

TÜSİAD newsletter



TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION

ISSUE 14

PUBLICATION DATE:

April 2002

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Opinions

Sustainable Growth: Reality or Dream?

The growth strategy adopted in 1990s rested on foreign capital inflows and the expanding duty losses of the state banks, which had financed the snowballing budget deficits and the real sector spending. Although the productivity growth fell short of the real cost of borrowing and the debt stock grew dangerously, the system was sustainable as long as the international capital flows were positive. However, the Asian crisis (1997) and the Russian crisis (1998) rendered international capital timid, leaving Turkey alone with its high inflation, debt stock and real interest rates. Faced with a significant contraction in economic activity and fragile public finance, the government signed a three-year Stand-by agreement with the IMF, pledging tighter fiscal policies with a crawling peg exchange rate regime, aiming to reduce inflation down to 10% vicinity in two years. Furthermore, the program was underpinned by structural reforms with an emphasis on social security system, agriculture and privatization.

Although the favorable environment at the beginning of 2000 sparked off capital inflows and growth, the overheated economy and the TL's real appreciation, coupled with banking sector fragility, certain delays in the reforms and political noise, led to an eye-catching evaporation in the Central Bank's F/X reserves and two consecutive financial crises occurred in November and February. Accordingly, as of February 22, the crawling peg was abandoned, igniting an upward trend in inflation. In May 2001, a new program named as "Transition to a Stronger Economy" was launched with the aim of re-instituting

confidence and stability through strengthening the fiscal austerity and the banking sector. The primary concerns were rolling over the domestic debt and preventing balance of payments problems, while the disinflation process was subject to a de-facto delay.

The new program was progressing well and the exchange rates were somewhat stabilized in August. Nevertheless, the September 11 turmoil led to deterioration in the expectations through elevated concerns about the financing gap for 2002. However, the underlined event carried the fight with terrorism to the top of the agenda, elevating Turkey's strategic importance. In February 2002, a new three-year Stand-by arrangement was put into place, loaded with SDR 12.8 billion (US\$16 billion) worth of credit, US\$9.1 billion of which was released immediately, taking into account Turkey's successful achievements in terms of the reforms and its adherence to tight economic policies. The new program focused in completing the banking sector reform and accelerating public sector restructuring through raising effectiveness, improving governance and transparency, along with a reform in the tax system. In terms of reinforcing the Turkish private sector's role in the economy, on the other hand, the pledges were to speed up privatization, prepare a better environment both for domestic and foreign investment and finally take the required measures to enforce governance and transparency. Consequently, the primary goals were to achieve sustainable growth and reduce vulnerability to both external and home-grown shocks, owing to the higher efficiency both in the private and the public segments,

website: www.tusiad.org

ISSN: 1302-3381

stronger banking system and lower debt stock.

The initial target however was to re-institute macroeconomic stability, through tight fiscal and monetary policies, while disinflation would follow suit, owing primarily to the TL's real appreciation. In fact, TL's upward stance prevailed since November 2001, when it became clear that a new IMF deal was on the pipeline, tagged with fresh loans of US\$10 billion. During November-March, TL's real appreciation was realized at 40%, while the February and March CPI inflation rates were recorded as low as 1.8% and 1.2%, respectively. Similarly, the private manufacturing price hikes hovered below 2% since December, although WPI inflation preserved its relatively higher platform, attributable to the significant surges in the agricultural prices. Nevertheless, the March WPI inflation was also recorded at 1.9%, in line with the relative improvement in the agricultural prices, reflecting also the continuing appreciation of the TL.

Lower monthly inflation rates paved the way for the declining interest rates, relieving the concerns over the domestic debt sustainability, as the 86% of the Turkish domestic debt stock was composed of F/X-denominated, F/X-indexed and floating rate securities, as of 2001-end. Moreover, the declines in the inflation expectations and the interest rates also guided Central Bank to pull down short-term interest rates, slipping from 59%, as of February, to 51%, as of April 8, which is envisaged to preserve its downward pattern in line with the continuing stability and improvement in expectations.

Despite the positive outlook in terms of inflation and interest rates, as followed in the Central Bank's "Expectations Survey," the real data closures are yet far from drawing an optimistic picture and the year-end real GNP growth forecasts navigate

around 2%, comparing unfavorably with the official figure of 3%. The real contraction, logged in the final quarter of 2001, was disclosed above anticipations, carrying the cumulative narrowing to as high as 7.4% for GDP and 9.4% for GNP. Furthermore, during the initial two months of the 2002, the industrial production fell by 3.7% year-on-year, while the banking sector credits maintained their downward course in March as well. These developments prompted uncertainty about the recovery in output. However, growth is crucial not only in terms of reducing the social problems and elevating employment opportunities, but also in regard to the issue of debt sustainability. As expressed in the Letter-of-Intent, dated January 28, 2002, higher growth rates of at least 5% in 2003 and onwards will lay the basis for a declining trend in the debt stock relative to GNP.

The main obstacles in front of resurrection of growth are seen to be the uncertainties about the banking sector and Iraq operation, standing as impediments in front of domestic demand. On the banking enclave, the authorities' rigid stance on "NPL provisioning" endangers the possibility of success in the "Istanbul Approach", designed for corporate debt workouts, which is proceeding slowly. The problem arises from the fact that the underlined credit extensions require high provisions, reducing its likelihood in an environment of low profitability and high risks, as the bank owners refrain from injecting fresh capital and may prefer to call back credits.

In order to institute a proper banking system, attractive both for domestic and foreign investors, there are certain measures to be taken in the short-run. First of all, a well-established and independent regulatory and supervisory body is required. The Banking Regulatory and Supervisory Agency may be

accepted as a viable step, but its independency should be preserved. Additionally, the inflationary accounting should be initiated, since it will prevent the taxation of fictitious profits. There are also a number of taxes, levies and duties on banking activities, increasing the costs and instigating preference over offshore operations, free of taxes. The tax system should be designed in line with the developed country examples. In the meantime, the risk management system in the corporate sector should be properly initiated and the bankruptcy law should be renewed, hand in hand with the elevated transparency and risk management rules in the banking system.

Under such circumstances, the completion of the banking sector rehabilitation in harmony, giving life to "Istanbul Approach" and taking the necessary steps in the tax framework will be crucial, while the impact of a possible Iraq operation may be limited as long as the program prevails. The re-expansion of Eximbank, private and public bank credits, along with the decline in the interest rates and the positive wealth effect of the TL's upswing may open the path for growth. In the meantime, the economic recovery in the external territory and the steps taken to instigate foreign investments may also have a positive influence on economic recovery. Last but not the least, the adherence to structural reforms and the political integrity should continue unabated, crucial for preserving stability. The improvement in confidence and expectations will turn into higher domestic spending both in terms of consumption and investments, while the structural reforms both in the public and the private areas will pave the way for sustainable growth in an environment of declining inflation and real interest rates.

Success in Business: Corporate Governance

Throughout the world, two main developments, namely, the widespread and increasing demand for higher standards of accountability and performance together with the emergence of global markets are putting every kind of institution under pressure for becoming more transparent in their activities and more responsive to whom they serve. Despite the fact that "corporate governance" is by no means a new concept, the aforementioned developments accompanied by the 1997 Asian financial crisis have brought the issue into the spotlight. Inefficient use of the resources by the firms and inability of the investors to monitor this inefficiency from outside exacerbated the crisis and as a result, transparency and accountability got to the top of the world business agenda as the main concern for investor confidence, credibility, long-term competitiveness and success.

In a shrinking world where borders are disappearing, the performance of a country is measured by the competitiveness and performance of its corporations. Companies striving for success must protect the interests of various stakeholders and as well as those of future generations. Corporate governance constitutes the cornerstone of this premise as the degree to which corporations observe basic principles of good governance is an increasingly important factor for investment decisions. If the companies are to compete successfully in the global market, and if they are to attract long-term capital, corporate governance arrangements must be

credible and well understood across the borders. Even for the corporations, which do not primarily rely on foreign capital, corporate governance practice will help to increase the confidence of the domestic investors and reduce the cost of capital.

So, what is corporate governance? Corporate governance, in its broadest sense, can be defined as the system by which companies are directed and controlled, and principally involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD Principles of Corporate Governance). Across the world, codes of corporate governance have been drawn up mainly focusing on the structure and the functioning of the board for setting out the guidelines for more effective performance of the company. Although the codes may vary across countries and even companies in accordance with the regulatory and macroeconomic environment and the specific needs of each country or company, all of them converge at the necessity for the functioning of the company on the basis of four principles of corporate governance: fairness, transparency, accountability and responsibility.

Whereas fairness covers the issues related to the protection of shareholder rights and equitable treatment of all shareholders, transparency refers to

the timely disclosure of correct, adequate and comparable information relating to the company's financial performance, corporate governance practices and ownership structure. Accountability is the clarification of the governance rules and responsibilities between the board of directors and the corporate management, and the basic principle for ensuring the alignment of managerial and shareholder interests, as monitored by the boards of directors. The last principle, responsibility, ascertains corporate compliance with laws, social and ethical values.

The recent macroeconomic restructuring efforts of Turkey will bring profound changes to the public and private sectors alike. Analysis of the examples from other countries suggests that good governance can only be achieved over time and regulatory environment is critical to compel companies to adopt these principles. Within this context, corporate governance in Turkey will improve with the experiences from the implementation of these basic principles in line with the companies' unique structure, culture and strategic processes accompanied by the relevant changes in legislation and regulatory processes. TÜSİAD believes that welfare for Turkey and her citizens can only be attained through sound corporate governance practices, and the realization of corporate governance principles will play a crucial role in helping Turkish companies to reach their well-deserved place in the global market.

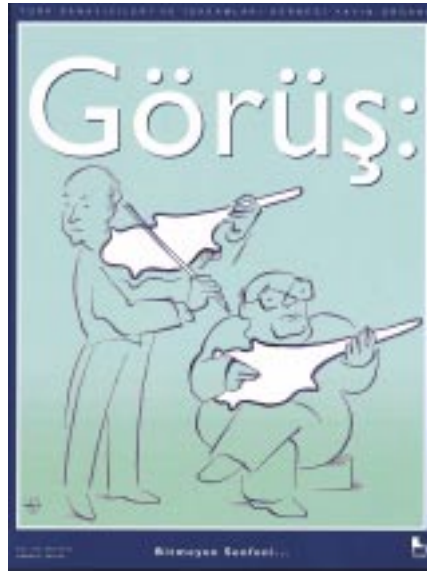
Publications

Görüş Issue 50 (February-March 2002)

The cover theme of the 50th issue of Görüş, TÜSİAD's bi-monthly journal, is "Cyprus Issue" described as unfinished symphony. Several dimensions of the issue are evaluated by leading experts and the main representatives of Turkish Cypriot community in the island. Besides this theme, the Chairman of TÜSİAD, Tuncay Özilhan in his article evaluates the principles of corporate governance, as the basic standard private sector has to meet.

In this issue, the Undersecretary of the President of the Turkish Republic of Northern Cyprus, Ergün Olgun discusses the future of the island with special reference to the recent inter-communal negotiations. Mustafa Akıncı of Socialist Liberation Party asserts that the recent negotiations would be the last chance to catch up with the European train. Ecmel Barutçu, Retired Ambassador, presents the critical steps of the Cyprus problem and its

association with the enlargement of the European Union. Cypriot journalist Hasan Hastürer presents the portraits of the leaders of two communities. Muharrem Faiz gives information about his research on the opinion of the



Cypriots about the conflict and EU membership. Journalist Hasan Erçakıca reflects the conditions of daily lives, habits and tastes of the Cypriots. Sami Kohen of Milliyet Daily conveys his impressions on the issue accumulated throughout his carrier. Niyazi Kızılyürek investigates the evolution of Greek Cypriot community from Enosis culture to the membership to the EU. Retired Officer Kemal Yavuz evaluates the geo-strategic position of the island with reference to the events from political history. In this issue, one can also find an interview with two leaders of the business community on the Northern side of the island: The Chairman of Turkish Republic of Northern Cyprus Businessmen Association Salih Çeliker and the Chairman of Northern Cyprus Chamber of Commerce Ali Erel assess the position of the private sector and the difficulties they encounter due to the unresolved conflict.

Business Views and Actions on the Euro-Mediterranean Partnership

The report entitled "Business Views and Actions on the Euro-Mediterranean Partnership" is a compilation prepared for the fifth Euro-Mediterranean Business Summit, which took place in Istanbul on 1-2 March 2002. The Summit is hosted by TÜSİAD in cooperation with UNICE and with the support of European Commission.

The report aims to gather the views and priorities from both shores of the Mediterranean on the Euro-Mediterranean Partnership since the launch of Barcelona Process in 1995.



The report has been prepared by TÜSİAD with the valuable contributions of UNICE and UNIMED Business Network.

The report commences with a short presentation of the Euro-Mediterranean Partnership. In the second part, are found the declarations of previous Euro-Mediterranean Business Summits. The third part comprises UNICE opinions on the Euro-Mediterranean Partnership. The presentation of UNIMED Business Network is found in the last section.

Activities

The Fifth Euro-Mediterranean Business Summit

In continuation of the previous Euro-Mediterranean Business Summits and fora of Lisbon, Valencia, Malta, Marrakech, Athens and Tunis, TÜSIAD in co-operation with UNICE and with the support of the European Commission, organized the fifth Euro-Mediterranean Business Summit in Istanbul, on 1-2 March 2002. The Summit had as its theme the "Mediterranean Region and the Global Economy".

In the Summit, three workshops analyzed in detail the infrastructure gap as well as the development of small and medium-sized enterprises and the role of the European Investment Bank, the inter-relationship between the Euro-Mediterranean Agreements and the new WTO round; and the potential of information and communication



François Perigot, the Honorary President of UNICE at the Summit

technologies in the transformation of the economies in the MEDA region.

In the Summit, the participants expressed their wish that the real challenges of the creation of a Euro-Mediterranean Free Trade zone based on the principles of open economies and private initiative should be better and more widely expressed. It is declared that the implementation of that historical change needs to have the full comprehension and support of public opinions on both sides of the Mediterranean in order to be able to conduct the substantial reforms and policies without which a market economy cannot bring with it economic success and social justice.

The next Euro-Mediterranean Business Summit will take place in Egypt in 2004.

Creation of the Union of Mediterranean Confederations of Enterprises (UMCE)

On the eve of the Summit, the Presidents of the main multi-sectoral business organizations from the twelve Mediterranean countries (Algeria, Cyprus, Egypt, Jordan, Israel, Lebanon, Malta, Morocco, Palestinian Authority, Syria, Tunisia and Turkey), which participate in the Barcelona Process, created UMCE in the framework of the UNIMED project managed by UNICE and financially supported by the European Commission. UMCE's primary task will be to prepare and facilitate the business input towards the establishment of a free trade area in the Mediterranean region by 2010. The Association aims to be the main interlocutor of the 15 Member States to the EU, the EU Institutions and

the International Financial Institutions for enhanced dialogue and actions to stimulate the much required trade and investment in the region.

Hassan Chami, the President of CGEM (General Confederation of Moroccan Enterprises) was elected as President and Jacques Sarraf, the President of ALI (Association of Lebanese Industrialists) as Vice-President. The registered office of UMCE will be in Tunisia.

President Chami declared that UMCE is the proof of the commitment of all business associations of the



The founding meeting of UMCE on the eve of the Summit

Southern Mediterranean region actively to strengthen their co-operation and to coordinate their actions in favor of faster economic and social development throughout the region.

TÜSİAD Visit to BDI



TÜSİAD Delegation with the Vice-President of German Bundestag Dr. Rudolf Seiters

A TÜSİAD delegation paid a visit to Berlin on 11-13 March 2002, to meet with leading German business leaders and make official contacts. The delegation, led by the Chairman of TÜSİAD Board, Tuncay Ozilhan and Chairman of High Advisory Board Muharrem Kayhan met with President of German Federation of Industrialists (BDI) Dr. Michael Rogowski and representatives of German businessmen, Vice-President of German Bundestag Dr. Rudolf Seiters, State Secretary of the Federal Foreign Office Jurgen Chrobog, State Secretary of the Federal Ministry of Economics

and Technology, Dr. Alfred Tacke, SPD Secretary General Franz Müntefering, Members of German Turkish Parliamentary Group, Turkish Ambassador to Berlin, Osman Korutürk and Members of the Board of Directors of WMP Eurocom AG.

by the delegation were the importance for Turkey to start negotiation process with the EU by the end of this year, the liability of Turkey to complete all reforms necessary to fulfill the

EU Copenhagen criteria, the settlement of the Cyprus problem and the Greek Cypriot administration's possible admission to the EU, the recent political, economic and social developments in Turkey and the views of TÜSİAD concerning those issues. In return, the general message from the meetings was that Germany would lend its full support to Turkey if the Turkish government

meets the Copenhagen criteria.

On 11 March, a concert performed by Şefika Kutluer, a prominent flute-player, followed by a dinner was hosted by TÜSİAD with the support of Mercedes-Benz Türk and DaimlerChrysler Services AG with the participation of around 150 guests from German and Turkish officials and businessmen. The delegation participated to a dinner on 12 March hosted by Turkish Republic Ambassador to Berlin Mr. Osman Korutürk.



TÜSİAD Delegation with BDI President Michael Rogowski at BDI Headquarters

UNIMED BN Training Seminar on “Promoting Innovation and Technology Transfer”

The sixth UNIMED Training Seminar of the UNIMED BN Project, hosted by TÜSİAD, was held in Istanbul, on February 27-28, 2002. UNIMED BN is a project managed by UNICE and supported by the European Commission in the framework of the Euro-Mediterranean Partnership. The UNIMED BN project aims at strengthening employer organizations in the Mediterranean partner countries and networking them with their counterpart organizations in the European Union.

Lutfi Yenel, Member of the Board and Chairman of the "Information Society and New Technologies"

Committee of TÜSİAD and Paolo Nicoletti, Project Manager of UNIMED delivered the opening speeches of the seminar. The main focus of the seminar was "Promoting Innovation and Technology Transfer" and its overall objective was to enable an exchange of experiences among Euro-Mediterranean employer organizations, which should enable to identify best practices. Works were organized around two workshops, which would enable participants to address the two following themes: "SMEs clusters and networks as factors of growth and innovation, the role of business associations" and "What

can business associations do in order to promote technology transfer to Mediterranean partner countries?"

Jean-Claude Tourret, General Delegate of the Institut de la Méditerranée (FEMISE network); Stefano Micelli, Associate Dean, Venice International University; Gerardo Pataconi, official of the United Nation Industrial Development Organization (UNIDO); Peter Löwe, European Commission official (Enterprise DG) were some of the speakers of the Seminar.

The UNIMED seminar took place just before the Fifth Euro-Mediterranean Business Summit.

TÜSİAD visit to Madrid



TÜSİAD Delegation with Spanish Prime Minister José-Maria Aznar

On the occasion of the Spanish Presidency to the European Union during the first half of 2002, TÜSİAD delegation headed by the Chairman of the Board Tuncay Özilhan met with Prime Minister José-Maria Aznar, Minister of Foreign Affairs Josep Piqué and Secretary of State for Economy Juan Costa Climent in Madrid on 21 and 22 February 2002.

During the meeting with the Prime Minister Aznar, Mr. Özilhan underlined

Turkey's determination for the EU membership as well as the private sector's role as a driving force in this process. Mr. José-Maria Cuevas, Chairman of the Board of the Spanish Employers' Confederation (CEOE), confirmed to Aznar the Spanish private sector's support for Turkey's membership to the EU. CEOE, like TÜSİAD, is a member of the European private sector representative organization, UNICE.

Prime Minister Aznar expressed in turn the special significance Turkey has in the Spanish vision for the future of the EU. He declared that this significance was better appreciated in Europe in the aftermath of September 11 events. Aznar also confirmed Turkey's invitation to the Barcelona Summit on equal footing with the other candidates and that this participation would enable Turkey to present its views on fundamental questions pertaining to the future of Europe.

During TÜSİAD's meeting with Josep Piqué, Foreign Minister of Spain, Piqué affirmed that during its Presidency, Spain would strive to accelerate Turkey's membership process to the EU. Piqué also stressed that by enhancing its political will, Turkey could progress substantially in 2002.

TÜSİAD delegation also met with the Spanish private sector where, among others, issues relating to employment, information society and trade policies of the EU were discussed. CEOE and TÜSİAD have consequently decided to set up a committee with the aim of enhancing bilateral economic relations.

TÜSİAD also hosted approximately 180 guests at a reception-dinner and a concert by a renowned Turkish ney-player Kudsi Ergüner.

Meeting with SIAD's on EU-Turkey Relations

TUSIAD's "2002 Europe Year Activities" cover comprehensive programs, including meetings in different cities with "EU - Turkey Relations" theme. The main concern is to create awareness among university students and business communities in Turkey and to widen circle of discussion to a broader segment of society. TUSIAD decided to organize these seminars in 15 cities, with the cooperation of SIADs, the local industrialists and businessmen's associations. Meetings in those cities will be held during whole year.

Target cities selected together with Turkish SIADs Platform are Antalya, Bursa, Çorum, Denizli, Diyarbakır, Edirne, Kars, Kayseri, Kocaeli, İzmir, Mersin, Sincan, Sivas and Trabzon with the inclusion of the Turkish Republic of Northern Cyprus

The first meeting was held in Kocaeli on 14 March.

The program consisted of two conferences in one day. In the first conference held in university campus, relevant information was given and

discussions were held on Turkey-EU relations, obstacles faced in the membership process, EU policy developing mechanisms, opportunities for university students and exchange programs.

The second conference was organized for business leaders, members of SIAD and local bureaucrats. In the presentation main emphasis was on economic integration, customs union, EU policies on various issues and programs on SMEs.

The 32nd General Assembly of TÜSİAD “2002 should be a year of change for Turkey”



Tuncay Özilhan at the General Assembly meeting

The 32nd General Assembly of TÜSİAD was convened on the 19th of January 2002, in İstanbul. The Chairman of the High Advisory Council Muharrem Kayhan and the Chairman of the Board Tuncay Özilhan delivered the opening speeches of the Assembly.

The Chairman of the High Advisory Council Muharrem Kayhan, recalled that Turkey would have a "trial by fire" in 2002, and urged the government to start necessary works after the crisis. Muharrem Kayhan noted that the government should launch necessary economic and political reforms by taking advantage of the current positive situation without falling into the trap of populism.

Kayhan said Turkey needed an ideational reform and added that business world would fight with the

crisis, restructure the economy and place it back on a growth track, maintain social balance, restructure the political setting and speed up the process of the EU accession. He added that this has been the full meaning of 'Turkey's trial by fire'.

In his speech, the Chairman of the Board Tuncay Özilhan evaluated the year 2001 and expressed his expectations for the year 2002. Demanding 2002 to be a year, during which Turkey would determine mid-term strategies and take steps

to start the continual growth process Özilhan complained that economic, political and social reforms in Turkey were put into effect at the last minute without being explained to society. Özilhan stressed that Turkey needed an ideational reform. Noting that this change was necessary in all sections, including civil workers, employees, nongovernmental organizations (NGOs), villagers and businessmen, Özilhan said that the process of demanding and expecting everything from the state was over.

As for the economy, Tuncay Özilhan stressed that TÜSİAD supported the new banking law, which had "unfortunately" been perceived by the public as a "bank rescue operation," because its relations with the real sector and effects on the economy were not explained to the nation in a proper manner. To

conclude, Özilhan said that one of the important conditions to get away the crisis was the restructuring of public administration, and added that Turkey needed a productive and transparent public administration.

At the end of the General Assembly, a declaration titled "2002 should be a year of change for Turkey" was presented at the 32nd General Assembly of TÜSİAD. In the declaration, TÜSİAD underlined that Turkey ought to undergo an ideational reform in 2002, restructure its political system, undertake further democratic reforms, take steps for continual economic growth with a mid-term development strategy and progress in the Copenhagen criteria and the European Union requirements in order to launch accession negotiations with the EU as late as by the end of 2002.



Muharrem Kayhan at the General Assembly meeting

TÜSİAD Delegations to the U.S.

In an effort to promote a better understanding between the US and Turkey after September 11 attacks, and taking into account an intensified agenda of bilateral economic and political relations between the two countries, TÜSİAD decided to send out three delegations to the U.S. between January and March.

The first delegation, including Chairman of Board of TÜSİAD, Tuncay Özilhan and Chairman of High Advisory Board Muharrem Kayhan, arrived in the US as part of Prime Minister Ecevit's official visit to the US on January 14. The delegation aimed at establishing supplementary contacts to the program of a larger business delegation accompanying Prime Minister. TÜSİAD members met with Matt Bryza, Director of Aegean, Caucasus and Central Asia of the National Security Council, and Joseph Wood, Special Advisor to the U.S. Vice-President, National Security Affairs, as well as Michael Deppler, Director of European I Department, and Juha Kahkonen, Chief of Turkey Desk of the IMF.

TOBB, TÜSİAD and DEİK hosted a reception in the honor of Turkish delegation on January 15. Moreover, jointly with World Affairs Council, TÜSİAD-US hosted a luncheon with Turkish Minister of Economy, Kemal Derviş on January 17. Minister Derviş addressed the latest developments in the Turkish economy, focusing on restructuring and reform efforts in the country.

The second delegation visited the US on January 29-30. Primary focus of the contacts was bilateral economic relations, as a follow up of the visit of Prime Minister. The discussions in the meetings focused on the diversification of economic and trade relations between the two countries, potential

role of Turkey and the Turkish firms in the reconstruction and peacekeeping efforts in Afghanistan, as well as Iraq and Cyprus. Led by Vice-Chairman of the Board, Mustafa V. Koç, the delegation had contacts with Turkish Ambassador to the U.S., Faruk Loğoğlu; Special Assistant to the President on Afghanistan, Zalmay Khalilzad; Assistant US Trade Representative for Europe and Mediterranean, Catherine Novelli; Deputy Secretary of Defense, Paul Wolfowitz; Former US Ambassador to Turkey, Mark Parris; Assistant Secretary of State for Economic and Business Affairs, Earl Anthony Wayne; and Staffer for Congressman Tom Lantos, Alan Makovsky.



TUSIAD-US hosted a luncheon meeting on the occasion of Prime Minister Ecevit's visit to the US.

Moreover, the Heritage Foundation hosted an event, entitled "Turkey At Crossroads: Business Perspective" on January 30. The event featured Mr. Mustafa V. Koç, Mr. Akın Öngör, and Mr. Yılmaz Argüden. In this joint event, following the introductory speeches by Mr. John Hulsman of Heritage Foundation and Mr. Koç of TÜSİAD, Mr. Yılmaz Argüden focused on major reform developments in Turkey. After Argüden's remarks, Mr. Akın Öngör addressed particularly the banking sector reform in Turkey and raised the issue of the quest for

enhancing economic partnership of Turkey and the US. In addition, the law firm Arnold and Porter gave a presentation to the TÜSİAD delegation on different options to enhance economic and trade relations between the US and Turkey.

Last and largest TÜSİAD delegation visit to the U.S. took place between March 18-22. A major theme of the visits was developments and expectations regarding Turkey's EU membership process, which entered a critical phase. The aim was to alert the US side about the Cyprus question and the importance of securing a date for starting accession negotiations with the EU at the end

of 2002. Led by former chairman of the Board Erkut Yücaoglu, the delegation held contacts in Washington, DC and New York, and attended ATC events. These contacts included roundtables with U.S. State Department officials and think-tank representatives, and meetings with representatives of the prominent Jewish organizations hosted by B'nai B'rith International; Congressman Jim Moran; Assistant Secretary for Democracy, Human Rights and

Labor, Lorne Craner; National Security Council (NSC) Senior Director for European Affairs, Daniel Fried; and Director for Aegean, Caucasus and Central Asia of NSC, Matt Bryza.

On March 20, Mr. Cem Duna, Member of the Board, addressed think-tank representatives during a luncheon hosted by CATO Institute. Mr. Duna focused on EU-Turkey relations and Cyprus issue in his speech. On the same day, TÜSİAD hosted a panel session within ATC Conference, entitled, "TÜSİAD Perspectives on Turkish Economy and Politics".

Conference on Corporate Governance



Tuncay Özilhan at Corporate Governance Seminar

TÜSİAD Company Affairs Committee organized a conference on "Corporate Governance: New Framework for Business in Turkey" at İstanbul Stock Exchange on March 7, 2002. The opening speeches of the conference were delivered by Mr. Tuncay Özilhan, Chairman of the Board and Mr. Osman Birsen, Chairman and CEO of İstanbul Stock Exchange.

Mr. Özilhan pointed out that Turkish economy has been going under a substantial restructuring process, which cannot be narrowed down to the public sector or the macro issues alone. He emphasized that at the micro level, firms also need to adjust themselves to this restructuring in order to survive and compete successfully in global markets, and underlined that corporate governance provided the framework for the restructuring of the firms on the basis of four principles: transparency, accountability, responsibility and fairness. Mr. Özilhan concluded that there would be no barriers left for Turkey after ensuring macro-economic stability by

restructuring her public and private sectors on the basis of these four principles of corporate governance.

Mr. Birsen reviewed the developments following the 1997 Asian financial crisis and pointed out to the fact that corporate governance got to the top of the agenda as a key instrument for the stability of international capital flows. He also

summarized the results of the survey, which was conducted among the listed companies and member brokerage houses of İstanbul Stock Exchange in order to determine the present state of corporate governance practices. Mr. Birsen emphasized that corporate governance mainly depended on the voluntary practice of the firms and finally concluded that İstanbul Stock Exchange would continue to support the initiatives for promoting corporate governance practices as they had done before.

The first session of the conference started with the analysis of corporate governance examples in the world, which mainly reviewed the best practices in the framework of OECD, the EU and the emerging markets of Europe and Central Asia. The session

continued with the importance attributed to the objective analysis by the rating institutions in assessing corporate governance. The session was finalized by two speeches reviewing the present state of affairs with respect to corporate governance in Turkey and the work undertaken by TÜSİAD. In the moderation of Mr. Cem Duna, Board Member of TÜSİAD, Ms. Sue Rutledge, Senior Specialist of the World Bank, Ms. Holly Gregory, Partner of Weil, Gotshal and Manges LLP, Mr. Jock Paton, Middle East and Africa Director of Standard & Poors, Mr. Bülent Eczacıbaşı, Chairman of Eczacıbaşı Holding and Mr. Haluk Alacaklıoğlu, the Chairman of TÜSİAD Corporate Governance Working Group presented their views on the subject.

The second session concentrated on two issues; the expectations of the institutional investors and complexities of applying corporate governance in family businesses. The session emphasized the importance of transparency in meeting market expectations and delineated what the companies could have in prospect to gain from applying corporate governance. Mr. Alacaklıoğlu was the moderator and Mr. Graham Gilmour, Senior Manager of Pricewaterhouse Coopers, Mr. Rolf Carlsson, Senior Advisor of Scandinavian Institute for Administrative Research, Mr. Paolo Zapparoli, CEO of AIG, Mr. David E.



The speakers of the first session

EU Representation

The conclusions of the European Council of Laeken of 15 December 2001 provided the perspective of Turkey's EU membership with an important stimulus. Moreover, Turkey is invited to participate to the Convention on the Future of Europe as a candidate country. The institutional reforms debated by the Convention on the Future of Europe and the economic reform agenda of the European Council meeting in Barcelona (15-16 March) were the main issues of focus for TÜSİAD in Brussels.

TÜSİAD Executive Board visits to Madrid (February) and Berlin (March) were the major activities coordinated by TÜSİAD-Brussels during this period. The visit to Madrid included meetings with the Prime Minister and the acting EU President José-Maria Aznar, Foreign Minister Josep Piqué and the Spanish employers confederation, the CEOE, as well as the organization of a dinner and concert hosted by TÜSİAD with guests from the prominent Spanish economic and political circles. The TÜSİAD activities in Berlin were similar with meetings with leading politicians

and top bureaucrats and the German Federation of Industrialists (BDI), as well as a dinner-concert hosted by TÜSİAD and sponsored by DaimlerChrysler and Mercedes Benz Turk.

TÜSİAD Brussels staff participated to various meetings on the EU affairs and to forums for the candidate countries. They prepared reports on EU-Turkey financial co-operation, Accession Partnership for Turkey, state of the enlargement negotiations, e-trade, Mediterranean economy, EU co-operation programs and the customs union. The office staff contributed to the organization of the 5th Euro-Mediterranean Business Summit in Istanbul on 1-2 March.

The new perspectives for business in the EU-Turkey relations were the focus of the different meetings organized at the TÜSİAD Brussels Office with the participation of the Turkish and EU officials, business representatives, members of the European Commission's visitors program, academic groups and the press. A special meeting was organized to launch the report on the

"Reconciliation in Cyprus: the window of opportunity" prepared by Prof. Lord William Wallace (15 January). The report is one of the two policy papers of the program "Support Activities in Connection with Turkey's EU Candidacy and its Role as a Key Partner of the EU". The program was launched as a co-operative effort of the Mediterranean Program of the Robert Schumann Centre for Advanced Studies at the European University Institute in Florence and Istanbul Policy Center at Sabanci University.

During this period, TÜSİAD Representative Dr. Bahadır Kaleağası participated also as speaker to the conferences organized by the Union of International Contractors in Ankara, and the Lyon University. He also joined TÜSİAD Chairman Tuncay Özilhan and Secretary General Tükel for the UNICE high-level meeting with the acting EU President Aznar in Barcelona (14 March).



UNICE Council of Presidents Meeting in Barcelona on 14 March 2002

As part of the European private sector representative organization UNICE, TÜSİAD delegation comprised of the Chairman of the Board Tuncay Özilhan, Secretary General Haluk Tükel, and Representative to the EU Bahadır Kaleağası, met with José-Maria Aznar, Prime Minister of Spain and acting President of the European Union, and Loyola de Palacio, Vice President of the European Commission, in view of the upcoming European Summit in Barcelona.

Prime Minister Aznar gave details on the topics to be discussed at the Summit including evaluation of the Lisbon Strategy which aims to make the EU the most competitive information based economy in the world by 2010. Mr. Aznar affirmed that coordination between economic and social policies, sustainable development, social cohesion, energy, transport and communication were also in the agenda.

UNICE in turn delivered private sector's messages for the Barcelona Summit. The message included demands on the European patent, energy, support for life-long training and eEurope, financial markets, and support for research and development.

On this occasion TÜSİAD Chairman Özilhan re-emphasized, on behalf of the Turkish private sector, the urgent necessity for the EU to start accession negotiations with Turkey.

US Representation

Throughout the first quarter of 2002, TÜSİAD-US hosted three TÜSİAD delegations and arranged a variety of meetings for them. Aside from these visits of TÜSİAD delegations, on February 6, TÜSİAD-US joined its efforts to several Turkish associations in co-hosting a meeting for Congressional staffers on US-Turkish relations, featuring Mr. Matthew Bryza, Director of Aegean, Caucasus and Central Asia at the National Security Council. Abdullah Akyuz, TÜSİAD's Washington Representative and Congressmen Robert Wexler, D-Florida, made the opening remarks.

The office has organized a briefing and hosted a reception for the HASNA Irrigation Program participants who had been in the US to attend a two-month program on March 15th. Also,

Representative Akyuz has paid a visit to National Defense University and has held a meeting with officials about possible venues of cooperation between the think-tank arm of the college and TÜSİAD.

The Office has prepared several information notes related to the options available in improving economic and trade relations between the US and Turkey, as well as background notes on various aspects of issues related to Turkish-American relations before and after Prime Minister Ecevit's visit to the US and TÜSİAD delegation visits in January and March 2002.

The Washington office continued to follow closely the latest developments in Afghanistan and the new formulations of US foreign policy

against terrorism, Iraq and violence in the Middle East. In this regard, the office attended meetings at Congress and various think-tanks, including Council on Foreign Relations, Center for Strategic and International Studies (CSIS), National Democratic Institute (NDI), and Western Policy Center.

TÜSİAD-US issued two press releases on the 5th Euro-Mediterranean Business Summit and on TÜSİAD's views on Turkey's reform efforts to start accession negotiations with EU. The Office also continued to distribute Selected News on Turkey, which informs the U.S. audience on developments in Turkey on a weekly basis and hold several one-on-one contacts.



Ankara Representation

TÜSİAD Ankara Representation acted in various fields by producing reports, organizing meetings and taking several initiatives in order to carry out its representational activities in Ankara. It conveyed the Turkish private sector's views on many issues by having contacts with many public authorities, EU Representatives, representatives of local and international businesses and the Embassies in Ankara Representation.

Ankara Representation has continued to represent TÜSİAD in Ankara by issuing several reports, organizing meetings and taking several initiatives with a view to convey Turkish private sector's views.

The representation continued monitoring the legislation process in the parliament (TGNA) by attending the committee meetings and the

General Assembly. During these activities, weekly reports on legislation process have been presented to TÜSİAD Members. In order to improve the institutional relationship between TÜSİAD and the parliament, Ankara Representative Mr. Zafer Yavan and Deputy Rep. Mrs. Derya Sevinç visited Mr. Vahit Erdem, Secretary General and Mr. Rauf Bozkurt Dep. Secretary General of the parliament.

As to the activities on the EU harmonization process, the representation has organized a reception within the frame of EU activities of TÜSİAD foreseen for the year 2002. Senior executives from the public authorities, embassies and some deputies from TGNA attended this reception. The representation also continued its relations with the EU General Secretariat and EU departments of other public authorities

via many contacts and by attending various meetings.

period, an important agenda of the representation was the preparatory meetings of the USA-

Turkey Economic Partnership Commission and the related studies for the creation of a Qualified Industrial Zone and Turkey's being involved in the General System of Preferences, which were held in Ministry of Foreign Affairs, Undersecretary of Foreign Trade and TOBB (Chamber of Commerce).

Moreover, the representation has also carried out many contacts with ministers, ambassadors, bureaucrats and the representatives of the EU General Secretariat.



MANAGEMENT

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Publisher: Tuncay Özilhan **Editor:** Haluk Tükel

Editorial Board: Tuncay Özilhan, Aldo Kaslowski, F. Şadi Gücüm

Executive Editor: Zafer Gazi

Graphic Design and Production: Lebib Yalkın Yayımları ve Basım İşleri A.Ş.