TURKEY

Smart Growth for a Sustainable Future

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Manufacturing Giant

The Turkish flag, in use since 1844, was officially adopted in its current form in 1936. Turkey has a population of 73,722,988 (Jan 2011) while the UK has approximately 61,792,000 (mid-2009). At 301,382 sq miles, Turkey is more than 3 times the size of the UK (94,525 sq miles).

Turkey's location at the crossroads of Europe and Asia makes it a country of significant geostrategic importance. Eight countries border Turkey: Bulgaria, Greece, Georgia, Armenia, Azerbaijan, Iran, Iraq and Syria. The seas surrounding Turkey include the Mediterranean Sea, Cyprus, Aegean Sea, Black Sea, the Sea of Marmara, the Bosphorus, the Dardanelles and the Turkish Straits.

Powerhouse of Europe

In under a century Turkey has endured some pretty seismic changes, not least the defeat of the Ottoman Empire. Independence came in 1923 - led by Mustafa Kemal Ataturk, credited as being the founder of the modern Turkish state – and it gave birth to a new mindset that most Turks hold very dear in both their business and personal lives.

BY SORCHA HELLYER & GABRIELE VILLA ➤ Undergoing this transformation has not been easy but the nation has invested itself in its goals, achieving many in the last decade. They aim to reach other targets set, like their commitment to make Turkey one of the top 10 economies in the world by 2023; the milestone celebrating the centenary of the founding of the Republic.

There can be no doubt that the recent economic downtown ushered in a new world order in terms of fiscal regime, discipline and business practice. In light of the strife, Turkey's performance has been little short of astonishing. Ilker Ayci, President of ISPAT (Investment Support and Promotion Agency of Turkey) proudly explains, "Turkey was the only OECD member that did not have to introduce any financial relief measures during the crisis. We had a similar financial crisis back in 2001, after which the whole financial system in Turkey was overhauled and restructured. With strong and subtle regulations combined with prudent fiscal policies, Turkey is now promising a bright future for investors."

Perhaps then it is not surprising that, upon becoming Prime Minister, David Cameron chose Turkey as one of his first overseas visits - sending a clear message about the importance of relations between the two countries. It was a smart move for the newly-appointed leader who recognises that Turkey is Europe's BRIC - referring to the fact that its burgeoning economy is not unlike that of Brazil, Russia, India and China - and that Turkey's comparatively close proximity to the UK is a great advantage. Cameron's dynamic declaration of support for Turkey's EU accession, coupled with other comments made during the trip to Turkey, did not go unnoticed. As Suzan Sabanci Dincer, Chairwoman of Akbank and staunch advocate of UK-Turkey relations, recalls, "The British Prime Minister, David Cameron, is very popular in Turkey and his statement about Turkey taking its place in the top 10 countries in the EU was well received. Indeed, the UK's popularity in the country is very high. There is huge potential on both sides."

It is exactly this potential that both governments are hoping to tap into. While current incumbent, Prime Minister Erdogan refers to bi-lateral relations with the UK as entering a "golden age", Cameron suggests that they should "go platinum." The value of trade relations between the two countries presently stands at $9bn (approximately £5.5bn) but Cameron has an ambitious plan to double it in the next 5 years. According to the British Ambassador to Turkey, David Reddaway, "That vision is being validated by the trade statistics all the time – last year, UK exports of goods to Turkey rose by 38 percent and Turkish exports to the UK rose by 17 percent." In fact Turkey enjoys a trade surplus with the UK whereas elsewhere they have a trade deficit. That said, the UK government is looking at ways to redress the balance by further increasing its exports to Turkey whether they be products or services that the nation is lacking.

Apart from fostering UK-Turkey trade and commerce relations, there is also a wealth of investment opportunities available to UK businesses. Currently the UK is Turkey's second largest investor, however the inference is that the country itself should not only be seen as a destination for investment but also a springboard to the region whereby Turkish and British companies can join forces, creating ventures in third party countries. Certainly British SME's (small and medium-sized enterprises) would benefit greatly by partnering with Turkish firms who have knowledge and contacts in the domestic business arena as this would facilitate their entry into not only the local but also the regional market.

The UKTI with offices in Istanbul, Ankara and Izmir is well positioned to provide advice and assistance to Turkish entities wishing to enter the UK market and British ones striving to enter Turkey. Jessica Hand, British Consul General, believes in the need to make Turkey the destination of choice for UK business. Additionally the Director of UKTI Turkey, Hand's passion for the country is palpable when she speaks about the incredible synergies the two nations enjoy. She cites both HSBC's and Vodafone's strong presence as evidence of the UK's interest in Turkey's phenomenal potential. Vittorio Colao, CEO of Vodafone Group qualifies this by stating that, "The subsidiary in Turkey is the fastest growing operating company within the Group and we are very proud of our participation in such a dynamic and growing economy." Meanwhile Tesco is also expanding its operations in Turkey through its joint venture with Turkish partner Kipa.

As Hand points out, "According to Goldman Sachs' assessment of Turkey, it is one of the largest economies in Europe and it is poised to become the 9th biggest economy in the world by 2050." Given the scope for all manner of enterprises, now is clearly the time to explore the myriad of prospects on offer. Yet, Hand ponders the seemingly slow uptake of the opportunities that exist, saying, "The biggest question that we have is: why has Turkey been overlooked so much?" Perhaps the reason lies in the fact that few realise just how far the country has come in such a short space of time. Turkey, once the "sick man of Europe" has hauled itself up and gone on to become the rising star in Europe's firmament.

> The flow continues but we want to see even more UK investment in Turkey. We have got the message that the way forward lies in strategic partnerships.
>
> **H.E DAVID REDDAWAY** *British Ambassador to Turkey*

> If Turkey and the UK work together we can be a powerful global force. That is one aspect of what we do here at the UKTI Turkey.
>
> **HON. JESSICA HAND** *British Consul General & Director of UKTI Turkey*

> One of the most important aspects of coming to the country is understanding and experiencing the dynamic spirit here in Turkey.
>
> **RT HON. MICHAEL BEAR** *Lord Mayor of the City of London*

Credit where Credit is Due

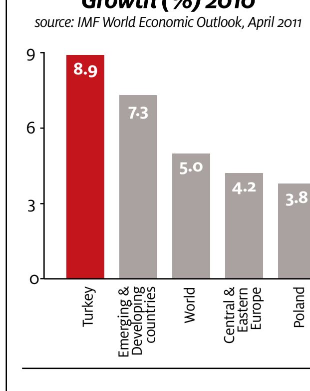
Under their current leader, ***President Abdullah Gul***, Turkey is a nation keen to be acknowledged more widely on the world stage. In recognition for his role regarding reconciliation and moderation within both Turkey and internationally, President Gul was awarded the prestigious Chatham House Prize last year. When presenting the award on behalf of the Royal Institute of International Affairs, HM the Queen told the President of Turkey, "You have provided notable leadership and international statesmanship over many years." Accepting the award with "profound honour and humbleness" the President said he did so "on behalf of his beloved country and the people of Turkey". Gul is perceived as the driving force behind many of the positive steps that Turkey has taken in recent years. Diplomacy aside the nation should also be applauded for its willingness to embrace change.

Progress in the Pipeline

Ahmet Erciyas - Founder and Chairman of the Istanbul-based Erciyas Steel Pipe Company - is a man who is passionate about pipes. His almost obsessive application to the mastery of something that most casual readers would probably consider prosaic means that he stands today at the helm of a large, highly successful company. His spiral-welded steel pipe (HSAW) factory in Düzce, a one-hour drive from Istanbul, which is newly outfitted after an extensive investment program incorporating a state-of-the-art technology upgrade – is now capable of producing up to 450,000 tons of annual capacity. This makes his factory the largest of its kind under a single roof anywhere in Europe. With an annual turnover approaching TL500 million (approximately £198m) in total sales, Erciyas is one of the largest industrial enterprises in Turkey and one of the fastest growing Turkish companies.

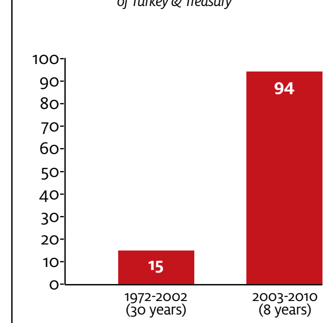
Annual Real GDP Growth (%) 2010

source: IMF World Economic Outlook, April 2011



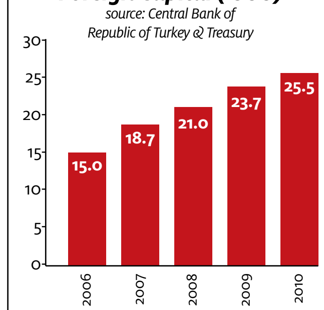
FDI inflows ($ billion)

source: Central Bank of Republic of Turkey & Treasury



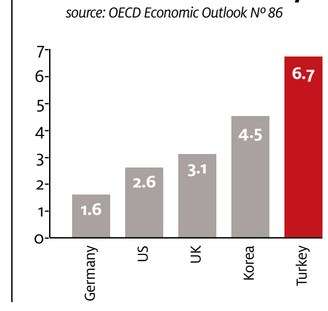
Number of companies with Foreign Capital ('000)

source: Central Bank of Republic of Turkey & Treasury



Average Annual Real GDP Growth (%) Forecast in OECD Countries 2011-2017

source: OECD Economic Outlook Nº 86



FDI

Investment Climate in Turkey

For the international investor, Turkey offers lucrative opportunities across a diverse range of sectors from energy to research and development (R&D). Its robust economic performance, growing domestic market, skilled labour force and strategic location make Turkey one of the most attractive investment destinations in the world, attracting around $94 billion of Foreign Direct Investment (FDI) since 2002, compared to $15 billion FDI over the preceding three decades.

Over the last eight years the Turkish economy overall has demonstrated a remarkable performance with its steady and continuous growth. Sound macroeconomic strategy, prudent fiscal policies and major structural reforms in effect since 2002 have seen the Turkish economy integrated into the globalised market. These same structural reforms, accelerated by Turkey's EU accession process, have also paved the way for comprehensive changes in a number of areas and strengthened the fundamentals of the country. This is reflected in a dramatic fall in inflation, down from 30 percent in 2002 to 3.9 percent in March 2011 and a reduction in the public debt stock, down from 74 percent to 42 percent since 2002. GDP levels almost tripled to $736 billion in 2010, up from $231 billion in 2002, GDP per capita more than tripled, exceeding $10,000 in the same period. These visible improvements in the Turkish economy have in turn boosted foreign trade with exports reaching $112 billion by the end of 2010, up from $36 billion in 2002.

Prior to the recent global recession, Turkey had sustained strong fiscal growth for 27 consecutive quarters making it one of the fastest growing economies in the world. The international financial crisis and the ensuing downturn however has considerably challenged the macroeconomic and fiscal stability of many countries; adversely affecting financing facilities and external demand and resulting in a significant slowdown in all global economic activities. While the financial markets in Turkey proved resilient to the crisis, the decrease in external demand and slowing international capital flows had a negative impact on the economy which experienced a contraction during 2009. Nonetheless, by the last quarter there were already signs of a fast recovery with an impressive growth rate of 5.9 percent. This robust upturn continued into 2010 with quarterly increases of 12 percent, 10.3 percent, 5.2 percent and 9.2 percent, equivalent to an annual average expansion of 8.9 percent. Turkey's recent economic performance has created an optimistic environment with international organisations once more considering it one of the fastest expanding economies in the world.

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An interesting outcome of the recent crisis worldwide is a seeming shift in the centres of international finance. Today, Istanbul, the financial and commercial capital of Turkey, has the potential to become a regional financial hub. The government is strongly encouraging international investors to benefit from the strategic advantages of this dynamic city, embarking on a comprehensive plan of action which will restructure the financial and economic framework of Istanbul in order to attract global capital.

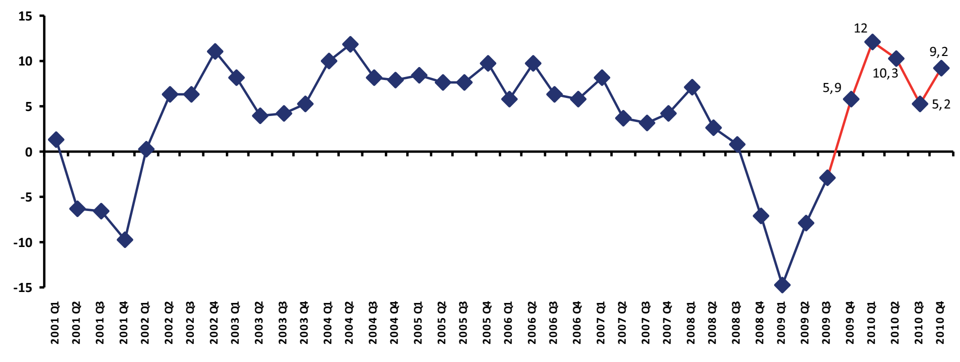
The potential financial rewards to be gained from investing in Turkey are not limited to the opportunities available in the domestic market. In addition to a vibrant and growing local market there are many prospects to be found in neighbouring countries with Turkey's geo-strategic location enabling investors to access multiple markets across Europe, the Middle East, North Africa and the Caucasus. The Customs Union that Turkey enjoys with the EU, coupled with Free Trade Agreements (FTA) with 20 other countries, creates further export opportunities for its investors, allowing them to sell their products to these countries without incurring customs duties or other trade restrictions.

The areas in which Turkey offers the most abundant investment opportunities include automotive, ICT, energy, renewables, machinery, iron and steel, electronics, pharmaceuticals, agro-food and petrochemicals. One of the principle investment areas is R&D with Turkey not only supporting but also actively encouraging R&D and innovation through extremely attractive and profitable incentive packages. This commitment from the government has significantly boosted investment in this field with R&D expenditures having increased exponentially in recent years reaching $8.8 billion at purchasing power parity in 2009. This represents a cumulative increase of 194 percent from $3 billion in 2002. Similarly, the number of full-time R&D personnel in the country soared to 73,000 from 29,000 in the space of seven years between 2002 and 2009. Meanwhile the number of international patent applications increased by 325 percent, reaching 361 in 2008 up from 85 in 2002. Today more than 1,000 companies are actively involved in R&D and innovation activities with the value of foreign investment from just 56 of these entities totalling approximately $500 million. More than 6,000 projects have been implemented and approximately 3,500 more are currently underway. In addition, a number of international companies have recently established R&D centres in Turkey including Roche, Pfizer, Fiat, Mercedes-Benz, Huawei, General Mobile, Bosch-Siemens, GE, Oracle, Accenture, Siemens, Intel, Alcatel-Lucent, Microsoft, ST-Ericsson and Nortel.

Turkey is firmly committed to attracting FDI as evidenced by the establishment of the Investment Support and Promotion Agency of Turkey (ISPAT) under the auspices of the Prime Ministry in 2006. ISPAT is the official organisation responsible for promoting Turkey's investment opportunities amongst the global business community and providing assistance to investors before, during and after entry into Turkey. ISPAT serves as a reference point for international investors and as a point of contact for all institutions engaged in promoting and attracting investments at national, regional and local levels. Working on a fully confidential basis, ISPAT offers a wide range of complimentary services including market information and analyses, industry overviews, comprehensive sector reports, assessment of investment conditions, site selection, identification of potential partnerships or joint ventures and negotiations with relevant governmental institutions. They also provide facilitation of legal procedures and legislation issues such as establishing business operations, incentive applications along with the procurement of licenses, work and residence permits.

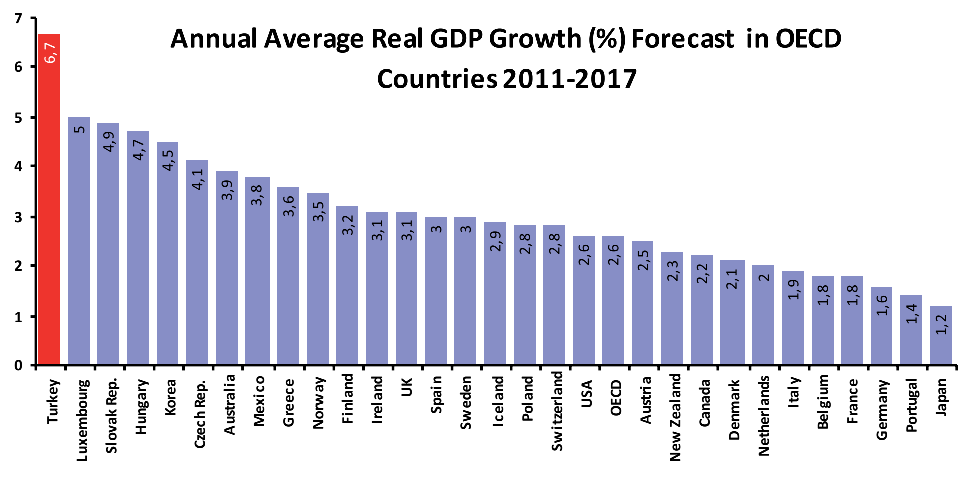
Perhaps one of ISPAT's greatest strengths is its ability to apply a "private sector approach" while enjoying and employing the full backing of all relevant governmental bodies. This puts the agency in the perfect position to enable and assist foreign investors as they foray into the Turkish market to take advantage of the myriad of opportunities that exist in this exciting and dynamic market.

Year-on-Year Quarterly GDP Growth (%, Constant Prices)



Source: Turkish Statistical Institute (TurkStat)

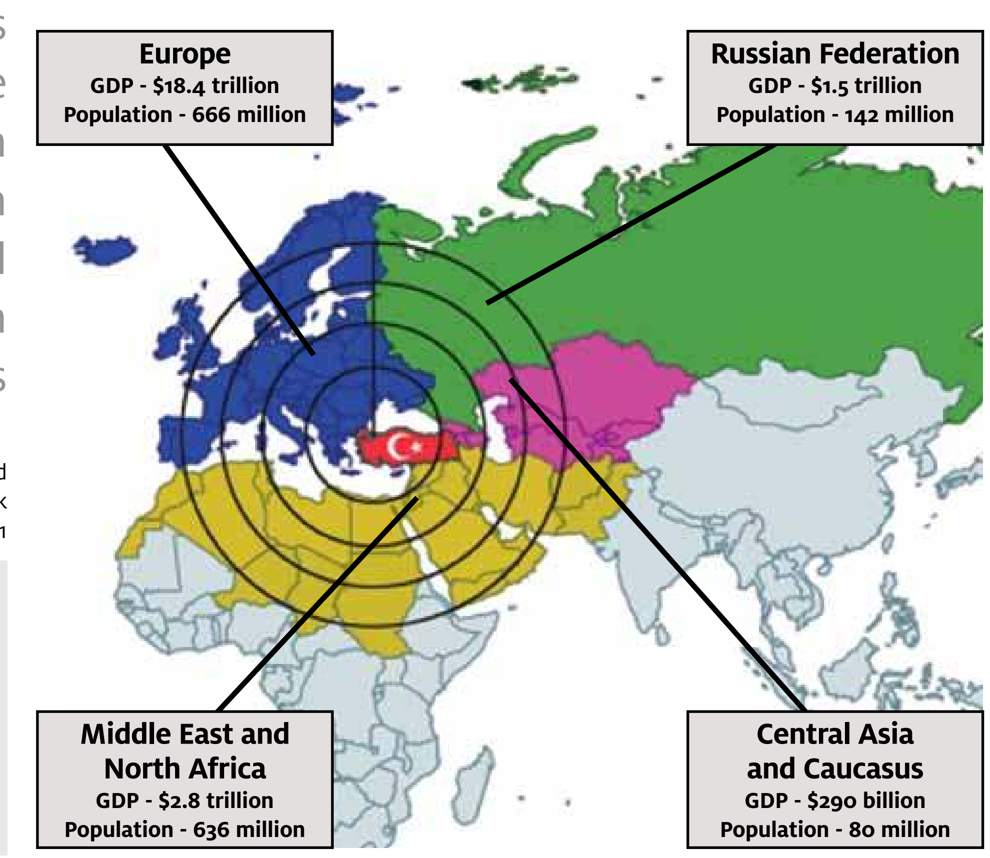
Annual Average Real GDP Growth (%) Forecast in OECD Countries 2011-2017



Source: OECD Economic Outlook No: 86

According to a recent forecast by the Organisation for Economic Co-operation and Development (OECD), Turkey is expected to become the fastest growing economy of OECD members during the period 2011 to 2017 with an annual average growth rate of 6.7 percent.

Easy Access to Multiple Markets Worth $23 trillion of GDP and 1.5 billion Consumers



Source: IMF World Economic Outlook April 2011

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TOURISM

On and Off the Beaten Track

In terms of surface area, Turkey is more than 3 times the size of the UK but with 46 airports across the country, getting around is a piece of cake.

When it comes to their slice of the tourist pie, Turkey certainly gets its fair share - it was the 7th most visited holiday destination in the world, with 28.6 million tourists in 2010, 2.7 million of which were tourists from Britain. This figure may not be surprising given that 20 of the world's top 100 best hotels are in Turkey (TUI 2009) and the country has a wide range of offerings from the all-inclusive, family-friendly deal to luxury tourism products at affordable and cost-effective prices.

Despite these statistics Turkey remains relatively undiscovered, with many of its British visitors heading almost religiously for its better-known seaside resorts or to holiday homes that they have made sound investments in. Besides its long and gorgeous coastline basking in a temperate climate, the country also has reverently high mountains, vast lakes, an extraordinary wealth of culture and history dating back some 10,000 years. In fact, choosing where to go can be rather baffling which explains the sometimes unimaginative choices that the regular tourist to Turkey so often makes.

Of course nobody can blame visitors for being bewitched by the eternal attraction of Turkey's dazzling beaches or the fascinating spectacle that is Capodoccia. The allure and dynamism of Istanbul is another undisputable tourism draw for both leisure and business visitors. Hüseyin Avni Mutlu, the Governor of Istanbul is proud of the fact that the city was a European Capital of Culture last year even though Turkey is not a member of the EU.

Istanbul certainly represents one of the world's most cosmopolitan cities – straddling as it does both Europe and Asia. In the words of the Governor it is a "world" with many cultures living together, where you can find a mosque, a church and a synagogue all in one square. Prescient in his comments at the end of 2010, Mutlu spoke from the heart when he said that the spirit of the city is one of tolerance. "In Istanbul you can speak the language of empathy and peace; it's a language that the world needs," he affirms.

Given the unrest the world has seen so far this year it is understandable that Turkey, like many countries in the region, has seen a drop in tourist numbers during the first quarter of 2011. However, it is important to emphasise that Turkey is a democratic, secular and stable country. The bridges that cross the Bosphorus, joining one continent to another, are more than just symbolic and ordinarily Istanbul deservingly attracts 8 million tourists each year. Within the next decade the hope is that it will draw 25 million annually and that these will not only be leisure tourists visiting some of the 25,000 historical buildings under conservation, delighting in the cuisine or enjoying the vivid nightlife. While it is true that Istanbul is often seen as the ultimate trendy meeting point, the Istanbul Municipality also wishes to promote the city to the cerebral tourist by encouraging foreign students to do their post-graduate studies in one of the 41 universities located there. "We sponsor international students," Mutlu explains, "$3m is invested in them each year." Evidently for those lucky enough to gain sponsorship places this presents a possible solution to the increasing burden of fees being imposed on students in many other European countries – the UK included.

Mutlu is also keen to draw attention to the fact that Turkey, especially Istanbul with its impressive medical facilities, is a prime destination for health tourism, "Our high standards and low costs make it a very attractive package." While the affordability of healthcare in Turkey, especially in comparison to the West, is of course a critical factor in making the country an important platform for health tourism, it should also be noted that Turkey boasts more than 30 medical facilities that are accredited by the Joint Commission International. Sources say that this is the largest accreditation that any country has ever achieved. When Mutlu refers to the "attractive" package one senses that he is not only referring to the quality of the care, the five star treatment, thermal springs and the beauty of his country. In contemplating what makes Istanbul and Turkey such a captivating place to visit, the Governor replies, "It restores your mind, body and spirit."

INFRASTRUCTURE

Road to Success

This spring saw the launch of a roadshow aptly entitled "Grow with Turkey". Image Diplomacy caught up with Ebru Özdemir from Limak Holding to discover what participating in this prestigious event signifies.

You were a key panellist during the infrastructure discussion session at the "Grow with Turkey" investment roadshow in London. Please comment on the successful results of this high-profile event. How was it beneficial for Limak as well as Turkey as a whole and, in your opinion, which objectives were achieved – for example: new partnerships, relationships formed, productive discussions held?

The roadshow served as a great platform not only for us but also for all the participants as we were able to share views related to the Turkish and British business environment and to inform each other about the areas of possible cooperation between the respective investors. The event was a great opportunity to meet with various sector participants and discuss current and future trends in the markets as well as the probable and inherent risks we might all face. Several meetings have been scheduled since the roadshow in order to further develop relationships between us and our peers. These might pave the way for the establishment of possible partnerships or joint ventures to explore opportunities, not only in Turkey but also in several countries in the Middle East where Turkey has strong cultural and social connections. We also discussed the financial prospects of both the UK and Turkey in order to understand where bilateral and shared trade opportunities might be expanded upon. We learnt a lot about the opinions of British investors relating to the financial and capital markets as well as their thoughts on how to facilitate relations between us. As a board member of a conglomerate which is active in many sectors including construction, cement production, tourism, energy and infrastructure, I believe such roadshows can offer a effective vehicle not only for exchanging ideas and sharing visions, but also for exploring potential collaborations.

What is Limak's growth strategy for 2011? What upcoming projects and new initiatives would you like to highlight?

We are a respected and pioneering global company in the literal sense focusing on an asset portfolio which comprises specialised fields of activities, so we intend to continue to seek new investment opportunities and grow our business to a great extent through selected acquisitions of new assets and projects. This year alone we have acquired Italcementi's Turkish subsidiary, Set Cement, which helped us to more than double our existing capacity. In particular, we are seeking to acquire assets in current and anticipated privatisations of certain power generation assets, airport and port operation assets, toll road assets and other public infrastructure projects, both domestically and internationally. We are also trying to increase our operations in hotels and we have just opened a new high-end city hotel in Istanbul.

Currently we are also following electricity generation and distribution projects in Macedonia and Kosovo, toll-road projects in Macedonia and India, an airport project in Saudi Arabia and a port project in India. We plan to develop additional investments in Turkey and abroad. These regions also offer opportunities for our cement and tourism businesses.

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EBRU ÖZDEMIR
Limak Holding

Our construction arm continues its operations successfully in the international arena as well. We have signed new contracts in Saudi Arabia for pipeline projects and we have submitted the best offer for the construction works for the Cairo Airport Terminal 2 project.

In your opinion what are the most lucrative opportunities for British companies to invest in Turkey and in what sectors can the UK and Turkey find the most complementary synergies?

The Turkish economy realised spectacular growth in 2010 after a somewhat stagnant period. GDP growth outpaced 9 percent in the last quarter and annual growth rate averaged 8.9 percent last year. For 2011 OECD forecasts project a growth rate of 4-4.5 percent which is above forecasts made for the global economy. This growth is expected to be driven by the subsequent sectors: energy and transportation infrastructure, finance and banking, real estate, telecommunications and information technologies. In summary the future development in these areas is outlined as follows:

Energy: The Turkish government plans a large scale privatisation in energy generation in 2011 including Hydro-Electrical Power Plants (HEPPs) and Geothermal Energy Plants. With industry output increasing Turkey needs more electricity and consequently energy generation becomes more important.

Transportation: As a natural bridge between east and west, Turkey has important transportation channels. The highways, bridges and ports of Turkey are expanding and becoming more profitable. In 2011 the Turkish government plans a large scale port privatisation.

Finance and Banking: The Turkish finance and banking industry was very successful and profitable during the global financial crisis. Some of the most important banks of Europe have invested in Turkish banks and Turkey's financial markets.

Real Estate: During the previous years, some significant real estate companies have invested in the Turkish construction sector. With a growing population Turkey needs more housing development projects.

Information and Communication Technologies: Turkish people have a strong interest in information technology products. An increase in expenditures for computers, hardware, cell phones and internet tools has been noted.

Please comment on specific partnerships, areas of cooperation and investment opportunities that Limak can offer British entrepreneurs.

Turkey is a large European economy and one of the fastest growing power markets in the region. In the last decade annual gross power generation and annual power demand have been increasing. With regards energy, there are upcoming HEPP, thermal and geothermal power plants privatisation tenders which could be a great opportunity for British entrepreneurs. Construction is another area where Turkish and British companies could join forces leading to fruitful results.

Transportation and logistics businesses are also exponentially growing sectors in Turkey. Given the great distances between cities and the fact that there is scope for investment in road and rail transportation in many regions, there is a significant domestic market for passenger transportation. In addition, international air travel is still relatively underdeveloped, as currently only a small proportion of the Turkish population hold passports. Moreover, in terms of overseas visitors, Turkey ranks among the fastest growing markets for tourist arrivals across Europe. Turkey therefore has enormous potential for increased international flights.

With particular regard to British holidaymakers, this is a market that is critical to the success of Turkey's hotels. Indeed, it has been continuously placed in the top 5 markets for our resorts located on the Turkish Mediterranean coast.

Finally how would you rate the reception you received at the "Grow with Turkey" investment roadshow in London?

I was very proud to participate in this conference and enjoyed spending time with my business contacts. I noticed that there were significant opportunities and there was a high level of interest with regards to international projects and strategic partnerships. Considering our infrastructure investment experience in the past, I believe that we should seek additional challenges and expand our business with new partners. I hope to see this event taking place more frequently in the future.

Joining the Club

While there are some who may oppose Turkey's accession to the EU on cultural, political or otherwise nebulous grounds; many objections are a result of a lack of understanding of the sophistication of the market, misperceptions of a country which is both geo-politically a strategic bridge between 3 continents and an innate fear of a populous nation determined to make a name for itself on the world stage. In reality, Turkey has a very young, dynamic and well-educated population of 73 million; boasting an average national age of 29 far below the EU average of 40 plus. This makes it an attractive market in terms of domestic consumers, human resource and bodes well for its mission to become a goods and services production base for the EU.

It would be fair to say that while there are challenges to overcome in readiness for Turkey's acceptance into the EU club, the UK has recognised the immense potential that the country represents and as such has proudly become its top advocate for EU accession. Curiously the UK - the most Western part of Europe - and Turkey - the most Eastern, find a great deal of common ground and many synergies that benefit both parties. On the subject of EU accession, the UK-educated Chairwoman of Akbank, Suzan Sabanci Dinçer rightly points out, "The UK understands Turkey better than most other countries do because it too was rejected by the EU." In many well-informed circles it is certainly a not-so-infrequent point of view that Turkey would actually be a huge asset for the EU especially in light of the fact that the global recovery and economic growth is being fuelled by emerging markets like Turkey.

CONFERENCE

Grow with Turkey

The end of March this year saw the launch of the Turkish government's new drive to maximise inward investment with the "Grow with Turkey" roadshow hosted in London.

Istanbul ranks 1st in the 30 Most Dynamic Cities in the World in 2010 (Brookings Institute)

Speaking at the conference and seminars were a number of high-ranking ministers from both the UK and Turkey. Some of Turkey's most illustrious business leaders also took centre stage to expound the virtues of investing in, and trading with, Turkey. However this was so much more than "pomp and circumstance" – it was a meeting of minds. With attendance by big international names such as PwC, HSBC, Merrill Lynch, Citigroup, Ericsson, Shell, BP and Vodafone as well as domestic giants like Akbank, Sabanci Holding, Agaoglu Holding, Limak and Aygaz – the event built on the gathering momentum for Europe's star performer.

Coinciding with Prime Minister Erdogan's visit to the UK, where the Turkish leader led a high-level ministerial and business delegation as well as meeting HM the Queen, the conference provided a fertile arena for the furthering of bi-lateral cooperation. In addition, Prime Minister Cameron welcomed top businesspeople to 10 Downing Street for the CEO Forum. Co-Chair of the Turkish-British Business Council (DEIK), Suzan Sabanci Dincer remarks, "The sight of top CEO's from both Turkey and the UK sitting round the Cabinet Table with the two Prime Ministers was really memorable. The success has encouraged us to believe we have made a considerable enhancement of economic and commercial relations between our two countries." The event certainly highlighted opportunities in a diverse range of sectors many of which have yet to be taken advantage of by UK investors. In many ways the figures speak for themselves; according to ISPAT's President, Ilker Ayci, "Today the number of foreign companies in Turkey exceeded 25,000 up from 5,600 in 2002. Nevertheless, we believe that Turkey's potential to attract FDI is higher than that." UKTI figures put the number of British firms operating in Turkey at 2,237 which, although up from 536 in 2004, shows real room for improvement.

This being the case there is a strong will on the part of both countries to address the situation. The fact that big UK household names with a base in Turkey include Vodafone, Diageo, BP, Marks & Spencer and Tesco certainly speaks volumes but there is plenty of space for SMEs to take advantage of a booming consumer market which also constitutes a young, dynamic talent pool. At the CEO Forum in Downing Street, Cameron qualified this by referring to his trip to Turkey last year, "As someone who had travelled to Turkey as a student in the 80s, I was blown away by the economic transformation that has taken place in the country. I want to make sure that British business plays a part in the development of Turkey and that Turkish business plays a part in the development of the UK."

ISPAT's President, Ilker Ayci, explains, "As the 17th largest economy in the world, Turkey is a perfect business hub for many reasons. Turkey's unsaturated domestic market, together with the potential markets in the neighbouring region, makes Turkey an ideal place for investment.From Turkey you can easily access markets in the Middle East, North Africa, Caucasus and Central Asian republics; many global companies are already taking advantage of Turkey's strategic location by relocating their regional headquarters to Turkey. For example, Coca-Cola manages 94 countries from its headquarters in Istanbul; similarly Microsoft manages 80."

International recognition of Turkey and Turkish products and services is becoming more prevalent with brands like Beko and Turkish Airlines finally being household names in the UK. This has been a long time coming when you consider that 8 out of 10 fridges and 1 in 3 TV's in the UK are made in Turkey and that Turkish Airlines is one of the fastest-growing airlines in the world. This latter point may not be surprising when you consider that Istanbul is being made into a transportation hub and that a population of 1.4 billion are within a 4-hour flight of Turkey. Domestically the country is experiencing rapid urbanisation since job creation tends to be focused in commercial and metropolitan areas. That said, despite Turkey's immense size, the country has excellent telecommunications which have not only been a catalyst for economic success but are also closing the quantitive gap between urban and rural areas. It is hoped that this will in turn create more equality, encouraging social and economic development.

Certainly the appeal and quality of Turkish products and services has been improving steadily and in some cases at quite an astonishing rate. A large number of industrial companies are manufacturing to international benchmarks; producing goods that either adhere to, or exceed, EU standards. As Turhan Turgut of Kale Kilit, a leading lock manufacturer points out, "The Turks are a receptive nation" meaning that they embrace or invent new technologies readily – in the case of Kale Kilit this includes biometric locks. Ambition is also key to the success of many Turkish companies that export. Kale Kilit, for example, has set its sights on being among the top ten lock manufacturers by 2015. They may be well on their way to this goal given that they are the only hardware company with the Turquality certification – a national body charged with ensuring and assuring the raising of standards of Turkish products and giving the stamp of approval to international customers. In a world of continuing heightened competition more entities are signing up to this concept. Certainly one lesson that has been learnt from the past is that growth for growth's sake does not pay dividends. However, sustainable growth based on sound fundamentals, the pursuit of excellence and a clear vision of the future will lead to long-term success.

FINANCE

Istanbul Set to Become a Regional Financial Centre

In stark contrast to the preponderance of banking sectors across the world, Turkish banks have by and large succeeded in emerging from the recent financial crisis in a position of strength. As major players on the international banking stage paid a heavy - in the case of Bear Sterns and Lehmans fatal - price for over-exposure to so-called "toxic assets", Turkey's banking industry reaped the rewards of lessons learned from a previous financial crisis of its own. Indeed, whilst many banks globally registered crippling losses throughout 2008 and into the early part of 2009, their Turkish peers not only remained buoyant, but even began to post record levels of profit.

Turkey's resilience in the face of a sector in global freefall stems from the experience of the national financial meltdown of 2001-02 which, as Suzan Sabanci Dinçer - Chairwoman of Turkey's exemplary Akbank - notes culminated in losses of around $45 billion (£27.5bn), representing approximately one third of the country's GDP at that time. The ensuing fiscal discipline, regulatory reforms and IMF restructuring program resulted in a banking system well positioned to deal with the more recent 2008-09 crisis. Sabanci Dincer specifically references the high capital adequacy ratios at around 19 percent (which are higher than would typically be found amongst foreign banks), loans-to-deposit ratio of 85 percent and low leveraging ratios at around 7.5 percent as critical factors ensuring that Turkish banks have not fallen prey to the government bailouts, bankruptcy and sharply declining profits suffered by its international counterparts. Neither have they been the object of the heightened public anger so evident in other markets, including the UK and the US. In fact far from being seen as a burden on the state and its finances, banking institutions in Turkey are seen as its backbone. This is further borne out in Standard and Poor's analysis of risk within the banking industry: "Unlike other emerging markets in the region (...) Turkish banks benefit from diversified funding and good liquidity, with relatively moderate reliance on wholesale funds" (Bank Industry Risk Analysis: Turkish Banks Withstand Heightened Environmental Hurdles).

The health and robustness of the Turkish banking sector also holds true in the post-crisis period where it dominates Turkey's wider financial services industry, comprising 95 percent of the overall sector and owning 80 percent of assets by size as quantified by the Turkish Banking Regulations and Supervision Agency. Indeed, such is the international financial community's belief in the quality and stability of Turkish banks today that an entity like Akbank is able to attract individuals like former World Bank Chief Economist, Lord Stern and Lloyds Banking Group Chairman, Sir Winfried Bischoff to their investment Advisory Board.

It is not just the strength of Turkey's performance during and after the recent crisis which is of note, but also the Turkish government's drive to maximise Turkey's standing on the financial stage. As Hüseyin Erkann, Chairman of the Istanbul Stock Exchange (ISE), elucidates, "Istanbul will become a regional financial centre within the next 10 years and a global centre in a few decades". It is an initiative that has already been launched and that is starting to take shape. Among its many domestic advocates is the country's largest private bank, Isbank - recently ranked 75th in The Banker's 2011 Top 500 Banking Brands. It believes that Istanbul possesses many advantageous characteristics to become an international financial hub; including the availability of appropriately skilled labour, realising the growth potential inherent in the location, together with the cost of doing business and the attractive lifestyle that the city offers.

This goal is inevitably not without its challenges including the perceived instability of the country's tax regime, the low domestic savings' rate and much needed legislative and regulatory reforms which would greatly facilitate the ability to do business in the country. To turn this ambition into reality, a report for The Banks' Association of Turkey estimates that in the region of €2bn (approximately £1.75bn) of investment will be required in a 5-year timeframe. However, the upside of the creation of the centre would be a pool of approximately 150,000 qualified personnel and it is anticipated that this would contribute to a growth in GDP of up to 4 percent.

While these are ambitious plans, Istanbul does however have some strong and expert backing for its objective in the shape of the UK's capital. In a visit to Turkey in late January 2011 the Lord Mayor of the City of London, Michael Bear, reiterated that the City was available to assist as a key partner in this process. Besides legislative and regulatory needs, going forward it will be critical to put in place the requirements to build a successful commercial centre. The Lord Mayor draws specific reference to the transport and infrastructure investments which are a necessary prerequisite to making this goal happen. Highlighting the City of London's expertise in the field of Public Private Partnerships and Public Finance Initiatives – which are likely to be the source of funding essential for most ventures – Rt Hon. Bear noted that these would potentially be of great interest to City firms.

The input and expertise London has to offer Istanbul certainly seems to be welcomed. As the President of ISPAT (Investment Support & Promotion Agency of Turkey), Ilker Ayci reaffirms, "Finance is an area where UK investors can have an impact on Turkey. As Istanbul is developing into an international financial centre, investors from the UK are welcome to contribute to, and benefit from, this development. The government launched the project, 'Istanbul Finance Centre', to make the city a regional financial centre from where global companies will be able to manage their financial operations in the region".

Having successfully navigated the financially precarious waters of the recent crisis, Turkey now has much to deliver if it wishes to capitalise on its potential. Istanbul's vision to become a regional financial centre also makes sense when taken in the context of Turkey now being the largest Muslim economy in the world, surpassing Indonesia. This presents interesting prospects for the further development of Shariah-compliant financial products in the future. Niche markets aside Istanbul is not alone in wishing to become a "financial services hub" and competition is likely to get steeper in the coming years. Success in realising these undoubtedly ambitious goals, will greatly depend on Turkey's ability to seize the opportunities for which it is now so well positioned.

BANKING

Isbank - Growing with the Nation

Just one year after the founding of the Republic of Turkey in 1923, Isbank was set up. Ever since, this institution's history has been closely linked to the development of the nation.

The proclamation of the Republic was accompanied by strong ambitions to create a national fiscal structure. Therefore, Isbank's mission was to be the pioneer in the establishment of a national banking framework that could provide for the financing needs of this newly flourishing economic environment. Its remit was to reinforce savings within the financial system and to direct the accumulating funds towards such sectors that would bolster industrial development. Hence, since its foundation, Isbank has been one of the most influential entities in supporting the developing Turkish economy. It has been credited with establishing the national savings culture and financing fundamental economic breakthroughs.

Today Isbank is the largest private bank in Turkey in terms of asset size, deposit volume, branch network, ATM network and number of retail and commercial customers. With its sustainable and strong financial structure, the bank contributes significantly to the domestic economy, generates value for its shareholders and other stakeholders whilst managing its assets effectively and efficiently. Isbank's workforce of some 24,000 highly trained and dedicated employees is the largest among all banks in Turkey. Its human capital comprises one of the cornerstones that give the competitive advantage to Isbank, known as the "banking academy" of Turkey.

Isbank is proud to provide service ubiquitously to millions of customers via a multi-channel delivery network. Not only does the bank boast the biggest personnel, it also has the largest number of branches – the last count was 1,146 – and the most ATMs with 4,276 throughout Turkey. The "Isbank" brand, identified with the phrase "Turkey's Bank," unites long-standing tradition, trust, a pioneering spirit and innovation. The bank enjoys a unique position in the Turkish banking sector in terms of its historic legacy and strong image. With its exceptional brand value, Isbank ranks 75th in The Banker's "Top 500 Banking Brands" and the 1st among Turkish banks. In addition, Isbank is the leader among Turkish banks being 103rd in The Banker's "Top 1000 World Banks" ranking.

Isbank's target is to expand its international network further and is thus taking initiatives to enlarge its activities - first to neighbouring regions and then to other suitable markets. Its ambitious expansion plans include the signing of a share purchase agreement for the acquisition of a Russian bank (with expected completion this year), the application to establish a branch in Azerbaijan and the recent opening of both a branch in Iraq and a representative office in Egypt. The Middle East is cited as an important geographical region not only for the country but also for the bank. Despite the unrest Isbank's representative office in Egypt and the Bahrain branch continue to operate, providing vital services to customers and correspondent banks. Furthermore, Isbank is taking important initiatives regarding overseas expansion in the region and they are in the process of concluding the approval process with Syrian authorities in order to establish a representative office in Damascus.

Closer to home Isbank is embracing a myriad of prospects including the investigation of investment opportunities in the Balkans. Meanwhile, the Frankfurt-based financial subsidiary, Isbank GmbH, is continuing its expansion projects in Europe. For those in the UK wishing to avail Isbank's expertise, there is a proactive London branch offering a wide array of services and products to individuals and businesses alike. Located next to the Bank of England, Isbank's branch also offers mortgage facilities to British investors buying property in Turkey. The team is on hand to help with legal and operational issues, providing full support to buyers who want to invest in the country for the first time.

Isbank currently offers standard variable rate, repayment mortgages in GBP for finished properties in Turkey. These mortgages are available for a maximum of 75 percent of the property's valuation with repayment terms up to 15 years. It should be noted that Isbank Overseas Mortgages are housing loans extended to UK residents over the age of 18 for the sole purpose of financing their purchase of property in Turkey.

BANKING

Akbank Invests in Turkey's Future

In 2001, Turkey was Europe's problem economy. In 2011, record-breaking Turkey is proving itself a powerful engine of European recovery. Overseeing this rise from zero to economic hero is a strong, well-regulated and above all prudential banking system. If elsewhere bonus-hungry bankers were being blamed for tipping national economies into crisis, in Turkey a much-reformed sector has been credited with engineering last year's record-breaking 8.9 percent growth.

Our foreign colleagues are often jealous of the popularity which Turkish bankers are able to enjoy," says Suzan Sabanci Dincer, Chairwoman of Akbank, a finance house that is often described as the backbone of the Turkish success story. Much profiled in the international business press, an instantly recognisable figure at home, Sabanci Dincer is a commanding public figure whose comments on the day's financial events become instant headline news.

Akbank, the institution she represents, is nothing short of a Turkish Goliath. It has built up a network of over 900 branches and 15,000 employees ("More women than men" Sabanci Dincer proudly adds) and consistently figures in the top three Turkish companies in terms of market capital on the Istanbul Stock Exchange. It also got through the last recession without a scratch.

"We remained strong by doing what banks are supposed to," says Sabanci Dincer. Instead of playing with derivatives, the bank was collecting deposits and lending to small and medium sized businesses. While international finance houses were plunging into subprime debt, Akbank along with other Turkish institutions were carefully growing the country's mortgage market. The result is that the construction industry has remained buoyant.

Sabanci Dincer is the first to admit that Turkey learned its lesson the hard way. She was at the helm of Akbank's Treasury Department in 2001 when the economy hit the wall. Akbank withstood the shock, but many lesser institutions went under. "Turkey met the challenge - which some European countries now face - of getting out from under the cycle of increasing debt," she says. It did so with the trinity of tough fiscal discipline, an IMF restructuring programme and far-reaching financial sector reform.

Turkey now attracts record levels of foreign direct investment. There was a sense that Britain was under-represented in this growing and important market; for this reason Prime Minister Cameron led a trade-focused visit to Ankara last July and hosted the Turkish Prime Minister, Tayyip Erdogan, at the end of March 2011. Sabanci Dincer as Co-Head of the Turkish British Business Council, helped lead a delegation of corporate heads to a Downing Street meeting to present the two Prime Ministers with an action plan to push trade and economic cooperation between Turkey and the UK into a much higher gear.

"Britain is a country which has long understood Turkey's strategic importance. It has been a firm supporter of our efforts to get into the European Union. However, British business is under-represented in our country and this is something that has to change," Sabanci Dincer says. Her own attachment to the UK dates from her student days in London. "I could not possibly have imagined then that I would be on the Board of Advisors of Chatham House," she adds. When asked why she also sits on the Prince's Charities Council, Sabanci Dincer describes it as a learning experience. 'Turkey - no less than the UK - is trying to use charitable foundations and NGOs to fill the gaps in society and to make sure our young people can look forward to leading productive and fulfilling lives," she says. Akbank was an early pioneer of corporate social responsibility in Turkey and Sabanci Dincer counts among her many philanthropic and third sector activities, the fostering of young entrepreneurial talent. In addition, she sits on the board of trustees of Sabanci University.

Sabanci Dincer believes that the new, "fitter" Turkey will be the key country to benefit from developments in its region and the global trend favouring emerging markets. With the diversification and proliferation of Turkey's exports into China, India, Africa and the Middle East, the country is once again fulfilling its historic role as the bridge between East and West. Akbank positioned itself well before the "Arab spring" by opening a subsidiary operation in Dubai - which serves as its hub in the Middle East covering Saudi Arabia, Qatar, Kuwait and Abu Dhabi. It has also formed a strategic alliance with China Development Bank.

At the same time, Akbank sees its core strength to be its long and intimate knowledge of its home market. It takes its responsibility to the wider Turkish society and its role as a leader in the sector seriously. It cannot do otherwise. A client base of 8 million and consolidated assets at $78.5bn (approximately £48.7bn) makes Akbank an institution larger than many EU member states. It is proud of its stability with a capital adequacy ratio of 18.4 percent and excellent profitability of almost 17 percent (ROE). Sound risk management practices, a stable deposit structure and high asset quality all place Akbank amongst the most valuable financial services institutions in Europe.

"Asset size is important to us, but that is not the only thing we take into consideration," says Sabanci Dincer. "We have always believed in good corporate governance and business sustainability, even before they became buzzwords. These are important parts of our corporate culture. These qualities have been a part of Akbank's DNA for more than forty years."

Alongside Akbank's strong financials, the bank, under Sabanci Dincer's stewardship, has developed a strong environmental concern and has launched Turkey's first Carbon Disclosure Project. As she affirms, "We have to continue to think in terms of sustainability, growth is important, but the quality of the growth is even more crucial."

"We have to continue to think in terms of sustainability, growth is important, but the quality of the growth is even more crucial"

SUZAN SABANCI DINCER
Chairwoman, Akbank

Getting to the Point

Turkey is a fascinating and sometimes overwhelming market. To help future investors here is a list of some remarkable figures taken from various sources:

1st in cement export in Europe

1st in textile manufacturing in Europe

1st in fertiliser production in Europe

1st in hazelnut, apricot and dried fig production worldwide

1st in TV manufacturing in Europe

2nd in crude steel production in Europe

2nd in flat glass manufacturing worldwide

3rd in TV export worldwide

16th largest automotive manufacturer worldwide

17th largest economy worldwide

28.6 million tourists in 2010

2.7 million British tourists in 2010

62 million GSM subscribers

50 million credit cards users

35 million internet users

Building on Success

The crystal clear waters that sparkle around Bodrum's coastline have spawned another entrepreneurial clan - the Selah dynasty. From the early 1950s they were well known in the automotive and machinery sectors. However, the family's wealth grew mainly from the establishment, in 1982, of the Selah Shipyard. Originally in Tuzla – Istanbul, this business has now grown to cover 4,500 square metres and, with 10,000 tons of annual steel processing capacity, it is now one of the leading shipyards, shipbuilding and ship repair specialists in Turkey.

The company's Chairman, Erkan Selah, together with his sons, is now diversifying the family's activities by taking advantage of Turkey's booming construction industry. "I wanted to invest in construction because I saw it as an opportunity. Instead of expanding in one sector, after realising our impressive growth in the shipping business we became interested in other sectors. From the shipping sector we moved into construction and from there we entered the tourism sector with Es Ajans – the Babil Gardens development."

Erkan Selah
Chairman
Selah Group

The basis of Selah's business prowess is drawn from their expertise - originally in the automotive sector - when Turkey began to emerge as a modern industrial power in the post war period. Selah then transitioned to, and eventually specialised in, shipping. They built the business up in the 1980s and honed their capabilities in a diverse range of vessels across heavy industrial craft from petroleum tankers to pleasure vessels, becoming an integrated and diversified manufacturer of everything from "tailor-made barges to platforms for the Caspian Sea" says Selah.

They have consolidated their position within the Turkish business community. Erkan Selah represents the business in the national chamber of industry. The company is even playing a role on the national stage as major suppliers for the Turkish state; in everything from land crafts, rescue boats, mine-hunters and frigates - although without weapons and military ammunition. Moreover, they provide civilian infrastructure with their manufacture of the Istanbul Sea Bus - carrying passengers from shore to glistening shore.

PROPERTY

365 Days of Sun, Fun & Relax

Babil Gardens

Sunset across the Bay

Pashas Nightclub

The 20th century Turkish literary figure Cevat Sakir Kabaagacli, known colloquially as 'The Fisherman of Halicarnassus' - as Bodrum was known in ancient Greece - said of this place; "Don't you dare to hope that you will leave as you came, like many others before you have done. They all have left while their minds stayed in Bodrum."

This has remained true for holidaymakers from around the world and today Bodrum is one of Turkey's most famous holiday resorts. Known for its tourism, architecture, sightseeing, water and land sports, yachting, nightlife, restaurants and shopping. The seaside town, with its whitewashed villas wreathed in bougainvillea, is one of the most beautiful and sophisticated resorts on the Turkish Riviera.

Located approximately 25 kilometres from Bodrum is Gumusluk, the ancient Carian city of Myndos one of the oldest settlements on Bodrum's peninsula. Here in one of the most precious corners of the Mediterranean stands a sumptuous new development by Selah called Babil Gardens, where lessons learnt from shipbuilding; such as a reputation for the highest quality, timely deliveries, consistency of production and the satisfaction of the client have translated well into property development. Babil Gardens' 56 suites are all spread out along ascending levels so that each would have an uninterrupted view of the bay. This development boasts an interior based on practicality and minimalist design.

"While swimming you really feel like you're in the Gardens of Babylon," reaffirms Selah. Indeed, the property takes its aesthetic cue from this ancient wonder - one of the many mythic ghosts of antiquity that once dotted this landscape. Designed for year-round use it is a synthesis of ancient authenticity and modern comfort enmeshed within the natural year-round beauty of Gumusluk and is named after the legendary hanging gardens. The temperate climate, with little or no humidity, is a haven for healing the body as well as the mind. Here one can enjoy one of the world's most beautiful sunsets and there is something to offer everybody but it is especially popular with British holidaymakers being only 3.5 hours flight time from the UK.

The Babil Gardens properties themselves are high spec, very modern and located within the best part of the coastline. They were designed to be luxuriously ergonomic, with families as well as architects assisting in their design - the human touch taking priority over their functionality. Protected by the outlying Dodecanese Islands, you will understand why they call this part of the Aegean the "Turquoise Coast" when you see the startling blue colour of the water.

Embraced by rolling mountains covered with a rich combination of wild shrubs, olive groves, pine and Tamarisk trees, this is perhaps one of the most beautiful locations in Turkey. With all the facilities of a major town on its doorstep, Bodrum will always lure a cosmopolitan elite as it is the one of the playgrounds of the glamorous and bohemian.

The area offers a plethora of entertainment choice; from the only underwater museum in the world to Selah's newly-opened Pashas Nightclub nearby and Lola Beach Club located in Türkbükü. Offering the perfect place to rest your head after all this partying is Onikon Boutique Hotel. With its 10 specially designed rooms, Onikon will be opening its doors to the public in June. The Selah clan has certainly seen the potential here. Combining the storied lustre of the ancient world, the archaeological richness, the bliss and tranquillity of the Mediterranean and then marrying all of this natural splendour with the creature comforts of contemporary Mediterranean living: as well as seeking to provide the razzamatazz of the 21st century.

By capitalising on the success of Alya Evleri - their property development near Istanbul - the Selah family have a clear vision and have developed an integrated, full service resort with their current Babil Gardens development, due to go on sale in June 2011. Properties start from €125,000 (£109,000) for a 2-bedroomed suite to €185,000 (£162,000) for a 4-bedroomed duplex suite.

A holiday home in a place of such intrinsic natural beauty is a tantalising opportunity to enter the thriving Turkish property market - where land prices in the most popular areas will continue to appreciate in value - in a country which consistently attracts 15 million visitors a year. Moreover, with the recent advent of direct winter flights that flock like swallows to the warmth of the peninsula, this can only be an area which sun-starved Northern Europeans shall continue to covet. Bodrum essentially has all the pleasures of the flesh; the weather, wonderful people, eons of sybaritic history, an inspirational cultural contribution and mouth-watering food - all gift-wrapped with a ribbon of sensually intoxicating coast on which to lounge.

Apart from the ancient world that surrounds you, this is a place alive with vibrancy where you can enjoy contemporary Turkish culture. The town of Antalya hosts the increasingly well known 3-day long Kemer Summer Music Festival. This is the brainchild of the new culturally visionary matriarch of the Selah clan who continues to entice artists such as Serdar Ortac and Ibrahim Tatlises and other Turkish mainstream popular stars to take to the stage.

The peninsula is where the ancient and modern go hand in hand, where nightclubs and restaurants offer something for everyone. Indeed, Turkey itself surrounded by sea on three sides, is a truly spectacular country; speckled with 300 natural lakes and much of its land being forested mountains crisscrossed by rivers. That said, Herodotus - the "Father of History" - who was born in Bodrum in 484 BC once declared, "I have travelled the whole world but found nothing in heaven or earth as beautiful as the Aegean."

POTENTIAL MORTGAGE PLAN FOR UK INVESTORS
TABLE OF MATURITY RATE

Maturity	36 months	60 months	96 months	120 months
Rate	0.81	0.83	0.84	0.85
100,000-TL	3,214-TL	2,123-TL	1,522-TL	1,333-TL

exchange rate 1 TL = 0.39 GBP (source: www.xe.com - as per May 2011)

INDUSTRY

Steely Determination Wins the Day

Behind the exemplary Turkish success story that is Erciyas Steel Pipe Co. is the tale of a man who knows that his expertise lies in producing the very arterial systems indispensable to human civilisation. Ahmet Erciyas is justifiably proud of his conviction of how necessary pipes are to human societies' growth and development. As he says, "You can feel us in the water that comes from your tap, the water you drink and that is used to irrigate your farms. Indeed, our pipes also carry you the fuel that makes everyday life a reality, we bring you energy to heat your house, run your car and drive business forward."

An avowed history buff, Ahmet Erciyas maintains that his fascination with human progress has informed every aspect of his business career to date. He rightly reveres his role facilitating the transportation of vital, precious and life-enabling "liquids". It is indeed a noble and historic occupation dating as far back as the third millennium B.C, when the first water canals were known to have been constructed in Egypt and Mesopotamia.

Few of us in the developed world ever pause to consider the almost miraculous, intellectual, logistical and organisational challenge that goes into supplying us not only with clean, safe drinking water but also oil and natural gas. These are products that we far too often take for granted and yet they are as vital to today's industrial society as water was to those who lived millennia ago.

"We feel true pride in carrying the vital substances of life; water, oil and gas to you. We are the producers of the steel pipes that are used to carry life to you. The Erciyas family are well aware of the responsibility on our shoulders and therefore, we are striving to produce the best pipes that play such an important part in human happiness."

A man of humble origins – the son of a tailor – Ahmet Erciyas maintains that he had only two academic interests at school; history and chemistry. The latter led to him graduating with an MS in Metallurgical Engineering from Istanbul Technical University (ITU) in 1971. He landed his first job as a young engineer at the German industrial giant, Mannesman-Sumerbank Pipe Industry Co. which was, at the time, Turkey's most important steel pipe factory. Here he was given the task of managing the quality department. It was an experience he claims shaped his life.

Learning first hand all the technical skill of manufacturing and gaining exposure to German technology, he still venerates German industrial and engineering prowess. "I studied in Germany, I worked in and was trained by German companies. So there are many traces of the German mentality in my drive and in my motivation."

The early 1970s were a tumultuous period of rapid development for Turkey. Ahmet Erciyas, a vanguard of this, was prophetic in recognising early on that a nation in the throes of social upheaval and modernisation would be increasingly in need of steel pipes. This being the case, he threw himself into understanding every technical detail of steel pipe production. By extension he investigated and came to understand the structure and future importance of his chosen sector - not only to Turkey but the world.

These formative experiences led him to conclude that the three elements essential to human health and prosperity - water, oil and natural gas - could only be supplied continually and efficiently by steel pipes. Even now he affirms, "As humanity continues to progress our demand for these will be pressing and ongoing."

Setting up his own business in 1977, in an idealistic entrepreneurial bid to realise his vision, has not been without huge personal challenges. Notwithstanding his significant success Erciyas has encountered setbacks particularly those associated with entering a market historically dominated by foreign technology and capital. Founding several businesses he eventually established his first non-partner company, Erciyas Industry Co. in 1989. One year later he founded Erciyas Steel Pipe Co. At the time it consisted of a workshop with a bitumen coating machine, one engineer and three workers.

Today Erciyas is able to look back vindicated that the factory he set up in 1990 is now a source of pride for Turkey with a growing technical staff that continues to have great success both at home and across the globe. His steel pipes demand the highest technical specifications and his manufacturing centre operates to international quality benchmarks. With nearly 400 highly qualified employees manning his head office and his factory, Erciyas is justifiably proud of his achievements.

By 2009 the company had grown to become not only the 25th biggest exporter of Turkey but also the lead exporter among all pipe producers.

So an adventure that began under German tutelage has coalesced into a domestic champion and an example of the technological transformation in Turkey. Recently celebrating 20 years in business, they are now the leading exporter in Turkey of steel pipes. The success Erciyas is currently enjoying has been hard won and many lessons have been learnt from the past.

Believing in the country's future, Erciyas invested heavily but Turkey's economic crisis in 2001 hit all sectors hard. Overnight, interest rates skyrocketed and the Turkish lira was dramatically devalued. Erciyas was forced to adapt quickly and had to radically change its business strategy to retain equilibrium in such a challenging business environment. It paid off and Erciyas not only recovered but went on to be an example of how to successfully survive and prosper in an economic crisis.

As a company Erciyas faced the trouble head-on and since then it has continued on an upward trajectory. In 1997 they laid the foundations of their now hyper-modern Düzce factory. Having obtained much-coveted ISO certificates, the company was awarded prestigious contracts by The Greater Istanbul Water Supply Project to produce the pipes that will deliver clean water to city residents until 2040. Erciyas gained much respect by manufacturing the biggest HSAW pipes at that time, with a diameter of 304.8cm (120 inches). Meanwhile the company has moved on to add oil and gas pipelines to its growing range of products. They gained renown and admiration in the industry for having manufactured the toughest spiral steel pipe yet produced with a material quality of API 5LX-80 and a wall thickness of 21.6mm (0.85 inches).

In 2008 Erciyas won the contract to manufacture the 1,300km-long (81-mile) pipeline for the Tamanrasset potable water project in the Great Sahara desert. At the time it was the largest pipeline project yet undertaken by a single manufacturer. It certainly posed an enormous logistical challenge. Unperturbed Erciyas relates his sheer exhilaration, "The pipeline was the only manmade structure in sight. For miles around all you could see were our pipes waiting to be laid below ground. I have never been so excited - there in the middle of the Great Sahara - to see nothing other than Erciyas' pipes." It certainly must have been quite a moment for a self-made man and an engineer whose vocation has been the business of pipes.

By 2009 the company had grown to become not only Turkey's 25th biggest exporter but also the lead exporter among all pipe producers. According to a study conducted by Fortune 500, Erciyas was one of the "Fastest Growing Companies" – recording the second biggest jump in the ranking. Moreover, Erciyas has been chosen to represent Turkey among the best 3,500 European companies for the "European Business Awards".

With his son, Emre Erciyas, now set to carry on as the successor in the family business, the company is in an enviable position. Erciyas continues to be among the most dynamic and qualified enterprises in its sector in Europe. Ready to tap into new markets and to undertake ever greater challenges, they are open to foreign partners. They continue to grow as they go from strength to strength.

COMMERCE

Turk Barter - Trading Up in the World

Given the so-called "new world order" that exists today and the credit crunch most countries - not least the UK - find themselves in, it is perhaps not surprising that the concept of barter is being greeted with renewed enthusiasm. Turk Barter, the brainchild of Chairman, Mehmet Sirri Simsek, is certainly an evolving success story in its own right and this has enabled it to tackle some of the challenges that Turkey has faced since the company's inception in 1994. Turk Barter is now not only the leading barter company in Turkey but is also a key regional player, having pioneered the Eurasian Barter Association.

With regards to the recent economic downturn, Simsek believes only those countries that are seeking to adopt alternative methods of tackling these crises, rather than relying on conventional means, are winning. He rails against the stimulus packages - essentially amounting to the printing of money - and the manipulation of interest rates, maintaining that, "The entire world needs a real economy. In order for that to be achieved different approaches should be adopted and alternative methods should be employed."

Given that it is considered to be the first form of commerce, the question now is what can barter in modern trade offer? Simsek affirms that, "Everybody can define barter in their own way. However, the reason why people have so much difficulty in grasping the concept of barter is because they refuse to dismiss the meaning it had in ancient times. They are still hung up on its conservative definition. Nowadays we introduce the barter concept to people as an alternative form of commerce and not as an exchange of goods." By this Simsek is alluding to the sophistication of a system that is not dissimilar to the concept of a virtual payment. He continues, "Now if you consider credit cards and how they do not physically involve the use of banknotes, well take the barter system within the same parameters – there is no use of cash in a barter system."

He fervently believes that more companies and countries need to better understand and appreciate the merits of the barter system in order to survive even the worst economic situations. Certainly, in times of surplus inventory, limited liquidity and restricted or inhibited access to credit, the concept of barter offers an impressive solution to the problems that many enterprises face. From leasing heavy machinery needed for a construction project, to the purchase of furniture to outfit new business premises – the system provides an alternative to the many obstacles businesses encounter today. "Whatever can be done via the use of money can be done through barter," insists Simsek, "In the future the barter system will be superior to the banking system. This old world needs a new, dynamic, alternative solution."

Besides the misperceptions his chosen vocation suffers, perhaps the greatest challenge the barter system must overcome is the implementation of international barter laws. Simsek would like to see the adoption of laws - similar to banking regulations and monetary policies. He insists, however, that they need to be devised in such a manner so as to be acceptable to all participating countries' standards and that they must create a framework fit for the future of the industry.

So convinced is Simsek by the positive impact of the application of a global barter system, that he envisages the establishment of an international barter bank which will as he puts it, "Ensure that these companies carry out transactions amongst themselves using this bank as an intermediary on an international basis." Moreover, Turk Barter is in talks with Mastercard and Visa with a view to having them provide "barter cards"; an initiative they believe will create greater accessibility to and further encourage global participation in the barter system.

Extolling the advantages of the entire barter system, Simsek is also adamant that it is very advantageous in job creation, saying, "It is almost entirely based on the philosophy of creating and retaining jobs." What is clear, but perhaps little understood, is that the system offers solutions to a diverse range of sectors such as media, transportation, construction, cargo, textiles, logistics, tourism, indeed almost all industries. In the early days Simsek learnt much from the US where there are two types of barter companies – one specialising in corporate and another in retail. "There are transnational agreements such as the one signed between the United States and Saudi Arabia," he explains, "Where the United States will provide aircraft in exchange for oil."

Turk Barter may have been a late starter in comparison to the US but their ambitions are not without merit. Barter transactions on both a grand and lesser scale are certainly one way for the market to avoid the pitfalls of trade deficits and the risks associated with fluctuations in currency. Turkey's economy is booming now and Turk Barter's approach offers a diversified way to keep up the momentum.

INDUSTRY

The Driving Force Behind Turkey's Industrial Revolution

Turkey's machinery industry is fast evolving into a national champion as well as an engine of expansion for the country, clocking up a turbo charged 20 percent growth year-on-year since 1990. Yet what makes this such an exciting success story is that this is far from a top-down "dirigiste" model. It is instead being powered by an innovative and knowledge-centric cluster of nimble home-grown small and medium-sized enterprises (SMEs).

It is these companies that are driving a revolution in Turkish machine production, taking advantage of Turkey's cost-effective and increasingly highly skilled manpower. This trend has meant that Turkey is emerging strongly as a global force with the sector playing a vital role in Turkey's industrialisation.

Another indication of the growing sophistication of Turkish engineering expertise is demonstrated by the rate of domestic inputs into the manufacturing and production phase, with some 85 percent of components now supplied by a domestic production base. This sharply reduces Turkey's reliance on external producers and feeds into a virtuous circle that is stimulating innovation and competition amongst related local industries.

Adnan Dalgakiran, Chairman of TMPG (Turkish Machinery Promotion Group), the body responsible for communicating the growing capacity of the Turkish machine manufacturing sector to a global audience, rightly points out that, "If it keeps on growing at this rate, by the year the 2023 total value of exports from the machinery sector is expected to surpass $100 billion." Tellingly this group has attracted 6,000 members in just 4 years. Dalgakiran's objective is unambiguous, "Our goal is to make 'machinery' the strongest sector in the Turkish economy within the next decade or so."

Turkey's machinery industry has certainly been given an ambitious export target of reaching a global market share of 2.3 percent by the landmark year of 2023, the 100th anniversary of the founding of the Turkish Republic. To achieve this would require a compound average growth rate continuing at or near the 20 percent mark, by which time the Turkish machine industry's share of exports is expected to have risen to over 18 percent.

Perhaps unsurprisingly the machinery sector plays both a historic and strategic role in the development process of any nation's economy. It acts as a catalyst for manufacturing skills and stimulates investment in related goods and services, further enhancing the critical competitive edge by creating a multiplier effect on economic development. In relation to Turkey's engineering capability, the country has an additional advantage in that, thanks to its low labour costs and the sheer variety of its products and components, it is able to remain highly competitive in the international market.

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>
> **ADNAN DALGAKIRAN**
> *Chairman of TMPG*

As TMPG's Chairman, Dalgakiran, goes on to explain, "The awareness we've been trying to build about Turkish machinery is now paying off. One of the key selling points of our products is that they can be bought at European quality standards but at prices close to those found in the Far East." He believes that Europe is beginning to wake up to this critical advantage as more is learnt about the inherent benefits associated with Turkish machine production. The facts certainly seem to support this prognosis with major export destinations for Turkish products including Germany, France, the UK, Italy and Iran as well as to over 200 hundred other countries. Moreover, Dalgakiran elucidates, "One of the main advantages we have is our geographical positioning. Turkey is located right at the heart of a region comprising countries with rich sources of oil and natural gas. Also consider that these countries will become very powerful in the next 20 years. Turkey is situated right at the cross-section of this region."

Despite a persistent trade deficit for machinery products, the balance has now started to shift in Turkey's favour with a long-term downward trend for imports versus exports. This change in fortune is the result of the two distinct benefits - low labour costs and an ability to offer world class quality which are individually significant but, when combined, the product is the clear and direct competitive advantage of Turkey's engineering capability. This has allowed it to contend in international markets as a major and long-term player. Dalgakiran is full of ambition for his members, "Within the next 5 years we plan on becoming the third largest machinery producer in Europe, and by 2023, our goal is to become the second largest."

For now, Turkey's machine industry remains labour rather than capital intensive and, with an abundant and readily available workforce, this is expected to continue to be the case in the medium term. The young, skilled and industrious pool of human resource is undoubtedly a critical factor in guaranteeing the country's continued competitiveness. However, despite its importance, this alone will not be enough to foster a world-class machinery industry. Instead, Turkey's growing number of companies in the sector with their varying capabilities, strategies and strengths offering a diverse range of products, will be the catalyst. The cluster effect of this expertise means that they all feed off each other and provide a technological edge to the entire industry.

The harmonisation of EU legislation, as required for Turkey's accession process, means that Turkey will have to ensure local machinery producers are fully compliant with EU standards. This will provide a further fillip to the quality of Turkish machine production and thereby boost trade. Dalgakiran is certainly confident about the current situation and extols the climate for investment, "Turkey represents an immense opportunity, it is a country with a bright future and great capacity especially in the machinery industry. If investors want to come and take a closer look at our companies they will certainly not regret this decision but if in the future, after taking my advice, they do then I will personally pay for their return flight - and you can quote me on that."