

TODAY'S BUSINESS

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Turkish Minister of Trade and Industry Ali Coşkun

Minister Coşkun: Turkish industry may devour Europe

ERCAN YAVUZ / ALI ASLAN KILIÇ, ANKARA

Turkish economy has registered significant strides during Ali Coşkun's term as minister of trade and industry. Stating that 'Turkish industry may devour European industry. In particular this is so with respect to the machinery and automotive sectors,' Minister Coşkun says, 'During the EU harmonization process, 95 percent of the EU standards have been made into Turkish standards.'

Noting the great reforms introduced to Turkish industry, Coşkun claims Turkey will be able to achieve revenues of \$500 billion from exports in the 100th anniversary of the establishment of the republic in 2023. As a minister contributing to the efforts to this target, Minister Coşkun answers Today's Business' questions in an exclusive interview regarding the current state of Turkish industry. **CONTINUED ON PAGE 46**

Turkish defense industry enters into major overhaul period

NEWS ANALYSIS

By Lale Sarıbrahimoğlu

TODAY'S BUSINESS

The Turkish defense industry has entered into a major overhaul phase in an attempt to turn itself into a technology-friendly sector with an emphasis on strengthening the domestic defense industry -- an area that has long been neglected, according to a strategy paper prepared by the Undersecretariat for the Defense Industry (SSM).

The intention is to increase the proportion of defense systems produced locally, from the current 25 percent up to 50 percent, and to reach that target by 2010. Then to increase the exports of defense products and services to around \$1 billion per year by 2011 from the current \$200-\$300 million per year, and to harmonize the quality monitoring system covering defense output by the end of 2009. The SSM target for defense exports between 2006 and 2016 is \$1.8 billion. **CONTINUED ON PAGE 10**

TURKEY EXPECTS OVER \$30 BILLION IN FOREIGN DIRECT INVESTMENT BY THE END OF 2007

Turkey emerges as investment safe haven

İBRAHİM TÜRKMEN, İSTANBUL

During the decade preceding 2003, the foreign direct investment (FDI) flowing into Turkey was only \$1 billion in total; however, this amount has been on the upswing ever since then. The country enjoyed \$1.8 billion of FDI in 2003, \$2.9 billion in 2004 and \$9.8 billion in 2005. This boom peaked in 2006 with \$20 billion and is predicted to surpass \$30 billion by the end of 2007.

Turkey's rally after the big financial crisis in 2001, largely thanks to tight financial and monetary policies as well as to the strong winds blowing from Europe that were pushing Turkey forward, brought it to a

respectable position among the countries that attract the largest amount of foreign direct investment. It was welcomed by world business circles as a phoenix rising from its own ashes, and they paid homage to Turkey's opportunities by flocking to privatizations and by expending large amounts of money to establish manufacturing plants or to establish partnerships with powerful Turkish entrepreneurs.

Why have foreigners been so anxious to scramble for the best seats in Turkey's markets, especially in the banking, retail, construction, automotive and energy industries? Almost all analysts in the country, together with many select international advisory institutions, attempted to find a good answer to this question.

Excessive global liquidity was one of the commonly stated reasons. That might have been true, but it was obviously not sufficient since not all emerging markets enjoyed its benefits to the extent that Turkey did. So some specific features singling out Turkey among its rivals in attracting foreign investment must be responsible. To sum up: a large and young population; a well-qualified but relatively cheap labor force; untouched potential in its basic industries; strong infrastructure; access to major world markets; incentives like tax exemption and free land; a central position between the biggest demanders and suppliers of energy resources; a reformist single-party government vying to raise the country to the European standards; tight economic

policies conducted in a well-disciplined manner; and ongoing negotiations with the European Union for full membership were key reasons for Turkey's successful emergence as a magnet for investment.

Turkey outpacing of all other countries with its economic performance caused eyes to turn to its potential as well. Between 2003 and 2006 the average growth rate of the economy was 7.3 percent, with 4.4 percentage points stemming from private sector investment. The foreign trade figures, on the other hand, mark an unprecedented success story in its history. Targeting \$100 billion in exports by year's end, Turkey is now earning in just one month the amount it used to take in for an entire year a decade ago from exports. **CONTINUED ON PAGE 14**



Istanbul is a growing world business center with its dynamism and competitive spirit set against a panorama of historic sites.

TURKEY EMBRACES ROLE AS PLATFORM OF WORLD COMMERCE

EMİN AYDIN, ANKARA

With its growing economy, Turkey is being accepted as a global actor in international politics and finance. In the past one year, Turkey has hosted African businessmen and German businessmen and has given a kiss of life to the Black Sea Economic Cooperation (BSEC). The country also hosted the 50 poorest countries in Africa under the roof of the United Nations and is now hosting the 5th World Chambers Congress. We

interviewed Rifat Hisarcıklıoğlu, the president of the Turkish Union of Chambers and Commodities Exchanges (TOBB), and discovered that he thinks the congress is not an outcome, but a beginning.

What does it mean to be hosting the 5th World Chambers Congress in Turkey? Do you only provide a location or do you expect Turkey will gain various benefits from the congress?

Wouldn't that be? With a large participation and TOBB serving as the host community, it will be an important platform in terms of introducing our

country's opportunities and evaluation of the opportunities of economic and merchandising cooperation with the world. During the congress businessmen will be able to share their experiences and expectations, find opportunities to exchange information to solve their problems and discover innovations and different practices. In this way, the congress will serve to create an opportunity to develop new connections with world business and will create commercial benefits for them. We are awaiting over 1,200 participants from 100 countries. **CONTINUED ON PAGE 10**

Foreign banks change face of Turkish financial sector

NEWS ANALYSIS

By Andrew Finkel

TODAY'S BUSINESS

The trickle has become a flood. During the 1990s, it was the Turkish financial world that tried to convince a sometime skeptical investment community that sustainable growth was just around the corner. Now it is foreign banks jostling with each other to buy into the success of the post-2001 crisis recovery program and doing so, at times, in the face of Turkish skepticism itself.

ING, the Dutch banking and insurance group, has become the latest in a line of international majors to endorse the Turkish economy's return to health. It agreed to pay \$2.7 billion for a 100 percent stake in Oyak Bank. "We weren't the only ones interested; bidding was very competitive," according to John McCarthy, managing director of ING Bank, Istanbul in explaining a price tag that was 3.3 times the bank's book value. Oyak is one of the 10 largest retail banks in Turkey and up until its purchase (the deal still requires regulatory approval) is one of the last private financial institutions still up for grabs.

ING's strategy for the bank makes clear the attractiveness of moving into the relatively pristine Turkish market. It announced plans to grow the bank from the 360 branches to up to 450, and to increase over the next five years its share of the Turkish market from 3 to 5 percent. It does so at a time when the demand for financial services in Turkey is growing exponentially. Consumer loans increased to YTL 51.4 billion, or \$39.5 billion, at the end of May, more than 20 times the level four years earlier. Even so, as a percentage of the gross domestic product (GDP) this is still a modest figure (6-7 percent compared to European averages of 35-40 percent) so there is still enormous potential in the highly profitable retail market. Insurance premiums as a percentage of GDP are only 1 percent. **CONTINUED ON PAGE 10**

The coldest invention of the hottest summer

Earning Tüketiyorum's invention of the year award was Master İrfan Ice Cream (İrfando) for being the first to produce rose-flavored ice cream in Isparta, a city known for its roses. Famous ice cream maker and owner of İrfando İrfan Boztepe, also known as Master İrfan, said that he would try to spread his new flavor throughout Turkey in order to illustrate the value of the Ispartan rose.

Boztepe has been making Kahramanmaraş ice cream in Isparta for 18 years. After his rose-flavored product came to the market last year, monthly consumer magazine Tüketiyorum tested the sweet and later determined it to be the in-

vention of the year. Master İrfan received his award at a ceremony in Istanbul that was attended by Deputy Prime Minister Abdullah Şener and Industry and Trade Minister Ali Coşkun.

After Isparta Chief of Police A. Kemal Seyhan made the flavor suggestion, the new product was developed after five months of experimentation during 2005. Saying that he tested the rose-flavored ice cream for the first time in the summer of 2006, Master İrfan noted that Tüketiyorum came to Isparta after seeing a television program. According to Master İrfan, magazine staff first arrived as customers to try out the product, only later telling him of their purpose. Emphasizing that his goal was to

make Isparta a city of roses and rose-flavored ice cream, İrfando said: "With the Ispartan Rose flavor, we aim to provide a new employment sector and economic inflow. This summer the flavor will be sold out of Isparta for the first time at our shops in Kütahya, Afyonkarahisar, Antalya and Konya. We will try to contact with large ice cream companies in an effort to spread this product countrywide."

After many requests İrfando started to produce ice cream cakes that are now being ordered for special occasions in many cities surrounding Isparta, primarily Antalya. Made like birthday cakes, these ice cream cakes can be made in many shapes and sizes, as well as decorated in various styles. Because

of its special preparation methods, these cakes can stay at 40 degrees Centigrade for nearly four hours without melting. Boztepe thinks ice cream should not be consumed as a delicacy but as a necessity. Considering ice cream to be a vitamin depot because it is made of milk, Boztepe says ice cream could be consumed before, after and instead of meals. Ice cream has apparently been a Boztepe family business for 70 years with Master İrfan learning to make ice cream 35 years ago from his father by bringing snow down from the Kahramanmaraş Ahır Mountains. Master İrfan explained that İrfan Dondurmacıları has a special formula only known to him and his father. **Isparta Today's Business**



Zuhail Akyüzü

'There should be positive discrimination in TOBB, too'

AYŞE KARABAT ANKARA

The Turkish Union of Chambers and Commodities Exchanges (TOBB) has just one high-ranking female member. That woman is Zuhail Akyüzü. She is the president of the Chamber of Trade and Industry in Of, a district in Trabzon. She is also a cartographer who has her own firm with five employees. In a telephone interview with Today's Zaman she said that women in all fields of the social life should get used to making themselves heard, but that does not mean positive discrimination isn't needed.

Do you agree that our society has a male-dominated culture, and that Of is considered representative of this?

Yes, in our district the conservative culture is very strong. But it cuts both ways. Men used to say and act according to the principle of, "I should be in the front and others should work for me." Women used to say and act, "it is like that, I should not be at the front." But as a woman, if you don't say "I do exist," no one will say that you exist. It goes both ways. In TOBB it is the same situation. But as a woman, when you participate in production, when you show that you can stand on your feet and evaluate yourself as a human being first of all, you can succeed.

What was the reactions to your becoming head of the Of chamber?

I was not elected in secrecy. Our members told me: "You have a standing position. We are happy about your performance." We should not forget something: society is also thirsty for the participation of women in all sectors of life, because women are more systematic, more disciplined. But we should be candidates for it. We have a right to be elected and we should use this right.

Has your presidency encouraged other women in Of?

I think so. The involvement of women in social and economic life was low, but it is increasing. Women are coming to me with their projects. Some of them are coming to participate in civil society organizations. Women have always been in production. Even a housewife, apart from her home, in some way is participating in production. But this is not reflected at the trade level. There are many women entrepreneurs on the small scale and they must be encouraged; they should be able to get credit support, educational support, project support.

So are you defending the idea of positive discrimination?

Yes, in all fields. I do believe that when women get positive discrimination they will be more successful; they are more hardworking. The positive discrimination should also be implemented in TOBB -- I don't mean a special quota for women, but other ways can be found. This is not only for TOBB but for associations, for NGOs, for all organizations.

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PROFILE

Outgoing Minister of Industry and Commerce Ali Coşkun served as an Istanbul deputy in Parliament for the 20th, 21st and 22nd terms and is referred to by Turkish politicians as "Big Brother Ali." Coşkun first appeared as an emerging politician in connection with the reforms launched by former President Turgut Özal in 1983. At that time Coşkun, as the chairman of the Turkish Union of Chambers and Commodities Exchanges (TOBB), played an important role in ensuring that Turkey became a part of the international community. He also served the deputy chairman of the Union of Chambers of Islamic Countries and the founding chairman of the Foreign Economic Relations Board (DEİK), and he was the deputy chairman of the Justice and Development Party (AK Party) during its establishment. He wrote books on the economy -- "Türkiye'nin Enerji Sorunları ve Çözüm Yolları" (Turkey's Energy Problems and their Solutions) and "Ekonomik Kavram ve Göstergeler" (Economic Concepts and Indicators) -- and collected his poems in a book titled "Yalınayak" (Barefooted). Many of his poems have been used as lyrics for several songs. He will quit his political activity after the July 22 elections.

MINISTER COŞKUN: TURKISH INDUSTRY MAY DEVOUR EUROPE

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The Fifth World Chambers Congress is currently being held in Istanbul. What are your expectations from this meeting? Turkey became a member of the World Chambers Federation (WCF) in 1930s. The International Chamber of Commerce (ICC) is rapidly developing. We are going through a technologically intensive era in a globalizing world. Economic borders between countries are being removed while only political and geographical borders remain. This opens doors to competition. In such a competitive atmosphere, the WCF organizes regular meetings in order to determine the conditions of competition. Rules are set up in order to prevent powerful countries from adversely influencing other countries and globalization from turning to wild capitalism. For this reason, umbrella organizations representing economies need continuous cooperation and dialogue. This is done by TOBB in our country. This is needed in order to eliminate injustices. In a multilingual, multicultural and multi-religious world, technological and economic developments should aim at ensuring human happiness. For this reason, this meeting is very important.

Is there a risk of globalization turning into wild capitalism? Yes, certainly. You are treading a very thin line. In these meetings, basic principles for preventing unfair competition at the international level and possibilities for implementing these principles will be discussed. We must create an environment in which economic powers are made fairer and developing economies will have opportunities to win. In such an environment, benefits and opportunities are equally evaluated and methods for ensuring that everybody gains are discussed. Basic principles, though not binding, may be specified in order to create benefits for everybody involved. An economic order that enforces a win-win rule -- a world in which the powerful win and the weak can also win -- should be created. In other words, while the powerful economies win, the developing countries can as well. Thus, when everybody starts to take their share of wealth, a world in which we can live can be created. Developed countries should pay greater respect to these basic fundamentals.

You have become the symbol of TOBB? How have you managed to do so? How do you feel in being perceived so? When I became the chairman of TOBB, it had been ignored by the ICC for decades. We made TOBB an effective and influential member of the ICC. During the prime ministerial term of the late Turgut Özal, we managed to establish TOBB counterparts in all specialization commissions of the ICC. We made great strides in this respect and started to transfer the projects we developed at the specialization commissions of TOBB to the ICC headquarters in Paris. For the first time, Turkey was represented by two arbitrators in the ICC International Court of Arbitration.

Beyond that, some prizes were awarded to Turkey during that period. Yes, every year men of the year would be elected, but no one had been nominated from Turkey until that time. The ICC would award the "Model Businessman of the World" prize to a businessman who was successful and who attained a certain standard of business. We nominated Vehbi Koç, Şank Tara and Ali Rıza Bodur. On recommendation from us, Koç won the prize, having been elected by 121 businessmen from different countries. Koç's prize was presented by Gandhi during the meeting

held in India. This was a great honor for Turkey. Moreover, Rona Yürul was elected as the chairman of the WCF.

Before the 1980s, Turkish industry was more agriculture and textile-oriented. Are you saying that Turkish industry's transformation was triggered by Turgut Özal?

In World War I the Ottoman Empire had lost its educated labor and technical infrastructure and opportunities. The newly established republic made significant decisions in this respect. During the first economic congress held on Feb. 17, 1923, Mustafa Kemal Pasha concluded that "the state must give support to industry, but should not hinder the private sector." Thus, state economic enterprises (SEEs) were established with state capital, though their privatization was intended and this was stated in the founding certificates. However, these enterprises were made into sources of employment in the 1940s. Then the SEEs lost their productivity, became cumbersome and turned into burdens for the state. In 1950s, [Aydin] Menderes initiated an industrial boom. Efforts were made toward preventing the state from hindering the private sector, but some political developments caused delays in this respect. No significant progress was made in 1960s. In 1970s the idea of opening the Turkish economy to foreign investment was born, but no step was taken to this end.

Turkish industry made great strides in 1980s. First Özal canceled the legislation aimed at protecting the Turkish currency. Turkish investors were provided with opportunities to make investments abroad through certain amendments to existing legislation. This process of change proved fruitful in the 2000s.

Don't you think that it was a bit late?

Yes, it was late. Turkey should have made these reforms in the 1960s, having eliminated its illusions. Nevertheless, our exports have now risen from \$30 billion to \$100 billion. As the industry minister, I appreciate that this record was broken during the AK Party government. This is because \$92 billion of it comes from industrial products. Second, industry's contribution to the solution for Turkey's great employment problem has reached to 40 percent. As political stability increases confidence in Turkey, the sustainable growth process must be maintained. The stable developments in industry account for almost all of the 7 percent growth in the Turkish economy. If the agricultural and service sectors had showed parallel transformation with the industrial sector, Turkey would have registered accelerated progress. Nevertheless, we are planning to increase the per capita income to \$10,000 and exports to \$250 billion by 2013. I believe that we can attain the target of \$500 billion by 2023, which is the 100th anniversary of the state.

There have always been discussions about the obstacles before Turkish industry. Are there still such obstacles?

Do our industrialists face some obstacles? Yes, certainly. As the YTL has become stronger, our industrialists have begun to experience problems regarding inputs. To counteract this we have introduced sector incentives. We have abandoned our policy of region-based incentives and replaced it with a sector-based incentive policy. Although we have implemented it fully, some political parties are trying to sell this idea -- which we have been implementing for three years -- as new thing. They make such promises to the people. We drafted a bill on the Turkish Commercial Code which consists of 1,530 articles and sent it to Parliament. When this bill is made a law most of the obstacles

before our industry will be removed, and it will be endowed with competitive power in international markets. As the unregistered economy is eliminated, most of the problems will be overcome.

Do you think that all the obstacles to foreign investment have been removed?

First, I must reiterate that we do not distinguish between domestic and foreign investors. All investors are the same. You cannot select between domestic or foreign investors. We have introduced many reforms. We have removed different procedures for domestic and foreign investors. Not they both start their businesses under equal conditions. Formerly, a foreign investor would have to obtain 19 different approvals in order to make an investment in Turkey. Now, all approvals can be obtained from the same place and within 10 minutes.

Turkey may have succeeded in appealing to many investors, but what do these investors look for in a country?

For foreign investors political stability, sustainable growth and industrial property rights are very important. As Turkey has made significant progress in these areas, capital inflow is still improving. The Turkish Standards Institute is conducting great feats in this respect. The Competition Board is taking measures against unfair competition and the formation of cartels and trusts. In other words, all sorts of guarantees have been provided to foreign investments. If political stability continues, Turkey will become the "island of stability" or center of attraction of the Balkans, the Caucasus and the Middle East.

Which sectors do you expect to be the shining stars of Turkish industry?

I must say machinery, or machine tools. Also ceramics and glass, which are based in our own soil. The sectors in which the country's own resources are used will be the most brilliant sectors. Agriculture-based foodstuffs and the textile sectors will preserve their importance.

Do you consider Turkish industry to be EU compliant in its current state? Some say that the EU will devour Turkish industry if Turkey enters the bloc. Do you agree?

No, I don't. These are the illusions and fears of the people who still have a statist mentality. Our industry may devour European industry. In particular this is so with respect to the machinery and automotive sectors. In the EU harmonization process, 95 percent of the EU standards have been made into Turkish standards. Such illusions are useless. You cannot get rid of diseases just by being afraid of them. Your disease is diagnosed, you get the suitable medication and you protect yourself. The economy cannot survive a dilemma between the finance and the treasury. Things are not done in this manner. Production should be emphasized. First production-based projects should be developed. Then they will be followed by finance and monetary policies.



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It is a very rare event to be able to bring so many participants together from so many places. Such a job requires a successful organization period and is concrete evidence that Turkey can access every part of the world and will continue this access throughout the congress. So far, participants from 104 countries have responded and confirmed their attendance at the congress. For example, 42 from the United States, 40 from Spain, 39 from France, 15 from China, 11 from Australia, 22 from Malaysia and 12 from South Africa will attend. The congress is not only open to the chairmen of chambers but also to private sector representatives and businessmen. It will provide an unparalleled opportunity to forge new connections among the participants, to develop and empower their existing networks, to find new opportunities and to develop new partnerships.

As a host country, does Turkey have a special program under the scope of the congress?

Under the scope of congress there will be a concurrent exhibition in the Lütfi Kırdar Convention and Exhibition Center. The leading companies and organizations of Turkey and the world will have the opportunity to present themselves, and products unique to Turkey will also be displayed. Domestic and international participants who are executives of the public and private sectors will attend as speakers at the congress. In this way it will re-spark interest in Turkey. I believe it will affect our investments and exports positively.

In addition to the congress program, the Foreign Economic Relations Council (DEİK) is going to organize a "Business Program" with the support of TOBB to introduce an investment environment in Turkey. Moreover, some activities will be organized to reflect Turkish culture and values, Istanbul as an important tourism center of the world and current developments in our country. Therefore I believe that the slogan of the congress -- "Meet us at the crossroads of civilizations" -- will be realized.

What does being host of the congress mean for TOBB?

Being members of different organizations such as Eurochambers, TOBB has undertaken a project to become a channel in terms of exchange of information and communication around the world. We are playing an active role to develop international cooperation, regional partnerships and international projects. Our union will keep in touch with many representatives of international organizations, will come together with leading politicians and businessmen from different countries and will conduct bilateral relations with TOBB's equivalent organizations throughout the congress.

Are there any familiar faces well known in Turkey among the participants of the congress?

Having great interest in the international arena, the congress will host many businessmen and politicians of executive level. Some guests of the congress include former US Secretary of State Madeleine Albright; Vice President of European Parliament and substitute for the delegation to the EU-Turkey Joint Parliamentary Committee Mechthild Rothe; Vice President of the International Finance Corporation (IFC) Lars Thunell; President of Grameen Bank and 2006 Nobel Peace Prize recipient Muhammad Yunus; Saab, ICC and Skandinaviska Enskilda Banken President and Ericsson Vice President Marcus Wallenberg; Eurochambers and Paris Chamber of Commerce President and ICC Vice President Pierre Simon; UNDP Resident Coordinator Mahmood Ayub; President and founding CEO of The Center of Association Leadership and Executive Vice President of the American Society of Association Executives (ASAE) Susan Sarfati; and President of the Brasil National Commerce Confederation Alencar Burti.

The congress will include five main sessions that are related to the leading figures of business, politics and chambers and will take three days. The session titled "The Management of Global Risks -- A Call to Move for the Government and Business Worlds," in which Madeleine Albright will be a speaker, was determined to be a demand for collaboration between the government and business worlds to overcome global difficulties. "Guaranteeing the Future of Energy" and "Beyond the Limits -- Chambers and Migration" will also be among the sessions of the congress. For Turkish businessmen, the subjects of "Removing the Barriers to Qualified Manpower" and "Threats Against Multi-sided Commerce" are some other subjects of the interest.

In the congress, there will be seminars whose topics are listed as: "The First 100 Cities -- Profiles of the Biggest

TURKEY EMBRACES ROLE AS PLATFORM OF WORLD COMMERCE

The 5th World Chambers Congress, hosting Turkish and world business and opinion leaders, comes together in Istanbul with the slogan 'Meet us at the crossroads of civilizations.' Host of the congress Rifat Hisarciklioğlu thinks that this event is not the end for Turkish entrepreneurs, but just the beginning



TOBB Chairman
Rifat Hisarciklioğlu

INFO

World Chambers Congress: a platform for sharing experience, innovation

The fifth World Chambers Congress, organized biennially by the International Chamber of Commerce's (ICC) World Chambers Federation in different regions

The congress speakers will include leaders from the chamber of commerce as well as business and government leaders.

Key themes to be discussed throughout the congress are chamber management and financing issues, the development of new chamber services, IT and e-business for chambers, the special needs of chambers in developing countries, partnerships -- at the local and international level, chambers working with the government or small-sized companies and attracting new members alongside ensuring their satisfaction.

Key features of the congress include the World Chambers Competition -- an area allocated for the extensive exhibition of chambers in promoting their respective regions, activities and showcasing their leading corporations.

Kuala Lumpur, Malaysia, will be the congress' next host city in June of 2009.

Chambers from North and South America are already applying to host the congress in 2011 -- when the congress will be returning to the region after having been abroad since 2003, when it was hosted in Quebec. The bids from all regions who are interested in hosting in 2011 must be received by May of 2008. Meanwhile, the chambers have already received the applications of interested regions' for hosting the event, with Africa and the Middle East having applied for 2013 and Europe for 2015. **Istanbul** Today's Business

Organizations of the World"; "Arbitration of IBC"; "Seven Keys to Success"; "Investment in the Future -- Chambers, Youngsters and Entrepreneurs"; "Will Business Organizations Stand in the 21st Century?"; "Intellectual Ownership, Chambers and Small and Medium-sized Enterprises"; and more.

Another feature of the congress is the World Chambers Competition, organized for enterprising and innovative projects. In this competition, there will be subjects such as "The Most Extraordinary Project for Small and Medium-sized Enterprises" and "The Best Collaboration Among Chambers."

All of these were finalized as planned and I believe the goals to develop new connections, sustain those new connections after the congress, convert those connections to real collaborations and to create common intellect will be realized.

In such a congress, do Turkish entrepreneurs have the capability to affect their respondents?

The Turkish private sector has achieved great success in recent years. Turkey has the most powerful private sector in the region -- our people are entrepreneurs. Today, the growing Turkey is thanks to Turkish entrepreneurs. There are Turkish entrepreneurs in the Middle East, Middle Asia, Europe, Russia and North Africa. They are not only in the construction sector or commerce but also in production. Turkey is responsible for 65 percent of the industrial goods exported in the Middle East and North Africa. In the integration of these regions with the world economy, Turkey has inevitable importance. It is an impressive potential.

It is Turkey's economic weight that makes this all inevitable. Turkish industry and Turkish entrepreneurs are the biggest acquisition of our republic. In my opinion, to the people who ask what we did for 80 years in this land, we should hold up this production and organizational capacity -- our power without having oil, natural resources and treasury.

Is there a rush for the Turkish private sector to really assess figures, or does your saying so mean a potential?

When we look at the figures it was the dynamism of the Turkish private sector and its initiative that cured the wounds of the 2001 economic crisis and spurred the period of growth. Almost five years after 2002, the Turkish economy is growing 7 percent via the investment, exportation and consumption of the Turkish private sector.

Turkey's economic development for the past 25 years is a sign of how important a private sector is for a country. There were 25,000 companies in the early 1980s with 1,000 exporters and an export total of about \$3 billion. Currently we have 725,000 companies, 40,000 exporters and our exports amount to \$90 billion. While our national income in 1980 was \$70 billion, it is now \$360 billion, putting us in the top 20 worldwide and top seven in Europe. Twenty-five years ago, 90 percent of our exports were agricultural products. Today 90 percent of what we export is industrial products. A total of 65 percent goes to Europe and the US -- are the most competitive markets in the world. Our building contractors have undertaken projects valued at \$75 billion from North Africa to Russia, from the Balkans to the Middle East. In the tourism sector, we had a volume of \$300 million 25 years ago. Now, there are 20 million tourists who visit Turkey and our tourism income is \$18 billion. Turkey is now among the top 10 most-visited destinations.

It is being said that opening up to the world and globalization have some disadvantages along with the advantages. What do you think about it?

Turkey is an important power in the region. In fact Turkey has the biggest economy and the most developed industry in its region from North Africa to the Middle East. While this situation is proving advantageous, it also produces responsibilities. We can not lock our minds and activities into our borders; we should follow developments around the world. In today's world, countries' flags are flown by companies instead of armies. At TOBB, we encourage our entrepreneurs to open up to the world. Our aim is to achieve global Turkish companies because, in a world in which competition has a global meaning and global movements are a determining factor, we couldn't pretend we live on our own. By being insensitive to the developments in the world and closing our doors to others, "being satisfied with less" policies are out of date. The period of national policies which do not consider global movements is over. In the past, we were trying to understand and impact only Ankara. Our whole vision was limited to our country's borders. Now, we should understand the world and read global movements correctly. We should design national policies that do not overlook global movements. Hosting this congress is an important step for us.

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FOREIGN BANKS CHANGE FACE OF TURKISH FINANCIAL SECTOR

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"The Turkish financial sector represents an incredible opportunity for foreign institutions," said Ergün Özen, president and CEO of Garanti Bank. In 2005, he presided over the sale to General Electric Consumer Finance (GECF) of a 25.5 percent stake in Garanti along with 50 percent of the controlling founder shares for \$1.8 billion. It is not just greater access to capital that foreign banks provide. Mr. Özen described a close fit between the two institutions with Garanti acquiring from GE new mortgage and consumer loan products while transferring software and credit card know-how, which GE has adapted to other emerging markets.

This optimism is in marked contrast to six years ago when an undercapitalized banking sector, heavily borrowed abroad, helped precipitate an economic crisis. Then, some 22 banks were forced out of business. New banking legislation as well as the IMF-supervised recovery plan helped turn the situation around. The generally improved climate means that demand for a foothold in what had been a shrinking banking sector now exceeds supply.

The contrast of today with 2001 is striking. Then, in an argument behind closed doors, President Ahmet Necdet Sezer accused his government of not doing enough to fight corruption in the banking sector. Harsh words were spoken and a copy of the constitution was hurled across a desk. The result was a complete collapse in confidence, with interbank rates soaring to 7,000 percent and the lira losing half its value. Yet in May 2007, the chiefs of general staff issued a statement on their official Web site that, in effect, threw a wrench that brought the rounds of voting in Parliament for a new president to a halt. There was no crisis. Indeed, only few days after the military intervention, an initial public offering of 25 percent of state-owned Halkbank fetched \$1.85 billion and was seven times oversubscribed.

"To see such a lively IPO shows that politics is the very last thing on the market's mind," said Mehmet Gerz, executive vice president at the Istanbul brokerage house Yapı Kredi Yatırım.

Foreign banks have clearly been eyeing the potential of the Turkish market. It was the 2001 crisis that cleared the deck. HSBC was the first to jump. In that year, it spent \$350 million on Demirbank, which at the time was the largest foreign direct investment in the Turkish financial sector. It



great fillip to foreign interest, however, appears to have been the concrete prospect of Turkey engaging with the EU enlargement process. In December 2004, when the European Union agreed tentatively to give Turkey a starting date for accession negotiations, the direct foreign stake in the Turkish financial sector was 3.4 percent, a slightly lower figure than before the financial crises of 2000-2001. The following year, when the two negotiating partners sat down at the table, that percentage rose another 10 points.

BNP Paribas was first off the block in the current wave of mergers and acquisitions. In 2005 it bought a 50 percent stake in the highly rated Türk Ekonomi Bankası (TEB) for \$216.8 million. A few months later that price appeared to be something of a bargain, when the Benelux-based Fortis Bank valued Dışbank at 985 million euros, in which it went on to acquire a 93.3 percent stake.

Koçbank, jointly owned by Turkey's largest conglomerate Koç Group and the Italian banking house UniCredit, clinched a controlling 57.4 percent stake in the retail bank Yapı Kredi Bank at a price which values 100 percent of the shares at 2,059 billion euros.

The decision of Citibank Overseas Investment Corporation to take a 20 percent stake in Akbank, one of Turkey's largest and best performing finance houses, made even blasé Istanbul bankers sit up and blink. The \$3.1 billion price tag represented a 20 percent premium (of the average monthly share price prior to the mid-October sale) for what was, after all, a minority stake. It demonstrates, according to one participant in the sale, a clear expectation that Citigroup will be able to acquire a controlling share as the third generation of the Sabancı family goes their separate ways.

It is not simply high demand that is

prompting Turkish bankers to sell out, but structural changes within the sector itself; changes more complex than the evolution in Turkey from the family controlled business to professional management. Changes in the law after 2001 mean that banking itself has become a much more difficult business.

"Main shareholders, boards of directors and managers of existing Turkish banks have begun to think twice about practicing in the new legal environment," according to Gazi Erçel, a former governor of the Turkish Central Bank, citing another reason why the Turkish market is now more open to foreign investors. The days are fast disappearing when banks were in effect junk bond traders -- collecting deposits to lend to a cash-strapped government with handsome spreads.

Mr. Erçel believes that foreign banks will eventually account for at least half of total Turkish banking assets. For many Central European states at the time of EU accession, that figure was much higher -- nearly 70 percent in the case of Poland and closer to 90 percent in Hungary and the Czech Republic. Turkey remains undercapitalized with credit to private clients in Turkey at a mere 20 percent of the GDP in 2003, compared to well over 90 percent in Portugal or next-door Greece. Two major institutions, İş Bank and state-owned Ziraat, are not for sale. Turkish banking assets need to treble, Erçel believes, both to meet demand and to comply with the legal adequacy ratios set by the Basel II (Revised International Capital Framework).

The greater issue is not whether there is a saturation point for foreign banks, but whether those banks will form a critical mass to expand the range of services that Turkish consumers and businesses require, according to David Edgerly, consultant for the Dubai-based Shuaa Capital. Turkish big businesses have always had the capacity to borrow abroad where interest rates are lower; it is the small and medium-sized enterprises that remain underleveraged. The result is that much Turkish business reinvests, and not the banks, is financing growth. At the moment banks, not unnaturally, are focused on the low hanging fruit of consumer finance, a still undeveloped market in Turkey, where profit margins are much higher than corporate lending. Banks in Turkey, foreign or domestically owned, will have come of age when they become the engine for business and commercial growth.

Halkbank growing with republic for 69 years

The first Small and Medium-size Enterprise (SME) bank of Turkey, founded to develop the entrepreneurial spirit of the artisans and artists of the young republic, to encourage them to produce and to support small-size enterprises, Halkbank today continues growing with the Republic of Turkey.

Having worked for 69 years to serve a producing Turkey, Halkbank is the seventh biggest bank in terms of active size, and the fifth greatest in terms of profitability.

Halkbank realized Turkey's biggest public offering ever last month after receiving a record-high number of demands from inside and outside the country.

Since its foundation, Halkbank has always prioritized investments that would contribute to the country's economy and to its social development. It has been constantly consolidating the venerable position it has secured itself with its nationwide branch network, with the quality of its products and services and with its professional approach to SME Banking.

Aiming at benefiting Turkey more by generating resources for all manufacturers, Halkbank is strong enough to meet all types of demands with its over 70 credit types in the fields of investment, production, internal and external trade and individual financing with its competent interest rates. Apart from the resources it provides using homegrown means, it also cooperates with foreign corporations such as the European Investment Bank, the European Council Development Bank and the French Development Agency. Also, through credit agreements made with nationwide commercial and industrial chambers and its special credits and services, it provides all sorts of opportunities for SMEs to solve their private problems, as well as their regional and local financial troubles.

Halkbank has nearly 50 products provided on credit specially prepared for SMEs. The provision of investment and enterprise credits from internal and external sources, the Tourism Support Credit allotted in accordance with the cash flow of SMEs with a flexible payment schedule, credit types addressing the manufacturing and technology sectors and "license plate" credits for taxi owners and drivers are only a few among the credit types. Furthermore, the share the bank has of the total credits allotted for the agricultural sector in 2006 is increasingly growing. Thus, it has been able to provide farmers with Agricultural Support Credit, Agricultural Equipment/Machinery Credit and Greenhouse Credit. A type of service unique to Halkbank is cooperative credits with special interest rates.

Determining its chief strategy for the new term as "efficiency and increasing profitability," Halkbank's target in the new term is to become a customer-focused bank, strong in individual services. It now wants to become the "first bank" of not only SMEs, but also the customers of institutional and commercial banking sectors. It is gravitating toward this direction steadily.

Halkbank uses its technological infrastructure as a strong competitive advantage. The changing technological infrastructure of the bank, through its central database, has provided an important degree of decrease in the operational work done by branches to establish a mutual agreement. It has launched 84 technological projects such as the "Data Depot," "Data Mining," and "Customer Relations Management," all of which provide technological support in the presentation of appropriate services and products once the customer profile and the need are determined and in the formation of the bank work strategy and decisions.

Halkbank abroad

Halkbank serves the SMEs abroad with its three Financial Service Branches in Germany, its branch in Bahrain and its representative office in Tehran. It also has two branches in northern Cyprus.

Germany: Carrying on its operations with its Financial Service Branches in Cologne, Dortmund and Mannheim, Halkbank acts as an intermediary in money orders and realizes MEVDUAT KABLÜ transactions to third countries.

Bahrain: Providing its customers in Bahrain with cash credit, deposit-accepting services and sale of foreign currencies, Halkbank renewed the license of its branch in Bahrain as a "Wholesale Bank" as of Oct. 1, 2006. The Bahrain branch of Halkbank is authorized to realize all types of banking transactions within its limits of operation with those not settled in Bahrain with its Wholesale Bank, whose main operation field is total deposits and credit allocation.

Iran: Halkbank Tehran Representative Office, which has been carrying out its operations since 1982, acts as an intermediary for foreign trade between Iran and Turkey, and realizes money order transactions and issues commercial letters of credit and letters of guarantee. **Istanbul Today's Business**



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TURKISH DEFENSE INDUSTRY ENTERS INTO MAJOR OVERHAUL PERIOD

Failing so far to create a technology-friendly defense industry base, Turkey has, however, launched serious efforts lately to turn the industry into one that not only contributes to the country's economy through local industrialization but also makes sound exports, ending its heavy reliance on abroad

2 CONTINUED FROM PAGE 1

SSM, the civilian military procurement agency, was set up in 1985 with the aim of creating a local defense industry base to lessen dependency abroad. The United States' arms embargo imposed following Turkey's military intervention Cyprus in 1974 -- to prevent a Greek-inspired coup attempt on the island -- has been one of the reasons that triggered Turkey to set up a local defense industry infrastructure.

The other reason for the establishment of the SSM was to introduce a military procurement system where the ongoing blurred boundaries between the buyer -- i.e., the procurement agency -- and the user -- i.e., the Turkish Armed Forces (TSK) -- could come to an end. In other words, then policy makers of Turkey set up the SSM not only to establish a local defense industry base, but also to introduce a military procurement system that the political authorities could have control over.

But the SSM has, for most of its 22 years, failed to be a central authority in arms procurement unlike similar agencies in Western democracies. The Turkish military has been heavily involved in arms procurement, though its duties, they suggest, should have limited it to only identifying its needs.

Now the strategic plan, or the road map, released by the SSM covering the years 2007 to 2011 aims at turning this civilian procurement agency into a central authority in arms procurement. This will evolve in the initial stages of the defense industry development process under which SSM bureaucrats, together with military officials, will design arms acquisition policies together.

SSM Undersecretary Murad Bayar, meanwhile, on several occasions spoke of ill-defined policies that inhibit Turkey from achieving its objective of a sound defense industrial base, the kind of base that countries such as Israel, Spain and South Korea have achieved, even though Turkey has spent similar amounts in arms procurement of around \$3 to \$4 billion per year.

As stated by Bayar in 2005, Turkey ranked as the fourth biggest country in defense imports, while standing at 28th in defense product exports.

The civilian-military coordinated arms purchases approach will also fasten the processes in arms purchases and will be cost effective, says the SSM strategic paper.

Road map to create technology-friendly sector

Turkey's defense industry sector has entered into a major overhaul period, turning itself into a technology-friendly sector with an emphasis on strengthening the long neglected local industry.

This trend began in May 2004, when the SSM Executive Committee -- the chief decision-making body on arms procurement -- decided to cancel three major projects, including a multi-billion dollar order of attack helicopters, and instead introduced a new procurement model to boost the ailing local industry.

The 2004 policy has now been formulated with the release of the SSM 2007-2011 Strategic Plan that stands as a road map for those involved in the sector.

Strategy paper identifies problems

The problems that have occurred in arms procurement as outlined in the SSM Strategy Plan include as follows:

- Failure to benefit from the experience and know-how of the universities and the defense industry, as well as the SSM, during the process of identifying the requirements of the TSK.
- Limited usage of local defense industry capabilities in meeting arms requirements.
- Failure of the execution of arms procurement processes under one mechanism and in a centralized manner, causing divisions within the same projects while leading to the loss of resources and time.

Thus, the implementation of the Planning, Programming and Budgetary System (PPBS) and Procurement System Study that was launched in 2004, under the coordination of the Turkish General Staff and with the active participation of the SSM, was highly important in solving the above mentioned problems occurring within the defense industry, said the strategy paper.

Emphasis on local industry starts yielding results

Meanwhile, as a result of the implementation of the policy to put emphasis on developing projects locally, important steps have been taken in the development of the Turkish defense industry as a strategic capability, said the paper.

This policy has resulted in an increase of the turnover of the defense industry companies in Turkey, up to \$1.6 billion in 2005, according to the SSM strategy paper.

Turkish defense industry manufacturer ASELSAN, for example, signed in 2005 a 23-million-euro



deal for the sale of 18 Stinger weapon platforms (Pedestal Mounted Air Defense System -- PMADS) to the Dutch Royal Army, making it the first time that ASELSAN had sold an advanced weapons system to a Western country. The system ensured important benefits for the protection of strategic facilities such as dams, military bases and ports.

In addition to contracting several arms projects to local industry, the Turkish national naval vessel project (Mil Gem) is also underway under which, in the words of Murad Bayar, Turkey will produce its first surface warship.

Bayar, however, states that Turkey will not design and build submarines, jet fighters and helicopters, as well as heavy-lift helicopters, but has been participating in those projects as a joint producer. Instead, Turkey's target is to manufacture electronic systems, software and the computers to be installed on those arms systems.

Meanwhile, the SSM's 2004 decision to put emphasis on strengthening the local industry through its encouragement to produce and design indigenous products, and to cooperate, if necessary, in the technology transfer from third countries has -- and continues to raise -- questions among some local and foreign defense industrialists on whether Turkish defense industry policy is becoming more inward-looking, in favor of neglecting cooperation with other countries.

However, SSM Undersecretary Bayar denied to Today's Zaman that such attempts were taking place, recalling Turkish cooperation on a European consortium's A400 M heavy-lift helicopter production project, highlighting that not only is Turkey a partner but that also the 2007-2011 strategy paper identifies international cooperation in defense industry projects as one of the main objectives of the SSM.

One of the strategic aims of the SSM plan envisages Turkey's active participation in multinational industry, defense and security projects that foresees international cooperation.

"It will be ensured that Turkey will participate in at least four multinational defense projects from the very beginning; while at least one international project will be led by Turkey until 2011. The Turkish defense industry's share within NATO defense projects will be increased fourfold by the end of 2011," the SSM strategy paper says.

Turkish defense industry companies, numbering around 67 including around 15 military-owned companies, have so far relied on offset commitments that foreign contractors have made in their continuing low level of exports and, more importantly, in order to survive.

Turkey has been applying offset policies since 1984 as a means to create a local defense industry base that does not rely on abroad, and significantly on every product, and that helps to reduce the balance of payments occurring as a result of foreign currency-based defense deals.

Under the new offset directive adopted on February 14, 2007, mainly foreign companies should make an offset pledge of around 50 per cent of the supply contract value. Thus, those parties obliged to the offset should bring work back to the country, boosting local industry as well as its exports equal to around 50 per cent of the contract value.

The category for indirect offset obligations was removed from the new offset directive. Thus, foreign companies signing a defense contract with Turkey will not be able to make offset pledges of non-defense industry products in return for their offset pledges of around 50 per cent of the supply contract value.

The SSM has encouraged the Turkish defense industry companies to market their defense industry products on the world markets, through the concentration of offset commitments on local defense industries, by excluding the exports of civilian products and services from the new offset directive.

Those foreign contractors should now be offering local content, defense and aerospace exports, as well as technological cooperation, investment, Research and Development (R&D) in defense and aerospace, and high technology in return for contracts they will sign with SSM, which has been overseeing around 110 defense industry projects.

During a day-long conference organized by the SSM in Ankara on new offset policies, HAVELSAN Contracts Manager Mustafa Egeli said that offsets as a facilitator introduced indigenous defense industry to exports and the new challenge should be making efforts without necessarily relying purely on offsets. He, however, also clarified that offset policies would continue to be a catalyst in boosting Turkish defense industry exports and in developing a sound defense industry base.

Turkish National Defense Minister Vecdi Gönül, speaking during the same conference, cited the \$12 million investment to be made by Dutch Fokker Elmo in Izmir on aerospace and defense platforms as well as on electrical systems as an important example of offset policies. Almost all the production at the Izmir plant will be export-oriented, he added.

Around \$3 billion in offset pledges waiting to be fulfilled

The SSM's Bayar said since the establishment of the SSM 22 years ago in 1985, a total of \$6.1 billion of offset pledges had been made. A \$3.3 billion portion of this amount has so far been completed while the remaining \$2.8 billion waits to be fulfilled.

Almost 70 per cent of exports realized by the leading Turkish defense industry firms are realized through offsets.

Take the army tactical missile system (ATACMS) project for example, said Bayar, in which US Lockheed Martin, the missile maker, exported certain missile pieces produced by local Kalekalp which made a cost-

effective offer. As a result the US company has continued placing orders with the same local company, though its offset pledge was realized.

The SSM decided on 20 June to start contract negotiations with South Korea's Korean Aerospace Industries (KAI) for the production of 40 Basic Trainer Aircraft (TEU), estimated to be worth around \$330 million. The SSM also decided to negotiate with South Korea's Rotem as a sub-contractor in the local production of main battle tanks (MBTs).

South Korea's high technology transfer offer played an important role in its selection in both projects, said a local industry source.

Brazil's Embraer was competing in the TEU project with Super Tucano while German Krauss Maffei Wegman was competing with South Korean Rotem in the tank project.

Seoul will export its training plane KT-1 Ungbu to Turkey for the production of the trainer aircraft.

A production line will be established at the Turkish Tuzas Aerospace Industries (TAI) facility near Ankara for the development of KAI's TEU with maximum usage of local industry.

Local manufacturer ASELSAN is expected to play a leading role in avionics suite supply while local HAVELSAN will develop aircraft simulators.

Meanwhile, Seoul will transfer technologies related to its next-generation tank XK-2 Heupkyo -- also known as the Black Panther -- that will support the Turkish development of MBTs.

Turkey selected major Turkish automotive manufacturer Otakar, in late March of this year, for the local design and development of around 4 MBT prototypes worth around \$500 million. Once the prototypes are produced, the SSM will decide on the production of 250 tanks under a separate deal.

According to data released by the 67-member Ankara-based Defense Industries Manufacturer Association (SASAD) local ASELSAN achieved the highest turnover, while Otakar realized the highest amount of exports in 2006, in comparison with 2005.

However, SASAD officials did not reveal related figures for those companies on the grounds that it was confidential information.

Turkey's Nuro alongside BAE Systems of the UK, meanwhile, accounted for 54 per cent of Turkey's total defense exports in 2003.

At the same time, Turkey's procurement policy, which favors the Turkish defense industry, has been causing some problems in relations with the US.

While the SSM has made some changes to its tough terms and conditions in its requests for proposals (RFPs), in the past these have prevented US companies from bidding for Turkey's major programs. RFPs still require governmental authorization of export licenses to be obtained by the companies as a condition to compete in the projects: a requirement that runs contrary to US law.

Turkey has been moving towards a new homeland security model under the coordination of the Interior Ministry.

Disagreements between the government and the military on the creation of a professional police force have hampered the process, however. The Turkish Armed Forces (TSK) has been dragging its feet in giving up the internal security role they have been implementing through the Gendarmerie General Command.

Around \$3.5 billion worth of contracts are expected to be awarded for the establishment of an integrated homeland security concept in addition to ongoing independent projects for this purpose.

The Turkish Land Forces Command, the largest command with 402,000 personnel, stands to be most affected by the new homeland security model.

Military budget goes up

Turkey's Ministry of Defense budget, comprising the budgets of the ministry as well as those of the land, air and navy forces commands, has been fixed at YTL 13.05 billion (\$9.46 billion) for 2007: a 10.6 per cent increase on 2006.

With the proposed total fiscal year budget for 2007 fixed at YTL 204.98 billion (a figure which was YTL 174.32 billion in 2006), the ministry's allocation comprises 6.3 per cent of the total budget and corresponds to 2 per cent of the gross domestic product (GDP).

The budget does not, however, include extra-budgetary figures, of which only some are disclosed. The SSM Support Fund is unofficially estimated to have reached YTL 2.07 billion in 2007, about 98 per cent of which goes towards major arms production projects.

Other disclosed extra-budgetary allocations include YTL 3.13 billion (a 22 per cent increase) for the Gendarmerie General Command; YTL 229.93 million (an 18.2 per cent increase) for the Coast Guard Command and YTL 27.52 million (a 17.6 per cent increase) for the SSM administrative budget (YTL 27.52 million). Speaking on Nov. 7, 2006, Gönul said \$17 billion has accumulated within the SSM fund since its establishment in 1985, while around \$15.72 billion has so far been spent for various arms purchases as of September 2006.

Meanwhile, the EU's Progress Report of 2006 stated that no further advance has been made in terms of strengthening parliamentary oversight of the military budget and expenditures.

"No internal audit of military property has yet taken place pending the adoption of secondary legislation to the Law on Public Financial and Management Control," the report said.

According to Article 160 of the Turkish Constitution, the Court of Auditors can carry out ex-post audits of defense expenditures. However, the court remains unable to carry out its tasks due to the lack of relevant implementing legislation.

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PHOTO: UNAL LIVANELI

ANATOLIAN TIGERS CONQUERING THE WORLD

The provinces of Kayseri, Gaziantep, Denizli, Konya and Çorum are the booming economies of Anatolia that accompany the quickly growing Turkish economy. Foreign investors and media corporations show a great deal of interest in the rising stars of Anatolia, as a result of which they are now targeting export and foreign direct investment

SAMED GÜNEK ANKARA

Turkey has become a favorite place for foreign investors with the stability it has finally achieved after decades of work. The amount of foreign direct investment (FDI) that has come to Turkey in the last five years has totaled \$20 billion. Experts state that the foreign direct investments will increase in the event the stability continues and the political mist dissipates. Occupying the 29th place in the Confidence Index in 2004, Turkey rose to 13th place in 2005. While the FDI flow into Turkey was \$1.8 billion in 2003, this figure increased to \$20 billion in 2006. In the first quarter of 2007, the foreign capital flow reached the level of \$10 billion. Apart from our industrially and commercially developed cities such as İstanbul, İzmir, Sakarya, Kocaeli and Mersin, the economies in the Anatolia provinces of Kayseri, Denizli, Konya and Çorum, which are all far from the coast, are also booming. The new rising stars of the Turkish economy seem to be emerging from Anatolia.

Rising star of Anatolia Kayseri 'Islamic Calvinist'

Kayseri is among the Anatolian cities with the most advanced economies in the region. In particular, the most prominent furniture companies of Turkey are based in Kayseri. The export level of Kayseri companies is estimated to have exceeded \$500 million. Other than furniture, Kayseri exports textile products, carpet, steel pipe and kitchen wares.

The Kayseri Chamber of Commerce Chairman Hasan Ali Kilci, however, complains about the heavy industry of Kayseri, which has not been developing as fast as other sectors.

Chairman of the Kayseri Chamber of Industry Mustafa Boydak, also the board chairman of the Boydak Holdings whose annual revenue is over \$1.5 billion, also complains about the general unawareness as to the industrial potential of the city. "All sorts of heavy industrial products are manufactured in Kayseri. Thirty percent of the telecommunication wires are produced in Kayseri. So are 30 percent of the energy wires and aluminum conductors. These are all heavy industry and technology products. In addition, Kayseri is among the top five cities in the textile sector. We have also made a great headway in plastic chemistry. We are not doing badly in the food sector either. We produce everything in the sector of home electric devices. People think that nothing is produced in Kayseri but furniture," he said.

Kayseri, also the hometown of Abdullah Gül, has become a city of great interest to native and foreign investors alike.

Queen Beatrix of Holland and the EU's Enlargement Commissioner Olli Rehn have visited the city. The Open Society Institute, founded by George Soros, and the Austria-based European Stability Institute (ESI) are two of the other institutions interested in Kayseri. In a Kayseri report drawn up by experts from the ESI, the city's economic performance and the Protestant work ethic were compared and Kayseri residents were described as "Islamic Calvinists."

Hasan Ali Kilci, the board chairman of the Kayseri Chamber of Commerce, stated that Kayseri was a city capable of keeping up its economic development while maintaining its conservative structure. "People of Kayseri love to work. You can see this even in the poems peculiar to the city. You can come across phrases like, 'A Kayseri inhabitant approaches God as he works,'" he said.

Touching on the interest of foreigners in Kayseri, Taylan Ertan, the Ankara representative of the economy newspaper Dünya, not-



Kayseri Chamber of Commerce President Hasan Ali Kilci

ed that the interests in Kayseri was seasonal and that "Islamic Calvinism" could be the subject of an intellectual discussion.

An economy writer for Zaman, Fikri Türel approaches this issue with equanimity like Taylan.

"The Calvinism here may not overlap with its western meanings. The definition made by Max Weber doesn't quite fit in here. People of Kayseri are conservative and successful in the business world. However, I don't know to what extent ethics get together with the business world."

In 2004, the foundations of 139 factories were laid down in the Kayseri Industrial Zone at a ceremony attended by Prime Minister Tayyip Erdoğan. Later, the number of factories was increased to 250.

'Runner Up' award from Financial Times to Konya

Konya, another rising star in Anatolia with its increasingly growing economy and the level of sector diversity it has reached, has become Anatolia's production base with some 32,000 Small and Medium-size Enterprises (SME) that it has alongside big industrial enterprises. Ninety percent of firms in Konya realize their production in modern industrial zones. Board Chairman of the Konya Chamber of Industry Tahir Büyükhelvacıgil said: "The most distinctive quality of the industry in Konya is that it doesn't rely on certain product lines and has an eminently wide range of products. Over 80 products from machinery to chemistry to agricultural devices and equipment, and from the package industry to casting to shoes and the glass industry are manufactured in the city."

At a contest held every two years by the Foreign Direct Investment magazine published by the Financial Times, Konya had been chosen as the "Runner Up" city in the category of "the city with the Greatest Economic Potential."

Members of the Konya Chamber of Industry export their products to 106 countries; 30 percent of them to EU countries, 32 percent of them to Middle East countries, 12.3 percent to African countries, 8.7 percent to Turkic Republics, 5 percent to the United States, 4.4 percent to Far East countries, 4.2 percent to Russia, and 8.8 percent of them to other countries.

Rising cities looking to have share from FDI

Hasan Ali Kilci complains that the current flow of FDI into Kayseri is not at a desired level. "The current investments in Kayseri are not



TUKSON President Rıza Nur Meral

at a desired level for reasons such as we lack of a harbor here and our distance from Europe," he said.

The Turkish Confederation of Businessmen and Industrialists (TUKSON) makes its name heard a lot more frequently than in the past through economy summits where it gathers Turkish and foreign investors. TUKSON Chairman Rıza Nur Meral says that the increasing number of firms that make quality production gave rise to the problem of marketing. "Turkey must at once find new export destinations apart from Europe. For example, African countries are very important for us; the chances are not limited to trade ties, we can also have nice opportunities in terms of production," he said.

Boydak noted that the FDI flow to Kayseri was gradually increasing. He believes that the volume of foreign investment would double and triple in the near future. "There are only four to five foreign investors I know of in the form of partnerships. When foreign investment enters a country, it starts investing in the economically most favorable places. As of today, the foreign investments in Turkey are most active in and around İstanbul. As you know, it is gradually spreading to property and banking sectors. I believe this to be a process. I also believe that the FDI flow into Kayseri will increase and this will bring us more prosperity and create more employment for our people," he noted.

With an application put into practice for the first time in Turkey, the Directorate of the Kayseri Industrial Zone obliges the industrialists who purchase building sites in the zone to promise to begin production in two years.

Gaziantep is an important city in terms of textile and machinery. It realized a \$2.5-billion-dollar export in 2006. It realizes 36 percent of its export to EU countries and 6 percent to the United States. Chairman of the Gaziantep Chamber of Industry Nejat Kocer remarked that 42 percent of export realized to western countries was the proof of their high quality standards and the competition power they had.

There are 849 exporting firms in Gaziantep, which has risen to notice in the recent years, particularly with its sales to China.

"Being a city that exports to China is important. The volume of export we realize to China is currently \$10 million; it will be maybe \$50 million tomorrow and \$500 million in three to five years time. We have to trust ourselves."

Technopark to be founded in partnership with Italians

Gaziantep, which has so far been placed in the limelight only with its export to the Middle East, is now rapidly opening up to western countries.

In an attempt to consolidate Gaziantep's production quality with a project to turn the city into a "Trademark City," the chamber of industry will not be satisfied with this and will also launch new projects to attract more foreign investors to the city. Investing largely in education recently in order to develop its international trade culture, the chamber will build a technopark in partnership with Italian firms. Over 80 food production facilities, a university, banks, exhibition areas, a stock exchange, health facilities and residential areas will be built within the context of the 1-billion-euro project.

Kocer said they were content with the incentive premiums and financial support provided by the Ministry of Industry as far as research and development works are concerned. "I think that we need incentives in every field. I would like to express my contentment and extend my heartfelt thanks to our ministry for their financial support on our research and development works, and particularly on the technopark issue," he added.

There is a free trade zone in Gaziantep formed in cooperation with Syria. It also has commercial ties to Iraq, Jordan, Iran and Syria.

'Konya most suitable city for foreign investors'

Another Anatolian city that has fixed its eyes on the foreign investment is Konya, the famous granary of Turkey. The Konya Chamber of Industry has developed many projects to attract foreign investment. "Invest in Konya," is one of the projects it has launched, which generates investment projects for foreign companies.

Chairman of the Konya Chamber of Industry Tahir Büyükhelvacıgil complains of bureaucratic hurdles that he says prevents more FDI flow into the country. "The development of the investment environments of these cities is of vital importance in terms of the economic enlargement of Anatolia. For instance there has to be a foreign capital coordination commission in Konya to be able to attract more foreign capital and the great potential of the city should be publicized internationally with a greater financial support. The work to attract more foreign investment through more coordinated organizations should be done with the help of such bodies," he said.

The spare parts of all car brands and models available in the world are manufactured in Konya and exported to Latin American countries, Africa, the Middle East, Turkic Republics, Far Eastern countries and particularly to EU countries.

Çorum, a city of SMEs

Çorum is among the cities with rapidly growing economies. In recent years, it has become a home to a large number of Small and Medium-size Enterprises (SME). It exports paper, machines, chemical products and animal feed to many countries. It is one of the most prominent cities in the field of car spare parts. There are two FDI in Çorum. The paper factory in the city is run by Britons, and the cement factory called Çimport is run by the Portuguese.

"Çorum is a city of SMEs. There are 420 SMEs, which realize \$150 million in export. We export to nearly all the countries in the world," said Kenan Malatyalı, the board chairman of the Çorum Chamber of Industry and Commerce.

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Engine of the Turkish economy, textiles feed 2 million people

YASEMIN IVACIK ISTANBUL

The industrialization efforts of the 1960s and 1970s gave birth to the modern textile industry in Turkey. In the beginning, the industry operated as small workshops; however, rapid development led to the beginning of exports in the 1970s. One of the most important sectors of the Turkish economy, the textile industry, accounts for 11 percent of gross national product (GNP). It is also a vital sector when it comes to employment and exports, with 11 percent and 40 percent shares, respectively. It is estimated that around 2 million people are working for the textile industry, which has the largest share of exports nationwide.

Textile exporting in Turkey rose dramatically especially with growth policies in the 1990s and has come to be viewed as the most advantageous sector. One critical characteristic is that Turkey is not dependent on imports for textiles because raw materials and the other necessary items can all be supplied domestically. Even on the rare occasion that imports are needed, they are the cheap labor and energy that can be obtained from China. Today Turkey is one of the most important textile and clothing producers and exporters in the world. The country is also successful in sub-sectors of the industry such as yarn, fabric, clothing, household textiles and other ready-made products. There is no doubt that the quality cotton produced in Turkey has a positive effect on the success of the textile industry. Currently Turkey has the capacity to produce 850,000 tons of cotton and ranks fourth in yarn production worldwide. A further advantage for the industry is that Turkey is geographically close to Europe.

These aspects have the potential to carry the Turkish textile industry very far. But what remains to be done is taking advantage of this capacity to produce high-quality products with higher value added. Chairman of Board of the Directors for Gıyiment Abdullah Cınar notes that, even though Turkey is quite successful in manufacturing high quality products, it is unsuccessful in raising the value of products -- meaning the received income is not at the desirable level. According to Cınar this



In order to survive in global markets against the rising penetration of cheap Chinese products, Turkish exporters have shifted their priorities from quantity to quality.

is the natural result of lacking a brand: "There is brand problem in Turkey. Generic textile products are manufactured here but Turkey does not have a marketing strategy, marketing plan or capability. It is urgently necessary to possess these skills and increase the profit gained through the textile sector. Though both Turkey and Europe employ around 2 million people each in their textile sectors, Turkey's profit is eight times less than Europe since Europe has well-known brands." He also recalls one of his experiences with marketing: "I manufactured T-shirts for US Polo Association. One T-shirt cost US \$15, but T-shirts were on the market with a price of 150 euros (YTL 270) simply because US Polo is a famous brand. In such a case, there is no point in being proud of manufacturing high-quality products. If a high-quality product can not be put on the

market via a good marketing strategy, then manufacturing high-quality goods is not meaningful."

Germany, the US, England, Holland and Russia are the most important markets for Turkey and, as a strategic sector in foreign trading, the textile industry can be defined as the engine of Turkish economy. It is also possible to say that textile industry is one of the stabilizing components of foreign trade in Turkey. It is true to say that Turkey itself made the textile industry a strategic sector by making a myriad of investments. Much money was spent on the industry, particularly for machine technology, indicating its critical role in the economy.

As for foreign investments the reality is that investors, particularly those in Europe suffering from China, have strong interest in the Turkish textile industry. They are aware of the fact that

much importance is attached to the sector, meaning stabilized foreign trade. They are also conscious of the fine prospect presented by this industry, making them eager to invest. However, there is a negative public perception when it comes to foreign investment. Such investment is in fact an advantage for Turkey because it means higher technology will find its way here. "Foreign investments are advantageous in terms of providing additional markets and high technology" says Secretary General of the Turkish Textile Industrialists' Association Mehmet Kumbaracı. The textile industry made a great leap forward during the term of ex-Prime Minister Turgut Özal and the policies dependent on foreign trade. "A second expansion of the industry might be possible through the technology brought by foreign in-

vestors" says Cınar. Chairman of Istanbul Textile & Apparel Exporters' Association (İHKİB) Süleyman Orakçıoğlu draws attention to the point, emphasizing that foreign trade should not be perceived as the stores of foreign brands opened in our country just for the purpose of gaining profit.

Manufacturers migrating

One of the problems of the textile industry is that local industrialists have a tendency to leave Turkey and invest in other countries due to financial problems and crises. The Middle East and Balkan states are the places generally preferred by such industrialists. This tendency to carry textiles to foreign countries presents a serious problem.

According to Cınar, Turkey has been unsuccessful in channeling the investments of local industrialists domestically. Although it is a well-known fact that Turkey is in need of investment and employment, necessary action is not taken to prevent local industrialists investing abroad. "Local industrialists investing elsewhere mostly choose Bosnia. For instance cotton mills were founded in Turkmenistan, but I think it was a positive move. Turkey has a good production capacity for yarn, almost too good. The investments made in Turkmenistan enabled them to turn raw cotton, into semi-finished products," cites Cınar.

Süleyman Orakçıoğlu believes that one of the most significant problems of the textile industry has been the New Turkish Lira. Aside from the more valuable YTL, exchange rates and high public output expenses were other serious problems for the Kumbaracı, who categorizes producer groups in Turkey as those manufacturing their own brands, those manufacturing with private labels and custom manufacturers. According to Kumbaracı, textile industrialists should become market-makers rather than suppliers as soon as possible. He adds: "The turnover textile industry is around \$456 billion and Turkey has a share of 5 percent with \$14 billion. This figure should not be underestimated and we are expecting the new government to make policies and develop strategies accordingly."

TURKEY EMERGES AS INVESTMENT SAFE HAVEN

2 CONTINUED FROM PAGE 1

As of June 2006, its exports were already \$95 billion. On the other hand, its imports are also growing. Having already exceeded \$150 billion last month, imports are causing the alarm bells to sound the alert to Turkey to the threat of a rising current account deficit, which is expected to surpass \$50 billion at the end of the year. Some analysts believe the situation is worsening every day and that a financial crisis similar to that of 2001 is looming on the horizon. A majority of others, however, are arguing that there is still not much to worry about. The deficit stems from the import of intermediary goods, machinery and equipment, all of which are used as inputs for finished goods, carrying much a higher value added. The increased FDI is a good remedy to close the current account deficit. FDI financed 81.9 percent of the deficit in the first quarter of 2007. This figure was only 21.8 percent in 2003.

Decreasing inflation rate to single-digit levels after suffering hyperinflation for over 30 years was another eye-catching success. The stand-by program with the International Monetary Fund (IMF) is seeing the implementation of very tight fiscal and monetary policies, as seen in the target of attaining a 6.5 percent primary surplus every year. Although the main purpose in creating a high primary surplus is to decrease debt and interest payments, which cost the country tens of billions of dollars every year, it is also causing the government to tighten its belt and spend less on public investment, thus indirectly curbing inflationary pressures.

The IMF senior resident representative in Turkey, Hugh Brendkamp, opined that Turkey still has to commit to high primary surplus targets for some time. Speaking at the Turkish Economy in Global Competition conference, held by the Turkish Industrialists and Businessmen's Association (TUSIAD) and the Konrad-Adenauer-Stiftung foundation in Istanbul last Thursday, Brendkamp said it still needs to be high. "Of course we can't say this target will last forever; one day there will be alleviation. Yet we don't believe that we have reached that point yet. It is still not the proper time to decrease the target," he said.

Ferit Sahenk, the vice chairman of TUSIAD, also claimed at the same conference that there were two main reasons behind the recent success in the economy: the stand-by program with the IMF and the negotiation process with the European Union. Another reason is being cited by many analysts as the excessive global liquidi-



Records in privatization

Landmark progress was made in privatization. Turkey managed to earn as much revenue as the total of the previous 18 years in just one year - 2005 - from the sale of public properties. The sale of Türk Telekom to the Saudi Oger Group in 2005 for \$6.55 billion was the biggest ever sale. The privatizations of the Turkish Petroleum Refineries Corporation (Tüpraş), Ereğli Iron and Steel (Erdemir) and the partial IPO of Turkish Airlines (THY) were other major steps taken to liberalize country's economy. Following the successful IPO of Vakıfbank, work on the privatization of state banks also gained speed, and the sale of 25 percent of Halkbank in an IPO was also completed.

ty in the world markets, which is a by-product of the increasing propensity to save at the global scale and which is floating freely in search of suitable -- and of course profitable -- investment areas to settle in. Turkey has achieved more investment and fund inflows recently as a consequence of the structural reforms it completed, as well as having risen to better positions in the scale of the global competitiveness, Sahenk noted.

According to the Global Competitiveness Index, prepared every year by the World Economic Forum, Turkey rose to 59th rank in 2006 from 71st in 2005. This 12-step jump at once made Turkey the fourth fastest rising country in the world. These developments in competitiveness are not a coincidence, Sahenk noted, and went on to say: "In this positive atmosphere in the economy, consumers have also started to make long-term plans and to realize their consumption decisions by securing longer-term loans. This way, the level of wealth has been augmented and the gross national product per capita rose to \$5,566."

Tahir Uysal, chairman of the International Investors Association (YASED), which represents 85 percent of all foreign investments in Turkey, said the country has to attract more greenfield investment from abroad in order to preserve the current level of foreign interest. But this is only possible by solving some major problems and removing big obstacles, he said. The government has to fight against the "unregistered economy," since condoning it means penalizing companies that are operating legitimately. Establishing clear rules to organize markets and obeying all the conditions of transparency in applying these rules are also important, he said.

Uysal also insists on decreasing indirect taxes, which place unbearable burdens on the shoulders of companies. This way, the chances of the government succeeding in the fight against the unregistered economy will increase, he claims. For Uysal, other urgent steps to be taken to attract the permanent interest of investors are as follows: Incentives must be restructured to remove regional disparities in Turkey; the costs of employment must be decreased; foreign language education and vocational training have to be paid more importance; regulations to guarantee intellectual property rights and brand protection have to be completed and applied efficiently; and more incentives to increase research and development must be launched.

| Performance in national accounts | | | |
|----------------------------------|-------|-----------------|-------------------|
| | GNP* | GNP Per Capita* | Growth (Real - %) |
| 2001 | 145.7 | 2123 | 9.5 |
| 2002 | 180.9 | 2598 | 7.9 |
| 2003 | 239.2 | 3393 | 9.9 |
| 2004 | 298.5 | 4172 | 9.9 |
| 2005 | 360.9 | 5008 | 7.8 |
| 2006 | 386.7 | 5477 | 6 |

(*) Current Prices - Billion dollars

| Turkey gains expertise in exports* | | | |
|------------------------------------|---------|---------|---------|
| | Exports | Imports | Balance |
| 2001 | 31.3 | 41.4 | -10.1 |
| 2002 | 36 | 51.6 | -15.6 |
| 2003 | 47.2 | 69.3 | -22.1 |
| 2004 | 63.2 | 97.5 | -34.3 |
| 2005 | 73.5 | 116.8 | -43.3 |
| 2006 | 85.3 | 137.4 | -52.1 |

(*) Billion dollars

| Rampant inflation controllet (percent) | | | |
|--|------|-------|--------------|
| | FPI | CPI | GNP Deflator |
| 2001 | 81.6 | 54.4 | 55.3 |
| 2002 | 50.1 | 45 | 44.4 |
| 2003 | 25.6 | 25.3 | 22.5 |
| 2004 | 11.1 | 10.8 | 9.5 |
| 2005 | 8.24 | 10.14 | 5.3 |
| 2006 | 9.77 | 10.51 | 11.7 |

Source: Turkish Statistical Institution (TUSIAD)

| Foreign investors flock to Turkish markets | | | | | |
|--|----------------|--------------|-------------|--------|---------|
| | Equity Capital | Debt Capital | Real Estate | Total | |
| | Inflow | Outflow | Net | Inflow | Outflow |
| 2001 | 3374 | -22 | 3352 | - | 3352 |
| 2002 | 602 | -5 | 597 | 520 | -1137 |
| 2003 | 745 | -8 | 737 | 17 | 996 |
| 2004 | 1291 | -100 | 1191 | 349 | 1343 |
| 2005 | 8540 | -336 | 8204 | 238 | 1841 |
| 2006 | 17448 | -657 | 16791 | 86 | 2922 |

* Credits which comprises with foreign capital take from foreign partners

Source: Central Bank of the Republic of Turkey (TCMB)

| Minimum monthly wage for 2007* | | | |
|--|--------|--------|--------|
| | YTL | Euro | USD |
| Gross Minimum Wage | 562.5 | 302.84 | 398.05 |
| Social Security Premium Payment (4%) | 78.75 | 42.57 | 55.72 |
| Payment for Unemployment Insurance Fund (1%) | 5.63 | 3.02 | 3.96 |
| Income Tax (15%) | 71.72 | 38.58 | 50.75 |
| Stamp Tax (8%) | 3.38 | 1.81 | 2.39 |
| Total Deduction | 159.48 | 85.9 | 112.85 |
| Net Minimum Wage | 403.02 | 216.94 | 285.2 |

Source: Ministry of Labor and Social Security

TOURISM BECOMING TURKEY'S BACKBONE INDUSTRY

Being such a profit-generating industry, tourism attracts the attention of foreign investors as well. The best example of the tourism industry being open to foreign investment is foreign international five-star hotel chains located in İstanbul and other destinations. Following İstanbul, Antalya -- the southern coastal city where the heart of tourism beats -- is the city that receives the greatest foreign investment in Turkey

SULE KULU İSTANBUL

For a country that is located at the crossroads of two continents and was host to many advanced civilizations from the Hittites to the Byzantine Empire -- namely Turkey -- the tourism industry is likely to be the backbone of the economy. Although it is still heatedly debated whether Turkey fully makes use of this market potential, there is a large wave of investments pouring into the Turkish tourism sector to create a greater capacity to host tourists, especially along with the country's long borders at the Mediterranean and Aegean seas.

Almost all of the investments in tourism are currently carried out by the private sector rather than the public. However, tourism investments are also defined as "critically important industry investments" by the Turkish Treasury. Law no. 17635 on Tourism Incentive aims at promoting and regulating tourism investments and establishments. Tourism Undersecretary Mustafa Isen underlines the unique "Turkish model" of tourism that covers a collaboration of public and private sector. "We have a unique model. The state deals with the infrastructure and the private sector undertakes superstructure," he says.

However, investors are still dissatisfied with high taxes, employment problems and insufficient infrastructure funds. Member of the board of directors of the Turkish Hoteliers' Association (TUROB), Sevdâ Yılmaz emphasizes that it is the tourism establishment that is charged with the staff burden. "Staff expenditures are equal to the rest of all expenditures. How can [hotels] meet them?" she complains. Yılmaz says: "It is not possible to cope with private consumption tax (ÖTV) in hotels. We should realize that tourism is a kind of 'export'."

Being such a profit-generating industry, tourism attracts the attention of foreign investors as well. The best example of the tourism industry being open to foreign investment is foreign international five-star hotel chains located in İstanbul and other destinations. The Turkish Treasury International Foreign Investment report reveals that tourism centers are favorite investment areas of foreign investors. Following İstanbul, Antalya -- the southern coastal city where the heart of tourism beats -- is the city that receives the greatest foreign investment in Turkey. However, when we take a look at the distribution of foreign investment, we see that the tourism industry is at the bottom of the list. Replying to a question by Today's Zaman, Yılmaz states that as an "in-



Tourism emerges as remedy for deficits

Starting in the 1980s, the tourism industry has served as a remedy for many chronic problems of the Turkish economy such as unemployment and insufficient foreign exchange input. In addition to its substantial contribution to the national economy, tourism has also contributed greatly to the improvement of intercultural communication. Especially with the opening of negotiations with the European Union, the tourism industry has gained new dimensions. Tourism Undersecretary Mustafa Isen points out: "The harmonization process does not only have economic contributions to tourism. Most importantly, it increases 'customer satisfaction' among tourists, which will eventually eradicate negative misunderstandings about Turkey."

vestors association" they do not have many foreign members. She adds, "However, there are some international groups that also make investments in Turkey such as the Accor Group, which operates in nearly 100 countries, and the Holiday-Inn Group, which has many hotels and resorts all over the world and in Turkey. She stresses that as foreign entrepreneurs are more familiar with the idea of Non Governmental Organizations (NGO), they are more active than domestic investors in their associations as well.

Unplanned investments and ineffective distribution of tourism enterprises also pose problem for further development of the tourism industry in Turkey. For years, both public and private investments have edged mainly toward the Aegean, Mediterranean and Marmara coasts, which eventually led to mass concentration on these regions. During "high season," which covers July and August, tourism enterprises in Antalya operate above their capacities, for instance. According to statistics of Turkish Tourism Investors Association (TYP), Antalya is the leading city in terms of distribution of tourist arrivals by main tourism centers, with 6

million tourists per year. Chairman of the Duru Turizm Agency, Ceylan Berkman notes that, "As Duru Turizm, we try to attach more importance to culture tourism rather than coastal tourism; however, it is not easy to change the habits of either the tourists or the hotel managers." Emphasizing the vitality of common action, Berkman complains about insufficient marketing of alternative destinations.

Falling into line with Berkman, Sevdâ Yılmaz also draws attention to the significance of diversifying marketing strategies. "We have to give incentive to promotions on a per destination basis. We should give up associating tourism with 'sea, sand, sun'. We have many other destinations with history and culture such as Amasya [a small Black Sea city] and Antakya (Antioch) [a city of religious mosaics on the Mediterranean coast]. We should go beyond run-of-the-mill marketing strategies," she adds. As Yılmaz states, city tourism or culture tourism is under promoted; however, a few enterprises such as the Accor Group, which has recently opened a hotel in Eskişehir [a central Anatolian city], pioneer city tourism in Turkey. That

a foreign tourism investor seeks alternative destinations reveals the contribution of foreign investors to the Turkish tourism industry. It is likely that it will take some time to make both foreign and domestic tourists familiar with alternative tourism activities and destinations. But there is no doubt that Turkey will benefit from it to a great extent.

Future plans

As to the future plans of Turkish government about tourism industry, Tourism Undersecretary Mustafa Isen notes that the problem of unplanned tourism will be eliminated by the Tourism Strategy of Turkey 2023 [100th anniversary of the foundation of the Turkish Republic], prepared and published by the Ministry of Culture and Tourism in March 2007. This report reveals that Turkey is determined to establish more alternative and appealing destinations and routes. In this strategy plan, investors -- foreign or domestic -- who are willing to accomplish tourism-related projects, are guaranteed to be granted government incentives and facilities.

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RETAILERS ADOPTING MODERN WAY OF DOING BUSINESS

FARUK CAN ISTANBUL

The Turkish retail sector is on the verge of a strong transformation from traditional retailing to organized and professional corporations and chain stores. This transformation has great importance because of the sector's effect on the economy, supply chains and employment.

Organized retail in Turkey commenced in the 1980s and made rapid advances in the 1990s. Currently there are three international food retail groups and around 50 small and large domestic retail chains operating in Turkey. The expenditure on food and drinks accounted for around 53 percent of total retail expenditure in 2006, in Turkey.

Within grocery retailing, discounters saw the most dynamic growth. This was due to customers becoming more price-sensitive following the 2001 economic crisis, greater numbers of such outlets being available and the high-quality private label products offered by the leading discounters, which were considerably cheaper than branded goods. The leading discounter was the local company BIM, which had the highest number of outlets and was the only hard discounter present.

Business Monitor International forecasts incredible growth in Turkey's mass grocery retail (MGR) sector in coming years, with the closeness of the top players, both in terms of sales and market share, the key driver behind this growth. Value sales are forecast to grow by over 136 percent by 2011 supported by the economic forecast, which suggests that consumer confidence should remain high over the forecast period. Migros, which was recently put up for sale by its owner Koc Group, now has by far the largest store network in the Turkish MGR sector, and has shown in the past that it is willing to fight hard to maintain its leadership position. Given this position, it can be expected that many of its expansion hungry rivals will be keen to take over its store network.

Number-two retailer Carrefour has



been steadily expanding its Turkish store network in recent years, following reports that Turkey was the company's highest growth market in 2005. Despite a disappointing first quarter in 2007, the company continues to be dedicated to the Turkish market, and will no doubt be eager to snap up the Migros network should the opportunity arise. The UK's Tesco, which operates the Izmir-based Kipa retail chain, has also been very vocal about expanding its Turkish operations. Due to competition restraints, the company can no longer make any big expansions in its home market, and must instead expand overseas as the key driver

for its long-term growth. To this end, it has been increasing its international operations, with Turkey becoming a new strategic area for the firm. Having consolidated its position, it has now set about building a more sizeable network and has been looking to expand its country-wide presence. German retailer Metro Group is also a possible contender, as it announced plans to increase its Turkish investments. Given the financial strength of their parent companies, both Tesco and Metro would be in a position to make such a major acquisition.

However, there is also another possibility -- that global behemoth Wal-Mart

will use this as an opportunity to make its Turkish market entry. The company has been eyeing the Turkish retail market for some time now, potentially through a joint venture with Koc Holding, and this could be just the type of opportunity that it is looking for. The Migros network consists of 906 stores, the majority of which are located in Turkey, though there are also operations in Russia, Kazakhstan, Azerbaijan, Kyrgyzstan and FYR Macedonia. The company recorded sales of \$3 billion in 2006, with pre-tax profits of \$110 million. Koc holds a 50.8 percent stake in the listed company, which has a total market capitalization of \$2.2 billion.

With its large young population and recent economic and spending boom, Turkey has been catching the eye of many international players in recent years. The country represents a major growth opportunity, as it has a large and unsaturated market -- characteristic of the emerging markets of the Middle East -- paired with relative political stability, a manageable business environment and a growing middle class when compared with its Middle Eastern peers, which together are a winning combination. For these reasons, there is no doubt that a number of international majors will be closely watching to see if the Migros sale does indeed move forward.

Future of MGR

The retail industry in Turkey is expected to record good growth over the forecast period. The main driving factors for growth will be the following:

- Increased population, urbanization, and disposable incomes;
- Young population of the country that will demand more modern retail products;
- Local and foreign investment in the industry in terms of new outlets opening or new entries, such as Harvey Nichols in 2006;
- Favorable payment options;
- Expansion of multiples into different cities of the country;
- Opening of new shopping and retail centers where different formats will be available.

LESLIE M. SCHWETITZER


FOSTERING THE GROWTH OF US-TURKEY BUSINESS PARTNERSHIPS

The 5th World Chambers Congress convenes this week in Istanbul with hundreds of chambers of commerce from around the world and the largest delegation ever to participate from the United States. In my mind, one of the most significant outcomes of this congress will be an increased awareness of the American chamber community as to the opportunities for increased business partnerships between Turkey and the United States.

It is unfortunate, but the US is not terribly aware of Turkey as a business destination; it is far better known as a glorious holiday venue. Even though trade between the US and Turkey has increased by 17 percent and is now in excess of \$11 billion, we are far from reaching our potential, particularly within the small and medium business community. We must never forget that they are the engines that move both of our economies forward. Frankly, both countries have not done a good job in fostering and nurturing small and medium companies and educating them about the practical "how-to-tools" to assist them in developing business between our countries. Turkey has focused on developing business with the European Union and the Middle East and America has shown much more interest in building relationships with China, Singapore, India, Bahrain, Oman and countries throughout Latin America. As Daniel Sullivan, Assistant Secretary for Economic, Energy and Business at the US Department of State commented last week during his visit to Turkey, it is critical that we work closely together to improve our economic ties.

As part of a USAID/US Chamber of Commerce/US Embassy/Turkish Union of Chambers and Commodities Exchanges (TOBB) business partnership alliance project last year, a survey was developed to measure the American business community's perception of the business relationship between the two countries. The survey addressed five industry/product sectors: automotive components, software development, marble and natural stone, furniture and lighting equipment. Specifically, the survey addressed the same questions in each of the groups such as current US market trends, industry success factors, perceptions in the US business market about Turkey and evaluation of realistic opportunities for increased business between the two countries. Whenever possible the businesses interviewed were international in scope either currently doing business in Turkey or at least had an interest in doing business there.

The results of the survey were surprisingly similar in each of the industry/product sectors. Although there were some specific comments relating to the various sectors or products, there were several common themes. Most of those American companies that were interviewed stated that the business community in the US lacked a perception of Turkey as a sourcing location or business partner. They also suggested that both Turkey and the US need to market themselves to each other much more aggressively. The results of the survey simply confirmed the premise for the USAID funded project that there simply has not been enough education of companies on both sides of the ocean as to the vast opportunities that are available through the growth of US-Turkey business relationships.

During the course of the last 18 months, I have been involved in a unique series of programs partnering with USAID/US Chamber/TOBB and the US Embassy conducted in Gaziantep, Ankara, Kayseri, Izmir and Istanbul to educate the Turkish business community on how to do business in the US. The full day programs highlighted topics such as consumer trends, competitive marketing, branding, product distribution, trade shows, transportation logistics and partnering opportunities. The programs were highly interactive and very well attended. As a result of these programs, the Istanbul Chamber has conducted in-depth training seminars in Turkey focused on three key industry sectors in the United States: furniture, marble, granite and natural stone and processed organic foods. They are also including a series of educational seminars in the US to the business and "multiplier" community regarding the potential of increased business between our countries. Part of their project in Istanbul is also to train a group of counselors to assist SMEs in doing business in the US. These types of hands on, grassroots outreach projects in both of our countries are exactly what we need to develop. Immediate outcomes of these programs are trade missions such as the one being organized by the Mobile Alabama Chamber of Commerce next year to Turkey and a series of educational programs on Turkey as a business destination in Atlanta, Chicago, Dallas, Los Angeles and Mobile this year. There is no doubt that through these programs we will see a marked increase in economic ties between our countries over the next few years, but it must remain a priority.

(*) Senior Trade Advisor at the US Chamber of Commerce

Mass grocery retailers in Turkey

| Retailer | Consolidated turnover* | Number of stores | Number of employees | Number of visitors** |
|-----------|------------------------|------------------|---------------------|----------------------|
| 1 MIGROS | 2,690 | 505 | 7,000 | 140 |
| 2 BIM | 1,674 | 1,325 | 6,667 | n.a. |
| 3 TANSAS | 1,271 | 217 | 5,500 | 90 |
| 4 METRO | 1,203 | 9 | n.a. | 0.6 |
| 5 GIMA | 714 | 81 | n.a. | n.a. |
| 6 TESCO | 453 | 5 | 2,040 | n.a. |
| 7 ADESE | 230 | 29 | 1,776 | 20 |
| 8 GROSERI | 80 | 11 | 700 | 7.3 |
| 9 GENPA | 75 | 35 | 500 | 14.6 |
| 10 OZHAN | 56.4 | 13 | 430 | 5.4 |

(* million YTL, (**) millions, annually

PHOTO:AA



Turkey's billion-dollar automotive industry continues to thrive

The past 40 years have seen foreign automobile producers making billions of dollars in investments in Turkey. Global auto giants such as Ford, Renault, Fiat, Toyota, Honda and Hyundai all have important facilities, and these auto giants plan to continue investing here because of Turkey's high-quality production, which sets it apart from other competitors

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- *Warm-air generators
- *Radiator boilers Steam boilers



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PHOTO:AA



The past 40 years have seen foreign automobile producers making billions of dollars in investments in Turkey -- something which shows their trust in the country. According to data from the Automotive Manufacturers Association (OSD), global auto giants such as Ford, Renault, Fiat, Toyota, Honda and Hyundai all have important facilities in Turkey, and these auto giants plan to continue investing here because of Turkey's high-quality production, which sets it apart from other competitors.

Many of these automotive firms' models had been in the past, and some continue to be, produced in their factories located in Turkey. Toyota's Corolla and Auris; Renault's 9, 11, 21, 19, Megane Sedan, Megan Wagon and Clio Symbol; Honda's Civic Sedan; Hyundai's Accent Era, Starex and Matrix; and Fiat's Tempra, Tipo, Palio and Albea are all examples of models being produced in Turkey.

Currently, Japan-based Toyota's Turkish facility manufactures the Corolla Verso and Toyota's "golden boy" Auris at its factory located in Adapazarı. The company exports most of the cars it produces, and the Adapazarı facilities are one of the 10 largest Toyota factories outside of Japan, with a production capacity of 150,000 cars per year. Various editions of the Corolla Sedan, Corolla Wagon, new Corolla Verso and more recently the Auris have been produced at the Turkish branch of the company, which was established in 1992.

Toyota Turkey CEO Kazuhiro Kobayashi recently said that their total investments had reached 1 billion euros as of March 31, 2007.

French car manufacturer Renault continues the Turkish manufacturing journey it launched in 1969 -- a joint initiative with the Armed Forces Pension Fund (OYAK) and Yapı Kredi Bank. The first cars they produced -- the Renault 12 Sedan and Station -- rolled off the production line in 1971 with an annual capacity of 20,000 that year. OYAK Renault's investments from 1996 to 2006 exceeded \$1 billion, and Renault announced that they would invest an additional 83 million euros in 2007. Renault Foreign Affairs Vice President Luc Alexandre Menard said in recent months that they had decided to produce a new vehicle in the factory located in Bursa, noting that a Clio model, exclusive to Turkey, would be manufactured at the location.

South Korean heavy industry giant Hyundai has been manufacturing cars for a decade in Turkey through a joint initiative with Turkish aluminum giant Assan. Hyundai Assan's factory was built in İzmit with a \$180 million investment. The Accent and H 100 were the first models produced at the

Izmit facility.

Hyundai's redesign costs reached \$400 million with the production of the Starex and Matrix models. The production capacity of the company increased to 100,000 annually thanks to the latest model, the Matrix. According to information released by Hyundai Assan, negotiations are still in progress with the Hyundai Motor Company in South Korea in order to produce a larger number of new models in Turkey in upcoming years. Ford Otosan was established in 1959. After laying the foundation of its factory in Kocaeli in 1998 with investments of around \$1.2 billion, Ford Otosan became one of the leading automotive companies in Turkey. Ford Otosan is now producing the Transit, Transit Connect, Puma Transit Engines and Ecotorq truck engines, alongside cargo trucks.

Koç Holding and Fiat's joint initiative Tofaş was one of the first auto producers in Turkey, with production starting in 1971 after its establishment in Bursa in 1968. With the expansion of the facilities, the factory is now made up of a more than one-million-square-meter complex. The company made massive contributions to the economy with its "bird series" -- appropriately named after birds such as the eagle, hawk, falcon and sparrow. The production of the Fiat's Tempra, Tipo and Uno models was a milestone for Tofaş. Today, Tofaş is also producing the Palio, Albea and Doblo models. Its production capacity will increase to 360,000 with investments of 550 million euros for the Linea and Mini Cargo models. Tofaş has projected investments totaling \$1 billion between 2006 to 2008.

Japanese automotive giant Honda started to manufacture the Civic Sedan model in Turkey in Gebze as of 1997, followed by the City models from December of 2005. Honda Turkey became Honda's second-largest production base in Europe and will increase its production capacity to 50,000 from 30,000 this year. The company's next goal, in terms of investment, is to increase the capacity to 100,000, with a \$90 million investment.

Opel, under the umbrella of General Motors (GM), which had a short-lived production period in Turkey, has a different strategy. General Motors Turkey General Manager Özcan Keklik said they have a goal of acquiring spare parts worth \$500 million from local suppliers for their production facilities all over the world until 2010. "I would like to note that GM's procurement of spare parts will contribute to the economy much more so than that of a car production facility that has an annual 20,000-30,000-unit production capacity," he explained. **Istanbul** Today's Business

PHOTO:REUTERS



PHOTOS
TODAY'S ZAMAN

Turkish jewelry producers emphasize the need for educated workers to challenge Italy's market dominance.

TURKEY AIMS TO EXPORT \$1.3 BILLION GOLD IN 2007

MICHAEL KUSER ISTANBUL

The Turkish gold and jewelry sector may realize up to \$1.3 billion in exports this year, slightly above the performance in 2006, a year in which volatile gold prices cut demand. A drop in gold prices and the ensuing increase in demand for gold jewelry are helping the sector this year, but the key factor in continuing the growth in exports is diversifying markets.

For example, artisans and jewelry producers in the new Kuyumcukent (jewelers' city) site near the main airport in Istanbul say summer is the wedding season in India and Pakistan, where gold is a traditional gift. Turkey has long targeted the US market, but now also aims for South America, Russia and China, as well as age-old gold markets in the Middle East.

Turkey ranks second behind Italy in gold exports, though a distant second as Italy exports more than four times as much as Turkey. The Italian Institute of Statistics (ISTAT) figures for Italian jewelry exports for the whole of 2006 show an increase of 9.7 percent over 2005, reaching 4.4 billion euros. Calculated in euro, the jump in prices for precious raw materials and the strengthening of the euro versus the dollar distorted the statistics to imply an apparent increase. However, minus the distorting factors, exports of Italian jewelry would be below 2005 levels in real terms. Indeed the variations in quantity terms, calculated by ISTAT, indicate a slump of 7.9 percent in foreign jewelry sales last year.

Today's Zaman visited Kuyumcukent in the last week of June to talk to jewelers and gold producers. The result is a micro-level look at the sector, with sometimes contradictory assessments. According to Ramazan Yanasik, owner of gifts and accessories design shop Gümiş 7, the sector is going badly with sales down significantly from last year. "Last year we were 24 people working here, now we are four," said Yanasik. "Last year in May and June when the price of silver and value of mines increased around the world it affected us very negatively. Domestic sales came to a near stop."

Yanasik used to export to Greece and Denmark, and now to the US. Exports have dropped but at least not dried up altogether. "What we are missing is education," he said. "If we want to get ahead of Italy we have to promote educated employees entering this sector. Only then we can exceed Italy in design. We cannot compete with their machinery. In fact the majority of the machinery used in the sector is imported from Italy and we are dependent on them for large-scale production and machinery."

Jewelry is not like food

"Accessories are not a must," said Yanasik. "Our sales depend on the economy doing well. Nowadays people paying off their credit cards, bank credits and other debts do not spend any money on themselves. Moreover the government does not open the ways for small artisans and craftsmen. Social security premiums, energy prices and tax rates have to decrease so that we can create more value and have competitive advantages."

In the gold sector one wholesaler blamed the instability in prices for tough times. İlyas Bektaş, general manager of Pinar Kuyumculuk, said volatile prices affect the work negatively since people do not know what will happen and they cannot make decisions.

"The prices are determined by the strong economies of the world," said Bektaş. "Parallel to the decline in income and resources in the world, both profit margins and sales have declined. We have broken the manufacturing prices and labor costs, too, and prices have fallen around 30 percent. The existence of big companies is good for us however, as we work for them, even if we are dependent."

Turkey can only compete with Italy in workmanship and quality, he said. "I personally place great importance on quality," said Bektaş. "Quality can be obtained with an educated labor force. With educated people in the sector our competitive power will increase. We are happy to move to Kuyumcukent, but there are many more things to do. The site should be made attractive for both local and foreign tourists. Building of a hotel is planned, and would be supported with tours organized from the city or directly from the airport. There are programs like this in Italy. Another important point is that the city should bring every goldsmith here and encourage them to go legal. There are many goldsmiths now working illegally and that creates unfair competition for us."

Government support

Hakkı Halilogulları, owner of Aber Gold, which employs seven artisans, said the sector expects incentives from the government. "This site is the biggest in the world, with 3,800 shops," he said. "We want the bureaucracy for the gold credit diminished. If the incentives and the confidence implemented in the textile sector would be implemented in the gold and jewelry sector, it has the potential to become the locomotive sector of the country. The price movements are caused by the games the US plays in the foreign markets. Also summer is the wedding season in Pakistan and India, and prices tend to increase. The price increase affects those producing for the domestic market negatively. The US

A drop in gold prices and the ensuing increase in demand for gold jewelry are helping the sector this year, but the key factor in continuing the growth in exports is diversifying markets. Turkey has long targeted the US market, but now also aims for South America, Russia and China, as well as age-old gold markets in the Middle East



keeps its currency and gold prices fixed to protect its exports, like Turkey. Both of them are expected to increase in Turkey. Particularly in the event of a political crisis after the election in Turkey, both the dollar and gold will increase. This makes us feel uneasy."

Labor quality in Turkey is equal to that in Italy although the labor costs are less, he said. "Also in design we are as good as Italy," said Halilogulları, adding: "If there is better promotion of Kuyumcukent then Turkey would have a very good position in the jewelry sector, as 75 percent of the sector works for foreign markets. Aber Gold exports to the Balkans, Europe and Arab countries. Dubai is the leading region in gold trade today, although the production is very weak there because it is a free trade zone. We could do similar programs and we would be number one in gold trade volume. Kuyumcukent could be at least the second Dubai."

China, on the other hand, cannot even enter this sector, he said. "It seems impossible that they can compete with our products. Iran has very big gold mines too, and if a conflict begins between the US and Iran, gold prices will increase seriously. This is also another disturbing possibility. During the Iran-Iraq war gold prices rose by as much as 60 percent."

Man versus machine

Burhanettin Aksu is the partner of a two-man foundry, BMC Kalip, manufacturing designs and molds. He complained that the sector is getting worse, that they have to use manual power. "Transferring to machinery is very expensive and we would have to take courses," said Aksu. "The price of silver has increased beyond expectations and machinery killed the craftsmen. The government should support us. They should give support for training and for buying the machinery, and then give incentives for automation. Otherwise Turkish craftsmanship will die."

The big producers can survive, said Aksu, but there is a decrease in quality and some have started to produce in China, which is another hit for the Turkish gold workers. "We hear that Italy is protecting craftsmanship," he said. "They are number one in the world both in big production and also in craftsmanship. They are good and they support craftsmen."

A gold assayer said the sector looks to make profits from any political turmoil following the general elections in Turkey on July 22. Murat Aygün is a gold assayer at Merkez Ayarevi, working only with small-sized goldsmiths since the major ones have the service within their own structure.

"The big producers hurt the sector, they kill the sector," said Aygün. "They took the most qualified

craftsmen and cheap labor to their companies. Our sector is unfortunately one that works on chaos -- it profits in the chaotic times. People see gold as the safest investment and buy it in times of uncertainty. It is now expected that after the elections possible political crises may lead to high profits in the gold sector."

Stable and safe

Finally we found one wholesaler happy with the sector: Sacit Özcan, son of the owner of Ali Özcan Kuyumculuk. "Stability in prices is good for us, the same stability is reflected in our sales," said Özcan. "I believe we caught this positive situation and also stability by giving importance to our business and quality, increasing our variety. Recently the sector started changing. Mainly the trend is that the trustworthy goldsmiths can survive."

He nonetheless evaluated the tough challenge facing local gold producers in the competition between Italy and Turkey. "It is very difficult for us to catch up with Italy," said Özcan. "First of all they are very advanced in machinery and technology. They are also very good in design. Moreover they do well with promotion, advertising and image. And last, also, the sector is full of well-educated people. The awareness of the importance of education for the sector is a new concept for the Turkish sector. Moreover Turkey is still imitating and copying models and designs from Italy. This is decreasing but is still happening."

Turkey sells to the US and prices have dropped because of the competition. "The competition was not only with Italy, but also among the Turkish producers," said Özcan. "Actually Turkish producers first broke the price in order to compete. They implemented nearly a 75 percent discount, or from \$4 to \$1. Now Italians compete at the same price level. China is not a competitor for Turkey. In the long run it may be an opportunity, since we can sell there. Gold has already gone there. The big producers are in some ways useful for us, as they advertise all the time. We benefit from those advertisements. They bring activity to the market, which is also reflected onto us."

About Kuyumcukent he said that they were very happy to make the move out of the old center in Eminönü. "We hope that an order will be implemented in the sector," said Özcan. "Moving all goldsmiths and jewelers here and making them legal also would help to avoid unfair competition. Also this place is very safe. We do not have any more worries about robbery, which is the biggest problem of the jewelry and gold sellers in the city. Now both the shopkeepers and clients can safely trade here."

THE MARKET FOR TRADITIONAL TURKISH CARPETS CONTINUES TO GROW

Both the handmade and machine-made carpet sectors are growing in Turkey. By the end of 2006 it had reached \$745 million. According to UN statistics Turkey is the sixth largest carpet exporter worldwide. In the first three months of 2007, total carpet export sales were approximately \$199 million

KATHY HAMILTON ISTANBUL

In the 13th century Marco Polo traveled across Asia, documenting his travels as he moved from one new culture to another. Turkish carpets, previously unknown to him, dazzled his eyes with their warmth, rich color schemes and traditional patterns. But long before Polo began his journey, carpets and kilims (flat woven rugs) were an important part of life in Central Asia. Nomadic tribes produced flat weaves for generations to make their tents, floor coverings and saddle bags. As they moved from place to place, they shared and traded their knowledge of weaving techniques with the people they met. While no one knows exactly when flat weaves began to be made, the earliest example of a pile rug was found in 1947 in a grave in the Altai Mountains of Siberia, dating back to the fifth century B.C. Made with a Turkish double knot, the sophistication of the weaving indicates that even in the fifth century B.C., textile production was already at a very advanced level.

Tribal carpets are generally divided into four categories, depending on their area of origin. Caucasian rugs are from the southern part of Russia, near the Caucasus Mountains, extending into Georgia, Armenia and Azerbaijan. Although coming from a wide area, the patterns tend to be geometric, with stripes, crosses, squares, triangles and hexagons. They are also usually made with very bright colors, often with combinations including blue, red, purple, yellow, beige and black woven into one carpet.

Central Asian carpets include those from Turkmenistan, Uzbekistan, Kazakhstan, Tajikistan and Afghanistan. They are easily identified by their dominant red or reddish-brown backgrounds, geometric patterns and unique octagonal motif of a flower. The flowers are repeated in rows, with geometric motifs in between the rows. The contrast in the motifs is created by using white, beige, black and blue colors in the motifs as well as along the borders.

True Persian carpets are hand knotted in Iran, although today many Persian-style rugs are woven in China, India and Pakistan. With their distinctive floral patterns, natural designs and single knots they are easily recognizable. All true Persian carpets feature a border emphasizing the main pattern. There may be additional narrower borders as part of the design, but the signature of Persian carpets is the border motif.

Traditionally, Turkish, or Anatolian, rugs are double knotted, meaning that for every vertical strand of thread there are two loops or knots referred to as Turkish or Gordes knots. This results in a slightly more block-like image in the final product. Another characteristic of Turkish carpets is their use of rich colors, as well as geometric designs. Turkey has many areas of carpet production, with the best known being Usak, Konya, Bergama, Hereke, Gordes, Ladik, Sivaz, Antalya, Fethiye, Nigde, Kayseri and Isparta.

In addition to rugs, kilims, or flat woven rugs are an important part of Turkish history and textile production. A kilim lays flat since it has no pile, and it often can be reversible and have no cor-

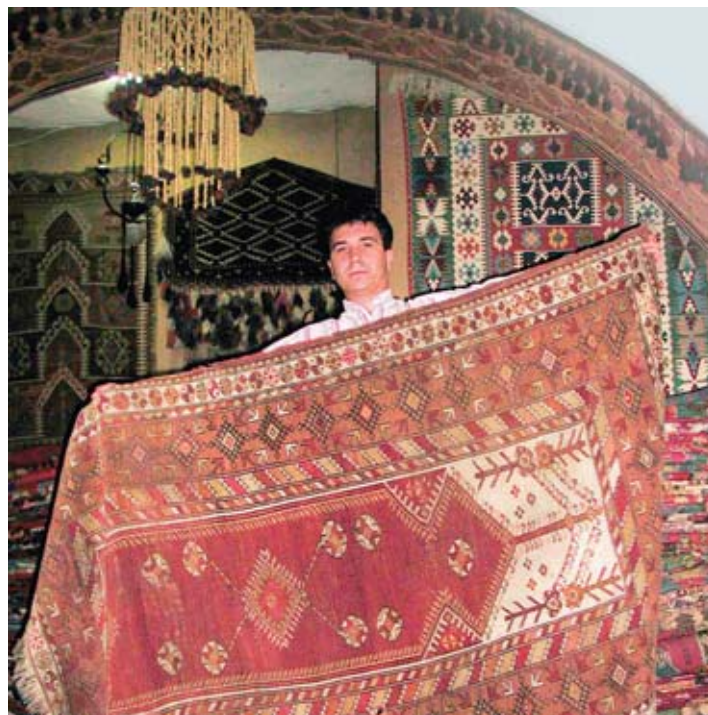


PHOTO DAA

erved for the ruling class or elite. Young girls were expected to weave, knit and embroider their dowry pieces, which was a way for them to display their talents to the prospective groom's family. In villages almost every house had a loom set up. Women would visit throughout the day as time allowed, and they would sit together, visit and weave. While visiting, a friend might take over the weaving for a little while, adding a piece of her own self into the rug. Later, when the girl moved to live with her husband's family, the parts of her weavings done by friends or family would serve as reminders of her past, her connections to her family and of her youth.

Carpets and kilims are woven with signs or symbols in them, called motifs. The entire pattern is referred to as the design. Each carpet tells a story through the use of motifs and design. Women used weaving as a way to express their joy, sorrow and grief. It was their way to tell others about their world, and it was a piece of each woman's life that would remain behind for future generations.

While Turkish handmade carpets and kilims are still in demand, since the 18th century a machine-made carpet industry has been steadily growing across Anatolia. During the last years of the Ottoman Empire, the production of handmade rugs began a gradual decline as factories were able to produce machine-made quality carpets for the European markets. However, during the Republican period handmade carpets began to be produced again in workshops, foundations and privately owned companies across the country.

Both the handmade and machine-made carpet sectors are growing in Turkey. At the beginning of the 1990s, the export value of Turkish carpets was \$202.4 million. By the end of 2006 it had reached \$745 million, reflecting a threefold increase over just 16 years. Broken down by sector, machine-made exports were valued at \$634.3 million, and the handmade sector recorded sales of \$110.7 million. According to United Nations statistics for 2005, Turkey is the sixth largest carpet exporter worldwide. In the first three months of 2007, total carpet export sales were approximately \$199 million, which is a \$47 million increase over the same period in the previous year.

Currently, the main markets for Turkish machine-made carpets are the European Union countries, which in 2006 purchased 25.2 percent of Turkey's carpet exports. Following behind the EU, the former Soviet bloc nations accounted for 18.6 percent of sales. Saudi Arabia makes up 12 percent of total sales in 2006, with the United States weighing in with 10 percent for the same period.

Presently, there are more than 900 carpet producers/exporters throughout Turkey. With a long history of textile production, particularly in carpets, Turkey is positioned to continue its growth in exports. Availability of raw materials domestically coupled with the close proximity to the major markets of Europe, the Middle East and the former Soviet republics make Turkey a major force in the carpet trade. Since the 13th century, with Marco Polo's fascination with Turkish textiles, the industry has continued to flourish. Collectors around the world as well as casual buyers recognize the quality and warmth of Turkish carpets, both hand and machine-made.

rect top or bottom as the patterns are usually geometrical, allowing for a wider range of uses. Originally woven by nomads, the first kilims often had stylized motifs important to their beliefs, many of which are still found in modern kilims, although some of the meanings have been forgotten over time. As the nomadic tribes became more settled, the kilims became integrated into their houses as bed covers and pillows as well.

The market for Turkish rugs in Europe grew during the 14th through to the 16th centuries as Western painters featured

Anatolian carpets in their paintings. Eventually, the carpets became linked to the names of the painters, and that is why today museums around the world feature Anatolian rugs known simply as Lotto, Holbein, Memling and Van Eyck carpets. By the 16th century, every royal house in Europe had at least a small collection of Turkish, or Anatolian, rugs. This, in turn, spurred the market for Turkish textiles as non-royals tried to emulate their rulers by copying their tastes in their own homes.

But in Anatolia, carpets served other purposes and were not re-

ÜNMAK working up a head of steam

ÜNMAK entered the heating sector in 1994 and now exports boilers and panel radiators to 10 countries. The firm started producing boilers in 1999 in a small factory but has grown to dominate the domestic market with the help of its large facility in Isparta. A subsidiary of Ünüsoy Industrial and Commerce Ltd., ÜNMAK produces solid, liquid and gas fuelled boilers which it sells via a network of dealers. ÜNMAK board of directors Chairman Mehmet Ünüsoy notes that their aim is to offer a qualified service and make their firm as environmentally friendly as possible.

The chairman added that they already have TSE (Turkish Standards Institute) certification, together with the ISO 9001:2000 quality management system. Ünüsoy explained: "We are aiming for the CE mark to show our products meet European standards, and are environmentally friendly and healthy products. We will prove it."

ÜNMAK produces 300,000 meters of tulle panel radiators annually and the company is targeting to ultimately export 70 percent of production and increase capacity to 1 million meters within the next few years. *Afyon Today's Business*





As the sun continues to rise...







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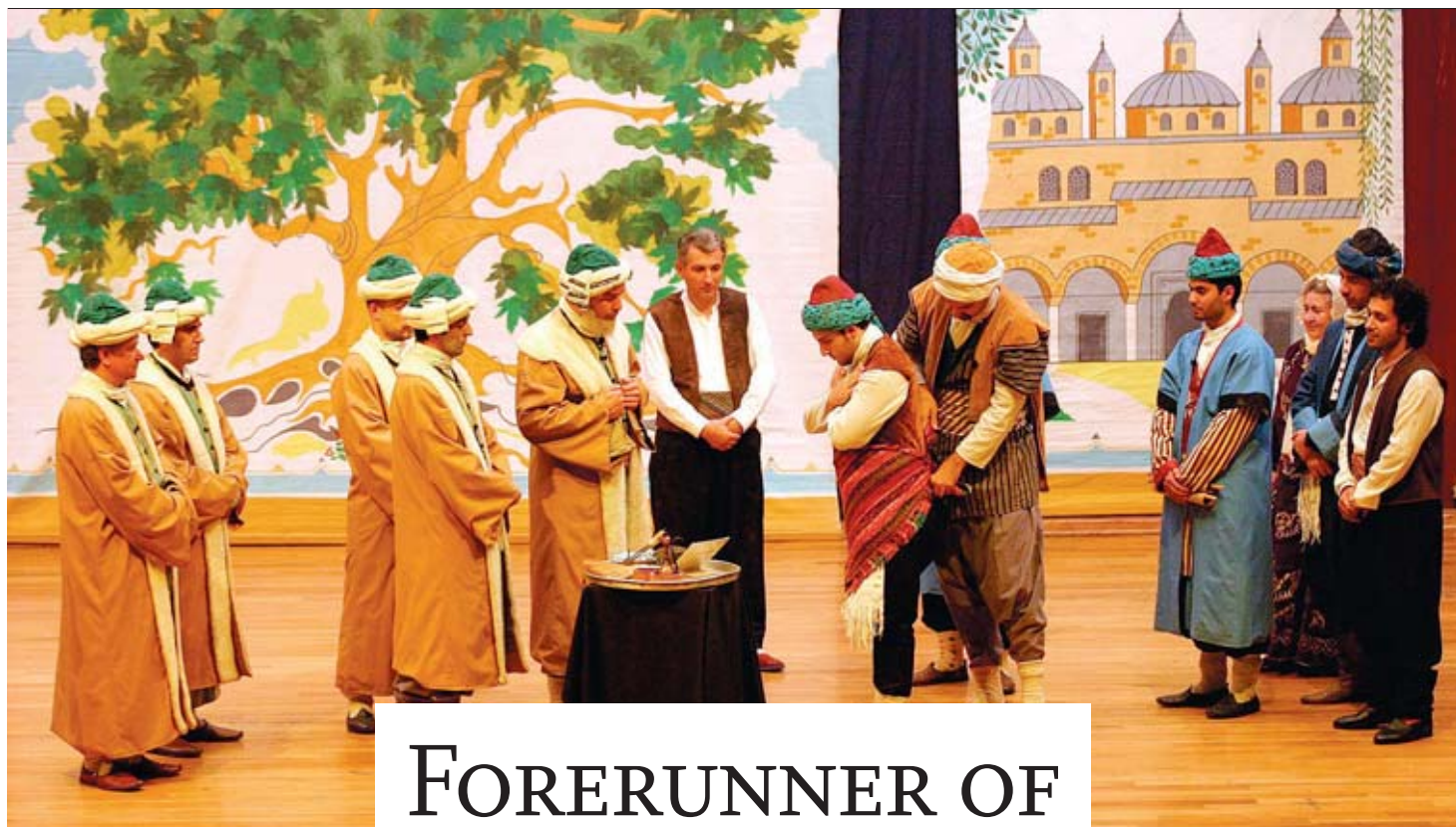
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ALİ ASLAN KILIÇ ANKARA

Today's modern chambers and professional unions inherited their responsibilities from the Ottoman guild system, which was preceded by the Ahi structure. I forwarded a complaint by a friend of mine who stressed the lack of self-control and criticism by and solidarity among the merchants as reflected in the Ahi system to Minister for Trade and Industry Ali Coşkun. "Ahilik was a system of values on which the mighty Ottoman state was based. Regrettably, we failed to preserve our essential values, which we could perfectly present as a model to the world," replied Minister Coşkun, who also added that the structure invented by Ahi Evran was the genesis for the current professional union and chambers.

Mustafa Karagüllü, who has been organizing the Ahi events for 42 years, says: "Ahism meant ethics and wisdom. It maintained an understanding based on appreciation and gratitude for the customers." Karagüllü cannot hide his emotion and excitement when speaking of Ahism: "It was a treasure that should be kept intact. Business unions were inspired by Ahism, which includes social solidarity, establishment of security, protection of consumers, promotion of quality, training of qualified employees, compassion, wisdom and so much more." Ahi Baba, who has been elected to this post unanimously for 56 years despite the fact that he did not express an interest in it, explains this old tradition to Minister Kürşad Tüzmen and an accompanying delegation, who concluded after the explanation that "if we had preserved the Ahi system, we would have already become a member in the EU." But Ahi Baba says, "If we had kept Ahism, the European countries would have expressed interest in becoming members of the Turkish Union."

Asserting that the Ottoman state collapsed because it neglected Ahi principles and goals, Karagüllü does his best to keep them alive at least as part of national culture. Karagüllü underlines that as opposed to Ahism, where wisdom and spirituality are central, the guild system promotes pursuit of interests and solidarity within the institution.

Pamuk says that the Ottoman guild system was a disciplined method of organization that was taken as a model by many modern merchant movements. Noting that Ahism was influential in Anatolian territories until the 15th century, he says: "There were other similar organizations starting from the Medieval Age in Europe and other parts of the world. We had Ahism, which remained influential in Anatolia until the 15th century, being replaced by the guild system which survived until the 19th century, when it diminished in importance because of industrialization. It became totally outdated in the World War I years."

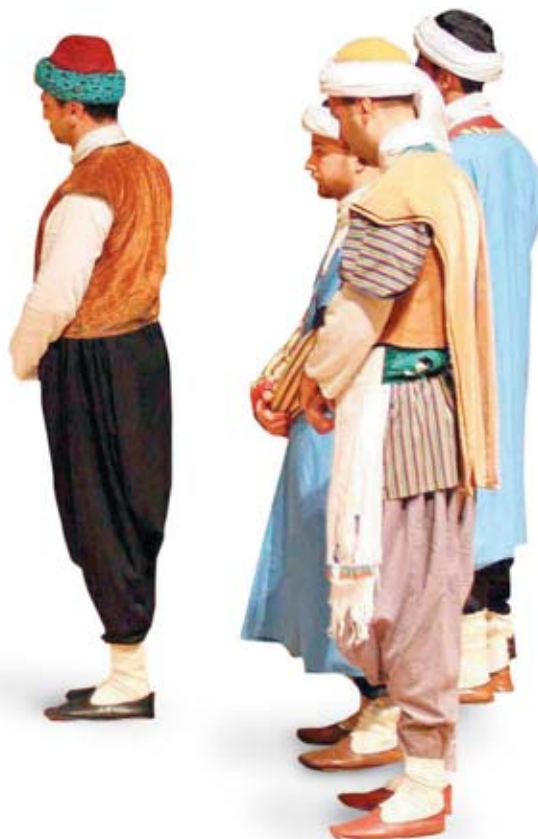
Recalling that the guilds were gradually being replaced by the modern chambers of trade, Pamuk also notes that there was no historical discontinuity between the guild system and the modern professional union.

Pamuk, who also notes that the guilds were mostly introverted, explains how they were made outdated by the advance of capitalism: "The guild system provides service for its members. While doing so, it also tries to limit the competition between the members. Let's say it dislikes competition between shoe sellers, holding that bitter competition may hurt the weak entrepreneurs. It resolves that there should be no competition; it promotes the idea that each should make equal profit. In this respect, the guild system contradicts capitalism. The contradiction was furthered as capitalism made advances in the 19th and 20th centuries. The modern professional chambers that replaced guilds do not interfere with the members in terms of how they will produce and its quality. The market conditions do all this."

Stressing that the guild system created to prevent competition cannot renew itself amid dramatic transformation, Pamuk also adds: "Guilds disappeared in Britain and West Europe first since capitalism was based on a different logic that promotes competition in all sectors. However, guilds tried to prevent

FORERUNNER OF CURRENT CHAMBERS: AHİLİK

While Ahi Baba (Ahi Father) Mustafa Karagüllü, noting that the Ottoman state was built on Ahi principles, said, 'European states would have sought membership in the Turkish Union if the Ottoman Ahi system were preserved,' Professor Dr. Şevket Pamuk asserted that the guild system, which basically protected the producers, disappeared because of the spread of capitalism



internal competition. Guilds have always lost to capitalism, not only in underdeveloped regions, they also lost in Europe."

Members of the Ahi system were supposed to be careful about their personal lives. There was a certain code of conduct that they had to comply with. Otherwise, they might have faced punishment. The perpetrators of the following acts were dropped from membership: 1- drinking alcoholic beverages; 2- adultery; 3- sodomy; 4- blasphemy and gossip; 5- double-dealing; 6- overconfidence, pride; 7- mercilessness; 8- jealousy; 9- hatred, failure to forgive; 10- breaking promises; 11- lust in women; 12- lying; 13- betrayal; 14- breach of trust; 15- tendency to reveal others' failures; 16- parsimony; 17- talking from behind; and 18- theft.

The 17th century was the brightest era for the guild system, which had 126,000 members in 1,109 guild branches. Ahism began losing impact starting from the proclamation of the administrative reforms in 1839. International competition is cited as the factor that played the greatest role. The Union and Progress Party fully abolished the guild system in 1913 considering that there was no need for it.

Ahism

A social movement that contributed a great deal to the preservation of religious and national unity in the Seljuks and the establishment of the Ottoman state and its rise. It is held that the term derives from the Arabic "Ahi," which literally means "my brother," or Turkish "aku," which means generous; however, it is not certain what word was the real source. Ahi Evran (1171-1262), who was a student of great Islamic scholars such as Fahrüddin Razi and Ahmah Yesevi, organized the merchant establishments to form a collective institution in Kayseri. He developed a statute for this umbrella institution and implemented the statute among the merchants and artisans who developed a sense of solidarity and unity based on the code developed by Ahi Evran.

Guild

A professional method of organization that admitted artisans and industrialists who resided in municipal areas as members, it was based on Ahism, which overwhelmingly affected it in terms of codes and rules to be followed by the members. Guilds had two prominent goals: 1- to ensure social equality and solidarity among the member artisans and merchants; and 2- regulating and monitoring the implementation of professional activities. In that sense, they can be compared to today's Tradesmen and Artisans' Confederation. The guilds had economic, professional and cultural functions and duties. Thanks to their disciplined structure, the guilds facilitated the market control by the state. Because competition was banned within a guild, excessive pricing, inefficient use of sources and black marketing were prevented. The state had the power to audit the guilds. Through declarations and other forms of legal documents, the state established control over them.

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İSTANBUL'S TOP 10 TOURIST SITES

KATHY HAMILTON İSTANBUL

Packed with historical sites, it is often hard to decide just which ones first-time tourists should see and experience in order to get just a taste of the richness of Istanbul in a short visit. The history of Istanbul spans thousands of years and numerous empires. Often the incoming new rulers and regimes built on top of ruins from the past, incorporating layers of history into newer buildings as needed. Finding the best representations of just a few of the eras encompassing Istanbul is no small feat. However what follows is an abbreviated list of what many consider to be the major tourist sites in the city, accompanied by a short history of each. For visitors, as well as locals with incoming guests, this can serve as a jumping-off point to further exploration of the riches that make up this multifaceted city.

1. Hagia Sophia (Aya Sofya)

This impressive monument to Christianity was erected during the reign of Emperor Justinian (A.D. 532-537) when the Byzantine Empire was at the height of its power and influence. Considered one of the world's architectural masterpieces, it influenced architecture for centuries after it was built. The impressive surviving Byzantine mosaics date from the sixth through the 10th centuries. After the fall of Byzantium, the Hagia Sophia was converted into an Ottoman mosque and the minarets, ablution fountains and tombs date from the 15th century. Today, the church serves as a museum and is open Tuesday through Sunday, 9 a.m. until 4 p.m. Address: Ayasofya Meydanı, Sultanahmet.

2. Blue Mosque (Sultanahmet Camii)

Known for its interior of blue İznik tiles, the Blue Mosque was built by imperial architect Mehmet Aga in 1609-1616. With over 250 windows in the structure, sunlight is allowed to flood in, adding to the feeling of space within. The minber, used by the imam during the Friday services, is of intricately carved white marble and was installed in the 17th century. When the final plans for the structure were revealed, they created much controversy as many felt that the six minarets were an attempt to rival the Grand Mosque in Mecca. A functioning mosque, the complex is open every day until after the late evening prayer. Tourists are asked to wait outside during prayer times. Just after dusk from May to September there is a free sound and light show, illuminating the Blue Mosque and Aya Sofia as their stories unfold. Address: Sultanahmet Meydanı, Sultanahmet.

3. Topkapı Palace

Shortly after his conquest of Constantinople, Mehmet II began construction of Topkapı Palace as his primary residence. The original buildings were finished in 1465 and consist of a series of pavilions contained within enormous courtyards. The palace initially served as the seat of governance as well as the sultan's private living spaces, which included the famed harem. In 1853 Sultan Abdülmecit I moved the royal residence to Dolmabahçe Palace. Topkapı was opened as a museum in 1924 and features unparalleled collections of ceramics, imperial costumes, jewels, miniatures and manuscripts, armor, as well as religious relics. The palace grounds and buildings are open Wednesday through Monday from 9:30 a.m. to 3:30 p.m. Address: Babıhümeyn Cad., Sultanahmet.

4. Grand Bazaar (Kapalı Çarşı)

In addition to being literally filled to the roof with shops and goods, the Grand Bazaar also boasts restaurants, banks, a post office, mosque and its own police station. The labyrinth of enclosed streets (from where it takes its Turkish name -- literally "covered" bazaar) is packed with tiny shops, whose merchandise spills out into the pathways. Built by Mehmet II after his conquest of the city in 1453, the bazaar has entrances. At night many shopkeepers simply leave their wares as they are and the gates are securely locked until the next morning. Bargaining here is, of course, de rigueur. Open Monday through Saturday, 9 a.m. to 7 p.m. Address: Çarşıkapı Cad., Beyazıt.

5. Yerebatan Cistern

Built by the Emperor Justinian in 532, the cistern was built to supply water to the Great Palace, situated nearby on the Hippodrome. After the conquest of the city by the Ottomans, the cistern went unnoticed until it became apparent that people were lowering buckets through holes in their basements in order to collect water and, even at times, fish. Today visitors can explore along walkways, accompanied by the sounds of dripping water and piped-in classical music. With 336 columns over 26 feet high supporting the roof, today only about two-thirds of the original cistern is excavated



and accessible to the public. The cistern is open every day from 9 a.m. until 5 p.m. Address: 13 Yerebatan Cad., Sultanahmet.

6. Galata Tower

Dominating the Galata skyline, Galata Tower was built in 1348 as part of the Genoese fortifications. During Ottoman times it was used as a watch tower and now the top two floors serve as a restaurant and night club. The panoramic view from the top of the tower includes the main historic sites, and on clear days the Princes' Islands (Kızıl Adalar) are visible out in the Marmara Sea. The observation level is open daily 9:30 a.m. until 8 p.m., the restaurant and night club is open 8 p.m. until midnight. Address: Büyük Hendel Sok., Beyoğlu.

7. Chora Church (Kariye Camii)

Covered with some of the finest Byzantine mosaics and frescoes in the world, the Church of St. Savior in Chora was built on the site of an earlier church during the 11th century. Remodeled between 1315 and 1321, the artwork was funded by Theodore Metochites, a Byzantine theologian and one of the elite of the time. The mosaics depict the genealogy of Christ, the life of the Virgin Mary, the Infancy of Christ and his ministry, as well other religious scenes. The frescoes are thought to have been painted around 1320. Converted into a mosque in the 16th century, the church now serves as a museum. Open Thursday through Tuesday, 9 a.m. until 4 p.m. Address: Kariye Camii Sok., Edirnekapi.

8. Spice Bazaar (Mısır Çarşısı)

Once the pharmacy of the Ottoman Empire, the Spice Bazaar is also known as the Mısır Çarşısı, or Egyptian Bazaar, because the structure was funded through taxes paid for imports from Egypt. Today it is still an active spice market with shops stocking herbs, spices, honeys, nuts, dried fruits and caviar. Turks still come to some of the well-known herbalists for natural remedies for a variety of ailments. Outside of the bazaar, in the courtyard facing the imposing Yeni Mosque, is a thriving horticultural area selling soil and plants, as well as caged birds. Open Monday through Saturday, 8 a.m. until 7 p.m. Address: Cam Meydanı Sok., Eminönü.

9. Eyüp Sultan

Eyüp ranks after Mecca, Medina, and Jerusalem as a major pilgrimage point for Muslims, and is the resting place for Eyüp Ensari, the standard-bearer of the Prophet Mohammed. Falling in battle during the Arab siege of Constantinople in A.D. 678, he was buried outside the walls of the city. After the conquest of Istanbul, Sultan Mehmet II had a mosque complex built around the tomb. Leveled by an earthquake in 1766, the current structure was built in 1800 by Selim III. Under the large plane tree in the courtyard was where sultans performed the Girding of the Sword

of Osman as part of their inauguration. To the left of the plane tree is a small shrine covered with İznik tiles housing the tomb of Eyüp. Since this is a sacred site there are usually groups of faithful offering prayers and asking for intercession. Open daily until after the late evening prayers. Address: Camii Kebir Sok., Eyüp.

10. Dolmabahçe Palace

Built in 1856 by Sultan Abdülmecit, the palace was designed by the Balyan family, a renowned Armenian family of architects. Even though the palace was built during the decline of the Ottoman Empire, it is quite opulent. The sultan financed the building through loans from foreign banks. Entry to the palace is by guided tour only, with one tour including the state rooms and Ceremonial Hall. The second tour is of the harem, with the living quarters of the sultan and his family. Atatürk's bedroom is preserved as it was at the time of his death, with all clocks in the palace stopped at 9:05 a.m., the time of his death on Nov. 10, 1938. Open Tuesday, Wednesday and Friday through Sunday from 9 a.m. to 4 p.m. Address: Dolmabahçe Cad., Beşiktaş.



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