konya, and Niğde region. We use no artificial flavors, dyes, or additives at all in our 100 percent natural wine vinegar, 100 percent natural apple cider vinegar, and 100 percent natural balsamic vinegar. Additionally, as a first in our country, we bring the 100-percentnatural, unadulterated lemon juice we produce to tables as-is by obtaining it from select lemons from the Mediterranean region, using no additives, preservatives, or dyes, using an ultra-hygienic production system. And the pomegranate molasses is produced on fully automatic machines from select southern and southeastern pomegranates using traditional methods."

Employing 200 people at its factory in the Adana Organized Industrial Zone, Doğanay Food also hires seasonal workers for its agricultural plots in Ereğli, Konya and Ulukışla, Niğde.

Doğanav Food, which holds awards for the packaging of several of its bottles, values appearance and marketing just as much as it does for its product. And if it decides that the product it manufactures is unpalatable, the product is not released to market.

#### CONTRACT MANUFACTURING FOR RETAIL CHAINS

Doğanav Food also supplies large chains by contract manufacturing of its products. Among the companies with which it has worked are such brands as Bim, Migros, Tansas, Carrefour, Metro, Kipa, Real, and Kiler. The company also possesses a Turkev-wide distribution





Rafet Doğanay, Doğanay Food Board Chairman: "Doğanay Food, which adopted quality, honesty, hygiene, and service as its principles, has become a brand known and sought in all of Turkey"



According to data released by the World Trade Organization, says Rafet Doğanay, global trade grew by 177% between 2002 and 2011, from a volume of \$13.2 trillion to \$36.5 trillion. He emphatically states that this growth continues likewise in Turkey, too. After underlining the fact that Doğanay Food continues manufacturing its present products to world standards via its constant investments in new technology and R&D efforts, Doğanay says they plan to export various products to various countries. Opening sail to new markets is among the company's goals, too."

"While salgam was a regional drink in our country, today it has become a national drink. While it is not so well-known in the world for now, recent scientific studies concerning this beverage's benefits for human health and the increase in conscious consumption give signs for the future that this product will become a world beverage. In vinegar, while lower-weight products are consumed more often worldwide, in our country one can speak of consumption in greater weight especially in the pickling season," says Doğanay, pointing out the size of the market in Turkey as he also lavs bare his trust



# Agenda FAIRS, EXHIBITIONS, SUMMITS, AND MEETINGS IN THE NEXT TWO MONTHS



#### SEPTEMBER 06-09

9th INTERNATIONAL CIVIL **AVIATION AND AIRPORTS EXHIBITION ISTANBUL** ATATÜRK AIRPORT GENERAL AVIATION APRON

### EX 2012

Airex, the most prominent aviation exhibition of the region that extends from Eastern Europe to the Turkic republics of Central Asia and from northeast Africa to the Middle East, has now evolved into the "Istanbul Airshow," a higherstage global aviation platform. Airex Istanbul is the only show in the world where customers are taken to demonstration flights directly from their allocated stands. From operators to service providers and customers, Airex Istanbul is definitely the most effective business aviation convention point in the region.

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#### Züchex Tüyap, İstanbul SEPTEMBER 5-9

The 23rd ZÜCHEX Housewares, Gifts, and Electrical Appliances Fair and the Ideal Home Fair not only increase domestic trade figures, but they also fuel growth Turkey's exports thanks to companies that have the opportunity to meet with and gain new international customers during the fair, constituting an important value add for the country's economy. Glassware; steel kitchenware; plastic, porcelain, and ceramic items; various gift items; small home appliances; nonstick kitchen utensils; silver-coated gift items and decorative products, and new technologies are presented in stunning variety to viewers at the fair.

#### World Food Istanbul CNR Expo, Istanbul SEPTEMBER 6-9

WorldFood Istanbul, the biggest fair in Turkey in its field, will bring together the industry's giants and present to visiting professionals the developments, innovations, and opportunities in the industry. The 20th Gida WorldFood Istanbul International Food Products and Processing Technologies Exhibition will be held September 6–9 at CNR Expo.

Paint Istanbul - Paint Industry and Auxiliary Materials Congress and Fair CNR Expo, Istanbul

#### SEPTEMBER 13-15

Bridging the emerging markets of the Middle East, CIS, and Balkan countries with the highly industrialized and developed countries of Western Europe, Turkey offers great opportunities for paint producers as well as raw material and service suppliers. The festival-like event is based on bringing together the prominent representatives and decision makers of paint and ink, raw material suppliers, researchers, universities and related academic institutes, equipment manufacturers, packaging, and logistics and insurance

companies on an international platform.

Bijoux Expo Turkey 4th International Bijouterie, Fashion, and Accessories Fair Istanbul Expo Center

#### SEPTEMBER 13-16

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Following the great success of the third occurrence of the fair, in which 145 local and 10 foreign brands participated, the Bijoux Expo Turkey fair, drawing heavy attention from foreign buyers and big companies that want to open turnkey locations in Turkey especially due to the great interest in Turkish and Ottoman-inspired creations abroad, is preparing to welcome 1,500 foreign professional buyers from all over the world and 15,000 local professionals. Participants in Bijoux Expo Turkey will promote their meticulously created 2012 collections of jewelry and accessories to visitors via various shows.

#### Collection Première Istanbul Istanbul Expo Center SEPTEMBER 22-24

Collection Première Istanbul (CPI), Turkey's largest ready-to-wear clothing and fashion fair, is being held with the support of the Istanbul Textile and Apparel Exporters' Association. CPI will be bringing all actors in the industry from fashion brands to designers, big buying delegations, and names from the international fashion scene together at CNR Expo.

#### Eurocorr 2012 Sheraton Istanbul Maslak Hotel SEPTEMBER 9-13

Corrosion of all types as well as all the problems of the industry will be discussed at the EUROCORR Congress, held in Istanbul this year with the organization of the Turkish Corrosion Association. Corrosion scientists, industrialists, engineers, and researchers.

#### 31st International Istanbul Boat Show Marinturk Istanbul City Port

#### SEPTEMBER 29-OCTOBER 7

The Istanbul Boat Show is featuring 300 companies and 650 globally famous brands on a 150,000-square-meter total area. Presented by the show are boat brands being displayed for the first time ever in Turkey, exceptional megayacht-sized designs, a rich array of boat equipment and accessories, and water sports activities.

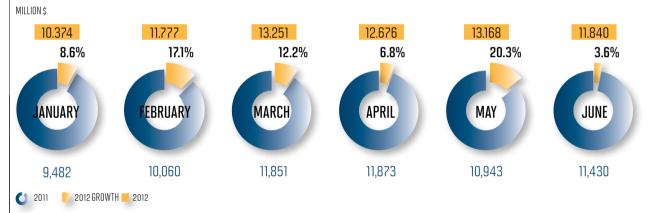


# Figures EXPORTS

The Turkish Exporters Assembly completed its study on the 1,000 companies that export most. The top 1,000 exporting companies, 181 of which entered the list for the first time ever, accounted for 64.8% of total exports in 2011. TIM aims to encourage exports across Anatolia and increase the number of provinces that have surpassed the threshold of \$1 billion in export value. Exports are of great importance for Turkey as part of a stable growth strategy

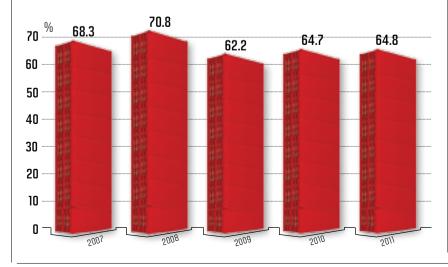
#### MONTHLY EXPORT FIGURES AND GROWTH RATES

After its exports shot up to \$135 billion in 2011, Turkey is again able to raise the bar this year thanks to its stable growth. Interim data for 2012, viewed in light of the corresponding period in 2011, presents a positive outlook



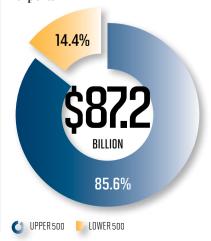
#### SHARE OF TOP 1,000 EXPORTERS IN TOTAL EXPORTS

The top 1,000 exporters accounted for 64.8% by value of total exports in 2011



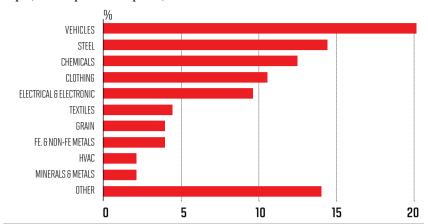
#### SHARE IN EXPORTS

The top 500 exporters accounted for 85.6% of the top 1,000 exporters' \$87.2 billion total exports



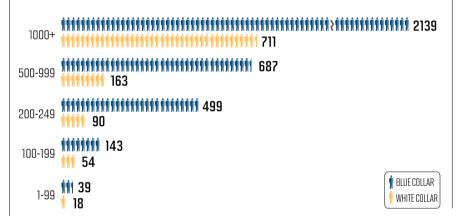
#### EXPORT DISTRIBUTION BY INDUSTRY

The vehicles and parts & components industry accounted for 20,3% of the top 1,000 exporters' exports, while steel had a share of 15%



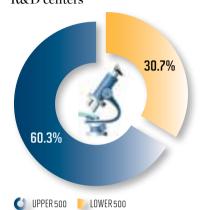
#### AVERAGE NO. OF BLUE- AND WHITE-COLLAR COMPANY EMPLOYEES

In 2011, the average number of employees in the top 500 companies was 693. In companies with 500–999 employees, 687 were blue collar and 163 were white collar



## R&D CENTER OWNERSHIP RATES

In 2011, 24.2% of the top 1,000 exporter companies operated R&D centers



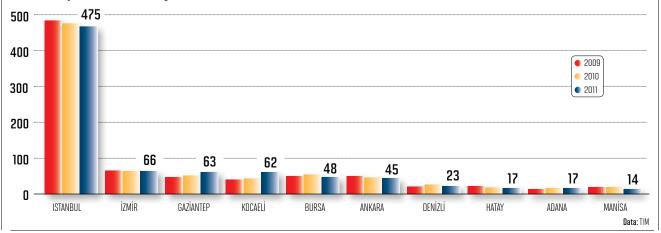
## AVERAGE NO. OF R&D WORKERS

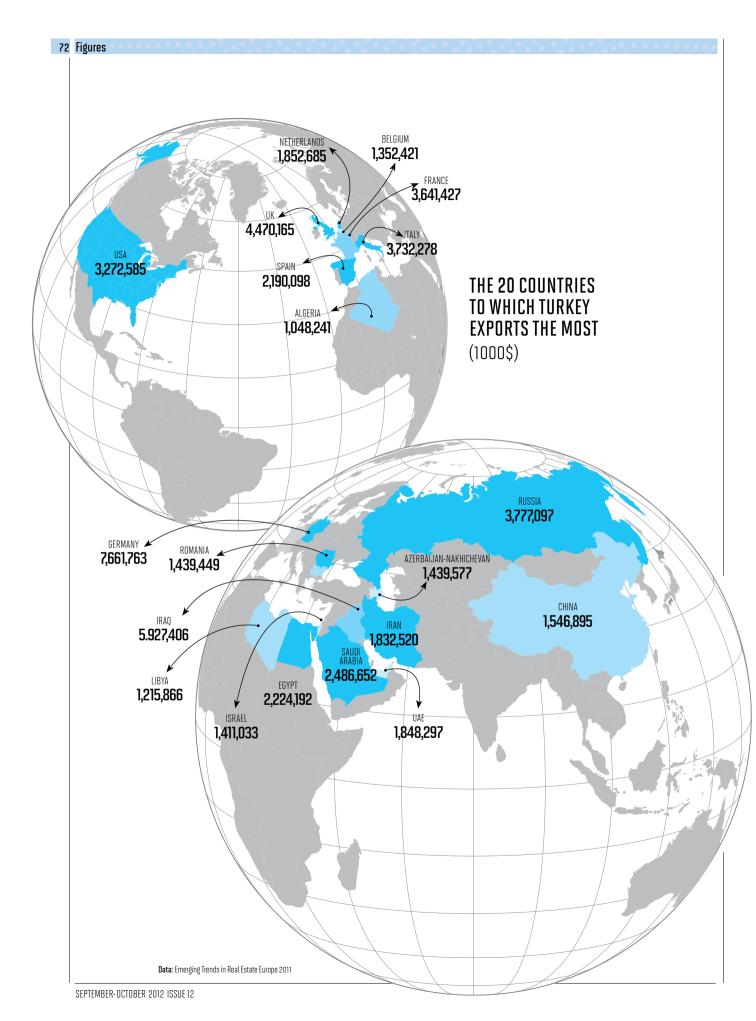
The average number of R&D workers in the top 1,000 exporter companies in 2011 was 55.4

UPPER 500	64 PEOPLE
LOWER 500	<b>41.4</b> PEOPLE
<b>LOOD</b> COMPANIES	<b>55.4 PEOPLE</b>

#### DISTRIBUTION OF TOP 1,000 EXPORTERS BY PROVINCE

With 475 exporters, Istanbul was the most successful province this year. Istanbul was followed by İzmir, Gaziantep, Kocaeli, and Bursa







# COMFORT WINS AGAIN

World's Best Premium Economy Class Seat, two years in a row.

18 million voted, and their answer didn't change. This year for the second year in a row, our Comfort Class seat has been named World's Best Premium Economy Class Seat by the world's largest airline passenger satisfaction survey, the Skytrax World Airline Awards...

Now come have a seat and see what all the fuss is about.

**COMFORT** CLASS







# Still Europe's Best. Still getting better.

Last year we were chosen Europe's Best Airline at the world's largest airline passenger satisfaction survey, the Skytrax World Airline Awards.

But that didn't stop us...

We kept trying; our seats got even cozier, our meals got even yummier and our network got even bigger. We were chosen Europe's Best again this year,



