



SCREENING CHAPTER 20 ENTERPRISE AND INDUSTRIAL POLICY

AGENDA ITEM I: INDUSTRIAL POLICIES

**Country Session: The Republic of TURKEY
4-5 May 2006**



CONTENT

- Overview
- Recent Developments in Industry
- Industrial Structure
- Basic Policy Documents
- Institutions Involved
- Consultation Mechanism
- Instruments and Finance
- What is Foreseen for the Future



OVERVIEW



Growth Rates

(%)

	2000	2001	2002	2003	2004	2005
GDP	7.4	-7.5	7.9	5.8	8.9	7.4
- Agriculture	3.9	-6.5	6.9	-2.5	2.0	5.6
- Industry	6.0	-7.5	9.4	7.8	9.4	6.5
- Services	8.9	-7.7	7.5	6.7	10.2	8.2

Source: TURKSTAT

- 2000 November – 2001 February Financial Crisis
- 2002-2005 Recovery and Sustainable High Economic Growth



Sectoral Distribution of GDP (%)

	2000	2001	2002	2003	2004	2005
GDP	100.0	100.0	100.0	100.0	100.0	100.0
- Agriculture	13.4	13.6	13.4	12.4	11.6	11.4
- Industry	28.4	28.4	28.8	29.3	29.4	29.2
- Services	58.2	58.0	57.8	58.3	59.0	59.4

Source: TURKSTAT

The share of industry and services in GDP increased 2 % in total during 2000-2005, in which the share of industry in GDP increased from 28.4% to 29.2%.



Main Reasons Behind High Growth Rates (2002-2005)

- Positive developments in public finance and steady decrease in interest rates
- Decrease in inflation rates
- Progress in privatisation and structural reforms
- Improvements in business environment
- Stability in economic decision making
- Establishment of confidence in the markets.



Industrialisation Strategies

- Industry based growth throughout five year development plans
- The industrialisation strategies adopted and economic policies followed have shown great differences before and after 1980;
 - ✓ Until 1980, import substitution policy
 - ✓ After 1980, implementing the principles and fundamentals of a market economy
 - Introduction of export-oriented industrialisation
 - The source of industrial growth has been investments and dynamism of private sector



Long-term Industrial Performance

After 1980, industry has shown great performance and considerable increases were recorded in;

- Industrial growth rate
- Industrial employment
- Volume of export and import
- Share of manufacturing industry in total exports.



Long-term Industrial Performance (CONT'D)

Annual Average Increase (%)				
	1980-1989	1990-1999	2000-2005	1996-2005 (After Customs Union)
Industry Growth	5.9	4.5	5.1	4.4
Total Exports (1)	17.8	8.6	18.4	12.9
Total Imports (2)	12.0	9.9	19.1	12.5

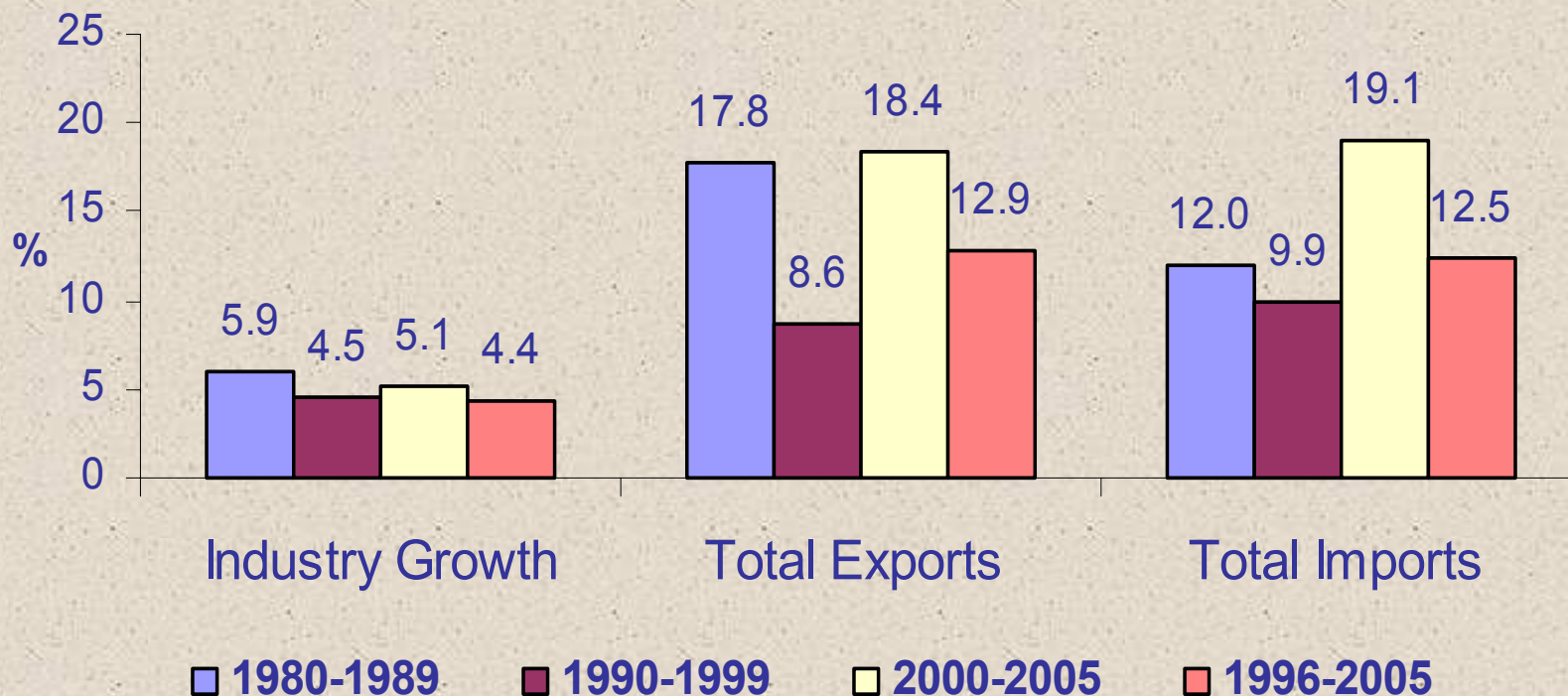
Source: TURKSTAT, SPO.

- In 2005, share of manufacturing industry in total exports was 93.7 %.
- In 2005, share of manufacturing industry in total imports was 80.7 %.

- Annual average industrial growth rate was 5.2 % in the period 1980-2005
- Increase in both export and import was considerably high in the periods 1980-1989 and 2000-2005.
- After Customs Union, annual average increase in both export and import was almost 13 %.



Annual Average Increases (%)



Source: TURKSTAT, SPO.



Long-term Industrial Performance (CONT'D)

- Share of industry in GDP reached 25.4 % in 2005 in current prices (18.3 % in 1980).
- The most important impact of industrial growth has been observed in foreign trade;
 - ✓ Share of manufacturing goods in total exports has reached 93.7 % in 2005,
 - ✓ Volume of imports of both investment and intermediate goods has also increased.



Long-term Industrial Performance (CONT'D)

- The industrialisation process affected employment structure as well.
 - ✓ The total industrial employment reached 4.3 million in 2005.
 - ✓ Share of industry in employment increased from 11.6 % in 1980 to 19.4 % in 2005.



RECENT DEVELOPMENTS IN INDUSTRY



- After the economic crises in 2000 and 2001, a new economic programme was implemented and signs of recovery in industry was observed at the end of first quarter of 2002.
- Between 2002-2005, parallel to the general economic improvements, industry showed important progress. Particularly;
 - ✓ Increase in domestic demand,
 - ✓ Further utilisation of export potential,
 - ✓ Improvement in business environment,
 - ✓ Increase in productivity had positive effects on this progress.



DEVELOPMENTS IN INDUSTRY

	2000	2001	2002	2003	2004	2005
Industry Growth Rate (%)	6.4	-8.1	10.4	8.6	10.1	6.1
Increase in Manufacturing Industry Production (%)	6.5	-9.5	10.9	9.3	10.4	4.8
Increase in Manufacturing Industry Exports (%)	6.7	13.2	17.0	31.7	34.3	15.2
Increase in Manufacturing Industry Imports (%)	29.8	-26.0	26.6	34.6	44.5	16.6
Manufacturing Industry Capacity Utilisation Rate (%)	75.9	70.9	75.4	78.4	81.7	80.3
Manf.Ind. Partial Productivity Growth per Unit of Labour(%)	8.8	-1.2	10.2	7.4	8.2	5.6

Source: TURKSTAT

- Manufacturing industry capacity utilisation rate reached its highest level in the recent years with 82.1 % in the third quarter of 2004.
- Manufacturing trade volume reached 130 billion Euro with 55 billion Euro in exports in 2005.



INDUSTRIAL STRUCTURE



Private Sector and Privatisation

Turkish industry mainly depends on the private sector activities.

In manufacturing industry;

- *Around 85 % of production,*
- *More than 95 % of gross fixed investment realised by private sector.*
- Most of the privatisation activities have been carried out except sugar, petro-chemical, defense, tobacco factories.



SMEs In Manufacturing Industry

The share of SMEs in manufacturing industry (1-250 employee):

- 99.6 % of total number of establishments (1),
- 64.4 % of total employment (1),
- 31.2 % of total value added (1-200 employee) (2).

Source: TURKSTAT.

(1) 2002 General Census of Industry and Business Establishment

(2) 2000 Annual Manufacturing Industry Statistics



SCREENING CHAPTER 20
ENTERPRISE AND INDUSTRIAL POLICY
AGENDA ITEM I: INDUSTRIAL POLICIES



MANUFACTURING INDUSTRY	SHARE (%)			
	Number of establishments in 2002 (1)	Employment in 2002 (1)	Exports in 2005	Production in 2002 (2)
Food and Beverages	12,0	12,8	6,2	14,3
Tobacco Products	0,0	0,6	0,2	1,9
Textile	8,4	18,6	12,7	16,7
Clothing	12,6	14,2	14,4	8,3
Leather	2,7	2,2	0,5	1,4
Wood Products	10,7	3,6	0,4	1,0
Paper	0,8	1,6	0,8	2,0
Printing and publishing	3,5	2,1	0,2	1,6
Petroleum Products	0,1	0,2	3,6	7,6
Chemicals	1,7	4,5	4,1	7,6
Plastics	3,4	3,7	3,6	3,4
Non-metallic minerals	4,5	6,0	3,9	5,0
Basic Metal	2,0	3,3	10,0	7,1
Metal Products	13,2	6,4	3,9	3,3
Machinery	7,1	6,6	7,0	4,6
Office and Computing Mac.	0,2	0,1	0,1	0,2
Electrical Machinery	1,6	1,8	2,8	2,3
Electronics	0,2	0,7	4,6	2,2
Medical and Precision Inst.	0,8	0,8	0,3	0,4
Motor Vehicles	1,5	4,0	14,8	5,7
Other Transport Equipment	0,3	0,7	2,5	0,6
Furniture and other	12,8	5,4	3,2	2,9
Recycling	0,0	0,0	0,4	0,0
TOTAL	100,0	100,0	100,0	100,0
TOTAL	272.628	2.191.872	55.2 bil. euro	145 bil. euro

Source: TURKSTAT, (1) 2002 General Census of Industry and Business Establishment
(2) 2000 Preliminary Results of 2002 Structural Business Statistics

Sectoral Structure

- Sectoral structure is concentrated on specific sectors in last decades, such as *textiles and clothing, food and beverages, iron and steel.*
- Total share of above-mentioned sectors in manufacturing industry in 2002
 - ✓ *Establishments: 35.0 %*
 - ✓ *Employment: 48.9 %*
 - ✓ *Export : 43.3 % (2005)*
 - ✓ *Production: 46.4 %*

Change in Export Composition

- *Export composition is continuing to change in favour of medium-high technology sectors.*
- The largest export growth has been realised in chemicals-rubber and plastics, machinery, electronics and automotive sectors.

	Export (%)	
	1996	2004
High Technology	2.8	6.8
Medium-High Technology	18.2	28.0
Medium-Low Technology	21.0	25.6
Low Technology	58.0	39.7
TOTAL	100.0	100.0

Source: SPO



POLICY DOCUMENTS



- 8th Five Year Development Plan (2001-2005)
- “Industrial Policy for Turkey (Towards EU Membership)”
Document
- Medium-term Programme (2006-2008)
- 2006 Annual Programme



8th Five Year Development Plan (2001-2005)

- Endorsed by Turkish Grand National Assembly in 27 June 2000.
- Industrial Policy is one of the important chapters.



“Industrial Policy for Turkey (Towards EU Membership)”

Document

- Requested by the Turkey-EC Industry, Trade and ECSC Products Subcommittee,
- Based on 8th Five Year Development Plan, Government Programme,
- Prepared with the contributions of relevant public and private institutions,
- Approved by High Planning Council Decision, (30 September 2003, No:2003/44),
- Presented in the 4th meeting of the Subcommittee on 31 October 2003.



8th Five Year Development Plan and “Industrial Policy For Turkey” Document

Industrial Policy has a horizontal nature, covering;

- Foreign trade,
- Investment and technology,
- Quality improvement,
- Environment,
- Labour,
- SMEs,
- Competition,
- Sectoral policies (due to specific needs of individual sectors).

The aim is to ensure integration and right balance among these areas.



8th Five Year Development Plan and “Industrial Policy For Turkey” document (CONT’D)

Main Objectives:

- To increase competitiveness and productivity of industry,
- To promote and maintain sustainable growth within an outward oriented structure in the face of increased global competition, in compliance with market principles and international agreements.



8th Five Year Development Plan and “Industrial Policy For Turkey” Document (CONT’D)

Special importance shall be given to;

- Support SMEs,
- Improve innovation,
- Encourage new entrepreneurs,
- Improve business environment favourable to industrial competitiveness, where entrepreneurs and enterprises can take initiatives, create opportunities and use their potential.



8th Five Year Development Plan and “Industrial Policy For Turkey” Document (CONT’D)

- Information and technology intense industries will be developed and competitiveness of traditional industries will be enhanced.
- Considering the manufacturing industry,
 - ✓ Investment in R&D, whereby information and communication technologies take the first place,
 - ✓ Innovative production and technology generation,
 - ✓ Protection of environment,
 - ✓ Improvement of SMEs,
 - ✓ Creation of employment and diminishing discrepancies among regions shall be further supported.



8th Five Year Development Plan and “Industrial Policy For Turkey” Document (CONT’D)

At the firm level, importance is attached to ;

- Improve the administrative and financial structure of companies,
- Ensure widespread utilisation of new technologies, information technologies, flexible production and supply planning system in the production process,
- Promote inter-company collaboration at both national and international levels.



8th Five Year Development Plan and “Industrial Policy For Turkey” Document (CONT’D)

In this framework, role of the state is to;

- Regulate and monitor the market in line with international rules,
- Support industrial development,
- Intensify investments mainly on economic and social infrastructure.



Medium-term Programme (2006-2008)

(Council of Ministers Decision No: 2005/8873 dated 23 May 2005)

- Main objective is to have an export oriented, dynamic and competitive structure in manufacturing industry.
- In this framework, policies will be directed towards enhancing innovation and increasing utilisation of advanced technologies particularly in the sectors with comparatively high competitiveness and as for the other sectors, upgrading the prevailing structural aspects necessary for global competition.



Medium-term Programme (CONT'D)

- Besides traditional sectors, efforts will continue to raise the level of exports of newly developing industrial sectors.
- Increase in global competitiveness of industry will be achieved through the creation of a high value-added, based on skilled labour and development and dissemination of technology.



2006 Annual Programme

(Council of Ministers Decision No: 2005/9486 dated 17 October 2005)

- R&D intensive structure in traditional/widespread production sectors will be achieved,
- Training and counselling support will be increased for the improvement of financial structures of enterprises and usage of modern production system,
- Transferring of the industrial enterprises, especially tannery plants, to the specialised organized industrial zones will be achieved,
- Industry information system will be established.



INSTITUTIONS INVOLVED



Institutions Involved

Ministry of Industry and Trade (MoIT)

- Facilitating the determination of industrial policies,
- Providing and encouraging rapid and stable development of industry through targets and policies based on development plans and programs,
- Establishing, controlling and providing credits for small scaled industrial estates and organized industrial zones,
- Giving permission for the establishment of technology development regions,
- Holding records of industrial enterprises,
- Carrying out market surveillance by monitoring and controlling the domestic market, taking protective measures for the protection of consumers' health, safety and economic interest,
- Making legal arrangements regarding the organisation of artisans and craftsmen.



Institutions Involved (CONT'D)

State Planning Organisation (SPO)

- Preparing long-term development plans, medium-term and annual programmes,
- Consulting all relevant public and private institutions to formulate the industrial policy during the preparation of the development plans,
- Coordinating ministries and public institutions to ensure the efficient implementation of the industrial policy,
- Monitoring and evaluation of the progress and if required, recommending necessary amendments.



Institutions Involved (CONT'D)

Undersecretariat of Treasury (UoT)	Determining and implementing investment incentives system, policy formulation, regulation and promotion of foreign investments.
Undersecretariat for Foreign Trade (UoFT)	Coordinating and supporting foreign trade activities, regulating export incentives and determining principles and policies concerning the establishment, management and operation of free zones.
Privatisation Administration	Formulating and implementing privatisation procedures.



Institutions Involved (CONT'D)

Small and Medium Industry Development Organisation (KOSGEB)	Assisting R&D activities, quality improvement, sectoral improvement and development; offering laboratory, supervision and design services, consultancy and training services for marketing and employment creation.
The Scientific and Technological Research Council of Turkey (TUBITAK)	Formulating science and technology policies and promoting and coordinating R&D activities.
Competition Authority	Carrying out examinations and investigations concerning infringements of competition, grants, exemptions and negative clearance certificates, giving permission to mergers and acquisitions and taking necessary measures based on competition law.



Institutions Involved (CONT'D)

Eximbank	Supporting foreign trade.
Turkish Standards Institution (TSE)	Preparing Turkish standards, product and system certification, calibration, industrial metrology at national level.
Turkish Patent Institute (TPI)	Performing registration and carrying out procedures for protection of industrial property rights.
Turkish Accreditation Agency (TAA)	Accrediting local and international bodies rendering laboratory, certification and inspection services, ensuring their operation in accordance with national and international standards, and thereby ensuring international recognition of product/service, system, personnel and laboratory certificates.



Institutions Involved (CONT'D)

(Members of Coordination Council for the Improvement of Investment Environment)

•The Union of Chambers and Commodity Exchanges of Turkey (TOBB)

•Turkish Industrialists' and Businessmen's Association (TUSIAD)

•Turkish Exporters Assembly (TIM)

•International Investors Association (YASED)

Cooperation with public decision makers and institutions formulating related industrial policies and related measures in corresponding areas.



CONSULTATION MECHANISM



Economic and Social Council

- Composed of the Prime Minister, relevant ministers, representatives of public and private sectors and social partners,
- Provides active participation of economic and social parties in the formulation of economic and social policies,
- Provides reports and opinion to the related parties,
- Sets up and coordinates sub-committees about economic and social issues,
- Initiates research activities about economic and social issues.



Reform Programme for the Improvement of Investment Environment

(Initiated by the decision of Council of Ministers in 2001)

- To increase domestic and foreign investments by reducing or eliminating administrative obstacles and red-tape,
- To improve all procedures, instruments and legislation related to investment environment.



Reform Programme for the Improvement of Investment Environment (CONT'D)

- Technical Committees were established on Company Registration, Employment, Sectoral Licenses, Investment Location, Tax and Incentives, Customs and Standards, Intellectual Property Rights, Foreign Direct Investment Legislation, Investment Promotion, SMEs, Corporate Governance.
- Technical Committees consist of representatives from public and private institutions.



Ad-Hoc Committees

- Prepare basic documents for the 9th National Development Plan,
- 57 Special Ad-hoc Committees (*including the Industrial Policies Ad-hoc Committee*) were established by Prime Ministry's Circular on 7 July 2005,
- Consists of all relevant NGOs, private, public and academic representatives.



INSTRUMENTS AND FINANCE



Public Support Programmes

Institution	Basic Programmes
Undersecretariat of Treasury	Support for investments, Regional development, SMEs
Undersecretariat for Foreign Trade	Support for training, R&D and SMEs
TURK EXIMBANK	Export credits and insurance
Small and Medium Industry Development Organization (KOSGEB)	Support for SMEs
Ministry of Finance, Turkish Revenue Administration	Tax exemption and exceptions, public land sales, regional aid
Ministry of Industry and Trade	Regional aid, R&D support (Organised Industrial Zones, Technology Development Zones)
TUBITAK	Support for R&D



Organised Industrial Zones

- Ministry of Industry and Trade supports the establishment of Organized Industrial Zones (OIZs) and Small Scale Industrial Estates (SSIEs), provides credits for infrastructure construction of OIZs and infrastructure and superstructure construction of SSIEs.

- ✓ 87 OIZs have started to function since 1962.

- ✓ 393 SSIEs have started to function since 1965.



Industrial Zones

(The Industrial Zone (IZ) Law numbered 4737 was put into force in 2002)

- To promote investments,
- To minimise bureaucratic processes for local and foreign investors,
- To develop regions with approved plans and ready infrastructure,
- To allow enterprises to operate as soon as taking necessary permissions and approvals.



Technology Development Zones

(Law No 4691 on Technology Development Zones (TDZ) was put into force in 2001)

- 20 Technology Development Zones have been established, 10 of which have been in operation.
- Supports have been provided to administrative companies, entrepreneurs and academic staff in the TDZs.



WHAT IS FORESEEN FOR THE FUTURE



GROWTH RATES (%)			
	Estimations (*)		
	2006	2007	2008
GDP	5.0	5.0	5.0
- Agriculture	1.5	2.2	2.0
- Industry	5.1	5.3	5.3
- Services	5.7	5.3	5.4

(*) 2005 Pre-Accession Economic Programme of Turkey

- In addition to the high performance achieved in the last years, industrial growth rate is also expected to be higher than GDP growth rate in the next years.
- Besides services, industry will also be a leading sector in the economy in the next years.



Thank you for your attention