Ernst & Young’s attractiveness survey

Turkey 2013

The shift, the growth and the promise
Ernst & Young's attractiveness surveys

Ernst & Young's attractiveness surveys are widely recognized by our clients, the media and major public stakeholders as a key source of insight on foreign direct investment (FDI). Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses to make investment decisions and governments to remove barriers to future growth. A two-step methodology analyzes both the reality and perception of FDI in the respective country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

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Over the past decade, we have been asking international business leaders their thoughts about investment markets and exploring ways in which countries and regions around the world can improve their investment environment.

In our first attractiveness survey on Turkey, we highlight the latest foreign direct investment (FDI) trends in the country, and ask investors what they think about the investment climate and the potential for Turkey.

In recent years, Turkey has overcome a series of political and economic challenges and is now enjoying a period of stable and solid economic growth. The country still has great untapped potential, with its economy set to grow at least 5% each year in the medium term.

Turkey’s world-class features include its strategic location at the crossroads of Europe, Asia and the Middle East, and the size of its domestic market. These strengths are attracting a number of investors, who remain confident about Turkey’s future. Indeed, over half of respondents to the survey are considering establishing or developing additional activities in Turkey over the next year.

Historically, Turkey has been reliant on the developed economies for a significant portion of its trade and investment. However, Turkey is now looking to do more business with other parts of the world, including the Middle East, Africa and Asia. This shift in focus and capital flow will accelerate the investment and growth of Turkey. Important sectors for FDI span across manufacturing and services.

Istanbul is the most preferred destination for investors in Turkey. Nevertheless, the Government has an opportunity to balance regional development by replicating similar growth in other cities and provinces. We can expect Turkey’s new investment incentive scheme and continued reform program to boost investors’ confidence in the country further, and quicken its development into a regional and global hub for operations.

However, there are some key challenges to overcome. Turkey’s proximity to the political instability in neighboring countries, an ongoing account deficit, as well as the need to accelerate its innovation and R&D capabilities, are all seen as factors that limit the country’s attractiveness for FDI. On the other hand, negotiations for Turkey’s accession to the European Union have brought much-deserved attention from international investors.

We hope that the 2013 Turkey attractiveness survey will help international investors understand the growth potential for Turkey, and inform your strategy for investments. We also encourage the Turkish Government to continue to remove the barriers highlighted in this report, which will spur future growth.

We would like to thank all the business leaders and Ernst & Young professionals who have taken the time to share their views with us.
Today, Turkey is one of the most attractive investment destinations for foreign investors. It benefits from a unique strategic location; a young, dynamic and skilled workforce; and a stable political and economic environment. Turkey received foreign investment inflows of only US$18m 33 years ago when it started to host foreign investors. Now, the cumulative value of foreign investments has surged to US$138.3b.

While the aggregate volume of foreign investment inflows totaled only US$14.6b during the 80-year period from the establishment of the Turkish Republic to 2003, this figure rose to US$123.7b during the last decade. In other words, Turkey attracted 8.5 times more foreign inward investment over the last decade than it did in the previous 80 years.

Turkey now plays a significant role in the global economy and world trade, standing out as a promising emerging market alongside Brazil, Russia, India and China. This status is underpinned by its robust local market and young population.

Despite the global economic crisis and the political and social issues that have afflicted neighboring regions, Turkey exported more goods in 2012 than ever before. Total exports valued at US$152.6b were supplied to 241 countries and regions worldwide. The well-trained, loyal workforce played a notable role in achieving this success.

Turkey offers another layer of opportunity by serving as a frontier to other regions. Investing in Turkey means access to markets in Eurasia, Africa and the Middle East. A four-hour flight time from Turkey encompasses 56 countries, a region with 1.5 billion people and an export potential of US$10t.

Foreign investors have shown their interest in the advantages that Turkey offers. Among Turkey’s top 500 companies, 140 of them – or 28% – receive backing by international investors.

Turkey is now a regional and a global power. It aims to become one of the top 10 economies in the world by 2023. To do this, it is targeting export volume of US$500b, GDP of US$2t, and GDP per capita of US$25,000. To reach these goals, investment of US$250b is planned in the fields of energy and transportation.

Our new investment incentive scheme came into effect in June 2012. This will further accelerate foreign capital inflows, which will play an important role in reaching our 2023 goals (centennial anniversary of the Turkish Republic).

I believe that the new investment incentive scheme, which offers attractive incentives to local and international investors alike, will establish Turkey as a top-priority destination for foreign investors.

I would like to take this opportunity to thank Ernst & Young for this in-depth analysis of the Turkish market in terms of FDI. I am confident this will be an asset to me and my colleagues in our efforts to raise awareness around our country and welcome international investors to explore growth possibilities in Turkey.

“Turkey stands out as a promising emerging market alongside Brazil, Russia, India and China.”

Zafer Çağlayan
Minister of Economy, Republic of Turkey
1 Attracting interest across the value chain

FDI projects in Turkey cover the entire value chain. The country receives both industrial and services projects. Though services activity accounts for the most investment decisions, Turkey’s vast, cost-competitive labor force adds to its appeal as a manufacturing destination.

• For more on activities in Turkey, turn to p.16

2 Istanbul braced for competitive challenge

Istanbul is the city most favored by investors. It attracted over half of the total FDI projects that came to Turkey between 2007 and 2012. Istanbul benefits from its advantageous geographical location, reasonably well-developed infrastructure and educated workforce. However, other cities such as Izmir, Ankara and Bursa show signs of investment growth.

• For more on Turkey’s FDI destinations, turn to p.37

3 Opportunity spreads across sectors

Foreign investors expect real estate, hospitality, construction, energy and heavy industries to drive economic growth in the coming years. However, between 2007 and 2012, knowledge-driven sectors such as business services, information and communication technologies, and financial services generated more than one-third of FDI projects in Turkey.

In 2012, according to Ernst & Young’s European Investment Monitor (EIM) 2013, the top sectors that attracted the highest number of projects were business and financial services, and the leading sectors in terms of value, as per the Turkish Government, were manufacturing and financial intermediation.

• For more on FDI trends by sector, turn to p.18 and 46

4 Clearing the path to growth

Turkey’s future looks bright, but it needs to remove some barriers to investment. Businesses are more likely to invest in Turkey if it improves its education system, boosts innovation and makes its tax administration more efficient. To sustain its economic growth in the long term, the country needs to spread regional development beyond its traditional centers.

• For more on boosting Turkey’s attractiveness, turn to p.34, 37 and 49
Executive summary

A new hub for global business

More international investors are recognizing Turkey’s beneficial geographical location and large domestic market. And this growing awareness is helping to drive FDI. Half of respondents plan to increase their future investments in the country. More than 80% expect Turkey to become a more attractive destination for investment between now and 2015. Looking further ahead, 44% of respondents expect Turkey to become a regional and global business hub in the next 10 years. Strengths such as its location and large domestic market are helping Turkey to become a center of operations for multinational companies.

For more on Turkey’s potential as an investment destination, turn to p.44.

Targeting FDI sources

Turkey’s FDI sources
(2012 projects share, %)

<table>
<thead>
<tr>
<th>Region</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>46.3%</td>
</tr>
<tr>
<td>North America</td>
<td>14.7%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>6.3%</td>
</tr>
<tr>
<td>Middle East</td>
<td>2.1%</td>
</tr>
<tr>
<td>Central and Eastern Europe</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Source: Ernst & Young’s EIM, 2013.

Investment routes

Preferred modes of investment

<table>
<thead>
<tr>
<th>Mode</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extending existing operations</td>
<td>56.3%</td>
</tr>
<tr>
<td>Joint venture/alliance</td>
<td>11.5%</td>
</tr>
<tr>
<td>Acquisition</td>
<td>7.2%</td>
</tr>
<tr>
<td>Greenfield investment</td>
<td>7.2%</td>
</tr>
</tbody>
</table>

Source: Ernst & Young’s 2013 Turkey attractiveness survey (total respondents: 201).

Investors across the world recognize Turkey’s massive potential. However, most of the FDI it receives comes from developed countries. Turkey will progress more quickly if it can attract investment from emerging markets in areas such as Asia Pacific and the Middle East. More than half of investors plan to expand their existing operations in the country. Other preferred choices include JVs, followed by acquisitions and greenfield investments.

For more on Turkey’s sources of FDI and investment plans, turn to p.24 and 28.

A new hub for global business

More international investors are recognizing Turkey’s beneficial geographical location and large domestic market. And this growing awareness is helping to drive FDI. Half of respondents plan to increase their future investments in the country. More than 80% expect Turkey to become a more attractive destination for investment between now and 2015. Looking further ahead, 44% of respondents expect Turkey to become a regional and global business hub in the next 10 years. Strengths such as its location and large domestic market are helping Turkey to become a center of operations for multinational companies.

For more on Turkey’s potential as an investment destination, turn to p.44.

Source: Ernst & Young’s 2013 Turkey attractiveness survey (total respondents: 201).
Turkey in context

A new world order
Turkey’s key economic data and its place in today’s global economy.

Real GDP growth rates (%)

Rapid-growth markets stay on a safe path
After the economic setbacks of 2011, the global economy began 2012 in recovery mode. However, a pickup in global economic momentum is now projected for 2013. Global growth will accelerate moderately from 3.2% in 2012 to 3.3% in 2013 and 4% in 2014. ¹

The uptick in the world growth forecasts will initially be fueled by the rapid-growth markets (RGMs). RGMs, particularly those in Asia and Latin America, now enjoy relative stability on account of increasing intra-RGM trade and easing monetary and fiscal policy.

Growth in Asian RGMs will accelerate from 6.4% in 2012 to 7.4% in 2014, while those in Latin America are set to speed from 2.6% in 2012 to 4.5% in 2014. In contrast, RGMs in Eastern Europe are expected to lag behind their Asian and Latin American counterparts, with countries, including Poland and the Czech Republic, expected to grow at just 2.8% and 1.9%, respectively in 2014.²

Mature economies are growing slowly, but still account for 50.1% of global GDP
In contrast to the RGMs, the major advanced economies performed disappointingly in 2012. This was driven by the recession in the Eurozone and Japan. Their recovery from recession will remain weak in 2013. However, improving bank balance sheets and stronger consumer finances have brought the US back on track. Overall, advanced economies will play a reduced role in the global recovery, growing at 1.2% in 2013 and 2.2% in 2014. Although growth in the major advanced economies has been much slower than in RGMs, they still hold 50.1% of world GDP in terms of purchasing power parity.³

Source: World Economic Outlook, IMF, April 2013; Ernst & Young’s Rapid-Growth Markets Forecast, April 2013.

¹. World Economic Outlook, IMF, April 2013.
². Ernst & Young’s Rapid-Growth Markets Forecast, April 2013.
³. World Economic Outlook, IMF, April 2013.
Turkey in the global context: the next European powerhouse

Turkey lies at the junction of Europe, Asia and the Middle East. This strategic geographical location, combined with massive domestic market and stable macroeconomic policy has enabled it to become the 18th largest economy in the world in terms of GDP. Turkey offers one of the highest risk-reward ratios to foreign investors and is now recognized as an economy with very high potential. The country is expected to grow at 3.5% in 2013. Its growth path also appears to be sustainable, and annual GDP growth should exceed 5% in the medium term.\(^4\)

Despite these high growth numbers, a narrow current account deficit and high inflation are matters of concern for policymakers. Nevertheless, over the past decade, the Government has been focusing on reducing both inflation and the budget deficit. Huge strides have been taken to bring inflation under control. It has fallen from around 25% in the early 2000s to an average of 8.9% in 2012. The Government has also made good progress in reducing the budget deficit, which is down to just 2.1% of GDP in 2012.\(^5\) Global credit agency S&P upgraded Turkey’s sovereign credit rating in March 2013, reflecting Turkey’s economic resilience and dynamic economy.\(^6\)

\(^4\) Ernst & Young’s Rapid-Growth Markets Forecast, April 2013.
\(^5\) Ernst & Young’s Rapid-Growth Markets Forecast, April 2013.
\(^6\) Ernst & Young’s Rapid-Growth Markets Forecast, April 2013.


Beyond the BRICs: polishing the next rough diamond

The world has realized that the concept of emerging markets is not limited to the four large BRIC economies — Brazil, Russia, India and China. Turkey, along with others such as Indonesia, Vietnam and Mexico, has all the fundamental economic characteristics to lead the next wave of rapid-growth markets.

While the BRIC economies have recently enjoyed decent growth rates, this new wave of emerging markets has been preparing conditions that could deliver a faster pace of growth. Respondents to our 2012 Globalization Survey view these new emerging economies as the most competitive locations because of their access to nearby markets, their political stability and their transport and technology infrastructure.8 In the October 2012 edition of Ernst & Young’s Rapid-Growth Markets Forecast, we have recognized Turkey, along with Indonesia and Vietnam, as particularly high-potential economies.

Turkey’s main competitor for FDI is China, followed by Russia, Brazil and India. The BRICs remain a safe option in which to invest, but the momentum is shifting to other high-growth markets.

Turkish 2000-01 banking crisis was a key turning point in the country’s growth story. It was the catalyst for the drawing of a clear, medium-term economic roadmap, supported by sound structural reforms.9 Prior to the reforms, the Turkish economy was hampered by inadequate macroeconomic policies and a weak regulatory environment. The 2001 reform program provided a fillip to the economy. Ten years on, Turkey delivered an 8.5% GDP growth rate. Productivity has improved markedly since then, with GDP per person, GDP per worker and industrial output per worker averaging 3%-3.5% growth. Macroeconomic stability has also helped the nation weather the global financial crisis.

Investors have confidence in Turkey and believe that it will maintain this performance in the long term. Our survey shows that only 12.3% of respondents see Turkey being surpassed by more dynamic countries by 2023.

Turkey competes with other RGMS for FDI

58% of respondents believe that Turkey competes with RGMS in investment attractiveness, while 20% feel it competes with the developed world.

Turkey’s competitors

From a general point of view, in your opinion, which other country is Turkey’s main competitor in terms of attractiveness for investment?

<table>
<thead>
<tr>
<th>Country</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>22.0%</td>
</tr>
<tr>
<td>Russia</td>
<td>8.2%</td>
</tr>
<tr>
<td>Brazil</td>
<td>6.4%</td>
</tr>
<tr>
<td>India</td>
<td>6.1%</td>
</tr>
<tr>
<td>Poland</td>
<td>4.3%</td>
</tr>
<tr>
<td>USA</td>
<td>3.9%</td>
</tr>
<tr>
<td>Germany</td>
<td>3.0%</td>
</tr>
<tr>
<td>Greece</td>
<td>2.9%</td>
</tr>
<tr>
<td>Egypt</td>
<td>2.9%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>2.5%</td>
</tr>
<tr>
<td>Ukraine</td>
<td>2.5%</td>
</tr>
<tr>
<td>Romania</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Source: Ernst & Young’s 2013 Turkey attractiveness survey (total respondents: 201).

Real GDP growth (% per year)

<table>
<thead>
<tr>
<th>Country</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>2.2</td>
<td>3.5</td>
<td>5.4</td>
<td>5.2</td>
</tr>
<tr>
<td>Vietnam</td>
<td>5.0</td>
<td>5.5</td>
<td>6.9</td>
<td>7.1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>6.2</td>
<td>6.1</td>
<td>6.0</td>
<td>5.6</td>
</tr>
<tr>
<td>Russia</td>
<td>3.4</td>
<td>3.5</td>
<td>4.0</td>
<td>4.1</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.9</td>
<td>3.1</td>
<td>4.4</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Source: Ernst & Young’s Rapid-Growth Markets Forecast, April 2013.

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8. Looking beyond the obvious: globalization and new opportunities for growth, January 2013, Ernst & Young, 2013.
Turkey’s structural transformation was triggered by economic reform and political stability. The results of this transformation have been significant and promising. Turkey started to grow rapidly after 2001 and it now has the largest free-market economy and greatest industrial power in the region between East Europe and East Asia.

The economic programs were based on a strong macroeconomic policy framework. Wide-ranging structural reforms included a major overhaul of the banking system. A better investment climate, a liberal foreign investment regime and privatization were the main pillars of reform. These policies enabled Turkey to attract US$90b of FDI in the last decade.

These economic programs combined with regulatory and supervisory reforms enhanced the Turkish economy’s resilience to shocks. As a result, Turkey emerged from the global crisis to be one of the world’s fastest-growing economies.

During the period 2000–10, the annual average growth in the volume of Turkish exports was 11%. This performance is impressive when compared with the average growth in world exports (6%) and exports of emerging and developing economies as a whole (8%).

There have also been significant changes in the commodity composition and structure of Turkish companies’ exports. The share of traditional exports, such as textiles and garments, has declined, while the share of motor vehicles, machinery and equipment has increased.

Diversification of the export market has been even more successful. Exports to the Middle East, North Africa and Central Asia increased considerably during the decade, following extensive outreach efforts toward these regions. This diversification cushioned the impact of depressed demand in Europe after the global crisis.

Diversification in the sourcing of exports within Turkey was also significant. In the past, exports came from firms in major cities. But during the past decade, an increasing number of small and medium-sized enterprises (SMEs) from all parts of Anatolia started to export. These enterprises have been particularly successful in penetrating the markets of neighboring countries.

Turkey was more prosperous at the end of the last decade than at the beginning. The decision-making environment was more stable, a middle class with a stake in continued stability was stronger, and the export culture had continued to develop. Today, Turkey is one of the growth engines of the new global system.

The decision-making environment was more stable, a middle class with a stake in continued stability was stronger, and the export culture had continued to develop. Today, Turkey is one of the growth engines of the new global system. Istanbul is not only the business center of the region, but also one of the centers of global diplomacy. Turkey, with its democratic credentials, economic model and strong private sector, is an inspiration for peace and stability in a volatile neighborhood.
The transformation of Turkey’s economy since its 2001 crisis has improved the business environment significantly. The Government’s determination to push for the necessary reforms, combined with its strong majority in Parliament, has allowed the swift restructuring of the banking sector and quick decline in the budget deficit and public debt. Although the economic backdrop improved quickly after 2001, it took four years or so for FDI to start flowing into Turkey.

Five key factors underpinned Turkey’s attractiveness to foreign investors. First, the improved macroeconomic environment led to lower inflation and interest rates, higher growth and stable financial markets. Second, the privatization of state-owned companies has gained significant momentum. Third, Turkey has, for the first time, successfully concluded an IMF program. Fourth, there are favorable global liquidity conditions and risk appetite toward emerging markets. And last, but not least, Turkey’s negotiations for full membership of the EU.

As a result, FDI inflows increased to US$10b in 2005 from US$2.8b in 2004, and an average of US$1.2b between 1994 and 2003. Since 2005, Turkey has attracted about US$15b FDI inflows per year, with a peak of US$22b in 2007.

I believe that Turkey has the potential to become one of the top destinations for global FDI. However, in order to exploit this potential, important steps still need to be taken. Turkey’s large current account deficit and associated volatile growth performance need to be resolved.

Despite significant improvements over the last decade, especially in line with the efforts to comply with the EU rules and regulations, another important barrier to further FDI inflows in Turkey is the frequent and unpredictable changes in its legal and regulatory environment. In this context, it is also worth noting that tax and incentive policies sometimes create hurdles for foreign companies to overcome.

Turkey’s large informal economy has created an uneven playing field for foreign investors. Although progress has been made, a more focused approach to reducing the informal economy is needed to trigger greater FDI inflows. And, greater efforts to protect intellectual property rights would help improve Turkey’s attractiveness.

“Turkey’s large and very dynamic domestic market is a very significant factor that differentiates us from our peers.”

Having acknowledged the areas of further improvement in terms of FDI attractiveness, I would like to conclude my remarks on a more positive note. It has almost become a cliché to say that Turkey is a bridge from geographical, cultural and social points of view. Obviously, our strategic geographical location enables companies in Turkey to reach the surrounding regions quite easily. However, I believe that Turkey’s large and dynamic domestic market is a very significant factor that differentiates us from our peers, especially in Central and Eastern Europe, where they share more or less the same geographical location. Turkey has many attractions that are difficult to find in other places. These include a young population, mostly underpenetrated sectors, developed entrepreneurial skills, a long history of private business culture, openness to competition, the ability to adapt to domestic and global dynamics, improving infrastructure and an ongoing reform agenda. So if policy-makers act to remove the barriers to FDI, I believe that Turkey will be one of the top destinations for global FDI inflows in the not too distant future.
What it means for businesses

The world economy is changing. At a time when mature markets are still struggling to grow, the spotlight among the emerging markets is not just limited to the BRICs anymore. Turkey, along with other new wave RGMs, such as Indonesia and Vietnam, are now in close competition with the BRICs. As multinationals and SMEs step up their commitment to adapt new business models in these markets, countries will become more competitive and garner foreign investment.

The changing world order calls for consideration of both risks and opportunities for business leaders. They must take a deeper view of the forces at play in various markets and choose the best location for investment. In this regard, Turkey’s strong economic fundamentals offer investors a strong risk-reward ratio. However, dynamics differ with the size and type of investment. So it is important for companies to make a careful assessment of risk factors before establishing a presence in any country.
Methodology
Our analysis reflects the real attractiveness of Turkey based on data from Ernst & Young’s EIM. This database tracks FDI projects that have resulted in new facilities and new jobs. FDI data in EIM includes equity capital, reinvested earnings and intracompany loans, but excludes portfolio investments and M&A. Therefore, it shows the reality of investment in manufacturing or services operations by foreign companies across the continent. An investment in a company is normally included if the foreign investor has more than 10% of its equity and a voice in its management.

For the detailed methodology, turn to p.54
Shifting gear

How FDI in Turkey compares with global investment trends, and which are the most favored sectors, activities and destination cities.

Uncertainty hampers FDI in 2012
The global view

FDI inflows by region
(2012 vs. 2011)

<table>
<thead>
<tr>
<th>Region</th>
<th>2012</th>
<th>2011</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America and the Caribbean</td>
<td>7.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>5.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>-9.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>-34.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>-35.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>European Union</td>
<td>-36.1%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Despite the tough economic environment, global FDI inflows reached the US$1.6t mark in 2011, exceeding the pre-crisis average. However, as new impediments to economic recuperation cropped up in 2012, global FDI inflows declined by 18.3% on the previous year. Both greenfield investment projects and cross-border M&A transactions plummeted in 2012, by 34% and 41%, respectively.10

A number of investors have adopted a wait-and-see attitude, owing to slow global demand and uncertainty surrounding regulatory changes.

In contrast with the global trend, Turkey emerged as a strong performer in terms of FDI inflow in 2011. FDI in the country rose 76% between 2010 and 2011.11 In the same year, the value of greenfield FDI projects reached US$10.3b. However, in 2012, a decline in cross-border M&A sales has driven inflows to Turkey to drop by 22.1%, compared with to 2011. This decline is much smaller than in Europe, where FDI inflows have decreased by 36.1%. Still, it is worth noting it.

Key findings

395 investment projects were initiated between 2007 and 2012.

US$87.1b was the total value of projects in Turkey between 2007 and 2012.

63% of projects established in 2012 were in service sectors.

36% of projects between 2007 and 2012 were created by knowledge-intensive industries.

28% of projects established in 2012 came from the US.

FDI inflows in Turkey
(US$ billion)

22.0 19.4 8.4 9.0 15.9 12.4
2007 2008 2009 2010 2011 2012

Vibrant, yet unexploited
FDI in Turkey

Turkey’s FDI story has mirrored its economic development over the past decade. The nation registered 395 investment projects between 2007 and 2012, posting average annual growth of 27.5% during the period. The years 2009 and 2011 witnessed considerable FDI growth in Turkey despite global economic uncertainty. This clearly suggests that FDI movements in Turkey have remained largely immune to the uncertain external environment.

Turkey’s Government successfully stabilized the economy after the 2001 banking sector crisis. It has made huge strides to control inflation, as well as the size of the budget deficit. A stable macroeconomic framework has brought Turkey’s inherent strengths to the fore. Investors have credited Turkey’s large domestic market and geographical location as key drivers of investment in the nation.

Aside from the strong fundamentals, the Turkish Government has unveiled several incentive schemes to attract foreign investors. In April 2012, Prime Minister Recep Tayyip Erdogan announced a new incentive regime comprising strategic support measures such as value-added tax (VAT) exemption and refund, export tax exemption, tax deduction, employment insurance support and interest rate support. Since the announcement, large international organizations have announced new investment plans in Turkey. For instance, General Electric Co. has announced a US$900m commitment toward aviation, energy, health, transportation and infrastructure. And Austrian fiber producer Lenzing AG decided to devote most of its US$1.9b planned investment to Turkey.


Turkey’s track record over the last decade speaks for itself. It is one of only a handful of countries in the world to recover quickly from the global downturn in 2009. And Turkey’s GDP has grown nearly threefold (in US$ terms) over the last decade. The past gives me courage and hope that Turkey will continue to be a shining star in the coming years. In my view, Turkey will have a robust M&A market and enjoy an increasing inflow of foreign investment. FDI was less than US$800m back in 1998. It reached US$16b in 2011 after peaking at US$22b in 2007. This progress is impressive but, in my view, there is room for accelerated growth in the coming years.

Turkey has key competitive advantages over many other growing economies. These include its economic and political stability, enhanced by a swift-acting government constituted of a single party; its attractive future growth potential; its solid banking sector; and effective regulatory bodies. There is one additional point of difference that deserves attention: the growing liquidity in the private and public markets. This is a quintessential point for private equity firms, as it enables investors to exit. I have witnessed this first-hand when we made our multi-billion dollar exit from the Acibadem Group last year. The reason, in my view, is simple. Turkey’s changing profile has attracted many foreign financial players. And there are many more high-profile names waiting to make an entrance. In addition, the strengthening finances of local companies are encouraging M&A, while a robust capital market creates viable and lucrative exit options for PE players.

Trade sales are usually the preferred exit route, but thanks to the efforts of the Capital Markets Board, the Istanbul Stock Exchange (ISE) has become one of the biggest exchanges in the world – making public offerings of the right size a plausible exit option. Turkey is enjoying a strong tailwind and the Abraaj Group is committed to Turkey for the long term. Over the last five years, Abraaj has made six investments and successfully exited four of them. We will continue our path with a strong and growing presence in the country, and hope to increase our deal activity in 2013 and beyond.

“Turkey has key competitive advantages over many other growing economies.”
Gaining interest across the value chain
FDI by business activities

Services top FDI activity
The period 2007–12, witnessed a slight shift from industrials to services in terms of the number of projects. The share of industrials decreased, while that of services increased. Services investors preferred three major cities — Istanbul, Ankara and Izmir. Istanbul, the most populous Turkish city, received 83.2% of the services projects, and was particularly attractive for those setting up sales and marketing offices.

In contrast to investment in services, industrial projects were relatively well spread across the country. The increase in industrial production volume index from 114.2 in 2008 to 126.8 in 2011 reveals investors' positive approach to Turkey's industrial sector.16

FDI in strategic functions took a dip and contributed only 3.2% to project numbers in 2012. Turkey needs to build strong R&D capabilities to attract more FDI in strategic functions.

Manufacturing, and sales and marketing both hold investor attention

▶ Manufacturing. The reality of manufacturing setups matched the perception of investors. The sector accounted for 34.4% of the total projects between 2007 and 2012 — a figure second only to sales and marketing. Manufacturing emerged as the preferred planned investment sector among respondents. Some 38.6% plan to invest in manufacturing activity in Turkey. Meanwhile, 23.3% of them plan to produce for the Turkish market, and 15.3% intend to manufacture for export to the global market.

▶ Sales and marketing offices. While just over a quarter of planned activities are in sales and marketing, the sector commands over half of actual FDI projects. This gap highlights investors' appetite for new market opportunities, and is consistent with Turkey’s overall perception as an operational hub. The number of projects increased at an average annual growth rate of 53.8% between 2007 and 2012. Investment was driven mainly by companies from the US, Germany and the UK. Turkey received 59 sales and marketing projects in 2012, and most of them were in the form of new offices set up by business services firms.

HSBC Global Research predicts that Turkey will rise from its current position as the 18th largest economy in the world to 12th by 2050, when its GDP will be US$2t. Some of Turkey’s established features support this prediction, including its 74 million population, with more than half under the age of 29; its location at the crossroads of world trade; and its entrepreneurial workforce. However, some more recent developments will be just as important as Turkey seeks to fulfil these high expectations.

These include 11 years of political stability; fiscal discipline; a well-regulated banking and financial system that has learnt from a severe financial crisis earlier than the rest of the world; a labor force that is highly educated but less costly than those in mature markets; and quick access by road, air and sea to the large markets of Europe and the Middle East.

These features have helped the country weather the current global financial crisis and the troubles in the Eurozone. So Turkey has been rising as much of the rest of the world has stumbled.

The Turkish banking sector is still very attractive. It has low penetration levels; favorable demographics; a strong regulatory environment; growing trade dynamics with both Europe and the rest of the world; and rising consumer activity from a young, increasingly affluent, middle class.

Over the last 22 years, HSBC has worked with Turkey through both turbulent and prosperous times. We continue to invest in Turkey businesses, helping our customers transform their businesses and lives in line with the fast growth of the economy.

In 1990, HSBC became one of the first international banks to invest in Turkey. Initially focusing on corporate banking and capital markets, HSBC Turkey expanded its business into retail banking and wealth management following two major acquisitions in 2001 and 2003. This was a period of massive transformation in the Turkish banking sector, with major structural reforms being implemented in the aftermath of Turkey’s 2001 financial crisis.

Our current strategy reflects Turkey’s continued positive prospects. We plan to expand our network, build our customer base and invest in our technology, direct banking capabilities and our people. Our core goal remains to cement our position as Turkey’s leading international bank at just the time that Turkey’s position in the world is rising fast.

To fulfil its potential, Turkey needs to continue investing in its legal, physical and technical infrastructure; improve its tax transparency; maintain its relentless drive to increase savings ratios; and reduce the cash economy. If Turkey continues with this pace and focus on change, its success story will have only just begun. And HSBC is honored to play our full part in this story.

“Destined for success”

Martin Spurling
CEO, HSBC Turkey
FDI by sector

Investors target knowledge-intensive and heavy industries

Turkey's FDI profile is a dynamic mix of established and emerging sectors. The country attracts projects in knowledge-intensive sectors as well as heavy industry. The Government has supported investment in all industries by creating a conducive and competitive investment climate. Turkey's sizeable population and strategic location add to its FDI appeal.

In 2012, in terms of number of investment decisions, as reported by *Ernst & Young’s EIM 2013*, the top sectors for investment were business services and financial services. The leading sectors for FDI in Turkey in terms of value, according to the Turkish Government, were manufacturing and financial intermediation.

### FDI by sector
Projects 2007–12 (% and number of projects)

- **Business services**: 16.7% (66)
- **Diversified industrial products (DIP)**: 13.2% (52)
- **Automotive**: 12.4% (49)
- **Information, communication and technology (ICT)**: 9.9% (39)
- **Financial services**: 9.1% (36)
- **Transport and logistics**: 8.9% (33)
- **Chemicals**: 8.6% (34)
- **Mining and metals**: 6.8% (27)
- **Retail and consumer products (RCP)**: 5.6% (22)
- **Life science**: 3.3% (13)
- **Others**: 5.6% (22)

Source: *Ernst & Young’s EIM, 2013.*
FDI by sector

Business services was the most preferred sector in Turkey between 2007 and 2012. Strong growth potential and macroeconomic stability have encouraged companies to set up contact centers and sales and marketing offices in the country. Companies in other sectors are building up their presence in Turkey. This is creating opportunities for business services firms. Turkey’s time zone permits communication with both Eastern and Western countries during the same working day.17 This boosts its appeal as a services destination. Istanbul is the most favored destination for business services FDI in Turkey. It attracted 55 of the 66 projects in this sector during 2007–12. The US (40.9%) was the top investor, followed by the UK (16.7%), Germany (9.1%) and Australia (4.5%). In 2011 particularly, business services outstripped all other sectors, with a 166.7% increase in project number, mainly fueled by accelerated investment activity undertaken by US and German companies.

Diversified industrial products (DIP)

Large-scale multinationals are showing greater interest in Turkey’s DIP sector. They are attracted by the availability of a diverse labor force and cost competitiveness. Around 65% of the projects were initiated by Western European companies, as part of their strategy to relocate operations to Central and Eastern Europe (CEE). Of the 34 projects from Western Europe, 10 were from Germany, 8 from Italy, and the rest mostly from France, Austria and Switzerland. While Istanbul has always enjoyed investor attention, Izmir and Manisa have now emerged as attractive destinations for DIP investment. Manufacturing and sales and marketing were the main activities for foreign investment in this sector. Positive developments, such as the new investment incentive scheme, have increased Turkey’s investment appeal. In 2012, FDI projects in DIP registered a year-on-year increase of 10%.

On the ground

The low cost structure has encouraged various companies to relocate their manufacturing facilities from Western Europe to Eastern parts of the continent. For instance, German company ThyssenKrupp AG moved its service center and Italian company Marzotto shifted its manufacturing facility to Turkey. Asian companies have also shown interest in Turkey’s textiles sector. In December 2011, Aditya Birla group, an Indian conglomerate, announced an investment of US$500m after ground was broken on a new viscose staple fiber plant in Adana.

ArcelorMittal

ArcelorMittal has been present in the Turkish market for more than 15 years. Its commitment to the country is evident from its investments, including joint ventures with Turkey-based Borusan Holding and Spain-based Bamesa. Both joint ventures are located in Bursa. In 2007, ArcelorMittal Distribution Solutions Turkey acquired steel trader Rozak Demir to form ArcelorMittal Distribution Solutions (AMDS Rozak). With the synergy created by acquiring Rozak, the company expanded further in Turkey. AMDS Rozak opened its largest steel service and processing center in 2011, in Osmaniye. In another strategic move, ArcelorMittal acquired the 35% outstanding stake in Uginox Sanayi ve Ticaret from German company Primex in 2008. It already owned 65% of the Turkish stainless steel service center and then took full control, with plans to expand its throughput.


Automotive companies have set up manufacturing facilities and assembly plants in Turkey for the domestic market and for exports. Rising per capita income and low automotive ownership rates (151 per 1,000 driving population in 2012) make Turkey an attractive automotive market. Of the total automotive production in 2012, 68% (with a value of US$19.3b) was exported. Key export markets include the EU, the Middle East and North Africa.

The automotive sector is a critical strand of Turkey’s growth story. The Government offers various incentives and schemes to boost economic activity in this sector, and aims to increase automotive exports to US$75b by 2023. Under an incentive introduced in 2012, carmakers can avail a waiver of 15% on import tariff if they add capacity to the tune of 100,000 units. These developments have increased Turkey’s appeal to foreign investors.

The majority of the automobile projects started since 2007 have been launched in western Turkey, particularly in Kocaeli, Bursa and Istanbul. Proximity to the EU and the establishment of several Technology Development Zones (TDZs) and Organized industrial zones make it a promising automotive region. Automobile companies wishing to set up production facilities are attracted by Turkey’s competitive labor costs. According to the Global Wage Report 2010-11, minimum monthly wages in Turkey in 2010 (adjusted for purchasing power parity or PPP$) stood at US$609, compared with US$1,507 in the UK and US$944 in Japan. Turkey has welcomed investment from automobile companies at various stages of the value chain. During 2007–12, there were 38 projects in automotive assembly, 10 in automotive components and 1 in the sale and repair of motor vehicles.

**On the ground**

Renault have strengthened their presence in Turkey in the last five years, and the country has emerged as the largest light commercial vehicle manufacturer in Europe. US carmaker Ford is one of the largest players in Turkey’s automotive market. Hyundai, which has manufacturing operations in Turkey for the i20 hatchback and supermini i10, plans to set up an engine production plant and an R&D center in the country.

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Information, communication and technology (ICT)

Both supply- and demand-led factors are driving ICT investment in Turkey. While government incentives for R&D investment in technology are a supply-side factor, demand for technology services is proving attractive to investors.\(^{23}\) The ICT sector in Turkey is worth US$29b.\(^{24}\) This is still below the EU average, but represents a huge investment opportunity for domestic and foreign investors.

As part of the Turkish National Technology Foresight Program, Vision 2023, the Government plans to increase ICT sector spending to 8% of GDP and position Turkey among the top 10 countries in e-transformation. TDZs, commonly termed as “technoparks,” have been set up to attract investment in high-technology fields. Currently, there are 39 TDZs, of which 27 are operational and 12 are under construction.\(^{25}\) The concentration of TDZs in Istanbul (5) and Ankara (6) has made them preferred destinations for ICT investment. A greater part of FDI activity was initiated by European and North American countries.

**On the ground**

Large networking and telecommunications companies have expressed interest in the country’s ICT sector. Companies including Ericsson, Huawei and the Vodafone Group, have established R&D centers in Turkey. Currently, Ericsson Turkey R&D centers provide innovative services, with over 350 engineers from the Istanbul center, as well as offices in Ankara and Izmir. Similarly, Huawei’s R&D center, built with an investment of US$50m, is the company’s second-largest center outside China and employs almost half of Huawei Turkey’s workforce.\(^{26}\)

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Vodafone Group

UK-based Vodafone Group set up operations in Turkey in December 2005, when it took over Uzan Group’s Telsim. In May 2006, Telsim was renamed Vodafone Turkey. Headquartered in Istanbul, Vodafone Turkey is the second-largest mobile communications company in the country, with over 18 million users. The company provides a range of integrated office and mobile voice data communications services. Since 2006, its total investments in Turkey have exceeded US$6b, positioning it as the second-largest direct investor in the country. A notable achievement has been the Vodafone Farmers’ Club. Over 600,000 Turkish farmers subscribe to receive alerts about weather forecasts, crop prices and other local information. It has increased Turkish farmers’ productivity by over €100m. In 2012, the company announced its decision to launch a new mobile payment system, Near-Field Communications, in five countries including Turkey.

Sources:

FDI by sector

Financial services

The financial services sector in Turkey has shown itself to be relatively resilient to the global economic crisis. And its high growth rates offer encouragement for investors. Between 2002 and 2012, Turkey’s banking industry posted a net growth rate of 10.5%. Investors are also attracted by its robust regulatory framework. Meanwhile, the insurance sector is also gaining interest, with premiums rising steadily from US$81 per capita in 2005 to US$127 in 2010. Between 2007 and 2012, the sector drew 9.1% of the total FDI projects in the country. Italy and the US are the sector’s two largest investors, directing projects toward Istanbul, Ankara and Izmir. Istanbul, Turkey’s financial center, attracted the majority (91.7%) of projects.


On the ground

The financial services industry in Turkey has encouraged international investors to establish or expand operations in the country. In 2012, Italy’s retail bank Intesa Sanpaolo applied for a Turkish banking license with the aim of opening branches in the country’s largest cities. Similarly, Bank of Tokyo-Mitsubishi UFJ of Japan has received the go-ahead to set up a banking business in Turkey. Bank Audi of Lebanon has also ventured into the Turkish market through its fully owned subsidiary, Odea Bank, to capitalize on its growing trade links with the Middle East. It plans to increase its presence from the 6 branches it currently has, to 32 branches in 2013.


Sberbank-DenizBank

As part of a strategy to increase its share of international operations, Russia-based Sberbank acquired 99.85% of Franco-Belgian lender Dexia SA’s Turkish arm, DenizBank AS, for US$3.5b in September 2012. This is Sberbank’s largest ever acquisition and is expected to help the bank diversify and penetrate deeper into Europe. Under Sberbank’s ownership, DenizBank aims to achieve asset growth of around 22%. In December 2012, Sberbank also entered into two separate agreements with Turk EximBank and the Investment Support and Promotion Agency Turkey (ISPAT). These agreements will help the bank to benefit from the rapidly expanding trade and investment flows between Russia and Turkey.

FDI by sector

Transport and logistics

Turkey's location at the crossroads of major trade routes makes it an attractive destination for investment in transport and logistics.

The majority of respondents to a European supply chain managers’ survey conducted by Jones Lang LaSalle stated that Turkey's geographical location, strong economic growth and political stability make it one of the top three emerging logistics locations in EMEA (Europe, Middle East and Asia region). With 57.1% of the projects, Istanbul was the top investment destination, followed by Izmir and Ankara. Of the 35 logistics projects in Turkey, 22 were from European companies while 9 were from the US.


On the ground

The presence of global giants such as Deutsche Post AG and United Technologies Corporation signifies the potential of the Turkish transport and logistics sector. FedEx Corp. opened offices for freight forwarding in Istanbul, Ankara and Izmir in 2011 to serve its domestic as well as foreign customers. FedEx claims to capitalize on the market opportunity of easy access through Turkey to 1.5 billion people in markets in Europe, the Middle East, North Africa and Central Asia.


DHL Express

DHL Express (a subsidiary of Germany-based Deutsche Post AG) has been in Turkey since 1981. It provides services through four main units: DHL Express, DHL Global Forwarding, DHL Exel Supply Chain and DHL Freight. The company claims over a 50% market share of the Turkish express air freight market. In 2003, Deutsche Post acquired Turkish logistics provider Berben Ekspres Nakliyat to form a new company, DHL Danzas Air & Ocean. In 2010, it reported the volume of commercial freight services between Turkey and South Asia Pacific to have surged by 300%. Consequently, the company has recognized Turkey as the base for expansion in Europe and intends to strengthen its presence in the country through strategic mergers and alliances.

Dominated by mature economies

Sources of FDI

Having adopted a pro-Western stance for the greater part of the 20th century, Turkey has reoriented its foreign policy toward the Middle East. However, its foreign investment sources remain largely unchanged, signaling a continuing relationship with the US and Europe, while negotiations to join the EU are ongoing.

US tops investment table

Companies from the US provide the most FDI in Turkey. The US’s share of investment decisions in Turkey increased from 17.5% in 2007 to 28.4% in 2012. Sectors such as business services, ICT, chemicals, transport and logistics and DIP have attracted significant American attention.

The budding investment relationship between the two countries is evident from the memorandum of intent (MOI) signed between the Turkish Prime Minister’s Investment Support and Promotion Agency (ISPAT) and Invest in America, a United States Department of Commerce program. The MOI requires both countries to cooperate on FDI activities and provide mutual assistance to investors.

US stalwarts, such as Dow Chemicals, have set up operations in Turkey. Dow Chemicals and Turkey-based Aksa Group – a leading acrylic fiber company – have entered a JV to pursue opportunities in the carbon fiber industry by expanding on existing production assets in Yalova in Turkey.

FDI by origin country (2007-12)

FDI by origin region (2007–12)

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FDI by origin region
Turkey began to negotiate its accession to the EU in 2005. Since then, progress has been slow. Nevertheless, the EU remains the largest source of FDI in Turkey, with the opening of sectors such as banking, energy, tobacco and telecommunications. Meanwhile, Turkey and the EU are still strong trading partners.

Turkey and the EU would both benefit if the accession negotiations regain momentum. While investors from the EU continue to offer technological and innovation capabilities, Turkey’s dynamic population can help the EU boost demand-driven growth. Both parties would benefit from stronger economic ties. EU membership would allow Turkey to benefit from the EU’s sound foreign and security policy, trade policy, and influence in other fields of global governance.

Though, the timeline for accession is not defined, these discussions have not impacted the underlying importance of Turkey in investors’ minds. A majority of investors declared that negotiations have actually improved their perception of the country’s attractiveness. This view holds true for respondents who are present in the country, as well as those who are not in the region.

Europe maintains a strong presence

In the past six years, the EU has directed 202 projects to Turkey. The EU’s interest in Turkey mostly focuses on sectors with a high technology component such as diversified industrial products and automotive. Other sectors such as business services, and transport and logistics have also drawn investor attention.

Germany is the leading European nation in terms of projects. Expectation of strong demand from the Turkish infrastructure, energy, automotive and finance sectors is driving German investment in the country. The number of projects from Germany into Turkey have grown at an average annual rate of 15.6% since 2007. However, its share of Turkey’s total projects has declined from 22.5% in 2007 to 16.8% in 2012. Attracted by Turkey’s reputation for the production of commercial vehicles, Mercedes Benz Türk has earmarked US$200m for its production facilities in Aksaray and Istanbul.

Japan: Asia’s leading investor in Turkey

Japan is the leading investor from Asia into Turkey and accounts for more than one-third of the continent’s projects in Turkey. The top sectors for Japanese investment are automotive (29.4%) and financial services (17.6%). Japan’s third-largest lender, Mizuho Financial Group, is keen to expand its market presence in Turkey, mainly to fulfill fund requirements for ongoing infrastructure projects in the country. Similarly, steelmaker Toyo Kohan is partnering with Turkey-based Tosyali Holding via the joint-venture route to build a production facility in the southern part of the nation.

Rapid-growth markets invest in Turkey’s future

There is a growing interdependence among rapidly growing economies in terms of trade and investment. As Turkey has progressed on the rapid-growth trajectory, it has attracted interest from other fast-expanding markets in Asia and the Middle East.

Asian economies lead the way

China, India and South Korea have been trying to capitalize on Turkey’s growth story through FDI. Together, these countries have directed 23 projects to Turkey since 2007. Leading Indian multinationals such as Larsen & Toubro and Polyply have invested there. Polyply is mulling over an additional US$500m
investment after committing US$150m to build a plastics plant in the Corlu district. A number of Chinese firms are seeking investment opportunities in Turkey, especially in nuclear energy, highway, high-speed train, railway and port projects. Multinationals from China, including Bank of China and Huawei Technologies, are already present in the country. In addition, some parts of a free-trade agreement between South Korea and Turkey came into effect in August 2012. Turkey and South Korea are collaborating to build nuclear and coal power plants.

**Making connections with MENA**

Though the Middle East and North Africa (MENA) region accounts for only 3% investment decisions in the country, Turkey has been collaborating and strengthening trade ties with the region for the past five years. The main catalyst for this development has been the long, drawn-out nature of Turkey’s bid for EU membership. While the EU is still Turkey’s key export market, its importance is dwindling.

Decline in Western Europe's share of FDI projects

Although Western Europe remains the largest regional investor in Turkey, its relative importance in FDI inflows to the nation has been declining. The Turkish Government has made a conscious effort to deepen ties with the MENA region.

Gulf attention in Turkey is driven by similarities in the business and social culture. Sectors attracting attention from MENA include retail, financial services and energy. Several companies, including Emaar and Abraaj Capital, and Taqa, have shown interest in the Turkish market.

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The global financial crisis has created a much more challenging environment in Europe for FDI. In general, the region has seen a near halving of FDI inflows since the fall of Lehman Brothers in 2008. This largely reflects fallout from the European periphery crisis and the perception that the region will be crisis-prone and suffer from low growth, for an extended period of time. So being European, Turkey is in a difficult region.

We do not anticipate the speedy return of aggregate FDI inflows into the region, but we expect much more competition between countries to attract a bigger slice of a much smaller FDI cake. As this competition intensifies, Turkey probably stands in better shape than its competitors in emerging Europe. Turkey benefits from a number of key positives, including a stable, reforming, pro-business government. Macroeconomic indicators are also positive. Turkey is established as a high-growth economy – with 4%-5% real GDP growth expected in 2013 – and boasts favorable demographics, with a young and aspiring population that enjoys rising income levels. In contrast with much of Europe, Turkey has a healthy banking sector, in which banks want to lend and consumers want to borrow. And it has a strong public sector balance sheet, with a budget deficit of around 2% of GDP, and a public sector debt ratio below 40%.

Turkey’s key vulnerability remains its large current account deficit of around 7% of GDP. However, there is some evidence that short-term demand management measures have cooled demand for imports over the past year. Meanwhile, the Government is working on longer-term measures to close the current account gap, including promotion of exports; energy conservation and diversification; and pension reform to boost savings rates.

Turkey also benefits from a diversified trade structure, with a diminishing share of exports to the EU (now below 40%). The Government is looking to boost trade ties with Africa, the Middle East and Asia. These new and deepening trade relations should also provide a reverse flow of FDI. Turkey’s strong policy and macroeconomic backdrop should encourage it to lead the region in terms of FDI inflows, and these flows should further help underpin economic growth and development.

“The Government is looking to boost trade ties with Africa, the Middle East and Asia.”

Strong fundamentals open door to FDI

Timothy Ash
Head of emerging markets research (ex-Africa), Standard Bank, London

Interview
Investor plans

**Interest is high**

More than half of total respondents have expressed their intention to set up operations in Turkey within the next year. This highlights the growing investment appeal of Turkey in the eyes of business leaders.

When asked about a specific strategy for investment in Turkey, 56.3% of survey respondents revealed plans for extending existing operations in the country. While 41.2% plan to expand facilities, 15.1% are looking to increase their labor force.

There was a marked difference between the responses of investors who are present in Turkey and those who are not. While existing investors showed a preference for expanding operations, the others prioritized plans for JVs and greenfield investments. Recently, Japan’s Sumitomo Rubber Industries and Turkey’s Abdulkadir Ozcan Otomotiv Lastik have entered into a JV to set up a passenger tire plant in Cankiri.44


Are you planning to invest?

<table>
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How are you planning to invest?

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<th>Increasing labor force</th>
<th>Joint venture/alliance</th>
<th>Acquisition</th>
<th>Greenfield investments</th>
<th>Other</th>
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<td>7.7%</td>
<td>9.6%</td>
<td>12.0%</td>
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<tr>
<td>Not established in Turkey</td>
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<td>7.0%</td>
<td>6.8%</td>
<td>10.6%</td>
<td>16.3%</td>
<td>5.8%</td>
</tr>
</tbody>
</table>

Sources: Ernst & Young’s 2013 Turkey attractiveness survey (total respondents: 201).
What it means for businesses

In today’s competitive world, companies need to be more responsive to their customers. They are continuously expanding their focus beyond production activities and assessing the entire length of the value chain. Turkey’s FDI projects encompass both traditional and developing sectors. Most FDI activity in the country is in sectors such as business services, diversified industrial products, automotive, ICT, financial services, and transport and logistics. Business leaders should pay closer attention to the changing dynamics of the Turkish economy so that they can time their investments accordingly.

Turkey also has a diverse profile in terms of the originators of foreign investment. Western Europe is the top regional investor in the country, followed by North America. While Turkey continues to collaborate and strengthen ties with the MENA region, Asian economies have also noticed its potential. Foreign investors can be assured of the all-round appeal of the country.
Perception
How Turkey is viewed by foreign investors

p.31  Turkey’s prospects
      On the right track

p.32  What drives investment
      Market opportunities, labor market and diversity

p.34  The challenges ahead
      Business environment, R&D and innovation

p.37  Istanbul and beyond
      Regional development

Istanbul, apartment and office buildings
Turkey's prospects

Turkey's attractiveness has improved in the last three years, according to the majority of survey respondents. Turkey is on a growth trajectory, and its investment appeal is expected to rise further in the future. Attracting FDI has been a high priority for the Turkish Government, which has been improving the investment climate by implementing structural reforms and incentive schemes.

Perception of Turkey's attractiveness

Over the past three years, has your perception of Turkey's attractiveness to invest in ...

<table>
<thead>
<tr>
<th>Slightly improved</th>
<th>Significantly improved</th>
<th>Total improved: 71.3%</th>
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</thead>
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<tr>
<td>41.1%</td>
<td>30.2%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Neither improved nor deteriorated</th>
<th>Significantly deteriorated</th>
<th>Slightly deteriorated</th>
<th>Can't say</th>
<th>Total deteriorated: 6.1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>19.3%</td>
<td>1.7%</td>
<td>4.4%</td>
<td>3.3%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Ernst & Young’s 2013 Turkey attractiveness survey (total respondents: 201).
Market opportunities, labor market and diversity

What drives investment

Market opportunities

- Central geographic location and access to multiple markets
  Turkey’s geographical location is one of its most appealing features. Turkey’s location provides easy access to more than 1.5 billion consumers in Europe, Central Asia, the Middle East and North Africa.45 Turkey also plays an important role as an energy transit country — oil and gas supplies from Russia, the Caspian region and the Middle East travel through Turkey to Europe. More than three-quarters of Turkey’s energy resources are to be found in the south and east of the country. The largest energy consumer, Europe, is located to its west.46

- Large domestic market
  Turkey has a domestic market of 74.6 million people.47 GDP per capita is expected to be US$11,489 in 2013, substantially higher than that of Vietnam (US$1,706) and Indonesia (US$ 4,014). Turkey’s Vision 2023 targets GDP per capita at US$25,000.46 These prospects make investment in Turkey highly appealing.

Investors set up operations in Turkey not just to reach its domestic customers but also to access the surrounding markets of Europe and Asia. While 23.3% of respondents are motivated by the domestic market, 15.3% are targeting the global market.46

Reasonable labor cost-quality profile

Low-cost labor makes Turkey an attractive investment destination. In 2009, the average hourly cost of labor in Turkey was US$2.98. This compares with US$3.29 in Russia, US$5.23 in Brazil and US$13.19 in the Czech Republic.49 Several companies relocated from other parts of Europe to Turkey on account of its cost competitiveness.

Turkey’s favorable demographic trend is also appealing for investors. While the West is growing old, Turkey has a young and vibrant population, with a median age of 28 years.50 Within 25 years, there will still be five workers for every person of pensionable age in Turkey, while in Japan and Germany there will be less than two.51

Turkish culture

Turkey has been home to a succession of rich civilizations, which have greatly influenced its social and business culture.52 Acting as a cultural bridge between the East and the West, the country is considered both European and Asian. This diversity is unique to Turkey and is proving to be a substantial asset.

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51. Ernst & Young’s Rapid-Growth Markets Forecast, October 2012.
Over the past decade, Turkey has fundamentally transformed its economy. Structural reforms have helped to make Turkey one of the most attractive investment destinations in the world. The economy has been growing over 5% per year since 2002. In the meantime, GDP per capita has more than tripled. Similarly, exports have increased from US$36b to US$150b. More importantly, Turkey has attracted around US$120b of FDI over the past decade. In contrast, the preceding eight decades saw Turkey attract just US$15b. So Turkey’s recent performance in attracting FDI has been impressive. In addition, the number of foreign companies in Turkey has increased from 5,600 to more than 30,000.

As an emerging economy, Turkey offers opportunities in many sectors. These include, among others, energy, renewable energy, automotive, ICT, petrochemicals, iron and steel, real estate and finance. The centenary of the Turkish Republic will be celebrated in 2023. Turkey has set specific targets to achieve by then, from health care to the economy, and from defense to education. It aims to be one of the top 10 economies in the world, with a GDP of US$2t; to increase its export volume to US$500b; to upgrade its energy, transportation and health infrastructure through the construction of city hospitals; to more than double electricity generation; to build new bridges on the Bosphorus and the Dardanelles straits; and to establish Istanbul as an international financial center. Having been tested by the global economic crisis, Turkey has one of the most stable and profitable financial sectors in its region. The Turkish Government’s Istanbul Finance Center project offers global companies a chance to run their regional financial operations through Istanbul, which enjoys a skilled workforce, a vibrant local economy and status as a global, cosmopolitan city.

Turkey’s robust domestic market is an important attraction for investors from all around the world, as is its strategic geographical location, which allows investors to access lucrative markets in Europe, the Middle East, North Africa, the Caucasuses and Central Asia. Their combined market size is around 1.5 billion people, while their combined GDP and foreign trade total US$25t and US$8.2t, respectively. A strategic location, a vibrant domestic market and a skilled labor force, combine to make Turkey a very suitable location, both for manufacturing and management operations.

“Having been tested by the global economic crisis, Turkey has one of the most stable and profitable financial sectors in its region.”
Business environment, R&D and innovation

The challenges ahead

Turkey’s business environment

- **Political, legislative and administrative conditions**
  Businesses in Turkey are subject to a degree of bureaucracy, bribery and influence peddling. Our European Fraud Survey 2011 found that bribery and corruption have become commonplace in Turkey.\(^53\) Turkey’s low rank on the government regulations factor in the Global Competitiveness Report 2012–13 also signifies that businesses find it difficult to comply with complex administrative requirements. Turkey’s rank of 80th compares poorly to Qatar (3rd), China (23rd) and Indonesia (48th).\(^54\) At 54th position, Turkey also ranks below the UAE and Qatar on Transparency International’s Corruption Perceptions Index 2012.\(^55\)

- **Investment incentives**
  Aids, subsidies and support measures from public authorities are critical for the promotion of FDI and the reduction of reliance on the volatile FII flows. A survey conducted by the American Business Forum for Turkey shows that 42% of respondents believe that the Government’s investment incentives are inadequate to bolster further investment into the country.\(^56\)

- **Labor laws**
  Turkey has a relatively stringent employment protection regime. The Global Competitiveness Index 2012–13 places Turkey 44th for “hiring and firing practices.”\(^57\) Turkey needs to create more flexible working conditions – employment contracts that suit the requirements of both employers and employees.\(^58\)

- **Corporate taxation**
  Corporate taxation has been identified as another improvement area for Turkey. Currently, Turkey holds the 80th place on the Paying Taxes Pillar of the Doing Business Index 2013.\(^59\) It lags behind other emerging countries such as Russia (60th) and Korea (30th).\(^60\) The tax filing procedure in Turkey takes 223 hours per year, compared with an average 184 hours for countries in the Middle East and North Africa and 176 hours for the high-income OECD countries.\(^61\) High payroll taxes and social security contributions are other impediments for investment in Turkey.
Research and development availability and quality
Investors give a sobering assessment of the availability and quality of R&D in Turkey. The country ranks 74th on the Global Innovation Index 2012. Although it fared better than RGMs such as Mexico (79th), Indonesia (100th) and Egypt (103rd), it was behind China (34th), Russia (51st), Brazil (58th) and India (64th). Currently, Turkey performs poorly in university-industry R&D collaboration. Incentives for collaboration are weak, so most research is carried out at universities. Turkey lacks the research apparatus to specialize in high-technology exports. It lags behind the EU in terms of the number of researchers and patenting activity.63

Another weak area is the inadequate quality of vocational education in Turkey. Dropout rates in secondary and vocational education are high. Only half of those in the 15–20 years age bracket continue at school.64 Secondary education needs to be bolstered to provide skills that are required in the labor market.

Key findings
42% of investors want to see a more stable political, legislative and administrative environment.
42% identify government support mechanisms as a key improvement area.
37% want Turkey to focus on developing more flexible labor laws.
36% identify corporate taxation as an improvement area.
35% believe that Turkey needs to improve its capacity for innovation and R&D.

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64. “Structural Reforms to Boost Turkey’s Long-Term Growth,” Organization for Economic Co-operation and Development working papers, 13 September 2012.
Reforms usher in a period of growth and stability

Dr. Erdem Başçi
Governor, Central Bank of the Republic of Turkey

After Turkey’s 2001 crisis, the country put in place an ambitious structural reform agenda, coupled with sound monetary, fiscal and financial sector policies. The aim has been to establish macroeconomic and financial stability, and to improve the overall business environment. Since then, Turkey has experienced a significant degree of disinflation. The consumer price index inflation fell from 68.5% in 2001 to 6.2% in 2012.

This achievement on the inflation front has significantly improved the macroeconomic environment and eliminated the vulnerabilities that had put a burden on the proper functioning of the financial system in the past. The Central Bank Law, which was amended in 2001, charges the Central Bank of the Republic of Turkey with taking necessary measures to contribute to financial stability in addition to its primary mandate of achieving price stability. Accordingly, the Bank preserves the main objective of achieving price stability while safeguarding financial stability as a supporting objective.

On the fiscal front, the public debt burden fell from 74% of GDP in 2002 to 36% in 2012. Low fiscal dominance and the sound financial sector helped Turkey to achieve a private sector-led growth after 2001. This growth performance has been achieved mainly through productivity gains. Along with high economic growth, Turkey’s economy has also become more open.

Export volume, which stood at only US$31b in 2001, had reached more than US$152b at the end of 2012.

As a result of this sound macroeconomic environment, FDI inflows to Turkey have picked up rapidly. FDI to Turkey was only US$571m in 2002. It increased more than 33 times to reach US$22b in 2007. FDI inflows started to decrease globally due to the 2008-09 financial crisis, and Turkey was no exception. However, FDI inflows to Turkey began to accelerate after 2010 and this surge is expected to continue. We believe that Turkey will be among the top emerging markets and a major FDI destination in the years ahead.

“Along with high economic growth, Turkey’s economy has also become more open.”
Regional development
Istanbul and beyond

Istanbul: Turkey's shining star
Istanbul is Turkey’s financial center. Not surprisingly, it is the country’s most favored business and investment destination. Its appeal lies in its strong growth potential, easy connectivity to markets and expatriate-friendly culture. Several global companies have a presence in the city, both in the form of headquarters and operating offices.65

Between 2007 and 2012, the US was the top investor in Istanbul, followed by Germany and the UK. Nearly 85% of the total projects in Istanbul were directed toward services, 9.3% to industrial activity and 6% to strategic functions. The availability of an educated and skilled workforce plays a major role in making the city a hub for services.

Istanbul’s FDI activity accelerated in 2011, when project numbers saw a year-on-year increase of 70.3%. The Government has been taking steps to create a conducive environment for companies operating in Istanbul. This is evident from the growing number of international private equity funds that are establishing their base in Istanbul. The International Finance Corporation, the World Bank’s finance arm, now has its largest office (outside Washington) in Istanbul, from where it manages business with over 50 countries in eastern and southern Europe, the Middle East and North Africa.66 Istanbul is bidding against Madrid and Tokyo for the rights to host the Olympic and Paralympic Games in 2020. The Istanbul Financial Center (IFC), which will house the head offices of Turkey’s governing financial institutions, as well as other businesses, aims to turn Istanbul into a global center of commerce.67 Burgan Bank SAK of Kuwait, Mitsubishi Corp. of Japan and Sberbank of Russia are key global companies that opened offices in Istanbul in 2012.68

FDI projects in Turkey
% share 2007-12
By destination city/province

Source: Ernst & Young’s EIM, 2013.

Beyond Istanbul: promising regions for investment

Responses to our survey demonstrated a clear preference for Istanbul as an investment destination. When asked about other promising cities, 25.8% of the respondents did not choose one. Moreover, 61.6% of respondents not yet present in Turkey could not indicate a preference for cities other than Istanbul. This highlights a need to encourage investment in a broader range of locations.

Izmir emerged as the second most favored investment destination, after Istanbul. Respondents also showed preference for investment in Ankara and Bursa.

- **Izmir** is Turkey’s third most populous city and second most important seaport. Its importance as a center for foreign trade emerges in part from the maritime transportation opportunities that it offers. It is currently home to seven organized industrial zones, two free zones, one TDZ and four main trade ports. The proliferation of free zones and industrial zones helped Izmir garner 8.4% of the total FDI projects in Turkey between 2007 and 2012. The Izmir Development Agency (İZKA) has drawn up a regional innovation strategy and regional plan to bolster economic activity in the city. The regional plan has identified eight key sectors with the best potential for FDI: motor vehicles, chemicals, industrial machinery, food and beverage, renewable energy, tourism, non-automotive transport equipment and ICT.

- **Ankara,** Turkey’s capital, is located in the center of the country. As such, it is an important industrial and commercial hub. It received projects mainly from Western European countries between 2007 and 2012. Germany, the US and France emerged as the top three investors. FDI activity in the region was more or less uniform across sectors. The presence of 6 technocities and 12 industrial parks makes the city attractive for investment in the ICT and industrial sectors. The region displayed excellent FDI performance in 2012, with one of the highlights being the European Bank for Reconstruction and Development (EBRD) setting its new resident office in the capital.

- **Bursa,** located in the northwest region of Turkey, is another industrial city. In recent years, Germany, Switzerland and France have been the top three investors in the province. IBM and Nestlé recently invested in Bursa, mostly to serve the greater

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### Reality matches perception

65% of survey respondents perceive Istanbul to be the most attractive city in Turkey. This perception is in tune with reality, with the region receiving...

55% of the total FDI projects between 2007 and 2012.

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### Appeal of Turkey’s cities

Apt from Istanbul, which are the most promising cities in Turkey?

<table>
<thead>
<tr>
<th>City</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>İzmir</td>
<td>37.7%</td>
</tr>
<tr>
<td>Ankara</td>
<td>22.8%</td>
</tr>
<tr>
<td>Bursa</td>
<td>18.6%</td>
</tr>
<tr>
<td>Antalya</td>
<td>7.3%</td>
</tr>
<tr>
<td>Kayseri</td>
<td>6.5%</td>
</tr>
<tr>
<td>Eskisehir</td>
<td>5.5%</td>
</tr>
<tr>
<td>Adana</td>
<td>5.0%</td>
</tr>
<tr>
<td>Kocaeli</td>
<td>4.8%</td>
</tr>
<tr>
<td>Mersin</td>
<td>4.7%</td>
</tr>
<tr>
<td>Gaziantep</td>
<td>3.5%</td>
</tr>
<tr>
<td>Can’t say</td>
<td>25.8%</td>
</tr>
</tbody>
</table>

Source: Ernst & Young’s 2013 Turkey attractiveness survey (total respondents: 201).

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Driving investment to Turkey’s regions

Turkey introduced a new investment incentive scheme in April 2012 to reduce its current account deficit, boost investment in lesser developed regions and promote cluster activities. The scheme has four elements: general, regional, large-scale and strategic investment. The regional incentive scheme, in particular, aims to balance regional development by encouraging investment in the disadvantaged eastern region. It divides Turkey into six regions based on potential and the development of the local economy, and offers generous subsidies and tax breaks to companies investing in lesser developed regions. While region 1 consists of the developed provinces of Istanbul, Bursa, Ankara and Izmir, region 6 comprises eastern Turkey, covering provinces such as Diyarbakir, Van and Ardahan. Investors vying for region 6 are entitled to income tax withholding allowance and Social Security Premium Support for 10 years. Value-added tax (VAT) and custom duty exemption, are offered to encourage investment in all six regions.


Regional classification as per Turkey’s new investment incentive scheme

MENA market. While IBM Corp. set up a service center in 2012 to meet the growing technology needs of firms established in the region, Nestlé set up a facility in 2011 for the production and export of cereals to North African and Middle Eastern countries.

Kocaeli, a province on the eastern coast of the Marmara Sea, is the most preferred destination for industrial projects. Due to the province’s geographical proximity, Western European countries – led by Germany and France – have actively invested in the province. Kocaeli’s free trade zone encourages investors to conduct manufacturing and trading activities in the province. Kocaeli has received considerable attention from large-scale automotive companies in the past few years. Ford Otosan has invested around US$1b in Kocaeli since 2011. Leading companies such as Bridgestone, Goodyear and Pirelli have also set up production facilities in the province.

Need for balanced regional development
Although Turkey has registered strong economic growth over the last few years, regional development has not been spread around the country. The disparity is an area of concern.

The Turkish Enterprise and Business Confederation (TÜRKONFED) uses the concept of “added value per person to the national economy” to identify discrepancies among regions. In Turkey, there is a wide disparity in added value per person across regions.

The Turkish Government recognizes that balanced regional development is critical to sustainable economic progress. Thus, it introduced a Regional Investment Scheme in April 2012, to encourage investment in underdeveloped provinces and initiate economic development in those regions. The Government should try to replicate the successful model of Istanbul in other cities and provinces. The public and private sectors, as well as non-governmental organizations, should work together to find ways to realize the potential of long-overlooked regions.

78. Ernst & Young’s EIM, 2013.
What it means for businesses

The decision to establish or expand operations in a market is critical for any enterprise. Business leaders must make an informed decision, weighing the benefits and costs associated with their decision. Turkey’s strategic geographic location, combined with a large domestic market, creates many market opportunities. Its reasonable labor cost-quality profile and diversity also attracts interest.

This appeal is, however, limited by the operational challenges present in the country. Investors have to be careful about the current business environment and R&D capacity. The legislative and administrative environment can also hamper timely decision-making.

Additionally, in an era of changing technologies and shifting consumer needs, investors will be required to use their own capacity for innovation rather than depend on the country’s R&D climate.

The need to spread development into regions beyond Istanbul, opens the possibility of new economic centers being created.

A robust due diligence framework can help businesses make the right trade-off between the opportunities and risks of operating in Turkey.
Into the future

Ways for Turkey to realize its potential as an investment destination.

Strong investor confidence
Turkey in the short term

The majority of respondents think that Turkey will become more attractive over the next three years. A mere 2.1% anticipate that its attractiveness will significantly deteriorate. A large domestic market, substantial growth prospects and attractive labor market strengthen the country’s investment appeal.

Investor confidence in Turkey’s economy is second only to that of Brazil, where 83.4% expect an improvement in investment attractiveness. The figure stands at 80.6% for Turkey, 75% for the Middle East, 73% for Africa, 57% for Russia and 38% for Europe.

Turkey’s future attractiveness
Over the next three years, do you think the attractiveness of Turkey as a place for your company to establish or develop activities will ...?

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total improve: 80.6%</td>
<td></td>
</tr>
<tr>
<td>Slightly improve</td>
<td>44.4%</td>
</tr>
<tr>
<td>Significantly improve</td>
<td>36.2%</td>
</tr>
<tr>
<td>Neither improve nor deteriorate</td>
<td>2.1%</td>
</tr>
<tr>
<td>Significantly deteriorate</td>
<td>5.1%</td>
</tr>
<tr>
<td>Slightly deteriorate</td>
<td>1.7%</td>
</tr>
<tr>
<td>Can’t say</td>
<td></td>
</tr>
</tbody>
</table>

Source: Ernst & Young’s 2013 Turkey attractiveness survey (total respondents: 201).

Key findings

81% of respondents think Turkey’s attractiveness will continue to improve.

44% expect Turkey to be a regional and global hub for operations by 2023.

35% see significant potential in real estate, hospitality and construction over the next two years.

4 actions to be taken: revamp business environment, foster entrepreneurship, improve infrastructure and focus on innovation.
A Europe-Asia-Middle East hub
Turkey in the long term

How do you see Turkey in 2023?

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A regional and global hub for operations</td>
<td>44.0%</td>
</tr>
<tr>
<td>A leader in exports to international markets</td>
<td>29.5%</td>
</tr>
<tr>
<td>A leader in manufacturing</td>
<td>20.4%</td>
</tr>
<tr>
<td>A country with one of the highest-value labor markets</td>
<td>17.9%</td>
</tr>
<tr>
<td>Surpassed by competition from more dynamic countries</td>
<td>12.3%</td>
</tr>
<tr>
<td>A country with highly developed technological infrastructure</td>
<td>11.0%</td>
</tr>
<tr>
<td>A leader in energy</td>
<td>10.4%</td>
</tr>
<tr>
<td>One of the world leaders in strategic industries</td>
<td>8.5%</td>
</tr>
<tr>
<td>A leader in R&amp;D and innovation</td>
<td>6.8%</td>
</tr>
<tr>
<td>A country with one of the best education and higher learning systems</td>
<td>4.9%</td>
</tr>
<tr>
<td>Can’t say</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

Source: Ernst & Young’s 2013 Turkey attractiveness survey (total respondents: 201).

Operational hub
The majority of survey respondents expect Turkey to become a regional and global hub for operations by 2023. Multinationals are keen to establish management, production and distribution capabilities in the country. Many companies manage operations across many countries from offices and headquarters in Turkey. In 2012, US-based 3M announced a US$500m plan to set up a regional production hub in Turkey, with the aim of serving consumers in Europe, MENA and Russia. Istanbul is a preferred destination on account of its proximity to crucial business centers, its experienced workforce, well-developed infrastructure and its ability to adapt to the cultures of surrounding Balkan, Middle Eastern and Central Asian nations.

Leader in international exports
Turkey’s location also encourages investors to see it as a leader in exports to international markets. A sizeable, youthful population provides a labor force suited to export-oriented industries such as cars, aerospace, appliances and textiles. Turkey is breaking away from the domestic demand-driven expansion of the past few years and producing more goods for export to markets in the Middle East, Russia and Africa.

Manufacturing leader with high-value labor
More than 20% of investors believe that Turkey will become a leading player in manufacturing by 2023. Manufacturing has been identified as the most long-term link to the global economy. Another 17.9% of respondents are confident about Turkey’s future as a country with one of the highest value labor markets. Although Turkey has the potential to become the regional hub for operations and manufacturing, its future attractiveness will depend on its ability to maintain demand and cost competitiveness.

Turkey as a regional hub

Hüseyin M. Akin
President, International Operations, Coca Cola İçecek (CCI) A.Ş.

With its perfect geographic position and easy access to 1.5 billion customers in Europe, Eurasia, the Middle East and North Africa, Turkey offers significant opportunities for foreign investors.

Turkey has enjoyed annual real GDP growth of 5.2% over the last nine years; it offers a flexible regulatory framework; follows a peaceful foreign policy; and benefits from a particularly young, dynamic workforce, with more than half the population under the age of 29. This proportion of young people is even higher than in Middle East and Central Asia. Also, were Turkey to be a member of the EU, it would have the bloc’s fourth-largest labor force.

Istanbul, with its two airports and daily flights to regional capitals, is an ideal gateway to Europe, the Middle East and Central Asia. These three markets have a combined value of some US$25t and are all within a three-hour flight from Istanbul. History, proximity and connectivity make Turkey an ideal management hub for those investing in the region.

When it comes to describing Turkey’s regional role, Coca-Cola provides an excellent example. Istanbul is home to the Coca-Cola Company’s Eurasia and Africa Business Unit, which covers 96 countries ranging from South Africa to Russia. Istanbul is also home to Coca-Cola İçecek, our sixth-largest bottler in terms of sales volume. In addition to Turkey, which is our largest market, we operate 22 production plants in Central Asia, the Middle East and Pakistan. In Turkey alone, we employ some 3,000 people and indirectly create 30,000 jobs. Our company has invested more than US$700m in Turkey over the last seven years.

Stable economic growth; a young, dynamic, well-educated and multicultural population; a strong industrial and service culture; and access to multiple markets are among the positive macroeconomic indicators that will keep investors focused on Turkey for many years to come.

“History, proximity and connectivity make Turkey an ideal management hub for those investing in the region.”
Attracting high value-added sectors

Future growth

Riding a different growth wave

Respondents to Ernst & Young’s 2012 European attractiveness survey highlight the ICT and cleantech sectors as areas with great potential. While Europe largely consists of advanced economies with well-developed technological infrastructure, Turkey, being an emerging economy, is still finding its place in this regard.

So investment in Europe is expected to be fueled by services-oriented projects, while traditional sectors such as real estate, housing and construction, energy and heavy industry will lead the way in Turkey.

Real estate, hospitality and construction. A large number of business leaders think that Turkey’s real estate, housing and construction sector can act as a future engine of growth. Property law reforms have drawn investors’ attention to Turkey’s real estate sector. The new reciprocity law allows the foreign ownership of local real estate. This right extends to citizens of most Middle Eastern and Central Asian countries. 84

Rising property values and the construction of several small housing projects across the country have caught investors’ eyes. Turkey’s Association of Real Estate Investment Companies (GYODER) forecasts that foreign investment in property will increase from US$2.5b in 2011 to US$10b in the medium term. 85 According to our European real estate assets investment trend indicator 2013, Turkish investors are upbeat about the appeal of their domestic real estate market. About 85% of them expect M&A activity in the sector to rise in 2013. 86

The country is also a popular tourist destination. It was the sixth most-visited country in the world in 2011, with 29.3 million tourist arrivals. 87 Several international hotel chains have chosen to enter Turkey. For instance, Hilton Worldwide is planning to open 13 hotels in the country by 2014. 88

Source: Ernst & Young’s 2013 Turkey attractiveness survey (total respondents: 201).

Sectors driving growth in the next two years in Europe

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information and communication technologies</td>
<td>33.1%</td>
</tr>
<tr>
<td>Cleantech</td>
<td>26.0%</td>
</tr>
<tr>
<td>Energy and utilities*</td>
<td>24.0%</td>
</tr>
<tr>
<td>Pharmaceutical and biotechnologies industries</td>
<td>19.0%</td>
</tr>
<tr>
<td>B2B services excluding finance</td>
<td>15.0%</td>
</tr>
<tr>
<td>Transport and automotive industries</td>
<td>13.0%</td>
</tr>
<tr>
<td>Banking/finance/insurance</td>
<td>13.0%</td>
</tr>
<tr>
<td>Consumer goods</td>
<td>12.0%</td>
</tr>
<tr>
<td>Logistics and distribution channels</td>
<td>9.0%</td>
</tr>
<tr>
<td>Real estate and construction</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

* Energy (including nuclear energy) and utilities (waste, water treatment)
Source: Ernst & Young’s 2012 European attractiveness survey (total respondents: 840).

Sectors driving growth in the next two years in Turkey

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate, hospitality and construction</td>
<td>35.0%</td>
</tr>
<tr>
<td>Energy and heavy industry</td>
<td>20.6%</td>
</tr>
<tr>
<td>Transportation and automotive</td>
<td>13.5%</td>
</tr>
<tr>
<td>Retail and consumer products</td>
<td>11.8%</td>
</tr>
<tr>
<td>Private and business services</td>
<td>6.2%</td>
</tr>
<tr>
<td>Life sciences</td>
<td>5.9%</td>
</tr>
<tr>
<td>High-tech and telecommunication</td>
<td>2.9%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2.8%</td>
</tr>
<tr>
<td>Mining and metals</td>
<td>2.6%</td>
</tr>
<tr>
<td>Export</td>
<td>0.8%</td>
</tr>
<tr>
<td>Private equity</td>
<td>0.7%</td>
</tr>
<tr>
<td>Alternative/renewable energy/cleantech</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Technologies</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Can’t say</td>
<td>7.4%</td>
</tr>
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</table>

Source: Ernst & Young’s 2013 Turkey attractiveness survey (total respondents: 201).
**Energy** is set to be a key driver of Turkey's growth in the next two years. With a rapidly expanding young and urban population, both consumption and demand for energy are expected to increase.\(^8\) Turkey’s proximity to a number of new gas sources, such as Iraq and Azerbaijan, and its location as host to nearly all proposed gas pipelines between the EU, the Middle East and Central Asia, make it an attractive market for power generation. The Government has reorganized and liberalized the electricity sector. These changes have caught the attention of several utility companies. For instance, in 2012, Gazprom clinched a 30-year deal to export gas to private companies in Turkey.\(^9\) E.ON has also established its market position in the country through a strategic partnership with the Sabanci Group, and an asset swap with Austria-based Verbund AG. The latter deal gives E.ON a stake in EnerjiSA’s power generation projects and power distribution business in Turkey.\(^1\)

**Machinery manufacturing and heavy industry** are also strategically important to Turkey’s economy. The machinery manufacturing industry is expected to provide US$100b in exports by 2023, accounting for 2.3% of the global market. Also, it is forecast that it will create enormous manufacturing opportunities for investors.\(^3\)

**Growth opportunities in the energy sector**

Demand for energy is set to double by 2023, from the existing annual demand of 210 terawatt-hours (TWh). Although Turkey depends on imports for about 90% of its fossil fuel requirements, progress has been made toward promotion of alternative energy sources. The need for huge investment in this sector has attracted international investors such as General Electric Co. and Siemens AG. FDI will play a key role in funding wind, solar, hydropower, biomass and geothermal energy projects.

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The volume of inward FDI that a country attracts is a key indicator of how the rest of the world perceives its economy. It is not only important to attract FDI but also to provide a sustainable environment for investors. Based on this sustainability perspective, at least five G7 countries are among the top 20 investment destinations in the world each year.

Investors are not only attracted by economic factors, such as efficiency or the size of the domestic market. They also need a sustainable political environment and legal stability. For example, predictable taxation regimes and trade laws allow investors to plan with confidence. A sustainable, democratic political environment is one of the most important considerations for foreign investors.

For instance, if economic factors such as labor and energy costs were the main motivation for foreign investors, high-cost countries such as Germany, France and the UK would not be among the top 10 performers in the world in terms of inward FDI. Foreign investors base their decisions on a wider set of factors. They look for a well-developed technology infrastructure; a highly skilled and available labor force; and a strong business culture. These factors are available in most developed economies. Now, we are seeing developing countries move from low-cost environments to efficient, pro-business economies that attract more FDI. In 2012, developing countries' share of FDI exceeded that of developed countries for the first time. And with developing countries continuing to develop their business environment, this trend is set to continue.

Other factors driving this trend are the decreasing risks for exchange rates; stronger and more efficient banking sectors; stronger international reserves; and more predictable legal and political environments in developing countries. These factors will not only drive FDI — they will also help developing countries to wield greater influence in the global economy of the future. However, mergers and acquisitions in developed countries will help them to maintain their attractiveness among investors in the near future.

“Predictable taxation regimes and trade laws allow investors to plan with confidence.”

Interview

Onward march of developing markets

Prof. Dr. Kerem Alkin
Istanbul Commerce University

Actions
Reforms and actions

How to meet investor expectations

1. Revamp the business environment

According to investors, Turkey’s business environment has substantial room for improvement. The Turkish Government has started to revamp the overall investment climate, adopting a series of measures, including:

- **The new investment incentives scheme.** Introduced in April 2012, this scheme encourages greater investment in the country’s underdeveloped provinces by offering exemptions from VAT and customs duty, and land allocations.94

- **The New Turkish Commercial Code (TCC).** The TCC, which has been effective since July 2012, is designed to improve auditing standards and transparency. The new law offers more investment opportunities for auditors, investment bankers and lawyers.95

Investors have called for reforms in the following areas:

- **Bureaucracy.** Investors have drawn attention to the need for reducing corruption and bureaucracy in Turkey. Realizing this need, the Government has made concerted efforts to address the problem of corruption and over-regulation. It implemented a strategic plan on reducing corruption and enhancing transparency in February 2010.96 However, the role of the civil society must also be strengthened.

- **Taxation.** Taxation is an important consideration for investors. Business leaders have identified corporate taxation as a major hurdle to investment in Turkey and voiced their preference for tax reductions. In 2006, the Turkish Government embarked on an ambitious tax reform program, simplifying and modernizing the existing law. Several corporate tax bottlenecks were weeded out.

Measures for increasing Turkey’s appeal

In your opinion, where should Turkey concentrate its efforts to increase its attractiveness in the global competition?

<table>
<thead>
<tr>
<th>Measure</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Reduce government bureaucracy</td>
<td>30.8%</td>
</tr>
<tr>
<td>Support SMEs</td>
<td>19.2%</td>
</tr>
<tr>
<td>Reduce taxation</td>
<td>18.7%</td>
</tr>
<tr>
<td>Improve education and labor skills</td>
<td>18.2%</td>
</tr>
<tr>
<td>Invest in major infrastructure and urban projects</td>
<td>17.9%</td>
</tr>
<tr>
<td>Support high-tech industries</td>
<td>16.6%</td>
</tr>
<tr>
<td>Increase tax benefits and incentives</td>
<td>14.6%</td>
</tr>
<tr>
<td>Reduce labor costs</td>
<td>12.6%</td>
</tr>
<tr>
<td>Facilitate access to credit</td>
<td>9.8%</td>
</tr>
<tr>
<td>Encourage environmental policies and attitudes</td>
<td>8.8%</td>
</tr>
<tr>
<td>Increase flexibility of labor regulations</td>
<td>5.8%</td>
</tr>
<tr>
<td>Relax competition rules</td>
<td>4.2%</td>
</tr>
<tr>
<td>Continue political stability, stabilize the country’s policy</td>
<td>2.3%</td>
</tr>
<tr>
<td>Improve the legal system</td>
<td>0.7%</td>
</tr>
<tr>
<td>Develop the financial institutions and the financial market</td>
<td>0.5%</td>
</tr>
<tr>
<td>Improve security</td>
<td>0.5%</td>
</tr>
<tr>
<td>Improve the industrial sector, make it more visible</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Respect human rights</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Can’t say</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

Source: Ernst & Young's 2013 Turkey attractiveness survey (total respondents: 201).
and changes to transfer pricing, thin capitalization, anti-avoidance, foreign participation exemptions and provisions specific to controlled foreign companies were implemented. The Government has also reduced corporate income tax from 30% to 20% and introduced e-filing facilities. These facilities have resulted in compliance time for tax filing falling from 254 hours to 223 hours per year.

**Labor.** To further attract investors, Turkey should make its labor market more flexible. This can be done by cutting severance pay and reducing the rights of temporary workers.

2. **Foster entrepreneurship**

Turkey needs to focus on helping businesses to nurture entrepreneurship. SMEs provide 80% of the country’s jobs. Though Turkey possesses a favorable business climate, new business density – measured by new businesses registered per 1,000 people of working age – is comparatively low.97

Turkish entrepreneurs must overcome hurdles in accessing finance, both when starting up as well as at the later growth and financing stages. In this regard, the €100m agreement between the European Investment Bank (EIB) and ING Bank Turkey AS to provide financial support to SMEs is seen as a positive step.98 Several institutional reforms have upgraded the regulatory and business environment for entrepreneurs. However, entrepreneurs hold mixed reviews on whether tax incentives have improved. Investors have also called for better innovation incentives to develop entrepreneurial capabilities. The Small and Medium Enterprises Development Organization (KOSGEB) has signed a protocol with the Council of Higher Education to encourage entrepreneurial spirit in universities across the country.99

3. **Improve infrastructure**

Though infrastructure in Turkey is reasonably well developed, investors would like to see improvements. The country is currently ranked 34th for the overall quality of its infrastructure.100 Turkey’s ports and electricity supply, in particular, need to be upgraded. The Government is moving in the right direction by developing roads, railways and seaports to facilitate transportation and commerce. For instance, in a bid to develop a nationwide network of modern highways, the total length of dual carriageways has been increased drastically.101 Turkey can follow the public-private partnership (PPP) model to bolster infrastructure investment. Infrastructure projects enjoy a good track record in the country—an example being Istanbul’s Atatürk International Airport, which carried 35 million passengers in 2011, up from 14 million in 2000.102

A dynamic, diverse economy

Adnan Bali
CEO, ISBANK

Turkey’s economy has performed strongly over the last decade. This success is underpinned by structural reforms that liberalized the economy, expanded the private sector and strengthened the financial sector. The success of these reforms is reflected in Turkey’s solid macroeconomic fundamentals.

Continued weak growth prospects in advanced economies have started to affect emerging market economies via the trade channel. Yet despite the gloomy global picture, Turkey has continued to progress. Turkey’s diverse economy marks it out from other emerging markets. It is neither too reliant on exports nor domestic demand. Recently, Turkey also diversified its export markets and lowered its exposure to the EU. In a very short period of time, Turkish businessmen increased their presence in the Balkans, North Africa and especially the Middle East.

Turkey enjoys a number of logistical advantages. Serving as a natural bridge between North and South, and East and West, Turkey represents an influential and cost-effective gateway to sizeable markets. It also provides convenient access to 1.5 billion customers in Europe, Asia, the Middle East and North Africa. In the new, post-crisis economic order, the ability to supply suitable products and services quickly and at optimum levels will be more important than any economies of scale. In this new economic climate, Turkey’s dynamic and flexible production capabilities will enable it to respond to these needs and compete more effectively than other emerging market economies. Moreover, Turkey benefits from the advantages of its time zone between the Far East and Western markets.

FDI inflows to Turkey in terms of equity capital have increased considerably. During the period 2002-11, they reached US$91b, compared with US$13b in the period 1984-01.

The current reform agenda includes improving the judicial system, reducing bureaucracy, simplifying the tax regime and increasing the predictability of the economy. Should these reforms succeed, FDI inflows will rise in the coming decade.

Also, Turkey’s banking sector, with its strong balance sheet structure, experienced human resources, technological infrastructure and good reputation for trustworthiness and innovation will continue to provide a strong platform for the country’s economic development over the next decade.

“Turkey’s banking sector will continue to provide a strong platform for the country’s economic development.”
Make Turkey an innovation hot spot

Turkey has achieved impressive economic growth and development over the past decade. But progress has been based on its low labor costs and price competitiveness. Growth has been driven mainly by the manufacturing and heavy industrial sectors rather than technology. Turkey needs to build a climate that stimulates innovation, technology and know-how to sustain its growth and increase its attractiveness in global competition.

Our survey respondents believe that Turkey’s innovation capacity can be reinforced by improving education and training in new technologies. The National Science, Technology and Innovation Strategy, adopted in December 2010, is a positive step in this direction.103 Turkey’s Government should also promote vocational learning courses, ensure greater pre-primary education and improve the supply of high-quality teachers.

Another way of enhancing innovation capacity is by offering incentives to companies that develop new technologies. The country has already introduced a law to incentivize R&D projects.104 Developing joint research programs can also boost investment for innovation. The Industry and Commerce Ministry has been restructured as the Science, Industry and Technology Ministry in a bid to create a more fertile innovation climate.

The Government recognizes that R&D and innovation is a priority, and plans to increase the share of funds allocated to R&D investments from 0.84% of GDP in 2011 to 3% by 2023.105

How Turkey can improve in innovation

What are the main areas of reform that will improve Turkey’s innovation capacity?

Actions

Sources: Ernst & Young 2013 Turkey attractiveness survey (total respondents: 201).
What it means for businesses

Given that many investors are optimistic about Turkey’s future prospects, the country is slowly, but surely, attracting investors’ attention. A strategic geographical location offers Turkey the opportunity to develop into a major operational hub over the next 10 years. Anticipated growth in sectors such as energy, real estate and construction promises new opportunities for businesses.

As the Turkish Government makes concerted efforts to improve the country’s business environment and innovation culture, businesses can benefit from greater efficiency of operations, better competitiveness and enhanced value gained from reduced costs. Turkey also needs to promote an entrepreneurial environment. This would help multinationals to foster new partnerships and collaborations with Turkish businesses.
Ernst & Young’s 2013 Turkey attractiveness survey is based on a twofold, original methodology that reflects:

1. The real attractiveness of Turkey for foreign investors
Our evaluation of the reality of FDI in Turkey is based on Ernst & Young’s EIM. This database tracks FDI projects that have resulted in the establishment of facilities and the creation of new jobs. By excluding portfolio investments and M&A, it shows the reality of investment in manufacturing or services operations by foreign companies across the continent. Data is widely available on FDI. An investment in a company is normally included if the foreign investor has more than 10% of its equity and a voice in its management. FDI includes equity capital, reinvested earnings and intracompany loans.

However, many analysts are more interested in evaluating investment in physical assets, such as plant and equipment. These figures, rarely recorded by institutional sources, provide invaluable insight. They show how inward investment projects are undertaken, in which activities, by whom and, of course, where. To map these real investments carried out in Europe, Ernst & Young created the EIM.

Ernst & Young’s EIM, researched and powered by Oxford Intelligence, is a highly detailed source of information on cross-border investment projects and trends in Europe, dating back to 1997. The database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment. Thus it provides exhaustive data on FDI in Europe.

It allows users such as governments and private sector organizations to monitor trends, movements in jobs and industries, and identify emerging sectors and cluster developments. Projects are identified through the daily monitoring and research of more than 10,000 news sources. For validation purposes, the research team aims to make direct contact with 70% of the investing companies. This process of verification ensures that real investment data is accurately reflected.

The following categories of investment projects are excluded from EIM:
- M&A or JVs (unless these result in new facilities or new jobs)
- License agreements
- Retail and leisure facilities, hotels and real estate investments
- Utility facilities, including telecommunication networks, airports, ports or other fixed infrastructure investments
- Extraction activities (ores, minerals or fuels)
- Portfolio investments (pensions, insurance and financial funds)
- Factory and other production replacement investments (e.g., a new machine replacing an old one, but not creating any new employment)
- Not-for-profit organizations (charitable foundations, trade associations or governmental bodies)

2. The perceived attractiveness of Turkey and its competitors among foreign investors
We define the attractiveness of a location as a combination of image, investors’ confidence and the perception of a country or area’s ability to provide the most competitive benefits for FDI. Field research was conducted by the CSA Institute in November and December 2012, via telephone interviews, based on a representative sample of 201 international decision-makers. Business leaders were identified and interviewed in 29 countries. Globally, of the 201 companies interviewed, 65% operate in Turkey.

Our survey was conducted among business leaders who had considered views and experience of Turkey. They were drawn from businesses across five regions. The geographic representation was as follows:
- 67% European businesses
- 20% North American businesses
- 10% Asian businesses
- 2% Middle Eastern businesses
- 1% Oceanian businesses

These businesses are representative of seven key economic sectors:
- Private and business services
- Retail and consumer products
- Energy and heavy industries
- Hi-tech and telecom infrastructure and equipment
- Life sciences
- Transport and automotive
- Real estate and construction and others
Profile of companies surveyed

**Geography**
- Western Europe: 57%
- North America: 20%
- Asia: 10%
- Central and Eastern Europe: 5%
- Northern Europe: 5%
- Middle East: 2%
- Oceania: 1%

**Job title**
- Finance directors: 50%
- Marketing and commercial director: 10%
- Director of investments: 10%
- Managing director/SVP/COO: 9%
- Others: 21%

**Turnover**
- Less than €150m: 42%
- From €150m to €1.5b: 29%
- More than €1.5b: 23%
- Can't say: 6%

**Sector of activity**
- Private and business services: 26%
- Energy and heavy industry: 13%
- High-tech and telecommunication: 11%
- Life sciences: 8%
- Transport and automotive: 6%
- Real estate and construction: 6%
- Others: 9%
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 167,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and wider communities to achieve their potential.

Ernst & Young Turkey has been providing professional consulting services in Turkey since 1983. Ernst & Young was one of the first global professional services organizations to establish operations in Turkey. Our Turkish practice has 31 partners and more than 900 employees working in four offices located in Istanbul, Ankara, Izmir and Bursa. We are the largest professional services provider in the country.

Ernst & Young is dedicated to helping its clients identify and capitalize on business opportunities throughout Turkey. Our key market sectors in Turkey are: financial services; power and utilities; government and public sector; retail and consumer products; technology and communications; real estate; and transportation and infrastructure. Our sector-dedicated teams combine deep industry know-how and insight, strong relationships with major sector players, and well-developed business strategies.

Our professionals are recognized for their leadership, know-how and understanding of our clients’ business. For 30 years, we have provided clients in Turkey with critical information and resources to improve their business performance and profitability. Our longevity in the country gives us a deep understanding of its business dynamics. Ernst & Young provides comprehensive professional services to many Turkish companies listed on the Forbes Global 2000 and Fortune 500. At Ernst & Young Turkey, we aim to ensure that we understand our clients’ concerns and work with them to provide a creative, innovative and cost-effective service. Our unique structure allows us to make decisions promptly and respond to our clients’ requests timely and effectively.

Ernst & Young offices in Turkey

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Publications

Ernst & Young’s Rapid-Growth Markets Forecast April 2013

Rapid-growth markets, the dominant force in global trade.

In the April edition of our quarterly economic forecast, you will find out how growing trade between rapid-growth markets (RGMs) over the coming decade will create a wide range of new opportunities for them and advanced economies. You will also discover how reliance on commodity revenues in Latin America brings opportunities as well as challenges.

Looking beyond the obvious: globalization and new opportunities for growth

Citizen Today, the quarterly Ernst & Young magazine for the government and public sector, is based on discussions with a wide array of government leaders and policy-makers around the world. This special edition focuses on the subject of reform—in all its shapes and sizes—an enduring theme throughout our interviews and a result of governments’ common mission to find new and better ways of delivering vital services to the public, while also driving down costs.

Download or get the app at www.ey.com/citizentoday.

Drought or drowning? Cash challenges for CFOs at both ends of the liquidity spectrum

In today’s turbulent times, many companies are struggling to maintain the liquidity that is essential to staying in business. Meanwhile, others are stockpiling cash as they grapple with a lack of reliable long-term investment options and ongoing uncertainty about the future. In Drought or drowning?, we explore the challenges for the CFO at each end of the liquidity spectrum and strategies to tackle them.

Shifting perspectives: Ernst & Young’s 2012 Middle East attractiveness survey

The first edition of Ernst & Young’s Middle East attractiveness survey points out that, despite the events of the Arab Spring, the increasing number and value of FDI projects in the region indicate confidence in the Middle East as an investment destination. Find out more in our report, which combines an analysis of FDI in the region, with a survey of over 350 international business leaders.

M&A in a two-speed world: M&A Maturity Index 2012

The growth story around M&A remains focused on RGMs. Although their pace of expansion has slowed, key emerging economies continue to grow more quickly than their mature counterparts. But which markets should be prioritized for investment? Our innovative 148-markets benchmarking tool www.mandamaturity.com, developed in association with the M&A Research Center at Cass Business School, can help you find out.

Mergers and Acquisitions Report Turkey 2012

Find out about the latest trends in mergers and acquisitions realized in Turkey, in our 11th edition of the Mergers and Acquisitions Report Turkey 2012. The report also highlights the findings from our recent survey on mergers and acquisitions in Turkey, which took place among business leaders of prominent public as well as private sector companies in Turkey.
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Growing Beyond

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