

Republic of Turkey

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Turkish SMEs at Cross-Roads: Change as an Option or Obligation?

First of all, I would like to thank Konrad Adenauer Foundation and KOSGEB for inviting me to make a presentation.

Dear participants,

My presentation will be about the state affair of Turkish SMEs, that is, about their realities, and also about their future. In that context, I am going to share some of my thoughts on today's problems faced Turkish SMEs and to discuss new strategies and visions for their future success. Towards this end, I first analyse the current state of their realities, and then given the today's state of realities I proceed to discuss new strategies and visions for their future success.

No doubt, SMEs are backbone of every national economy. SMEs account for more than 95 % of all enterprises in OECD countries. In addition, in all world economies SMEs provide one third of total employment of private sector. Moreover, in recent years, increase in the number of SMEs has been more than that of large enterprises.

Small and medium-sized enterprises are also the backbone of Turkish economy and its success. According to Turkish Statistical Institute, the total number of enterprises in Turkey in 2003 was 1.720.598. Out of them, the number of enterprises operating in manufacturing industry was around 246.899 in 2003, and increased up to 280.000 in 2005. The increase in number of enterprises was about 3% yearly. According to 2005 figures of the Statistical Institute, taking those enterprises employing up to 250 workers into account, SMEs operating in the manufacturing industry employ 922, 715 people. SMEs constitute % 99.63 of all the enterprises in the manufacturing industry and they account for 55.65% of employment in this sector. Manufacturing enterprises constitute 14.35 %, while commercial ones constitute 46.19 % of all enterprises. Sectoral distribution of enterprises in manufacturing industry is as follows:

Table 1: Distribution of Enterprises by Sectors

Sectors	Number of Enterprises	%	Employment	%
Fabricated metal products	33.304	13,49	137.163	6,62
Furniture and other manufacturing	31.695	12,84	115.200	5,56
Wearing apparel	31.592	12,8	302.219	14,59
Food & Beverages	27.781	11,25	257.037	12,41
Wood and wood products	26.861	10,88	78.120	3,77
Textile	20.432	8,28	400.026	19,31
Machinery	17.643	7,15	139.525	6,73
Non-metallic mineral products	11.130	4,51	131.485	6,35
Printing and publishing	8.706	3,53	7.852	0,38
Rubber and plastic products	7.950	3,22	83.746	4,04
Leather and leather products	6.592	2,67	47.687	2,30
Basic metals	5.616	2,27	75.467	3,64
Electrical machinery	4.026	1,63	37.764	1,82
Motor vehicles	3.798	1,54	84.171	4,06
Chemicals	3.786	1,53	76.497	3,69
Medical, precision and optical instruments	2.044	0,83	16.729	0,81
Paper and paper products	1.954	0,79	35.680	1,72
Other transport vehicles	923	0,37	13.052	0,63
Electronics	527	0,21	11.955	1,82
Computing machinery	368	0,15	2.524	0,12
Recycling	73	0,03	949	0,05
Coke and petroleum products	67	0,03	6.173	0,30
Tobacco products	31	0,01	10.834	0,52
Total	246.899	100	2.071.855	100

Source: Turkish Statistical Institute, 2003.

Turkish SMEs account for 99.8% of all companies, including those in the service sector. And they employ 76.7 % of total workforce. The share of SME investments within total investments reaches 38%. And, 26.5% of total value added is also created by these enterprises.

Turkish industry is much more SME-based than the EU industry when the European scales of enterprises are taken into account as a comparison based. In Turkey the accepted SMEs definition, which is compatible with EU regulation, is as follows:

Table 2: Classification of Enterprises by Size, Registered Value, and Net Sale Revenue

Number of workers	Size	Registered Value (TL)	Net Sale Revenue For a Year (TL)
0-9	Micro	1.000.000	1.000.000
10-49	Small	5.000.000	5.000.000
50-249	Medium	25.000.000	25.000.000
≥250	Large	≥25.000.000	≥25.000.000

Source: SMEs Definition Code, 2005.

Given the size distribution of the number of enterprises, while the EU average of micro size enterprises is 78.17%, it is 89.73% in Turkey. The average number of micro enterprises is 60.21% in Germany, 78.03% in Spain, 82.84% in France, 86.24% in Hungary, and 90.17% in Czech Republic. While the EU average of large size enterprises (250+employment) is 0,80%, it is 0,37% in Turkey. The average number of large enterprises is 2.07% in Germany, 0.46% in Spain, 22.2% in Italy, 0.84% in France, 0.75% in Hungary, and 0.57% in Czech Republic. Looking at the number of workers that SMEs employ, Germany comes first with the number of 7.293.159 employees, followed by Italy, Spain, Turkey and Czech Republic.

In the period between 2000 and 2005 the number of SMEs which exported is more than 36.000. On average increase in the number of SMEs exported during that time have been about 8,5%. From the table below, we can see the number of workers they employed and the share of SMEs in total export, according to their scales.

Table 3: Distribution of Exporting Enterprises by Scale

		2003		2004		2005	
Size	Number of Employment	Number of Enterprises and %	Registered Value %	Number of Enterprises and %	Registered Value %	Number of Enterprises and %	Registered Value %
Micro	Number	14.223	8,85	15.918	12,48	15.096	11,77
	%	41,87	18,48	42,17	19,49	41,51	22,19
Small	Number	7.558	9,74	9.081	18,42	8.955	16,11
	%	22,25	20,34	24,06	28,77	24,63	30,37
Medium	Number	1.561	4,32	1.692	8,14	1.628	5,96
	%	4,59	9,02	4,48	12,71	4,48	11,24
Medium	Number	365	1,76	410	4,87	381	1,63
	%	1,07	3,68	1,09	7,61	1,05	3,07
Large	Number	384	4,97	420	11,76	397	10,60
	%	1,13	10,38	1,11	18,37	1,09	19,98
	Number	9.881	18,24	10.228	8,35	9.906	6,97
	%	29,09	38,10	27,09	13,04	27,24	13,14
Total	Number	33.972	47,88	37.749	64,02	36.363	53,04
	%	100,00	100,00	100,00	100,00	100,00	100,00

Source: Turkish Exporter Assembly, 2005 (Registered Value is calculated in terms of USA Billion Dollar. The data given are for only till September 2005)

In order to analyse Turkish experience better, I think it will be good to mention very briefly the history of Turkish economy and of its SMEs.

The turning point in Turkish history in terms of economic restructuring is 1980s. Under the Prime Minister of Turgut Özal, Turkey started rest-

ructuring its market towards an open market economy with democratization, liberalization, modernization, and privatization. In particular, he managed to redirect Turkish economy towards export-based growth. The statistics show that exports of Turkey had grown by an average 22 percent yearly in between 1980-1987 in which Özal was a Prime Minister. In 1979, for instance, Turkey's export was totally \$2.3 billion; it became \$11.7 billion in 1988. The other fundamental change in Turkish economy was the materials of the export. For example, in the end of the 1970s, 64 per cent of the export products were agricultural products. After ten years it dropped to 20 percent of total exports. At the same period, industrial products had grown from under 45 to over 72 per cent that clearly indicate how Turkish exports had changed and grown during 1980s.

Nevertheless, the 1990s did not continue the trend of reform and liberalisation which characterised the 1980s. In 1990s Turkey experienced two major crises, one in 1994 and the other 1999. The Turkish economy recovered remarkably well from the 1994 economic crisis, having realised real GDP growth rates of 8% in 1995, 7% in 1996, 8% in 1997 and 4% in 1998. Since economic liberalisation begun in the eighties, the 1999 downfall was the second contraction after the notorious 6% decrease during the 1994 crisis.

Unfortunately, Turkey entered the new millennium with crises as well. One started in November 2000, the other in February 2001. Thus for the third time, Turkey saw its economic growth interrupted. Again it experienced a sharp turnaround in GDP down to 7.5 decreases.

The performance of Turkish SMEs also fluctuated, depending on these changing national economic conditions. For example, although the number of those SMEs that are tradesmen and artisans has shown an

increase through the years, a tremendous decrease in the registry/closure ratio has been observed especially following the periods of economic crises. In 1999, 225,224 companies were officially registered while 59,058 were closed down, that is, the percentage of closure was 26. In 2001, the number of registrations was 120,295 and that of closures was 101,999, that is, that time the percentage of closure went up to 84. In 2002, the number of new registries rose to 122,091 while that of closures increased to 116,100, that is the percentage of closure rose to 95.

In other words, for years, the effects of unfavourable macroeconomic conditions characterised by repetitive crises, and as a result high long-term inflation, high interest rates had been devastating for Turkish SMEs. To survive successful under these conditions of crises required the SMEs entrepreneurs to be 'crisis managers.'

Yet, since 2003, Turkey has been continuing to experience a recovery for transition to a more stable economy after the last crises in 2001.

In short, in the post-liberalisation era from starting 1980s, in spite of the three devastating crises experienced, Turkey has successfully converted its economy from agriculture into manufacturing, from import into export, from protection into liberalisation, from regulation into deregulation, and competitive disadvantageous into competitive advantageous. For example, Turkey was mainly an exporter of raw materials and agricultural products in the 1960s and 1970s, but today manufactured production covers more than 80 percent of Turkish export. And, generally speaking, this trend still continues. In the last three years the average growth rate of Turkish economy was about 7 percent. In the same period, export doubled from 35 to 72 billion dollar.

To a considerable extent, this recent growth has occurred in small or medium-sized enterprises, spread quite widely across a range of sectors.

Nonetheless, the most difficult task now is to sustain this growth over the longer term.

Since 1980s, the European Union and OECD countries have also been playing a dominating role in Turkey's external economic relations. Both are Turkey's traditional markets for long. For the time being, and for the foreseeable future, it seems that Turkey has no serious and promising alternative markets that can replace the European markets. Today, Turkey is most strongly integrated with the European Union in every respect, even though it is not yet a full member of the EU. The share of EU countries in Turkish export revenues has been approximately 60 percent since 2000. The regional distribution of imports reveals a similar picture and the share of EU countries in total imports of Turkey has been more than 60 percent for the same period.

Yet, many researches point out the fact that what Turkey can achieve is much better than what it actually achieved. That is, its potentials are much more promising than its actual achievements. The prospects for "tremendous growth" in Turkey's economy led its designation by the U.S. Department of Commerce as one of the world's ten "Big Emerging Markets" (US Department of State, 2000). The UK Government's Export Forum has signed out Turkey as being one of the 12 international markets that offered significant trade and investment opportunities for British firms (DTI, 1999). In fact, the Turkish government forecasts Turkey's per capita income to reach \$20,000 by 2020, making Turkey the 10th biggest economy in the world.

Two weeks (March, 2006) ago a report released by PriceWaterhouseCoopers suggests that Turkey would grow more strongly due to its younger population, being of similar size to Italy by 2050 at both market exchange rates and in purchasing power parity terms. The projections in the report suggest that India has the potential to be the fastest-gro-

wing large economy in the world as we approach the mid-century, followed by Indonesia – both ahead of China due in particular to their less rapidly ageing populations. And, interestingly, Turkish economy is projected to be the fourth biggest economy by the mid-century. These projections about Turkish economy are generally based on a scenario of 6-7 % growth per annum. And, the last three years' consecutive high growth rate averaged above 7% is a good indicator that it may well achieve that target. With this rate of growth, Turkey is already the fastest growing country in all OECD countries.

Due to these significant positive changes, outcomes, and promising prospects for future, Turkey has become a good model for many countries.

Yet, while I have highlighted some of the achievements, I would be failing in my duty if I do not bring out the various difficulties and problems faced by SMEs. Therefore, in a workshop like this, in which the subject matter is today's realities and future visions, I think it is better to point out today's weaknesses from which we may drive good lessons in order to construct a strong vision for future.

Therefore, I purposefully avoid giving many other statistical numbers and ratios to describe the SMEs state of affairs in Turkey. They will soon be forgotten. Instead, I prefer to dwell in analysing qualitative problems and developing solutions. No doubt this will be a much better approach to making Turkish experience more suitable for sharing. Moreover, when we go through analysing Turkish SMEs in this respect, it will be evident, most of problems, if not solutions are the similar or the same.

Let me look at Turkish SMEs in this respects.

In recent years, businesses in Turkey, like all businesses in other count-

ries, have been challenged more seriously than in any previous period. Consequently, the context in which Turkish business now operates forces a radical reassessment and redesign of almost every aspect of its SMEs. To understand why a radical and through redesign of Turkish business is needed; we must first realize how the total context in which business operates has changed.

Let me first, point out the dynamics behind these changes and challenges:

As I just said, in recent years, businesses in Turkey, like all businesses in other countries, have been challenged more seriously than in any previous period. This challenge is a direct response to such external dynamics as the growing globalisation of the world's economy, the shift from industrial economy to knowledge economy, and a strong competition coming from China or more generally from Asia. Therefore, Turkish business, like other national businesses, is now more affected by the economies of other nations than ever before.

The worrisome trade deficits that the Turkish State has increasingly been experiencing especially in recent years are a result of the heightened competitiveness of foreign goods. And this is a clear signal that for all practical purposes, business today is global. There are no such things as local, protected markets. All markets are vulnerable to increased competition because of the often superior quality of goods produced by foreign manufacturers. No industry or sector of the economy is free from significant foreign competition or its future prospect. And, no matter to what extent companies is big, medium or small, all of them are exposed to severe global competition. Therefore, if SMEs do not learn how to market and compete globally, they will loose ground in their domestic as well as global markets.

Therefore, it is time to examine the practices and trends that have occurred in recent past in an attempt to view them as natural responses to the stages in an evolution of economic landscape. There seem to be three significant trends that are driving the change: globalisation, role of knowledge, and new competitors coming from China, India, and some other countries.

The combined effect of these three dynamics in business environment is that it does not allow us to think business as usual. SMEs must realize how technology, globalisation, new knowledge-based companies and economic actors are the drivers of today's and tomorrow's economic activities and success. And no doubt, there will be a significant number of SMEs' losers from this process, especially those that unable to adapt to the conditions as they emerge or change. To some SMEs this new economy has offered new opportunities to establish a strong international position. For others, however, the new economy has come a profound shock.

Given these new business conditions, let me point out three significant key problems Turkish SMEs face now, and mention some possible ways how to overcome them. Taken as a whole, the three issues comprise a vision of how to prepare SMEs for future. Thus I believe I will be able to elaborate both past realities and indicate future visions at the same time. In doing so, the main question I attempt to deal with is, what are the bases on which old competitive advantage rested, and why is old ways of competing no longer appropriate? If new ways of competing is required, what do they involve?

1. The first key issue is the changing bases of competitive advantage

The driving force behind aforementioned 25 years admired growth of

Turkey has been relative cost advantages of its SMEs. But now Chinese, Indian, Indonesian SMEs are achieving and sustaining a much better cost position that is superior that of the Turkish SMEs. Turkish SMEs were previously protected from international competition by low wages, tax aversion, government supports and incentives, weak Turkish Lira, easy access to cheap raw materials, etc. For example, with manufacturing labour costs in Turkey half the level of Greece and Portugal and one-quarter the level of German, Turkish SMEs have had cost advantages for exporting to the rest of the EU, which has been the main export market for Turkish SMEs. And, with these cost advantages Turkish SMEs have established themselves strongly in such labour intensive industries as furniture, textiles, food, glass, construction, leather clothes, etc. As a result, all labour intensive industries have been dominated by SMEs.

But, on the one hand while all these practices breed low costs, on the other hand they also breed huge slack and buffering, poor quality and poor service into the system, generally speaking. When cost disadvantage has become coupled with the globalisation of economy, the final result broke once and for all the lock that the simple conception that is based not on managerial abilities but rather on comparatively lower factors' prices. Therefore, in recent years cost advantage of Turkish SMEs backfires on itself. Now, instead of leading to greater end benefits, cost advantage produces negative end effects. These negative benefits were almost impossible to have foreseen one or two decades ago.

The most important conclusion is that whereas once cost advantage in itself connoted and led to further strength and growth, increasingly cost advantage resulted in inefficiency, ineffectiveness, and even weakness. What happened is that some other cost leaders emerged so powerfully and unbeatably that in effect the basic rules of the competitive

game changed altogether. The point can be summarized in a single proposition: Turkish SMEs have been losing, perhaps once and for all, their cost advantageous competitive positions.

In short, Turkish economy was shielded from the rest of the world by temporary advantages that have now passed to others. A whole host of factors in Turkey such as strong TL, relatively expensive labour, raw material and energy, higher taxes are making it more and more difficult for Turkish SMEs to maintain a competitive edge, and hence reducing the ability to survive. Chinese companies have, at least so far, achieved this competitive advantage not because of better strategy and planning, or finer technology or cleverer marketing but getting superior performance out of essentially the same bunch of factors such as cheap labour, raw materials and energy, as Turkish companies had enjoyed for a while.

Twenty-five years later from 1980 onwards, we have reached the point at which Turkish SMEs are loosing their comparative strengths. Not only European but also Turkish customers have already started benefiting over the past decade from an increasing flow of low cost imports from China in particular, and, worse, this trend is set to continue and broaden out to a wider range of products over time.

What can Turkish SMEs do to improve, if not regain, a competitive position? What is the role of good management philosophy and practices? Most of businessmen and economics critics in Turkey propose macro economic solutions such as intervening exchange rates, lowering taxes, lowering prices of energy etc. But I strongly believe that even if they were done, all these may only provide temporary, transient advantages. The long-lasting solution lies in the micro economic foundations of SMEs such as their managerial and organisational compe-

tencies. Through macro economic instruments the erosion of competitive landscape may be slow down for a while, but they will certainly not stop it. Therefore, as we argue now, the only solution seems to be changing the sources of competitive advantage from such non-managerial factors as cheap labour and raw materials to such managerial competencies as good management practices, flexible and clever organisations, knowledge management, etc. I maintain that this is in fact an opportunity for change, rather than a threat. Therefore, Turkish SMEs now must start recognising that the route to lower costs should be via managerial competitive competences, rather than non-managerial comparative factors.

Moreover, instead of being sufficient for competitive advantage, cost savings has become for many just the condition for starting the race. By itself it is no longer enough; quality, service, differentiation and innovation, the second dimension of competitive advantage, has also become a condition for Turkish SMEs for winning. What does matter is that SMEs must match their competencies to their customers and, by strengthening this link, continue to improve the value they offer. SMEs must aim and hope to increase the efficiency, competitiveness and shares in value added. That is to say, for firms inside the European market the only viable strategy seems to be efficiency-seeking, value-adding, innovation-oriented, customer focus market strategy.

2. And, relatedly, a second key issue that will play a decisive role for future success of SMEs will be their strategic change from cost advantages to innovation advantages:

Arguably, the secret to the business success does not lie in the economies of scale, as is commonly believed, but rather in continuous inno-

vativeness. A fact is that Turkish domestic markets have becoming saturated for traditional goods, let alone foreign markets that Turkish SMEs export, in particular, European markets. True, a continuing market always exists for textile, food, TVs and the like, but such markets are mostly mature by now. They are not the same as they were a decade ago. Consumer tastes have become so finely tuned and differentiated that it is becoming all but impossible to sell one kind of anything to everybody. The explosion in styles and varieties of running shoes is just one example.

Turkish SMEs are significantly behind not only Europe, Japan and USA but also China, Taiwan, Korea in innovation. As developing countries elsewhere gradually take over this role, Turkey will find itself hard pressed to join competition in this respect. According to the European Innovation Scoreboard, Turkey ranks among the lowest in most of the indicators of innovation. According to the Scoreboard, the current medium/hi-tech manufacturing employment and all current patents are the main relative weaknesses of Turkey. In Turkey, the Gross Domestic Expenditures in R&D (GERD) as a percentage of GDP is quite low compared to the developed countries. For long time the share of R&D in GDP was below 0.5 percent in Turkey, while the average is 2% in the EU. On the other hand, there has been a gradual increase since 1996, from 0.45 percent to 0.64 percent. The target was to reach the level of 1.5 percent by the end of 2005. Generally speaking, the target of increasing the share of R&D in GDP to 1.5 percent seems being achieved. But this does not mean Turkish companies started reaping the benefits of R&D initiatives. And unfortunately, the share of SMEs in R&D initiatives is too low. For example, only the 1.5 percent of companies that benefited from the government R&D incentive scheme is SMEs. Based on the above facts, the main challenges Turkish SMEs are facing are to

develop a stable and sustainable high level of awareness on innovation, commitment for implementation of innovation policies, and effective innovation management system. Moreover, they must involve in university-industry collaboration, establishment of technological support and development centres, technoparks and technology institutes to enhance the technological, innovative potential of their enterprises.

Though cost or productivity-based strategy can be more easily achieved, a differentiation or innovative strategy, though much more difficult, will produce the most pay-offs and persistent high performance. So, now they have to learn new skills to meet customer expectations, high efficiency, high quality, excellent service, and innovative offerings. The crucial question is how can Turkish SMEs now realize export diversification from labour-intensive to difficult imitable research-oriented goods?

For SMEs to stimulate innovations, they must contain the latest manufacturing technologies. Their work force must be the best educated and most productive. They must produce the most advanced and highest quality goods. Nonetheless, a typical Turkish SME produces for the Turkish market using traditional production methods; however, in a number of fields, it has to compete with foreign firms, primarily with the EU firms, in the domestic market. The technological level of Turkish SMEs is much lower than that of European companies and Turkish SMEs engage themselves in producing low quality goods with low value added, often using outdated designs, ineffective production methods and older machinery and equipment.

Therefore, the low technological levels of SMEs constitute the most important obstacle in front of their international competitiveness as well as one of the major impediments in the speedy growth of this sector.

Thus it is vital for SMEs in manufacturing industry to adapt themselves to the changing circumstances and go in for new technologies.

Furthermore, SMEs have no tradition of using consultancy services and giving R&D orders. Their level use of know-how related services sectors, engineering-consultancy, design, technology transfer and educational services is insufficient. At present, the problem of insufficiency of know-how in SMEs prevents price-based market forces from functioning and also constitutes the most significant bottleneck in front of Turkey in gaining adequate benefits from the Custom Union.

But SMEs have to develop capacity in these fields requiring human capital rather than fixed capital. The recognition of the critical importance of the human capital has not been appreciated until now. The emphasis for future success will be on building competence-based platforms that transcend organisational boundaries.

Innovation is the day's hottest topic. Entrepreneurs and entrepreneurship was what the most important characteristics of SMEs' owners and managers. But now the more important characteristics is not entrepreneurship but intrapreneurship that means entrepreneurial activity inside a company to innovate internally, rather than look for market opportunities externally. The cognisance of developing market-making policies through innovations will be appreciated much if we consider the changing nature of competition coming from Asia, in particular China. So far China has gained its superiority in cost-based competition over other producers competing on the same bases in the rest of the world. Therefore, the most vulnerable to that kind of competition and thus losers have been mass market manufacturers. Nevertheless, as Chinese companies continue to increase the average skills levels of their workforce and adopt the latest technologies, to invest more in design

and brand development so they will move from low tech to hi-tech areas of manufacturing, both to serve their own domestic markets and to export to the rest of international markets, the kind of pressuring competition will be differentiation-based competition, rather than cost-based. Unless small and medium size manufacturers can find viable high value added niches that Chinese companies' economies cannot easily copy because they involve highly firm-specific or readily patentable intellectual property, they will find life increasingly tough.

The result of differentiation kind of competition will be a much more proliferation of niche-markets. Therefore, Turkish SMEs must develop appropriate strategies of specializing in market niches. The primary strategic components of this kind of competition will be R&D, design and marketing. Because of the inability of Turkish SMEs in producing products at the quality and variety demanded by the EU consumers who have been main target, the exchange rate advantage brought by the crises of 1994, 1999, 2000 and 2001 almost disappeared.

3. A last key issue worths mentioning that will play a decisive role for future success of SMEs will be their relationship with governments.

As we mentioned above, after the devastating crises experienced in Turkey since 1990s, what Turkish SMEs needed most was political and economic stability. No doubt, stability is essential for investments, planning, strategy developing and implementing. For the last three or four years relative stability has been achieved. Even in this short period of three or four years stability, SMEs realized that although stability is necessary, it is certainly not enough. They have been losing their competitive advantages year after year. As a result of political and economic stability Turkish lira got appreciated, and thus caused decreases

in export and increases in import. And, therefore, SMEs have now come to the point that what they most need is vision rather than stability. They started asking government for doing structural changes in economics, redirecting economy towards a more competitive position.

Nevertheless, SMEs representatives have not been able to substantiate the content of the national vision that they ask for.

What should be the role of governments in economic competition? No doubt, in addition to the natural competition between individual companies, other factors make today's competition more intense. Economic competition occurs not just between individual firms but between nations: "government-supported" companies and industries. The result is no less than a worldwide competition or a large-scale social experiment between companies, industries, and entire governments regarding the design principles that are appropriate for conducting business. For example, China's exchange rate policy, tax policy, not minding international trade laws such as industrial and intellectual property rights, etc. strengthen its companies international market positions. While all these factors create a strong competitively advantageous position for Chinese companies, put all others in a disadvantageous competitive position.

Given this unfair competition coming from Asia, in particular China, what should Turkish government do? It is certainly difficult to say what exactly Turkish government should do in the face of these challenges in terms of policy changes. According the above mentioned report by PriceWaterhouseCooper for OECD countries, it is relatively easy from an economic perspective to set out what the Turkish government should not do in response to these challenges. In particular:

- first, it should not relapse into protectionism;

- second, it should not seek to subsidise industries that cannot compete with rivals from lower cost economies and
- third, they should not be seeking to 'pick winners' through industrial policy, as opposed to creating the right environment for potential winners to emerge.

Although it is relatively easy to say what the government should not do, it is highly difficult to identify what exactly it should do. But in my view, the national vision should be increasing and sustaining the competitiveness of the economy. In other words, the government role should only be creating and sustaining a "competitive economic environment." To substantiate that vision, it can be pointed out what should be the components of that national vision.

First of all, government can have an important role in raising the general level of education and skills, which is critical for long-term competitiveness. According to a World Bank Report recently released (December 31, 2005), in Turkey most schools fail to assure that their students develop basic competencies. The report indicates that Turkey will need to systematically raise the educational qualifications of its population up to international norms. The problems and challenges of Turkey's education system, and the reforms needed to transform it into one that helps all of the country's citizens develop advanced workforce competencies and a solid grasp of global knowledge. And, it warns that if Turkey wants to ensure that its citizens do not become the low-paid service workers of Europe in the process of full membership to the EU, it must provide a high-quality education to all of its young people. Therefore, Turkish government must make education a prime objective, including technology training since a nation's greatest asset is its people. And, it must do so in tandem with its economics' reorientation strategies.

Second, unfortunately Turkey is not known for the high quality of products manufactured by its small and medium-sized firms. It must overturn this image. Turkish government could not only encourage but also enforce its SMEs to produce high quality of products. Differentiation and thus brand names should grow out of that context.

Third, local and national brands shall be supported in order to make them competitive in all foreign markets.

Fourth, Turkish government must construct a strong national innovation system. It must promote a competitive business environment at the level of its existing small and medium sized firms through enhanced R&D support.

Fifth, measures shall be taken in order to decrease the cost of energy, employment and communication inputs for export companies by decreasing tax rates in these fields.

Sixth, it must find new ways to cause upgrading technology level of the SMEs of the country in general

Seventh, government should help creation of local and regional clusters and networks. Steps to promote clusters and networks, and thus supporting cooperation and alliances can be taken by local authorities as well as national development agencies.

In short, what government should do is to just create the right competitive environment for potential winners to emerge, and to avoid from direct intervention, protectionism, subsidies etc.

Conclusions

In conclusion, given the extent of changes in the total context that we elaborated, as if past and future represent two quite different economic

worlds. Instead of much common similarities, it seems they are rather dissimilar, different. New economic order seems to be rising from not continuities but discontinuities. This means there will be many challenges confront SMEs as they prepare for future.

Nearly 25 years after Turkey's economic policy reorientation in 1980 radically changed the established business order, Turkish SMEs are once again in the midst of a sharp transformation. There is little doubt that the present transformation elicits in today's SMEs the same fears and uncertainties that there were felt by nineteen-eighties SMEs as they their strategies changed from import to export.

Many people, in particular managers will be uncomfortable with the issues that I raised, but I strongly believe that competing in the future requires new winning strategies. Those SMEs that succeeded in the past must reorient themselves, for they are most vulnerable. What helped us to have been successful in the past does not seem to produce a similar success in the future. Worse, the factor created competitive advantages turned to be those of competitive disadvantages. However, many managers make the faulty generalisation that if their companies just behave in future, as they had behaved in past, they will continue to succeed. But conditions have changed, and changed radically. What worked before may not work again. Management focus then must move on to renewal, that is change management.

Therefore, Turkish SMEs are finally being forced to recognise that competition has many dimensions. Non-managerial cost-based one dimensional competition is no longer going to work, and worse it is almost certainly making things worse. So, at this moment of time, Turkish SMEs are at the cross-roads. And, at this cross roads, I strongly believe change is not an option but an obligation.

Thank you for your attention.