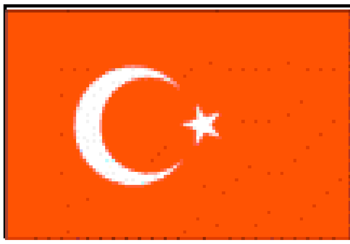

Turkey
Country Overview

BASIC FACTS:

Capital: Ankara
Area: 780,580 square kilometers
Population: 64.3 million (1999)
Currency: Turkish Lira (TL)
Exchange Rates: US$1 = 1,185,450 TL (May 2001)
GNP: US$186.6 billion (1999)
GDP Growth: 3.1% (1998); -5.1 (1999); 5.5 (1999-03);
GNP per capita: US$2,900 (1999)
Inflation: 63.5% (1999)

EXECUTIVE SUMMARY

In 1999, Turkey saw three governments and two major earthquakes, which claimed the lives of over 18,000 and resulted in billions of dollars of damage, and experienced its worst economic contraction since World War II, with GNP down 6.4 percent to US$187 billion. However, while the Turkish economy bent, it did not break. Relying on market forces, export-led development, integration with the world economy and privatization, Turkey's annual growth rates over the past decade remain among the highest of any OECD country. The latest Government of Turkey (GOT), the 57th, has already begun to tackle long-standing macroeconomic imbalances - large public sector deficits and resulting high inflation - and has introduced an IMF-backed three-year disinflation program to resolve its fundamental fiscal problems. Much more remains to be done, but the willingness to reform shown by the current government marks a potential turning point in improvement of export and investment conditions for U.S. businesses.

Given significant private investment expected in Turkey's energy sector, best prospects sectors for U.S. exporters are power generation, oil and gas pipelines and telecommunications equipment and services. Other best prospects include franchising; defense industry equipment; building products; automotive parts and services equipment; medical equipment; pollution control equipment; and, architectural/construction/engineering services.

The private sector remains the powerful engine of Turkish economic growth, contributing to an "unregistered" economy, which increases the GNP by up to 50 percent. Turkey has begun both to respond to import competition and take advantage of European markets (Turkey joined the European Customs Union on January 1, 1996.) and those in the Middle East, Black Sea, Caucasus, Central Asia and Russia. Turkish firms remain active in Russia, the Caucasus, Central Asia and the Middle East and can serve as excellent partners for U.S. firms to investigate distribution and investment opportunities throughout the region.

ECONOMIC OUTLOOK

Since the mid-1980's Turkey's economy has moved strongly away from the statist principles on which the Republic was founded, unleashing Turkey's dynamic private sector as the engine of economic development. The country's economic turnaround continues to rely on market forces, export-led development, integration with the world economy, and privatization. Average annual growth rates over the past decade have been among the highest of any OECD country.

The pace of reform picked up in the late summer of 1999. Although the state sector continues to represent almost a quarter of GDP, the Government of Turkey (GOT) has liberalized the trade regime and capital markets and granted foreign investors access to international arbitration in contracts related to concessionary projects.

A short but sharp recession in 1994, brought on by GOT miscalculations, caused a 6 percent fall in Gross National Product (GNP), bringing to an end 13 straight years of growth. The economy rebounded with GNP up 8.1 percent in 1995, 7.9 percent in 1996 and 8.3 percent in 1997. However, the impact of the Asian and Russian financial crises and constraints of an IMF Staff Monitored Program resulted in a slowdown of economic activity during 1998. GNP grew only 3.8 percent to US$204 billion (although the presence of a large unregistered economy means that the actual GNP is as much as 50 percent larger). In 1999, Turkey saw three different governments, suffered two major earthquakes, and experienced its worst economic contraction since World War II, with GNP down 6.4 percent, to US$187 billion. The government's target for 2000 is 5.5 percent real GNP growth.

Turkey's principal economic problem remains inflation, fueled primarily by large public sector deficits. Annual consumer price inflation averaged 78 percent from 1988-1998; wholesale price inflation averaged 73.4 percent. The year-on-year increase in consumer prices at the end of 1999 was 68.8 percent, a slight improvement over the 69.7 percent recorded at the end of 1998. Owing to front-loading of administered-price increases at the end of 1999, wholesale inflation rose to 62.9 percent in 1999 from 54.3 percent at year-end 1998. Under its disinflation program, the government sought year-end 2000 targets of 20 percent for wholesale price inflation and 25 percent for retail price inflation.

But since last spring the outlook has turned much gloomier. The Economist, May 3, 2001, stated that in May 2000 there was internal conflict in the government over the selection of a new president. In November, a banking crisis brought the country on the verge of financial collapse before the IMF provided a $7.5 billion loan. A series of diplomatic incidences soured relations with the EU. Then, on February 19th, the Prime Minister stormed out of a meeting with the President and declared a political feud. The markets reacted negatively: within two days, the Istanbul index had fallen by 63% from its peak, having plunged by 18% on that day alone. Investors pulled $5 billion out of Turkey on February 19th alone. At that rate, the Central Bank’s foreign reserves of around $20 billion would soon have run out. As a result, on February 22nd, the government announced it would allow the Turkish lira to float freely, i.e. to devalue, resulting in inflation.

Prior to the economic crisis earlier this year, according to The Economist, May 2, 2001, inflation had fallen from almost 100% a year to the mid-30s. Debt-servicing aside, the government is running a healthy and growing budget surplus. The cost of borrowing, however, began to increase again, a large bank that had bet on cheaper money failed, foreign capital took flight, and Turkey found itself in a vicious circle of wobbling banks and spiraling interest rates. As a condition of its loan, the IMF insisted that the government clean up the banks and speed up privatization to lure back foreign investment.

The government is pressing ahead with reform: a long-awaited law on liberalizing Turkey's energy markets finally cleared parliament beginning May 2001. The IMF and World Bank's May 15 pledge to provide $15.7 billion - including previous commitments – to help the country overhaul its crisis-ridden economy boosted Turkey's market confidence. The Executive Board of the IMF approved an augmentation of Turkey's three-year Stand-By Arrangement by US$8 billion, bringing the total to US$19 billion. The Board's decision was made in conjunction with the completion of the sixth and seventh reviews of Turkey's economic program. That decision enabled Turkey to draw up to US$3.8 billion immediately. Further drawings of up to US$1.5 billion each will be made available not earlier than June 25 and July 25 and of US$3 billion each not earlier than September 20 and November 15 following the completion of further reviews of the program.

The U.S. has urged Turkey to stick firmly to the program of economic reconstruction during an appeal by U.S. president George Bush to Turkish Prime Minister Bülent Ecevit: "I am confident you and your government will demonstrate by your actions over the coming days and weeks that the support of the United States and the international community was a wise investment both in Turkey's economic and political well-being, as well as in the stability, security and prosperity of Europe. [...] The full realization of your reform agenda is central to improving confidence and creating the conditions for a return to economic growth." He underlined the crucial reforms such as the long delayed privatization of Türk Telekom and the rehabilitation of the troubled banking sector would require "great political courage".

The stand-by credit was approved in December 1999 for US$3.7 billion. In December 2000, US$7.3 billion in additional financial resources were made available under the Supplemental Reserve Facility. So far, Turkey has drawn a total of US$4.9 billion from the IMF.

Economy Minister Kemal Dervis has put together a core group of managers to oversee changes that could either align the economy with Turkey's ambition of integration with Europe, or fail and leave it straggling with its current inflation-ridden inefficiency.

The promise of reform is not new: Turkey has muddled halfheartedly through a much-delayed privatization program for 15 years, but Dervis and his team make this the most serious effort yet. However, disruptive political, economic and social forces can still threaten Turkey's reform effort.

BUSINESS AND INVESTMENT CLIMATE

Openness to Foreign Investment

Turkey has been pursuing liberal and outward-oriented economic policies since the mid-1980s. The GOT views foreign direct investment as vital to the country's economic development and prosperity. Accordingly, on paper Turkey has one of the most liberal investment regimes of the OECD. Almost all areas open to the Turkish private sector are also fully open to foreign participation and investment. While GOT policies do not discriminate against foreign investment, as is the case in many nations, all companies – regardless of ownership – are subject to the political uncertainties, excessive bureaucracy, and sometimes unclear legal environment that prevail in Turkey, although the reforms described above will reduce the severity of the problems. For instance, although the GOT strongly supports new foreign investment in Turkey's energy sector, successive court rulings have delayed many projects for years. As a result, aggregate foreign direct investment in Turkey from 1980-1999 totaled only slightly more than US$12 billion. The new Turkish policies on international arbitration and supporting legislation have helped to address this problem.

Performance Requirements/Incentives

Turkey is a party to the WTO Agreement on Trade Related Investment Measures (TRIMS). The country provides a variety of investment incentives to both domestic and foreign investors. These include corporate tax exemptions, with up to 100 percent of specified investment expenses – 200 percent for investments over US$250 million – deductible from future taxable profits; exemptions from value-added taxes for machinery and equipment purchased locally or imported for the investment; duty-free import of machinery and equipment (though not raw materials or intermediate goods) to be used in the investment; and soft loans for research and development investments. Investment incentives are clearly specified in regulations (a government decree issued March 25, 1998, and a related communiqué dated May 6, 1998).

The GOT has introduced several special investment incentives for the east and southeast of Turkey. For example, new investments made in these provinces before the end of 2000 are exempt from corporate and income taxes for five years, investors can receive substantial discounts on electricity payments, and state-owned banks will provide reduced rate loans for industrial or employment producing investments.

Turkey harmonized its export incentive regime with the European Union in 1995, prior to the start of the Customs Union. Turkey currently offers a number of export incentives, including credits through the Turkish Eximbank, energy incentives, and research and development incentives. Cash incentives for exporters have been eliminated. Foreign investors can participate in these export incentive programs on a national treatment basis. More information on Turkey's trade regime can be found at www.foreigntrade.gov.tr.

Efficient Capital Markets and Portfolio Investment

Commercial credit in Turkey is allocated according to market terms. However, because of high local borrowing costs (real interest rates can exceed 40 percent) and short repayment periods, both foreign and local investors frequently seek credit from international markets to finance their activities. In addition, the GOT's continued offer of subsidized loans to farmers, small and medium-sized enterprises, and for certain mortgages distorts Turkish money markets. There are approximately 62 commercial banks (including 20 foreign banks) and 19 development or investment banks operating in Turkey. Total sectoral assets reached approximately US$130 billion, or 55 percent of GNP, at year-end 1999. The four state-owned commercial banks and the top six privately capitalized banks hold about 67 percent of total assets.

The banking sector passed through a serious crisis in 1994, during which three small banks failed. The banking system has since recovered, but still faces difficulties given over reliance on income from treasury operations, weak supervision, and murky, often inconsistent accounting practices. Although the Central Bank supervises bank activities in order to guarantee that banks meet liquidity requirements and operate responsibly, the Undersecretariat of the Treasury enforces banking laws and determines the disposition of insolvent banks. From the end of 1998 to the end of 1999 seven commercial banks were taken over by the Central Bank Deposit Insurance Fund, joining another bank which has been under Deposit Insurance Fund management since 1997.

POLITICAL CLIMATE

Turkey has been acknowledged as a candidate for European Union membership, long a strategic objective of the United States. The process of compliance to European standards, built on reforms already initiated in 1999, will have profound implications for democratic evolution and respect for human rights in Turkey, enhancing its role as a paradigm for the Muslim world.

Beginning in the early 1970's, and with a break only between the September 1980 coup and 1984 restoration of civilian rule, domestic terrorism has afflicted Turkish society. While most terrorism between 1971 and 1980 was ideologically based, between 1984 and 1999, the Kurdistan Workers' Party (PKK) employed terrorism in an unsuccessful effort to establish an independent state in southeastern Turkey. Following the trial and death sentence of PKK leader Abdullah Ocalan in June 1999, the PKK almost completely ceased to use terrorism as a political tool, although it did not comprehensively reject terrorism. Ocalan remains jailed pending a European Court of Human Rights ruling on his case and/or Turkey's removing the death penalty from its criminal law. The United States recognizes the PKK as an international terrorist organization.

In 1999, Turkey saw the fall of one government, an interim government and the election of a third. This latest government, the 57th since the creation of the Republic, appears to be stable in the aftermath of the recent economic crisis.

Nature of the Relationship with the United States

Located at the hub of a region characterized by instability, Turkey is a key U.S. ally involved in the web of military and economic organizations constituting today's US-European security architecture. With the second-largest army in NATO and as an EU candidate member, Turkey will be key to building NATO-EU security links that reduce the U.S. burden of defending Europe. The Turkish military plays a key role in supporting U.S. security objectives in the region.

Through 1999, the United States and Turkey continued a close partnership to develop a strategic East-West Energy Transport Corridor, including the Baku-Tbilisi-Ceyhan oil pipeline and the Trans-Caspian gas pipeline. Turkish and American efforts culminated in the historic signing of five documents in November 1999, setting up the basic framework to realize both pipelines. While there is still work to do, we are on the verge of achieving a major national security objective by establishing a non-Iranian, non-Russian export corridor for Central Asian and Caspian energy.

In the Middle East, Turkey supports the peace process and is building ever more solid, multifaceted ties with Israel, Jordan, and Egypt. Hostile foreign policies and domestic instability in bordering Iran, Iraq, and Syria (all state sponsors of terrorism and proliferators of weapons of mass destruction) pose military and economic threats to the U.S. and its regional allies.

SOURCES OF FINANCING

Description of Banking System

With 62 commercial banks and 19 development or investment banks, and total sectoral assets of only US$133.5 billion at the end of 1999, Turkey is over-banked. However, the sector plays less of a financial intermediary role than one would expect in an economy of Turkey's size and sophistication. The four state -owned commercial banks still hold a disproportionately large 35 percent of bank assets, although their share may be declining. The sector's five and ten largest banks also have seen their share of assets decline steadily since financial sector liberalization began to take hold in 1985. In terms of trade finance, treasury operations, electronic banking, and information management, the dozen leading Turkish banks are as sophisticated as their other OECD counterparts. However, given chronically high government budget deficits, bank profitability has been treasury-based, not lending-based, and most banks have yet to develop solid lending cultures and risk-asset management systems. One hundred percent deposit insurance since 1994 is an additional complicating factor. Moreover, accounting practices are neither at commonly accepted world standards or evenly applied across the sector.

General Financing Availability

Traditionally, Turkish corporations have satisfied most of their financing requirements through the banking industry. Corporation/banking relationships are close. Locally, commercial banks account for about 80 percent of the credits outstanding in the Turkish financial system. However, given the continuing gap between Turkey's extensive needs and its limited internal resources, external financing of public and private project investment will be a crucial factor in this and coming years. Because of high inflation and high public-spending requirements, the cost of local currency funds is very high. Exporters are advised to provide financing for their exports. In addition to short and medium-term credits available from commercial banks in local and foreign currencies, lower-cost TL credits are also available from Turkish Eximbank.

How to Finance Exports and Methods of Payment

Letters of Credit (LCs) are traditional import instruments for private-sector transactions. LCs should be irrevocable and confirmed by a prime U.S. bank. As Turkish importers develop long-term contacts and prove their credit-worthiness, suppliers may be willing to accept cash against documents and cash against goods shipments. Deferred payment schedules are not common except in cases of large transactions where supplier financing plays a role.

Sales to Turkey are influenced by the availability and cost of supplier credits. Turkey's access to international credit improved in 1995 after the recession in 1994. Suppliers should consider unconventional project financing packages (e.g., forfeiting, factoring and utilization of third-country export credits) when bidding on major government infrastructure projects. Exporters should be flexible and try to accommodate customers' needs, building any additional associated cost into the offer price. A stand-by Letter of Credit was approved between Turkey and the IMF in 1994, but lapsed in late 1995.

Firms bidding on GOT contracts should pay careful attention to the way proposals are prepared and should strictly follow the administrative specifications. Financing costs and foreign exchange rate risks, wherever applicable, should be factored into the bid price. Bids, which do not comply with administrative specifications (which include financial criteria), are generally rejected. Generally, validity of a proposal is required to be 3 to 6 months from the bid date. Government tenders often involve bid and performance bonds. Bid bonds are normally equivalent to 3 percent of the value of the tender, while performance bonds are usually equivalent to 6 percent of the contract value. All bonds have to be counter-guaranteed by a Turkish national bank.

A large number of leasing companies operate in Turkey, most owned by Turkish banks. They finance purchases of expensive capital goods such as aircraft, auto fleets or special equipment. Financial leasing used to account for only 1 to 2 percent of capital expenditures in Turkey versus 20 percent in developed countries. The terms of leasing are usually four years, with a balloon payment at the end. Turkish leasing companies are eager to work with U.S. counterparts.

Turkish factoring companies (again, usually offshoots of banks) generally belong to the International Factors Group based in Belgium. Like leasing companies, all factoring and forfeiting companies are having funding difficulties. Both factoring and forfeiting maximize cash flow, reduce transaction risks, and may enhance competitiveness by offering flexible payment terms to the buyer. All U.S. banks active in Turkey know and deal with at least one of the major leasing and factoring companies.

Types of Available Export Financing and Insurance

The Export-Import Bank of the United States (Ex-Im Bank) offers a variety of credit facilities to U.S. firms exporting to Turkey as well as providing project financing for U.S. investments. Ex-Im Bank does not have a ceiling for Turkey as long as a Treasury guarantee is provided. The U.S. Trade and Development Agency (TDA) is active in financing pre-feasibility and feasibility studies and pre-design work for major government projects, while the Overseas Private Investment Corporation (OPIC) insures and provides investment credit financing to many U.S investments in Turkey. U.S. firms may also compete for contracts financed by the World Bank. Most major government tenders still require suppliers' credits.

In 1999, Ex-Im Bank, OPIC, and TDA opened the Caspian Finance Center (CFC), the agencies' first joint regional office anywhere in the world. Located at the American Embassy in Ankara, the CFC houses senior representatives from each agency who promote increased trade and investment in Turkey, the Caucasus and Central Asia. Working together with the U.S. Commercial Service and the Department of State, the Center's efforts also focus on supporting American participation in projects related to the East-West Transportation Corridor, and the ancillary infrastructure that will be built as a result of these energy projects.

USDA's Commodity Credit Corporation offers three-year GSM-102 export credit guarantees for imports of a wide range of agricultural products. Seven-year GSM-103 guarantees are available for imports of breeder cattle and poultry. In October, 1998, USDA announced Turkey's eligibility for a five year Facilities Credit Guarantee Program for sales of U.S. manufactured goods and services to improve existing agricultural related facilities and a US$5 million Supplier Credit Guarantee Program targeted at imports of high value products from the United States.

Availability of Project Financing

Project financing is available through a multitude of sources including Turkish and foreign commercial banks and investment banks. OPIC is another source for project financing for U.S. investors. Interested U.S. companies should note that American banks active in Turkey are among the leaders in project financing.

TELECOMMUNICATION

Privatization of Türk Telekom

Telecommunications: Turkey currently has more than 18 million telephone lines with a density exceeding 25 percent. To meet growing demand, Turkey planned to install an additional 2 million lines by year-end 2000 and an additional 2-2.5 million lines per year to reach the target of 40 percent density by 2005. While the state-owned Türk Telekom is the monopoly provider of basic services, during 1998, the GOT sold two licenses for the provision of cellular service to private GSM operators. The GOT auctioned a third GSM license in April 2000 for US$2.525 billion and the company recently began operations. Under the regulations governing the sale of the third and fourth GSM licenses, the price of the third license was to have set the entry price for an open forum auction of the fourth license and the price for the sale of a fifth license to state-owned Türk Telekom. However, on April 17, all consortia withdrew from competition for the fourth license and plans to auction this license are consequently on hold. Türk Telekom, however, purchased a fourth license for US$2.525 billion.

Cellular density is approximately 15 percent and is expected to grow rapidly in the coming years. The market was expected to reach over 5.5 million subscribers by year-end 2000 and 12 million by 2005 (17 percent density), and reach a cellular density of 30 percent by 2010. The private sector provides other value-added services, including VSAT (very small aperture terminal), paging, internet access, and cable TV.

Türk Telekom provides voice telephony and most of the value-added services, except GSM cellular telephone services, in Turkey. Türk Telekom, with over 18 million public switched telecommunications lines and over 17.5 million subscribers, is the 13th largest operator in the world. Basic telephone line density is almost 29 percent. The target for 2005 is 40 percent.

The sale tender for a 20% stake of Türk Telekom to a strategic technical partner was issued on June 13, 2000. A number of domestic parties expressed interest but the tender for the 20% stake could not be finalized. A second tender was issued on December 13, 2000 offering for sale a 33.5% share block reserved for a foreign strategic technical partner with enhanced management rights. While various Turkish groups showed interest, the international telecommunications operator criteria were not fulfilled.

Several factors that have apparently contributed to the failure of these tenders include the inadequacy of the number of shares offered for sale, the lack of full management control for the strategic partner and the erosion of the competitive position of the PSTN business versus the mobile operators in the international telecommunications arena.

The privatization of Türk Telekom remains a prominent element in the Turkish government's privatization agenda. On May 12, 2001, the Turkish Grand National Assembly passed a new law with regards to the privatization of Türk Telekom. The following stipulations are included in the law:

- 100% of Türk Telekom could be privatized except for a golden share retained by the government giving it veto rights over certain strategic, national security issues.
- 5% of Türk Telekom shares will be sold to employees and retail investors through a domestic IPO. The sales strategy for the remaining shares will be decided by the Council of Ministers in the near future.
- Foreign real and legal persons cannot possess more than 45% of the shares of Türk Telekom.
- The Turkish telecommunications industry will be fully liberalized when the state’s share in Türk Telekom falls below 50%, even if this occurs prior to the December 31, 2003 deadline.
- When the government’s share in Türk Telekom falls below 50%, all civil servants working for Türk Telekom will be transferred to other state owned enterprises.
- All rights of the Ministry of Transportation related to telecommunications concessions and licenses are transferred to the independent Telecommunications Authority.

The Turkish Government, before implementing the privatization of Türk Telekom, passed a new telecom law defining the establishment of an independent regulatory body. The law provided independence for Türk Telekom’s commercial operations, a transparent legal and regulatory framework, a defined exclusivity period for Türk Telekom and the introduction of price regulations.

Furthermore, the Turkish Parliament, by a large majority, changed the Turkish Constitution on August 13, 1999 to accommodate, for the first time in constitutional history, privatization and international arbitration.

Cellular Telecommunication

There are two private GSM cellular operators in Turkey, Turkcell and Telsim, operating at the 900 MHz frequency range. Turkcell has had a rapidly increasing subscriber base with total subscribers at 10.4 million. Telsim has approximately 5 million subscribers. Experts predict that the 8.4 percent mobile penetration rate in 1999 will increase to 27 percent in 2005 and 35 percent in 2010.

The newest cellular operator is Is-TIM with its newly acquired GSM 1800 MHZ license. Is-TIM began operations in March 2001 with 30,000 subscribers. The expansion of the existing GSM networks may create opportunities for U.S. companies. Total investment expected for the cellular systems is more than US$1.5 billion over the next five years.

Türk Telekom also holds a GSM 1800 license, but it will not build out the network until after the company has been privatized.

Opportunities for value added services, such as Cable-TV networks, IBS earth stations, and payphones, will continue to grow. Türk Telekom still does not have an intelligent network operations center or a sophisticated billing system, which may be attractive projects for U.S. firms. After privatization, Türk Telekom will announce international tenders for procurement of switching and transmission equipment. Presently, local producers have been the sole source of supply. These tenders represent significant opportunities for American firms which produce equipment based on European standards. Opportunities also exist in internet, billing, and directory services, as well as emergency number services and other satellite communications services.

INFORMATION TECHNOLOGY

Internet usage is growing, with Internet banking taking the lead. Wireless Application Protocol technology (WAP) is being introduced in mobile telephony. However, Turkey suffers from a lack of gateways, and modem speeds in practice are slow. International telephone tariffs remain comparatively high, inhibiting growth in international telephonic communications necessary for sustained, export-oriented economic growth.

Software

There are approximately 20 large companies competing in the software market in Turkey. The product lines of these companies range from packaged programs to customized software development for specific needs. Branches of the Turkish Government almost always require custom-built software for their specific purposes while the private sector effectively employs a mix of customized products and packaged software. Microsoft ranks at the top of the application software category with 12 percent of the market and IBM is the leading supplier in the system software business with 22 percent of the market. The widespread use of packaged U.S. software is an advantage for American firms entering the market.

The IT market in Turkey is growing at an annual rate of 25-30 percent. Presently, there are 1.7 million internet users and in 1999 the total IT market equaled US$4.2 billion. While difficult to determine an exact number, it is estimated that nearly 4,000 companies are involved in the IT market by providing goods and services.

The total software market in Turkey totaled US$301.7 million in 1999. Microsoft is at the top of the market with 13.5% (US$40.6 million) of the revenue. IBM closely follows with 12.3% (US$37.1 million) and a Turkish company, Link Soft, ranks third with

6.4% (US$19.3 million). The top 20 software companies comprise 69.4% of the entire market, representing US$209.5 million in sales.

Internet

The internet is well accepted as a communication/information medium in Turkey. The largest group of users is under 35 years of age. It is this group that feels the most comfortable with computers and the internet. Uses of the internet include email, research, chatting on line, personal banking, computer games on the net, job searches, and a growing number of electronic commerce transactions.

User demographics dictate that most of the products and services offered on the internet in Turkey target young professionals. Products and services offered through electronic or e-commerce, including a wide range of goods and information products, offer the most promising opportunities for American companies. The two major internet service providers (ISPs) in Turkey are Superonline and Garanti Net. These ISPs are the result of significant information technology investment and commitment by two of the foremost banks in Turkey, Yapi Kredi Bank and Garantibank respectively.

Veezy Net, owned by the Vestel Group, a major television and electronics manufacturer, has recently and strongly entered the Turkish market. In the past four to five years, the IT industry in Turkey has grown an average of 25 to 30% each year with increased price competition for hardware and software.

The information technology market in Turkey is presently pegged at US$2.8 billion per annum with approximately 7,000 companies active in the sector. The IT sector has attracted a number of entry companies, which has increased competition and squeezed profit margins. Industry specialists predict market pressures will reduce the number of companies thereby enhancing revenues for companies with more sophisticated management. Total market revenue was expected to reach US$4 billion by 2000 and grow to US$10 billion by 2005.

Turkish exports of IT goods in 1999 increased by 53.1% while imports increased by 12%. Major exports were to Holland (US$10.3 million), France (US$3.1 million), Germany (US$5.6 million) and the U.S. (US$1.1 million). The U.S. is the major exporter of IT goods to Turkey with US$200 million; followed by the UK with US$146 million, Holland US$120 million, France US$55 million, Germany US$89 million, Italy US$30 million, Taiwan US$ 70 million, Japan US$37 million, China US$26 million, Ireland US$25 million, Singapore US$22 million, South Korea US$14 million, and Malaysia and Hong Kong US$13 million each).

The Small and Medium Enterprises Chamber of Commerce in Turkey predicted that in 2001, 25% of all small and medium enterprises in Turkey will have invested in IT. This is a significant number since there are over 2.56 million small and medium enterprises in Turkey. The Chamber estimates an additional 1.6 million people entering the information technology market with purchases of hardware, software and internet services.

The breakdown of the 1998 Turkish IT market sales is characterized as follows: hardware 71.4%, software 12.3%, services 14%, and miscellaneous sales 2.3%. Total IT sales for 1998 were estimated at US$2.0 billion. These sales figures do not include the Ministry of Education's US$80 million tender for 2,837 computers.

This dynamic market is attracting a number of national and international newcomers and joint ventures, each with ambitious plans. Software still accounts for a relatively small share of total IT expenditure in Turkey, about ten percent of total sales. The bulk of domestically produced software serves back office needs - accounting, payroll and human resources.

To meet ever increasing demand, Türk Telecom has been improving the internet infrastructure. TTNET, working in conjunction with Global One, Inc., was the previous backbone service provider for all in-country internet service providers (ISPs). This service arrangement was dissolved. Türk Telecom established Turnet, with a wider backbone capacity, as the new backbone service provider for all Turkish ISPs. This new investment has resolved the capacity and speed issues hampering internet growth in Turkey.

Brand loyalty is not established among computer buyers in Turkey. Computers are usually purchased as components and assembled by the seller. Software brand recognition is low due to a lack of software advertisement and demonstrations. Software purchases are generally subject to a cursory inspection of the information printed on the box and not the outcome of a thorough evaluation of various product options. Services on the web such as auctions and second hand market trading are non-existent. Buying goods from international internet e-commerce site is very rare. Internet subscriptions are easily accomplished through credit cards and application forms. Major ISPs, such as Superonline and Turk Net, have established dealership programs where "internet boxes", containing dial up software on CD-ROMs, are sold at local computer stores. These boxes allow the consumer to get instant internet connection. Prices vary between US$18.95 (+ %15 VAT) to US$35.00 (+ %15 VAT) for one month of unlimited access. Each internet service provider also provides an e-mail account to the consumer upon registration. Currently, there are over 400,000 internet subscribers in Turkey.

Many companies are selling information, rather than goods on the net. Commercial banks in Turkey are at the vanguard of another trend. Banks are offering services through the internet allowing customers to pay bills, buy and sell stock, exchange currency as well as transfer money and use other bank products. Some banks have successfully increased their customer portfolios through internet banking. Garanti Bankasi (Garanti.com.tr), Osmanli Bankasi (Osmanli.com.tr), Pamukbank (Pamukbank.com.tr), Yapi ve Kredi Bankasi (Yapikredibank.com.tr) and Is Bankasi (Isbank.com.tr) are the more successful implementers of this new internet banking trend. These banks have invested large sums in internet resources allowing the firms to act as ISPs for their customers.

There are major companies in Turkey offering goods via the internet and pushing the e-commerce frontiers. Domestic trade transacted through e-commerce suffers few obstacles or impediments. Transactions are treated as though the sale took place in a retail shop in Turkey. However, obstacles quickly emerge with international sales transacted through e-commerce.

The same level of complexity applies to Turkish companies ordering goods from international sites. Currently, individual Turkish consumers are not permitted to import any items; a small box containing one or two items arriving from an international destination is considered an import.