2

Vol.31
No.24

is so far behind demand that output is sold out six months in advance.

Another potential source of funds promoted heavily by the government is the Istanbul stock exchange, whose performance since its relaunch at the end of 1985 has been promising (see page 39). The government hopes the exchange and capital markets will be boosted further in 1987 by a programme of privatisation, starting with the state's minority holding in 22 private companies — including Tofas and another Koc subsidiary, household appliances manufacturer Arcelik. Among the SEEs, earliest candidates for privatisation are likely to be petrochemicals producer Petkim, airport services company Usas, and five cement works owned by Citosan (MEED 9:5:87).

Dumping

Textiles is one sector that has benefited very little from the domestic industrial boom. It is geared to exports, which account for roughly one-third of total sales, and has suffered from the overall downturn in Turkey's performance abroad. According to one prominent Istanbul manufacturer, lost markets in Iran and Iraq caused particular difficulties in 1986. Manufacturers trying to adjust were forced to dump surplus production at home.

In addition, the government's agricultural price support policy has pushed cotton prices above world levels, eroding the competitiveness abroad of Turkish manufacturers of finished and semi-finished goods. At the same time, the government has encouraged the export of more cotton — to boost hard currency earnings — and this has caused domestic shortages.

One industry that is successful both domestically and externally, and can offset lost exports against rising domestic sales, is glass manufacture, dominated by Turkiye Sise & Cam Fabrikalari. It earned TL 696,843 million ($869 million) in 1986, 49 per cent up on 1985; exports rose 9.1 per cent to $167.9 million, despite the Middle East downturn. The secret lay in developing new markets, says Mehmet Kara, assistant to president Talat Orhon. The company now exports to 65 countries, and Kara expects another good year in 1987.

No fragile success: glass sales seem firmly on the up and up

Turkiye Sise & Cam Fabrikalari

Suzer Dis Ticaret is another company that has moved fast to counter the fall-off in traditional regional strongholds, opening up new markets in China, Africa and Eastern Europe.

Suzer mainly sells Turkish iron and steel products to China, for which it gets paid in hard currency, says general manager Bulent Aslan. In Africa, where sales centre on food and fertilisers, the company has been exploring prospects in Cote d'Ivoire, Cameroon, Gabon and Togo, and — most recently — Sudan and Uganda.

Suzer's overseas sales rose by 12 per cent in 1986 to $102 million, according to Aslan. On average, the company's profit margin ranges between 5-10 per cent, but this requires a large volume of turnover, he says.

The government has encouraged exporters to make good their losses in the Middle East by finding new outlets, and to improve their quality control and marketing. One step towards this is the proposed creation of overseas trade centres in London, New York and other major cities.

However, the government is phasing out its system of direct tax rebates to exporters, in accordance with the General Agreement on Tariffs & Trade (GATT). Industrialists complain that they should be compensated with indirect production subsidies, like their counterparts in European countries.

There are measures on the way that may make up some of the lost ground. A central bank rediscounting system has been introduced for exporters, based on their past performance, whereas in 1986 they had to rely solely on commercial borrowing for export financing. Plans are also advanced to turn Devlet Yatirim Bankasi (State Investment Bank) into an export credit agency.

JB

Mensucat bypasses interest rate barrier

TURKEY'S increasing international creditworthiness has helped textile manufacturer Mensucat Santral. It enjoys the offshore advantages of using pre-export financing to fund investments in Turkey, plus the benefits of cheap local labour and real estate.

"High Turkish interest rates affect us only marginally," says chief executive officer Halil Bezman. "We have very few local costs — and Turkish banks take only 1½ per cent interest on the whole operation as commission. We borrow in dollars and export in dollars."

Mensucat makes bed linen and interlining for clothes in modern premises which compare favourably with the Dickensian surroundings of Istanbul's grimy industrial area. The bulk of total annual sales of around $95 million goes for export, mainly to the US, West Germany, the UK and the Netherlands.

The company makes about 3 per cent profit on turnover, before tax. It pays only 10 per cent tax as an exporter, compared with normal corporation tax of around 46 per cent.

It has used pre-export financing throughout a seven-year plan drawn up in the early 1980s to finance investments. These totalled $13 million in 1985 and $19 million in 1986, and are projected at $24 million in 1987 and $12 million in 1988.

Mensucat goes back to its bankers each year, rolling over the financing and asking for more than the previous year's sum where necessary. It has built on mutual trust established by past successful performance, says Bezman.

"As long as the political situation in Turkey does not change, there's no risk," he says. "The problems will start if Turkey has difficulties in its overall debt-servicing. Then the banks might not be prepared to roll-over, and I might have a cash-flow problem."

Farmers resist new moves in agriculture

ABOUT half Turkey's workforce is employed on the land, and although agriculture now accounts for only 17 per cent or so of gross national product (GNP), down from 26 per cent 10 years ago, it remains one of the mainstays of the economy. To preserve the sector's productivity, however, will require substantial restructuring, and government efforts to achieve this are meeting resistance among traditionally conservative farmers.

"Turks take their agricultural sector too much for granted," says one consultant who has worked in the country for many years. "They assume that their balance of payments surplus on food will last for ever." The sector needs more investment now to prevent a food payments deficit early next century, he says, pointing out that imports are bound to go on rising. "Urban Turks will want a more varied diet — and probably one with more meat and dairy products — than their grandfathers did when they lived in villages," he says.

So far, farmers have been largely successful in keeping out imports of staple foods — banana growers raised an uproar when the Ozal government began importing Chiquita brand bananas from Costa Rica soon after it took office. As a result, there are several gaps in the market. Oranges, for instance, are not even imported during the summer months when they are not produced locally.

The government has found that tinkering with the sector is politically risky. Farmers delivered the prime minister a body blow in September when they voted in droves against his party in parliamentary elections. So far, the biggest reforms have been in just two sectors — tobacco and tea.

"Turkey's tobacco industry has taken little account of changes in world markets and tastes over the last 20 years," claims Altemur Kilic, local adviser to Rothmans. Even the growing of new strains of Virginia tobacco has encountered resistance, he says, although Turkish smokers — like the rest of the world — long ago decided they preferred Western-type tobacco.

In a bid to speed the pace of change, the state tobacco and beverages group Tekel has been stripped of many of its monopoly powers. Rothmans has a joint venture in Bitlis — Best — operating the country's first private-sector cigarette factory.

For farming as a whole, the government's announcement of its intention to tax dealers who purchase and resell agricultural goods, thus bringing the sector into the orbit of the national tax system for the first time, could be a key development. The funds would be used for agricultural credits to encourage rationalisation and investment, in turn — it is hoped — wooing farmers back to the ruling Motherland Party from Suleyman Demirel's True Path Party. It remains to be seen, however, whether tax thresholds will be set at a level to guarantee sufficient returns for this purpose.

Other changes are coming as a modern food industry emerges. Last year Yasar Holding opened the Middle East's biggest slaughterhouse and meat processing plant, near Izmir. However, another Izmir firm, Yupi — for many years the largest supplier of poultry to Iraq and the Gulf states — got into cash flow difficulties this spring and had to seek fresh backing from abroad.

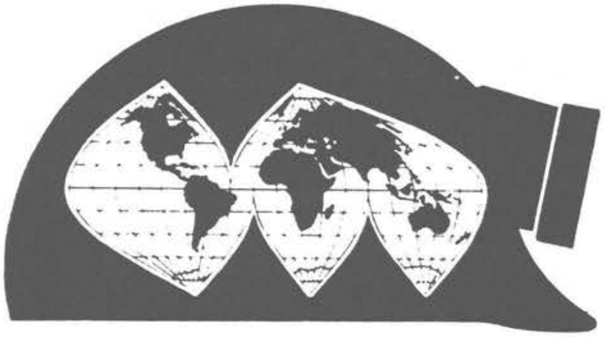
Improvements in irrigation are also being implemented across the country, although more slowly than many agronomists would like. The main change will come after 1991 when 720,000 hectares of land close to the Syrian border will be irrigated by water from the Ataturk dam on the Euphrates. This will triple output of many agricultural goods and enable Turkey to shift much of its cotton production from the Cukurova Plain around Adana to the southeast.

Marketing remains one of the most serious obstacles. Turkish farmers are less good at grading and packaging their products than their counterparts even in northern Cyprus. "In the fruit trade," says one businessman, "grading is everything. If you want to sell your produce to the top of the market, you have to be able to grade it according to the specifications of Rotterdam, Vienna, Paris or London, and pre-palletise it where necessary. By and large Turkish farmers and firms are only learning very slowly to do this."

Agricultural exports last year amounted to $1,800 million — 25 per cent of total exports. In 1987 it is hoped the figure could hit $2,000 million. But this will depend on the summer weather; seasonal factors still determine whether or not Turkey has a saleable surplus of commodities such as wheat.

Investment in modern irrigation and experimental cultivation of new crops look like being the main priorities over the next few years. But success depends above all on Ozal's ability to convince the country's 9.4 million farmers that change is a good thing.

DB



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