

Investment Supplement

Turkey

2009

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With a motivation for continuing reforms and a strong banking system, Turkey is well positioned to take advantage of the global economic recovery. Its strategic location and the security it can provide Europe as an energy transit country have thrust it onto the world stage. Beyond the attention it is receiving as host of the annual meetings of the International Monetary Fund and the World Bank, Turkey was one of the first foreign countries visited by US president Barack Obama during the opening months of his presidency. Not only is Turkey an example of a modern, moderate Islamic country, but its close relations with its neighbors give it credibility as it punches above its weight to participate in efforts to create peace in the region.

While Turkey's likely accession to the European Union encourages it to reform its institutions and systems, the country is creating a globally competitive economy for a more basic reason: to raise the living standards of its people. The World Bank classifies Turkey as an upper-middle-income country, as well as an emerging market economy. Investors recognize its growth potential and have made it a leading recipient of direct investment in recent years.

In July 2009 Turkey and four other countries—Romania, Bulgaria, Hungary and Austria—signed an agreement to build the Nabucco natural gas pipeline, stretching 2,000 miles from the Caspian Sea to Austria. Russian prime minister Vladimir Putin visited Ankara in August and signed a deal on Russia's South Stream gas pipeline. In return, Russia will help Turkey build its first nuclear power plants.

From home appliances to automobiles and apparel, Turkey has a diversified industrial base. With a fast-growing population of more than 72 million people with an average age of 28.5 and a developed transportation and communications infrastructure, Turkey is an appealing country for foreign investors. More than 22,500 international companies are operating in the country, and 55% of them are from EU countries.

With its strong links to the EU and an open economy, Turkey has felt the effects of the global recession. Signs of recovery are already apparent in some sectors, however, and the economy as a whole is expected to expand in 2010. Turkey has cut its red tape and put new incentives in place for investors.

Gordon Platt

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Leading The Way

At the presidential palace in Ankara on July 21, Turkey's president, Abdullah Gul, met with *Global Finance* for a wide-ranging interview covering Turkey's role in the global economy and its international relations.

Global Finance: Is Turkey indispensable for Europe? Does Europe need Turkey more than Turkey needs Europe?

President Gul: In today's world, everybody is dependent on each other. In that sense, Turkey is important for the European Union, and Europe is important for Turkey. The historical realities of the last 500 years prove that Turkey is actually an integral part of Europe. In the modern day, Turkey's importance for Europe

is recognized in the strategic report of the European Commission. This is not just something that I am saying as the president of Turkey. Before the accession negotiations started, the EU conducted two studies analyzing what Turkey would contribute to Europe. As a result, the consensus of the EU summit of 2004 was to start the negotiations. This recognition by the European Commission and the EU Council was very significant.

GF: How soon must the 2,000-mile Nabucco gas pipeline from the Caspian Sea to Austria, an \$11 billion project, be completed?

President Gul: Regarding the Nabucco pipeline, the importance actually is the initiation of the project and the signing of the intergovernmental agreement. As you may recall, when the BTC [Baku-Tbilisi-Ceyhan] pipeline, the second-largest pipeline in the world, was at the project stage, people were debating whether it was feasible. Some even said it was a pipe dream. But the pipeline was built, and the dream of bringing Kazakh oil to the Mediterranean was realized. The same thing will happen with the Nabucco pipeline project. The agreement between the countries [Austria, Bulgaria, Hungary, Romania and Turkey] and the companies involved was signed last week. Now that agreement has been reached, I don't believe the construction will take too long, because technically it is not a difficult project. The demand is there, and the energy security and safety issue for Europe is a priority. The natural gas that will feed into this pipeline could come from a variety of sources, including the northern countries as well as the southern countries and the Caucasian countries.

GF: What will be the impact of the Marmaray undersea rail tunnel in Istanbul on Turkey's relationship with Europe?

President Gul: Just as pipelines connect countries in terms of energy supplies, transportation projects are another opportunity to connect countries. In that sense, Marmaray is a very important project. It will be implemented next year.

When it is completed, a train will be able to travel from China to London without any interruption. The railways already exist, although certain sections are being renovated. The Kars-Tbilisi-Baku railway [connecting Turkey, Georgia and Azerbaijan], for example, will be completed next year.

GF: Masoud Barzani, president of the Northern Iraq autonomous region, has said that it would like to join Turkey. Do you think he is sincere about this?

President Gul: When you look at it from an economic perspective, the north of Iraq is almost unified with Turkey. My comment should not be misunderstood to mean that the north is not part of the Iraqi state. We have economic ties with all of Iraq, but most of these are focused on the north, and many involve Turkish companies. Of course, Turkey attaches greatest importance to the territorial integrity and political unity of Iraq.

GF: Can the Cyprus issue be decided by the end of this year?

President Gul: Yes, we do hope that settlement will be achieved by the end of

form a very important economic zone in the eastern part of the Mediterranean.

GF: How have US-Turkey relations changed under US president Barack Obama? What will your role be in the Middle East peace process?

President Gul: First of all, I would like to indicate that independent from whoever is in the administration, Turkish-US relations for the past 50 years have been based on solid principles. In all areas, we have a very strong partnership. The global vision of President Obama overlaps with the Turkish perspective regarding these issues. For that reason, we do believe that we are entering into a stage where our cooperation will be much closer and the relationship will be strengthened. Soon after President Obama assumed office, he paid one of his first visits to Turkey, and we had the opportunity to discuss both our bilateral as well as regional cooperation. Regarding a peaceful settlement in the Middle East, the Turkish contribution is very important because we have a relationship with all the parties in the Middle East conflict. And we have close contacts

“We believe ... Turkey will be among the fastest-growing economies”

“Turkey will continue to contribute to all international efforts to ensure the recovery of the world economy” —President Abdullah Gul

this year. It is one of our greatest wishes. Actually, a great chance was missed in 2004, when the United Nations' plan, known as the Annan plan [after former UN secretary general Kofi Annan] was put to referendum in both sides of the island. It was rejected by the Greek side and approved by the Turkish side. With regard to the new round of negotiations [which began in September 2008], we have the greatest desire to see the issue resolved. Our vision is that if the Cyprus issue is resolved, then Turkey, Greece and the Cyprus island as a whole could

with the Arab countries as well as Israel on this issue. Turkey actually organized the negotiations between Israel and Syria. It was an indirect involvement. Turkey will continue to support and take part in all efforts aimed at achieving peace in the region. In this regard, we welcome the efforts of President Obama.

GF: Are French president Nicolas Sarkozy and German chancellor Angela Merkel the main obstacles to Turkey's EU membership?

President Gul: We see no person as

an obstacle in the negotiations, which we started with a decision in which both France and Germany participated. We are continuing the negotiations in a very determined manner. There will always be ups and downs and differences of opinion in talks like these. But the legal framework is set and is binding. We have focused on completion of successful negotiations during this whole process.

GF: Can you give a time frame for the likely completion of Turkey's EU membership bid?

President Gul: Of course, it would not be right to give any time frame regarding this negotiation process. But when we look at past developments regarding the bigger countries, the process has always taken longer. For Spain and the United Kingdom, for example, it has taken 10 to 12 years. And in addition for the UK, France has vetoed UK membership twice. So, what is important for Turkey is to complete its preparations and to maintain a certain momentum.

GF: How are Turkey's relations with Chi-

na and the more than 9 million predominantly Muslim Uighur people living in China's Xinjiang region, its westernmost province?

President Gul: China is a big country in terms of its population and its economic potential, as well as global politics. There have been historical ties between Turkey and China, and today our relations are on very good terms. In fact, I recently paid an official visit to China at the invitation of President Hu [Jintao]. We had very fruitful deliberations and even concluded some agreements. We decided to further intensify our economic cooperation. I traveled to different regions of China, including various cultural and industrial centers. I also had the opportunity to visit the autonomous Sincan-Uighur region and its capital, Urumqi. The Uighur people living in that region are Muslim, with a Uighur and Turkic ethnic background. Turkey respects the territorial integrity of China. We know that China is a multi-ethnic and multi-religious society. We want all Chinese citizens to be treated on an equal basis. The Uighur people enrich the diversity of China, and we would like

to see them living as happy and prosperous citizens of China. We want them to be satisfied with the development of human rights and fundamental rights and freedoms in that region. And we regard the Uighur people as a bridge between China and Turkey, enhancing further cooperation between the two countries.

GF: What is Turkey's perspective on the global financial and economic crises?

President Gul: The global economy is experiencing a period of extraordinary crisis. Turkey has met the crisis well prepared and stronger due to the serious measures taken in recent years in terms of macro-economic policies and structural reforms. Fiscal discipline, reform of the banking system, progress in privatization, the opening of major sectors of the economy to competition, and a floating exchange-rate regime have all provided the Turkish economy with an important degree of flexibility. However, because of the level of integration with the world economy, which has increased noticeably in the last few years, Turkey was not exempt from the adverse influences of the crisis. Therefore, it took necessary measures to stabilize the economy, including reducing taxes, offering financial aid to the unemployed, providing low-interest loans to small and medium-sized enterprises, increasing infrastructure investments and allocating more financial support to local administrations. Another stimulus program was announced in June, including new incentives for investment. A new employment package will provide approximately 500,000 jobs in the private sector over the next six months.

With these measures implemented, we believe that once the global economic recovery begins, Turkey will be among the fastest-growing economies. Taking into account the global dimension of the crisis, it is crucial to adopt necessary [stabilization] measures with a spirit of global cooperation and coordination. Therefore, Turkey will continue to contribute to all international efforts to ensure the recovery of the world economy. ■

Gul: "In today's world, everybody is dependent on each other. In that sense, Turkey is important for the European Union, and Europe is important for Turkey"



Dynamic Growth Potential

Turkey's leaders have been actively promoting inward investment—with resoundingly successful results. By Gordon Platt

Turkey is rolling out the red carpet for foreign investors, hoping to capitalize on its considerable growth potential once the global economy recovers. The strategically located country is expanding its already extensive network of oil and gas pipelines. It is upgrading its infrastructure and promoting its large agricultural and food-processing sector. Turkey also is striving to maintain momentum in its efforts to become a full-fledged member of the European Union.

Prime minister Recep Tayyip Erdogan announced a broad-based program of incentives in June that were designed to spur foreign direct investment (FDI) by 2010, when Turkey's economy is expected to be in an upswing. The package includes tax incentives for companies investing in the less-developed eastern and southeastern provinces. Corporate tax rates will be reduced to a range of 2% to 10%, depending on the region, from the previous 20%. Turkey will encourage investment in agriculture and textiles in its southeastern provinces, while promoting electronics and automotive industries in the more-developed western regions.

"Turkey is such a unique country, with its large and young population and location, that the interest of investors varies in terms of sectors," says Alpaslan Korkmaz, president of the Investment Support and Promotion Agency (Ispat). "Energy, infrastructure, agriculture and food processing are the leading sectors. They are

still growing, even though the global financial crisis has affected all FDI," he says.

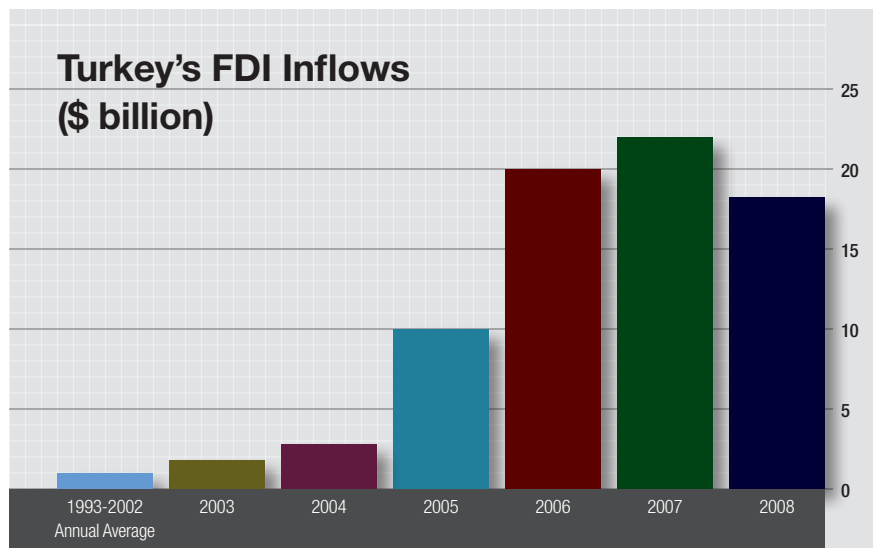
Global FDI flows declined by 54% in the first quarter of 2009 and are expected to be down 30% to 40% for the full year, according to the United Nations Conference on Trade and Development. With reduced access to financial resources as a result of the crisis, the capability of companies worldwide to invest has been reduced, Korkmaz says. "The gloomy economic prospects also negatively affected the propensity to invest," he says. As a result, transnational companies have been postponing their investment projects.

"Hence, in my opinion, as the global economy starts to recover, global FDI will catch up to its previous level," Korkmaz says. The World Bank and the Interna-

tional Monetary Fund expect the world economy to start to rebound by 2010, he says. "Actually, the world recovery already has begun, with major economies such as Japan, Germany and France exiting the recession," he points out.

Turkey's favorable investment environment, including ready access to the EU market, as well as Central Asia and the Middle East, has made it a leader in recent years in terms of attracting FDI. Economists forecast, however, that FDI will fall to about \$7 billion in 2009 from \$18 billion in 2008 and \$22 billion in 2007.

While attracting investment in the midst of a global recession is never easy for any national promotional agency, Ispat received high marks in a May 2009 survey by the World Bank. Ispat ranked 15 out of 181 agencies for its ability to

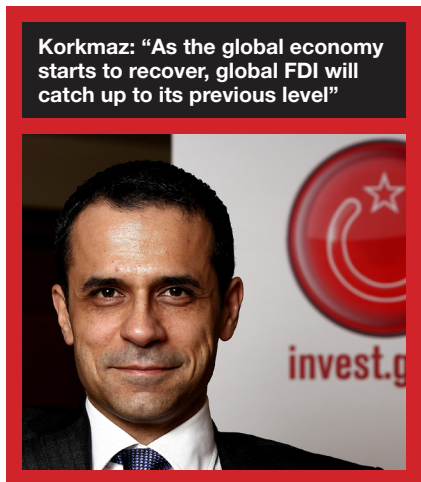


Source: Central Bank of Turkey

influence the site-selection process. In just three years of existence, Ispat has been very effective with its turnkey, one-stop-shop approach to serving interested investors. In terms of returning online queries, the World Bank ranked it number two in Europe and number five worldwide. "I do not think there are many investment agencies out there that are serving [investors] in 11 languages, including the website [www.invest.gov.tr] and all printed materials," Korkmaz says.

Ispat reports directly to Prime Minister Erdogan. "He personally initiated the creation of the agency and has been supporting our work in every aspect," Korkmaz says.

Turkey's diversified economy is largely service-oriented, with particular growth opportunities in financial services, tourism and information technology. The country has a new and highly developed



Korkmaz: "As the global economy starts to recover, global FDI will catch up to its previous level"

telecom infrastructure, with third-generation (3G) mobile phone technology introduced on July 30, 2009. The three main mobile providers, Turkcell, Vodafone Turkey and Avea, spent about \$3.5 billion altogether in building the network to support 3G services.

The operating environment in Turkey has been challenging this year, with a 13.8% decline in gross domestic product in the first quarter, in addition to increasing competition and regulatory issues, according to Sureyya Ciliv, CEO of Turkcell. "Despite these challenges,

[Turkcell] managed to increase its revenues, and even though the market was shrinking, we managed to keep our subscriber base flat," Ciliv says.

Turkcell, the market leader, simultaneously introduced 3G services in 81 provincial centers and major cities across the country. Turkcell has a license with the widest frequency band, and, in addition to broadband Internet services, it introduced other applications, including video calling, mobile TV, video surveillance and video chat and messaging services.

"We think that competition will always be beneficial to the market and to subscribers, and that competition in the mobile market will help the market to grow," Ciliv says. "We will underline our value proposition, which includes the most advantageous pricing for the largest community, the widest coverage, the best quality and the best customer care."

Ciliv says the company expects to increase its revenue this year, although at a slower pace than in 2008. Turkcell had



Ciliv: "Competition will always be beneficial to the [cell phone] market and to subscribers"

nearly \$2 billion of cash on hand as of the second quarter of 2009, as well as strong cash-generating ability, he says. The company's Financell subsidiary, based in the Netherlands, signed a vendor agreement with Cisco Systems for up to \$60 million. Turkcell's Belarusian Telecommunications Network signed supplier agreements with ZTE and Huawei, both based in China.

Vodafone Turkey, the country's second-largest mobile phone operator, with 16 million active subscribers, has begun offering Apple's iPhone in Turkey. Vodafone, based in Britain, won an auction in 2005 to purchase Turkish operator Telsim for \$4.5 billion and has invested heavily in 3G services. Avea, a unit of fixed-line operator Turk Telekom, has more than 12 million subscribers and is the fastest growing of the three main mobile phone operators.

In the energy area, Turkey is located in a region, including the Middle East and the Caspian Sea reservoir, that contains two-thirds of the world's natural gas reserves. The planned Nabucco pipeline will supply EU countries with gas from the Caspian basin and potentially from Qatar. At a meeting in Turkey in August, Erdogan and Qatar's ruler, Sheikh Hamad bin Khalifa Al-Thani, reached a mutual understanding on a pipeline from Qatar to Turkey.

Meanwhile, Russian prime minister Vladimir Putin traveled to Ankara earlier in August to sign a deal with Erdogan on Russia's South Stream gas pipeline, which will pass under Turkey's territorial waters. Putin agreed that Russia would help Turkey build its first nuclear power plants.

In agriculture, Turkey is the world's leading producer of hazelnuts, cherries, figs, apricots, quinces and pomegranates. The leading industries are textiles and clothing, followed by oil refining. While the global recession has hurt demand for Turkish goods, the country's sound financial system and favorable demographics could help it rebound more rapidly and sustainably than the other EU accession countries, economists say.

"The Turkish economy should be able to bounce back relatively quickly," says Marcus Svedberg, chief economist at East Capital, a Sweden-based fund management firm that introduced a Turkish fund in 2006. "EU accession is not only an important goal in itself for Turkey, but it could also serve as an important external reform driver, helping Turkey fully realize its potential sooner rather than later," he says. ■

Primed For Growth

Turkey has a robust banking system that is ready to support the country's economic growth. By Gordon Platt

Turkey's banks have followed cautious lending policies under the watchful eye of an effective regulator and are well capitalized and prepared to support future growth in the economy. "Loan growth will likely not be significant this year and may even be zero," says Burak Tansan, executive vice president at Akbank, Turkey's largest bank by market capitalization. Economists expect Turkey's gross domestic product to decline by about 5% in 2009 and to rise by 2% to 3% next year.

With its extensive branch network and strong balance sheet, Akbank aims to achieve higher-than-average growth for the industry as a whole once the economy gains momentum, Tansan says. The banking sector in Turkey has excellent prospects for growth, he says, because Turkey is an underpenetrated market. "Loan volumes in Turkey are still low relative to the size of the country's economy," he points out. Loans account for just 35% of GDP, well below the eurozone average of 150%. "In addition, the Turkish banking system's leverage, as measured by assets per share equity, is only eight, as compared to global bank leverage of 20, 30 or even 40 times equity," Tansan says.

There are already signs that Turkey's economic contraction is easing, Tansan notes. The rate of decline in industrial production, for example, is slowing and could soon be in an upward trend, he

says. The banking industry could be leading the way during the recovery, he adds. "After being restructured in the crisis of 2001, Turkey's banks are the best in the world in terms of the strength of their capital structures," Tansan says. "All of them are very healthy banks. They are not hampered by exposure to derivatives or subprime risks and are in a good position to benefit once the economy recovers," he points out.



Tansan: "Turkey's banks are the best in the world in terms of the strength of their capital structures"

Tourism is another sector that will lead the recovery, Tansan says. Cruise lines and health resorts will benefit from an increase in the number of tourists and in the amount of money they spend. Turkey will need to make investments in ports, however, if it is to take advantage of the

growth opportunities, he says. "The insurance industry is also very prosperous and will enjoy further growth, particularly in their pension business," he adds.

The dramatic drop in Turkey's inflation rate from 55% in 2000 to the current level of just above 6% has changed the behavior of consumers and investors, according to Tansan. "When inflation was high, people and companies were afraid to invest," he says. "The decline in inflation has had a positive impact on investment behavior. As investment behavior changes, offering sophisticated investment services to customers will be a key source of competitive advantage for banks," according to Tansan.

Tolga Egemen, executive vice president of Garanti Bank, one of Turkey's largest and most profitable banks, says his institution is the perfect example of how the country's banks have returned to basics following the economic crisis of 2001. "What sets us apart from our peers is that we get most of our revenue from conventional, real, sustainable banking and not from trading and securities," Egemen says. "We are the closest bank to our customers, which enables us to monitor the position of each customer and continue providing loans if the customer is in good shape."

As a result of its close customer contact, Garanti Bank has the lowest proportion of non-performing loans, despite

being the biggest lender, Egemen says. “Turkey’s banks are very profitable and well capitalized,” he says. “Our capital ratio of 17.8% is the highest in the world.”

Turkey is unique in its attraction to foreign investors as a big emerging market, according to Egemen. “In the new world that is evolving, growth won’t come from the old [developed] countries, where leverage will have to come down,” he says. “Population increases and consumption characteristics are changing in favor of emerging markets.”

Turkey has made critical investments in its legal and regulatory infrastructure to prepare for entry into the European Union. “With our reliable institutions, you feel more comfortable investing here compared to Russia and China,” Egemen says.

Mahmut Magemizoglu, deputy general manager of Isbank, Turkey’s largest bank by assets, says there were two ma-

“However, as a result of the conservative lending policies, 100% provisioning for non-performing loans and appropriate restructurings, there has been an improvement in asset quality in 2009,” Magemizoglu points out. Furthermore, over the past four quarters there has been an upward trend in the level of collections on non-performing loans, he adds.

“We expect a gradual recovery in economic activity in the fourth quarter of this year as a result of the measures taken by the central bank and the government, along with the return of confidence among individuals and the business sector,” Magemizoglu says. A likely improvement in global market conditions will also help, he says.

Deposits have always been the major source of funding for Turkish banks. “This turned out to be a clear advantage during the global financial crisis, when many

lamic banking is to consider the social implications of all business transactions and to serve the well-being and welfare of the entire society,” Bulac says. “Participation banking is based on the direct participation in production, manufacturing and servicing as an integral part of the real sectors of the economy.”

None of the participation banks hold engineered financial products as assets, since they follow the principles of interest-free banking, he says. Türkiye Finans has become even more cautious and conservative as a result of the crisis. “We amended certain collateral and security structures and became more selective in accepting new customers,” Bulac says.

The availability of interest-free instruments, such as sukuk-like bonds, will help to increase the flow of international funds from the Gulf into Turkey, Bulac says. “Turkey recently issued revenue-

Bulac: Türkiye Finans became more selective in accepting new customers as a result of the crisis



Magemizoglu: The stability of core deposits ensured a healthy liquidity profile

Egemen: “We get most of our revenue from conventional, real, sustainable banking”



for trends related to the global financial crisis that had a significant impact on the operations of Turkish banks. First, there has been a sharp decrease in interest rates, as the Central Bank of Turkey cut its overnight borrowing rate in steps from 16.75% last November to 7.75% in August 2009. The decline in funding costs for the banks resulted in a widening in the net interest margin and a rise in net interest income. Second, there was an increase in the delinquency rates of loan portfolios beginning in the fourth quarter of 2008, Magemizoglu says.

foreign banks encountered contagious liquidity problems because of risk aversion in credit markets,” Magemizoglu says. There was a decline in the number of banks participating in syndicated loans and in the rollover amounts, he says, but the stability of core deposits ensured a healthy liquidity profile for the system.

The global financial crisis has increased interest in participation banking, which is gaining market share in Turkey, says M. Fatih Bulac, vice president and head of international financial institutions at Türkiye Finans. “The very core of Is-

indexed bonds, but the Gulf investors had some compliance concerns, since these bonds did not incorporate an exact sukuk structure,” he explains. “Eventually, a conveniently structured sukuk issuance by the Turkish treasury would attract a substantial flow of funds.”

National Commercial Bank, the largest bank in Saudi Arabia, holds a nearly 65% stake in Türkiye Finans. “As a subsidiary of NCB, our bank will play a major role in terms of trade and investment ties between Saudi Arabia, elsewhere in the Gulf and Turkey,” Bulac says. ■

Waiting In The Wings

Egemen Bagis, chief negotiator, says the country's reform efforts will pay off and admits that Turkey has made some mistakes in the past.
By Gordon Platt

Turkey somberly marked the 50th anniversary in July of its first application to formally integrate with Europe. "The occasion was not a cause for celebration," says Egemen Bagis, minister for EU affairs and chief negotiator. "It took my country 45 years just to get a date."

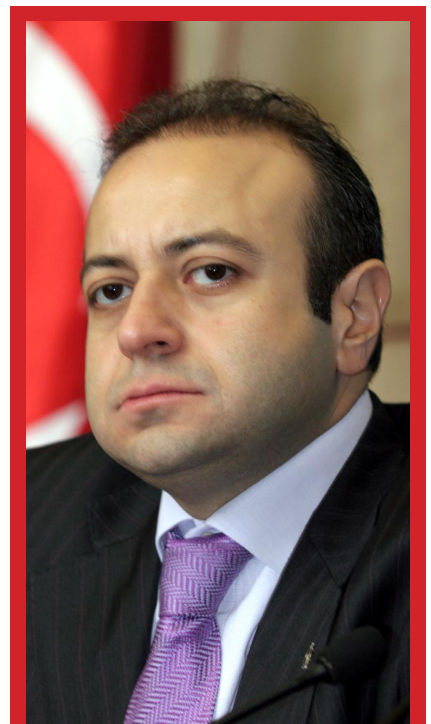
Prime minister Recep Tayyip Erdogan selected Bagis in January 2009 as the country's first full-time EU accession negotiator with the rank of state minister, in a move to rejuvenate the slow-moving process. Bagis, a member of parliament representing Istanbul, says he is optimistic that Turkey will eventually be allowed to enter the European Union. "Every country that started EU accession talks has completed them," he says. "There have been no exceptions."

The Council of Europe admitted Turkey as a full member in August 1949, and 10 years later Turkey applied for associate member status in the European Economic Community, a predecessor of the EU. It was not until the Brussels summit in December 2004 that EU leaders

agreed to start accession negotiations with Turkey on October 3, 2005.

"Eighteen million East Germans became members overnight," Bagis says. East Germany became part of the European Community when East and West Germany reunited on October 3, 1990. "There have been double standards on the part of the EU, but there also have been mistakes that Turkey made," Bagis adds. "There have been coups and leaders with a lack of vision. However, two wrongs don't make a right."

While the current outlook is uncertain, it seems unlikely that Turkey will enter the EU before 2015. The country's hopes for joining did receive a boost during the April 2009 visit to Ankara of US president Barack Obama, though. Coming right after the Group of 20 summit in London, Obama's visit solidified Turkey's historical links with the United States and strengthened the Muslim country's long-standing political and economic ties with the West. These ties date back to membership in NATO in 1952 and the sealing of an



Bagis: Turkey is the sixth-largest economy in Europe, with the fourth-largest labor force

association agreement in 1963 with the European Community. President Obama's trip also highlighted Turkey's role in promoting security and stability in the volatile Middle East region and its example as a secular democracy in a Muslim country.

Bagis met one-on-one with Sweden's foreign minister, Carl Bildt, in July 2009 on the sidelines of the Croatia Summit in Dubrovnik. Bildt, whose country holds the rotating EU presidency, expressed Sweden's support for Turkey's EU process. He said the Swedish presidency would work determinedly on that issue and would try its best to open the environment chapter, as well as the chapters on education and culture.

Since October 2005 the EU has opened 11 of 35 chapters, or policy negotiating areas, needed for Turkey to be admitted. Two of the chapters deal with closing requirements, which are automatic and do not need to be negotiated.

recent signing of the Nabucco pipeline deal, the chapter on energy has yet to be opened.

"When you do make reforms, you can achieve a result," Bagis says. "In the last 50 years, Turkey has changed. In 1960 there was a military coup, and a prime minister [Adnan Menderes] was executed." Today, Turkey is a much more democratic country, and it is the 17th-largest economy in the world and the sixth-largest in Europe, with the fourth-largest labor force, Bagis says. More than 70% of the population is below the age of 40, and the average age is 28, he points out. And while Turkey has changed, Europe has also changed dramatically in the past five decades, he says. "We don't know what will happen with our membership bid 10 years from now," Bagis says. "We might be vetoed, and negotiations will continue, or we might follow the Norwegian model," he says. Norway is not a member of the EU but is required

"The EU and the International Monetary Fund are really acting like dieticians," Bagis adds. "They want us to do what is good for ourselves." Turkey is a founding member of the IMF and the World Bank and is often cited as the most visible success story of the IMF, according to Bagis.

As Turkey jumps through hoops to improve its well being as well as its EU accession prospects, Bagis says he does not agree with those who say that Germany and France are trying to keep his country out of the EU club. There are 3 million Turks in Germany, he notes, and the northern European country is the biggest investor in Turkey. Germany also leads in trade with Turkey and in tourism, he adds.

Historically, Turkey and France have had close relations, Bagis says. Turkey named its first ambassador to France in 1483, he notes. Beginning on July 1, 2009, a Turkish cultural festival opened in Paris that will run for nine months and comprise nearly 400 events, such as concerts, exhibitions and conferences in France's major cities. The Cultural Season of Turkey in France was organized not only by the Turkish and French governments but also by private sector organizations from both countries. The Louvre Museum will host an exhibition of kaftans, the traditional dress of the Ottoman emperors.

Attitudes in France toward Turkey are changing very rapidly, Bagis says. Two years ago 65% of the French people opposed Turkey's accession to the EU, he says. Today, that percentage has fallen to 50%, and events such as the cultural festival will help to win the support of even more French citizens, he predicts.

Turkey is a full member of all leading European institutions but not yet of the EU itself, Bagis says. Turkey and Europe share many values and security issues and are moving closer together, he says. There are 6 million people of Turkish origin living in EU-member countries, where they are increasingly becoming assimilated. "Every day, I see this integration becoming more of a reality," Bagis says. ■

"We don't know what will happen with our [EU] membership bid 10 years from now. We might be vetoed...or we might follow the Norwegian model"

"The reforms [that Turkey is making] are being conducted to increase the living standards of our own nation" – Egemen Bagis, minister for EU affairs

The 11th chapter, dealing with taxation, was opened on June 30, 2009, in the last hours of the Czech Republic's EU presidency. Turkey has only closed talks on one chapter so far, the chapter that deals with science and research. Eight chapters have been blocked since 2006 as a result of Ankara's refusal to allow ships from Cyprus to call at its ports. France is blocking another five chapters, and Germany supports some form of privileged partnership rather than granting Turkey full membership. Although Turkey is a key country in terms of the EU's energy security, particularly with the

to adopt much EU legislation due to its participation in the European Free Trade Association. In addition, Norway has decided not to participate in many EU programs and institutions.

"The reforms [that Turkey is making] are being conducted to increase the living standards of our own nation," Bagis says. "As a result of the reforms, Turkey is seen as a safer haven for foreign direct investment." FDI inflows totaled more than \$22 billion in 2007, up from \$2.8 billion in 2004. "Foreign investors are not seen as a threat but as an opportunity for the country to develop," he says.