



## TURKEY — OVERVIEW



### *Geography and Demographics*

The Republic of Turkey is bordered on the north-west by Bulgaria and Greece; along the north by the Black Sea and by Georgia and Armenia in the north-east; on the east by Iran and Azerbaijan; and to the south by Iraq and Syria. The Mediterranean Sea forms the southern border and the Aegean Sea separates the southwest of Turkey from Greece with islands belonging to both countries, including a few still in dispute. The inland waters of the Dardanelles, the Sea of Marmara and the Bosphorus divide the European part of Turkey from Asia. More than two-thirds of the country's frontiers are coastline, stretching along the Aegean Sea from Greece to the Mediterranean and east to Syria and also from Bulgaria along the Black Sea to Georgia; a total of over 6,000 kilometres.

### *History and Politics*

When the guns grew silent on the 11th hour, of the eleventh month of 1918, three Empires were coming to an end. The Austro-Hungarian, Prussian and the Ottoman. Turkey was the surviving state of the Ottoman Empire. But this was short lived. The Ottoman army had been defeated in the Balkan war of 1912–13 and Turkey then entered the Great War on the side of the Central Powers (Germany and Austria-Hungary). As the First World War in Europe came to an end, Russia was in revolution, much of Western Europe was in fear of revolution, and Turkey sought freedom from the British, French, Italians and Greeks who sought to maintain control over large parts of the former Ottoman territories that are now modern Turkey. These countries all sought to maintain military positions along the Bosphorus and the Straits of the Dardanelles, as well as Constantinople (Istanbul), the Eastern Province of Thrace and much of Anatolia along the Black Sea and Mediterranean coast. With Allied support Greece was able to land forces in Western Anatolia, at the same time as it moved east through Thrace. A bitter War of Independence (or War of Liberation) ran on from 1918 to 1922.

This battle for independence was led by Mustapha Kemal, the successful leader of the Young Turks who helped stop the British and Allied advance at Gallipoli in 1915. As leader of the Turkish army Kemal was finally able to drive Greece from lands it had occupied for centuries with victory declared on 30 August 1922. An independent Turkish state was declared and on 29 October 1923 Mustapha Kemal was proclaimed its first president. Kemal (now known as Mustapha Kemal Atatürk – 'Father of the Turks') retained leadership of the only effective political party until his death in 1938. Nonetheless, he embarked on a program of major reform, with the aim of moving the new country from its eastern roots to one more in tune with Western Europe. The reforms included a new Constitution, most significantly declaring the country a secular republic; replacing the Perso-Arabic script with a modified Latin script; providing equal voting rights to women; access to universal free education and banning all forms of dress that symbolised religious or sectarian allegiance. On the outbreak of World War II Turkey declared its neutrality, although during the last year of the war the country decided to enter the fray on the side of Allies. However, on the cessation of hostilities as it had chosen sides Turkey was admitted to NATO; although this was more a bulwark against Soviet expansion, which had already moved into Armenia, than part of any grand camaraderie. As a consequence, the Soviet Union ended its previous treaty of friendship with Turkey.

In 1945 the government set out to continue reforms introducing a reform bill to redistribute land from private landowners or the state to landless peasants. Although, eventually passed, the bill

brought out the deep divisions between reformers and the landowners and business establishment. Divisions between Republicans and Democrats (initially in the form of the Democratic Party) produced a succession of governments in a battle to establish democracy; coalition, unstable government or military intervention being the order of the day for most of the next 50 years. The most notable aspect of this period was that at the turn of the millennium, the republic's fifty-ninth government was working on further amendments to the fourth constitution during the term of the twenty-second parliament.

Nonetheless, Turkey grew through improved education and economic reform. In 1948 Turkey became a founding member of the Organisation for European Economic Co-operation (OEEC) and the Organization of Economic Cooperation and Development (OECD) and, in 1963, Turkey was granted "associate status" with the European Economic Community (later the European Union). Then, in 1987, its application for membership of the EU was formally acknowledged and in 1996 it became the first country that was not a full member of the EU to have a customs union with it. Finally, in 1999 its application for full membership was accepted by the EU Council of ministers. This remains the longest standing application from a country that has not been admitted. Outstanding issues remain the conflict with Greece over the divided island of Cyprus, concerns over human rights and the history of military intervention. Underneath all that are economic, social and religious differences, whether Turkey is truly part of Europe, the desire of some member states to maintain Europe as a "Christian Club" and concern by some in Turkey about a loss of its Islamic identity (notwithstanding the strong support for the ideals of Atatürk). Suggestions have been made that a separate form of membership should be created for Turkey and, with the current crisis in the 'European Project' and the cost of maintaining several of the peripheral countries, this may be the only way forward (even though there are more Turks living in the EU than the population of several of the current member states).

In 2002 the Justice and Development Party (AKP) obtained an overwhelming parliamentary majority. This party has its roots in Islamic politics and had tried for election on a number of previous occasions under a variety of names. However, it had been banned by the military or the Supreme Court as unacceptable as contrary to the secular provisions of the Constitution. Since that election, the AKP has been re-elected on two further occasions with an absolute majority on a platform of reform and an anti-corruption promise. These reforms have seen the abolishment of the death penalty, a limitation on the role of the military, the implementation of democratic control over military spending and improvement of human rights and freedom of the press to meet EU requirements, enhanced governmental transparency and the introducing more cultural rights for minority ethnic groups. The central government is also seeking to devolve more power to provincial and town councils, although central power remains the order of the day and all forms of regional government remain very disparate. In fact, the AKP, led by Prime Minister Recep Tayyip Erdoğan, has probably done more to reform and modernise the country than any other party since the World War II; most notably by providing stable government. In addition, efforts have been made to bring the military more firmly under governmental control. Throughout this period, the AKP has remained committed to a secular state, declaring itself more akin to the centre-right Christian Democrat parties of Western Europe. Furthermore, a genuine opposition has remained active in parliament moving the country closer to a full democracy. Nonetheless, with the EU membership now foundering, the government has less incentive to support further democratic reforms. After nearly ten years in power and an improved economic position, there are suggestions that democratic reform is falling off the agenda. This is evident from a curtailment of press freedom and fear of open criticism of the government's aims. All of this is expressed in the view that if Turkey does not enter the European Union it will be drawn towards its less democratic eastern neighbour, with their lower standards of living and freedoms. Against this is a view that most Turks would prefer the ideals of the Enlightenment brought about by the Atatürk to the mediaeval world it inhabited during the last two centuries of the Ottoman sultanate.

Challenges remain for the government, including demilitarising and normalising relations in the southeast of the country (although the use of the Kurdish language is no longer banned outright) and reducing the ever high level of unemployment and wealth generating policies for the largely

underdeveloped eastern regions. There is a need to further streamline government administration and bureaucracy, to ensure the completion many official projects and, especially, to facilitate greater foreign investment. In particular, a reduction of the black economy would help to raise finance for much needed improvements to the infrastructure. In addition, rural and inner city poverty remain a major issue; although family support is much stronger than in most Western European countries, state support is very meagre.

## ***Communications***

Turkey is around 1,500 km from east to west and 650 km from north to south. However, 50% of the population of Turkey is concentrated in the western third of the country, especially around the coastline. The capital Ankara is situated 350km south east of Istanbul, over 500km north east of Izmir (on the Aegean coast) and over 400km north east of Antalya (on the Mediterranean coast). Thus, with the large distances between major urban centres air is an important means of transport and there are 45 major airports, of which 13 are both domestic and international. These airports are also an essential part of the ever growing tourist industry.

Road transport accounts for some 90% of passenger movements and, generally, the country is served by a good road network; although congestion is a major problem in the major cities. Over long distances there is an ever improving road network with a motorway from Edirne on the Greek border (linking with the M3 European motorway network) to Istanbul and on to Ankara. A good highway runs to Antakya in the south-east near the Syrian border. There is also a good highway network along the Black Sea coast and the Mediterranean and Aegean coasts. This is augmented by section of dual carriageway, especially providing by passes for the major cities. Stretches of a motorway-standard road has been built from the port of Mersin, past Adana and Ceyhan, to Gaziantep and also to the gulf of İskenderun in the south east. Work is also in progress to construct further motorways to improve links between the major urban areas. Notably, to Harbour on the Iraq border.

Turkey has 8,607 km of rail track, all of which is operated by the State Railways. A reasonable rail network serves most of the major urban areas, although communications are less efficient around the east of the country and in the mountainous areas of central Turkey. However, the line between Istanbul and Ankara has been upgraded and a high-speed train route runs from Ankara to Eskişehir, nearly half the distance to Istanbul. The journey time between the two cities is now 5½ hours. The lines for high-speed trains are under construction or planned. The same line now runs west to Konya in central Anatolia cutting journey times from ten to less than two hours.

Most of the major cities have high speed broadband. There are over 84 mobile phone subscribers per 100 members of the population and, with an expanding digital fixed-line system, voice communication is close to the standard of much of Western Europe; although the number of subscribers of 22 per 100 people. At present, fewer than 10% of the population subscribe to broadband and there are just over 50 internet host per 1,000 people. Although these means of communication are all expanding fast, competition is curtailed by limitations on new entrants to the market assisting the two national companies, Türk Telecom (the former state company that holds 80 percent of the ADSL broadband access) and Turcell (the dominant player in the mobile market), to maintain a form of duopoly.

Merchant marine is a significant factor for the Turkish economy, with the 26<sup>th</sup> largest fleet in the world in terms of numbers of ships. The largest cargo ports are Haydarpaşa, Istanbul (on Marmara Sea) and İzmir (on the Aegean Sea). The other major ports are Sedef, on the Gulf of İzmit (Kocaeli); K.Ereğli, Trabzon and Samsun, along the Black Sea; and on the Mediterranean Sea, Mersin (İçel)—the second largest port in Turkey after İzmir. In addition, the Bosphorus straits is one of the busiest seaways in the world connecting Russia, Bulgaria and Georgia to the Marmara Sea and then, through the Dardanelles, to the Mediterranean Sea. There are a large number of other ports mostly providing ferry services or dedicated to a particular supplier.

## *Economy and Trade*

### *Economic Overview*

**Currency and Banking** The monetary unit of Turkey is the Turkish lira (YTL), which is divided into 100 kuruş (US\$ 1 = TL 1.89 – Dec 2011). The Central Bank of the Republic of Turkey, founded in 1930, is the bank of issue. The country has several state banks that promote economic development, such as Ziraat Bankası (Ziraat Bank), established in 1888, the Halk Bankası and Vakıflar Bankası. There is also a large number of private national and foreign commercial, development and investment banks, providing a full range of services (see more under [Corporate, Capital & Tax](#)).

**National Output** Turkey's gross domestic product (GDP) in 2010 was \$210bn, ranking around 17 in world terms, slightly smaller than South Korea or The Netherlands, but on a par with Indonesia.

Since the financial crisis of 2008 the Turkish economy has recovered faster than any country in Europe. Primarily this is because, after the previous crises, the banks are better regulated and Turkey was not a major player in the sub-prime mortgage crisis. Also, a free float has enabled the price of Turkish goods to remain competitive with a low of €1 = YTL 1.70 at the start of 2008 to YTL 2.55 by August 2011. At the same time the government has taken fiscal and monetary measures to boost consumer demand and improve loan conditions. Although GDP fell by 4.1% and 14.3% respectively in 2008 & 2009, between 2004 it still grew on average by 3.1% and by 6.8% in 2010. It expected to have grown by a further 8% growth during 2011.

During the past ten years of the AKP government, in dollar terms, the income per capita has more than trebled from \$2,900 per head to \$9,300.

**Inflation & Debt** The 1980s and 90s saw high inflation as a curse on the Turkish economy. The annual rate never dropped below 20% and throughout the 1980s a low of 60% was a 'good' year. Price rises peaked at over 120% in 1980 and again in 1995. This was largely due to lax bank controls, loans to 'controlled' companies and the inevitable property boom. As might be expected there was a ready supply of fuel from low interest rates and inflated corporate and property valuations. Add to this unstable governments embarking on overambitious infrastructure programs that benefited a few and the result was predictable, a huge expense to the majority. In 2000, the IMF was forced to intervene and demand a radical reform of the banking system and a program of privatization to pay the high government debt. By 2003 the inflation rate was down below 20% and, since 2004, has remained in single figures. However, with the accelerating growth in the economy Turkey now has one of the highest current account deficits among OECD countries and, with rising commodity prices, inflation is now running at over ten percent. However, the Justice and Development Party is fully cognisant of the past failings and is taking steps to control price increases.

In 2010 foreign debt was 35% of GDP. The country is rated by Moody's as Ba2.

**Structure of Labour & GDP** In 2010 Turkey had an unemployment rate of 12% and over the past 5 years the rate has been around 10%. This peaked at 14.8% in mid-2009. However, these figures represent registered unemployed and may understate the true total; although family support is far more significant than in Western European countries.

The structure of the labour force is: agriculture, forestry, and fishing – 21%; manufacturing – 16%; trade & hotels – 18%; services – 14%; finance & real estate – 5.5%; construction – 5%; and public administration & defense – 4.3%.

By value, the primary contributors to the GDP were: finance and real estate – 22%; trade & hotels – 13.2%; manufacturing – 15%; agriculture, forestry & fishery – 8.2%; and services – 7%.

## ***Foreign Trade & Business***

Turkey has a Customs Agreement with the EU and a free trade agreement with EFTA member countries and with its other neighbours (excluding Iran) and most of the non-EU countries in the Eastern Mediterranean region.

Turkey has a serious trade imbalance with the rest of the world. In 2010 exports amounted to \$113bn (CIF) (2005: \$73.5bn) and imports (FOB) \$185bn (2005: \$117bn). In 2011, it is estimated that the trade imbalance will widen to over \$70bn. Agricultural, forestry and fisheries account for round 4.5% of exports; mining and quarrying 2.4% and manufacturing over 90%. The principal exports are textiles & clothing, iron and steel, transport equipment and agricultural products. Main imports are mechanical machinery, chemical products, fuels and transport equipment.

Turkey's main trading partners for exports are Russia (11%), Germany (9.5%), UK (6%), UAE (6%), Italy (6%), France (5%) and Iraq (5%). Its main trading partners for imports are Russia (12%), Germany (9.5%), China (9%), United States (6.5%), Italy (5.5%) and France (4.5%). The EU27 accounts for 46% of export and 40.5% of imports. It also does significant trade with the Middle East and increasingly with Eastern Europe and Central Asia.

Tourism is a major contributor to the Turkish economy. In 2010 there were over 28 million foreign visitors to the country (2006 – 19.6m), providing total revenues of over \$20bn (2005 – \$12.6bn). The largest numbers of visitors were from Germany (4.4m), Russia (3.1m) and the UK (2.7m).

Foreign direct investment (FDI) was \$13.5bn in 2010.

This information is intended as an introductory guide. It does not constitute economic or legal and should not be relied on as such. Professional advice is recommended on any issue referred to herein. Also, please see [Disclaimer](#).