

INVESTING in TURKEY:

A Business Perspective

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President

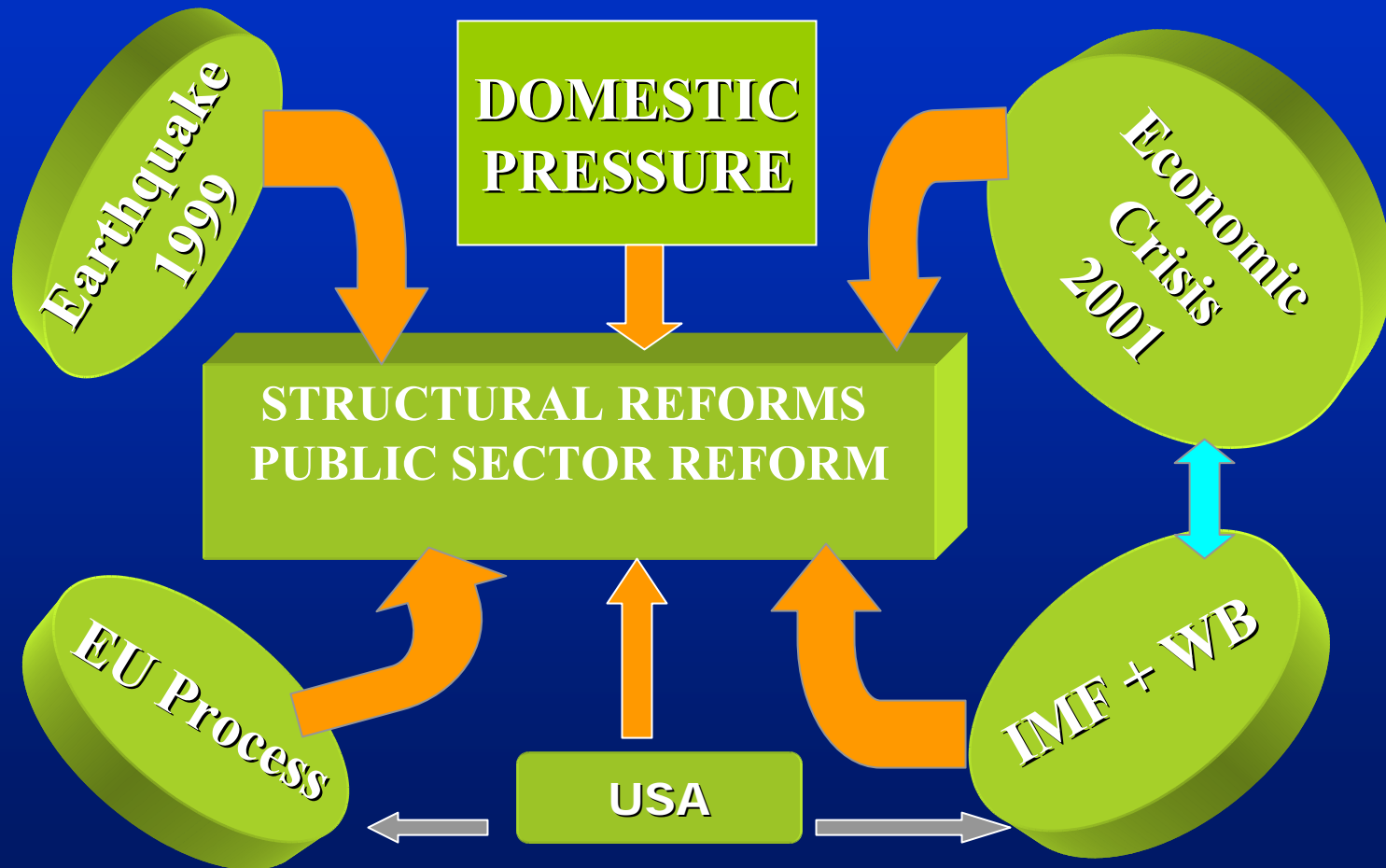
TÜSİAD Washington Representative Office

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TUSIAD: Turkish Industrialists' and Businessmen's Association

- **FOUNDED IN 1971; VOLUNTARY; 500+ MEMBERS**
- **CEOs & EXECUTIVES (Similar to US Business Roundtable)**
- **TOTAL SALES OF MEMBERS: 40% of GDP**
- **RESEARCH, POLICY & ADVOCACY ORIENTED**
- **COMMITTED TO DEMOCRACY & MARKET ECONOMY**
- **PRIMARY FOCUS: EU ACCESSION**
- **ORGANIZES NATIONAL QUALITY, TECHNOLOGY & E-TURKEY CONGRESSES & AWARDS**
- **ORGANIZATION**
 - **MEMBER DRIVEN COMMISSIONS**
 - **HQ & GENERAL SECRETARIAT IN ISTANBUL**
 - **REP. OFFICES: ANKARA, BERLIN, BRUSSELS, PARIS, WASHINGTON, DC**

CRISES TRANSLATE INTO OPPORTUNITIES



TURKEY IS MOVING FORWARD IN MULTIPLE DIMENSIONS SINCE 1999

- **DEMOCRATIC REFORMS SIGNIFICANTLY ACCELERATED**
- **ECONOMIC RESTRUCTURING IN PROGRESS**
- **MAJOR ECONOMIC INDICATORS IMPROVING**
- **POLITICAL & ECONOMIC SETTINGS STABILIZING**
- **PRIVATIZATION PROGRAM IN PROGRESS**
- **PROMISING RETURNS IN FINANCIAL MARKETS**
- **INVESTMENT OPPORTUNITIES EMERGING**

MAIN DRIVING FORCES BEHIND TURKEY'S DYNAMISM

- UNSATURATED LOCAL MARKET
- YOUNG & INCREASING POPULATION
 - ➔ CHANGES IN LIFE STYLES AND CONSUMPTION PATTERNS
- DYNAMISM DUE TO INCREASED COMPETITION (EU PROCESS)
- INFORMAL ECONOMY
 - ➔ LOW TAX COLLECTION
 - ➔ HIGH CONSUMPTION
- AGILE PRIVATE SECTOR AS A RESULT OF PAST CRISES AND VOLATILE MARKET CONDITIONS
- EXPORTS TO & INVESTMENTS IN EMERGING REGIONS: RUSSIA, BALKANS AND CENTRAL ASIA
- ACTIVE PARTICIPATION IN TRADE & RECONSTRUCTION EFFORTS IN IRAQ & AFGHANISTAN

DEMOGRAPHIC TRENDS HINT AT INCREASING CONSUMPTION

- **67 MILLION PEOPLE**
 - **AVERAGE HOUSEHOLD SIZE 4.4 (DECREASING)**
 - **30 % BELOW 15 YRS OF AGE (DECREASING)**
 - **74% URBAN POPULATION (INCREASING)**

- **STABILIZED DEMOGRAPHIC GROWTH ONLY BY 2025 AT AROUND 85 MILLION**

ACHIEVEMENTS

- **Growth without inflationary pressure**
- **Fiscal discipline**
- **Inflation: Down from + 65% to < 10%**
- **Major productivity gains**
- **Impressive surge in exports**
- **Real interest rates declining**
- **Two remaining concerns: Public debt and current account deficit**

TURKEY OFFERS...

- **Large domestic market**
- **Free access to EU markets**
- **Easy access to Russia, Central Asia, Caucasus and Middle East**
- **Pro-business&pragmatic Government**
- **Skilled work force&flexible labor market**
- **Western (US) educated white-collar work force**
- **Pleasant working&living environment**

CAPITAL MOVEMENTS ARE ONE OF THE MOST LIBERALS IN THE WORLD

WORLD COMPETITIVENESS REPORT, 2002 SELECTED COUNTRIES

FREEDOM TO INVEST IN STOCKS AND BONDS

FOREIGN CITIZENS INVESTING
IN HOME COUNTRY

OWN CITIZENS
INVESTMENT ABROAD

RANKING

SCALE 1-7

RANKING

SCALE 1-7

TURKEY	9	6.8	31	6.3
US	17	6.7	11	6.7
ITALY	26	6.5	27	6.4
BRAZIL	39	6.3	60	4.7
POLAND	42	6.2	69	3.9
CANADA	54	6.0	26	6.4
RUSSIA	71	5.1	70	3.7

TURKEY OFFERS A HIGHLY SKILLED WORK FORCE

WORLD COMPETITIVENESS REPORT, 2002
SELECTED COUNTRIES

HIGHLY SKILLED IT WORKERS

	<u>RANKING</u>	<u>SCALE 1-7</u>
U.S.	2	6.7
FRANCE	21	5.7
TURKEY	32	5.1
HUNGARY	36	4.8
CHINA	42	4.5
MEXICO	47	4.2
ARGENTINA	50	4.1
RUSSIA	61	3.7

TURKEY HAS A FLEXIBLE EMPLOYMENT ENVIRONMENT

WORLD COMPETITIVENESS REPORT, 2002
SELECTED COUNTRIES

HIRING & FIRING DETERMINED BY EMPLOYERS

	<u>RANKING</u>	<u>SCALE 1-7</u>
US	6	5.0
RUSSIA	10	4.7
TURKEY	17	4.2
CHINA	23	4.1
UK	29	3.9
MEXICO	45	3.5
POLAND	63	2.6
GREECE	65	2.4

IMPRESSIVE PROGRESS in...

- **Improving political stability**
- **Providing macro-economic stability**
- **Undertaking structural reforms**
- **Fighting corruption**
- **Passing new laws and incentives to attract FDI**
- **Adopting international financial reporting standards**

AREAS IN NEED OF FURTHER ATTENTION...

- **Combating informal economy**
- **Undertaking judicial reform**
- **Reducing red tape**
- **Cutting taxes on labor (social security)**
- **Passing tax reform**
- **Accelerating privatization**
- **Implementing intellectual property rights**
- **Resolving existing disputes with US companies**

TURKEY'S PROGRESS

	<u>FIAS(01)</u>	<u>McKinsey (03)</u>	<u>Current</u>
• Political instability	X	X	+
• Macro economic instability	X	X	+
• Legal environment	X		-
• FDI Law and incentives	X		+
• Red tape	X		+/-
• Privatization	X	X	-
• Taxation/production costs	X		-
• Investment promotion	X		+/-
• Fighting informal economy		X	-

GROWTH POTENTIAL FOR SOME NEW BUSINESSES

- **RETAILING**
- **TELECOMMUNICATIONS**
- **ENERGY**
- **AUTOMOTIVE PRODUCTS**
- **HOUSEHOLD APPLIANCES**
- **FAST FOOD CHAINS**
- **TOURISM**
- **ENVIRONMENTAL PROTECTION**
- **BANKING & FINANCIAL SERVICES**

EU'S ROLE-I

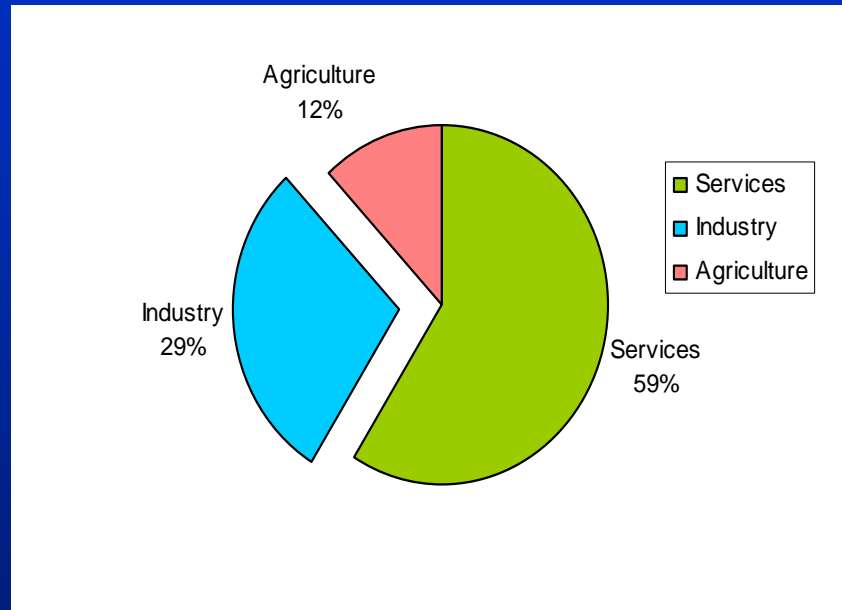
- **EU has been the main catalyst in this transformation process**
- **All previous accession countries have benefited from EU objectives & standards**
- **EU represents not only the world's largest economic bloc, but also a powerful union of democracies promoting stability in both member and accession countries**
- **Turkey-EU relations dates back to 1959**

EU'S ROLE-II

- **Main economic benefits**
 - Single market
 - Competitive pressures
 - Free movement of capital/FDI
 - Common agricultural policy (CAP)
 - Reduced exchange rate volatility
 - Coordinated monetary policy
 - Financial assistance
 - Overall increase in living standards
- **EU-Turkey Customs Union since 1996**

ONLY 29% OF THE TURKISH ECONOMY ENTERED THE CUSTOMS UNION DISCIPLINE WITH THE EU AND OPENED TO GLOBAL COMPETITION IN 1996

TURKEY'S GNP (2003)

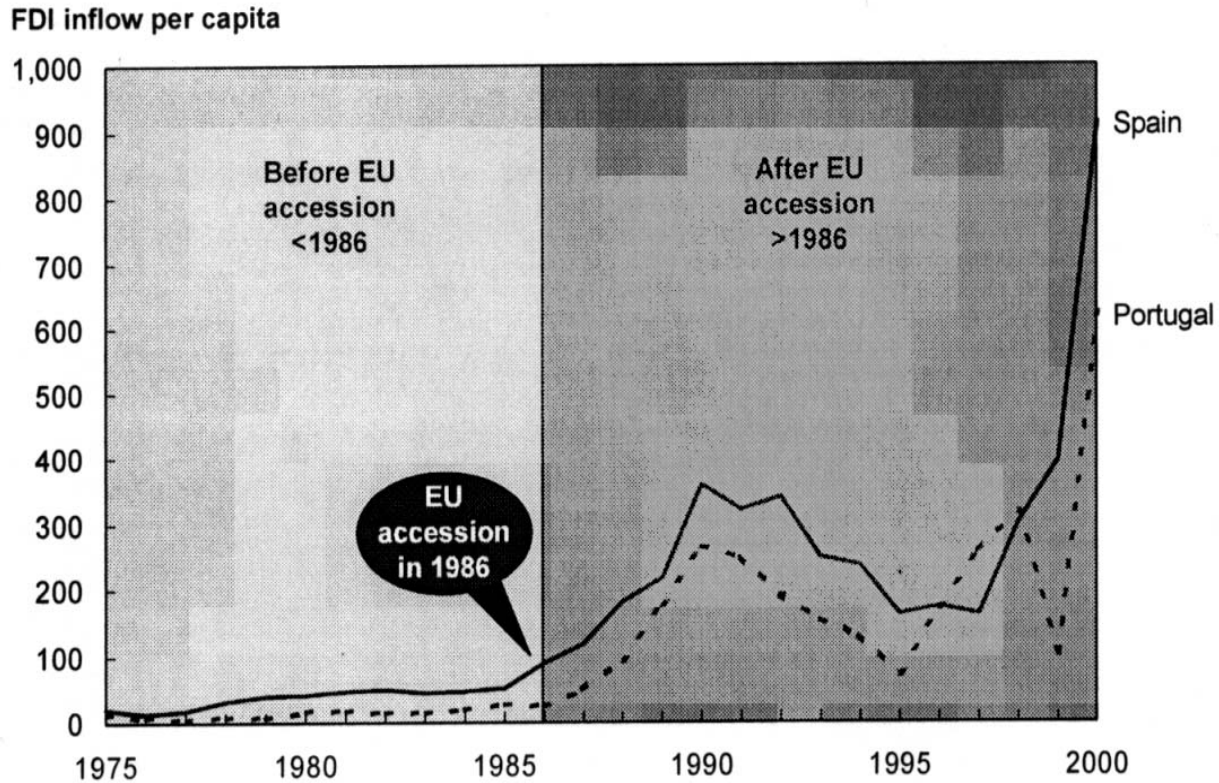


THE REMAINING 71 % IS STILL EXPOSED TO NEITHER EU DISCIPLINE NOR WORLD COMPETITION. FULL MEMBERSHIP WILL MAINLY IMPACT THIS SIGNIFICANT PART OF THE TURKISH ECONOMY

Exhibit 49

EFFECT OF EU MEMBERSHIP ON FDI INFLOW TO SPAIN AND PORTUGAL

US Dollars



Source: *World Development Indicators*

A MESSAGE TO US INVESTORS

- **US INVESTMENTS IN TURKEY AMOUNT TO \$2 BIO (Less than Egypt; only 0.12% of US FDI)**
- **MAJOR INVESTORS ARE THE EUROPEANS**
- **SEVERAL EU INVESTORS ARE CURRENTLY NEGOTIATING DEALS**
- **INVESTMENTS IN REAL ESTATE REACHED US \$1 BIO IN 2004 ALONE**
- **CONSIDER THE GEO-STRATEGIC IMPORTANCE & REGIONAL POTENTIAL**
- **ENERGY & RECONSTRUCTION DIMENSIONS**

IN SUMMARY

IF YOU ARE IN SEARCH OF:

- ❑ NEW MARKETS FOR GROWTH & DIVERSIFICATION
- ❑ NEW SOURCES TO INCREASE COMPETITIVENESS
- ❑ A PLACE THAT YIELDS HIGH RETURNS
- ❑ A BRIDGE TO NEW MARKETS

THEN ...

...you may either wait until **TURKEY achieves full stability (becomes an EU member), and risk:**

- **Facing higher asset prices/entry costs**
- **Losing market share**
- **Delaying acquisition of market knowledge**
- **Missing opportunities**

or...

**...you may invest now to start
enjoying benefits offered by Turkey**

**If, in your judgment, investing in Turkey
is still a risky decision, then,**

“The greatest risk, is not taking [even a moderate] one”*

***AIG Commercial**