



POWER OF SMEs IN DEVELOPMENT

& OSTIM EXPERIENCE

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1) INDUSTRIALIZATION and SMEs BASED INDUSTRIAL ZONE MODEL

a) General Information about Organized Industrial Zones (OIZ)

In general beside the economic importance of OIZs in terms of new investments, work places creation and regional development; OIZs are also effective (political implementation) policy tools for planned, systematical industrialization and environmental policies. More regular and stable production is available in OIZs.

The experiences show the enterprises located in OIZs have higher performance and are more competitive than outsiders. It is important to choose the right location for OIZs, establish a professional management structure, provides support mechanism by government to increase the efficiency and performance of OIZs.

b) Evaluation of Different Scaled Companies & Industrial Zones

Manufacturing has a crucial role for the economic development of countries and the welfare of their societies and individuals.

Industrial Zones can be divided into two main groups according to the scale of companies:

- 1. Industrial Zones consisting of big companies: there are few huge manufacturing companies in this kind of Zones. These big companies are able to conduct their commercial, social, educational, R&D and other activities independent from other companies. They are mainly capable of finding solutions for their requirements with their own capacities and facilities. In this model the companies are required high costs but in return, get more profit because of the scale of economies. If the economic, financial, social & business conditions and infrastructure are sufficient for companies, the zones that are consisting of big scaled companies provide big advantages.
- 2. Industrial Zones consisting of small & medium scaled companies: We are interested in this model because this model contributes to the economic development by providing huge possibilities and opportunities. In addition to that this model provides not only economic but also social benefits to the countries. In this kind of Zones; the knowledge, experience & talent of the workers, engineers, & entrepreneurs in different manufacturing companies are tightly integrated to each other. The accumulation of capital is definitely necessary for industrialization, but these kinds of zones are able to go on their activities in at least optimum levels owing to the skillful labor and management at the recession periods or in the lack of capital. Shortly collaborative, cooperative, integrative OIZs model provides so many benefits that include not only economic but also social, cultural & political advantages.



c) Benefits of SME-Based models

We can list the basic utilities of this kind of model as mentioned below. Also, there may be added some other additional utilities according to different approaches. SMEs based model:

- constitutes a healthy start for industrialization, and existing industrial mentality is spread among the every SES (socio-economic status) class of the population,
- provides the usage of insufficient capital more productive by providing the investments costs lower,
- provides a favorable climate in terms of educating and developing the ability of unqualified employees
- allows the manufacturing of the whole equipment of infrastructure required for urbanization,
- serves as a first step into the start of the foundation of the big capitalintensive industries,
- encourages the small scaled companies to be suppliers for big industries,
- creates enormous entrepreneurs who are the backbone of the industrial development,
- provides an easy and flexible transition from workmanship to the mastership, from mastership to the industrialist,
- contributes justice in the distribution of income in the economy,
- directs the investments to the more productive fields,
- is more stable during the time of recession because of the flexibility of the companies & entrepreneurs,
- brings a very dynamic & functional relation business network among the SMEs between each other in the region and creates a synergy for the national and international big industrial factories,
- provides advantages for the manufacturers who cooperate with each other in finance, energy, education R&D, promotion areas etc. against their international and national competitors,
- gives opportunities to develop new products and innovative manufacturing processes,
- provides favorable environment for project based cooperation with other SMEs and develops SMEs' competitive abilities in cooperation (cooperation),
- prevents labor to become mechanized as frequently observed in mass production and big factories which in turn provides the labor to put his creative and innovative thinking on the production facilities,



- brings productivity at the companies by business division and specialization,
- In addition to being a solution for economic and commercial development, it also serves great social and cultural dimensions.

In theory a group of small companies (SMEs), working in unison by pooling their resources and collaborating on projects of mutual benefit, should be able to compete better with larger companies. Working together can provide SMEs accessing to global supply chains. OSTIM realized this theoretic approach in the practice with its own experience more than forty years for design, construction and operation of industrial cities based on small enterprises.



2) GENERAL PARAMETERS OF OSTIM INDUSTRIAL SYSTEM

a) Sectorial Structure and Basic Indicators in OSTIM

OSTIM was established in 1967 and is located in Ankara, the Capital City of Turkey, with 5000 Micro & SMEs which are being involved in 100 different sectors producing approximately 10.000 different products and employing more than 50.000 employees. Total land of OSTIM is 5.000.000 m². Those 5.000 manufacturing companies in OSTIM operate on a wide range of products such as machinery, equipment, spare parts, etc. to use in different sectors as medical, national defense, construction, automotive industries, agriculture, mining etc. The production facilities of those 5.000 manufacturing companies in OSTIM Region range from casting, diecasting, molding, forging, cutting, pressing, welding, metal treatment, cnc processing etc.

We, as OSTIM Management, have finished a study at the beginning of 2008 whose aim is to determine international competition level of main sectors in OSTIM by the method of "Diamond." The sectors in this study are as following;

- Plastic & Rubber
- Civil Works & Construction Materials
- Metal & Metal Processing,
- Sub-Contractors for Automotive Industry
- Electric & Electronic
- Technology & Data Processing
- Construction & Working Machinery

As a result of this study, we have determined our strengths and weaknesses and we have developed a strategic route for our SMEs with clustering studies which is explained in detail in section 3 below.

b) Working Concept and Different Type of the Structures in OSTIM Model

The OSTIM Model is more integrated, cooperative and coordinative than the models applied in large corporations. OSTIM believes the power of solidarity and cooperation in economic development.

OSTIM answers the needs of the country by flexible and demand oriented production capacity. Lots of industrial institutions around OSTIM are fed by the rich production capability of OSTIM.

Workshops have been designed according to the industrial needs and working concept of the region. There are 3 different types of workshop design:

Closed areas of the biggest ones are around 2000-2500 m^2 and the number of employees is approximately 100-200 for each one. These big companies use the other companies as supplier. They manufacture final products and have their own trademark. They are also exporter. They give on-the-job training supports to the smaller factories during the production process.



Medium workshops are around 1000 m^2 and have 50-100 employees for each one. They work as a subcontractor or as an OEM to the big industries like national defense, automotive or tractor factories.

The smallest workshops have 400 m^2 closed area. The number of employee is around 10-50 for each one. They have only single production process with few machines. They are completely supplier to bigger industries. Their production facilities are flexible and fixed cost in their workshop is very low.

This combined structure of small, medium and big manufacturing companies in OSTIM provides integration, cooperation and competition inside and outside the Region.

They are always interconnected and cooperate in production process. Besides cooperation OSTIM encourages its SMEs for competition because we believe the one of the most important principles of development is competition. In this sense lots of entrepreneurs are created and unqualified workers are educated. We can declare that the success of OSTIM is hidden in its corporative and supportive structure.

In OSTIM some industries which are more suitable for integration of so many suppliers in machinery, defense industry, construction machines, medical equipment and turnkey establishments, are considerably more developed. These integrated clusters also increase the power of the region.

Main target is to transform OSTIM into one single factory by means of cooperative working possibilities and technological infrastructure owned.



3) CLUSTERING STUDIES in OSTIM

In 2007 we started clustering studies performing a special project for analyzing International Competitiveness Level of OSTIM with the cooperation of professional institution and universities. The aim of this study is to create an infrastructure for concrete clustering topics. The study, in which the collected data was analyzed with Diamond Model, with the goal of planned and sustainable economic development of OSTIM, has revealed the international competitive power of all sectors in the region. The results of the study has identified the sectors moving machinery, metal processing, electric-electronic, construction machinery, manufacturing equipment, plastic & rubber, of competitive advantage and/or has the potential for competition. Competitive analysis pointed the sectors in OSTIM Work & Construction Machinery, Renewable Energy and Environmental Technology, Medical and Defense Industry, as target sectors on which infrastructure must be installed. Thus OSTIM's target industries and business plan in the following years has been clarified. Information about clusters is given below;

a) Medical Industry Cluster Studies

The medical industry in OSTIM has developed since its foundation in terms of medical device market. When we consider medical market and industry in general, it has given very important ideas about the size and attractiveness of the market. The sector:

- has a continually growing domestic and foreign market,
- has high value, innovative production to be switched,
- is still 85% dependent in foreign markets in our country and supported by national and strategic policies in order to be nationalized,

Starting from these opportunities and ideas, as we look to our local dynamics, we can see our competitive features;

- Ankara, the capital of Turkey, has a significant number of firms and production volume in medical industry.
- To support the sector, production diversity and branches activity are available in OSTIM.
- Ankara is an important center for health sector buyers.
- OSTIM, is close to decision-making mechanisms,
- Ankara has significant universities capable of supporting the industry's innovation.
- To become a strong center in health sector, it is an important opportunity for Ankara's local development.
- Defense industry, having large structural similarities with medical industry and an active role in the development of innovative products, is available in OSTIM and supports medical industry.
- Ankara is an important center in terms of connections for especially Middle East, Arab and African countries which have large size expenditure for health.



As a result of this research, our competitive advantages has become concrete and in line with these advantages the medical industry sector has been chosen as one of the target sectors that OSTIM directed its resources and clustering model has based sector's development.

b) Work & Construction Machinery Cluster Studies

Clustering project, which begins on March 16, 2007 with a protocol signed between Çankaya University and OSTİM Organized Industrial Zone, took a quite distance in the 3-year time period, and is referred as an important example in Turkey. As a result of study we have made, consensus for "the clustering model" was created, which is successfully applied in almost all developed countries and is the most accurate model for Turkish industry too. Our model is not a one-to-one copy of the foreign application, and is not applied this way. It will result with a failure if the models are applied with a one-to-one copy. The reason for this fact is very simple. Our industrialist and country conditions are very different from the conditions in developed countries. For this reason, applicable examples are converted into a specific model for our conditions. A specific regional development model is improved by our work team.

Sides, which launch with the aim of "OSTİM marketing to 6 billion people", epitomize for the cooperation of university and industry with the infrastructure work which has been proceeding for 3 years. The cluster team, which is formed in the first six month of the project, focused on the selection of the pilot sector for the implementation of the clustering model. The Cluster team has researched for development of a powerful cluster which would constitute the for the regional development and as a result of 6-month sectorial analysis, and "Work and Construction Machinery" sector was decided as the most appropriate sector for the clustering project by the end of November 2007. In this context, studies for over 150 firms from Work and Construction Machinery (WCM) sector have been launched for clustering. Our goal is to develop the region of 50 km radius. All the firms from WCM sector in this region should be a member of Work and Construction Machinery Cluster (WCMC).

Clustering, awareness and informational meetings were held with the participation of firms from WCM sector. Among these, at the meeting themed "Start up to Clustering", which was held on May 22, 2008 in OSTIM, the participant firms from OSTIM were asked "Are you with us for clustering?", and they altogether answered "Yes, we are". As a result, clustering project, which was started in March 2007, approved by the sectorial representatives, thus Work and Construction Machinery Cluster was founded on May 22, 2008.

c) Defense Industry Cluster Studies

Defense industry clustering studies, started with goal of increasing the share of domestic production in the defense industry and to make SMEs compete in the international market, is the strongest one when compared with clustered infrastructure works performed so far in Turkey. By continuing with the same professionalism and sacrifice, we want cluster of OSTIM Defense Supply Industry to become the success story of clustering that Turkey needs.



The focal point in cluster development projects will be to increase the development of capabilities and the number of over 60 SMEs producing for defense industry's main suppliers. Thus companies such as TCI, ASELSAN, ROKETSAN, TAI, FNSS, HAVELSAN; will strengthen their skills against foreign competitors and more than billions of dollars spending to the defense industry will remain in the country.

Defense industry's major players (MSB, SSM, Main Suppliers, SASAD etc.) are located in Ankara. To participate in the same geographic region with major players is an important advantage for sustainable information creation and communication networks.

- In undersecretariat for defense industry's Strategic Plan by date 2007-2011 has displayed "creation of sub industry that is strengthened by the high quality and technology required by the defense industry" as one of the important elements of national integration work.
- To take place in defense industry activities, it is necessary to develop skills in many subjects especially in quality and sustainability. Many OSTIM SMEs has managed to take part in ecosystems of defense industry main suppliers by developing the required capabilities of defense industry production.
- Defense industrial sector requires a major engineering force. Ankara is capable of providing necessary human resources and knowledge with its most successful engineering faculties of many universities.
- OSTIM has provided the required infrastructure for flexible production suitable for the defense industry, with its 5000 SME connected with horizontal and vertical supply chain.

d) Renewable Energy and Environmental Technology Cluster Studies

As mentioned above, the regional Strategic Planning Works that we are carrying out within the frame of Competitive Regional Development understanding of us as OSTIM, have made the determinations of status obligatory for the competitive objectives of the region in the direction of the future years and these competitive objectives to be based upon the data. It has been concluded at the end of this analysis that the small and medium enterprises of our region may achieve competitive advantage in the "Renewable Energy and Environmental Technologies" sector that develops due to their strategic importance and whose market share grows.

Renewable Energy and Environmental Technologies cluster that we direct our attentions by depending on these indications has formed its solution partnerships network and organizational structure at the end of a period of 2 years and has completed its grouping infrastructure by completing its projects and work plan.

To become a center of attraction is being aimed at by forming the medium in which the industrial applications and investments will be supported in the Renewable Energy and Environmental Technologies sector through R&D and industrial applications that will be formed in this sector, in order to increase the market share of



the small and medium enterprises and to provide regional expertise via strategic, technologic and economic cooperation.

We consider that you will also provide contributions to our clustering studies and you will make use of the cooperation that will be formed, provided that

- If you;
- are a company that seeks new production areas and new markets,
- wish to be included within the most developed commercial network of Turkey in "Renewable Energy and Environmental Technologies,
- wish to be an energetic small and medium enterprise that is informed about accumulation of knowledge and developments on Renewable Energy and Environmental Technologies,
- are an academician or a researcher who has ideas, works and projects on Renewable Energy and Environmental Technologies,
- wish to open a product or a technology that you have produced newly on Renewable Energy and Environmental Technologies,
- are looking for solution partnerships regarding research and development, project/design realization, application works for your ideas to be made real.

The objectives of clustering studies about the Renewable Energy and Environmental Technologies is the;

- specialization in renewable energy and environmental technology industry,
- formation of information and application center via University and industry collaboration
- formation of collaboration network focus for strategy and application production in renewable energy and environmental technology



4) REQUIRED PROJECTS & SUPPORTIVE ORGANIZATIONS WHICH PROVIDE BENEFITS to the SMEs in OSTIM

a) Legal Authority of the Region - Organized Industrial Region Directorate

Main requirements for this kind of systems are legal authority and central administration.

The area is administered by Entrepreneurs Association Committee which consists of 5 members. The only legal authority Organized Industrial Zone Directorate is responsible for administration of the region. The management performs activities such as security, management of environment, public improvements, electricity management, infrastructure investment & operation, license process, customer relations and human resources. Fair Organizations are also one of the Directorate's activities. It arranges Local and International Fair organizations in OSTIM or abroad and it supports OSTIM Companies to participate in these fairs.

b) Energy

Main input for industry is the electricity which must be cheap, continuous and steady.

OSTIM has constructed a power plant which generates all the electricity requirement of OSTIM and in addition to that the surplus amount is sold in the market. Electric and natural gas distribution, its management and following-up activities are hold by OSTIM energy team, and the electric consumption of OSTIM is measured by the electronic meters which were designed and manufactured in OSTIM according to the requirements of the management system.

c) Technology & Data Processing

To be successful in the industry it is very significant to follow up technology closely. There are four different components served in OSTIM in terms of technology and data processing.

The first one is the <u>OSTIM Technopark</u>. It has been actively operated by the cooperation of OSTIM Organized Region and Middle East Technical University since 2006. The main targets of the Technopark are assisting the SMEs, developing the cooperation between industry and university. It provides wide range of opportunities for the companies to develop their R&D activities.

The second one is the <u>OSTIM Telecommunication Center</u>. By means of fiber optical infrastructure, a wide network has been established in OSTIM. It provides quick, high-quality and cheap connection inside the region. By Common Share Project, the SMEs of OSTIM will be able to use some Licensed Programs like Technical Drawing, Foreign Trade, and ERP & MRP Programs without purchasing them. They will have the right to use the program from a common server by paying up small fee monthly. By the Telecommunication center, the region has a big advantage in the voice services also. The SMEs talk cheaper at the best voice quality with abroad and mobile phones via digital service. In the region, SMEs have the chance to talk free among each other. The data center has just been activated to keep the data of the SMEs.



This center allows the companies to store their data in the servers with larger capacity and therefore these companies will never have a data loss.

The other component is the <u>OSTIM - Web Site</u>. It was maintained in order to ensure the data communication. In addition to that, this Web Site will help OSTIM go through the international markets. The web site was designed to introduce the Organized Region, the services of OSTIM Organization, demonstrate the SMEs of the region and their products to all national and international markets. The products and the contact information of nearly 5.000 SMEs could be easily accessed via a high-technology search engine. It also involves the news about the latest developments about the region. The web site could be viewed in six different languages and is continuously being updated by the web specialists of OSTIM Organization. <u>www.OSTIM.org.tr</u>

The last one is the online marketing platform: <u>KURESELPAZAR.COM.</u> "Kureselpazar" is a very useful trade portal for the companies of the region. This platform ensures easy communication between the companies; buyers and sellers. It also issues detailed information about the companies and their products.

d) Advertisement & Media

Presentation is an important factor for the companies in order to be recognized in the market. OSTIM serves SMEs with different media institutions. These institutions meet the demand for advertisement services of the companies and contribute them through the marketing communication activities on the internet, printed visuals and outdoor advertising.

Another institution which serves the enterprises of the region as a local partner is BASKENT TV. It broadcasts through satellite, and the only national SMEs' television that broadcast on production in Turkey. Its main purpose is to become the voice of SMEs. BASKENT TV develops many projects with governmental and private institutions in order to introduce OSTIM Industrial System, the connection between the SMEs and the manufacturers to the world.

OSTIM Guide, OSTIM Export Catalogue and OSTIM CD are other assistants of entrepreneurs. These publications are important sources because they include production, services, communication and reference information of the companies. Another publication organ which serves companies in OSTIM is Industry Newspaper. It is like a door that opens OSTIM to domestic and international markets. Success, development and expectations of SMEs are presented in this newspaper.

e) Vocational Education and Training

OSTİM Education Center is a small & dynamic organization which coordinates the education requirements of the region, defines the education strategy, organizes the trainers and appropriates education conditions within the region.

The most important advantageous point of our Education Center is being located in the borders of an Industrial Region, where on-the-job trainings could easily be conducted.



f) Sports

The motivation power of sport is obvious. For this reason OSTIM Spor has an important role in developing, enlarging and promoting social communications of OSTIM. Every year, football and volleyball tournaments are arranged among the employees of the OSTIM companies. On the other side, there exist a table tennis team and taekwondo team consisted of OSTIM workers. These organizations improve the communication and cooperation among companies and their employees.

g) Project Partnership, Financial and Marketing Projects & Organizations

Continuously developing and expanding, OSTIM encourages its tradesmen by comprehensive projects. Ensures financial support and aims to increase the market share of its enterprises both in domestic and international markets. Two important partnership projects are OSTIM Industrial Investments Inc. and OSTIM Spare Parts Inc.

OSTIM Industrial Investment & Business Inc.: Because OSTIM cultivated itself to develop industry in Turkey, OSTIM Investment Inc. has been established. The mission is to provide a dynamic cooperation between enterprises. According to this mission, OSTIM Investment Inc. provides a diversified amount of supports such as; finance, management, organization assistance and informational support. Additionally, establishing and supporting business cooperation, carrying tradesmen of OSTIM to the world market and increasing the market share of them by new projects are other important aims of the company. OSTIM Investments Inc. serves guidance to the companies who are able to manufacture products that are marketable to the domestic and international markets, but do not have the necessary financial power, personnel and marketing network. Moreover, the company cooperates with the enterprises which have the ability to develop and conduct projects. As a result, the company has, so to say, an "umbrella" function for the region and carries big projects for OSTIM in order to increase the capacity of the region. OSTIM Investment Inc. establishes partnerships in some fields to guide the SMEs in OSTIM and lead them, when necessary.

<u>Sectorial Foreign Trade Company (OSTIM Spare Parts Inc.)</u>: This Company was established by 22 manufacturers of the region who are specialized in spare parts manufacturing. OSP aims to unite small size enterprises and to act cooperatively, in order to increase exports and promote the international market share of the companies of the region. The company is the first foreign trade company in the region and has been exporting spare parts for light and heavy construction and earth machines to a significant number of countries worldwide.



5) PROJECT PROPOSAL WHICH HAS BEEN PREPARED and REPORTED TO SOME INTERNATIONAL ORGANIZATIONS

Some of the activities conducted in the Region have already maturated to a certain point as to confidently share it with our brother partners, by cooperating with them to transfer this knowledge.

A brief description of the projects is mentioned below:

a) Technical and Vocational Education and Training for the Youths

In today's world where we are facing a constant change, the changes in products and production techniques with the developing technology result in the arising of new requirements about the technical and vocational education. The rapid improvements in science and technology caused the information and the experience gained by the workers to become outdated and inadequate in shorter periods, and the current educational techniques which are unable to catch these changes fast enough are generating a permanent need for further education in the labor force.

The following method in the education program has theoretical and practical trainings in coordination with each other. The practical trainings are carried out as internship programs in the companies in the content of on-the-job trainings and are determined according to the companies' production methods and requirements.

OSTIM Education Coordination Center and Sudan Education Authorities have also signed a protocol to educate Sudanese student technically and develop their entrepreneurship abilities.

We believe that to cooperate in education for SMEs in brother countries has a great importance, as significant as commercial activities. Some cooperation points are as follows;

- Education Planning and Requirement Analysis,
- Entrepreneurship, Establishing Business and Business Management Education Programs,
- On-The-Job Trainings,
- Distance Education Programs...

b) Network to Facilitate Marketing and Provision of Online Cooperation Projects among the SMEs in Brother Countries

The Project aims to create a manageable network, a broad database and a dynamic cooperation on an electronic platform among the related countries.

Project Master Plan:

In the target countries, the following needs are detected:

- Manufacturing and development of technology
- Awareness of innovation
- New markets penetration



- Exportation
- Secure trading
- Access to sufficient information
- Expansion by cooperation

The main idea of running the project is to meet these needs with a secure online platform, by using the advanced web technology. This online platform will accelerate the process of trading and cooperation as well as upgrade the information sharing of Islamic countries, just as a major "Databank".

c) Industrial Organization Establishment in Different Countries and Provision of business and the other cooperation networks among them

OSTIM Organized Industrial Region, applying the aforementioned structure for years, has benefited from this kind of model, and is absolutely honored to share this successful experience with brother countries. In our opinion, there exists a significant need in brother countries to a similar SME-Based Development Models.

When we find an opportunity to introduce OSTIM Model of production in the international scene, we mention about our dream of establishing similar industrial zones in brother countries and having dynamic and interactive industry networks among these zones. Such cooperation will certainly ensure development and economic growth in these countries. On the other hand, it would be a win-win strategy, where both sides earn simultaneously. Moreover, this kind of a study could be entitled as a "fight with monopolization of capital". Industrial zones like OSTIM definitely contribute to justice for income distribution. Business divisions and specialization supports productivity. The more productive are the industries, the more developed are the countries and economic welfare.

Once more, we would be pleased to emphasize the fact that OSTIM Model would be a step to move to the right direction for the well-being of our future generations. We already have detailed studies about this model and we desire to cooperate with related public and/or private organization.

