

# FOREIGN MARKET CONSULTING



Danismanlik ve Tic. Ltd. Sti.

Attached is our latest monthly newsletter providing summaries of recent economic and political developments in Turkey.

Please note that beginning from this year we also offer 2-day intensive **seminars on 'Business in Turkey'** presented at our offices in Istanbul. Please find further information **Seminar - Info**

We would welcome your feedback on our Newsletter and any other matters that you consider may improve or add to our newsletter service. Please also do not hesitate to contact us if you wish to learn about our wide range of available services.

If you know anyone else who would be interested in this free service, please forward this newsletter to them or alternatively, provide us with their e-mail address (to [newsletter@fmconsulting.info](mailto:newsletter@fmconsulting.info)), so that we can include them on our distribution list.

Best regards,

Your FMConsulting Team

**Newsletter August 2007**

## Economy

### Overview of Monthly Data

YTL-Rates	07.31.2007	08.31.2007	Change in %
YTL pro Euro	1.7557	1.7743	1.06
YTL pro USD	1.2807	1.2976	1.32

<b>Stock exchange index</b>	51.299	50.198	-2.15
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	0.02	3.72
Consumer prices	0.85	7.39

## Growth Rates

Economic Growth Rates (%)					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Yearly
2000	4.2	5.4	7.2	7.8	6.3
2001	-3.3	-12.3	-9.1	-12.3	-9.5
2002	0.6	10.4	8.0	11.8	7.9
2003	7.4	3.6	5.6	7.2	5.9
2004	13.9	15.7	5.7	6.6	9.9
2005	7.5	4.7	8.0	10.02	7.6
2006	6.3	9.3	4.3	4.6	6.1
2007	6.7	3.9			

### EU granted 1.6 billion Euro Financial Assistants for Turkey

The EU has put forward a proposal to give Turkey a total of 497.4 billion Euro in 2007, increasing to 538.7 billion in 2008, followed by a further rise to 566.5 billion in 2009 of financial assistants. The commission made a new regulation called "Pre-joining Financial Tool" in order to determine the financial aid to be made to candidate countries between 2007-13. The new regulation aims to provide candidate countries with full membership. According to the information given by the State Planning Organisation, the EU financial framework proposal will grant Turkey financial assistance for organizational structuring, transborderline cooperation, regional development, human resources and rural development.

### Foreign Investors on the Increase in Turkey

According to the latest International Investors Association report (YASED), which represents 85 percent of all foreign investors in Turkey, 64 percent of investors are planning to increase their investments in Turkey. 54 percent of the investors expect an increase in the Turkish economy. The topics that they complain about are the informal economy and bureaucracy. The report indicates that the poll also revealed that over the first six months of the current year, 52 percent of foreign investors in Turkey have reached their sales and production targets, 40 percent were more successful than they expected. Further only 20 percent of the foreign investors fell behind their target of profitable numbers, 50 percent say that they have reached their targets while 30 percent of which report surpassing their targets. 62 percent of the YASED member companies increased the number of their employees.

### China choose Istanbul, Ankara and Izmir as Investment Bases

China has included Istanbul, Ankara and Izmir on the list of the best cities of the world for making investments. The decision made according to allignment of the report conducted by the Chinese Investment Council was announced at the Peking Turkish Consulate. The Minister of State for Foreign Trade, Kursat Tuzmen stated that China makes about 20 billion USD of foreign investments "we hope 3-4 billion of these investments be directed to our country."

### 4.7 % production increase over 6 months for manufacturing Industry

In comparison to the 6 months average of previous year, in percent.

Manufacturing Industry	2007	2006	Sector Ratio
Food	3.9	7.6	10.64
Tabacco	-4.9	20.9	1.35
Textiles	6.4	-5.2	10.88
Clothing	-1.9	-4.2	5.42
Leather	1.4	17.4	1.00
Timber	21.9	0.7	0.59
Paper	5.5	1.8	1.59
Publications	0.2	4.8	1.73
Coke (fuel)	5.4	-2.5	14.48
Chemicals	3.2	13.2	10.34
Plastics	13.3	-10.1	3.41
Minerals	1.1	4.7	6.85
Main metal industry	13.2	7.4	8.90
Metal	13.9	10.4	3.39
Machines ve equipment	13.4	21.8	5.76
Data processing equipment	-54.7	151.3	0.05
Electrical machinery	33.5	3.5	3.22
Communication equipment	-33.0	-8.7	1.49
Medical/Optical equipment	-18.1	12.4	0.26
Land motor vehicles	4.1	10.3	6.27
Other forms of transport	7.0	46.0	1.07
Furniture production	-26.4	30.5	1.30

## Politics

### A strong Victory day message from the Military

The Chief of General Staff of the Turkish armed forces General Yaşar Büyük Anıt in his 30th August Victory Day message that was published on the Internet stated that, in recent days ploys of the forces of evil which were working towards harming the Turkish nations' harmony and unity, as well as its secular and democratic structures have been surfacing in different ways. The message that was broadcast one day prior to the Presidential Election pointed out that the whole country observed the ploys of the forces of evil which systemically attacked the secular structure of the Republic of Turkey. He further stated that they would maintain their position while they guarded the Republic of Turkey.

### Gül appointed as 11<sup>th</sup> President

Deputy Prime minister and Foreign Minister Abdullah Gül was elected as the 11<sup>th</sup> President on the 3 round of voiting with 339 votes. The main opposition party the CHP refrained from participating in the election, whereas the DTP used blank votes.

### The first Islamist president in a secular country

The foreign press has given extensive coverage to the election of the Turkish President by emphasising that for the first time an Islamist would be occupying the presidential seat in a secular state. They reported that Gül was selected after a political crisis, which was based on the secular movements, claim that he had a totally Islamic agenda; however, many observers believe that Gül will maintain secular traditions and structures as he had done in his term of office as the Foreign Minister.

### **Sarkozy states he will not block ascension talks**

The French president Sarkozy, who as up to now opposed Turkey's accession bid to the European Union, stated that he would not block the restarting of EU-Turkey accession talks. Sarkozy while stating he will not block the new accession issues to be discussed, re-emphasised that his preference would be to move from membership to partnership for Turkey.

### **Memorandum of understanding signed to fight against terror**

During the meeting held with Iraqi Prime Minister Maliki, the Turkish Prime Minister Erdogan stated that Turkey is determined to fight against PKK Kongra-Gel terrorist organizations by stating "We have signed a comprehensive agreement with Iraq concerning the fight against terror". The Prime Minister of Iraq, Nuri El Maliki stated that, they would be able to overcome terror by working with Turkey to draw up the details of the plan.

## **Other Topics**

### **Turkish textile and ready-made textile sector reports growth of 17%**

State minister Kürşat Tüzmen stated during the opening of the 10th International Fashion Fair that if it was not for the Turkish textile and ready-made textile sector yearly upward trend, Turkey would not have become the export champion of the OECD. He said that despite a 40% decrease reported by Turkey's neighbours, Turkey has shown a 17% increase in the textile and ready-made textile sector.

### **22 Turkish firms take their place among the world's giant construction companies**

Last year, Turkish construction companies engaged in work to the amount of 16 billion USD, and became the most important sector earning foreign currency for Turkey. The number of Turkish firms in the world top 225 construction firms has risen from 18 to 22. The president of the Turkish Construction Union, Erdal Eren has stated that Turkey is next in line after the US and China. Internationally, the Turkish construction sector is most active in Russia. For 2007 the sector is expected to engage in projects to the value of 17 billion USD.

### **A 174, 6 percent increase in motor vehicles in the last 15 years**

The number of registered vehicles has risen to a figure just over 12.5 million for the month of July. It is an increase of 174 percent over the last 15 years. There is approximately 1 motor vehicle for every 5-6 people and one car for every 12 people.

<b>Year</b>	<b>Cars</b>	<b>Total vehicles</b>
<b>1992</b>	2.181.388	4.584.717
<b>1993</b>	2.619.852	5.250.622
<b>1994</b>	2.861.640	5.606.712
<b>1995</b>	3.058.511	5.922.859
<b>1996</b>	3.274.156	6.305.707
<b>1997</b>	3.570.105	6.863.462
<b>1998</b>	3.838.288	7.371.541
<b>1999</b>	4.072.326	7.758.511
<b>2000</b>	4.422.180	8.320.449
<b>2001</b>	4.534.803	8.521.956
<b>2002</b>	4.600.140	8.655.170

<b>2003</b>	4.700.343	8.903.843
<b>2004</b>	5.400.440	10.236.357
<b>2005</b>	5.772.745	11.145.826
<b>2006</b>	6.140.992	12.227.393
<b>2007</b>	6.289.612	12.590.092

### **Foreign Investment of 100 million Euro for Beylikdüzü, Istanbul**

Beylikdüzü in Istanbul is becoming an attractive centre for foreign investors. Four foreign companies have held talks with the Beylikdüzü municipality and have confirmed their areas of interest. The German firm Alpmare plans to invest in a water sports complex, the Spartak Moscow Club in an ice-skating rink, and the Russian Portinvest company is interested in developing a sports centre and hotel. A firm from Saudi Arabia has shown interest in constructing in a holiday village and marina. The total proposed investment is 100 Million Euro.

### **Capital Partners to invest 1.5 billion dollars in Milas**

In Muğla, in the province of Milas, a project to the value of 1.5 billion USD, for the development of tourism, is to be signed by Capital Partners. Construction is to start in November. This tourism project will create employment for 5000 people and will focus on providing accommodation for a total of 70,000 local and foreign tourists.

### **Seferihisar: Geo-thermal springs attracts both local and foreign investment**

The efforts to promote the geo-thermal springs of Serefihisar in Izmir have intensified. Local and foreign investors are showing an interest in developing 60 thermal spa hotels, 4000 houses and 300 hectares of thermally heated greenhouses. The technical details of the proposed investments will be finalised by the end of this year.

## **Ukraine**

### **As trade grows Turkey hopes for more investment from Ukraine**

*Turkey has become one of the top three export destinations for Ukrainian-made goods.*

The volume of trade is overwhelmingly in favor of Ukraine, which is an important factor in Turkey increasing its exports there. For the past five years, Turkey has been ranked among the top three export destinations for Ukrainian goods. Today, iron, steel, and scrap metals account for more than 60 percent of total Ukrainian exports to Turkey. The presence of Turkish companies and investments in Ukraine also continues to grow steadily. According to official figures, total Turkish investment in the Ukrainian economy stood at \$91 million in April of this year, with a predicated tendency towards further growth continuing in August. The total investment figure may be as high as \$1 billion.

Interest in Ukraine continues to grow in Turkey, and many opportunities exist for cooperation in mutual investment projects. Recently, two Turkish banks became operational in Ukraine. Notably, Turkey and Ukraine have started preliminary negotiations for a free trade agreement. These factors are clear signs of an ever closer economic relationship.

### **Ukraine wins \$117 million contract to supply 96 APCs to Thailand**

On August 16th Prime Minister Viktor Yanukovych announced that Ukraine has won a \$117 million contract to supply 96 armored personnel carriers to Thailand. The PM told reporters that Ukraine had outbid eight countries, including Canada, China and Russia in an open competition to supply

the Thai armored forces. He did not at this juncture confirm when the vehicles (called BTR-3E1s) would be shipped. Thai Defense Minister Boonrawd Somtas said last week that the army favored the Ukrainian bid because it was the cheapest of the nine received.. After the 1991 Soviet breakup, Ukraine inherited a sizable weapons industry, and remains a major producer of arms, including missiles, aircraft and tanks.

### **Ukraine - a major energy transporter**

The geographical position of Ukraine makes it a perfect route for transporting energy from Russia and the Caspian region to the world markets. According to the International Energy Agency, 3.9 trillion cubic feet of Russian gas was shipped through Ukraine to Europe in 2005. In the same year, Ukraine transported 46.7 million tons of oil to the world markets. Such a high export volume makes Ukraine the world's most important hydrocarbon transporting country, and Ukraine sees her energy transport infrastructure as a key strategic asset. However, whether or not Ukraine will be able to remain a major energy transporter in the future is uncertain, as transportation through Ukraine has been falling in recent years. The Energy Information Administration reported that Russian oil exports via Ukraine dropped 15 percent in 2005 as compared with 2004. Ukraine also transported 7.7 billion cubic metres less of gas in 2006 than she did in 2005. There was an 18 percent fall in Russian gas transportation in the first five months of 2007 compared to the same period in 2006.

### **Ukraine and Slovakia to sign agreement on visa simplification in September**

Prime Minister of Ukraine Viktor Yanukovich believes that Ukraine and Slovakia can sign agreement on visa simplification in September in connection with Slovakia entering the Schengen area. The Head of the Ukrainian Government said that Ukraine had submitted its proposals on this draft agreement in December 2006 and again in April 2007, and now would appreciate a prompt response from the Slovak side. For his part, the Slovakian Prime Minister, Robert Fico, endorsed the words of the Prime Minister of Ukraine, and noted a golden opportunity to sign the agreement. Fico pointed out there were opportunities not only for Slovakia, but also for Poland and Hungary, to simultaneously enter the Schengen area and coordinate their activities in visa simplification with Ukraine.

### **Cabinet of Ministers authorizes UkrAvtoDor to attract 465 million USD credit**

The Cabinet of Ministers has issued a resolution to give consent to UkrAvtoDor (Ukrainian Automobile Road Administration) to attract credit to the tune of 465 million USD under state guarantees from Morgan Stanley International Limited, for construction and repair of public highways.

### **Agreement on simplified visa protocol between Ukraine and EU will come into force as of 2008**

Foreign Minister Arseniy Yatsenyuk hopes the agreement on simplified visa protocol between Ukraine and the EU will come into force as of January 2008. The Minister noted the document will be among the first to be debated by the new parliament. The Verkhovna Rada is set to endorse the agreement and make it effective. The agreement includes a number of positive aspects with regard to the issuing of visas. Specifically, it envisages 5-year multiple-entry visas, as well as a number of privileged categories of visa, such as those for business people. The agreement also sets forth the Ukrainian citizens' right to appeal where a visa is denied, and establishes a specific time frame for the issuing of visas - 10 days routinely, 2 days if required urgently.

## **Growth of FDI in Ukraine in H1 estimated at \$2.553 B**

The growth of foreign direct investment (FDI) in Ukraine in the first half of 2007 was \$2.553 billion, a 50.3% increase on the previous year, the State Statistics Committee reported on Friday. According to the source, foreign investment in Ukraine's economy was some \$3.2763 billion in the first half of 2007, whilst \$820.3 million was withdrawn. The overall figure for FDI in Ukraine by July 1, 2007, was \$24.172 billion, which was 11.8% up on the figure registered in January 1, 2007 - some \$518.6 per capita. In the first quarter of 2007, investments from Cyprus grew by \$950.5 million, those from the Netherlands by \$330.5 million, those from Austria by \$323.2 million, those from Russia by \$235.3 million, and those from the United Kingdom by \$225.3 million. Investors from France increased their investments by \$104.6 million, those from Germany by \$99.9 million, those from Poland by \$88.1 million, and those from Sweden by \$73.4 million.

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