The economic emergence of Turkey

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A modern history of the Turkish economy

A democratic government since 1923, Turkey is the oldest “democracy” in the region. Turkey boasts the only secular form of governance in the Moslem world. Nestled in the Fertile Crescent and the cradle of civilization, Turkey is strategically positioned at the crossroads of Europe, the Middle East, the Black Sea region and the Turkic-speaking republics of central Asia. By virtue of geography, it is the historical gateway from the ancient Silkroads to today’s new markets. Due to its strategic positioning, the onset of globalization is propagating Turkey as a cultural, commercial and political intermediary in the region as well as the world. George Melloan, an editor for The Wall Street Journal, noted “Nothing can be more important to the political stability of all of Europe than having a strong, democratic Turkish government anchoring that dangerous region between the Balkans on one side and on the other, the Middle East and the Turkic peoples of the former Soviet empire” (Ticknor, no date).

While having a strong historical affinity and ethnic ties with the Moslem world, post World War I Turkey witnessed a rebirth of diplomacy with the West. The overthrow of Sultan Mohammed VI in 1923 ushered in an ongoing rapport and parastroika with Western businesses (Powell et al., 1975). After the end of the Cold war[1], European points of risk and instability shifted from the venerable iron curtain to the Balkans and the Caucasus.

Turkey plays a pivotal role as a stable medium for trade in this turbulent region. Currently, Turkey is deemed as one of the most industrialized and economically sound nations outside of America, Western Europe and Japan.

At the turn of the last decade, the language of Turkey’s commercial legislation moved from rigid isolation to an open market approach in the private sector. Major strides, such as the amended Foreign Investment Law[2], were taken to revamp conditions for entry and operations by foreign and domestic ventures by completely dismantling bureaucratic barriers and streamlining procedures based on a thorough deregulation effort. The seventh Five-Year Development Plan of Turkey encompassing 1996-2000 was
enacted to reinforce the overhaul of the Turkish economy. Reformation of the public sector through the aforementioned legislation, an intensive privatization program and a trade alliance with the EU have significantly contributed to the makeover of the Turkish economy as one of the arguably most open and internationally integrated markets in the world.

The Turkish economy today

In 1980, the Turkish Government embarked upon a series of reforms designed to accomplish the following: remove price controls and subsidies, lessen the role of the public sector in commerce, emphasize growth in the private sector, stimulate private investments and savings, liberalize foreign trade, reduce tariffs, ease capital transfer exchange controls, privatize the Central Bank and reform the taxation system. The three major objectives of these new policies and programs were:

1. minimize state intervention;
2. establish a free market economy; and
3. integrate the Turkish economy with the world economic system.

To achieve these three directives, the Foreign Investment Law was modified to a more liberal and flexible setting for international interests. As a result of new policies, the Turkish Lira became an almost fully convertible and acceptable currency. In order to comply with EU entrance membership, duties were reduced from 11 per cent to 4 per cent (Robb, 1998). Further, the new language put foreign investors on an equal footing with domestic rivals. Thus, the transfer of capital, royalties and profits were no longer subject to fee or scrutiny.

In 1994, the Turkish economy contracted by 6.1 per cent due to large public sector deficits, rapid increases in foreign and domestic stocks, a high inflation rate and negative developments in foreign markets. In 1995, the growth rate of the Turkish economy recorded 8 per cent by the impacts of positive developments in the global economic environment. In spite of the political instability in 1996, the economic performance improved and the growth rate was an impressive 7.1 per cent. GNP in 1997 reached approximately US $196 billion[3], resulting in GNP per capita around $3,000. Further, merchandise exports, excluding shuttle trade, increased by 13 per cent and reached $26 billion. Total imports increased by 11.3 per cent in 1997 and reached $48.6 billion (see Figure 1) (Turkish Republic Prime Ministry State Institute of Statistics, no date). As of the January-September period of 1998, increases in the wholesale price index (WPI) realized a gain of 39.8 per cent in contrast to the 60.9 per cent gain in the same respective period of 1997. In addition, the January-September period’s consumer price index (CPI) decreased to 48.6 per cent versus 63.9 per cent in the previous year (Turkish Republic Prime Ministry State Planning Organization, 1998). The rate of unemployment increased slightly from 6.0 per cent in 1996 to 6.4 per cent in 1997 (Turkish Republic Prime Ministry State Institute of Statistics, no date, p. 4).

The capital markets and Istanbul Stock Exchange

The capital markets in Turkey have undergone a considerable degree of promising changes in the past decade. Liberalization and market orientation have been the dominant and leading factors shaping the system. One of the crucial first steps taken in this period has been the stimulation of the capital markets by setting a new regulatory framework. This body of regulatory framework was designed to fabricate an effective and healthy open market system. In 1986 this led to the open market “Istanbul Stock Exchange.” In 1989, regulations governing capital mobility by foreign investors was revised to allow non-residents to purchase securities under the premise of diversified portfolio investment versus direct foreign investment. Thus, under the present regulations there are no restrictions on transactions levied by foreign investors. The stock and bond markets are open to foreign investors with guaranteed repatriation of proceeds. In 1994, the Istanbul Gold Exchange was opened as part of the reorganization effort of Turkey’s gold markets. This reorganization entailed the development of fund-transferring mechanism within the financial system.
The banking system

The Turkish banking system traditionally occupied an important position in the financial system. This system is based on a universal banking framework that legally authorizes commercial banks to service various kinds of activities in financial markets. Although Turkish banks are granted a wide range of permissible activities, they are not allowed to engage in trading of goods and real estate for commercial purposes. Investment banking in Turkey originated in the mid-1980s and concentrates on corporate finance, foreign exchange, underwriting of securities, engaging in mergers and initial public offerings. The development banks provide medium term finance to industry and channel government funds to sectors that have priority for the government. The existence of foreign banks is a reflection of the progressive internationalization of Turkey’s financial system. Despite their small market share, foreign banks have an important place in the Turkish banking system because of the concepts and practices they have introduced. Turkey’s aim is to develop its regulations in line with EU standards. As a result, the banking authorities have placed increasing emphasis on ensuring that regulations are in harmony with finance and trade regulations according to EU directives.

Prospects for 1999 and beyond

The macroeconomic performance of the Turkish economy in the past three years can best be described as strong output growth backed by fiscal expansion and an accommodating monetary policy. In this process, price increases accelerated significantly, while the primary budget balance turned into a deficit. Taking into account these unsustainable developments, the government decided to embark upon a three-year structural adjustment and stabilization program initiated at the beginning of 1998. The aim of this program is to curb inflation down to a single digit level by the year 2000, simultaneously ensuring sustainable growth. Moreover, to ensure growth, the government must bring the fiscal deficit down to a manageable level within the next five years. The program emphasizes the importance of maintaining a budget surplus in order to reduce inflation. Fiscal consolidation is complemented and supported by key structural reforms. Given the proposed adjustment on the primary public balance, the growth of total domestic demand is expected to decelerate to 2.7 per cent in 1998. On the external balance side, goods exported are expected to increase by 11.5 per cent and reach US$29 billion. Imports are expected to increase by 8.7 per cent and reach US$50 billion during the same time period (Turkish Republic Prime Ministry State Planning Organization, 1998, p. 3).

Foreign investments in Turkey

The early 1950s mark the origins of modern foreign capital investment in Turkey. The cumulative foreign investment between 1954 and 1979 was only US$228 million. As of September 1998 the amount soared to an astounding US$1.2 billion in total (see Figures 2 and 3) (Turkish Republic Prime Ministry Undersecretariat of Treasury, 1998). Turkey’s stance on foreign investment has
become increasingly open and aggressive. In the last 15 years the Turkish government considered foreign capital an essential factor in its efforts to rank among the top economic powers of the world by the end of the 20th century. Currently, foreign investments in Turkey are within the scope of authority of the Under Secretariat for the Treasury and Foreign Trade, General Directorate of Foreign Investment (FID). The minimum investment amount for foreigners investing into Turkish securities is US$50,000 (Ogut and Luktisch, no date, p. 1).

Results of the recent liberal foreign investment and privatization policies indicate significant increased foreign investment flows into the country. Since the mid-1980s, international investors have been taking an increasingly prominent part in the Turkish economy. All fields open to the Turkish private sector are open to foreign participation and investment without any limitation on the equity participation ration of the foreign shareholders. At present there are 4,371 foreign capital firms in Turkey. This number reflects a 10 per cent jump from 1997 figures (Ogut and Luktisch, no date, p. 6). Almost 15 per cent of the industrial output is produced by enterprises with foreign capital. In addition to The Foreign Investment Law, the Government provides a secure and protected environment for foreign capital through several bi- and multilateral agreements. These agreements include: The OECD Codes, the Investment Promotion and Protection Agreement, Agreement on Avoidance of Double Taxation and Settlement of Disputes and Investment Guarantees.

**Reasons to invest in Turkey**

Turkey, according to government reporting, offers an excellent basis for international business for three primary reasons. First, the superb access to a wide diversity of markets ranging from Western Europe, the Middle East, the Gulf, the Commonwealth of Independent States, the countries of Central and Eastern Europe, the Black Sea region and the Turkic-speaking republics of Central Asia. Turkey is conveniently connected to Europe by excellent air, sea, and land links as well as easily navigable transportation with neighboring Arab countries. Second, Turkey boasts a convincing record of development as an emerging economy poised to become a model commercial and financial epicenter for the region. Finally, the political environment suggests stability and a climate conducive to progressive open market capitalism.
Other major reasons to invest in Turkey include: a highly accepted and convertible currency (Turkish Lira), 100 per cent foreign ownership, 100 per cent repatriation of profit and dividends, foreign management, lowered tariffs and non-tariff trade barriers to conform to EU standards, vibrant financial sector, modern infrastructure, no price controls, relatively low-cost labor force, strong telecommunications network and international legal/accounting compliance. Christopher Urban, General Manager of operations Siemens-Turkey, emphasized “For us [sic], Turkey is not a large market with 63 million-odd people, but a springboard to all this region and beyond ... This is our Eurasian dream” (Munir, 1996).

Commercial and financial center in the region
In the last decade, Turkey has emerged as a prominent commercial and financial center in the region. Turkey played a pivotal role in establishing the Black Sea Economic Cooperation Zone (BSECZ). The BSECZ is a powerful regional market composed of 400 million plus people from countries bordering or near the Black Sea to include: Bulgaria, Romania, Moldavia, the Ukraine, Georgia, the Russian Federation, Greece, Albania, Armenia and Azerbaijan. As emphasized previously, Turkey enjoys a financially and geographically sound location with key transits points crossing Eurasia. This has provided additional leverage and support for commerce. Finally, Turkey has several key trade agreements with the EU and all other major first tier nations, which promote open and strong trade relations.

The big emerging market (BEM)
The US Commerce Department (USDOC) designated Turkey as one of the ten “Big Emerging Markets” and expects Turkish imports to grow an average of 15 per cent per year through the year 2000. All things being equal, Turkey’s turn of the century imports are projected at approximately $60 billion. According to 1997 figures, Turkey’s import market is over $46 billion annually and growing steadily. The USDOC identified several key industry clusters as “Big Emerging Sectors” intrinsic to Turkey to include: information technologies, transportation, energy technology, health care and financial services. Opportunities for American companies in these sectors are significant and expanding rapidly.

Secure investment environment
Turkey is a stable democracy[4] and a secular parliamentary republic with a proven commitment to international cooperation. Turkey strives for political stability through membership in a variety of international organizations that promote democracy and international order. Turkey charters membership through: the UN, NATO, IMF, the World Bank, OECD, GATT, EFTA and the International Finance Corporation. In addition to membership to the most politically stable and legitimate organizations, Turkey makes every effort to secure and protect all capital inflows and outflows. This is accomplished through various bi- and multilateral agreements to include the Investment Protection Agreements and Avoidance of Double Taxation Agreement. In 1993, Turkey signed a free trade agreement with the European Free Trade Association (EFTA) to promote the “New Turkey”. (Kegley and Wittkopf, 1993) It is a member of the Organization of the Islamic Conference and of the Islamic Development Bank. Finally, Turkey has agreements with the International Center for Settlement of Investment Disputes (ICSID) and Multinational Investment Guarantee Agency (MIGA).

Growing domestic market
Turkey’s growing domestic market is comprised of 63 million people, 50 per cent under the age of 30. In regard to significant demographic indicators, Turkey has a 3 per cent fertility rate, 89 per cent primary school educated and 51 per cent urbanization rate. Turkey is a good market for raw materials and industrial machinery. Further, as per capita ideally increases; there exists an excellent new market potential for consumer products. Target markets in major cities include a wealthy entrepreneurial Western-oriented upper class complementing a sizable and expanding middle-class. These segments are becoming major consumers of imported goods and services.

Lucrative enticements for investors
Turkey offers lucrative investment and export incentives to potential investors. Investment incentives are granted depending on the
different locations of the country. Some of the investment incentives provided are: custom duties and fund exemption, subsidized credit facilities, energy incentive in priority development regions, land allocation, exemption from building and construction taxes and a corporate tax exemption. In addition to the aforementioned, investors can benefit from additional tax deferrals. Research and development expenditures as well as energy incentives are available. Turkish-foreign investor export incentives include: tax duty exemption, export credits through the Export/Import Bank, pre-shipment export credits, revolving export credits and buyers’ credits.

**Industrial belts**

Industry accounts for approximately 28 percent of the GNP. The government designated several regions throughout the country for investment under a new program dubbed “Industrial Belts.” Twenty industrial regions are currently operational. A further 19 belts are under construction or are at the planning stage. The industrial belt scheme offers lucrative advantages to include: investment allowance, customs, duties and fund exemption, subsidized credits, government support for foreign credit security letter and finally, allocation of public land to investors (*Global Finance*, 1997a, p. 140).

**Strong and sustained commitment to privatization**

The privatization program was initiated in the mid-1980s to minimize state involvement in the economy. This program was achieved by confining the role of the state to the following functions: health, education, social security, national security, large-scale infrastructure investments and to provide a suitable legal environment for free enterprise. The government will sell all its equity holding in joint stock companies to release capital to the free market. The Turkish privatization campaign provides an estimated $40 billion to investors (*Global Finance*, 1997b, p. 1).

Government holdings in telecommunications, air transport, textile, iron, tourism, food processing, cement, retailing, banking, electric generation, petrochemicals and oil sectors will be sold as block sales to both foreign and domestic traders. Since 1985, a total of 159 companies have been taken into the privatization portfolio. As of 1986, privatization implementations have gained momentum and 121 companies were privatized either via sale of shares or asset sale. In 102 of the transitory privatization concerns, no state shares were left.

Although Turkey’s privatization goals have proceeded slower than expected, Turkey’s economy is still on the upswing. From 1986 to 1996, the government realized an increase in net revenues of approximately US$3.2 billion. In order to facilitate the transition to a free market economy, the government devised a privatization portfolio. This portfolio covers a wide range of product and service industries, which include some of the nation’s largest firms. Currently, there are 48 companies and several real estate concerns in the privatization portfolio program. Thirty-two companies hold the majority interest within the government-sponsored portfolio. Companies in the state sponsored program receive privatization capital through one of the following venues: sales, leases, grants, operational rights, establishment of property rights other than ownership, profit sharing and other legal dispositions depending on the nature of the business. In order to speed up privatization efforts, priority in 1998 will be given to the completion of regulatory framework in energy, telecommunications, petrochemicals and oil sectors (*Global Finance*, 1997c, p. 8).

**Build-operate-transfer projects (BOTs)**

In this unique model, the Government guarantees to buy the products of the investments at a certain price over a defined period of time. A state economic enterprise or related government entity can enter into an agreement with the investor qualifying for the initiation and operation of the investment. Heavy emphasis is on the power and energy aggregates. The Government opened projects to the private sector within the framework of the BOT model to include: natural gas, lignite power plants, hydroelectric power, establishment and operation of free zones, bridges and tunnels, highways and railways, sea/airports and telecommunication projects. Immediate opportunities exist for foreign businesses interested in pursuing BOT and other revenue-sharing undertakings. Specifically, the Government devised the BOT model to accommodate Turkey’s expanding energy needs. Turkey is the world’s fourth largest potential market for
power. Energy demands for the next 13 years are approximately 2,500 to 3,000 mega watts per year. In dollar terms, this translates to $44.5 billion per year by 2010. If Turkey can accomplish this massive undertaking, the country could become the third largest energy market, after China and India. The BOT model is not immune to scrutiny however. The literature indicates the BOT program is being contested by private concerns due to the lack of substantiated support of the Government (Sandler, 1998). The language found in BOT, according to Tim Hennagir of Independent Energy, lacks a “commercially realistic legal framework.” Turkey’s Electricity Generating and Transmission Corporation (TEAS) has ensured foreign investors that their high level investments will reap secured returns. TEAS projects BOT concerns will grow 8 per cent annually over the next 15 years (Hennagir, 1998).

The new economic development program in southeast Turkey (GAP)
The Southeastern Anatolia Project (GAP) is the biggest development project undertaken by Turkey. Further, it is one of the most ambitious projects of this nature ever attempted by any nation. The integrated multi-sectional project includes 13 major sub-programs primarily for irrigation and hydropower generation. The GAP is projected to increase agricultural production by 50 per cent. It is scheduled for completion by 2005. In addition to its vast agribusiness opportunities, the GAP offers spin-off investment options for foreign capital in transportation, communication, education and health sectors. GAP also provides for the construction of 21 dams and hydroelectric power stations. The GAP neatly complements the BOT platform for investor and institutional purposes. Further complementing the GAP project, the government unveiled a $186 million economic aid and development package for the Anatolia region. This government initiative will provide desperately needed housing projects in the sprawling region.

Agribusiness opportunities
Turkey is a major producer of sundry temperate and Mediterranean agrarian products including: olive, cereals, rice, wheat, pulses, cotton, hazelnuts, fodder, tubers, grapes and tobacco. Agriculture, the third largest sector of the economy, accounts for approximately 15 per cent of GNP (Global Finance, 1997a, p. 14). There are vast opportunities for investors in this sector, especially for high yield agricultural production, processing and export. Rising incomes, the growing Turkish population and a new found awareness among the Turkish consumers have created a rapidly growing demand for processed foods and high-value agri-products. The share of agribusiness in total foreign capital investments in Turkey rose from 10.9 per cent to 19 per cent during the past four years. This upward trend is expected to continue. The Germans, Danes, Dutch and Italians are aggressively pursuing Turkish markets by establishing joint partnerships in the agrarian sectors. Interestingly enough, US agribusiness has been somewhat reluctant to enter the market in Central Asia. Thus, in order to facilitate a stronger agrarian trade alliance, the American Turkish Council Agribusiness Subcommittee (ATC) was established. The ultimate goal of Turkey is to achieve a large degree of self-sufficiency in food production. When Turkey achieves this milestone, the nation plans to attract modern technology to agricultural and agri-based industries (Ogut and Lukisch, no date, p. 1).

Free zones
Turkey’s strategic location provides excellent access to its traditional trading partners, the Middle East and Europe, as well as the newly emerging Republics of Eastern Europe, the CIS, and the Central Asian Republics. The main thrusts of production in the Turkish free zones are: electronic appliances, optics, ready-made garments, leather, clothing and textiles, processed foods, spare parts, chemicals, avionics and automotive products. At the moment, five free zones are operational and another six are under construction along the Turkish coast. Activities performed in the Turkish free zone are manufacturing, storing, packing, trading and banking. In free zones users enjoy 100 per cent exemption from all taxes, including corporate and income taxes, the possibility of selling merchandise manufactured in the free zones to Turkey, a developed superstructure and a powerful guarantee of protection against strikes for ten years from the establishment of the free zones.

The free zones provide Turkey with an economic paradigm for legislation, commerce
and infrastructure design. In this context, institutional mechanisms have been devised to provide technical and project support to any entities operating or initiating an enterprise in any free zone. Per the directives of the Foreign Investment Law of 1980, all fields of activities open to the Turkish private sector are equally open to joint venture or foreign entities. Free zone earnings can be transferred to any country without any prior permission and are not subject to any taxes, duties or fees. There is no limitation on the proportion of foreign capital participation within the zones. The maximum period for an operating license is 99 years. Infrastructure of the zones are comparable with international standards. Favorable land leasing tariffs and long range leasing possibilities for zone users are available. Skilled and unskilled labor forces, with relatively low wage rates, are available in abundance. Finally, red tape and bureaucracy have been minimized during application and operation phases by authorizing only one agency to handle any given entities entrance into the free zone market.

**Leading sectors for investment**

As of 1998, the most popular industries for investment are: milk and milk product industries, ready-made foods, water and soda products, confectioneries, beef industry, beverage and juice industry, flour industry, automotive subordinates and the machine industry. The food industry is perhaps the oldest industry in Turkey. In 1996 the sector’s exports were $3 billion and imports were $1.5 billion respectively. Recently, with the onslaught of new legislation, the face of the industry has undergone a massive makeover. Multinational corporations are aggressively consuming market share over traditional small and medium sized businesses. Traditionally, the loosely structured industry was occupied 80 per cent by small and medium-sized businesses. These numbers are shifting radically to the mass-capitals of big business and MNCs (*Capital Monthly Journal*, 1998, p. 30).

The milk industry provides one of the best opportunities for investors in Turkey to capitalize upon. Currently, milk production is moderately low in Turkey due to antiquated distribution systems. Investors that can provide new technologies have the potential for major profit margins and market share. Major shifts in demographics, especially the emergence of the working woman and high levels of urbanization, have given rise to ready-made food products throughout Turkey. The ready-made consumption is relatively low compared to the US and Europe. However, the average growth-rate in this industry in the last few years has increased continuously by a healthy 6.5 per cent (*Capital Monthly Journal*, 1998, p. 37). The confectionery industry is controlled 60 per cent by a domestic company (ULKER). The consumption in this sector is lower than international levels. The high growth potential of this sector is quite alluring for international investors. Low consumption, diversity, wide range of breeding fruits and export opportunities makes the beverage and juice sector attractive for investors. The capacity of water and soda products is about $70 million. Moreover, the average growth rate of this sector in the last six years has hovered around 28 per cent (*Capital Monthly Journal*, 1998, p. 35).

The automotive industry in Turkey possesses great export potential. In 1996, exports reached $800 million. In the first eight months of 1997, the growth rate in this industry was 12 per cent compared to the previous year. In order to continue to prosper, this fledgling industry requires a fresh injection of heavy capital investment (*Capital Monthly Journal*, 1998, p. 39). Finally, the machinery industry is attracting the interest of several developed countries. A significant number of medium and large-scale Turkish companies have “know-how” license agreements with prominent international companies. Turkey welcomes foreign investments through joint-ventures with a transfer of technology. One distinctive outcome with this approach is making use of skilled and relatively inexpensive labor to be competitive in world markets.

**Investment opportunities for US companies in Turkey**

**Turkish-US relations**

It has been ascertained that over the next two decades the markets that hold the greatest potential for dramatic increases in US exports are not the traditional trading partners of Europe and Japan. Rather, the greatest opportunities for the future will be found in
the ten “Big Emerging Markets.” Key US investor interest in Turkey lies in harvesting privatization efforts, BOTs, new economic development programs in southeastern Turkey, agribusiness programs and free-trade zones (Table I).

In May of 1990, the US and Turkey implemented a bilateral investment treaty to facilitate joint investments. This treaty guarantees Turkish investors in the US, as well as US investors in Turkey, reciprocal treatment on all transactions. In 1991, the two countries agreed to increase economic cooperation and develop an “enhanced partnership” agreement. The gist of this agreement provides greater emphasis on economic technical and scientific collaboration. Between 1980 and September of 1998, almost $2.7 billion in US foreign investment flowed into Turkey. Almost all aggregates open to the Turkish private sector are open to US participation. Turkey grants US businesses the same rights, incentives, exemptions and privileges shared by Turkish businesses. In addition, US firms are authorized to participate in government financed or subsidized research and development programs on Turkish soil.

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The US is Turkey’s second largest trading partner with over $5 billion trade volume (see Figure 4). Turkey, as well as many other second and third tier nations, suffers a chronic trade deficit with the US. From 1980 to 1995, Turkish exports to the US increased six-fold, amounting to an impressive $1.5 billion. In contrast, imports have more than quadrupled during this period to $3.7 billion. Further, imports over the last two years have risen by an alarming 118 per cent. It is anticipated that US imports total more than $15 billion per annum to Turkey (Robb, 1998, p. 58). As of September 1998, investment permits totaling approximately $271 million were issued to American companies. Perhaps the most quintessential trade advantage the US-Turkish relationship has is the potent blend of capital and strategic positioning. US firms, along with their Turkish partners, are looking beyond the traditional Middle Eastern segments, aiming to seize the new opportunities in the former Soviet Union and Eastern Europe. Michael Porter, a country analyst at Solomon Barney in New York opined “We take an overall positive view [expectations of the Turkish market’s future] … We recommend it and we have had an overall good run with it” (Kinzer, 1998).

US business development services for Turkey

The US plays an active role in the development of privatization in Turkey. The International Executive Service Corps (IESC) is a private not-for-profit organization funded in part by the United States Agency for International Development (USAID). IESC’s initial involvement in Turkey revolved around its core competency; sending retired executives from the US to Turkey to work

Figure 4 Foreign trade by countries and country groups (%) (year 1997)

Source: Export Promotion Center of Turkey/Turkey, (June 1998)
with companies requiring technical assistance. The mission for IESC is typically to address specific issues such as implementing new cost accounting or production systems. Given the current economic climate, USAID elected to shift emphasis from short-term technical assistance projects to fostering long-term business linkages. The IESC program works with the Turkish Chamber of Commerce and Industry (TOBB) in Ankara, Turkey.

Economic challenges facing Turkey

Turkey’s economic potential cannot be overstated by any measure. Unfortunately, Turkey’s growth and movement toward a progressive free market system is plagued with many of the ailments shared by other third world nations. To complicate matters further, Turkey is experiencing a host of diplomatic conflicts with Greece, Syria and Israel. A high inflation rate, high budget deficits, possible currency devaluation, low per capita income and a highly concentrated distribution of income cripple Turkey’s ascension to the ranks of the first tier nations. Over the last ten years, the Turkish economy has experienced detrimental runaway inflation, the highest in the OECD countries. Inflation accounts for approximately 10 per cent of GDP. Turkey’s credit rating plummeted from BBB to a B level (Sandler, 1997). Distribution of income ranges from the top 20 per cent owning over half of the nation’s wealth to the lower 20 per cent owning less than 5 per cent.

An unbalanced distribution of income is not only a class deficiency but a regional problem as well. Western Turkey enjoys far greater economic might than the eastern region. This can be primarily attributed to political stability in the respective regions. Western Turkey has a geographical buffer which isolates this sector of the nation from potential threats. Moreover, this region of Turkey enjoys direct access to its Western neighbors, Europe via the Bosporus Pass. Europe can easily provide security and promote stability in the Western reaches of Turkey.

Southeastern Turkey, in contrast, must endure the ongoing separatist movement of Kurds, terrorist actions by the Kurdish Worker’s Party (PKK), and sanctions against neighboring Iraq. The PKK terrorist organization is notorious for attacks on commerce and tourism aggregates of Turkish society.

The overall political climate in Turkey is uncertain at best. Domestically, Turkey must tackle the dichotomy of being the only secular Islamic state and still maintain its ties to Islamic customs[5]. This unique political disposition created several unforeseen hardships for the Central Asian republic. Turkey must confront and attempt to appease a society historically ruled and grounded in Islam. The roots of this social order runs counter to the materialistic trappings of free market capitalist systems and secular governance. Hence, political rejectionist/terrorist groups such as the Dev Sol have gained notoriety and marginal internal support. More than likely however, the transition to a more open system can be assessed as a social diagnosis of growing pains and slow acceptance versus total and complete resistance to change. These factors have made implementation of free market and bureaucratic reform very challenging (Tarr and Daves, 1986).

On the international front, Turkey has a tumultuous history with Greece. Modern conflict with the Aegean Sea nation revolves around ownership of Cyprus. This problem is accentuated with the diplomatic breakdown in Yugoslavia. Greece has a longstanding relationship with the Macedonians. Turkey, on the other hand, sides with the Macedonian archenemies, the Albanians. Hydropolitics is another burning issue with Turkey’s neighbors. Syria, Israel, Jordan and Lebanon depend to a large degree on the water supply originating from the Tigris and Euphrates in Anatolia. The extensive GAP project will dam the waterways running into these countries. In essence, Turkey could foreseeably wield influence over its southern neighbors’ irrigation systems and water supplies if it continues with the GAP project[6]. Ironically, the Israelis and their historic enemies stand firmly unified against Turkey’s water monopoly.

Conclusion

After the mid-1980s, Turkish public and private sectors have undergone drastic reformation due to the onset of the global economy. Modern legislation emphasizes privatization and cooperation with
international partners. As a result, the foreign capital in Turkey increased to US$3.8 billion in 1996 from a mere US$284 million in 1995. Foreign trade volume jumped from US$20 billion in 1995 to an astounding US$67 billion in 1996. The changes are obviously consequential and prolific. As a top “Big Emerging Market” country, Turkey has moved swiftly up the ladder of economic development, educating the populace, training the workforce, expanding technical research and building modern infrastructures suitable to the present and future trade environment.

The International Finance Corporation ranked Turkey in 1997 as the top investment performer with a 109.9 per cent in dollar terms against the dollar. Hungary was a far second with a 60 per cent gain in performance against the dollar (Banker, 1998, p. 10. The literature overwhelmingly indicates Turkey is on the road to success. This road however is long, torrid and uncertain for any third world nation desiring to join the established elite. In order to bridge the third world barrier, Turkey must curb inflation, legitimize and reinforce the new privatization programs and address the wide-array of social problems endemic throughout the third world. An antiquated infrastructure, questionable human rights issues, an archaic legal system, continuous internal and external armed conflicts and a “semi-stable” government begs the question of whether the climate in Turkey is truly prepared for the cultural ramifications privatization introduces into a society. To conclude, Turkey’s geographic positioning, new legislature, growing economy and abundant natural resource base suggest an atmosphere conducive to capitalism and prosperity. However, changes in government, regional strife and social indifference or rejection, can greatly hamper this progressive experiment in free market expansion.

Notes

1 The West’s relationship during the Cold War can be described as a bidding war with the Soviets. This tactic was typical in the relations between Western powers and their “economic subordinates”. Turkey was a key ally for geo-strategic purposes to the US. Thus, trade was secondary to assuring a security alliance with Turkey during this era.

References

Ogut, H. and Luktisch, J. (no date), “Investment opportunities for foreign investors”.