



TÜRKİYE GENÇ İŞADAMLARI DERNEĞİ
YOUNG BUSINESSMEN ASSOCIATION OF TURKEY

HIGHLIGHTS
OF THE
*TURKISH ECONOMIC
ENVIRONMENT*



TÜGİAD, "YES" Avrupa Genç İşadamları Derneği ortak üyesidir.
TÜGİAD, is an Associate Member of "YES Young Entrepreneurs for Europe."

KORUKENT SİTESİ R BLOK D.3 80600 LEVENT - İSTANBUL - TÜRKİYE
TEL : (90 - 212) 274 99 74 - 274 99 75 FAX : (90 - 212) 288 09 97



TÜRKİYE GENÇ İŞADAMLARI DERNEĞİ
YOUNG BUSINESSMEN ASSOCIATION OF TURKEY

HIGHLIGHTS
OF THE
TURKISH ECONOMIC
ENVIRONMENT

APRIL 1994



TÜGİAD, " YES " Avrupa Genç İşadamları Derneği ortak üyesidir.
TÜGİAD, is an Associate Member of " YES Young Entrepreneurs for Europe."

KORUKENT SİTESİ R BLOK D.3 80600 LEVENT - İSTANBUL - TURKEY
TEL : (90 - 212) 274 99 74 - 274 99 75 FAX : (90 - 212) 288 09 97

This report may be published wholly or in part without permission if an appropriate reference to **TÜGİAD "Economic Highlights of the Turkish Environment"** is made in the text.

Prepared by:
RGA Management Consultants, Ltd.
Tel: (212) 288 63 97 - 275 19 53
Fax: (212) 266 31 57

Printed by:
Singe Ofis Matbaacılık
Tel: (212) 567 64 64 - 544 66 24

FOREWORD

The structure and development of a national economy affects not only that particular country, but the international economic environment as well. The dissemination of information concerning important issues facing a national economy, measures taken to alleviate problems, and goals and strategies for the future are all factors that are crucial to the development of healthy international relations.

TÜGİAD recognizes this need for the efficient distribution of information, and as a new member of the "Young Entrepreneurs for Europe" has undertaken the responsibility of informing fellow YES members and other interested parties of some important factors affecting the Turkish economy. This report has been developed with the purpose of giving a general overview of selected issues facing the Turkish economic environment while at the same time putting forward the views of TÜGİAD members on related issues.

The structure of employment and the workforce, and the overall entrepreneurial tendency in Turkey will play an important role in its' development of a competitive advantage in the future, and is an integral part of Turkey's economic and social composition. Analysis of the development and current structure of foreign investment in Turkey and the regulations and procedures governing foreign investment provides potential investors with a general idea of the Turkish environment and the advantages of investing in the Turkish market. The development of Turkey's economic and political relations with the EU and the upcoming customs union are important issues facing the strategic development and further liberalization of the Turkish economy. Privatization has become a crucial issue in the Turkish economy. The evaluation of privatization programs implemented to date and plans for the future will play an important role in the Turkish economy. The analysis of all of these factors combine to give an overall view of the important issues facing the Turkish economic environment, while at the same time providing suggestions for actions in the future.

This report, which aims to give an overview of selected issues affecting the Turkish economic environment, has been developed by RGA Management Consultants, Ltd. and prepared by Suzan ARTEMEL and Dr. Ruhi GÜRDAL. We would like to thank TÜGİAD members and TÜGİAD's General Secretary Murat BEKDİK for their contribution and support.

TÜGİAD

TABLE OF CONTENTS

INTRODUCTION	1
CHAPTER 1	
Employment in Turkey	3
1.1. Demographic Conditions	3
1.2. Labor Force	5
1.3. Unemployment	9
1.4. Social Security	12
CHAPTER 2	
Entrepreneurship and the Entrepreneurial Environment in Turkey	13
2.1. The Entrepreneur in Turkey and Selected Countries	13
2.2. Entrepreneurship in Turkey	18
2.3. Suggestions for the Development of Entrepreneurship and Characteristics of Future Entrepreneurs	29
CHAPTER 3	
Foreign Investment	33
3.1. The Turkish Environment	33
3.2. Developments in Foreign Capital Investment	35
3.3. Establishing a Presence in Turkey	38
3.4. The Foreign Investment Environment	41
CHAPTER 4	
Turkey and the European Union	47
4.1. Historical Development of EU-Turkey Relations	47
4.2. Turkey's Demographic Contribution to the EU	50
4.3. Turkey's Economic Contribution to the EU	51
4.4. Turkey's Foreign Relations	56
CHAPTER 5	
Privatization in Turkey	59
5.1. Privatization Practices	59
5.2. Turkey's Upcoming Privatization Program	64
5.3. Conclusions and Suggestions Regarding Privatization	66
References	73

INTRODUCTION

This report aims to give an overview of selected issues affecting the Turkish economic environment. In this context, the analysis of developments leading to the present, the present situation, views of TÜGİAD members on relevant issues and some suggestions for the future are made.

Chapter One provides an overall summary of developments in the Turkish employment environment. Characteristics of and changes in the Turkish workforce, unemployment, working conditions and other issues are analysed in this section.

The overall characteristics of Turkish entrepreneurs and the Turkish entrepreneurial environment are set forward in Chapter Two, which was developed from a previous report prepared for TÜGİAD by RGA Management Consultants, Ltd. Young Turkish businessmen's views on the Turkish entrepreneurial environment and terms for future competitiveness are included in this section.

Chapter Three is a general overview of the Turkish foreign investment environment, including analysis of the development of foreign investment in Turkey and the legal framework and other issues determining the foreign investment environment in Turkey.

Chapter Four analyses relations between the European Union and Turkey as they prepare to enter into a customs union. The historical development of relations, young Turkish businessmen's views regarding the upcoming customs union and the economic and socio-demographic effects of closer relations between the two parties are included in this section.

Privatization programs implemented in Turkey to date, plans for the future and young Turkish businessmen's views of privatization in Turkey are presented in Chapter Five. This chapter was developed from a report prepared previously for TÜGİAD by RGA Management Consultants, Ltd.

CHAPTER 1

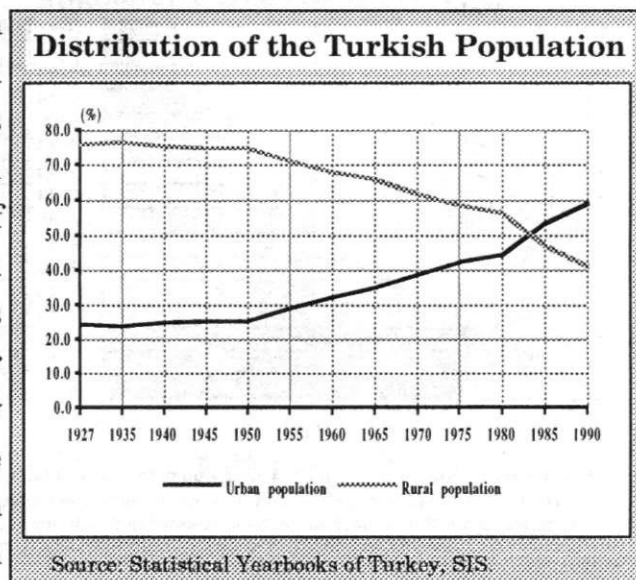
EMPLOYMENT IN TURKEY

The issue of employment and the characteristics of the work force of any country are important to the growth and development of that country's economy. In direct conjunction with these factors is the make-up of the population and the social and cultural characteristics which drive the population. The examination of the distribution of the work force according to demographic characteristics such as age, gender and education, as well as employment characteristics such as sector of employment and job security, are all important to the study of the development of the labor market and its effect on the economy.

Many of the characteristics of Turkey's labor force are directly related to demographic conditions. While some factors such as a high population growth and the need to create new jobs to support the growing population pose problems, social factors such as the high percentage of entrepreneurs in the total work force and the job-creating potential that they carry make it apparent that Turkey will be able to overcome these barriers. The improvement of working conditions and the increasingly important role of labor unions in the policy-making process are important developments in the Turkish society. As economic growth is sustained and Turkey continues industrialization efforts, the related developments for the Turkish work force will undoubtedly be positive.

1.1. DEMOGRAPHIC CONDITIONS

Turkey's population, which practically doubled between 1950 and 1975, is now estimated to be in excess of 57.7 million, with an annual average population growth rate of 2.17 percent. Urban population as a percentage of the total population has increased steadily, especially after the liberalization policies of the early 1980s. In 1990, 59.2 percent of the total Turkish population resided in urban areas. An increase in migration

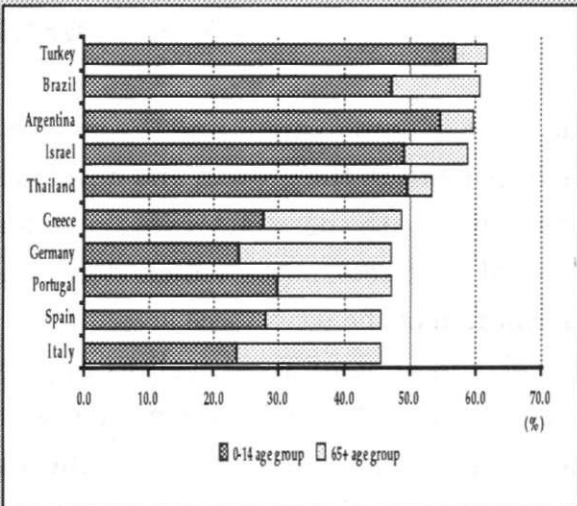


from rural areas, especially the less-developed eastern regions, to the larger cities as well as the high fertility rate, have combined to produce very large population growth rates in these cities. This rapid urbanization produces problems regarding the coordination of urban services in the larger cities, especially those in the more developed western regions.

One of the distinguishing factors of the Turkish population's structure is the high percentage of the younger age groups in the total population. A high birth rate, falling infant mortality rate and longer general life span in Turkey have caused the population growth rate to increase substantially. In fact it has remained above the 2 percent level for the last forty years.

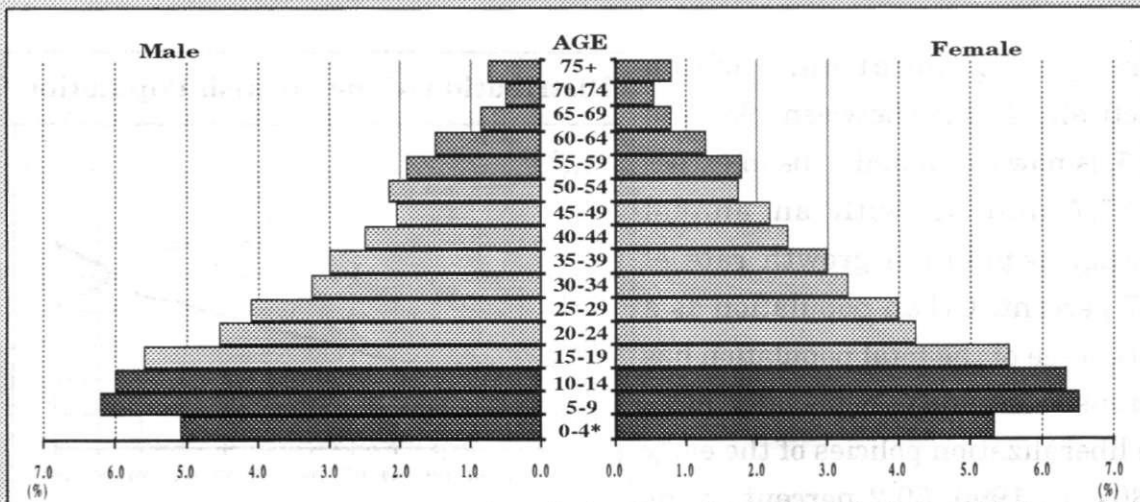
Turkey's dependency ratio has declined from around 80 percent in the 1960s and 1970s to 61.9 percent in 1991. This value is relatively high in comparison to European nations, but is below or near that of other developing countries. While the dependency ratio of many Western European countries has increased slightly

Dependency Ratio in Selected Countries (1991)



Source: World Development Report, 1993, The World Bank.

Turkey's Age Pyramid (1990)



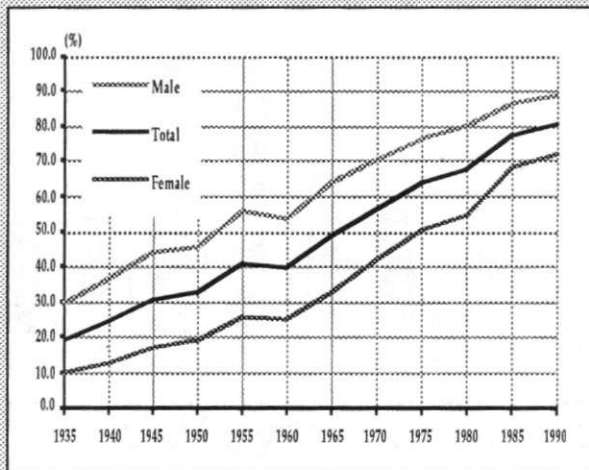
* Although the appearance of the 0-4 age group to be smaller than the next higher group may be due to a fall in the fertility rate, the differences between these groups may also be due to some children who are below age five being reported as age five or older, or not being counted in the survey at all.

Source: RGA Management Consultants, "Current Status of the Turkish Economic Environment", SIS.

in recent years due to the ageing of the population, in the Turkish case, the opposite is true, with an increasingly younger population.

Looking at the distribution of the Turkish population according to age groups, it is readily apparent that the 15 years and under age group makes up a substantial percentage of the total population. In five to twenty years the persons making up this group will enter the work force, making the creation of additional jobs especially essential for the well-being of the economy in the future.

Literacy Rate (1935-1990)



Source: Statistical Yearbook, SIS.

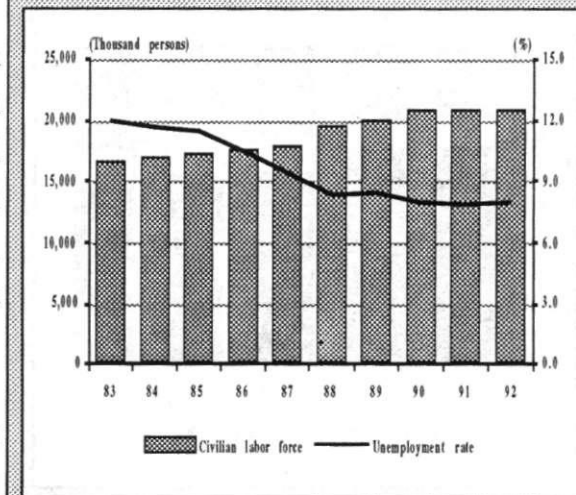
The educational level of the overall Turkish population has increased continually since the forming of the Turkish Republic. In 1990, 89.2 percent of the male and 71.9 percent of the female population were literate in comparison to 80.0 percent and 54.6 percent respectively in 1980. The steady increase in the schooling rate and plans to raise the mandatory schooling level from six to nine years are promising indicators. The increasing educational level of the Turkish population will positively effect the qualifications of the Turkish work force in both domestic and international labor markets.

1.2. LABOR FORCE

Turkey's total civilian labor force in October 1992 totalled over 21.1 million persons. Civilian employment included over 19.5 million persons, leaving 1.6 million unemployed as of October 1993, for an official rate of 7.8 percent unemployment.

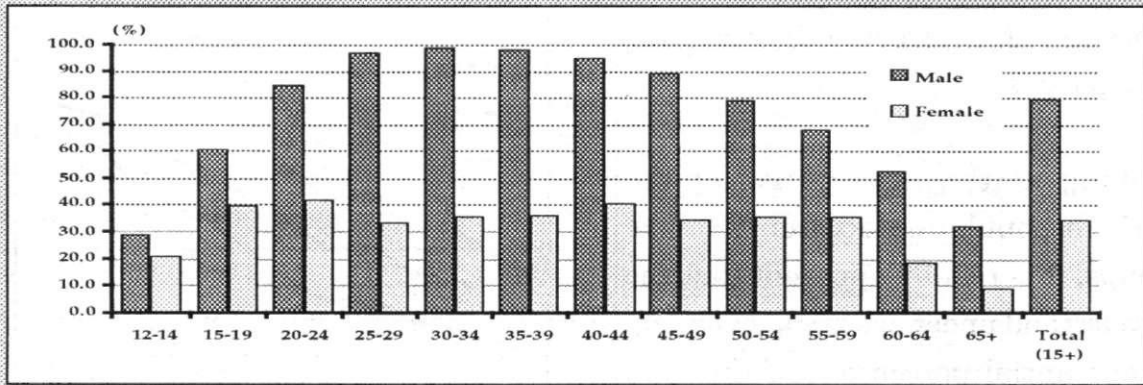
Of the employed labor force, over 1.5 million persons, or 7.2 percent of the total labor force, were termed as

Labor Force (1983-1992)



Source: SIS.

Economic Activity Rate of the Turkish Population According to Age Group (1991)



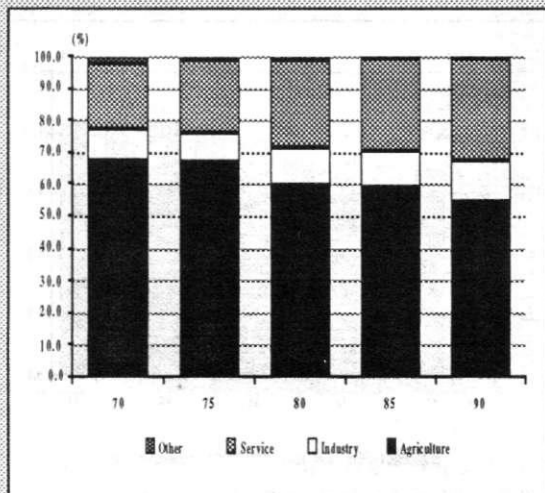
Source: Türkiye Ekonomisi İstatistik ve Yorumlar, SIS.

underemployed. The underemployed are defined as those working less than 40 hours a week, those with salaries below the subsistence level or those working at jobs below their qualifications. According to the same figures, 72.5 percent of the male and only 32.3 percent of the female population are included in the workforce.

Close to 99 percent of the male population in the 30-39 age group are economically active. This ratio falls steadily in the age groups following as individuals reach retirement age and leave the workforce. In contrast, while the economic activity rate of the female population is low in comparison to that of the male population, it is at the same time relatively stable, remaining around the 30-40 percent level from 15 to 60 years of age.

Out of the total work force, 44.6 percent is employed in agriculture, 15.2 percent in

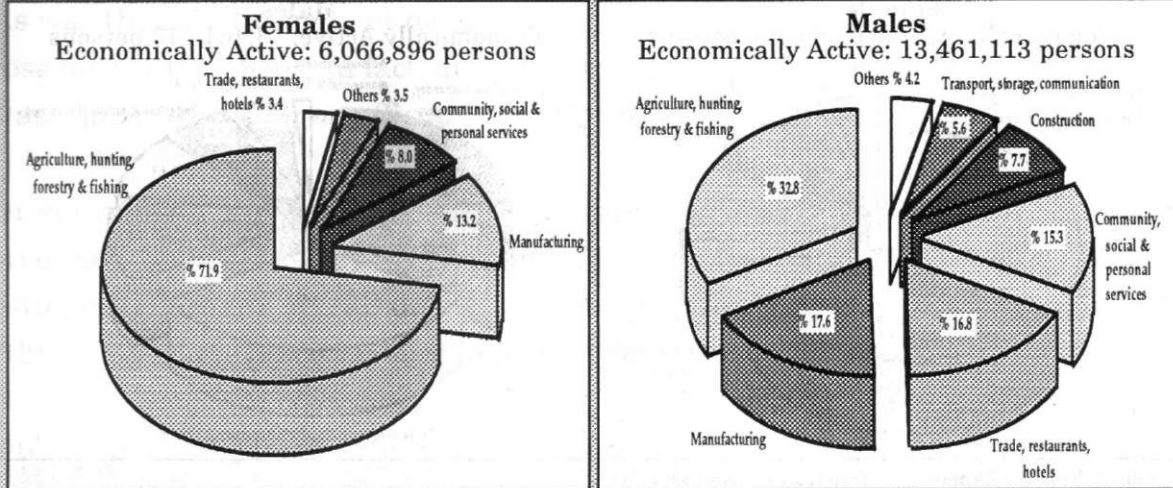
Distribution of Labor Force According to Sector



Source: Türkiye Ekonomisi İstatistik ve Yorumlar, SIS.

industry and 40.3 percent in the services sector. The percentage of those employed in agriculture has dropped slightly in recent years, with the ratio of those employed in industry and service increasing to a proportionate degree. As is the case throughout the world, the percentage of the Turkish work force employed in the service sector has increased substantially throughout the last twenty years, and is expected to continue to increase in the future.

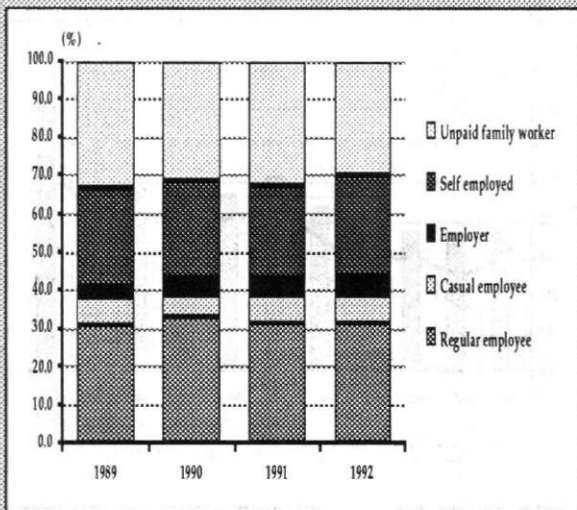
Distribution of Economically Active Population According to Industry (1992)



Source: Türkiye Ekonomisi İstatistik ve Yorumlar, SIS.

The distribution of the economically active population according to industry closely parallels the distribution according to sector. In 1992, 71.9 percent of the female workforce and 32.8 percent of the male workforce was employed in the agriculture, hunting, forestry and fishing industries. In contrast, only 13.2 percent of the female and 17.6 percent of the male workforce was employed in the manufacturing sector. Although the percentage of the workforce employed in sectors other than agriculture has increased in recent years, this sector remains the major source of employment for the Turkish labor force. This factor in turn indicates the continuing importance of the agricultural sector in the Turkish economy.

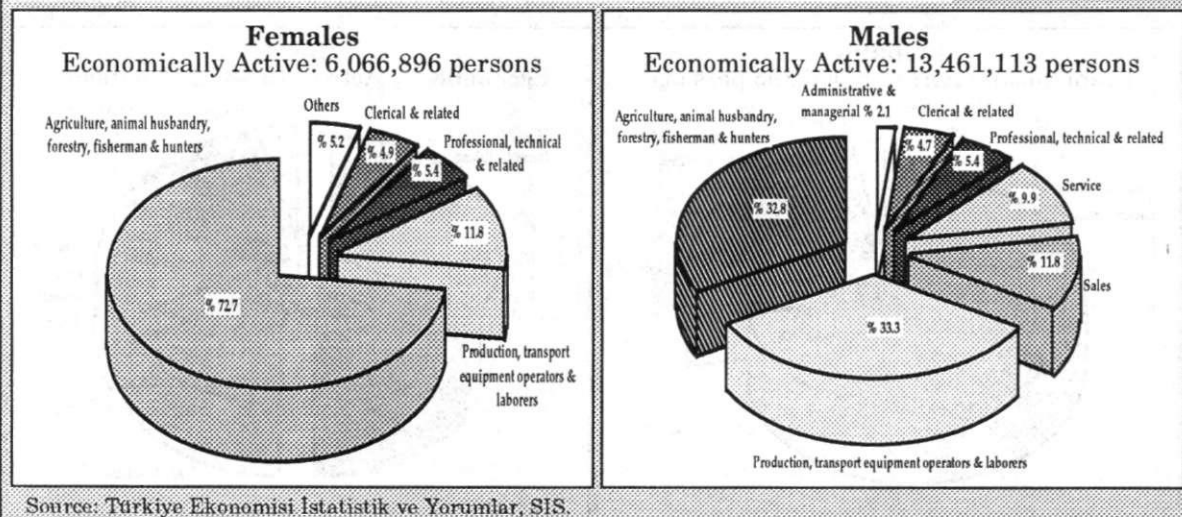
Distribution of Labor Force According to Status in Employment



Source: Türkiye Ekonomisi İstatistik ve Yorumlar, SIS.

The sectoral distribution of the labor force to a great extent influences the status of those employed. The distribution of the Turkish labor force according to status in employment has remained relatively stable throughout the last ten years. In this distribution, it is readily apparent that the numbers of unpaid family workers and the self-employed in the Turkish work force are especially high. In fact, a total of 72.8 percent of the female workforce are classified as unpaid family workers. In contrast, 32.0 percent of the male

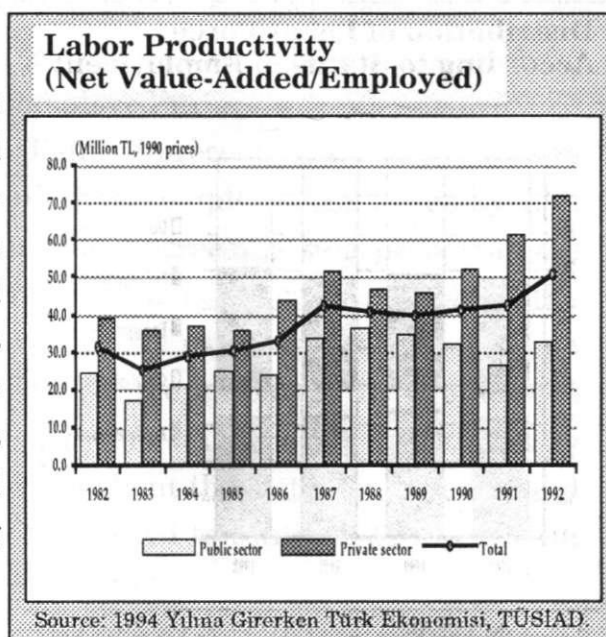
Distribution of Economically Active Population According to Occupation (1992)



workforce are self-employed and 39.1 percent are regular employees, with only 13.7 percent classified as unpaid family workers.

In close relation to the status of those employed in the work force is the distribution of the active population according to occupation. In this analysis, the reliability of the work force on the agricultural sector is again apparent. 72.7 percent of the female and 32.8 percent of the male active population are classified as farmers, fishermen and hunters. The male population's single largest occupational group is production, transport equipment operators and laborers, with 33.3 percent of the active male population classified in this occupational group. In contrast, only 2.1 percent of the active male population is classified as administrative and managerial workers.

The average labor productivity of the Turkish workforce has increased steadily in the last ten years. In the private sector in particular, the utilization of advanced technology and the change in the overall management style have served to nearly double the productivity rate in the last decade. At the same time, the increase in real wages in the Turkish manufacturing sector has been quite high.



1.3. UNEMPLOYMENT

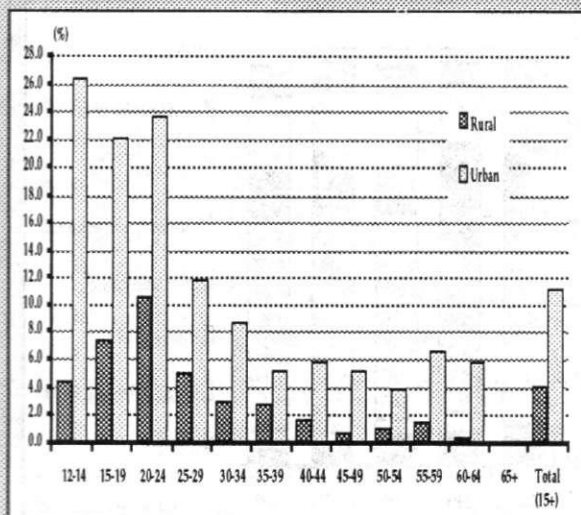
As was the case throughout most of the world, the unemployment rate in Turkey rose during the 1980s. In fact, during a great part of the 1980s, Turkey's economy was characterised by an official unemployment rate near the 10 percent mark.

In spite of an expanding economy, inherent problems in Turkey's economic structure played a part in the rise of the unemployment level in 1992. Official estimates place the overall unemployment rate around the 8 percent mark, while OECD estimates place the level much higher, close to 12 percent.

Official unemployment rates declined slightly in Turkey in 1993 according to the latest official statistics from the SIS. The rate of the jobless declined from 8.0 percent in April 1992 to 7.8 percent in October 1992. The unemployment rate at this period varied from 11.7 percent in urban areas to 4.7 percent in rural areas, with the highest unemployment rate among the female urban workforce (20.5 percent) and the lowest rate among the female rural workforce (2.5 percent). Out of the 1,656,000 unemployed, 1,107,000 were urban jobless. The rate of unemployment in urban centers was running at 11.7 percent in October 1992, down from 12.1 percent in April. The official rate of unemployment in the rural sector remained unchanged at 4.7 percent.

While the unemployment rate in rural areas appears to be relatively low, unreported unemployment and chronic underemployment are major factors

Unemployment Rate According to Age Group (April 1993)



Source: Türkiye Ekonomisi İstatistik ve Yorumlar, SIS

leading to this data. Only 16.1 percent of the female population is included in the urban labor force, 20.5 percent of which are unemployed. In comparison, 50.2 percent of the female population in the rural areas is included in the work force, only 2.5 percent of which is unemployed.

The semi-annual household labor force survey carried out by the SIS in April and October each year shows the labor force rose 1.6 percent by 337,000 persons from April 1992 to October of

the same year. The number of unemployed went up 1.9 percent during this time, while the number of the jobless declined 1.1 percent.

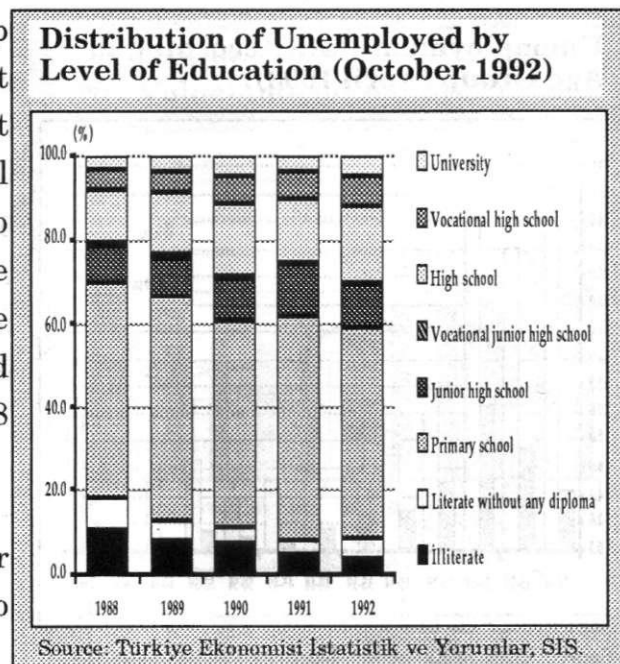
The highest unemployment rate is evident among the young urban work force. The unemployment rate of those in urban areas between the ages of 12 and 24 is close to 24 percent. This ratio drops substantially among those over the 25 year old age group. Although to a lesser extent, the young rural population is also affected by employment problems, with 10.9 percent of the rural 20-24 age group unemployed. Unemployment of the older age groups in the rural areas is relatively low.

The one demographic group most affected by the employment problems are the educated young, whose unemployment rate rose to close to 33 percent. In fact, it is the young age groups especially who are effected the most by the inability of the economy to create new jobs. On the whole, 14.5 percent of the 15-19 year old age group, and 18 percent of the 20-24 year old age group was unemployed as of October 1993.

According to level of education, the group making up the largest percentage of the unemployed in Turkey is primary school graduates, with 26.5 percent of the total unemployed in 1992 being comprised of this group. On the other hand, the proportion of qualified workers in total unemployment has increased over the last few years. In October 1992 there were 563,225 high school and vocational high school, and 83,311 university graduates unemployed in the Turkish economy.

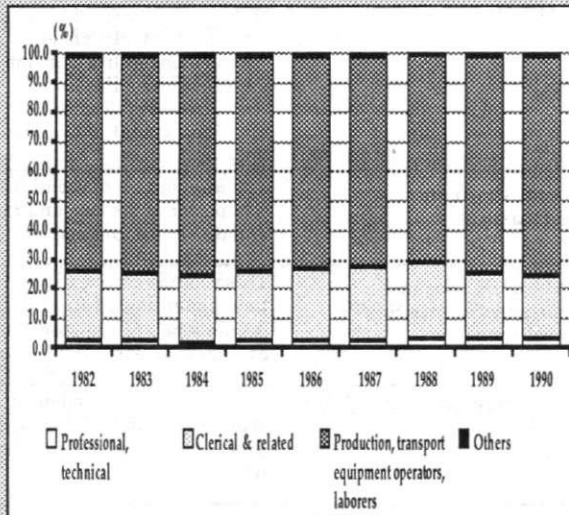
While the single occupational group with the largest share in unemployment is the production, transport equipment operators and laborers occupational group, clerical and related workers also make up an important part of the unemployed, especially considering the fact that the clerical and related occupational group makes up only 4.8 percent of the total work force.

It is becoming particularly difficult for high school and university students to



find jobs upon graduation. If the high proportion of the population which is in the young age groups, as well as the rising level of education are taken into account, it becomes immediately apparent that the percentage of unemployed in these demographic groups will increase in the near future. It is essential for the Turkish economy to create enough jobs for the increasing number of persons who are entering the work force each year.

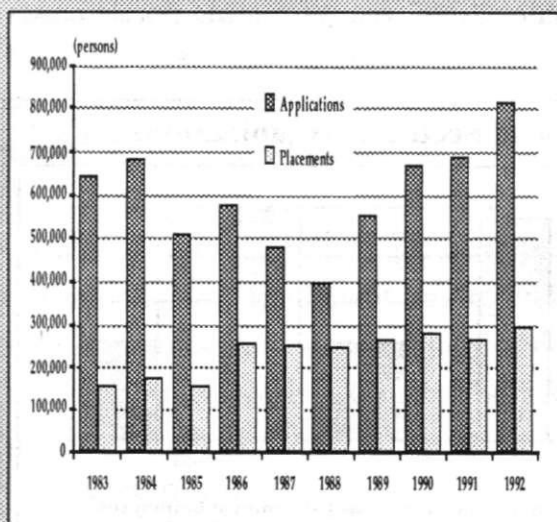
Distribution of Unemployed According to Occupation



Source: Türkiye Ekonomisi İstatistik ve Yorumlar, SIS

In effect, the fact that a relatively large proportion of the unemployed are not unskilled workers, as in many developing countries, but educated and qualified personnel gives Turkey a distinctive advantage, especially in its relations with other countries. Turkey's present inability to employ its qualified young personnel is by no means a barrier to the employment of these persons in the EC and other countries at the present time, and in Turkey itself in the future. As educational level and other qualifications of the Turkish work force improve, Turkey's ability to compete effectively in the global marketplace increases proportionately.

Applications to and Placements by the Labor Placement Office



Source: Altıncı Beş Yıllık Kalkınma Planı, SPO

Although the actual number of unemployed in Turkey is relatively high, and the number of individuals applying to the Labor Placement Office for work has increased substantially since 1988, the actual number of applications is particularly low. While there were 1,656,304 unemployed in Turkey in October 1992, only 814,544 applications were on file in the Labor Placement Office at that time. The number of placements at this time was 297,765, with only 36.6 percent of applicants being placed in a job.

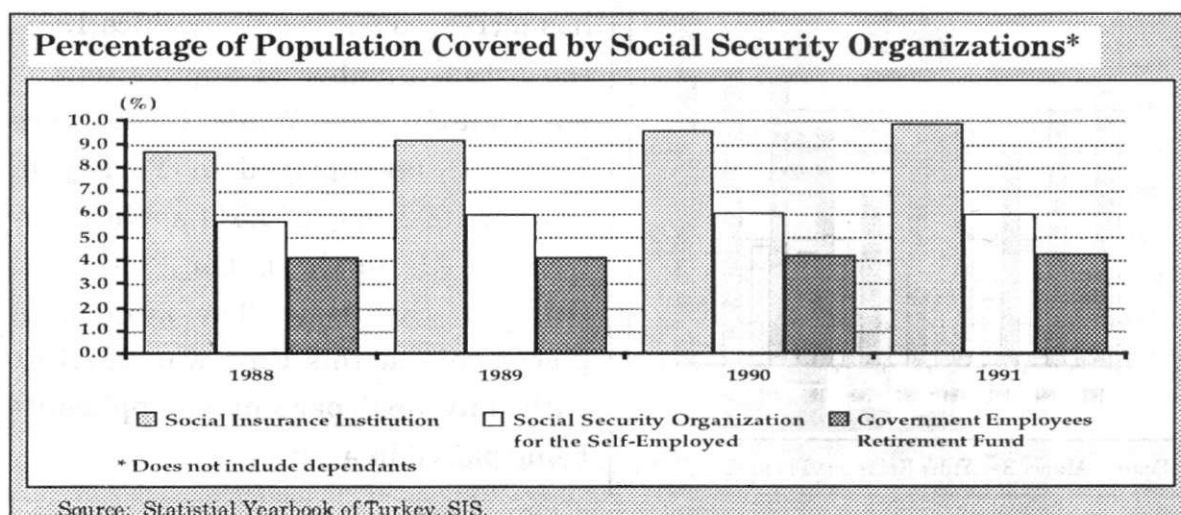
Social Insurance Institutions in Turkey

Government Employees Retirement Fund	<p>This fund was founded with the aim of providing social benefits within a retirement system for government employees entitles the contributors to the following benefits:</p> <ul style="list-style-type: none"> • Retirement Pension • Job Disability Pension • Disability Pension • Survivors' Pension • Repayment of Contribution • Retirement Bonus • Death Grant • Marriage Bonus • Lump-Sum Payment
Social Insurance Institution	<p>The application of social insurance in Turkey began in 1946 with the work injury & occupational disease and maternity insurances, followed by old age insurance in 1950 and disability, old age and death insurances in 1957.</p>
BAĞ-KUR (Social Security for the Self-Employed)	<p>This scheme covers the self-employed outside the coverage of the Social Insurance Law, including craftsmen, artisans, small businessmen, technical and professional people who are registered to a chamber or professional association and shareholders of companies other than cooperatives and joint-stock companies.</p>
Social Services and Child Protection Society	<p>The activities carried out in this field include: to render services for needy children in orphanages and kindergardens; services for the elderly in rest homes; care for children at nurseries and daycare houses; services for handicapped and paralyzed persons at rehabilitation centers.</p>

1.4. SOCIAL SECURITY

The Social Security system in Turkey is made up of three major institutions, the Social Insurance institution, the Social Security Organization for the Self-Employed and the Government Employees Retirement Fund, all with separate base populations.

In 1991 there were 7,272,119 employees directly covered by social insurance, with 3,288,700 persons receiving premiums. Dependents of those covered by social insurance totalled 30,774,225 persons. Only 35.1 percent of the total work force was directly covered by social insurance. In 1992, the official regulations for retirement set the minimum length of employment required in order to receive social insurance benefits at 20 years for female and 25 years for male participants in the Turkish workforce.



CHAPTER 2

ENTREPRENEURSHIP AND THE ENTREPRENEURIAL ENVIRONMENT IN TURKEY

2.1. THE ENTREPRENEUR IN TURKEY AND SELECTED COUNTRIES

In his inherent role as an innovator and taker of risks, the entrepreneur can be considered a stimulus to change and development in all societies. This is true for the industrialized nations as much as it is true for the developing nations: there is always room for growth in any society. The degree to which the entrepreneur is valued in each, however, differs from country to country, and from time to time. Today, it is generally accepted that the entrepreneur can act as a stimulus to the development of slow-moving regional economies and provide solutions to increasing levels of unemployment.

On the whole, small firms predominate in sectors producing personal services, specialised technical products, craft-based commodities and luxury consumer goods. These sectors tend to be more labor-intensive and do not necessarily require mass production in order for an enterprise to be profitable. While large corporations are becoming more capital-intensive as they invest in industrial robots and office technology, small businesses, being more labor-intensive and concentrated in the personal service sector, are providing more and more opportunities for employment. As governments throughout the world see the increasing value of entrepreneurial development, programs to encourage entrepreneurship have been undertaken throughout. Thus, incentives aimed at the development of the small business sector have increased in importance, and are seen as an integral part of each government's overall economic policy and especially in overcoming unemployment problems.

In Western Europe during the 1960s and 1970s, small entrepreneurial ventures were considered inefficient, unproductive and incapable of taking full advantage of developments in new technology and sophisticated management techniques. The encouragement of large-scale operations, however, led many individuals to feel overpowered by these restrictions. People wanting higher levels of personal satisfaction from their jobs, more autonomy and independence created their own business enterprises. Opportunities for employment were created by these small businesses. Seeing the success of many of these businesses has fostered a greater

feeling of self-reliance throughout these societies. Through the encouragement of entrepreneurship, governments have been able to slowly withdraw from extremely expensive social and welfare services, thus reducing public expenditure while at the same time encouraging full employment.

Both industrialized and developing countries alike have implemented successful programs encouraging the development of the small business sector. The degree to which entrepreneurship and the development of the small business sector has been encouraged has differed greatly from nation to nation according to the general economic and social policies of the government on a whole.

Entrepreneurial Characteristics

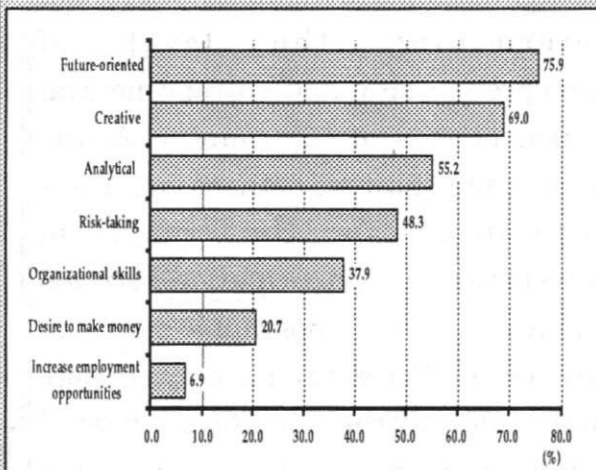
One of the most definitive characteristics of the entrepreneur is his future-oriented quality, allowing the entrepreneurs to take advantage of the opportunities and guard against the threats around him. At the same time, the entrepreneur has the ability to analyse situations and place himself in the market accordingly. These characteristics combine to give the entrepreneur a strategic advantage, enabling him to weigh the probable costs and benefits of the situation, how he can use his competitive advantage and the length of time he will have a competitive advantage, the strengths and weaknesses of future competitors and the capital requirements of each situation. The ideal entrepreneur is constantly aware of these and other factors affecting his environment, giving him an advantage over others.

Ideally, the entrepreneur should have the ability to make the best decision given unlimited alternatives. In order to create his own competitive advantage the entrepreneur must be able to act with agility in decision-making situations, especially in a constantly changing environment. This characteristic has become one of the most important entrepreneurial qualities as the rate of change in the marketplace and the number of factors effecting the entrepreneurial environment continue to rise. Because of his future-orientation and innovating qualities, the entrepreneur is an inherent risk-taker. In this risk-taking context, the successful entrepreneur will calculate the risks of his endeavor, and have the ability to turn possible negative outcomes to his own favor.

Along with these qualities, the entrepreneur must be able to successfully introduce new ideas and processes into society. For this reason, he must be open and exude a feeling of trust to those around him.

Turkish industrialists and businessmen were asked which characteristics they consider the most essential in an entrepreneur. A large majority of respondents (75.9 percent) agreed that the entrepreneur must have foresight and be future-oriented. Creativity (69.0 percent), analytical qualities (55.2 percent) and being a risk-taker (48.3 percent) followed as important entrepreneurial characteristics. One of the most interesting results of this survey is that the desire to make money

Factors marked 'very important' as entrepreneurial characteristics



Source: RGA Management Consultants.

was considered very important by only 20.7 percent of respondents. In addition to the characteristics listed, several respondents added additional entrepreneurial characteristics which they thought essential: communication skills, desire to succeed, decision-making skills, leadership skills, competitiveness and frugality.

Entrepreneurship and the Socio-Economic Environment

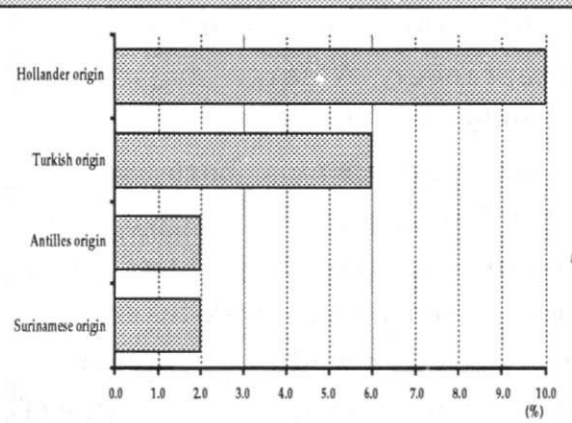
Successful economic development is only possible when resources are brought together and utilized in the most productive manner. Future-oriented, analytical, creative and dynamic entrepreneurs have a synergistic effect on this process. The development of an entrepreneurial spirit and support of entrepreneurship plays an important part in the development of the welfare level of any society.

All parts of society have a role in the development of an entrepreneurial spirit. From the family and the educational system to public and private sector institutions, all parts of society have important responsibilities in this context. As much as the educational level, occupation and income level of a family affect a child's growth, the level of guided independence a family grants to its children, and a supportive and open family atmosphere are equally important in the development of entrepreneurship.

With speeded development of technology, however, the family's once crucial role in creating an entrepreneurial environment has decreased. The media, communications and national and international developments have an important and growing effect on the development of the entrepreneurial spirit.

In the end, the socio-demographic environment plays an important role in determining the level of entrepreneurship and entrepreneurial characteristics of any country. At the same time, however, there are clear differences in the rates of entrepreneurial participation between ethnic and socio-demographic groups in any society. For example, in 1984, more than 7,000 of the 350,000 registered small and medium-sized businesses in

Distribution of Amsterdam Self-Employed in Total Ethnic Workforce



Source: Jeremy Boissevain and Hanneke Grotenberg, "Ethnic Enterprises in the Netherlands."

the Netherlands were owned by individuals who were not of Dutch origins. Among the native Dutch, approximately 10 percent of the working population in Amsterdam was self-employed. In contrast to this, 2 percent of those of Surinamese and Antillan descent were self-employed. Among the Turkish working population in Amsterdam this ratio was considerably higher, reaching close to 6 percent.

The development of an individual entrepreneurial spirit is not sufficient for the development of entrepreneurship in society. Even if the individual possesses all the characteristics of an entrepreneur, an adverse socio-economic, political and/or cultural environment will prevent the growth of the entrepreneur.

Entrepreneurship in Turkey and Selected Countries

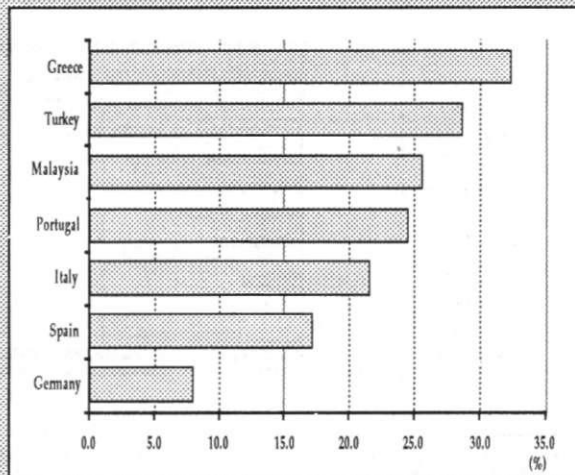
Entrepreneurial Development Programs: Programs supporting the development of small and medium enterprise play an important role in any country's overall economic policies. With the support for small businesses, new opportunities arise for the entrepreneur. However, in order for the related policies to be fully effective, the needs and characteristics of the local/regional entrepreneur and his surrounding environment must be taken into account.

As each country's socio-economic position is unique, programs developed for the support of entrepreneurship and small business vary. The extent to which each country can modify its program to its own needs plays an important part in the success of these policies.

Financial incentives are by no means the solitary services provided to potential entrepreneurs. Assistance in obtaining information and the availability of

infrastructural services play an important part in all successful entrepreneurial development programs. In addition, with the purpose of establishing a healthy and stable environment for new and developing firms, many countries have developed certain obstacles to the establishment of new companies. Although incentive measures are still prevalent, obstacles such as tax regulations and other control mechanisms are often put in place by the government. Socio-economic barriers such as regional differences and ethnic groups also play a similar barrier role.

Share of Entrepreneurs in Total Employment (1990)



Source: Yearbook of Labour Statistics, 1992, ILO.

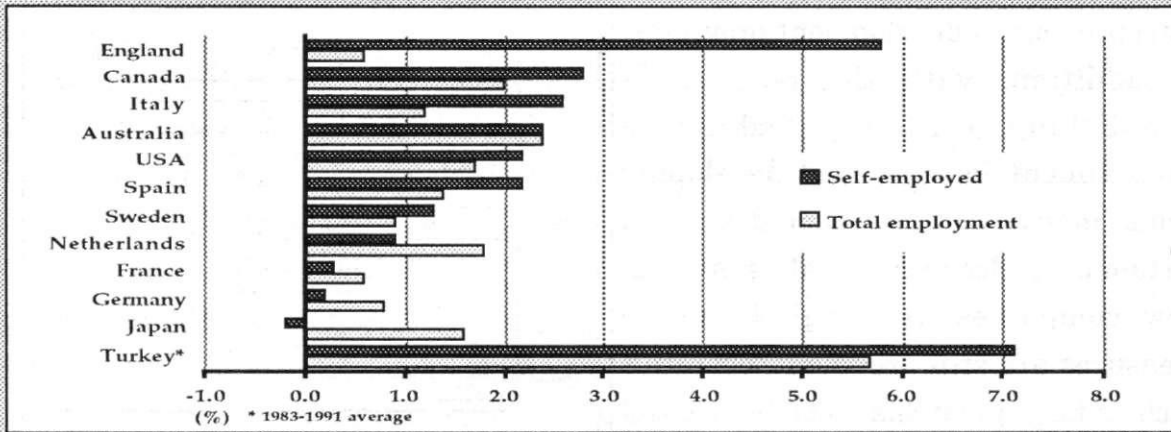
One of the most important similarities among successful entrepreneurial development programs is the priority placed on the determination of factors affecting the entrepreneur and small enterprise, and the subsequent development of effective and action-oriented programs.

Entrepreneurial Development: According to international comparisons, the share of the Turkish workforce that is either self-employed or of employer status is relatively high. While 28.7 percent of the Turkish workforce is termed as an entrepreneur, this level is much lower in industrialized countries. At the same time, changes in both the total workforce and the number of entrepreneurs in the workforce between 1979 and 1990 have increased at a comparatively very high level in Turkey. While total employment rose at an average rate of 5.7 percent, the number of self-employed increased an average of 7.1 percent.

While the number of entrepreneurs in the workforce grew at a relatively low rate in many industrial countries, the high rate of entrepreneurial development in Turkey is a sign of the further development of the entrepreneurial spirit. As the national economy develops, the rate of formation of new businesses and the tendency to open one's own business have increased.

Although the rate of entrepreneurial development in developed countries is relatively low in comparison to Turkey's, the essentiality of entrepreneurship and small business development to the economic development of any country has been

Changes in Total Employment and the Self-Employed in Selected Countries (1979-1990 average)



Source: The Economist, 29.8.1992; Türkiye Ekonomisi İstatistik ve Yorumlar, SIS.

recognized in recent years. Programs promoting the development of entrepreneurship have been put into place and continue to be developed in both industrialized and developing countries.

2.2. ENTREPRENEURSHIPIN TURKEY

Historical Development of Entrepreneurship in Turkey

The development of entrepreneurship in Turkey and the socio-economic factors affecting this development can be analysed in five periods. The first of these periods, lasting from 1923 to 1930 is characterised by the establishment of the national economy. This period is characterised by efforts to end the dominance of foreigners and minorities in the economy, while at the same time promoting the growth of Turkish entrepreneurs. In spite of these attempts, the inadequacy of the existing economy and the lasting effects of the war prevented widespread entrepreneurial development.

During the 1930-1950 period, the slow development of the private sector led to the domination of public sector investments in the economy, increasing state control. Although private sector entrepreneurial development was more successful than in the previous period, international developments, the lack of capital accumulation and the insufficiency of qualified workforce prevented a significant development in entrepreneurship during this period.

The 1950-1970 period was characterized by liberalization policies and the development of a planned economy. Liberalization efforts, an emphasis on agricultural development, an increase in infrastructural developments and a marked increase in the private sector's share in industry were very noticeable

1923-1930 Establishment of the National Economy

- ☛ National efforts to promote entrepreneurs,
- ☛ Izmir Economic Conference (1923),
- ☛ Establishment of the Turkish Industrial and Mineral Bank (1927),
- ☛ Industrial Incentive Law (1927),
- ☛ Foundation of the national economy,
- ☛ Attempts to end the dominance of foreigners in the Turkish economy
- ☛ Restriction of the powers of the Ottoman Bank (1924),
- ☛ Establishment of İş Bankası (Workers' Bank),
- ☛ Slow development of the private sector,
- ☛ Unsuccessful industrialization attempts.

Barriers:

- ☛ Elevation of customs tariffs,
- ☛ Absence of incentive and protective measures towards entrepreneurs,
- ☛ Low recognition of capital and investment concepts,
- ☛ Effects of World War I and the Turkish War for Independence,
- ☛ Insufficiency of industrial infrastructure,
- ☛ Ineffectiveness of forces that could play a role in the transition to a market economy,
- ☛ Insufficiency of the railroad system, the only viable contemporary mode of transportation
- ☛ Control of mineral resources in the hands of foreigners,
- ☛ Majority of commercial activities in the hands of foreigners and minorities

1930-1950 Period of State Control

- ☛ Adoption of state-control policies,
- ☛ Policies envisioning the establishment of industry financed by the private sector,
- ☛ State interference in the economy,
- ☛ Nationalistic policies,
- ☛ Establishment of some State Economic Enterprises
- ☛ Five-Year Industrial Plans: I. (1934), II. (1938), III. (1945),
- ☛ National Protection Law (1940),
- ☛ Wealth Tax Law (1942),
- ☛ National Economic Conference (1948),
- ☛ First criticisms of state-control policies,
- ☛ Development of private entrepreneurship,
- ☛ Marked development of industry.

Barriers:

- ☛ Lack of capital,
- ☛ Insufficiency of qualified workforce,
- ☛ Slow entrepreneurial development,
- ☛ Economic depression of 1930,
- ☛ World War II,
- ☛ War economy applications (1941-1945).

1950-1970 Planned and Liberal Economy

- ☛ Further development of state-control policies,
- ☛ Rise in state involvement in commerce,
- ☛ Marshall Aid,
- ☛ Encouragement of private entrepreneurship,
- ☛ Emphasis on agricultural development,
- ☛ Rise in infrastructural investment by the public sector,
- ☛ Increase in private sector's share in industry to 70%,
- ☛ Inclination toward investment in real estate due to a rise in the inflation rate in the 1950s,
- ☛ Rise in private sector investments,
- ☛ Pricing of SEE products below actual cost,
- ☛ Stabilization decisions (1958),
- ☛ Rise in entrepreneurship in agriculture, industry and financial sectors,
- ☛ Five-Year Development Plans: I. (1963), II. (1968),
- ☛ Priority of private investment in planned periods,
- ☛ Increase in private sector investments,
- ☛ Coup d'Etat (1960).

Barriers:

- ☛ Money and foreign currency crisis due to high investment rate,
- ☛ Rising inflation,
- ☛ Devaluation.

1970-1980 Import Substitution

- ☛ Fall in public sector investments at the beginning of period,
- ☛ Increase in industrialization,
- ☛ Rise in private sector entrepreneurs,
- ☛ Change in traditional merchant sympathies,
- ☛ Development of the industrialist concept,
- ☛ Positive effects of incentive measures,
- ☛ Noticeable increase in entrepreneurs in the economy,
- ☛ Public sector investments below targeted rate,
- ☛ Attempts to develop traditional product mix.

Barriers:

- ☛ Cyprus Operation and resulting embargo,
- ☛ Petroleum shock,
- ☛ Political and economic instability,
- ☛ Rising inflation,
- ☛ Ramifications of import substitution policies,
- ☛ Ramifications of opening the economy,
- ☛ Neglect of foreign trade,
- ☛ Foreign exchange difficulties,
- ☛ Growing insufficiency and inappropriateness of incentive measures.

1980- ~ ~ Open Growth

- ☛ Coup d'Etat (1980),
- ☛ Liberalization policies,
- ☛ Fall in real value of private sector fixed investments,
- ☛ Rise in public sector infrastructure investments,
- ☛ Privatization efforts,
- ☛ Rise in number of entrepreneurs in parallel to the development of the economy,
- ☛ Development of financial services,
- ☛ Development of export-oriented entrepreneurship,
- ☛ Attempts to establish technology-intensive enterprises,
- ☛ New opportunities due to the development of international relations,
- ☛ Agricultural modernization attempts.

Barriers:

- ☛ Chronic inflation,
- ☛ Economic uncertainty,
- ☛ Increase in output-oriented income opportunities,
- ☛ Sustained dominance of public sector in the financial sector,
- ☛ Transfer of a large portion of developed sources to public sector,
- ☛ Need for changes in legal structure,
- ☛ Inability to reform bureaucratic structure and related legislation,
- ☛ Inability to develop appropriate incentive measures,
- ☛ Inability to sustain increase in exports.

developments during the 1950s. In the 1960s, along with the first Five Year Development Plans, Turkey made the transition to a planned economy. Although state-control policies continued during this period to some extent, an emphasis was placed upon the development of the private sector.

During the 1970s, the Turkish economy was dominated by an import substitution policy. One of the goals during this period was the development of the traditional industrial product mix. Private sector entrepreneurship and industrialization developed noticeably. The petroleum crises, the Cyprus Operation and the inability of incentive measures to meet present needs served to prevent the widespread development of entrepreneurship in Turkey.

After 1980, Turkey made the transition to a more liberal, open market economy. Although industrialization was lower during this period than the previous one, the number of entrepreneurs, especially in the services sector, increased substantially as the economy opened to foreign investment. Economic instability in conjunction with chronic inflation continues to be an obstacle to the development of entrepreneurship in Turkey.

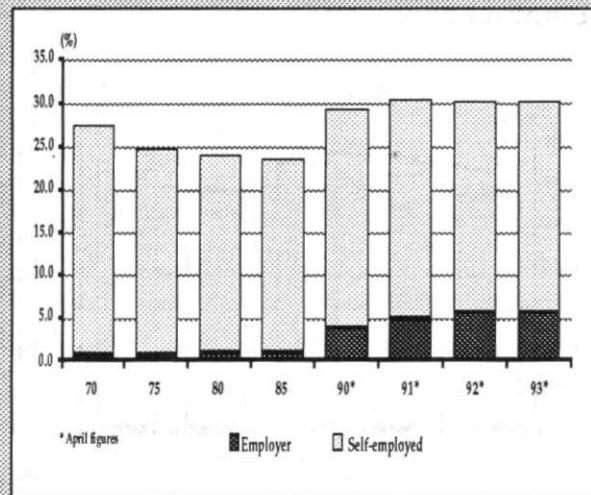
A Quantitative Look at the Development of Entrepreneurship in Turkey

Analysis of the quantitative development of entrepreneurship in Turkey is based in part upon data collected through a survey conducted by the State Institute of Statistics in conjunction with the ILO. This survey was first conducted in October 1988 and is repeated bi-yearly. For this analysis, entrepreneurs in the work force were defined as those of 'self employed' and 'employer' status. TÜGİAD also made an independent survey of Turkish industrialists and businessmen. This study, which was conducted by RGA Management Consultants, Ltd. aimed to obtain respondents' views pertaining to entrepreneurship in Turkey.

Share of Entrepreneurs in Total Employment: After a sizable increase from 1985 to 1990, the share of entrepreneurs in total employment of those 12 years and older has remained relatively stable around the 30 percent mark. The noticeable change between 1985 and 1990 values is due in part to the systematization of labor surveys which began in 1988, resulting in healthier data gathering. At the same time, the liberalization of the Turkish economy especially during the late 1980s resulted in a very noticeable growth in the overall self-employed and employers in the Turkish workforce.

The number of employers in the Turkish workforce grew tenfold in 23 years, from 105,487 in 1970 to 1,059,061 in October 1992. The change in the actual number of self-employed has been less dramatic, reaching a peak level of 4,965,923 in 1991 and leveling out at 4,584,000 in 1993. While total employment grew 27.6 percent from 1970 to 1993, the number of self-employed rose only 13.6 percent. The dramatic increase in the number of employers reflects in part the development of the previously self-employed to employer status, especially in the services and manufacturing sectors.

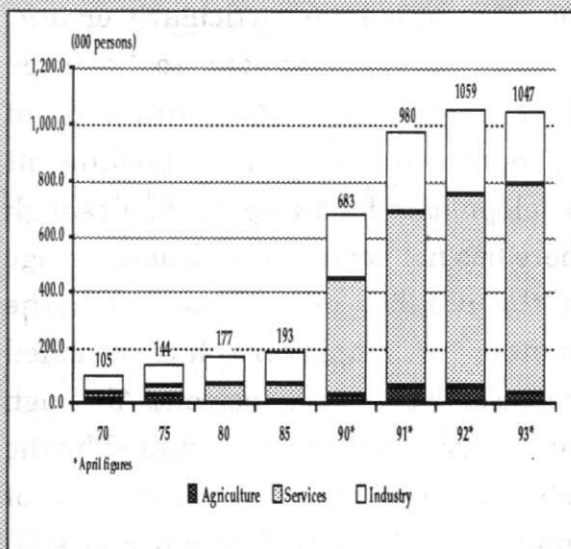
Share of Entrepreneurs in Total Employment



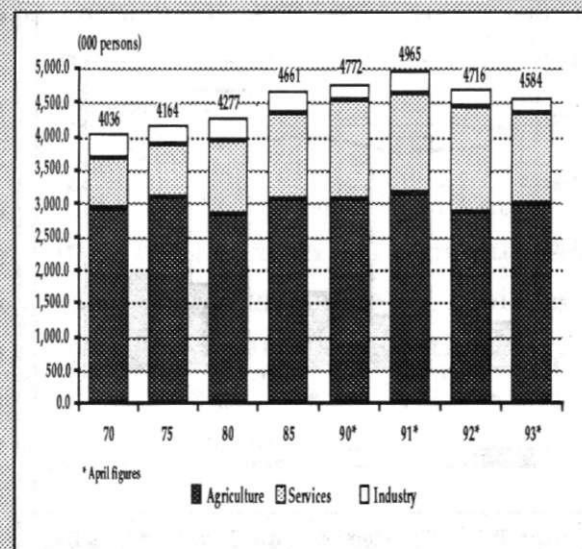
Source: Statistical Yearbook of Turkey, Türkiye Ekonomisi İstatistik ve Yorumlar, DIE

Sectoral Distribution of Entrepreneurs: The fall in the share of the agricultural sector in GNP is a sign of industrialization. In Turkey, agriculture's share of GNP has fallen from 31.3 percent in 1968 to 24.5 percent in 1993. This same trend can be seen in the sectoral distribution of the labor force. Although this ratio has fallen in Turkey, it is still well above that of other European countries. The agricultural sector makes up an especially large percentage of the self-employed workforce, with the self-employed totalling close to 30 percent of the agricultural workforce.

Sectoral Distribution of Employers

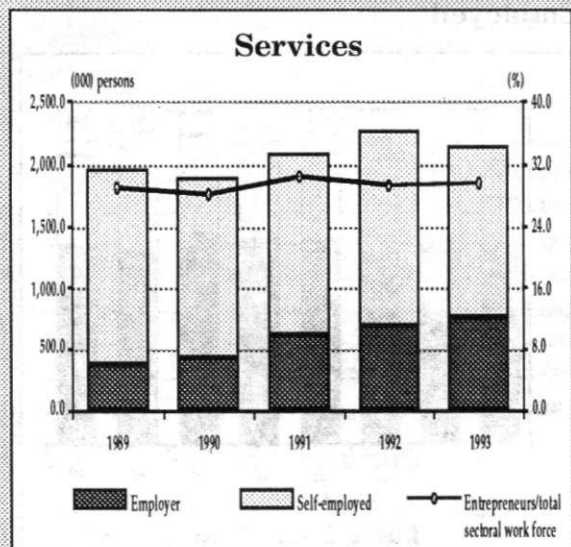
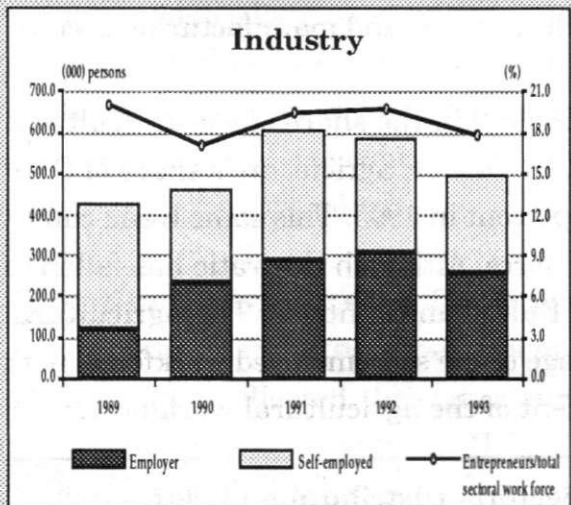
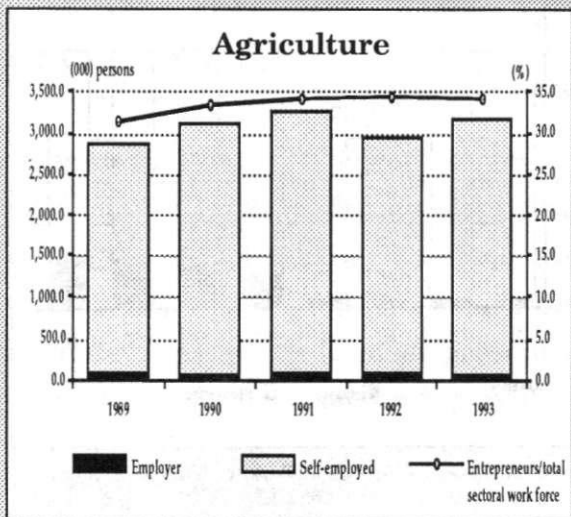


Sectoral Distribution of Self-Employed



Source: Statistical Yearbook of Turkey, Türkiye Ekonomisi İstatistik ve Yorumlar, SIS

Number of entrepreneurs and share of entrepreneurs in total sectoral employment

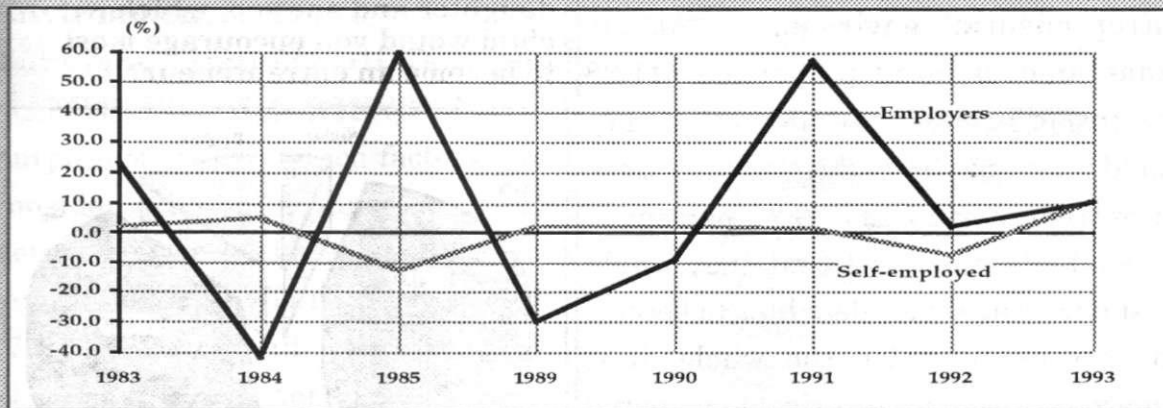


Source: Türkiye Ekonomisi İstatistik ve Yorumlar, Statistical Yearbooks of Turkey, SIS

Entrepreneurs made up 18 percent of the industrial workforce in 1993, growing significantly from 2 percent in 1970. There was a particularly large increase in the number of employers in the industrial sector from 1985 to 1990, signalling the speeding of industrialization of the economy. One of the most noticeable changes in the Turkish economy in recent years has been the growth of the services sector. In parallel, the number of employers in the services industry has shown a dramatic increase. This development occurred in the late 1980s with the liberalization and growing outward orientation of the economy. Entrepreneurs' share in total services sector employment has increased from 5 percent in 1970 to 31 percent in 1993.

Changes in Numbers of Entrepreneurs: Due to the fact that the State Institute of Statistics did not conduct labor surveys on a regular basis until 1988, data before this time period are particularly erratic, causing there to appear to be large fluctuations in the number of entrepreneurs in Turkey. Looking at developments following 1988, although there has not been a very sizable change in the number of self-employed, the number of employers has reached increases of close to 60 percent. Although the employment potential created by the self-employed is lower than that of employers, the actual number of self-employed in the Turkish workforce is

Changes in the Numbers of Employers and Self-Employed



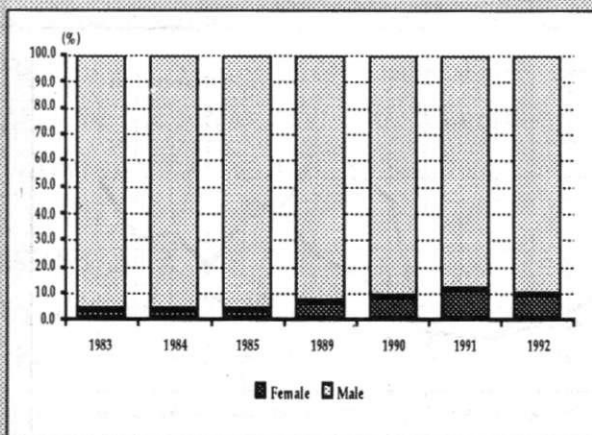
Source: Statistical Yearbooks, SIS

much greater. The dramatic increase in employers during 1990 is due to a great degree to the increase of employers in the services sector.

Distribution of Entrepreneurs According to Sex: While the female population makes up 49.3 percent of the overall Turkish population and 32.3 percent of the workforce, only 8.9 percent of entrepreneurs are female, showing that females are very poorly represented in this area. Although the great majority of entrepreneurs in Turkey are male, there has been a sizable increase in the share of female entrepreneurs in recent years.

According to a question posed to Turkish businessmen and industrialists, it is apparent that there is a trend towards the further introduction of women to entrepreneurship in Turkey. Respondents were asked 'Assuming that you have one daughter and one son, which child would you encourage most to become an entrepreneur?' With the purpose of finding Turkish entrepreneurs' views toward

Distribution of Entrepreneurs According to Sex

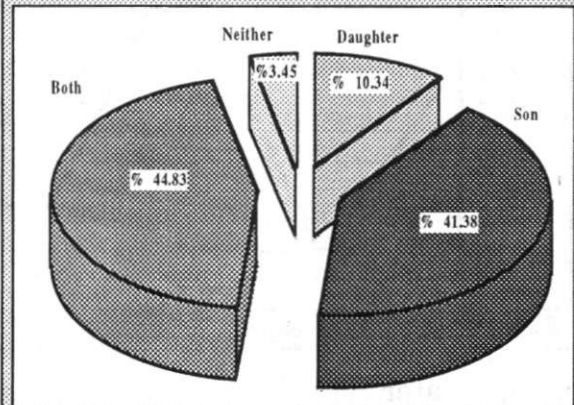


Source: Statistical Yearbooks of Turkey, SIS

including women in their ranks, only two answer choices were given, purposefully omitting a 'both' choice. Those answering 'both' to this question either marked both the 'daughter' and 'son' choices or wrote in their own answers. A large proportion of the entrepreneurs responding answered that they would encourage both their son and their daughter to become an entrepreneur. This finding reflects the changing attitudes and growing

possibilities for females in the Turkish entrepreneurial environment. At the same time, a large proportion (41.38 percent) of respondents stated that they would most encourage their son to become an entrepreneur. Only 10.34 percent of respondents answered that they would most encourage their daughter to become an entrepreneur. On the whole, it is apparent that there is a sizable potential for growth in the number of female entrepreneurs in Turkey.

Assuming that you have one daughter and one son, which child would you encourage most to become an entrepreneur?

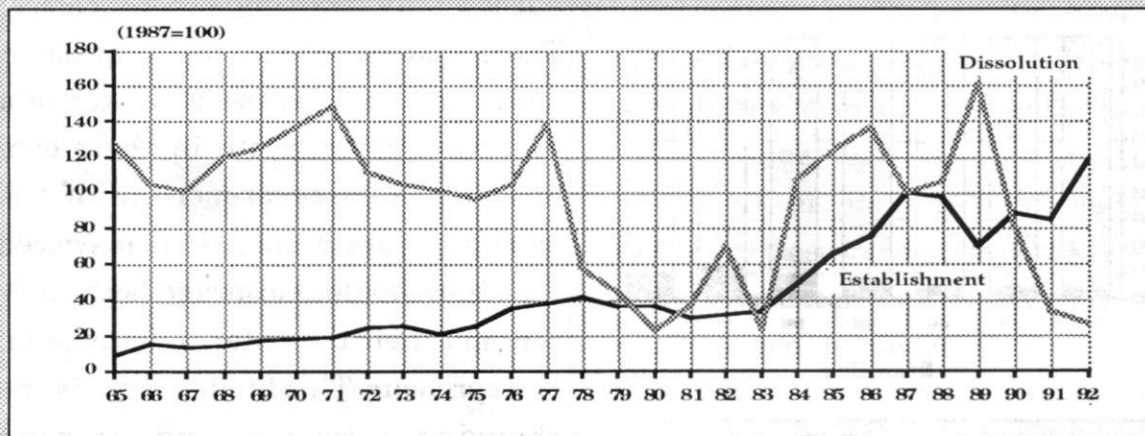


Source: RGA Management Consultants, Ltd.

Changes in the Rates of Establishment and Dissolution of Companies: Data relating to the establishment and dissolution of companies are good indicators of entrepreneurial development. According to a series using 1987 as the base year, the number of companies established in Turkey has risen steadily since 1965. The number of establishments increased at a particularly high rate beginning in 1983, with the introduction of liberalization policies. After a slight fall in the 1989, this rate continued to rise in following years.

While the rate of establishment of companies grew fairly steadily during this period, rate of dissolution has been particularly erratic. While dissolution rates from 1965 to 1978 were higher than in the base year 1987, this rate fell dramatically from 1978 to 1983. After a rise in the mid-1980s, the rate of company dissolution returned to a decreasing trend following 1989.

Establishment and Dissolution of Companies

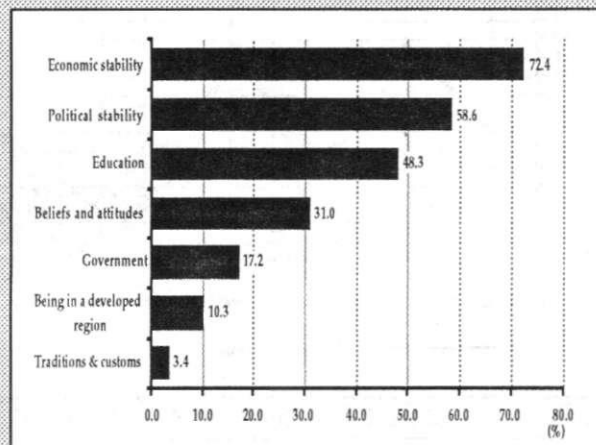


Source: Statistical Yearbook of Turkey; Türkiye Ekonomisi İstatistik ve Yorumlar, SIS.

The Entrepreneurial Environment in Turkey

Turkish industrialists and businessmen were surveyed with the purpose of finding which factors they considered the most important in the determination of the entrepreneurial environment in Turkey. Economic (72.4 percent) and political (58.6) stability were termed as very important by a large part of those surveyed. A relatively small percentage of entrepreneurs see

Factors marked 'very important' in the determination of the entrepreneurial environment



Source: RGA Management Consultants, Ltd.

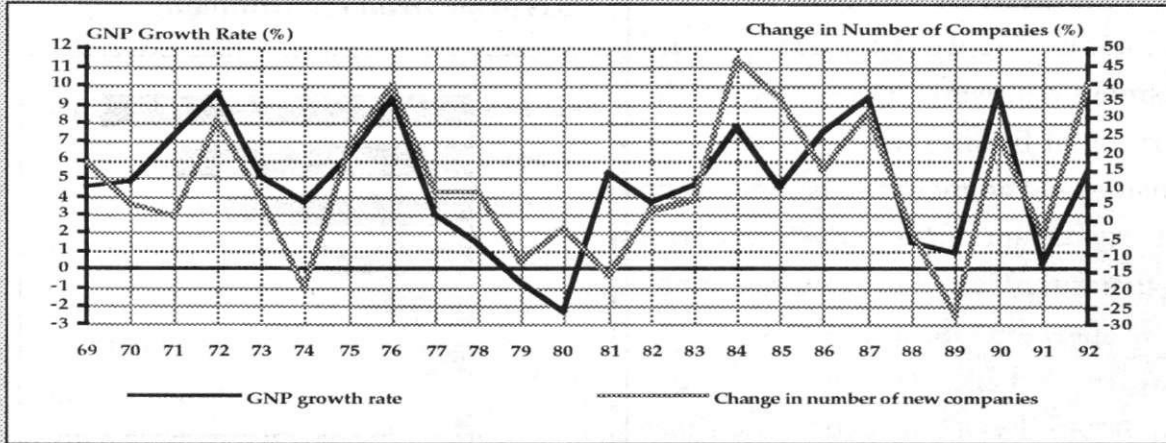
factors like the government, being in a developed region and traditions and customs as very important determinators of the entrepreneurial environment. Although these factors are important to the development of entrepreneurship, it is evident that respondents answered especially with the present circumstances of the Turkish environment in mind. Education (48.3 percent) and beliefs and attitudes (31.0 percent) were termed as very important by many respondents. In addition to the factors listed in the survey, several respondents added 'market size' as an important factor in the determination of the entrepreneurial environment. Economic stability is remains to be one of the most important determinators of the entrepreneurial environment in Turkey.

GNP Growth Rate and the Change in the Number of New Companies:

Analysing the changes in GNP growth rate and the number of new companies in Turkey, it becomes apparent that both follow the same trend, displaying the relationship between economic growth and entrepreneurship. During periods of economic growth, entrepreneurs' expectations regarding the future increase. Because entrepreneurs would ideally like to be in an environment where they can plan for the future, a stable and growing economy is agreeable to the development of entrepreneurship.

With the exception of a few years (1970, 1980, 1984, 1986), all years showing a rise in GNP growth rate also showed a rise in the number of new companies formed, with the same development in opposite situations. This relationship became especially evident after 1982.

GNP Growth Rate and Change in Number of New Companies

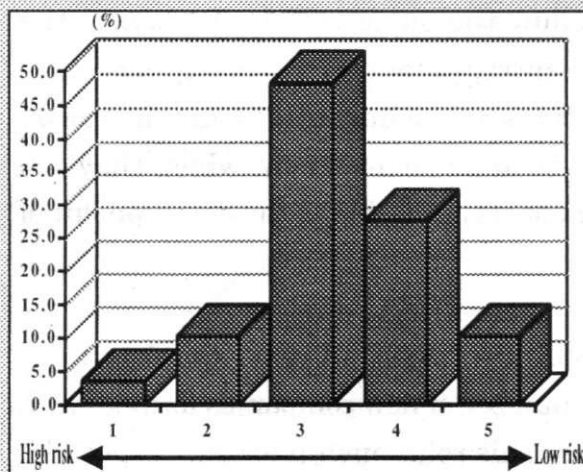


Source: Statistical Yearbook of Turkey; Türkiye Ekonomisi İstatistik ve Yorumlar, SIS.

Entrepreneurial Risk in Turkey: Turkish businessmen and industrialists were asked to rate Turkey in terms of risk undertaken by entrepreneurs. The majority of responses hovered around the middle of the scale, showing that respondents are generally undecided regarding this factor. This analysis shows that although the Turkish environment is not considered overly risky by Turkish entrepreneurs, efforts to relieve the indecisiveness and encourage entrepreneurship would be appropriate.

Making information required for entrepreneurial development readily available to the entrepreneur is one of the first steps that could be taken to this purpose. The establishment of regional consulting centers aimed towards entrepreneurs like those found in many other countries could lessen the risk undertaken by entrepreneurs while at the same time encouraging entrepreneurial development.

Evaluate Turkey in terms of the risk undertaken by entrepreneurs



Source: RGA Management Consultants, Ltd.

Effects of the Immediate Environment on Entrepreneurship: Turkish entrepreneurs were asked how their immediate environment affected their initial decision to become an entrepreneur. A majority of respondents (51.7 percent) stated that they were neither encouraged nor discouraged by their immediate environment. At the

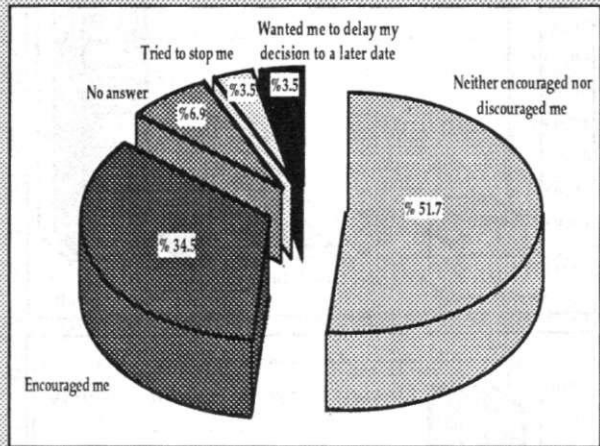
same time, the share of those whose immediate environment encouraged their entrepreneurial decision was also quite high (34.5 percent), showing that in general, the Turkish entrepreneur is either encouraged or not affected at all by his immediate environment. The Turkish entrepreneur is left to make his own decision, meaning that at times he may be left without the very important moral support he needs.

The Sufficiency of Entrepreneurial

Incentives in Turkey: The overwhelming majority of businessmen and industrialists surveyed responded that they do not believe entrepreneurship is encouraged enough in Turkey. This finding supports the imperativeness of developing incentive measures and other programs whose goal is to support the growth of entrepreneurship in Turkey. Encouraging entrepreneurship will not only serve to increase the number of employers and self-employed in the work force, but will create new employment opportunities as well.

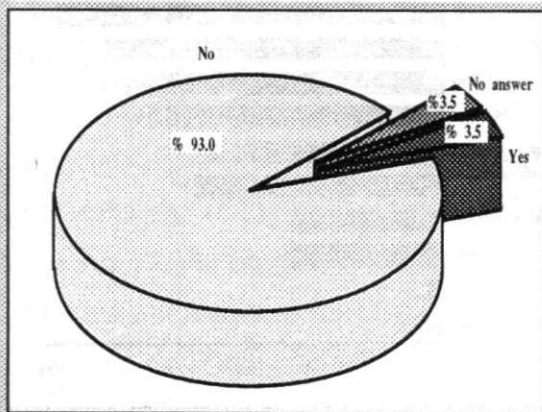
Factors Affecting the Entrepreneurial Decision: The desire to work independently is the one factor most influencing Turkish entrepreneurs in their entrepreneurial decision. 72.4 percent of the responding entrepreneurs stated that this factor strongly influenced their decision to become an entrepreneur. Another interesting finding is that 65.5 percent of respondents stated that sufficient capital did not affect their decision at all. Although inheritance (79.3 percent) and incentives (48.3

How did your immediate environment affect your initial decision to become an entrepreneur?



Source: RGA Management Consultants, Ltd.

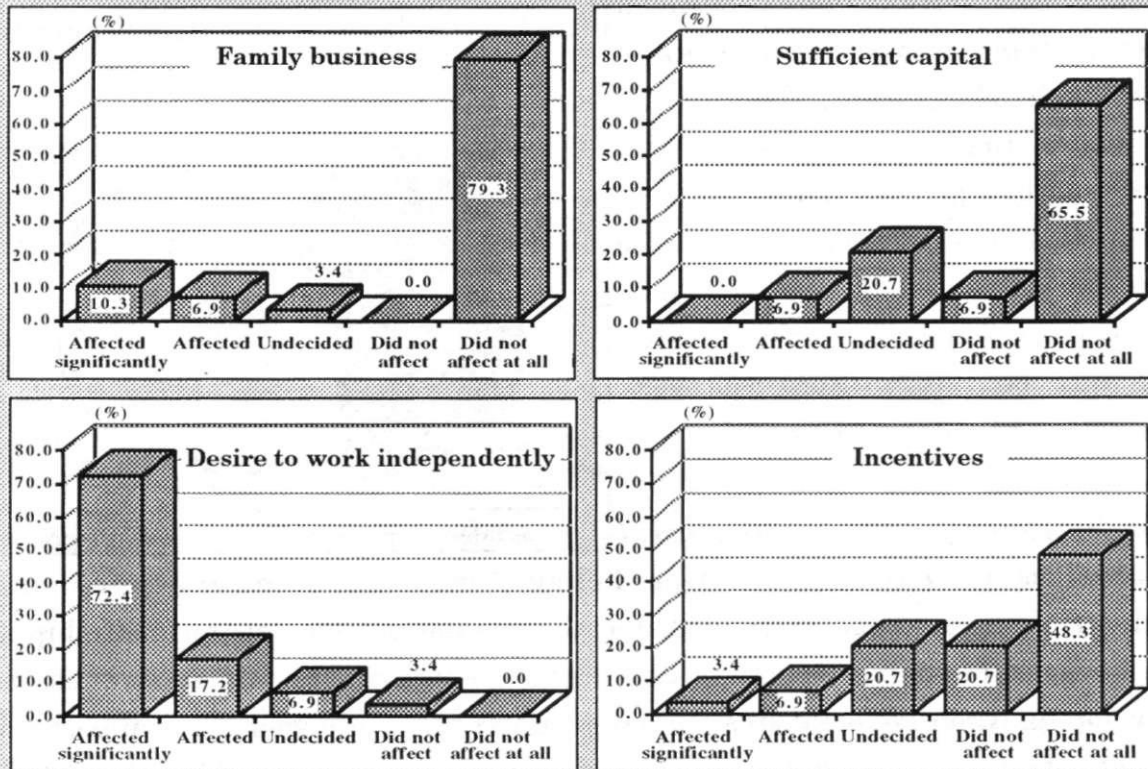
Do you believe entrepreneurship is encouraged enough in Turkey?



Source: RGA Management Consultants, Ltd.

percent) did not affect the respondents' entrepreneurial decisions, the 31 percent of respondents marking incentives as 'strongly influenced', 'influenced' and 'undecided' shows that incentives do play at least some part in the decision to become an entrepreneur. In addition to the choices listed, several respondents added 'the desire to succeed' and 'working as a team' as factors strongly influencing their entrepreneurial decisions.

Factors Affecting the Entrepreneurial Decision

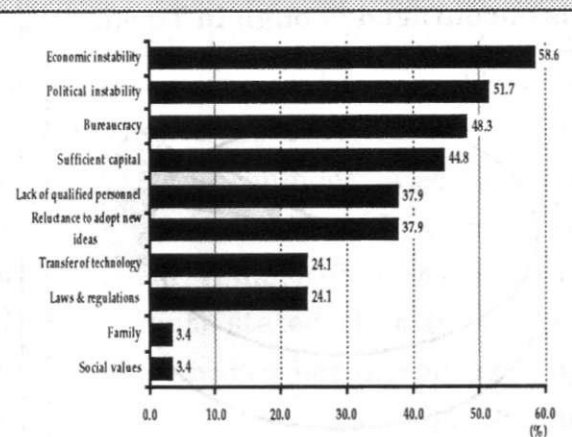


Source: RGA Management Consultants, Ltd.

Obstacles to the Development of Entrepreneurship in Turkey: More than half of those surveyed replied that economic (58.6 percent) and political (51.7 percent) instability are important obstacles to the development of entrepreneurship in Turkey. Bureaucracy was listed as a very important obstacle by 48.3 percent of respondents.

An interesting result is that, along with 'bureaucracy,' 'bureaucrats' were added as important obstacles to entrepreneurship. Family and social values appear not to be important obstacles to entrepreneurship. To an extent, the influence of family and social values in the development of the entrepreneurial spirit appears to have decreased. Other responses were ranked as very important obstacles by and important percentage of respondents.

Factors marked 'very important' as obstacles to the development of entrepreneurship in Turkey



Source: RGA Management Consultants, Ltd.

2.3. SUGGESTIONS FOR THE DEVELOPMENT OF ENTREPRENEURSHIP AND CHARACTERISTICS OF FUTURE ENTREPRENEURS

The overall development of the entrepreneurial spirit and the rising number of entrepreneurs in the Turkish economy will undoubtedly have a positive effect on the development of the economy on the whole. However, the development of an entrepreneurial spirit is not an end in itself. An economic environment conducive to the entrepreneur, the support of infant businesses and measures to support the new entrepreneur are essential and must be undertaken in a conclusive manner. The harmonious implementation of these measures will be effective not only in increasing the number of entrepreneurs in the labor force, but also in the effective distribution of limited national resources. For this reason, it is essential for measures supporting entrepreneurship to be included in economic and social policy. Such policies will play a part in the development of backward regions, generate employment opportunities and increase international competitiveness.

Suggestions for Programs to Further Entrepreneurial Development

In order to develop effective programs geared towards the development of entrepreneurship some very important questions must be asked. The first of these is the definition of the environmental factors that are required for entrepreneurs to thrive, and the parallel evaluation of the existing economic environment. Of primary importance to the entrepreneur is a stable and developing economy and successful management of the economy. At the same time, the entrepreneur has the need for some basic services such as qualified human resources, natural resources and a sufficient infrastructure. Obstacles caused by laws and regulations pertaining to entrepreneurs must be kept to a minimum. Such an environment will contain the basic factors necessary for those with an entrepreneurial spirit to develop to a sufficient level.

Developmental services also play an important part in the growth of the entrepreneur. The availability of correct and up to date information about opportunities and factors effecting his business is essential in order for the entrepreneur to make healthy and timely decisions. Some of the services that could be particularly helpful to the entrepreneur at the development stage and help him place himself in the market include managerial assistance and other consulting services, education and training opportunities and research and development services. The provision of financial opportunities and other supportive services

should be included in programs aimed at development. These services are not, however, enough to make sure that the entrepreneur will survive in the marketplace. One of the basic goals of any such program should be the development and encouragement of entrepreneurship, with the intent that these establishments will eventually become a driving force in the economy. To this purpose, it is particularly essential for economic policies to include programs aimed at the development and encouragement of entrepreneurs.

An important aspect of any program aspiring to provide appropriate support for entrepreneurs is the evaluation of a country or region's ability to serve the needs of its own entrepreneurs. Each region's own strengths and weaknesses should be evaluated and the program put into place strategically. It should not be forgotten that an increase in the number of successful entrepreneurs is the most effective inspiration to those with the slightest inclination to an entrepreneurial spirit should not be forgotten.

Basic Factors of Successful Entrepreneurial Development

In general, entrepreneurship develops in parallel to programs aimed at the development of small business. For this reason, any program aimed at entrepreneurial development is also directly related to the development of small and medium enterprises. Any program intended to aid entrepreneurial development should be in harmony with each country's social, economic and political conditions and at the same time be feasible as part of the country's economic policies in the long run.

An important aspect of any program intended to support entrepreneurial development is its ability to meet the needs of entrepreneurs in all stages of development. Such a program's goal should include the encouragement of nationwide entrepreneurship, give incentives for start-up enterprises, and provide support for entrepreneurs in the later developmental stages.

The conduction of education and training programs encouraging entrepreneurship, the publication of documents providing information pertaining to entrepreneurial opportunities and the determination of potential entrepreneurs are only some of the types of programs that can be effective at the initial stages of entrepreneurship. These types of services can undoubtedly best be provided by local offices staffed with experts and aimed at encouraging entrepreneurial development in that area. Such offices should provide information on all subjects essential to the entrepreneur, including technological, production and market

developments and information on possible investment opportunities and incentives. One of the most important characteristics of these local centers should be their accessibility.

Supportive programs provided by the national and local government are also important factors in the development of entrepreneurship. The provision of infrastructural services, financial support, small business centers, and consulting services are only some of the services that could be provided in this

context. Along with these, the revision of laws and regulations containing obstacles to the development of small enterprises will also greatly benefit the entrepreneur.

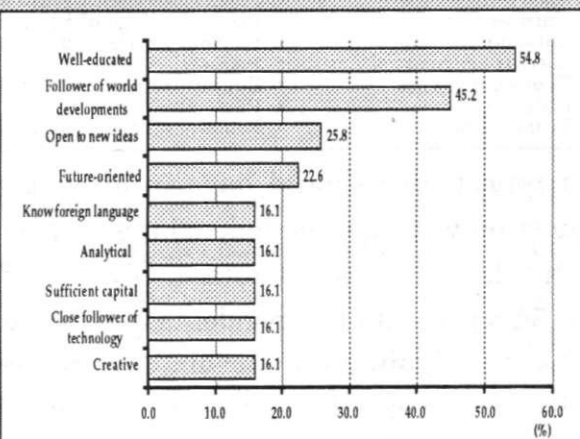
The entrepreneur's development of a distinct competitive advantage should be an important factor in any program aimed at entrepreneurial development. The success, development and growth of existing entrepreneurs is a driving force of the development of entrepreneurial spirit in any society. The development of existing entrepreneurs should be an integral part of any entrepreneurial development program, including support for activities including renovational investments, the attainment of economies of scale and product diversification. Information relating to the creation of new market opportunities, technology and technology transfer and quality control services are all important in this context.

In order for the entrepreneurial development program to be fully successful, it must be developed strategically in close relation to regional and local needs. Entrepreneurial development programs which are parallel to national development strategies and at the same time take into account regional strengths and weaknesses will clearly be the most advantageous to the entrepreneur as well as the general economy. In this context, the responsibility and authority of local governments is of major importance to the success of each individual program. In summary, Turkey must take advantage of the high level of entrepreneurial spirit in the present society by making programs aimed at the development of entrepreneurial efforts an integral part of economic policy.

Characteristics of Future Turkish Entrepreneurs

Businessmen and industrialists were asked what characteristics Turkish

What characteristics should Turkish entrepreneurs in the 21st century possess?



Source: RGA Management Consultants, Ltd.

Characteristics of Turkish Entrepreneurs in the 21st Century

- | | | |
|--|--|--|
| <ul style="list-style-type: none"> • Well educated • Future-oriented • Wealthy • Decisive • Good connections • Hard-working • Rational • Success-oriented • Environmentalist • Outgoing • Team-member | <ul style="list-style-type: none"> • Follower of world developments • Know foreign language • Research-oriented • Knowledgeable about own market • Participative management • Possessor of qualified personnel • Putting 'service' first • Patient • Educationalist • Productive • Follower of technological developments | <ul style="list-style-type: none"> • Open to new ideas • Analytical • Risk-taker • Creative • Knowledgeable • Leader • Quality-oriented • Enthusiastic • Sharing • Good communication skills |
|--|--|--|

entrepreneurs should have in order to be successful in the 21st century. The question was open-ended, asking respondents to list the three characteristic they belived to be most important. Given the fact that this was an open-ended question, for 54.8 percent of respondents to indicate that Turkish entrepreneurs must be well educated signifies the growing importance of education in the society. Being a close follower of world developments (45.2 percent) was the characteristic mentioned the second most frequently. Open to new ideas, future-oriented, knowing a foreign language, creative and analytical were all characteristics which were thought to be important for future Turkish entrepreneurs by a large ratio of the businessmen and industrialists surveyed. For a large percentage of the businessmen and industrialists responding to list concepts like participative management and teamwork as important qualities for the future Turkish entrepreneur signals a change in the management style of the Turkish workplace.

Along with characteristics of future entrepreneurs, survey repondents were also asked in what sectors the participation of entrepreneurs will most help Turkey to become an industrialized nation in the 21st century. This question was also open-ended, and respondents were asked to list the three sectors they thought to be the most important. The majority of responses to this question listed industries using advanced technology. Responses listing service, electronics, textile and tourism made up close to 30 percent of the answers. Communications, computers and other information-intensive industries followed. In short, it is apparent that Turkish entrepreneurs feel that, along with following developments in the global marketplace, it is important for future entrepreneurs to incline towards information-intensive and other developing sectors, and to be especially selective in choosing sectors that can play a part in developing Turkey's competitive advantage. The characteristics essential to future Turkish entrepreneurs, and the sectors that should be of priority investment are not only harmonious in themselves, but will also serve to give Turkey a competitive advantage as it enters the 21st century.

The participation of Turkish entrepreneurs in which sectors will help Turkey become an industrialized nation in the 21st century?

- | | | |
|--|--|--|
| <ul style="list-style-type: none"> • Industries using advanced technology • Information technology • Computers • Environment • Construction | <ul style="list-style-type: none"> • Service • Textiles • Communications • Education | <ul style="list-style-type: none"> • Electronics • Tourism • Foreign trade • Manufacturing |
|--|--|--|

CHAPTER 3

FOREIGN INVESTMENT

3.1. THE TURKISH ENVIRONMENT

Like many other developing countries, Turkey is characterised by an abundance of natural resources and a growing labor force. Unlike any other developing country, however, Turkey has the ability to pave the way into even larger market areas due to its unique geographical location as a natural bridge between the East and West. Turkey covers an area of 781,000 square kilometers and has a coastline in excess of 6,600 kilometers. Its location between the continents of Europe and Asia has been an important feature of Turkey's cultural and political history. Turkey borders on Georgia, Armenia and the Black Sea to the north, Iran to the east, Iraq, Syria and the Mediterranean Sea to the south, and the Aegean Sea, the Sea of Marmara, Greece and Bulgaria to the west.

International Relations

Turkey's international relations have improved since the early 1980s and the nation is now regarded as more stable both economically and politically. Turkey is a charter member of the United Nations and a member of NATO, as well as a founding member of the Council of Europe, the World Bank and OECD, and a party to GATT. Turkey is also a member of the Islamic Development Bank.

In April 1987, Turkey made a formal application to become a member of the European Union, using an Association Agreement it has had with the EU since 1964 as the basis for the application. It is unlikely, however, that membership will be granted before the turn of the century. As an Associate Member of the EU, Turkey can export all of its industrial products to the EU market free of any tax barriers, and will enter into a Customs Union with the EU in 1995.

Turkey has recently signed an agreement with EFTA, abolishing customs on Turkish industrial exports to EFTA countries. Furthermore, customs duties on some agricultural produces and textiles shall be lifted gradually by 1996.

The Black Sea Economic Cooperation Agreement, of which Turkey is a founding member, was initialized in 1992. This agreement envisages a greater commercial and industrial cooperation among Turkey, Albania, Armenia, Azerbaijan,

Bulgaria, Georgia, Greece, Moldova, Romania, Russia and Ukraine, and presents a potential area of economic and social cooperation. Still in its infancy, the zone will concentrate on projects of common interest such as stable commercial relations, tourism, transport and the environment.

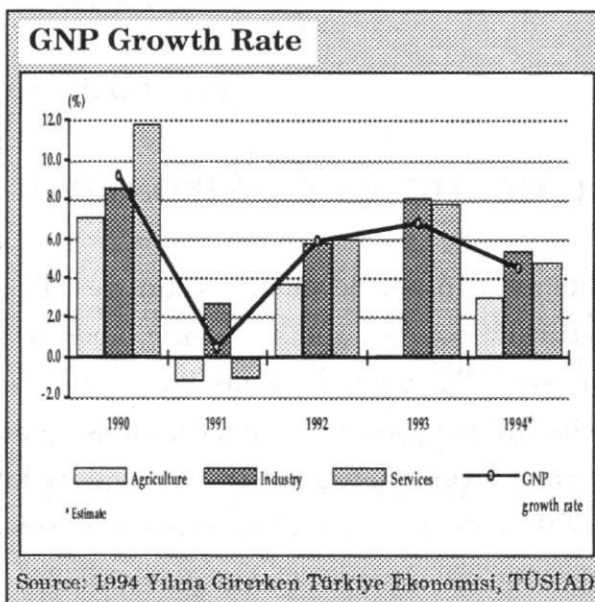
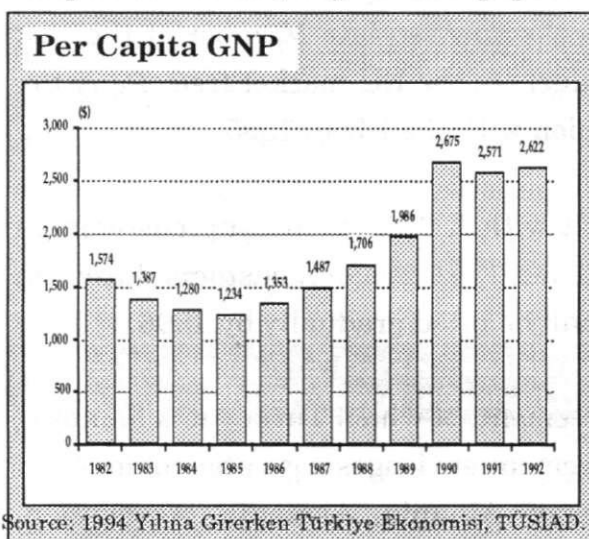
The recent developments in the former USSR, and the high rate of change and increased efforts of these countries to enter into a market economy present

special opportunities for Turkey. The similarities of these new nations, and especially the Turkic Republics' social and cultural background to that of Turkey, as well as Turkey's geographical proximity will serve to increase Turkey's competitive edge in relations with these countries.

Economic and Demographic Conditions

The Turkish economy is one of the most dynamic in the OECD. With an annual average growth rate of 5 percent in the 1980s, Turkey's GNP grew roughly 2 percentage points faster than the OECD average. After a slow rate of growth in 1991, the Turkish growth rate has picked up, with a 4.5 percent growth rate forecasted for 1994.

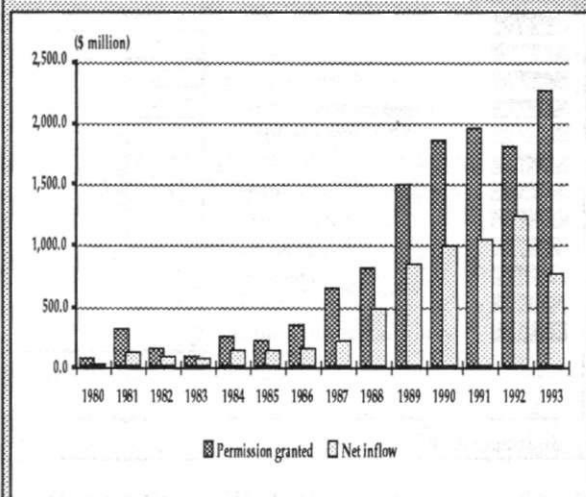
Despite a relatively high annual population growth rate of 2.2 percent, Turkey's per



capita GNP has increased significantly over the last decade, reaching \$2,622 in 1992 and estimated at over \$2,700 in 1993. With a total population close to 60 million and increasing purchasing power, Turkey presents a large domestic market. At the same time, Turkey's geographic proximity and socio-economic ties with the Turkic Republics and the Middle East make it an ideal base for commercial operations in these parts of the world.

With an average annual growth rate of 7.4 percent between 1980 and 1990, the industrial sector has a diverse manufacturing base. The iron & steel, electric-electronics products, basic metal, machinery and chemical industries show particularly high rates of growth. The textile sector accounts for roughly 35 percent of total merchandise exports and 12 percent of gross manufacturing output. Turkey is the major textile supplier to the EU and continues to increase its presence in other markets as well.

Foreign Capital Investment Approvals and Net Inflow



Source: YASED.

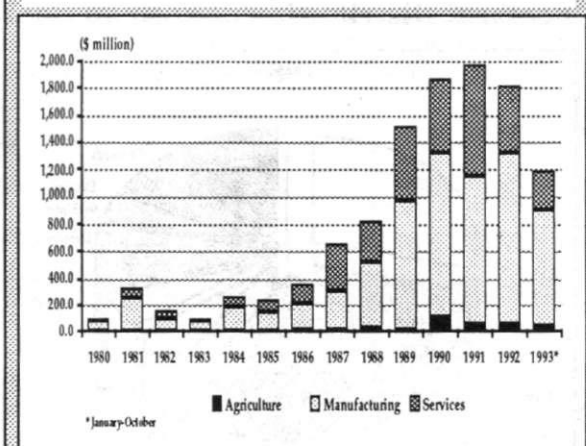
3.2. DEVELOPMENTS IN FOREIGN CAPITAL INVESTMENT

The liberalization and growing outward orientation of the economy, along with a more stable political and economic environment have made Turkey an increasingly attractive to investors. Foreign capital investment in the Turkish market has increased significantly since the beginning of liberalization policies and privatization efforts in the 1980s. During the period from 1980 to January 1994, approval has been given to a total of \$12,543 million foreign capital investment. Of this, \$6,496 million has actually entered the economy.

Sectoral Distribution of Foreign Capital

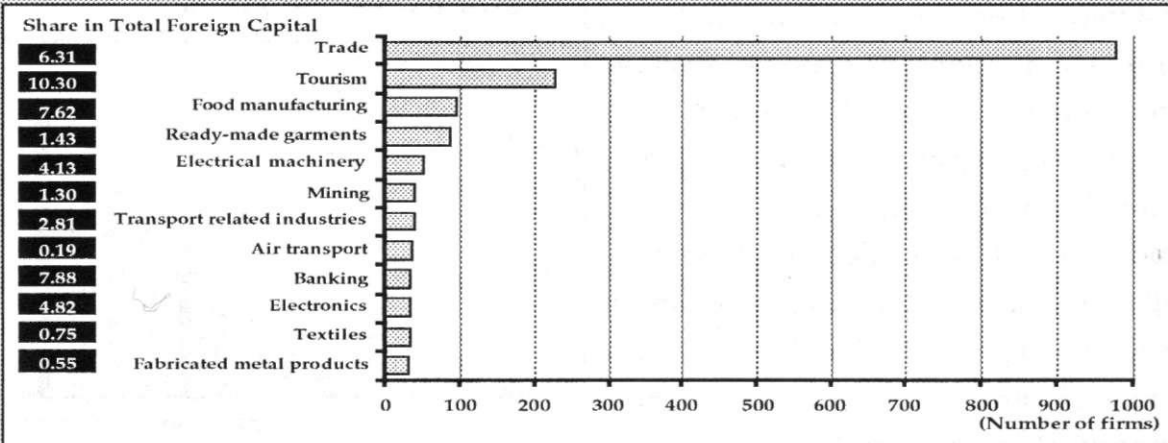
The continued industrialization of Turkey's economy and the growth of the services sector have played an important role in the increasing inflow of foreign capital to the Turkish market. In terms of actual value, investments made in the manufacturing sector have historically made up more than half of total foreign investment. As of January 1994, permission had been granted for

Distribution of Foreign Capital Firms According to Sector (1993)



Source: 1994 Yılına Girerken Türkiye Ekonomisi, TÜSIAD.

Sectoral Distribution of Foreign Capital Incorporating Firms (1993)

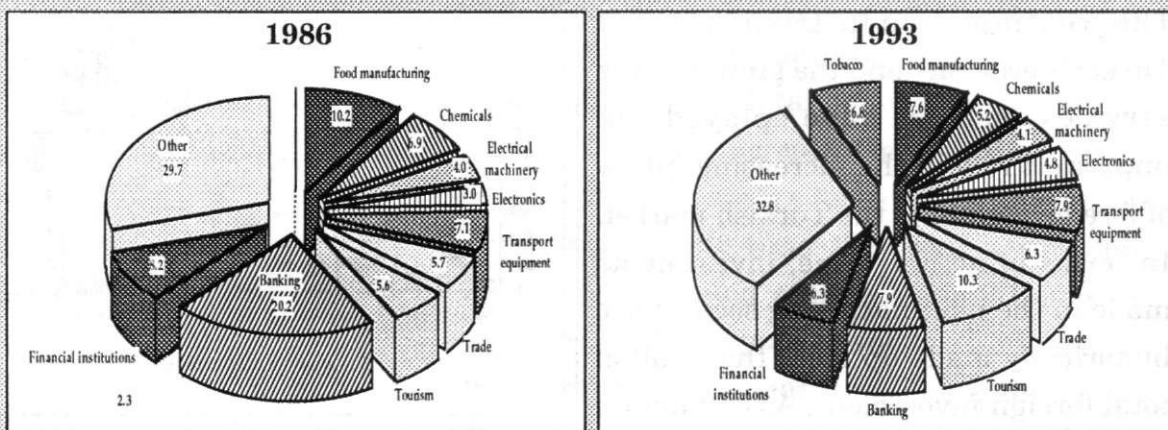


Source: YASED.

foreign investment totalling \$8.14 billion in the manufacturing and \$4.03 billion in the services sector.

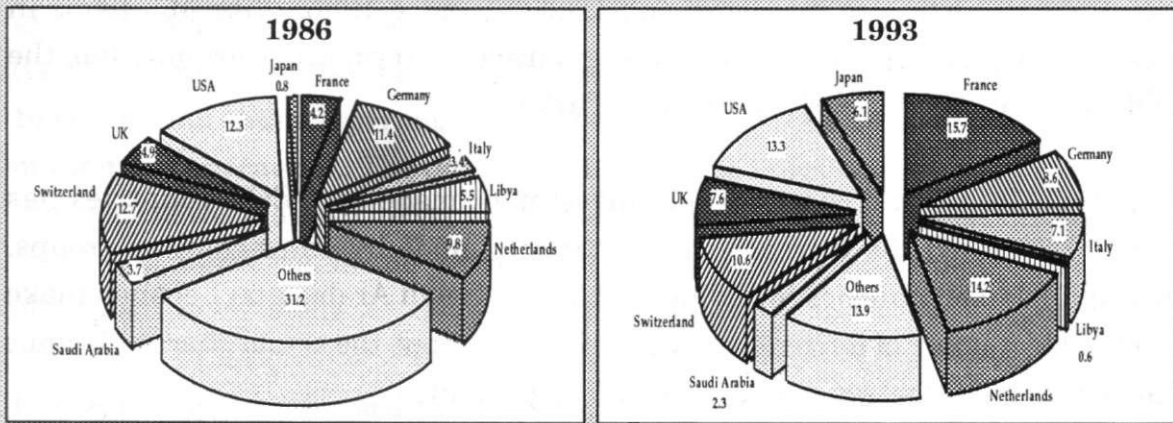
In terms of the actual number of firms represented in the manufacturing and service sectors, however, the services sector has the most foreign representation. In fact, trade is the single sector with the most foreign firms, with 981 firms incorporating foreign capital operating in his sector as of December 1993. The sector coming closest to this is the tourism sector, with 231 firms incorporating foreign capital in operation. Although trade makes up an overwhelming majority of the foreign firms in Turkey, in terms of amount of investment these companies make up only 6.31 percent of the total foreign capital investment in Turkey. The tourism sector was the single largest contributor to foreign capital investment in 1993 (10.3 percent), a significant change from 1986, when it made up for only 5.6 percent of total foreign investment.

Sectoral Distribution of Foreign Capital Incorporating Firms (%)



Source: YASED.

Distribution of Foreign Capital According to Country of Origin (%)



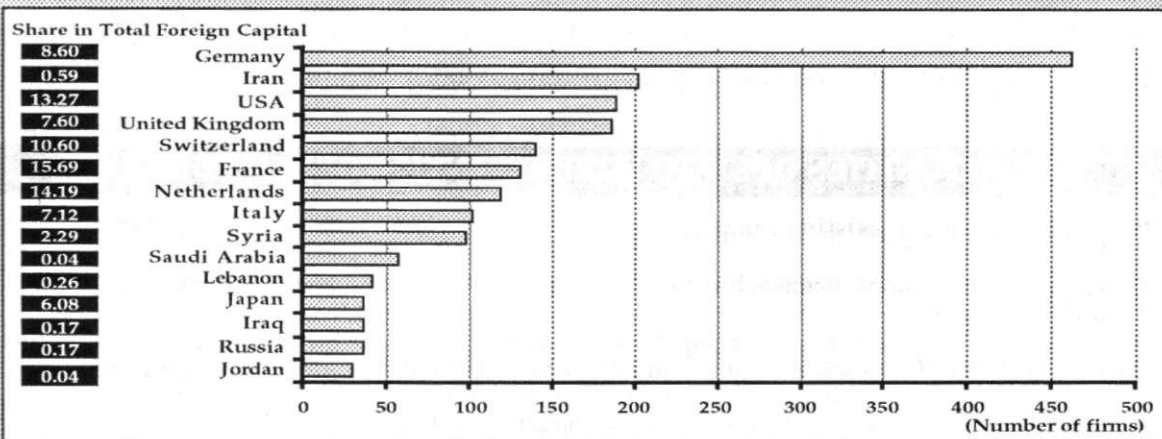
Source: YASED.

The ratio of foreign investment in the food manufacturing, financial institutions and transport equipment sectors has remained relatively stable throughout the years. Although there are only 8 foreign capital incorporating firms in the tobacco sector, with the sizable investment made in the Turkish market by Phillip-Morris, the tobacco sector's share in foreign capital leaped from close to zero in 1986 to 6.8 percent in 1993.

Foreign Capital Investment According to Country of Origin

The EU has historically made up the largest investor group in the Turkish market in terms of amount of investment, and continues to do so, with 55.6 percent of the total foreign capital in Turkey. As a whole, the 1,606 companies of OECD origin accounted for 89.58 percent of total foreign capital as of January 1994. France is the largest single contributor, making up for 15.7 percent of total investment in 1993. This percentage is a sizable change from the 4.2 percent it had in 1986, due in part to

Distribution of Number of Foreign Capital Incorporating Firms According to Country of Origin (1993)



Source: YASED.

the entrance of French firms into the Turkish cement sector. Japan's share of total foreign capital has also increased substantially since 1986. With 463 firms in Turkey incorporating foreign capital originating in Germany, Germany has the single most number of participations in Turkey.

On the whole, the increased level of investment made by OECD countries has virtually nullified the increase in investments made by other country groups. Although Islamic countries including Iran, Syria, Saudi Arabia and Lebanon make up a sizable number of foreign firms operating in Turkey, the actual share of Islamic countries in total foreign capital is only 5.85 percent.

3.3. ESTABLISHING A PRESENCE IN TURKEY

The key regulations governing foreign investment in Turkey are covered under Law 6224 of 1954 for the Encouragement of Foreign Investment and the Foreign Capital Framework Decree 2789 of March 20, 1992. In addition, certain sectors including tourism, mining and petroleum are subject to specific laws with provisions which affect foreigners. Under Law 6224, foreign investors are permitted to form corporations and limited companies subject to the provisions of the Turkish Commercial Code and are entitled to all the rights and privileges granted to Turkish companies under the Code. The law also guarantees foreign investors the right to repatriate profits and capital, transfer shares, reinvest profits and employ foreigners.

Regulations Regarding Foreign Investment

Although there is no maximum limit to foreign investment and companies may be 100 percent foreign owned, the Council of Ministers' approval is required for investments in which the foreign equity participation exceeds \$50 million. With the exception of liaison offices whose operating expenses are covered by the overseas parent, the minimum investment per foreign investor is \$50,000.

OPPORTUNITIES OPEN TO FOREIGN INVESTORS IN TURKEY

- Buy participations in existing companies or in companies that are to be incorporated in Turkey.
- Enter into management, license, know-how and technical assistance agreements with Turkish companies.
- Make portfolio investments in existing Turkish companies, invest directly in Turkish equities through the Istanbul Stock Exchange, and by publicly traded debt or equity instruments. Investors wishing to participate in the management of the company must register shareholding information with the General Directorate of Foreign Investment.
- Establish correspondent offices in Turkey.

Permits to foreign investment for which foreign equity participation does not exceed \$50 million are issued by the General Directorate of Foreign Investment (GDFI). Foreign entities planning on investing in Turkey are required to apply to the GDFI and obtain a permit declaring the objectives of the investor and the scope of intended operations. The detail required for the permit application varies with the scope of the planned investment. Once the permit is obtained, the investors are entitled to all the rights and privileges granted by the Law for the Encouragement of Foreign Investment.

Foreign companies formed in Turkey may be of Limited Liability or Corporation status. The GDFI rarely grants permission for the establishment of branch offices and limited companies for foreign investment purposes, generally deeming the establishment of corporations more advantageous.

Establishing a Business Entity

Procedures followed in the establishment process of a foreign capital incorporating entity vary according to the form of the entity to be established. All types of foreign investment must be approved by the GDFI.

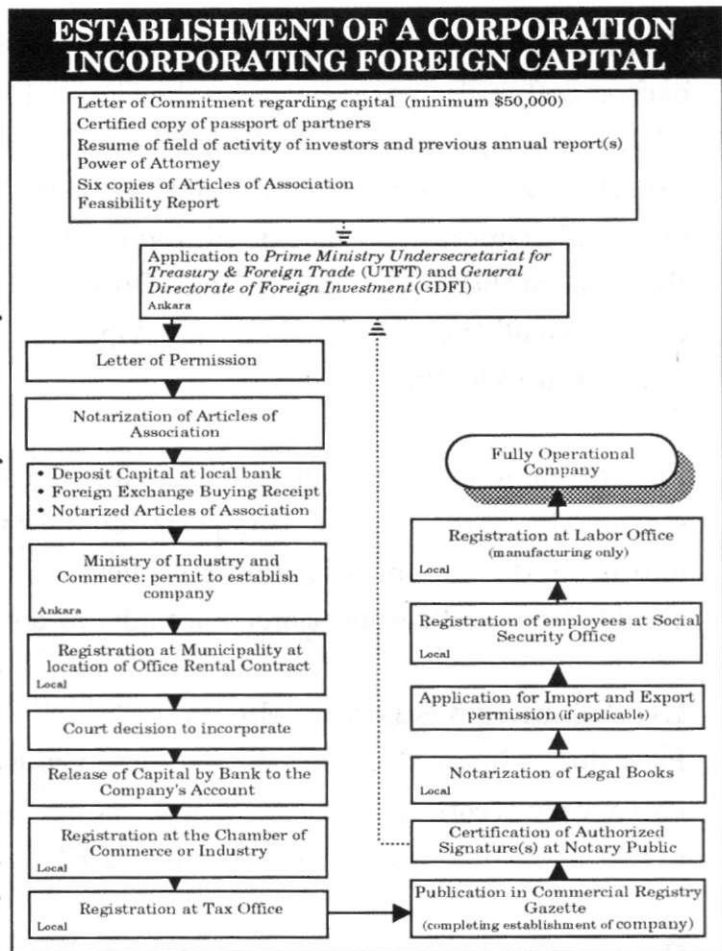
Corporation: The establishment of a corporation is marginally preferred by banks for credit purposes, and is popular with foreign investors, especially in the manufacturing sector and in cases in which a substantial amount of capital is required. At least five individuals or legal entities are required as founding partners of a corporation, each contributing at least \$50,000.

Establishment procedures for a corporation begin with the submission of required documents including the Articles of Association, a document setting out the commercial qualifications of the founders and a deposit receipt for a portion of the required capital to the GDFI. At least 25 percent of the founding capital must be deposited temporarily in a non-interest bearing account at a bank in the name of the Ministry of Industry and Trade. The GDFI may require the investors to block a larger portion of the pledged capital during incorporation depending on the size of the investment. The required documents are then submitted to the Ministry of Commerce and Industry to obtain a certificate for the foundation of the corporation.

Upon the receipt of this certificate, the company must register at the local Chamber of Commerce or Industry. The company must then be registered with the district tax office. A tax number must be obtained and separate applications submitted for

each of the main taxes (Corporation Tax, Income Withholding Tax, Value Added Tax, Fiscal Stamp Tax). The procedures following this step are primarily local in context, including the notarization of legal books, permission for operation from the relevant municipality, the publication of the Articles of Association in the Trade Register.

The capital the initial formation stages is released after the presentation of the registered Articles of Association, the Court's approval certificate and a receipt from the Trade Register proving that payment has been made for publication of the Articles of Association.



Limited Company: The limited company form is particularly convenient for sales and distribution enterprises, and may operate in most fields excluding insurance and banking. Limited companies are formed by between two and fifty individuals or legal entities. Each foreign partner must contribute a minimum of \$50,000, and the GDFI has the authority to specify the minimum amount of capital that must be contributed by founding partners. The partnership agreement must include trade name, location of the business, nature and scope of each partner and duration of the partnership, and must be signed by partners and notarized.

The application procedures for a limited company are similar to that of a corporation. 25 percent of the pledged capital must be blocked in a local bank, an application for a certificate for the foundation of the Limited company must be obtained from the Ministry of Industry and Trade, the company must be registered with the local Trade Register Office and the formation announced. Limited companies may start operations after completing the above procedures.

Branch Offices: The procedures for setting up a branch office are similar to those for setting up a corporation or limited company. Branch offices must be run by a fully authorized commercial representative resident in Turkey. If the principal transactions of the mother company become concentrated in Turkey, branch offices are required to be converted into Turkish companies.

Liaison Offices: Liaison offices are not permitted to have any commercial activity in Turkey. Their activities are limited to representation and the gathering of information in Turkey. The GDFI currently gives two-year permissions for this type of entity. Liaison offices may not collect revenues for their own accounts in Turkey, and expenses must be covered by funds sent by the head office.

Licenses, Know-How Agreements, Contracting for Technical Assistance: The foreign investor engaging in these types of contracts must apply for a permit through the GDFI. Applications must include a draft of the contract, documents proving the existence of the facilities where the products of concern are to be manufactured, an activity report proving that the entity has the promised technology and documents certifying the patent of the technology to be provided if relevant.

3.4. THE FOREIGN INVESTMENT ENVIRONMENT

Once established, the corporate vehicles of foreign investors are considered Turkish companies and are subject to the same incentives, taxation and operating regime as those established with fully Turkish shareholdings.

Taxation Principles

Taxation of Corporations: Only the central government taxes corporate profits.

TAXES IN TURKEY			
<i>Tax</i>	<i>Rate (%)</i>	<i>Time of Payment</i>	<i>Agency</i>
Corporate	25.0	3 installments during the following year and 1/12 of 50% of the previous year's corporate tax each month as an advance payment tax	Ministry of Finance
Withholding	Varies	Upon each transaction	Tax Office
VAT	Varies	Every following month	Tax Office
Real Estate	0.6 land 0.4 buildings	Annually	Municipality
Stamp	0.5-0.6	Upon each transaction	Tax Office
Banking and Insurance	Varies	Upon each transaction	Banks
Municipal	Varies	Upon each transaction and annually	Municipality
Customs	15	Upon each transaction	Municipality
Port Duty	5	Upon each transaction	Port Authority

Income obtained by corporations, cooperatives, commercial public enterprises and foundations are subject to corporate taxes in Turkey, with taxpayers divided into full and limited taxpayer categories. Limited taxpayers are branch offices whose legal head office or legal center is located abroad. While full taxpayers are taxed only on their income in Turkey, this does entail the taxation of the Turkish subsidiary's income derived in other countries as well as Turkey.

Personel Taxes: In the absence of double taxation agreements, individuals resident in Turkey for a continuous period of more than six months must pay taxes in Turkey. Salaries paid to Turks or foreigners in foreign exchange by non-resident employers who do not have income generated from activities in Turkey are exempted from income tax. Personal Tax Rates vary from 25 percent in the lowest income level to 50 percent in the highest income level.

Foreign Exchange Controls

The control of foreign exchange outflow and the repatriation of profits in Turkey are governed by the relevant statutes in the Foreign Investment Encouragement Law. In general, control mechanisms on foreign exchange have been lessened in the last decade, as efforts to open the economy have been more pronounced. Any amount of foreign currency may be transferred out of the country regardless of the underlying reason for the transfer, but transfers over \$50,000 or more must be reported to the Central Bank.

Dividends and Proceeds from Asset Sales: Foreign investors are allowed to transfer profits to their home countries without prior approval from any authority, but these transfers must be made through commercial banks recognized by the Ministry of Finance. The transfer of dividends through these banks may be made in the presence of official documentation of the transaction, including notarized copies of the investment permit, financial tables, corporate tax declaration and a notarized copy of the Board of Director's decision on distribution of profit. The transfer is made after the Turkish lira equivalent of the transfer amount is submitted to the bank, and can be transferred as soon as the Board of Directors have approved the dividends.

Management Fees, Licence, Know-How and Technical Assistance Royalties: Fees and royalties remitted in return for various services to the foreign partners are all transferrable to the foreign investors' own countries in foreign currency. If the fee is

paid upon the presentation of an invoice, the transfers are made based on such invoices. If the payment is based on earnings, a contract must be prepared between the foreign investor and the Turkish corporation and submitted for approval to the GDFI. Withholding tax applicable to the transfer must be paid either by the foreign partner or the Turkish corporation.

Fees for engineering, architectural, counselling, controlling, supervisory and educational services obtained by limited taxpayers are subject to 15.75 percent corporate withholding tax. License payments are also subject to corporate withholding tax and a VAT must also be paid prior to the transfer of fees.

Wages: Foreigners who are gainfully employed in Turkey are allowed to transfer their wages in foreign currency after the deduction of relevant taxes. The foreign employee may affect the transfer upon presentation of proof to the bank indicating the payroll taxes have been paid, and the service agreement made with the employer.

Investment Incentives

The Turkish government extends numerous incentives designed both to encourage investments and to direct them to certain areas of the economy. These incentives have a considerable impact on the early profitability of any investment. The investment incentives offered aim to reduce the need for external financing, to facilitate the investment process and to increase profitability during the start-up phase.

SCOPE OF INVESTMENT INCENTIVES

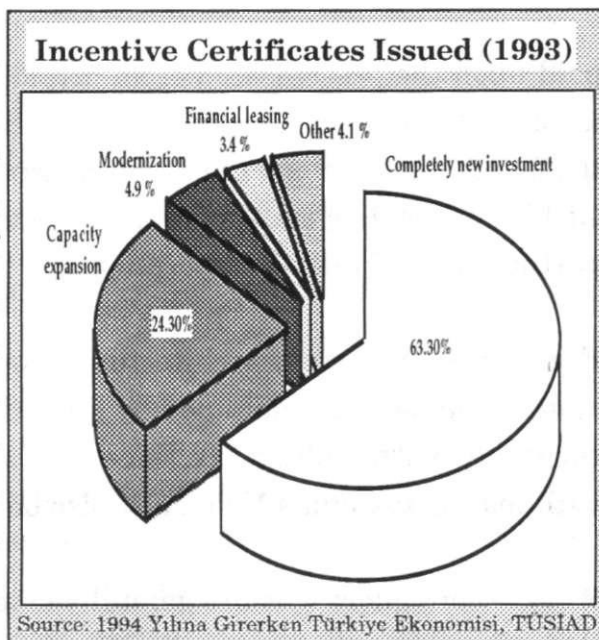
During the Investment Phase

- Preferential import conditions for investment goods
- Subsidized credit facilities
- Low-interest, domestic and foreign-currency long-term investment credits
- VAT rebates on investment goods obtained in the domestic market
- Exemption from various taxes, fees and duties, especially for housing projects and in regions with development priority
- Allocation of foreign exchange from banks for the importation of capital goods
- Tax postponements for existing companies
- State allocation of land for infrastructural and other investments, particularly for tourism
- Deferred customs duty and low VAT rates for leasing-financed goods

Post-Investment Phase

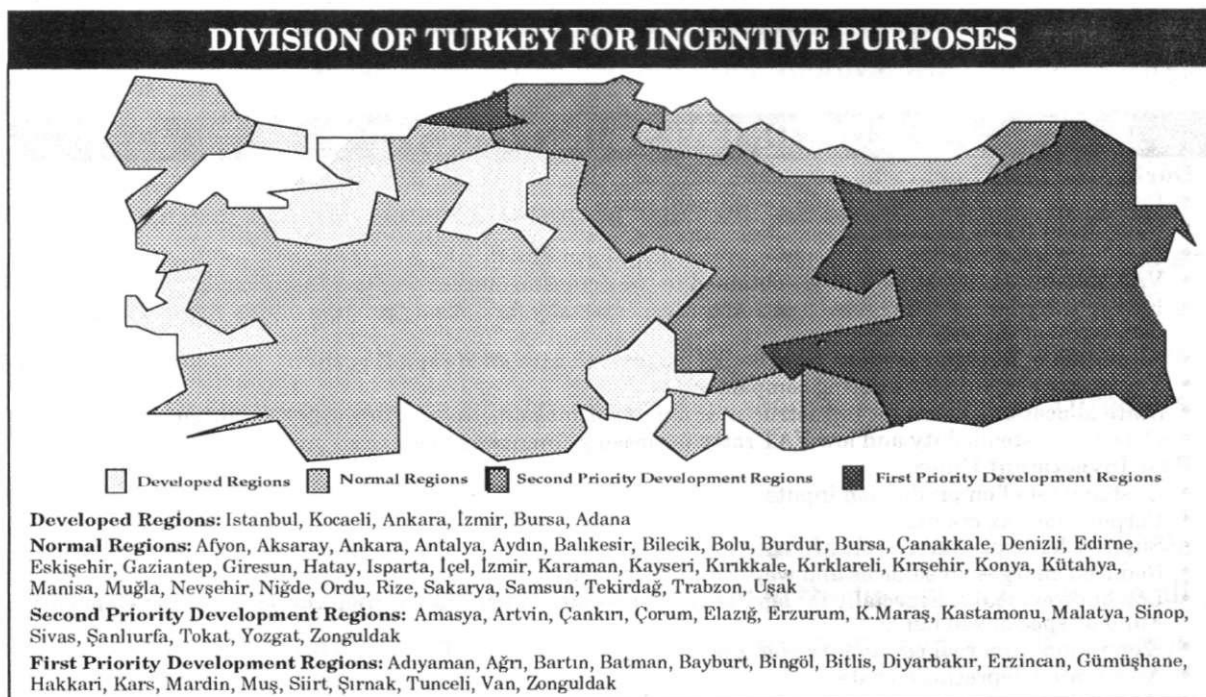
- Customs relief on production inputs
- Corporation tax credits
- Support for exporters
- Reduced charges on salaries and wages and on electricity
- Low-interest loans, especially for agricultural and tourism investment from the Tourism Development Fund or specialized banks
- Exemption from real estate taxes for a period
- Accelerated depreciation rates
- Exemptions from taxes, duties and fees on medium and long-term credits

Incentives continue to play an important role in the Turkish government's efforts to encourage development. Incentive certificates worth TL 95.5 trillion were issued between January and October of 1993, with 63.3 percent of these issued for completely new investments. In general, close to 70 percent of total investment incentive certificates are issued to the manufacturing sector, followed by the services sector with around 20 percent.



Qualifications for Incentives: Qualification for incentives are established for certain types of investment and for investments in priority development regions is easier than that in normal regions. In addition, the minimum ratio of equity in the financing of the total investment required by the government varies according to the location of the investment.

In an effort to promote the development of Turkey's less-developed regions, the government gives special priority to investments made in these areas. Terms for qualification for incentives vary according to the region and the sector, with certain sectors not qualifying for investment incentives.



FREE ZONES					
<i>Province</i>	<i>Location</i>	<i>Net Area (000 m2)</i>	<i>Type of Industry</i>	<i>Operating Company</i>	<i>Starting Date</i>
Mersin		776	Light industry	Mesbaş	1988
Antalya		544	'Clean' industry	Asbaş	1988
Istanbul	Atatürk Airport	2	Trade only	UTFT	1990
Izmir	Gaziemir	2,200	Electronics, telecommunication	Esbaş	1990
Trabzon	Trabzon harbor	38	Trade only	Transbaş	1992
Istanbul	Atatürk Airport	8	Ready-wear, electronics	Regional division	-
Adana	Yumurtalık	52,000	Heavy industry	Tayseb	-
Istanbul	Çatalca	377	Textiles, electrics, electronics	İsbaş	-

Free Zones

Free Zones have been established in Turkey to assist investors and traders wishing to benefit from Turkey's strategic location in relation to the Middle East and Europe. There are currently five zones in operation, with three more planned to open in the near future.

Turkey's free zones are defined as special sites within the country where foreign and domestic merchandise is considered to be outside of Turkish customs territory. Foreign or domestic merchandise may be brought into the Free Zone warehouses without formal customs entry, payment of customs duties, transport infrastructure duty, import duties or other excise taxes apart from a 0.5 percent levy. The zones are exempt from all other Turkish taxes.

The total volume of trade from the five free zones which have become operative since 1988 has reached a total of \$2,949 million as of the end of February 1994. The Mersin Zone accounts for 69.1 percent of total free zone trade. Although there is a relatively even distribution among the different types of transactions, transfer of goods from the zones to Turkey have made up the most transactions (34 percent), followed by trade from other countries to zone (29 percent).

Attractiveness of the Turkish Environment

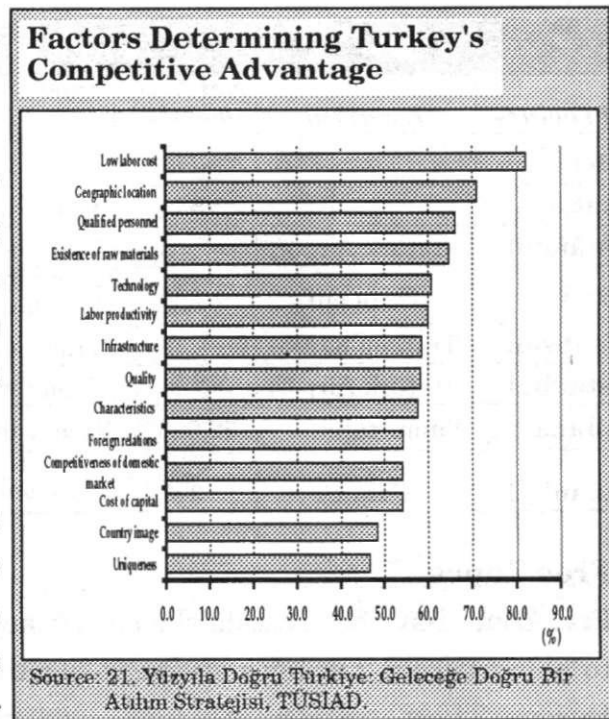
The competitive advantages which investments in the Turkish market can lend to the foreign investor are immense. A study of the factors determining Turkey's comparative advantage both according to sectors and overall competitiveness gives a good idea of the advantages obtained by foreign companies choosing to invest in the Turkish market. In this study, low labor cost and geographic location were deemed

the primary factors giving Turkey an overall strategic advantage.

Indeed, for foreign investors, Turkey low labor cost in relation to neighboring countries, and especially Turkey's strategic geographic location lend a specific advantage to investors in both the manufacturing and service sectors.

Turkey's geographic location is becoming increasingly important to foreign investors. Turkey's proximity to both industrial and developing markets makes it the optimal focal point for

enterprises wishing to enter into these markets. Along with geographic proximity, socio-cultural ties and close economic relations with the Turkic Republics in particular make entering these developing markets through Turkey especially attractive for foreign firms. At the same time, Turkey's good economic relations with both Eastern and Western Europe and the growing economic power of surrounding nations make Turkey an ideal focal point for the development of international relations.



CHAPTER 4

TURKEY AND THE EUROPEAN UNION

Historically, Turkey and the European Union have been very closely knit economically, politically and socially. As the global political, social and economic equilibrium changes, the essentiality of the continuation and strengthening of these relations for the well-being of all parties becomes increasingly evident.

The positive effects that the further development of relations between Turkey and the EU will have on Turkey are undeniably great. What are quite often forgotten, however, are the positive effects that the strengthening of such relations will have on the EU. Turkey's large and growing domestic market, the complementary nature of Turkey's trade structure, and the added potential of Turkey's close relations with the Middle East and Central Asia are only several of the advantages that the development of such relations will bring to the EU.

4.1. HISTORICAL DEVELOPMENT OF EU-TURKEY RELATIONS

Relations between the EU and Turkey began in earnest on September 12, 1963, with the signing of the Ankara Agreement. This agreement, which came into effect on December 1, 1964, foresaw Turkey's membership in the EU after the completion of three stages. These stages began with the preparation stage, preparing relations for a subsequent customs union, with financial aid given to Turkey and quotas placed on some Turkish agricultural products. The strengthening of the Turkish economy was planned with the establishment of one-sided obligations on the EU. Although this stage was originally planned to last five years, in reality it took seven years to complete.

On January 1, 1973 the transition stage went into effect. During this period, reciprocal obligations were planned, concluding with the establishment of a customs union covering the trade of industrial products. Due to extraordinary circumstances, this period was lengthened from the original 12 years to 22 years, and is planned to end with the transition to a customs union in 1995. The final stage of the Ankara Agreement will include the negotiation of terms for Turkey's full membership in the EU.

During the 1975-1980 period, EU-Turkey relations reached a low point due to the

HISTORICAL DEVELOPMENT OF TURKEY-EU RELATIONS

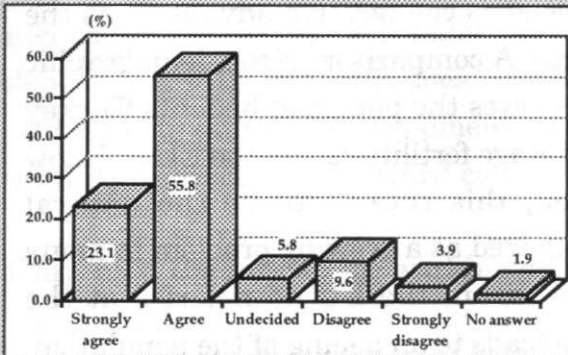
July 31, 1959	• Turkey's application for associate membership into the EEC
September 12, 1963	• Signing of the 'Ankara Agreement' between Turkey and the EEC
December 1, 1964	• Ankara Agreement goes into effect
November 23, 1970	• Signing of an Additional Protocol agreement between Turkey and the EEC
January 1, 1973	• Additional Protocol goes into effect
March 2, 1975	• Attempt to implement a one-sided restriction on textile products by the UK
1978	• Beginning of a period of bad relations between Turkey and the EC as a result of Turkey's delay in implementation of the customs tariff reduction program
December 2, 1981	• Anti-dumping by EC on cotton yarn from Turkey
July 30, 1982	• Preparation of restrictions on textile imports by EC
1981-1986	• Suspension of EC-Turkey relations
September 1986	• First meeting of EC-Turkey Association Council in six years
April 14, 1987	• Turkey's application for full membership into the EC
December 18, 1989	• Commission's response to Turkey's application and proposal to delay Turkey's full membership
February 5, 1990	• EC Council's approval of the Matutes Report on Turkey's application
September 30, 1991	• First meeting in five years between EC-Turkey Association Council and coordination of EC-Turkey relations
November 1992	• Renewal of official political relations between Turkey and the EC
July 11, 1992	• Establishment of 'One Customs Tariff' system
November 11, 1992	• EC-Turkey Association Council's announcement of agreement to put the Customs Union into effect by 1995
March 18, 1993	• Establishment of the Directive Committee
May 25, 1993	• Directive Committee's first meeting
November 8, 1993	• Announcement of a bilateral political commitment to put the Customs Union into effect and approval of the Directive Committee's program
December 10, 1993	• Continuation of negotiations on Directive Committee's work program

petroleum crisis and the political ramifications of Turkey's invasion of Cyprus. Beginning in 1978, Turkey delayed fulfillment of its obligations toward the EU. In spite of this setback, however, negotiations on a lower level between the parties were continued. While economic relations continued in the face of Turkey's coup d'etat in 1980, political relations came to a stand-still lasting until the mid-1980s.

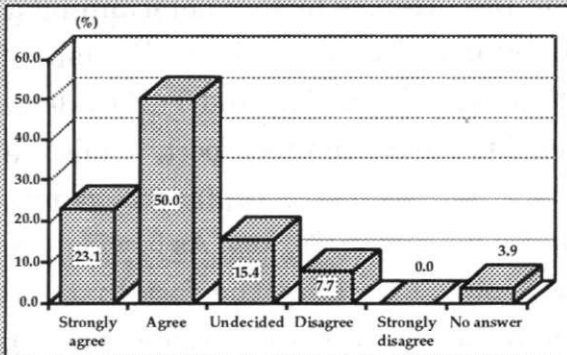
In September 1986, Turkey was readmitted to associate membership and applied for full membership to the EU on April 14, 1987. This application was subsequently sent to the Commission of European Communities, and a negative response was given on December 18, 1989. Following these developments, the Matutes Report, foreseeing the strengthening of relations between Turkey and the EC, was accepted. On November 8, 1993, the Foreign Ministers of Turkey and EU nations met, confirming the continuation of efforts for the establishment of a Customs Union in 1995.

Two outstanding problems between Turkey and the EU are the high number of Turkish workers within EU member-states and the quantity of textiles exported from Turkey to the EU. These factors, along with Turkey's negative economic indicators, dependence on the rural population and inadequate social security provisions are potential obstacles to Turkey's entrance into the EU as a full member-state.

The Turkish economy will be affected negatively due to some sectors' lack of competitiveness



The customs union will have a positive effect on the Turkish economy.



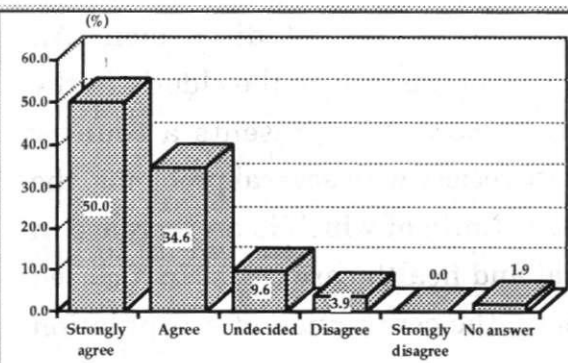
Source: RGA Managements Consultants, Ltd.

The customs union which is planned to go into effect on January 1, 1995 is a very important development for the Turkish economy. Heated discussions regarding the transition of a customs union continue as the costs and benefits to the Turkish economy are calculated. A survey analysing young Turkish businessmen's thoughts on this subject show that they believe disagreements should be laid aside and the necessary preparations made for a smooth transition to the customs union.

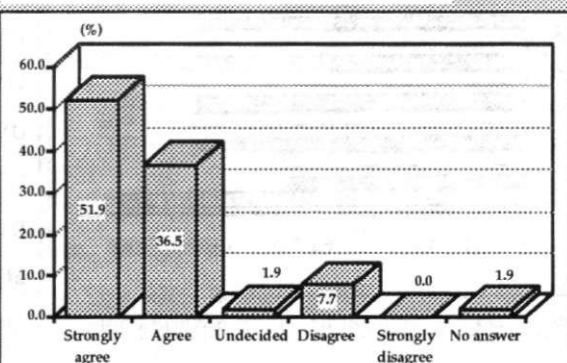
While respondents stated that Turkey should prepare itself for the customs union, the young businessmen surveyed also believe that some Turkish sectors will not be able to compete effectively in the customs union. Similarly, 84.6 percent of respondents agreed that Turkey should use its bargaining power to protect its interests in this transition stage.

At the same time that young businessmen are wary of the effects on certain sectors, 73.1 percent of respondents believe that the customs union will have an overall positive effect on the Turkish economy. While Turkish businessmen are hopeful about the effects of the customs union, they also believe that Turkey should take steps to protect the sectors which might be affected negatively by the union.

Turkey should use its bargaining power and obtain concessions from the EU in the transition to a Customs Union.



Turkey should lay disagreements to one side and prepare itself for the Customs Union.

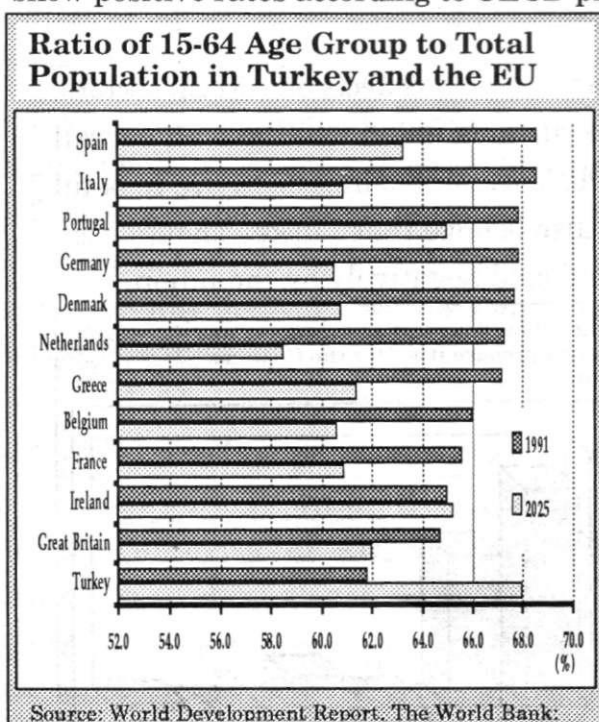


Source: RGA Managements Consultants, Ltd.

4.2. TURKEY'S DEMOGRAPHIC CONTRIBUTION TO THE EU

One of the primary factors determining a society's competitive advantage is the availability and qualifications of its labor force. A comparison of the demographic developments in the EU and Turkey demonstrates the potential benefits Turkey can lend to the EU in this aspect. While the average fertility rate of the EU is below the rate necessary to replace a generation, this rate is above the natural replacement rate in Turkey. As is widely recognized as a growing problem in many industrialized nations, the fact that births within the EU do not rise at the necessary level to replace the older generation leads to an ageing of the population. The share of the elderly in the total population increases due to higher life expectations at birth, and extending health services to bigger ratios of the public causes a greater dependency ratio of the elderly population.

The average annual rate of population growth in EU countries has been declining over the last few decades, and is predicted to fall below replacement level in the early part of the 21st century. Based on OECD projections for population growth rates until 2050, it is certain that the populations of Germany, Italy, Belgium and Denmark will decline in the next decade. In the decade between 2010 and 2020, Portugal, Greece and the Netherlands will also demonstrate this trend, while the population growth in France, Luxembourg and Spain will stagnate. In the decade between 2030 and 2040, only Ireland (0.2 percent) and Turkey (0.9 percent) will show positive rates according to OECD projections. In the following ten-year period,



only Turkey will have a positive rate of population growth. In 2005, only Turkey's working population will have grown enough to support Europe's ageing population.

The economic and social effects of a stagnating or declining population has long been a topic of discussion. An increase in the ratio of the elderly in the overall population presents a country and its society with several problems, the most definite of which is an increase in social and health care costs. In a closed society, the contraction of a population

leads to a fall in demand, reducing economic activity and creating a rise in unemployment as a steadily declining working population must finance an increasingly non-working population. While this is the case in the EU as the overall dependency ratio falls, this does not necessarily require demand to fall. The ability of the EU to continue development and keep up with industrial growth is possible with its interaction with third countries.

Currently, the ratio of the working population to that of the total population in the EU is higher than that of Turkey. Accordingly, two-thirds of the EU population is within the 15-64 age group. In contrast, Turkey's current supply of labor force is relatively low, due to the young characteristic of the population. As the population ages and the dependency ratio grows in the EU, its competitive advantage in the labor market will decrease in relation to other country blocks, specifically North America and the Far East. On the other hand, the structure of Turkey's population will be such to fill in the deficit of labor supply within this time period. In this context, Turkey's membership in the EU, while perhaps not solving some problems of demographic origin, will certainly alleviate the effects of these problems. Conclusively, in the approaching decades, the free movement of the Turkish population could be a sensible way to alleviate the effects of the negative population developments that will emerge visibly throughout the EU.

4.3. TURKEY'S ECONOMIC CONTRIBUTION TO THE EU

The Turkish Market

Market Potential: The Turkish domestic market has been in a period of tremendous change over the last decade. With stabilization of the Turkish economy, improvement and liberalization of foreign capital legislation, widened support of foreign investments and the removal of traditional bureaucratic obstacles, dynamism has characterized the developments of Turkish economic foreign relations.

The size of the Turkish domestic market provides investors with good opportunities to expand their investments, enjoying the advantages of a large market that is not saturated with domestic capital. Turkey's GDP totals over \$96 trillion, with an average annual growth rate over the last decade at 5.0 percent. Not only is Turkey's overall income among the highest in Europe and the Middle East, but it is also characterized by a high growth rate. While the average growth rate in Europe's industrialized countries stagnated around the 2 percent level in the last decade,

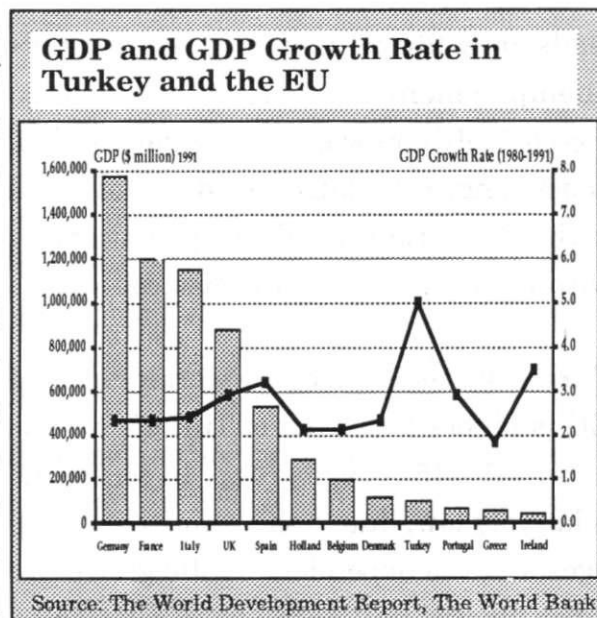
Turkey's domestic market continued to grow. The increased purchasing power of the Turkish public and the increasing consumerism in society result in a growing domestic market.

Along with the development of demand for consumer goods, the need for investment and industrial goods is also increasing steadily as Turkey requires advanced technologies to speed up its industrialization process. With the initiation of the customs union and possibility of even closer EU-Turkey

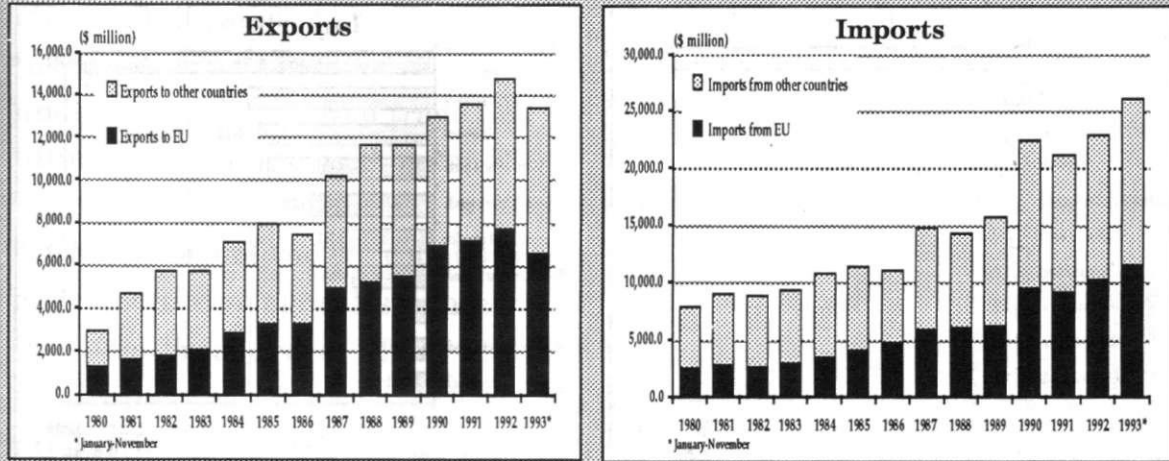
relations, the imports of these goods to the Turkish market is expected to increase, to the detriment of domestic small and medium enterprises who are not internationally competitive in these areas.

Another positive point for the EU related to technology transfer is the opportunity to transfer relatively old and unused technologies from the EU to Turkey. As the fierce competition in developed countries shortens the lifespan of technological goods to a great extent, the Turkish market offers possibilities to EU investors for marketing the technologies accepted as old by EU standards, but developed and competitive by Turkish standards.

The Southern Anatolia Project: One of the most important criterion for investment decisions is the sufficiency of infrastructure. In an effort to draw foreign and domestic investors to the underdeveloped regions of Turkey, the Southern Anatolia Project (GAP) was developed. The GAP is an integrated development project which includes investments in industry, education, health services, agriculture and infrastructure. After its completion, 1.7 million hectares of land will be irrigated and a total of 27 billion kw/h energy will be prouduced. The GAP consists of 13 main irrigation and energy projects, seven of them situated in the lower Euphrates and six of them in the Tigris valley. The development plan schedules all projects and related infrastructures to be completed in 1994. Between 1995 and 2004, the economic situation in the region will be restructured and growth boosted. Conditions for stable economic growth will have been provided by 2005 at the latest. It is expected that by the completion of the project, 1.1 million employment



EU's Share in Turkey's Trade Volume



Source: Statistical Yearbook of Turkey, SIS.

opportunities will have been created. This project offers opportunities to reduce costs, especially for foreign investors who have already entered the Middle Eastern markets or for those who wish to do so through transferring production to the region after the completion of the project.

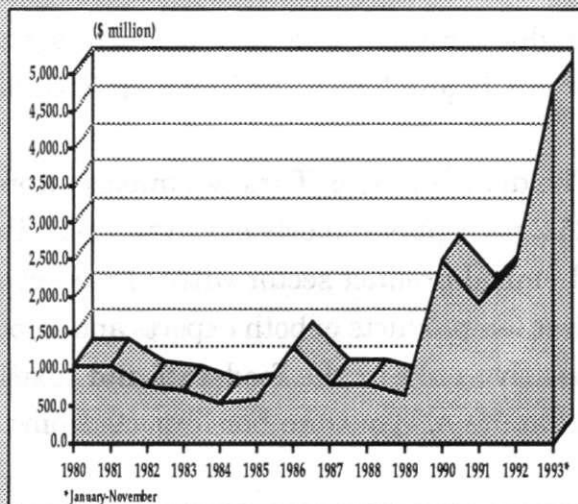
Trade Movements Between Turkey and the EU

Economic relations between the EU and Turkey have been historically good, developing even further in the 1980s with the liberalization of Turkey's economic policies and its application to become a full member of the EU. Trade movements among the EU countries and Turkey have developed continually in the last decade, remaining in a positive trend even in the early 1980s when political relations between Turkey and the EU were at a stand-still.

The EU's share in both total imports and total exports has been considerably high since the 1960s, falling below 40 percent only in the early 1980s. In the first eleven months of 1993, exports made to the EU accounted for 48.5 percent of total exports. Imports from EU countries totalling \$11.3 billion accounted for 43.5 percent of total imports.

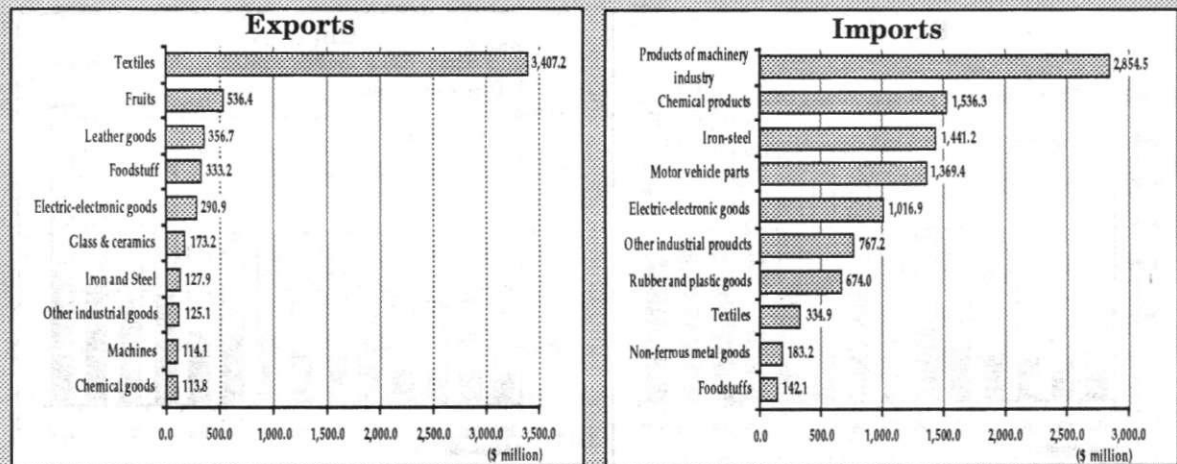
Imports made from the EU have historically been more than total exports to these countries. Turkey's trade

Turkey's Trade Deficit to the EU



Source: Statistical Yearbook of Turkey, SIS.

First Ten Products in Turkey's Trade to the EU (January-November 1993)



Source: UTFT, General Directorate of EU Coordination

balance with the EU has grown significantly in the last decade, primarily as a result of the liberalization and opening of Turkey's economy. This trade deficit is predicted to widen even further especially in industrial products as the Customs Union between Turkey and the EU goes into effect. In the first eleven months of 1993, Turkey's trade deficit to the EU totalled \$4.8 billion.

The composition of Turkey's exports to the EU has gradually shifted from primarily agricultural products in the early 1980s to industrial products. While 51.1 percent of Turkey's exports to the EU were agricultural products in 1980, this rate dropped considerably to 15.1 percent in 1993. Although Turkey's total balance of foreign trade with the EU is negative, the balance of agricultural and food products trade is positive.

Woven and textile goods have historically made up Turkey's most important export items to the EU, with 52.3 percent of exports to these countries being textiles. The product group in second place is fruits, making up 8.2 of exports to the EU. Leather products and foodstuffs make up 5.5 and 5.1 percent of exports respectively.

The distribution of Turkey's imports from the EU is more diverse than its exports. 25.2 percent of imports are in the machine industry product sector, followed by the chemical product sector with 13.6 percent. Of the industries that are listed as the first ten products of both exports and imports with the EU, Turkey's trade balance is positive only in the foodstuff and textile sectors. Exports of fruits and glass & ceramics also outnumber imports from the EU.

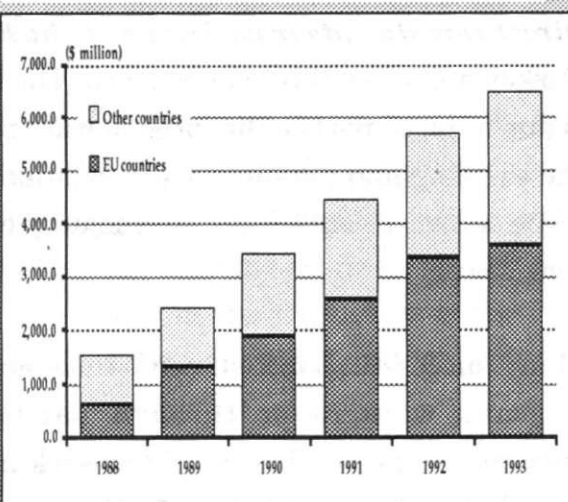
The fact that Turkey's agricultural exports to the EU outnumber its imports despite

the protectionist measures of the EU market indicates that Turkey would take greater part in international trade under conditions of free trade and the lifting of quotas imposed by the EU.

Turkey is one of the six countries that can meet its own agricultural needs with its own resources. The climatic conditions in Turkey enable the production of agricultural products which are scarce or cannot be produced in the EU, increasing overall production of products such as seeds, corn, lentils,

chick-peas, soya, fresh and citrus fruits. The EU is presently not self-sufficient in the production of these, and with the free trade of Turkish goods can become fully or nearly self-sufficient in the production of these goods.

EU's Share in Foreign Investment in Turkey



Source: Statistical Yearbook of Turkey, SIS.

Foreign Investment

An increase in welfare between two countries can be achieved not only through the intensification of direct trade relations between the two, but also through trade expansion with third countries when one of the countries transfers its trade revenues to the other in the form of direct investments.

Direct Investments from the EU to Turkey: The direct investment of EU firms in the Turkish market has increased in the last decade along with the general increase in overall foreign direct investment. Both the added opportunities given to foreign investors and the general development of possibilities in the Turkish market have played important roles in the development of direct foreign investment.

At the end of January 1994, there were 1,119 firms incorporating foreign capital originating in EU countries operating in Turkey, making up 55.62 percent of the total foreign capital in Turkey. The 134 firms incorporating foreign capital originating in France make France the largest single investor in the Turkish market, with a 15.69 percent share of total foreign capital. France is followed by the Netherlands (14.19 percent), Germany (8.60 percent), the UK (7.60 percent) and Italy (7.12 percent). In terms of actual number of firms operating in the Turkish market, Germany is the most active, with 463 companies of German origin

operating in Turkey.

Direct Investments from Turkey to the EU: The flow of direct investment between Turkey and the EU is not one-sided. The interest of Turkish firms in the EU market is due in large part to the large market potential, sophistication of the market, and the existing and potential close relations between Turkey and the EU. Although scope of investments differ, the majority of Turkish investments in the EU are in the services sector.

Many successful Turkish companies are set up either by self-employed Turkish migrant workers or through partnerships between these self-employed entrepreneurs and Turkish firms seeking partners in Europe to make use of their knowledge of the market. In 1991, it was estimated that there were close to 33,000 such Turkish entrepreneurs in Germany, creating 115,000 employment opportunities and with an annual income around 23.4 billion DM. In addition to these companies, there are other forms of investment originating directly from Turkey. These are firms that are generally established as agencies of large Turkish trade companies. The number of this type of direct investment is expected to rise with the implementation of the upcoming customs union and the further development of EC-Turkey relations.

In a survey conducted among 500 Turkish firms aiming to determine the sectoral and regional preferences of Turkish investors in their investments abroad, the dominance of the EU can also be seen. 11.3 percent of firms surveyed planned to make investments abroad. The ratio of firms planning to invest in the EU market made up 25.6 percent of all the firms planning to invest in foreign markets.

4.4. TURKEY'S INTERNATIONAL RELATIONS

Middle and Near Eastern Countries

As both a Moslem and a European country, Turkey has historically functioned as a bridge between Europe and the countries of the Near and Middle East and is the future's only Moslem country in Europe. As the economic and political importance of the Near and Middle Eastern countries continues to grow, Turkey's role as both a buffer and a facilitator will become increasingly crucial.

Turkey has an active role in the Economic Cooperation Organization (ECO), which links it with Iran and Pakistan. It also plays an active part in the Islamic Conference

Organization and in Islamic politics in general.

Black Sea Economic Cooperation Zone

Turkey not only offers access opportunities to Islamic countries in the Near and Middle East, but also to the markets in the former Soviet Union. Moreover, there is a great potential for foreign trade with Eastern European countries like Bulgaria and Romania. In addition, Turkey has taken the leading role in establishing a free trade zone for economic cooperation in the Black Sea region. This trade zone includes Bulgaria, Romania and the former Soviet republics in the Black Sea area. The cooperation aims at the free movement of goods, services, capital and labor in the region, and increasing trade potential with one another.

The Turkic Republics

Apart from the Black Sea Economic Cooperation, Turkey's geographical position and cultural links with the Turkic Republics has gained increasing significance as the Southern Gateway to the former USSR. Turkish companies and foreign companies based in Turkey have built strong positions in these republics in the last few years. Turkey has become a focal point for these countries, which have shown an increasing interest in Turkey since their independence and wish to intensify their political, economic and cultural relations with Turkey.

The market potential of the Turkic Republics is especially large. Total population of the seven Turkic Republics is over 60 million. As consumer buying power and habits change, the requirements of these Republics for industrial and consumer goods and services of all sorts will continue to grow.

In conjunction, Turkey's influence in Central Asia and the Balkans continues to increase. The population of ethnic Turks living in Central Asian Republics, the Balkans, China and within the EU is estimated to be around 200 million. The positive reputation Turkey has in the region, arising from a common ethnic, cultural, religious and linguistic background will also benefit the EU as its relation with Turkey continue to develop.

CHAPTER 5

PRIVATIZATION IN TURKEY

The issue of privatization has gained importance throughout the world in the last decade, being implemented successfully in many countries. As governments withdraw from direct interference in national economies, the tendency towards privatization continues in both industrial and developing economies.

With the growing outward orientation and liberalization of the economy, the issue of privatization first gained importance in Turkey in the early 1980s. However, Turkey's efforts at privatization have not been as successful as had been hoped, and the obstacles that prevented privatization in the early 1980s still exist and continue to prevent the implementation of a successful program. The need for clearly defined goals, relevant legal framework, public relations and an effective post-privatization program have not been met by the Turkish privatization program. The combination of all of these factors has served to lengthen the privatization process and prevent the development of an environment conducive to a successful privatization program.

5.1. PRIVATIZATION PRACTICES

Goals of Turkey's Privatization Program

In general, the goals of privatization are multi-faceted, aimed at social, economic and political aspects of society. Privatization generally aims to reduce the government's intervention in the economy, decrease the negative effects of SEEs on the budget and aid in the transition to a market economy. At the privatization stage, decreasing the high ratio of the public sector in total employment, increasing the entrance of foreign capital to the national economy, and creating an income-generating source for the government are common effects of privatization procedures. In the long run, privatization breaks state monopolies, while at the same time increasing the productivity and quality of general goods and services, making the national economy more competitive overall.

The official goals of Turkey's privatization program can be grouped under five headings: the development of a competitive market mechanism and the rational distribution of resources, the minimization of the government's activities in the industrial and commercial sectors, the reduction of SEEs' burden on the economy,

the development of capital markets, and the generation of income which will be canalized towards the development of infrastructural investments.

Although the content and prioritization of the goals listed by the government are appropriate to the successful development of a privatization program, in reality these goals are far from being reached. At the political level, privatization has been used as a pawn in the public arena, and is seen more and more as an income-generating activity. The general aim is to use the income generated by privatization, not for investment purposes as stated, but to close the ever-growing public debt. This approach is derived from the common view that privatization is the only method by which the Turkish economy can be stabilized. Because of these differences in theory and practice, it is becoming increasingly difficult for a consensus on the role which privatization should play in the economy. The general public is not only ignorant of the real meaning of the privatization concept, but unaware of the potential benefits that privatization can have on the economy as well. In order for the privatization program to be successful in Turkey, it is essential that the existing views on the privatization concept be done away with and privatization become one of the integral parts of a general economic program.

Decision-Making and Administrative Organs

Council of Ministers: Before any SEE is included in the privatization portfolio, the Council of Ministers must approve its transfer to the Public Participation Administration.

High Planning Council: Before any SEE is included in the privatization portfolio, the High Planning Council must approve its transfer to the Public Participation Administration. This Council is made up of the Prime Minister, four Ministers of State and the Ministers of Finance & Customs, Agriculture & Rural Affairs, Industry & Trade, Energy & Natural Resources, Transportation and Public Works.

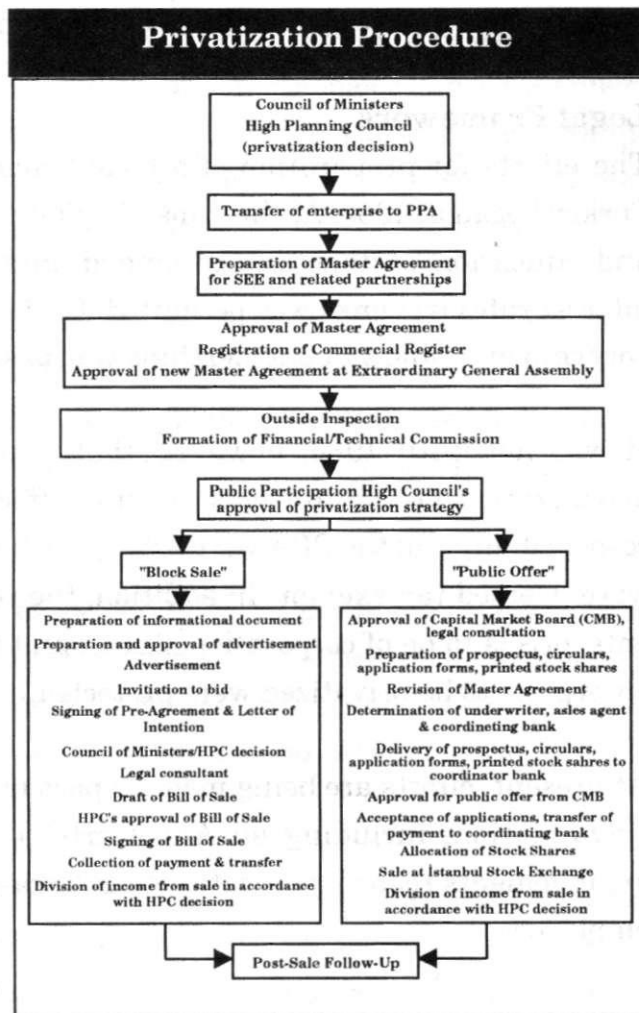
Public Participation High Council: This organ decides on and implements the privatization program, and is made up of the Prime Minister, Vice-Prime Minister, one Minister of State, the Minister of Public Works, Undersecretary of the State Planning Organization, Undersecretary of Treasury and Foreign Trade and the President of the Public Participation Administration.

Public Participation Administration (PPA): This institution is responsible for the planning and implementation of the privatization program, but must obtain

approval from the Public Participation High, Council before setting many procedures into action.

Privatization Procedures

The first stage of the privatization procedure involves the decision of the Council of Ministers and High Planning Council to add the said enterprise into the privatization portfolio. After the PPA have been informed of the decision, the enterprise is transferred to the PPA and an independent inspection firm and financial/technical consultants are selected. In this framework, the enterprise is evaluated in finance, accounting, marketing, production, personnel and management terms, a future investment plan is determined, the relevant sector and competitors are evaluated on an international level, and the enterprise is brought to a status appropriate for privatization.



Upon the completion of these procedures, the third major stage of privatization is begun. The privatization method most appropriate to the particular enterprise is chosen and the decision is communicated to the High Public Participation Council for approval.

The inadequacy of decision-making mechanisms and the PPA's lack of authority are two very important obstacles to the effective management of privatization in Turkey. Largely due to the requirement of obtaining approval from several different organs before putting anything into action, privatization procedures cannot be undertaken as rapidly as is necessary. The inadequacy of decision-making mechanisms also affects the productivity of the PPA. Although this institution is responsible for privatization in Turkey, it does not have the authority to carry out these procedures. In fact, it is very often used in political manoeuvres, with it's

management and responsibilities being changed frequently.

Legal Framework

The efforts for preparation of a legal framework conducive to privatization in Turkey began in 1983. At this time, the State's monopoly in the electric, tobacco, tea and education sectors was rescinded, and the independent determination of interest rates by banks was permitted. In 1984, a law foreseeing the transfer of the governments' share in partnerships was passed.

It was not until 1986, however, that a law including the basic structure of privatization procedures was put into effect. With this law, the authority and responsibilities of the PPA were established. Income from privatization procedures were deemed tax-exempt. In addition, the requirement for all SEEs and related enterprises to be of corporation status, and the rights of the civil servants of the enterprise to be privatized were protected.

At present, efforts are being made to pass new laws and regulations dealing with privatization, including an Anti-Cartel Law, Unemployment Insurance and arrangements regarding estates of the Terasury and protecting the rights of SEE employees.

Even with the establishment of numerous laws and regulations regarding privatization in Turkey, privatization efforts have not been put into place as successfully as had been planned. One of the most fundamental reasons behind this failure is the continued existence of laws and regulations prohibiting privatization. Governments have tried to speed up the privatization process by moving around these measures, but even these efforts have been prevented or overturned because of their unconstitutionality. At the same time, the lack of legal procedures regarding the post-privatization phase pose a problem for the success of overall privatization. The insufficiency of social insurance measures serves to ensure that government workers continue to be wary about privatization's effects on the economy.

Privatization Practices

The Turkish government began privatization efforts in earnest in 1985, creating an overall master plan. In this plan, the major goals of the privatization program are listed. The most important goal is listed as aiding Turkey's full transition to a market economy. Increasing productivity is of secondary importance, and income generation is one of the least important goals listed. Along with the establishment of

an institution responsible for privatization and the development of relevant legal framework, this plan foresaw the grouping of SEEs into three major and eight minor categories, determining the appropriate privatization methods for each group accordingly. Although this master plan and the related sectoral reports were developed specifically for the Turkish case, they have not been put into action.

Currently, SEEs are chosen for privatization according to their possession of certain characteristics. These include enterprises which: have little presence and are in competitive sectors, the government own participatory shares, are a large burden on the budget, or are similar to those already taken into the PPA portfolio.

Since 1985, 126 enterprises have been taken into the privatization portfolio. Four of these have subsequently been taken out of the portfolio, 66 have been privatized and 56 are still in the privatization portfolio. The great majority of privatizations taking place to date have been cases in which the government has a minority share in the establishment. Total income from privatization procedures totalled close to \$2.2 billion as of February 28, 1994.

Public Offer: This procedure involves the submission of the government's share and assets in enterprises to the public, inviting the public to become a partner or owner of the establishment. In short, shares of the enterprise are offered to the public. As of the end of February 1994, the shares of 17 SEEs have been offered to the public, generating \$335 million income. Government shares in eight of these establishments have been completely transferred, and government share in four of these organizations is still over 95 percent.

Block Sale: This method entails the direct sale of all or a certain percentage of the government's share in an enterprise, and is generally put into effect when the enterprise is considered too small to be offered to the public or is an uncompleted facility. 47 SEEs have been fully privatized in this manner, generating \$706 million in income. Some block sales may require the buyer to offer some percentage of total shares to the public or sell these share to employees at a later date. This method was used in the sale of four enterprises in the cement sector to a French firm in 1989, requiring atleast 40 percent of total shares to be offered to the public at a later date.

Public Offer & Block Sale: In this method, SEEs are privatized using both the Public Offer and Block Sale methods. As of the end of February 1994, the privatization of 9 firms by this method had generated \$334.8 million.

Sale at Stock Exchange: The government shares of many of the enterprises privatized in Turkey have been sold directly at the Istanbul Stock Exchange. This is a method of offering shares to the public. 27 SEEs are presently listed on the Istanbul Stock Exchange, and there are plans to open other enterprises to the public in this manner in the near future. As of March 23, 1994, \$478 million has been generated through this method of privatization.

Sale of Incomplete Facilities: The majority of these facilities are enterprises originally planned to increase employment and production in less-developed regions, but which could not be completed due to ineffective planning of finance, production or employment factors. These facilities were among the first to be privatized. As of the end of 1993, 16 of the 26 incomplete facilities planned to be privatized have been privatized, generating \$24 million.

Sale in International Markets: In early March 1994, the PPA put its shares of Tofaş Türk, a Turkish automobile manufacturer, up for sale on the international markets. This was the first such application to include sale in international markets, and as of the end of March \$330 million income had been generated through this process.

5.2. TURKEY'S UPCOMING PRIVATIZATION PROGRAM

Restructuring of the Privatization Framework

The lack of effectiveness of Turkey's privatization program is recognized, and important changes in the program and related procedures are expected to take place in the near future. Plans include the adaptation of the overall framework on which the privatization program is structured to meet the needs and requirements of the present situation. In this context, the foremost goal is to finalize the privatization of those SEEs currently included in the privatization portfolio as soon as possible. There is a requirement not only for political decisiveness, but also for the restructuring of the legal, managerial, financial and technical aspects of the privatization framework in order for the smooth development of the overall privatization program.

Redevelopment of Privatization Strategies: In the context of the new privatization program, the basic goal of privatization in Turkey is seen as the transformation of inprofitable and/or underproductive public sector establishments to profitable and

productive private sector companies. Reduction of public expenses and a fair distribution of wealth are considered secondary goals. To achieve these goals, certain tenets have been developed, some of which are the establishment of social security procedures to reduce the effects of privatization on the workforce, the development of privatization procedures specialized for each particular establishment, the careful determination of each establishment's real value.

Legal Framework: The restructuring of the legal framework regarding privatization is essential to the efficient and effective development of the privatization program. In this context, strengthening of the PPA's authority and responsibilities, solving potential employment problems resulting from privatization and the development of a relevant anti-trust law are procedures planned for the near future. Efforts to pass the necessary legislation continue.

Reorganization of the Public Participation Authority: Restructuring of the Turkish privatization program includes the reorganization of the PPA. Present plans include minor organizational changes which will suffice until legislation required for an overall restructuring is put into place. The development of a 'Public Participation Fund' to manage the income generated through privatization and alleviate some of the ensuing problems such as unemployment insurance and social

services for former SEE employees is one of the procedures planned. Another important change is the establishment of a 'coordinating unit' which will undertake the management and supervision of establishments which are included in the privatization portfolio but have not yet been privatized.

Predicted Revenue from Turkey's Upcoming Privatization Procedures (1994-2001)

	(\$ million)
Türk Telecom (Telecommunications)	15,000
TEK (Electricity)	5,000
Others	3,000
TÜPRAŞ (Petroleum)	2,000
Türk Şeker (Sugar)	2,000
Sümer Holding	2,000
POAŞ (Petroleum distribution)	1,000
Erdemir (Iron-steel)	1,000
THY (Airline)	1,000
TURBAN (Tourism)	1,000
PETKİM (Petro-chemicals)	1,000
TDÇİ (Iron-steel)	1,000
TDİ	900
Gemi Sanayi (Ship industry)	400
Gübre (Fertilizer)	200
Sümerbank (Textiles)	150
ORÜS (Forestry products)	100
EBK (Food)	100
SEK (Food)	50
YEM (Grain)	20
TOPLAM	36,920

Privatization Plans

Efforts for the restructuring and redevelopment of the Turkish privatization program and the determination of medium and long-term plans continue. In the interim, a short-term program for 1994 and 1995 has been developed in coordination with long-term plans and subsequently put into effect. In

this short-term program, establishments to be privatized have been divided into first and second-priority groups. Some of the sectors included in the first-priority group

include telecommunication, electricity, banking and insurance, mining and fertilizer sectors. Through the privatization of establishments currently included in the privatization portfolio and the further inclusion of other SEEs into the portfolio, yearly proceeds from privatization are expected to be close to \$3.2 billion in 1994 and more than \$24.8 in 1995.

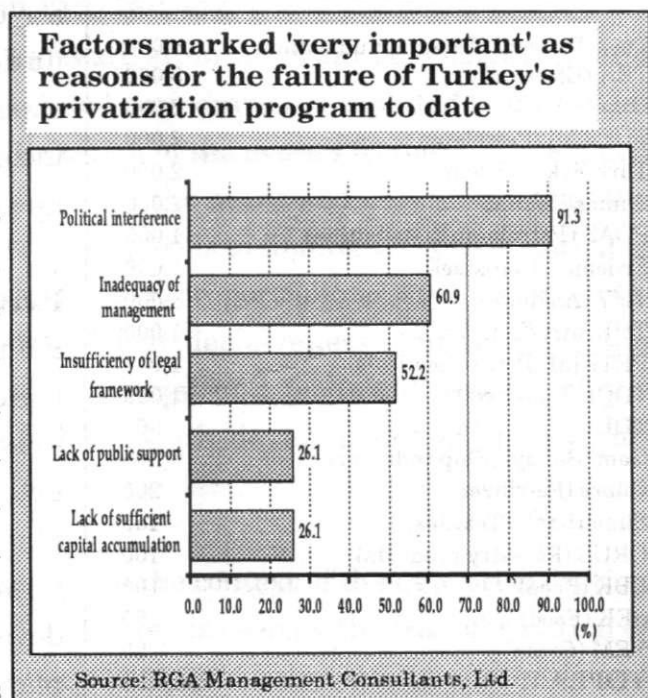
5.3. CONCLUSIONS AND SUGGESTIONS REGARDING PRIVATIZATION

The discussion of the positive effects which privatization will have on long-term economic stability and the methods most suitable to Turkey have been an important priority on Turkish governments' agendas for more than a decade. During this time period, many countries, including Eastern European and Latin American nations, have put successful privatization programs into effect. Although Turkey's economic and political environment is healthier than that of many of these countries, Turkey has not been as successful as had been hoped in the development of an effective privatization program.

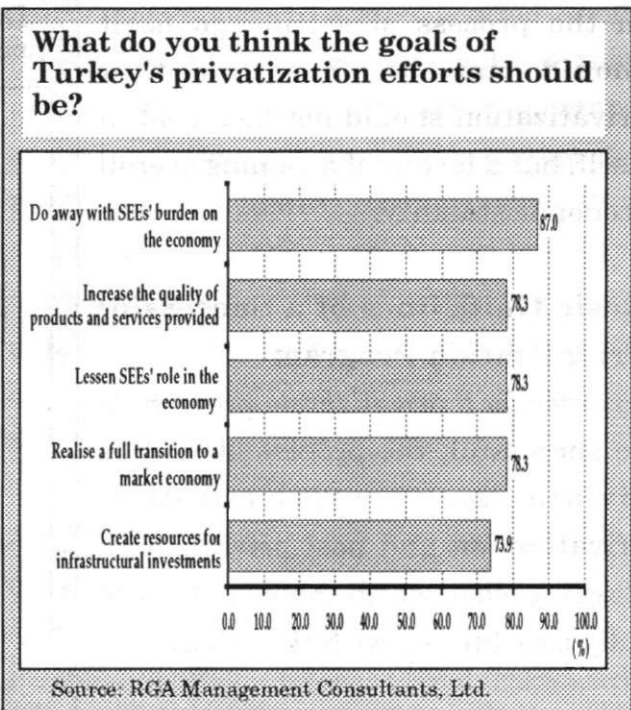
Main Reasons Behind the Failure of Turkey's Privatization Efforts

Looking at the common characteristics of successful privatization programs, the reasons for the failure of Turkey's program become readily evident. Some of these common characteristics include political determination, public support, follow-up in the post-privatization stage and the establishment of an independent institution to develop the legal framework and implement the privatization program. Just as importantly, countries successful in their efforts have treated privatization not as a goal in itself, but as an integral part of their overall economic programs.

Upon close examination, it becomes



evident that many of the above-mentioned factors essential for the success of privatization efforts have not been present in Turkey's privatization program as is supported by a survey conducted among young businessmen in Turkey. Young businessmen were asked which factors they believed to be important barriers to the success of Turkey's privatization program. The overwhelming majority (91.3 percent) marked political interference as a very important reason for the failure of the program to date, showing that, rather



than being determined to implement the program, the political arena is quite indecisive about this matter. Inadequacy of management of the privatization program was believed to be an important barrier by 60.9 percent of respondents, indicating the absence of an effective privatization institution. In close relation to this factor is the inadequacy of the present legal framework, considered a very important barrier by 52.2 percent of respondents. The fact that quite a few of the privatization applications that have been implemented in Turkey have been deemed unconstitutional after implementation has taken place is a prime example of this deficiency.

Optimal Goals of Privatization Efforts

The ultimate success of privatization depends on the ability to put the goals of the program forward in an open and definite manner, developing the program to achieve these goals. In Turkey, unfortunately, the goals of privatization have been interpreted differently by every government that has taken up the subject, creating a definite lack of continuity. As a result, the general public has come to think of privatization as an income generating activity which is not part of the overall economic program, but a completely independent endeavour.

Ideally, a privatization program should aim to do away with the burden SEEs place on the economy, increase productivity and quality of products and services, and aid the country in the transition to a market economy. The overwhelming majority of young Turkish businessmen surveyed believe all of these goals to be very important.

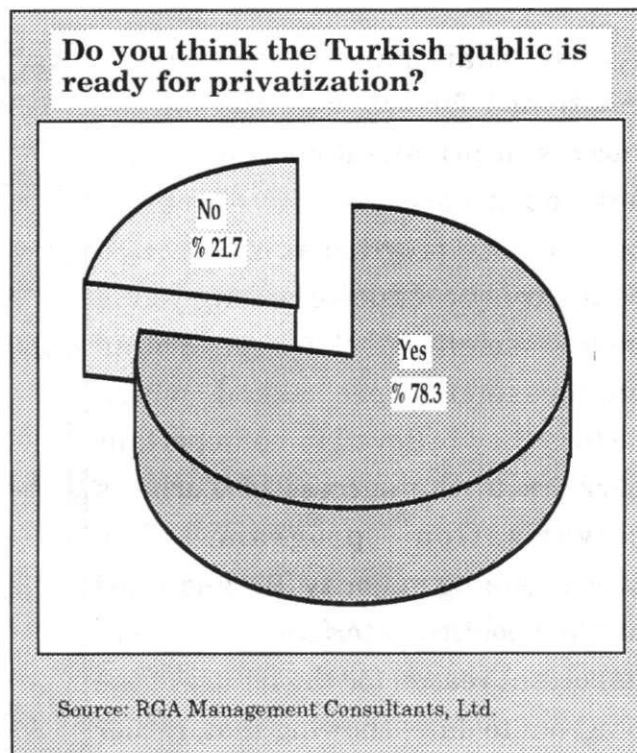
In the process of setting goals, it should not be forgotten that privatization should not be a goal in itself, but a means of attaining overall economic stability.

Basic Guidelines of a Successful Privatization Program

In order for a privatization program to be successful, the process should be divided into pre-privatization, privatization and post-privatization stages, each of which should in turn be fully coordinated with the others.

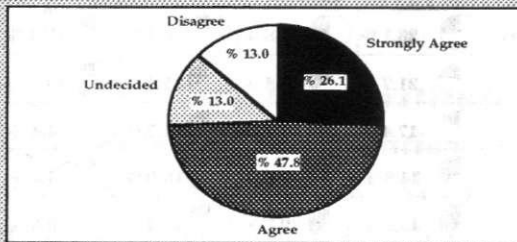
Informational Process: One of the most important barriers to successful privatization is the development of negative public opinion towards the program. For this reason, one of the most important initial steps to be taken is informing the public about the privatization process. This informational process should be carried out throughout all stages of privatization and reach out to all groups of society. The development of solutions to problems that may occur during and after privatization, and the constant interaction between the government and the public are essential. In order to be most effective, the content and context of messages to the public should vary according to the intended receiver. The general public, and especially the employees and potential buyers of enterprises to be privatized should be well-informed of the potential problems that may arise during and after privatization, and the precautions that are being taken to avoid such events. Relevant groups should be informed of developments in privatization efforts, and their support for the privatization program should be openly sought. For employees as well as potential buyers to be informed of methods to be used during privatization and the final goals of the endeavours will serve to speed up and ease the process. The privatization program should be open and transparent, and the general public should be informed of the developments in the process whenever possible.

In the Turkish case, the absence of an effective informational program has been an important factor in the inability to implement a successful privatization program. 78.3 percent of the young businessmen surveyed believe that the Turkish public is

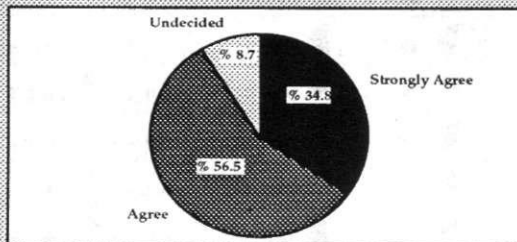


Levels of agreement to some factors that should be taken into account before privatization

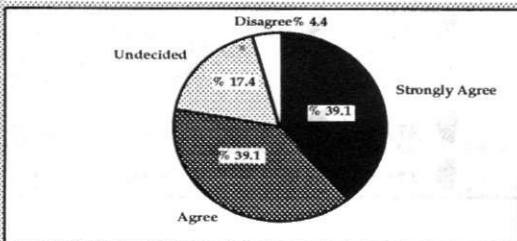
Open subject to general discussion, obtain public support for privatization program



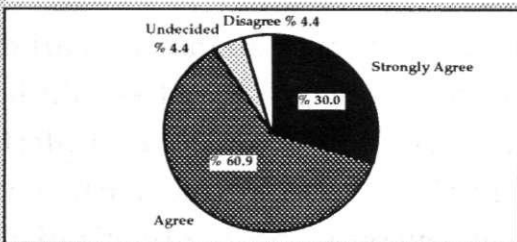
Development of social security precautions for the post-privatization phase



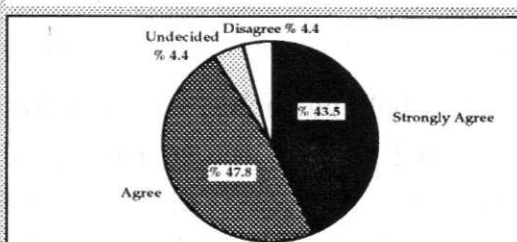
Implementation of actions necessary for the establishment of a competitive environment and the development of relevant legal procedures



Review and revision of present legal framework



Careful development of the structure of the organization responsible for privatization



Source: RGA Management Consultants, Ltd.

ready for privatization. On the other hand, 59.6 percent of respondents believe that employees of SEEs are very important obstacles to the success of the privatization program. This finding demonstrates that solutions to potential problems have not been developed, or that employees of these enterprises have not been informed of these solutions, causing them to look negatively at the privatization efforts.

Establishment of Legal Framework: The existence of laws and regulations supporting privatization, and the establishment of a relevant legal framework are important factors in the success of the overall privatization program. Before the program can be put into motion, existing laws and regulations preventing privatization should be reviewed and revised, and a comprehensive privatization law prepared. The development of social security laws and regulations pertaining to the post-privatization phase are important parts of this activity. In conjunction with these measures, actions should also be taken to ensure the swift transition to a market economy.

The absence of an appropriate legal framework and the inability to revise existing laws and regulations have prevented the execution of an effective privatization program in Turkey. Even though privatization efforts began many years ago, the sale or privatization of many enterprises have been delayed because of ensuing legal problems. The establishment

of an appropriate legal framework is essential to the success of Turkey's privatization program.

Privatization Stage: The most essential factor to be considered during the privatization stage is the careful selection of appropriate privatization methods in an open environment. The enterprises to be privatized and privatization methods should be chosen according to the sector size, strategic importance and other essential characteristics of the particular enterprise. Reasons for these decisions should also be given, and information should be given on sale and post-sale procedures.

Young businessmen's thoughts on the privatization of SEEs in various sectors

	Should be privatized immediately	Should be privatized	Undecided	Should not be privatized
Postal Services	26.1 %	56.5 %	8.7 %	8.7 %
Telecommunications	26.1 %	47.8 %	8.7 %	17.4 %
Energy	21.7 %	34.8 %	31.4 %	13.0 %
Petroleum products	17.4 %	56.5 %	21.7 %	4.4 %
Railways	34.8 %	47.8 %	13.0 %	4.4 %
Iron-steel	43.5 %	39.1 %	17.4 %	0.0 %
Mining	17.4 %	65.2 %	13.0 %	4.4 %
Maritime	30.4 %	65.2 %	0.0 %	0.0 %
Food	43.5 %	52.2 %	8.7 %	0.0 %
Forestry products	26.1 %	34.8 %	13.0 %	26.1 %
Cement	39.1 %	60.9 %	0.0 %	0.0 %
Liquor and tobacco	47.8 %	39.1 %	8.7 %	4.4 %
Fertilizer	30.4 %	52.2 %	13.0 %	4.4 %
Ready-ware	56.5 %	43.5 %	0.0 %	0.0 %
Paper	39.1 %	52.2 %	8.7 %	0.0 %
Banking & insurance	65.2 %	34.8 %	0.0 %	0.0 %
Petrochemistry	26.1 %	47.8 %	26.1 %	0.0 %
Tourism	47.8 %	52.2 %	0.0 %	0.0 %
Textiles	47.8 %	52.2 %	0.0 %	0.0 %

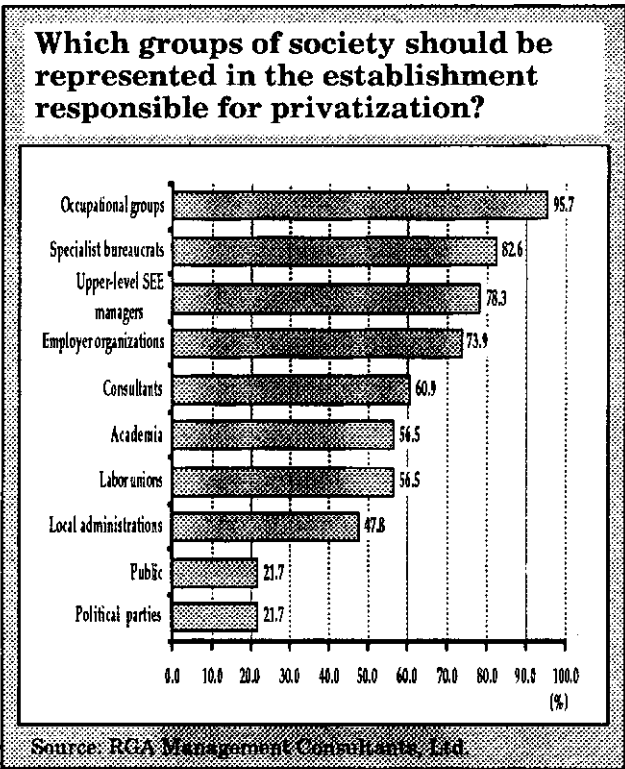
It is particularly essential that the post-privatization stage be an integral part of the privatization program. Enterprises that have been privatized should be followed, making sure that conditions previously agreed upon are put into effect. Such follow-up activities will not only ensure the success of that particular privatization, but at the same time help to break any resistance to privatization. Incentive measures should be taken not only at the privatization stage, but after privatization takes place as well.

Young businessmen were asked which sectors they believe should be given first priority during privatization. While respondents believe that enterprises in all sectors listed should be privatized, the banking & insurance, ready-ware, liquor & tobacco and food sectors were thought to be given the highest priority during

privatization. Although not to a very great extent, some respondents believe that establishments in the forestry products, telecommunications and energy sectors should not be privatized.

Structure of the Institution Responsible for Privatization:

The presence of an institution fit to carry out all aspects of the program is essential for the success of a comprehensive and effective privatization program. This establishment should be independent from political interference, have the power to implement relevant decisions, and be formed with the participation of relevant groups of society.



The institution currently responsible for privatization in Turkey does not possess the characteristics required for successful privatization. One of the most pressing deficiencies is the lack of effective control mechanisms. Various groups and agencies have decision-making authority, creating a great deal of confusion. The PPA, which is responsible for privatization but does not have the authority to carry out the program, is subject to political interference. In fact, six different presidents have been appointed to the head position of this institution since its establishment of 1984.

The lack of participative management in the privatization process is an important obstacle to the success of the program. Young businessmen surveyed believe that participative management is essential to the success of the PPA. Occupational groups, specialist bureaucrats, upper-level SEE managers, employer organizations, consultants and labor unions are among the groups they believe should be represented in this institution.

REFERENCES

CHAPTER 1: EMPLOYMENT IN TURKEY

- *Altıncı Beş Yıllık Kalkınma Planı*, SPO.
- *1994 Yılına Girerken Türkiye Ekonomisi*, TÜSIAD.
- *Statistical Yearbooks of Turkey*, SIS.
- *Türkiye Ekonomisi İstatistik ve Yorumlar*, SIS.
- *World Development Report*, 1993, The World Bank.
- *Yearbook of Labour Statistics*, 1992, ILO.

CHAPTER 2: ENTREPRENEURSHIP AND THE ENTREPRENEURIAL ENVIRONMENT IN TURKEY

- Boissevian, Jeremy and Hanneke Grotenberg (1987). "Ethnic Enterprise in the Netherlands," in Goffee, Richard and Richard Scase, (eds), *Entrepreneurship in Europe: The Social Processes*, London: Croom Helm.
- Dailey, Charles A. (1971). *Entrepreneurial Management*, London: McGraw-Hill Book Co.
- *Ekonomik Kalkınmada Girişimciliğin Önemi ve Değişen Girişimci Nitelikleri*, TÜGIAD, Şubat 1993.
- Goffee, Richard and Richard Scase, eds. (1987). *Entrepreneurship in Europe: The Social Processes*, London: Croom Helm.
- Greenfield, Sidney M. and Arnold Strickon, eds. (1986). *Entrepreneurship and Social Change*, London: Society for Economic Anthropology.
- Göl, Gül (1988). *Türkiye'de Girişimcilik ve Girişimciliğin Turizm Sektöründe Değerlendirilmesi*, unpublished Master's Thesis.
- Johannisson, Bengt (1987). "Entrepreneurship in a Corporatist State: the Case of Sweden," in Goffee, Richard and Richard Scase, (eds), *Entrepreneurship in Europe: The Social Processes*, London: Croom Helm.
- Kao, John (1989). *Entrepreneurship, Creativity & Organization*, London: Prentice-Hall International.
- Kilby, Peter, ed. (1971). *Entrepreneurship and Economic Development*, London: The Free Press.
- Klandt, Heinz (1987). "Trends in Small Business Start-up in West Germany," in Goffee, Richard and Richard Scase, (eds), *Entrepreneurship in Europe: The Social Processes*, London: Croom Helm.
- Loutfi, Martha F. (1991). "Self-employment Patterns and Policy Issues in Europe," *International Labour Review*, 130: 1-19.
- Milne, Tom and Marcus Thompson (1986). "The Infant Business Development Process," in Scott, Michael and Allan Gibb (eds), *Small Firms Growth and Development*, London: Gower Publishing.
- Müftüoğlu, M. Tamer (1989). *Türkiye'de Küçük ve Orta Ölçekli İşletmeler*, Ankara: Ankara Üniversitesi.
- Sanyal, Bishwapriya (1991). "Organizing the Self-employed: The Politics of the Urban Informal Sector," *International Labour Review*, 130: 39-55.
- Scase, Richard and Robert Goffee (1980). *The Real World of the Small Business Owner*, London: Croom Helm.
- Scott, Michael and Allan Gibb, eds. (1986). *Small Firms Growth and Development*, London: Gower Publishing.
- Sharma, S.V.S. (1979). *Small Entrepreneurial Development in Some Asian Countries: a Comparative Study*, New Delhi: Light & Life Publishers.
- Staley, Eugene and Richard Morse (1965). "Developing Entrepreneurship: Elements for a Program," in Kilby, Peter, (ed), *Entrepreneurship and Economic Development*, London: The Free Press.
- *Türkiye'de Girişimcilik ile İlgili Sorunlar ve Çözümler*, TÜSIAD, İstanbul, 1987.
- *Türkiye Ekonomisi İstatistik ve Yorumlar*, SIS.
- Uludağ, İlhan ve Vildam Serin (1991). *Türkiye'de Küçük ve Orta Ölçekli İşletmeler*, İstanbul: ITO.
- *Yearbook of Labour Statistics*, 1992, ILO.

CHAPTER 3: FOREIGN INVESTMENT

- *1994 Yılına Girerken Türkiye Ekonomisi*, TÜSIAD.
- *21. Yüzyıla Doğru Türkiye: Geleceğe Doğru Bir Atılım Stratejisi*, TÜSIAD, 1991.
- *An Investment Guide to Turkey*, YASED, September 1992.
- *Investing in Turkey*, GDFI, May 1993.
- *Statistical Yearbooks of Turkey*, SIS.
- *Türkiye Ekonomisi İstatistik ve Yorumlar*, SIS.
- *World Development Report*, 1993, The World Bank.

CHAPTER 4: TURKEY AND THE EU

- *1994 Yılına Girerken Türkiye Ekonomisi*, TÜSIAD.
- *Aurupa Topluluğu ve Türkiye ile İlişkileri*, İTO, 1990.
- *Statistical Yearbooks of Turkey*, SIS.
- *Türkiye Ekonomisi İstatistik ve Yorumlar*, SIS.
- *World Development Report, 1993*, The World Bank.

CHAPTER 5: PRIVATIZATION IN TURKEY

- *2000'li Yıllara Doğru Türkiye'nin Önde Gelen Sorunlarına Yaklaşımlar: IV-Özelleştirme*, TÜGIAD, Şubat 1994.
- *'92 Petrol-İş*, Petrol-İş, Aralık 1993.
- *Beş Yıllık Kalkınma Planları*, DPT (I, II, III, IV, V, VI).
- *Conclusions and Recommendations of TÜSIAD Report on Privatization*, TÜSIAD, Ocak 1992.
- *Gelişmekte Olan Ülkelerde Özelleştirme Uygulamaları Sempozyumu*, TÜSIAD, Ekim 1993.
- *İstanbul Sanayi Odası Dergisi*, ISO, Aralık 1993.
- *İstanbul Sanayi Odası Dergisi*, ISO, Ocak 1993.
- *KIT'lenme ve Özelleştirme*, MÜSIAD, Ekim 1993.
- *KIT'lerin Özelleştirilmesi ve Dünya'daki Örnekler*, İTO, 1989.
- *Özelleştirme: KIT'lerin Halka Satışında Başarı Koşulları*, TÜSIAD, Mayıs 1986.
- *Statistical Yearbook of Turkey*, SIS.
- *Türkiye İstatistik Cep Yıllıkları*, DIE (çeşitli sayılar).
- *Türkiye Ekonomisi İstatistik ve Yorumlar*, DIE (çeşitli sayılar).
- *V. Beş Yıllık Kalkınma Planı Öncesinde Gelişmeler 1972-1983*, DPT, Ocak 1985.
- *VI. Beş Yıllık Kalkınma Planı Öncesinde Gelişmeler 1984-1988*, DPT, 1990.
- *Yıllık Programlar*, DPT (çeşitli sayılar).