

EXPERTISES

INTERNATIONAL



BY
SÉBASTIEN LE COZ
FORMER CFO,
CEO AVETA GLOBAL

Why Investing In Turkey Now Should Be One Of Your Top Priorities?

Turkey has become very investor-friendly thanks to remarkable reforms and turns out to be one of the Top Objectives for European Investors, not only for its manufacturing and exporting assets, but also for its domestic market. Just take the right partners to seize this incredible opportunity!

real GDP growth accelerating from 3.2% in 2015 to 4.5-5% in 2016-19 is expected, driven by improved export competitiveness as a result of a weaker lira, a pick-up in activity in Europe and lower global oil prices. There are considerable downside risks, however Turkey's economy has proved surprisingly resilient in previous crises and the plunge in global oil prices should help to ease inflationary pressures and reduce the current account deficit.

ONE OF THE MOST HISTORICAL AND STRATEGICALLY IMPORTANT AREAS IN THE WORLD

Turkey is a country of great contrasts and vast potential. Straddling the continents of Europe and Asia, close to Africa, it is a gateway to not only developing countries but also already developed markets.

Turkey is the 16th largest economy in the World and the 6th within the EU. The GDP has already tripled from USD 231 billion in 2002 to more than USD 800 billion in 2014. Moreover, OECD expects a growth rate of 3.2% in 2015.

Turkey's investment climate has been improving for the last 13 years and the country became investor-friendly thanks to remarkable reforms, such as the enactment of the FDI law, introduction of the principle of national treatment, provision of a lucrative incentives scheme, amendments in the

commercial code and the establishment of the investment support and promotion agency. As a next step, new structural reform programs were announced in a bid to shift Turkey to a new paradigm.

"Improvement of business and investment environment" is one of the 25 structural reform programs which aim to focus on immediate issues of investors and improve bureaucratic mechanism. With the reform agenda, political stability and dedication to Vision 2023 targets, Turkey will take a step further and become an even more investor-friendly country.

A political stability that supports economic growth

The forecast is that the religiously conservative ruling Justice and Development Party (AKP) and its President, Recep Tayyip Erdogan, will continue to dominate the political scene beyond the general election on June 7th 2015.

Turkey is used to overcome crises

Turkey's macroeconomic fundamentals have generally been quite solid: the public finances are in good shape and the banking sector is well capitalised and well regulated. However, economic growth has been volatile and recent uncertainty about the direction of economic policy has coincided with higher risks to the economy from changes in external conditions.

A dynamic and ambitious economic growth

Real GDP growth slowed sharply to 3% in 2014, reflecting the impact on domestic demand of monetary policy tightening in late January and currency weakness. A gradual recovery in economic activity is expected: the lira has weakened further since the beginning of 2015; unemployment remains high at over 10%; and industrial activity is still subdued. A gradual recovery with

A very strategic Monetary Policy & an Exchange Rate as a real Asset

On May 16th, the lira was trading at TL2.57/US\$1, compared with TL2.32/US\$1 at the end of 2014. After sharp falls of the Turkish lira in 2013-2014 and again in early 2015, the lira is expected to average TL2.60/US\$1 in 2015 (a depreciation of 10.5% in real terms). From 2016 it is expected to depreciate steadily in nominal terms to around TL2.80/US\$1 by 2019, remaining broadly stable in real terms over the forecast period. Against the euro, the lira is expected to appreciate in 2015-16.

WHAT SHOULD YOU PAY ATTENTION TO?

Cultural differences to be apprehended!

Although being supported by a local company allows a better understanding of the Turkish market and can facilitate the administrative processes, there

Interview of

UTKU BAYRAMOGLU
ADVISOR FOR FRANCE AT PRIME MINISTRY OF TURKEY,
INVESTMENT SUPPORT AND PROMOTION AGENCY (ISPAT)

A very attractive Turkish investment incentives system

The new investment incentives scheme, segmented into 6 regions, is specifically designed to encourage investments with the potential to reduce dependency on the importation of intermediate goods vital to the country's strategic sectors. Amongst the primary objectives of the new investment incentives scheme are: reduce the current account deficit; boost investment support for lesser developed regions; increase the level of support instruments; promote clustering activities;

and to support investments that will create the transfer of technology. Turkey's investment incentives scheme provides support for investments with, such as, VAT exemption, customs duty exemption, tax reduction and social security premium support, depending on different support schemes, location, size and sector of the investment. There is also a tax incentive on R&D Expenditures.

For any further information please visit: www.invest.gov.tr

are also drawbacks. Besides signing a JV agreement sometimes turns out to be challenging as not only the short-term vision but also the governance habits, the way of doing business or managing the teams could be very different. Therefore, investing in the selection of the most appropriate business partner is really key, if needed.

Legal aspects to be known

Foreign companies investing in specific sectors must partner with a local firm and/or sell advanced systems in the framework of offsets programs, as it is required in defence programs by instance. Such policies are the condition first of the development of a sound technological and industrial base and, in a second phase, of enhancing exports of home-made products and systems.

Accounting & Taxation: closer and closer to EU but significant differences!

Turkish Gaap are very tax oriented. Corporate Income Tax is 20% and the tax-loss is carried forward and set off against the income of subsequent years for five years.

VAT is 18%. Turkish transfer pricing rules are mostly in line with the OECD recommendations.

No tax duty on most imports from EU but a 6% Resource Utilization and Support Fund (KKDF) charge on the declared import unless prepayment and foreign loans to finance imports.

TURKISH SPECIFIC ECONOMIC FEATURES

For many years, Turkey has been focusing its economic policy on critical sectors such as energy and transportation infrastructures, scheduled at time to reduce its dependence from foreign providers and to achieve its fully integration into the regional and international goods and services exchanges.

The progressive shift from oil and gas imports to local production of nuclear, thermoelectricity and renewable energies reflects the priority for Turkish leaders: building the conditions of autonomy and providing their population and companies with the conditions of a sustainable growth. No doubt the amazing amounts invested in ports, airports and

railways will also have very tangible positive effects not only on Turkish domestic economy but also on its attractiveness and enhance the credibility of Turkey becoming a major international hub.

The latter remain aware of the cyclical economic downturns that may surge - as it happened in 2009 - and thus may be reluctant to invest without all the required guarantees. Main large international groups have been investing and setting up businesses in Turkey for years. They were motivated by the significant size of the Turkish market, the proximity with their French customers and the very qualified labour.

Regarding the profile of Turkish economic players, aside from a dense SMBs network, it is worth mentioning some specific features.

- More than in any other country, Turkish companies consist in family-owned conglomerates that have been setting up very diversified businesses and holdings.

- Although occupying a less prominent role the armed forces are still an important stake holder. Their participa-

tions cover not only defence industries but also civilian assets.

- Islamic foundations are part of an intermediary sector, a third sector or non-profit sector where private capital takes care of services. Very large groups established their own foundation and can be considered as a new form of philanthropy.

- Last, let's highlight another specificity inherited from the Turkish history: a political party can still hold stakes in the capital of a company.

AN INCREDIBLE DOMESTIC MARKET WITHIN A VERY STRATEGIC REGION

Turkey has a very dynamic and well-educated population of 77.7 million, with half of it below the age of 30. There are 40 million broadband internet subscribers, 72 million mobile phone subscribers and 57 million credit card users in Turkey, showing a strong middle-class emergence. Its workforce is over 29 million, with 610,000 university graduates and around 300,000 high-school fellows coming from technical and vocational high schools. Turkey has a liberal investment climate confirmed by OECD and World Bank reports.

In addition, Turkey's growth potential for the next decade as well as its 2023 targets require a continuing transformation of the Turkish economy, particularly in the areas of energy, infrastructure, chemicals, pharmaceuticals and agriculture with more R&D intensive activities. This is where European companies are contributing and will continue to contribute to Turkey's growth. To reach USD 2 trillion of GDP and USD 500 billion of exports revenue, Turkey has ambitious targets such as increasing its installed power capacity to 125,000 MW, its high-speed railway network to 10,000 km,

INTERNATIONAL



its motorways to 7,500 km, and diversifying its economy to decrease dependence on import energy sources of oil, natural gas as well as chemical intermediate goods.

Needless to say that Fitch (on March 20th) and Moody's (on April 11th) have recently confirmed Turkey's investment grade ratings, demonstrating that Turkey's political, economic and financial stability will continue through and beyond the election period.

As a whole, drawbacks of the Turkish regulation or business practices are compensated for by a major factor: the wideness of the market. If you add to the domestic one the consumers and the opportunities you may reach in the neighbouring countries or areas thanks to your presence in Turkey, your investments may appear even more profitable. Everyone knows about Turkey's connexions and influence in Balkans, Central Asia, Caucasus, Middle East and Africa but up to now very few have elabo-

rated a regional strategy that actually relies on it.

Indeed the Turkish offer has been improving qualitatively and quantitatively; moreover the prices remain low. AKP policy has been playing a decisive role as well, as it is particularly addressing Islamic populations around the world and enhancing its participation to international donors.

Tensions in Middle East have complicated Turkey's efforts to assert itself as a dominant regional power, straining their ties, to differing degrees, with several countries, including Syria, Egypt, Israel, Iraq and Iran. The civil war in neighbouring Syria and Turkey's support to opposition forces have threatened to trigger a major military confrontation between the two. An unstable foreign-policy environment

makes maintaining positive relations with traditional Western allies, especially the US and the EU.

HOW SHOULD YOU PROCEED WITH YOUR INVESTMENT IN TURKEY? Free-Trade Zones (FTZ)

Free-Trade Zones (FTZ) are areas within the free zone boundaries but treated as extraterritorial for customs duties purposes. The FTZ were primarily designed to encourage exporting goods that are produced in the zones but are also used now for re-exports to neighbouring countries, Turkey being a regional platform. Main incentives provided for production operations are corporate & income tax, VAT, customs duty, special consumption taxes and other public charges.

Technology development zones

Technology development zones (Techno parks) have been founded in order to produce technological information to make innovations in products and production techniques, to support technology intense productions, to support entrepreneurship and to provide technological basis that will enhance foreign investment flows to Turkey.

OTHER KEY SUCCESS FACTORS FOR YOUR INVESTMENT IN TURKEY

Proceed with a market survey, find bicultural Chartered Public Account and Lawyer, experienced custom broker and carrier with your products and foreign companies, appoint someone experienced with Turkey and that will lead your project from Day 1 until the end. ●

Interview of RAQUEL GRASE
BUSINESS INTELLIGENCE & INTERNATIONAL DEVELOPMENT EXPERT FOR SAGE SA

Why business intelligence is key for your ROI?

Getting the right information before your competitors, checking and analyzing it, facilitates and accelerates your international development.

For companies aiming at doing business with emerging markets, traditional monitoring solutions used to gather information may not be sufficient. Comprehensive written, updated and valuable information on projects and opportunities, decision making systems, key players, assets appraisal, is pretty scarce.

In such an environment, it is critical to act in a practical and confidential way and to perform such investigations in a legal framework.

Assisting companies abroad requires a deep knowledge of the political, economic and social spheres and the ability to mobilise local networks among economic and institutional players.

Business Intelligence's purposes consist as well of risk assessment and resolution of disputes.