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REGIONAL AFFAIRS

TURKISH-ARAB ECONOMIC RELATIONS DISCUSSED

Expansion of Ties

Beirut AL-IQTISAD WA AL-A'MAL in Arabic Mar 85 pp 27-29

[Article: "Arabs and Ottomans' New Conquests"]

[Text] Turkey's "discovery" of the Arab world's importance is a very significant development which began in the early 1980's and which will undoubtedly generate large-scale commercial and political results that may change the character, realities and balance of the Middle East area.

In itself, the Turkish change is not surprising. What is surprising is that Turkey has needed all this time (perhaps since the end of World War I) to rediscover itself and rediscover this vast world, which it had ruled for 4 centuries, before getting tired of it and retreating to a Turkish nationalism with a European secular character and before this world also got tired of Turkey under the impact of the same Western nationalist ideas and of the dream of reviving past glories and establishing a united pan-Arab state.

AL-IQTISAD WA AL-A'MAL reviews here the important developments occurring at the level of economic relations between Turkey and the Arab world. It also talks with Turkish Prime Minister Dr Turgut Ozal in the first economic interview he has given to an Arab magazine.

Turkish-Arab economic relations have been experiencing unprecedented growth at various levels over the past 4-5 years. Turkey's exports to the Arab world (and Iran) have multiplied 12-fold during this period, rising from \$200 million in 1979 to \$3.2 billion in 1984. Whereas the Middle East market absorbed 10-12 percent of Turkey's exports in 1975, it now absorbs nearly 45 percent of all Turkish exports, compared to the 42 percent absorbed by Europe. This means that the Middle East, and the Arab countries specifically, have become Turkey's main market. If we take into consideration Turkey's service exports, especially tourism and construction contracts,

then the Arab market's contribution to supporting the Turkish economy becomes very significant and much bigger than what is implied in the foreign trade figures.

The value of the contracts won by Turkish firms in the Arab countries since 1980 amounts to nearly \$14 billion, including contracts valued at \$8 billion in Libya alone. Added to all this is the Turkish transit trade to Iraq and Iran, a trade which has flourished enormously in the wake of the closure of the ports on Shatt al-'Arab. This prosperity has contributed to developing Turkey's maritime fleet into the biggest such fleet in all of Europe. Within the framework of the transit trade, we can also include Iraq's use of Turkey as a corridor for the passage of the oil pipeline between Kirkuk and Dortyol and Iran's recent decision to build a pipeline similar to the Iraqi one between Abadan and the Mediterranean.

What Is Behind Openness?

Turkey's opening up to the Arab world has come as a result of two fundamental developments:

First, the cool relations between Turkey and the EEC and the difficulty that Turkish products encounter in entering the European markets. Turkey has tried and continues to try to be accepted as a full EEC member, but there is little hope of this happening because of the Europeans' fear of the influx of Turkish labor in to their countries and also because of fear of the burdens of the Turkish economy on the EEC budget.

Second, the political transformation being witnessed in Turkey since 1980 and characterized by the return to civilian rule and by the economic open-door policy at home and abroad: this transformation has dictated redirecting the economic system toward exportation and toward enhancing the competitiveness of the country's exports, as well as toward attracting the capital necessary for investment. Because the European market does not offer sufficient outlets to the Turkish economy, the planners of the Turkish economy have awakened to the importance of the Arab area and of Iran as a vital sphere for the new economic revival.

What draws attention is the fact that Turkey disregarded the importance of the neighboring markets all this time. What is even more interesting is that it was 5 or 6 years late in moving to benefit from the upsurge in oil revenues. The Turks' actual interest in boosting exports and in exporting contracts and labor to the Arab markets did not really start until the early 1980's.

Role of Iraq-Iran War

There is no doubt that the eruption of the Iraq-Iran war created a new situation in the Middle East and hastened to alert Turkey to the strategic advantages it enjoys as an eastern Islamic state and has, consequently, motivated Turkey to play a role which will inevitably become more prominent in the next few years. In this regard, there are several factors advantageous to Turkey, the most important being:

- Turkey's geographic proximity to the area's markets.
- A sense of cultural and religious affinity.
- An advanced industry and cheap labor.
- Agricultural self-sufficiency, with the availability of a surplus for export, all in an area experiencing a growing shortage of food. Canned and frozen Turkish food products have begun to invade the Gulf markets, forming 50 percent of Turkey's total exports to the area in 1984.

It must also be noted that Turkey has especially benefited from its military and political neutrality toward the Iraq-Iran war and has reaped the fruits of this neutrality in the form of big leaps in commerce and transit with the two neighboring countries, with the Gulf and with Libya. One example of Turkey's balanced policy is the visit made by Turkish President Evren Kenan to Saudi Arabia in February 1984--a visit which culminated in agreements and in aid, of which Turkey has received \$500 million as a first installment. This visit was followed in April 1984 by another visit to Iran by a trade commission which was headed by Turkish Prime Minister Turgut Ozal himself. This visit was also crowned with trade agreements. This is in addition to the numerous visits made by Turkish officials to Iran, Iraq and the Gulf countries within the framework of the ongoing efforts to put an end to the war or for economic purposes.

Opportunities for Arabs Also

But if the Arab world constitutes an important market for Turkish industrial and agricultural exports, then Turkey, with its geographic extension and its demographic weight, also constitutes an important market for the Arab countries. Turkish officials have begun to speak seriously of the importance of establishing in the area a joint market as an alternative to the idea of linking Turkey to the EEC--an idea that is still faced with insurmountable obstacles.

Turkey in particular can offer good spheres of investment for Arab private and governmental capital, especially in the wake of the ongoing economic and currency reforms which are expected to be entrenched and completed. These reforms (urged by the IMF since 1980) include reducing the Turkish pound's exchange rate by floating the pound and allowing it to reflect the actual market price. They also include a strict fiscal policy that has led to reducing inflation from 107 percent in 1980 to 45 percent at present, with this rate expected to drop to 25 percent in 1985.

Investment Opportunities

Regarding direct investment incentives, any establishment bringing with it a capital of no less than \$50,000 is now allowed to engage freely in a large number of sectors while enjoying the right to remit profits and capital at the current currency prices without any restriction or shackle.

The Turkish government has defined the mining, tourism, petroleum and agricultural production sectors as priority sectors. It has also begun to implement ambitious plans to complete the infrastructures, to develop transportation and to set up free zones (of which two zones have already been opened in Mersin and Anatolia).

To encourage savings, Turkish fiscal authorities have maintained an interest rate exceeding the inflation rate, amounting to 45 percent in 1985, for savings deposits. However, borrowing continues to be almost inactive as a result of the high interest rates charged for loans, which amount to 68 percent at times. This is why the state encourages Turkish organizations to borrow from foreign banks and protects such organizations from fluctuations in the exchange rates by covering the exchange-rate risks through the Central Bank.

It seems that the Turkish measures to liberate the economy have begun to bear fruit. Whereas total foreign investments in the country amounted to \$930 million from 1980-83, investments in 1984 alone amounted to nearly 1 billion dollars, in part coming from the Middle East. Numerous Saudi, Gulf and Lebanese firms have begun applying to set up import-export offices from and to Turkey. Most of these firms have active distribution networks in the Gulf. For example, a Saudi-Turkish holding company was founded in the first half of 1984 with a capital of \$150 million to invest in projects in Turkey, Saudi Arabia and elsewhere. Licenses have also been granted to a number of Arab financial establishments, including al-Barakah Group, the Saudi-American Bank, Dar al-Mal al-Islami [Islamic Finance Organization] and others.

Joint Projects

The Turkish government is exerting efforts to set up joint projects by inviting foreign capital to bolster the capital base of already existing Turkish firms which are capable of being profitable firms if given adequate resources. The government also seeks to attract foreign investments by gradually selling a number of public sector companies, either partially or completely, and by opening the door for foreign capital to become a partner in these companies.

Real estate and tourism investment is also one of the spheres that merit the attention of the Arab investors, especially since Turkey has opened the door for Arab citizens to own houses and real estate in Turkey without demanding reciprocal treatment from the countries concerned. The initial estimates for 1984 indicate that the number of Arab summer vacationers visiting Turkey has begun to grow rapidly, amounting to nearly 300,000 visitors and summer vacationers last year. Moreover, the tendency to purchase homes in Istanbul and in other parts of Turkey has been growing stronger year after year in view of the low prices for such houses in comparison with similar opportunities in Europe.

Development in Number of Turkish Contracting Firms in Arab World

Country	1978	1979	1980	1981	1982	1983	1984
Libya	13	19	34	68	98	105	112
Saudi Arabia	4	5	13	19	79	109	129
Iraq	3	4	7	13	35	35	36
Jordan	-	-	2	3	11	11	12
Kuwait	1	1	3	5	6	6	6
UAE	1	1	2	2	2	2	2
Egypt	-	-	-	-	1	1	1
Algeria	-	-	-	-	1	1	1
Tunisia	-	-	-	-	1	1	1

Observations: There are 223 Turkish firms and establishments that operate in the Arab world and abroad. Sixty of them operate in more than one country at a time.

Development in Value of Contracts Implemented by Turkish Contracting Firms in Arab Countries (in \$1 Million Dollars Accumulated Total)

Country	1980	1981	1982	1983	1984
Libya	2,340	7,100	8,167	8,565	8,640
Saudi Arabia	634	1,050	3,302	4,125	4,564
Iraq	430	728	952	1,031	1,051
Jordan	11	43	43	108	108
UAE	35	39	39	39	39
Kuwait	11	12	16	17	17
Algeria	-	-	37	37	37
Egypt	-	-	-	16	16
Tunisia	-	-	-	-	16

Source: Ministry of Finance and Foreign Trade, Ankara)

Observation: The total value of the contracts won by Turkish firms in the Arab world from 1980-84 amounted to nearly \$14.5 billion. However, it is noticed that these firms did not win any new contracts in 1984, with the value of the new contracts amounting to nearly \$550 million, compared to \$1,381,000,000 in 1983, nearly \$3,584,000,000 in 1982 and nearly \$5,511,000,000 in 1981, which was the best year for the Turkish contracting firms.

Turkish Prime Minister on Trade

Beirut AL-IQTISAD WA AL-A'MAL in Arabic Mar 85 pp 31-33

[Interview with Turkish Prime Minister Turgut Ozal By Rashid Hasan: "Ozal: My Advice Is: Look for Turkish Firms in Need of Money and Buy Them"]

[Text] Each era has its states and its men. At a time when states and kingdoms are built with maritime fleets, with export wars and with the diplomacy of selling and marketing, Turkey has finally found its champion, not in the person of a general or of a military conqueror, as in the past, but in the person of Turgut Ozal--a man who combines the knowledge of a economist with the intuition of a businessman and the skill of a sales director with the firmness of a politician at the same time.

As an economist, it can be said that Ozal is truly the father of the political and economic open-door experience being lived by Turkey since 1980. As an economist, Ozal has also proven that he possesses a clear vision over which he is not willing to bargain. This was proven by his resignation in the middle of 1982 as deputy prime minister for economic affairs when political pressures were put on him to terminate the fiscal austerity policy to fight inflation in the wake of the collapse of Kastelli Brokerage House. But Ozal returned triumphant as prime minister when his party achieved a strong win in the parliamentary elections of 1983 which reflected the strength of the current of change in Turkish society.

He is also well known as the initiator of the theory of "exports or death" and as the force behind the major development in Turkish exports to the outside world in the past 4 years--exports which have contributed to improving Turkey's current account balance and which have to a large degree rehabilitated Turkey in the eyes of the international banks. Many in Turkey believe that Ozal has actually succeeded in putting Turkey anew, and strongly, on the Middle East map.

Here is an economic review conducted by AL-IQTISAD WA AL-A'MAL with Turkish Prime Minister Dr Ozal:

[Question] The first question that comes to mind is why Turkey turned its back on the Arab world throughout the preceding era?

[Answer] (Smiling) It is an involved story. But I do agree with your observation. For many centuries, Turkey was the cornerstone in this Islamic and Middle Eastern geographic dimension, which was the source of Turkey's strength as Turkey was the source of its strength and stability. It is perhaps due to a feeling of shock created among a generation of Turks during a certain period of time because of Europe's ambitions in

the area. But frankly, we are not the only ones who turned our backs. A wave of strong hostility was ignited against the Ottoman sultanate which was depicted as an embodiment of all the evils which afflicted the area. It is a portrait about which the least that can be said is that it is unfair and that it intelligently concealed behind it the schemes of the forces which were working from within and from outside to tear the East apart.

[Question] How do you evaluate economic relations between Turkey and the Arab countries and the horizons of the development of these relations in future years?

There Has Been Big Development

[Answer] There has been a big development in the past 4 or 5 years. In 1979, for example, our trade with the Arabs was very limited and the value of our exports to the Arab market did not exceed \$200 million. But after 1980, we began to implement an economic correction program. One of this program's most important elements is, perhaps, the correction of the currency exchange rates which allows these rates to reflect the actual exchange rates in the market. This has, of course, helped boost the exports greatly. We have also begun to pursue a policy of long-range rapprochement and cooperation with the area on the basis of the presence of common interests and geographic, religious and cultural proximity. All these are, in our view, elements that must strengthen the mutual interdependence of Turkey and the Arab world. As a result of this policy, the conditions began to change and our exports to the area amounted in 1984 to nearly \$3.2 billion or more than 45 percent of our foreign exports. We have also invested in the transit trade and we perhaps have the biggest maritime fleet in Europe, including Bulgaria which was considered until recently the number-one country in this sphere.

[Question] Part of the big development in the relations can be attributed to Turkey's efforts to take advantage of the economic activity in the Gulf. Is the preceding development expected to continue now that conditions in the Gulf and elsewhere have taken a different direction?

Problems of Contracting Sector

[Answer] This may apply to the activity of our firms in the contracting sector which will, of course, be affected by the growing competition and the drop in the number of projects. It is well known that we have been affected somewhat in Libya because of the problems of payment. But these problems have almost been settled. However, I don't think that the trade transactions, services, investment and tourism will be affected seriously. In these spheres, the growth potential is still big.

[Question] Don't the area's efforts to create numerous medium-size and small industries in the past decade limit the potential for the growth of Turkish exports?

[Answer] We do not view the Arab area or Iran as a market for selling our products. When I speak of the potential for trade growth, I mean by this an equal growth in the trade exchange founded on the ideal utilization of the resources of each state, on the integration of these resources and on the possibility of regional specialization and coordination. It is my feeling that this part of the world, which includes the Arab Peninsula and Turkey, and perhaps Iran and other countries, constitutes in fact a single area.

Middle East Market?

[Question] It is obvious that you are referring to the idea of establishing a common Middle East market or a free-trade zone between these countries. Are there specific concepts or proposals which you have submitted to the countries concerned?

[Answer] There are no specific proposals yet. But we are trying to play a role in advancing and crystallizing this idea through the Islamic Conference which we head and which meets regularly in Istanbul. At the conference's latest session, we presented for discussion ideas that seek to bolster trade exchanges between the Islamic countries, especially the Middle East countries. We focused in particular on investment in developing communication and trade routes, on studying the possibilities of dividing the work between the area's countries and on setting up joint projects, such as the fertilizer production project which was recently established jointly by Turkey, Tunisia and Kuwait. The fertilizers will be produced in Turkey, using ammonia produced by Kuwait and phosphoric acid produced from Tunisian phosphate.

Investment Climate Is Convenient

[Question] Do you think that the investment climate in Turkey has now become truly convenient to attract the Arab investor?

[Answer] Certainly. This is what we have been working for through the economic correction. We are also exerting efforts to encourage the Turkish investor to play his full role in development. Moreover, special privileges are offered, especially to the Arabs, such as the right to own houses and real estate in Turkey even though there is no reciprocal treatment in this regard. In addition to all this, we have abundant and trained labor, which will include 50 million people. We also have good managers and an advanced educational climate embodied in nearly 1/2 million university students and nearly 100,000 graduates a year. Moreover, our country's labor relations are stable and are founded on cooperation and understanding between workers and business owners.

[Question] What are the tax incentives which you offer foreign investors?

[Answer] All foreign investment is totally exempted from taxes until the capital is recovered. The investment is then initially subjected to the

companies tax, amounting to 40 percent in principle. But there are numerous cases where this tax can be reduced, especially in cases where profits are reinvested for expansion. Such profits are dealt with as if they are a new investment subject to the same exemption until the firm regains their value.

Advice

[Question] Permit us to ask more precisely: do you have any specific advice to give the Arab investor who wishes to come to Turkey?

[Answer] My advice is to look for firms and buy them. There are numerous companies and industries that are technically advanced and have a big potential but are facing financial problems. By pumping small sums into such companies, it is possible to enable them to produce and make big profits.

[Question] But are there expert advisory services that can lead the Arab investor to this or that firm, as happens in the Western investment banks?

[Answer] Of course. Our banking sector includes local and international banking establishments with long experience in Turkey. These establishments can provide information and study the proper investment opportunities, and can even arrange the agreements on such investments, such as the Is Bank, City Bank, Chase [Manhattan], First Botton Bank and others. All these banks have very advanced expertise in the sphere of investment services, keeping in mind that I believe that whoever wants to operate in Turkey should come here, and this is the least an investor can do, as the proverb goes, to see for himself.

Arab Summer Vacationing in Turkey

[Question] There has been a big development in Arab summer-vacationing activity in Turkey. How do you view the horizons for the development of this activity and the spheres of investment it may open?

[Answer] The year 1984 was very successful in this regard. According to my information, the number of Arab visitors and summer vacationers ranged from 200,000-300,000 people, many of them from Saudi Arabia, the Gulf states, Jordan, Egypt and Lebanon and a smaller number from Syria and Iraq. This wave immediately created a demand for summer houses and for the purchase of houses in a number of cities, especially Istanbul. The fact is that the Arab summer vacationer finds in Turkey a moderate climate and greenery. He is also comfortable with the Turk's hospitality and his friendliness, contrary to what happens to this vacationer in a number of European countries. The Turk views the Arab as a Muslim and does not feel that he is different from him in culture or values. This is, undoubtedly, an important psychological factor. But one of the main elements is the economic element, namely the cheap cost of houses or of building them in Turkey in comparison with building them in European cities. For example, you can get a luxury apartment in one of Istanbul's best areas for \$100,000.

If you wanted to get a similar apartment in New York or London, you would have to pay at least \$250,000. Any beautiful house build immediately on the beach may cost \$50,000 or less. There are numerous islands in the Sea of Marmara and in the Aegean Sea which can be purchased and on which tourist projects can be established. I personally believe that there are big opportunities for real estate development companies to purchase large tracts of land and develop them because the wages of a Turkish construction worker do not exceed \$100 a month and because the demand for buildings is much greater than the supply, thus permitting large profit rates in this sector.

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