

**TURKEY**  
2020

# the business year



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Turkey's shipbuilding sector is giving its eastern counterparts fierce competition

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The Black Sea and its surrounding areas have long been an attraction for tourists





Every technology we've developed  
for 25 years is just for you to

**DO**







Image: Minister of Transport and Infrastructure



# THE BUSINESS YEAR: TURKEY 2020

Much has changed in the Turkish economy since The Business Year's last publication in the country in 2016. Then, the economy was undergoing a sustained period of high growth at a time when much of the rest of the world was still struggling to recover from the global recession.

Now, in 2019, we returned to Turkey to produce this publication on the heels of a sharp drop in the lira's value, which sent the economy into a recession. Beleaguered by high interest rates and a decline in domestic consumer demand, companies stalled planned investments and corporate loans began souring. Despite this, the year ended optimistically, with the economy beating growth estimates, inflation reined in, and lower global and domestic interest rates providing a needed boost in investment activity.

We explored the different regulatory and corporate strategies in place to put the economy back on track via interviews conducted with nearly 150 business and government leaders to produce this publication. Several themes emerged from our interviews. From a regulatory standpoint, a number of changes were enacted to resume the flow of credit to businesses, measures were taken to boost domestic saving savings, and loans were targeted

at exporters. While many corporates scaled back their investment programs, we saw an increase in efficiency-oriented investments that will prepare companies for a future strengthening of domestic consumer confidence.

While our coverage is comprehensive, a large focus of our interviews and research was on Turkish exporting industries, who are crucial to the economy for their hard currency receivables. One decisive view on the lira's slide among our interviewees was that increased export demand was more than offset by the havoc wreaked on investment plans by currency volatility—challenging the importance of a common view held by outside observers of a currency devaluation. Exporters are keener on developing high-tech, value-added industries rather than celebrating the artificial short-term growth brought on by the lira's weakness.

Turkey's economic stability is key to the global economy and regional security. In an increasingly multipolar world, Turkey has shown the promise and peril of navigating a complicated network of economic and security alliances. As its economy returns to growth mode, Turkey's independent nature will continue to define the future of a region whose future is in doubt. ✕

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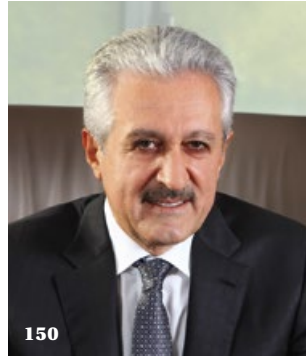
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## HOPE SPRINGS ETERNAL

In 2019, the Turkish economy found itself in a familiar position: recovering. Having fallen into an economic recession for the first time in a decade, the country was forced to employ a number of economic measures honed during the financial crises of the 1990s and 2000/2001. The year also brought with it the baggage of regional geopolitical maneuvering and an extended election cycle that seemed at times to bring Turkey to the brink. But with regional peace in sight and a four-year election-free period ahead, a return to economic stability seems imminent.

### NEW ECONOMIC PLAN

Having achieved a “soft landing,” Treasury and Finance Minister Berat Albayrak laid out Turkey’s economic goals for the 2020-2022 period as part of the New Economic Program (NEP)—a revision of targets set prior to the 2018 currency crisis. The primary goals of the plan are to reduce inflation to below 5% by 2022, achieve a 5% GDP growth rate for each of the next three years, and reduce unemployment to below 10% by 2022. Albayrak cited a number of promising data points as well as key underlying economic factors as reasons for the optimistic targets.

The NEP is not without its skeptics, who cite a number of bleak economic scenarios as reasons for pause. In particular, achieving a 5% growth rate in the short term will be difficult considering high levels of corporate debt, a growing percentage of which is being classified as “non-performing” by lenders—that might dampen appetite for investment. High growth rates are also uncertain considering the Turkish economy’s dependence on the global economy, which is shaky amidst growing protectionist trade behavior.

### DEALING WITH DEBT

The worries about Turkey’s corporate loan stock are focused on the energy and construction sectors, which have been key drivers of the country’s robust economic growth over the past two decades. These hard-currency loans have proved difficult to finance with lira receivables, which were nearly halved in hard-currency terms following the 2018 currency crisis. The government is mulling over several plans to deal with these souring loans, including efforts to have banks restructure the loans, the packaging and sale of non-performing loans to outside buyers, and—in the construction sector—a state-led takeover of projects.

### CHEAP MONEY EVERYWHERE

Turkey started 2019 with one of the world’s highest baseline interest rates—around 24%—in an effort to contain runaway inflation. Inflation contained—and estimates beaten—the central bank embarked in July on an aggressive interest rate cutting campaign, chopping the benchmark rate by 10% in three months.



Image: Arena Offshore

The response to the interest rate cuts has been immediate among consumers and corporates. In October, car sales in Turkey doubled compared to the previous month and surged 127% YoY, reflecting a sharp increase in demand for personal financing products. Turkey's three state-owned banks—Ziraat Bankası, Halkbank, and Vakıfbank—have done more than their share, offering below-market interest rate loans for car and home sales. To further encourage privately owned banks to follow suit, the central bank in August decided that banks with higher loan growth can hold lower their reserves, in effect boosting the profits of banks willing to lend.

#### GOING ABROAD

As manufacturing has slowly moved from the West to the East over the past half-century, Turkey has managed to capture a number of key industries not quite suited for the Asian market. One such example is the niche shipbuilding sector, where a confluence of timely strategic decisions and market conditions has carved out several areas where Turkish companies have thrived. Among these areas include tugs, ferries, offshore vessels, commercial shipping vessels,

and other high value-added vessels.

Turkey's defense industry, which has been the country's fastest-growing export sector over the past two years, is another industry experiencing growth as a result of strategic investments and market conditions. 2019 has seen Turkey's defense exports penetrate or expand in a number of markets, largely in Asia, Africa, and Latin America. Many of these region's countries are wary of falling too far under the influence that comes with US, Russian, or Chinese defense purchases, which makes them prime targets for Turkish defense companies.

#### FOREIGN INVESTMENT

The single-largest foreign investment in Turkey was inaugurated in 2019. The newly opened STAR Refinery, built by Azerbaijani state oil company SOCAR, has a USD6.3-billion price tag, and its 10-million-ton annual crude oil processing capacity will reduce Turkey's current account deficit by USD1.5 billion. SOCAR has preliminary plans to invest more money into Turkey's refining sector, a trend that the government is working to incentivize nationwide. ✖

#### GDP PER CAPITA (2017)

SOURCE: WORLD BANK

USD10,540

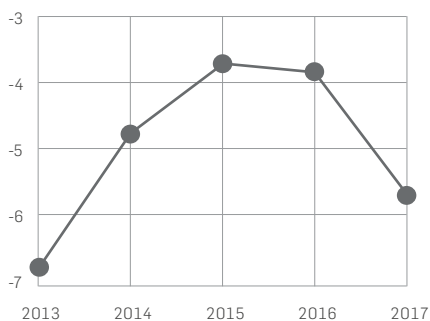
#### INFLATION (2018)

SOURCE: STATISTA

16.33%

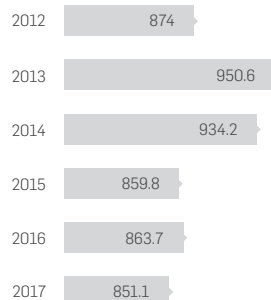
#### CURRENT ACCOUNT (% OF GDP)

SOURCE: WORLD BANK



#### GDP (CURRENT PRICES, USD BLN)

SOURCE: WORLD BANK



## FEBRUARY 2019

The **STAR Refinery**, located near Izmir, formally starts operations. The USD6.3-billion investment by Azeri state oil company SOCAR represents the largest-ever foreign investment in Turkey.

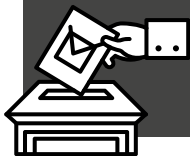


## MARCH 2019

Turkey holds **local elections**. The ruling AK Party's People's Alliance secures over 50% of overall turnout while ceding mayoral control of Istanbul and Ankara to the opposition Republican People's Party (CHP).

## JUNE 2019

In a re-run of the **Istanbul mayoral election**, CHP candidate Ekrem İmamoğlu wins by a comfortable margin.



## APRIL 2019

The new **Istanbul Airport** opens. Once fully completed, the airport is expected to be the world's busiest, with an annual capacity of up to 200 million people.

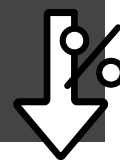


## JULY 2019

Turkey receives an initial delivery of **Russian-made S-400 missile defense systems**, a first for a NATO country. In response, Turkey is removed from the US-led F-35 joint strike fighter program.

## JULY 2019

The **central bank lowers its policy rate** by 425 basis points, the first of three cuts bringing the rate down from 24% to 14% in 3 months.



## NOVEMBER 2019

President **Recep Tayyip Erdoğan** makes his **second official White House visit** since the election of US President Donald Trump. The meeting comes during increased tensions between the two allied nations.



## OCTOBER 2019

Following a **US troop withdrawal**, the Turkish military begins "Operation Peace Spring," hoping to secure a safe zone in the north of Syria.





Ankara has been the capital of the  
Republic of Turkey since 1923

SOURCE: EMBASSYPAGES.COM

Number of Turkish  
embassies abroad (2019)

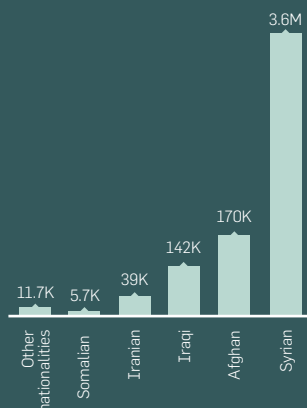
**140**

Number of foreign  
embassies in Turkey (2019)

**131**

**NUMBER OF PERSONS  
OF CONCERN  
(AS OF JULY 2019)**

SOURCE: UNHCR





# Diplomacy

## BALANCED POWER

**I**n an increasingly multipolar world, Turkey—like many nations of its stature—remains open to new partnerships. In part because of leadership dynamics and in part because of its growing involvement in international conflicts, NATO's second-largest military is forging strong ties in the international theater. Needless to say, keeping track of Turkey's changing global alignments is a dizzying task.

One way to track its international relations is to keep tabs of its top-level diplomatic meetings—meetings seemingly more important than ever in a world defined by its heads of state. Between January and November 2019, President Erdoğan officially met with Russian President Vladimir Putin six times, US President Donald Trump two times, and Chinese President Xi Jinping once. While it is difficult to measure the long-term significance of these meetings, they are certainly telling of the type of relationship Turkey has with each of these three nations.

The conflict in Syria has in part driven these leadership dynamics. Following the US military's partial withdrawal from northeast Syria, the Turkish military quickly launched Operation Peace Spring—a campaign aimed at pushing back the Kurdish-led Syrian Democratic Forces from the

Turkish border. Following the campaign, Turkey struck consecutive deals with the US and Russia to dictate the power balance in northeast Syria. In short, the outcome of the weeks-long affair diminished American influence and increased cooperation between Turkey and Russia in the region.

China brokered its power in the financial theater and largely away from the headlines. Beijing hopes to double its investments in Turkey to USD6 billion by 2021—largely in the infrastructure and energy sectors and as part of its wide-reaching Belt and Road Initiative. In June 2019, China's central bank transferred USD1 billion to Turkey in the largest-ever amount as part of a lira-yuan swap agreement signed in 2012. Turkey has signed similar swap agreements with other nations in an effort to decrease the global reliance on the dollar and euro for trade.

Turkey hopes to boost trade with all three nations. It has set identical USD100-billion annual trade targets with the Russia and the US—whose 2018 trade levels stood at USD25.7 billion and USD20.6 billion, respectively. Turkey has not set such a target with China—where trade stands at USD23.6 billion—though it has indicated it is seeking a better balance of trade, as nearly 90% of the figure is Chinese exports to Turkey. ✖



## STANDING *tall*

As a valued member of international organizations with strong foreign economic and commercial relations around the world, Turkey continues to display its political clout in a new world order.

### BIO

Mevlüt Çavuşoğlu is the current Minister of Foreign Affairs for the Republic of Turkey. He has served as the Minister of Foreign Affairs for the 62nd, 64th, and 65th governments of the Republic of Turkey and was appointed the first Minister of Foreign Affairs of the Presidential System of Government in 2018. Çavuşoğlu is a founding member of the Justice and Development Party (AK Party). He served as a Member of Parliament from Antalya and has held several foreign affairs roles, including as vice chairman of the AK Party in charge of foreign affairs. Çavuşoğlu received his bachelor's degree in international relations from Ankara University and completed his master's degree in economics at Long Island University in New York.

Mevlüt Çavuşoğlu  
MINISTER OF FOREIGN AFFAIRS

Despite various shifts and changes over the centuries, the core functions of diplomacy persist in the 21st century. However, the “ground” and “table” of diplomacy are now broader and more multi-layered—Turkish diplomats are among the pioneers of this new diplomacy.

In places where war, coups, failing states, suffering, oppression, and bloodshed are taking place, Turkish diplomats perform their duties uninterrupted and are devoted to protecting Turkish interests. They are in constant negotiations in capitals, international organizations, and the tables of various processes.

We have developed comprehensive consultations and cooperation methods including bilateral, trilateral, quadrilateral, and other sorts of multilateral mechanisms. We are going to make more use of those not only on political but also technical levels. We continue to make a substantial contribution to regional and global stability and order through diplomacy.

Turkey is the leading country in mediation initiatives in three different international organizations. We will devote even greater attention to resolving disputes and frozen conflicts in the upcoming period.

This year, a Turkish Ambassador was elected as the Chief Monitor of the OSCE Special Monitoring Mission to Ukraine. Likewise, two very competent Turkish women were elected to important international organizations—one as a judge to the European Court of Human Rights and one as a member of the Group of Experts on Action against Violence against Women and Domestic Violence (GREVIO). We reassumed the chairmanship of the Heart of Asia-Istanbul Process, which was brought to life under our leadership. Moreover, Turkey will also be assuming the presidencies of the D-8 (Developing Eight) Organization for Economic Cooperation, Southeast European Cooperation Process, and Asia Cooperation Dialogue.

Before handing it over this year, we performed our three-year long chairmanship of the Organization of Islamic Cooperation (OIC) with the goal of revitalizing the outdated structure of the organization. Our chairmanship had an impact, and we dynamized the OIC. To name a few results of our chairmanship, we developed the Islamic Development Fund, the Center for Police Cooperation, the Contact Group of Friends of Mediation, the Women Consultative Council, and the Istanbul Arbitration Center. Regarding the Palestine cause and attacks on Jerusalem, we convened two Extraordinary OIC

**“In a geography surrounded by warfare, turmoil, proxy wars, sanctions, and unbridled ambitions, is there any other democracy that has managed to become one of the top-20 global economies, all thanks to her own efforts and assets?”**

Summits and three Extraordinary OIC Executive Committee meetings at foreign minister level. With these meetings, we enabled the Islamic world to speak with one voice. We defended the rights of Muslims worldwide, just as we did after the attacks on mosques in New Zealand.

Turkish diplomacy is also highly active in the development of our foreign economic and commercial relations. The amount of FDI, which was USD14.6 billion from 1984 to 2002, reached USD210 billion from 2003 to 2019. We concluded or are in negotiations for free trade and preferential trade agreements with many countries.

Turkey's interests at home and abroad require working efficiently and in a focused manner. We introduced a “3+2” principle of effectiveness to diplomacy. We strive for effectiveness at the local, regional, and global levels, plus, on the ground and at the table.

In a geography surrounded by warfare, turmoil, proxy wars, sanctions, and unbridled ambitions, is there any other democracy that has managed to become one of the top-20 global economies, all thanks to her own efforts and assets? Can anyone imagine achieving this without being active both on the ground and at the table? This is our story, and our foreign policy reflects our very own story.

Turkey is a member of NATO and the Council of Europe. We are a part of the European legal and security system. We are both the west and the east, the north and the south. Our state and nation stand tall and strong as the guarantor of regional peace and prosperity. ✖

**\*Sourced from the Republic of Turkey Ministry of Foreign Affairs.**



# THE DEMANDS OF SECURITY

With a strengthened domestic defense industry, the Turkish military, NATO's second largest, is flexing its muscle on the international stage.

**THE TURKISH REPUBLIC**, against remarkable odds, arose from the crucible of war. And while it long implemented founder Atatürk's principle of peace at home and peace in the world, the turbulent reality of regional politics and multi-dimensional conflicts has pre-saged a greater role for the military in the 21st century.

## THE POWER OF PROXY

For almost a decade, Turkey has been actively embroiled in the horror across its Syrian border, a war indirectly fought by the world's major powers. Roughly 3 million Syrian refugees have escaped to Turkey since the conflict. Meanwhile, traffic in the opposite direction has been both humanitarian and military, as Turkey opposes the forces of President Assad and battles terrorist groups with their own agenda on Turkish soil.

## GREECE AND THE EASTERN MEDITERRANEAN

Turkey, like Greece, a NATO member since 1952, has seen perennial friction with its western neighbor. Divided Cyprus aside, the pilots of both air forces have regularly buzzed each other for years. Most recently, Greece seized a Tanzanian-flagged ship bound for Libya bearing materials used in the production of explosives that had been loaded in the Turkish ports of Mersin and Iskenderun. And here we have a second proxy war, this time on African soil, pertaining to Turkey's status in the eastern Mediterranean.

The civil war plaguing Libya since the fall of Muammar Gaddafi in 2011 features one bloc comprising Saudi Arabia, the UAE, Egypt, and Israel backing General Khalifa Haftar, who seeks to overthrow the UN-recognized Government of National Accord (GNA). The other bloc comprises Turkey and Qatar. On May 18, 2019, Turkish President Recep Tayyip Erdoğan declared utmost support for the Tripoli-based Islamist administration of Fayeze al-Sarraj. No hollow words, as on May 18 Turkey sent a shipment of weapons and

armored vehicles to Islamist militias fighting the Libyan National Army (LNA). This continues to cause shock waves in neighboring Egypt, whose government is also at odds with Ankara's foreign policy. In brief, Greece argues that international waters by Libya are its own territory, which Ankara seeks to counterbalance by a foothold in that country. Turkey's concern is to avoid curbed regional authority notably related to the EU-recognized state of Cyprus. It also explains Ankara's recent EU-related dispute due to Turkey's hydrocarbon exploration off the coast of the Turkish Republic of Northern Cyprus, which the EU does not recognize.

## THE MARCH FOR SELF-SUFFICIENCY

The military industrial complex is a vital part of Turkey's broader ambitions for 2023, the republic's centenary, and ambitions to rank among the world's top-10 economies. While on opposing sides in the Syrian conflict, in July realpolitik led to Turkey's receipt of the Russian S-400 anti-aircraft missile system. Washington's consequent suspension of Turkey's participation in the F35 project underscored Ankara's determination for weapons self-sufficiency. Indeed, Turkey is increasingly a military producer in its own right, and according to Stockholm International Peace Research Institute data (SIPRI) data, export units of 244 in 2017 were up more than threefold since 2010.

A long and growing array of indigenous weaponry and equipment, to name but a few, includes the Bayraktar TB2 drone, in service since 2014 notably in Syria; the T-155 Fırtına, a self-propelled howitzer with a striking distance of 40km and employed in 2017's Operation Olive Branch; and the T-129 ATAK helicopter and T-122 Multiple Barrel Rocket Launcher (MRBL). In a concerted effort, then, local public and private institutions in the military ecosystem such as Turkish Aerospace Industries and Roketsan continue to develop local content befitting Turkish aspirations on land, air, and sea. ✖

# friend INDEED

Increasing bilateral trade between Turkey and US in a way that benefits both parties remains a key focus.



Wilbur Ross  
US SECRETARY OF COMMERCE

## BIO

Wilbur Ross has been the US Secretary of Commerce since 2017. He is the former chairman and chief strategy officer of WL Ross & Co. LLC and has over 55 years of investment banking and private equity experience. Ross has been chairman or lead director of more than 100 companies operating in more than 20 different countries. He previously served as privatization adviser to New York City Mayor Rudy Giuliani and was appointed by President Bill Clinton to the board of the US-Russia Investment Fund. Ross also was an advisory board member of Yale University School of Management. He is a graduate of Yale University and Harvard Business School.

**Turkey and the US are talking about increasing bilateral trade from USD20 billion to USD100 billion. How are political differences likely to influence trade?**

The way we get to USD100 billion is by reaching the point where we have USD50 billion on each side. The concept is balanced and reciprocal trade at a larger multiple of the current amount. We now have only USD20 billion.

**When it comes to imposing sanctions on Turkey for its purchase of S-400 missile defense systems from Russia, the opinion in Washington appears divided. What is your personal opinion, and do you support sanctions on Turkey?**

You have to look at the relationship from an overall point of view. Everything depends on everything else. I do not think you can answer one question separately from the others. I have learned never to forecast what congress or two administrations will do. The reason I am here is to try to see if we can do things in an amicable fashion. We are not seeking a big confrontation.

**Traditionally, the US has championed itself as a champion of free trade and open markets. Is that changing under the Trump administration?**

The policy is certainly different, but there are no free markets in the world. The people that talk about free markets the most are the Chinese and the Europeans, and they are among the most protectionist people. The reality is that the US is the least protectionist large country; it is just that we have not been as aggressive in our rhetoric about it. Our ultimate objective is to get other countries to match with their behavior their free market rhetoric.

**The Chinese say their political philosophy does not seek political confrontation. They want to create win-win situations. Does the US believe that a trade war with China is inevitable?**

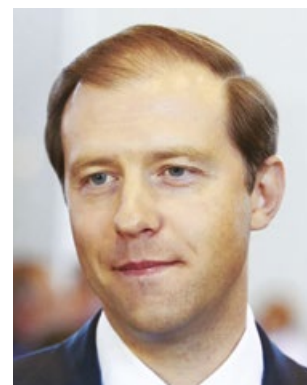
We have been in a trade war with China in a sense for a long time. The difference is that we are now trying to negotiate a more equitable solution. We hope that we will get there. We thought we were there pretty well in May, then they went back to China and said they could not live up to what was discussed. We need them to get back to where we were in May. ✕

**\*Excerpt from TRT World's One on One Express: Interview with US Secretary of Commerce Wilbur Ross.**

# mutually BENEFICIAL

Given the mutually beneficial relationship between Turkey and Russia, investors from both sides will find plenty of opportunities to cooperate further.

Denis Manturov  
MINISTER OF INDUSTRY AND  
TRADE OF THE RUSSIAN FEDERATION



Russia's partnership with Turkey is marked by intense collaboration and investment, especially in the industrial domain. We have had constructive dialogue that is reflected by our dynamics and our bilateral trade growth, which increased by 60% last year and has exceeded USD25 billion.

We have together initiated large-scale successful projects in the sphere of metal works, automobile manufacturing and construction, and the production of various materials. We see huge potential to boost our cooperation further in the areas of shipbuilding, aviation, agriculture, and the pharmaceutical industry. Apart from this, we have a number of Russian companies operating in Turkey, and the Turkish industrial business has proven to be quite a success in the Russian market. On the ground in Russia, they are represented in special economic zones like those in Tataristan. We have already

established seven enterprises that provide for a wide range of materials and items, including finished products, plastic, pipes, and materials for cars. These are excellent examples that should be used as examples of future participation by the Turkish side within the Russian Federation.

In order to cooperate even further, we need to maintain a continuous dialogue with our Turkish partners and incentivize investment in Russia even further. We will accomplish the latter through special economic zones, areas of advanced development, as well as industrial parks. We have mechanisms that offer long-term guarantees for investors and have established special preferential regimes in line with the best and most affordable work practices. We are focused on attracting advanced technology companies to invest in the Russian Federation and cooperate with Russian companies. We are ready to open access for them to enter the Russian market, and we are interested in providing certain subsidies to support them. Here, they can also cooperate with countries from all across the world.

Within the framework of our trade partnership, we also have systems and a special group to support Turkish exported goods. Within these support mechanisms, we want SMEs to be more involved. In this sense, our Turkish counterparts can make strong contri-

butions. They can focus even more on different technologies and joint projects. We could establish even more alliances and strengthen our network and cooperation even more. We could further promote this form of long-term partnership.

To summarize, I would like to say that I wish you very fruitful and interesting work. I hope you enjoy breakthrough ideas and successful and mutually beneficial projects. ✕

\*Extracted from a speech given at Innoprom July 2019.

## BIO

Denis Manturov has been the Minister of Industry and Trade of the Russian Federation since 2012. He previously served as Deputy Minister of Industry and Trade as well as Deputy Minister of Industry and Energy. Prior to his roles in the ministry, Manturov served as the general director of OPK Oboronprom, deputy chairman of the State Investment Corporation (Gosinkor), commercial director of Mil Moscow Helicopter Plant, and deputy general director at Ulan-Ude Aviation Plant. He has undergraduate and graduate degrees from Lomonosov MSU and a doctoral degree from Moscow Aviation Institute. He majored in law at the Russian Academy of State Service under the President of the Russian Federation.

**"In order to cooperate even further, we need to maintain a continuous dialogue with our Turkish partners and incentivize investment in Russia even further."**



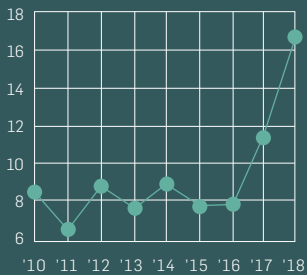
## GDP GROWTH RATE (ANNUAL %)

SOURCE: THE WORLD BANK

2010	8.49
2011	11.11
2012	4.79
2013	8.5
2014	5.12
2015	6.09
2016	3.18
2017	7.44
2018	2.57

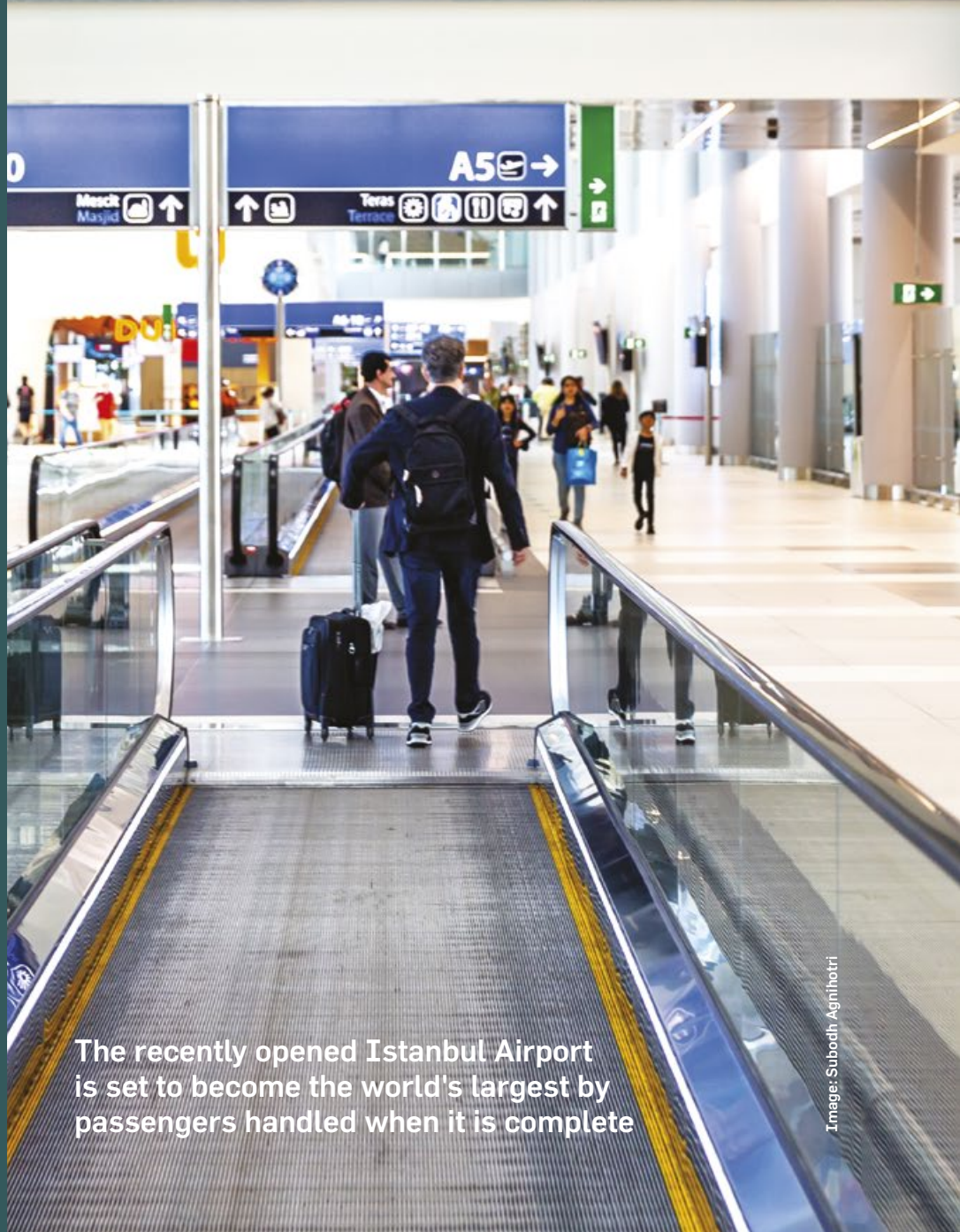
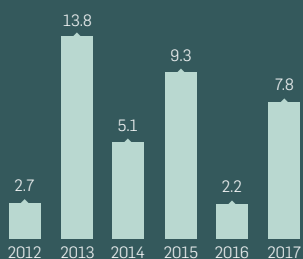
## INFLATION, CONSUMER PRICES (ANNUAL %)

SOURCE: THE WORLD BANK



## GROSS FIXED CAPITAL FORMATION GROWTH (%)

SOURCE: OECD



The recently opened Istanbul Airport is set to become the world's largest by passengers handled when it is complete



## Economy

# ROOM FOR GROWTH

**T**he fallout of the lira's sharp decline in August 2018 was far-reaching. It impacted consumption, investment, and inflation and sent the economy into an official recession when 2018's final quarter growth figures were released.

To contain inflation, which shot above 25% in October 2018, the central bank raised its benchmark interest rate to 24%. While the move dampened demand for credit and contributed to an investment slowdown, it surpassed expectations in reducing inflation. The positive effects prompted a downward revision of year-end inflation expectations to around 12%.

With inflation steadily falling yet interest rates remaining high, calls for a changing of guard at the Central Bank began emerging from the government. Those calls were answered in early July, when Murat Uysal was appointed the new governor of the central bank. He promptly set the bank on a course of lower interest rates, slashing the benchmark rate by 10% by October.

The central bank's moves have coincided with a global appetite for expansionary monetary policy. This environment has further reinforced the timing of the rate cuts, as global investors have turned to emerging market currencies like the lira

in search of returns, thus lessening the downward currency effects often brought on by low domestic interest rates.

Turkey's economic slowdown, caused by factors mostly exogenous to the global economy, has come during a time of broad trade uncertainty. A trend of protectionist economic policies, the US-China trade war, and Brexit uncertainty caused the World Trade Organization to lower its forecast for world trade in merchandise from 2.6% to 1.2% for the year. Such global uncertainty has a high risk of exacerbating Turkey's economic woes.

While Turkish exports remained strong—in part due to the lira's weakness—imports dropped sharply due to weakened domestic demand. In the first 10 months of 2019, exports totaled USD148.84 billion, a 2.1% rise from the same period last year, while imports dropped to USD172.71 billion, a 13.2% fall.

As with most countries, Turkey is not dictating the reshaping of global trade norms, though it is heavily impacted by the result. In the meantime, it is intent on diversifying the countries on which it relies for trade, investment, and diplomatic cooperation. While this path has not been without controversy, it may prove key to navigating an increasingly complicated world. ✕

## INTERVIEW



## STEERING *the economy*

The central bank is focused on using all the available instruments in pursuit of price stability and financial stability in Turkey.

Murat Uysal  
GOVERNOR,  
CENTRAL BANK OF  
THE REPUBLIC OF TURKEY (TCMB)

**TCMB recently underwent a management change, most notably with your appointment as governor. Moving forward, how does the refreshed bank plan to maximize communication and enhance the effectiveness of its operations?**

The way central banks all over the world communicate has constantly evolved over the last few decades. In line with this evolution, TCMB also built strong corporate communication channels and invested a great deal of attention in this area, particularly after the amendment to its law in 2001. But there is still a lot of room for improvement. So, in the upcoming period, we will try to further these endeavors together with my colleagues. Establishing effective, transparent, and inclusive communication with the public on various platforms will strongly contribute to the effectiveness of our operations and achieve our objectives. In this context, our first steps will be to increase our corporate transparency and strengthen our monetary policy communication. A few practices may come up at the top of the agenda. First, we should share more information on the monetary policy decision-making process and the reasons underlying our decisions. This is crucial for the public to understand the arguments behind the decisions of the central bank. Second, we can fill some of the missing aspects in the process of sharing data on the bank's market operations. Moreover, sharing information of higher credibility regarding our monetary policy strategy more frequently will be beneficial. Moreover, thematic speeches that express our stance on some key monetary policy issues will be useful to clarify TCMB's overall approach to the public. In addition, we continue to work on enhancing the communication of the bank with its stakeholders. Ac-

cordingly, investors, financial institutions, and corporate sector representatives, and, above all, the financial press will continue to be our main stakeholders. Explaining the importance of price stability as well as the central bank's role to all segments of society has a significant role in achieving price stability. Moreover, the consistency of policies is also extremely important, and in this context, we will work in tandem with all parties that will provide input to the processes to enhance effectiveness of the monetary policy.

**Citing reduced inflation and data indicating a moderate recovery in economic activity, TCMB reduced its policy rate from 24% to 14%. Can you outline the specific goals of the rate cuts, as well as its potential risks?**

Economic activity, which contracted in the second half of 2018, started to recover at a modest pace in 2019. Both domestic and external demand contributed to the recovery in the first two quarters of the year. The main driver of domestic demand was private consumption, while investment demand remained weak due to tight financial conditions and elevated levels of financial volatility. On the external demand front, despite recent signs of global slowdown, competitiveness gains and market diversification led to a solid performance in exports of goods and services, while import demand remained subdued. As a result, the contribution of net exports remained positive, also with the help of buoyant tourism demand. Recent data indicate that moderate recovery in economic activity continues. While favorable effects of improved competitiveness prevail, weakening global economic outlook tempers external demand. Looking forward, net exports are expected to contribute to economic

## BIO

Murat Uysal was appointed governor of TCMB in 2019. He had previously served three years as the Central Bank's deputy governor. Prior to joining TCMB, Uysal served as the chairman of the board at Halk Invest and simultaneously as the member of the Auditing Board of Halk Investment, board member of Halk Asset Management, and as chairman of the board of Halk Asset Management. He also worked for Halkbank in various roles. He graduated from the economics department in English of the faculty of economics at Istanbul University after attending Galatasaray High School. He earned a master's degree in banking from the Institute of Banking and Insurance at Marmara University and earned his master's degree on inflation targeting and inflation targeting in Turkey and the World.



growth, although to a lesser extent, and the gradual recovery is likely to continue with the help of the disinflation trend and improvement in financial conditions. The current account balance, which has recently recorded significant improvement due to the composition of growth, is expected to maintain a moderate course. Inflation has displayed a persistent downtrend since October 2018. Tight monetary policy stance has been instrumental in controlling inflation and inflation expectations. In order to steer inflation expectations in the right direction and contain risks to pricing behavior, we have strengthened the emphasis on the role of published inflation forecasts as intermediate targets. Accordingly, we have made an explicit commitment to keep the underlying trend of inflation close to the published projections for the next three years. Accordingly, actual inflation has mostly remained close to, or even below, the lower bound of TCMB's published projections since October 2018, which has improved forecast credibility. The inflation outlook continues to improve. Over the course of the year, the relative stability of the lira and the negative output gap played a major role in disinflation, while falling import prices and food prices also contributed to the decline. We project inflation to converge to the underlying trend as the base effect fades away in the coming months. According to the October inflation report, forecast inflation will materialize around 12% by the end of 2019. The ongoing improvement in inflation dynamics and pricing behavior created room to reduce the monetary policy tightness. We delivered three rate cuts in July, September, and October, bringing the policy rate to 14% from 24%. The current monetary policy stance is largely consistent with the projected disinflation path that envisages a fall to 8.2% by the end of 2020. The easing in financial conditions supports the moderate recovery trend in economic activity by strengthening confidence and credit channels. We predict the economy will gradually return to its potential growth rate, hence the output gap will remain supportive of disinflation also in 2020. The sustained disinflation process is the key to achieve lower sovereign risk, lower long-term interest rates, and stronger economic recovery. Monetary stance should remain cautious to keep the disinflation process on track with the targeted path. We will determine the tightness of monetary policy based on the indicators of the underlying trend of inflation to ensure the disinflation process and will continue to use all available instruments in pursuit of price and financial stability.

**From both a domestic and global standpoint, what are the biggest challenges facing the Turkish economy, and what are TCMB's most effective tools to solve them?**

On the domestic front, steering the economy toward a sustainable growth path and ensuring financial stability are of key importance. This in turn depends on sustaining the disinflation process and achieving

**“On the domestic front, steering the economy toward a sustainable growth path and ensuring financial stability are of key importance.”**

price stability. Given the persistently elevated levels of medium-term inflation expectations and associated risks regarding the pricing behavior, it is crucial to keep the disinflation process consistent with the target. This requires maintaining a tight monetary stance and enhanced policy coordination that prioritizes the decline in inflation. Anchoring inflation expectations around the projected disinflation path, and ultimately around the target of 5%, will enhance the effectiveness of monetary policy and reduce possible tradeoffs associated with disinflation. The re-balancing process that the economy has undergone is smoothly evolving into a healthier growth outlook over the next year. A macro-policy mix that prioritizes the decline in inflation through strong policy coordination will improve the external financing opportunities and long-term interest rates by reducing the risk premium, which will gradually strengthen domestic demand. By preserving monetary and fiscal discipline, reducing macro-financial risks and increasing predictability in the economy, economic growth will be steered toward a balanced and sustainable path over the medium term.

**Under TCMB's new leadership, what are the goals of the bank over the next 12 months?**

Our main goal is to sustain the disinflation process and bring inflation down to 8.2% by end-2020. Maintaining a sustained disinflation process is the key to achieving lower sovereign risk, lower long-term interest rates, and stronger economic recovery. On the back of mildly supportive global financial conditions, we expect the level of monetary tightness and the ongoing improvement in country risk premium to contribute to the stability of the exchange rate. The improvement in the current account is also expected to support the lira. As the fall in inflation becomes more apparent and exchange rate volatility is contained, inflation expectations are expected to converge to our 2020 forecast of 8.2% in 2H 2020. Our decision-making processes will continue to be data-driven. In addition to all macroeconomic indicators, primarily inflation and economic activity, we are closely monitoring micro dynamics and field data. To enhance effectiveness of the monetary policy, we are working in tandem with all parties involved. Also, we will continue to pay effort to enhance the communication of the monetary policy, which will provide major contributions to achieving our targets. ✕

# on the path TO GROWTH



The Ministry of Treasury and Finance is working toward financial stability, focusing on financial restructuring and improving the country's current account balance, in addition to boosting domestic savings.

Berat Albayrak  
MINISTER OF TREASURY  
AND FINANCE

\*This first appeared  
on Euronews.

After a year of significant reforms, the government remains committed to an ambitious agenda of economic transformation. With no elections for the next four years, Turkey offers great investment opportunities. We acted swiftly upon assuming office to restore price stability and guide the economy toward a more sustainable growth path. The results of our intervention are encouraging—inflation is already lower than a year ago, and single-digit inflation is within our grasp. The central bank continues to take measures independently to pursue its fight against inflation. In tandem, we are working to contain food prices by supporting the optimization of supply chains, with an expectation to reap the benefits of such initiatives. This is critical given food prices have been a nagging source of inflation since the early 2010s.

Following the structural transformation steps announced in April, certain policies have been implemented to improve the economic outlook in the near term as well as to increase the productivity and growth potential in the long term. Our goal is to achieve sustainable growth while addressing Turkey's main source of fragility, the chronic current account deficit, which has been financed by short-term debt.

Looking into the financial system, banks have capital adequacy ratios well above global benchmarks. However, we remain vigilant; state-owned banks received new capital injections in April, a number of privately-owned banks also raised capital, and the banking regulator has asked all banks to retain earnings. We are also developing state-of-the-art macroprudential oversight capabilities to detect systemic risks to financial stability.

The volume of credit, which contracted approximately 15% YoY, remains a serious concern. We want to ensure the system continues to provide an uninterrupted flow of credit to eligible businesses. The new law on financial restructurings shows our determination in this matter. In addition, we are keeping a close eye on banks as they work through distressed loans, particularly in the energy and construction sectors. It is worth noting that several international and domestic investors are interested in forming funds to acquire such loans. We are keen to introduce the necessary rules and regulations to

extend our support to businesses.

A major policy initiative to boost domestic savings is to be announced. This will lead to long-term growth and reduce reliance on short-term capital flows. In addition, we are filling so-called information gaps by requiring firms with domestic bank borrowings exceeding TRY100 million to submit audited financial statements to their banks before they obtain loans. A national credit rating agency will further improve the information environment and deepen capital markets. Furthermore, there is great potential for growth in the insurance industry to supplement the diversity of funding sources.

Exporters have been playing a substantial role in the improvement of Turkey's current account balance. Their tremendous entrepreneurial drive shown in diversifying export markets to over 200 countries, benefiting from modern logistics, transportation, energy, and communications infrastructure, has been the backbone of export market growth. Targeted loan programs, launched in June, have been designed to further support in this regard.

Our sovereign wealth fund along with other state institutions are actively holding discussions with strategic partners in the pharmaceuticals, petrochemicals, energy, and technology sectors in order to bolster the current account and attract foreign direct investment. In addition, significant joint exploration and production opportunities await investors in the Eastern Mediterranean. Turkey's natural endowments to become the preeminent energy, logistics, trade, and export base at the crossroads of three continents remain undeniably live and attractive.

Turkey's strong fiscal balance sheet is reassuring on the road toward re-establishing robust growth in 2H2019. We are about to undertake significant transformation of our tax code to strengthen tax administration, realize base expansion and reduce corporate taxes to create investments and jobs. Turkey's track record of fiscal discipline is self-evident and will never change. Other reforms including the effective functioning of the judicial system will be addressed before year end, contributing to a healthier and more predictable investment environment. These structural initiatives will be central looking toward the centennial of our republic in 2023. ✕

## BIO

Berat Albayrak has been the Minister of Treasury and Finance since 2018. He served as the Minister of Energy and Natural Resources for the 64th, 65th, and 66th governments and has been a member of parliament. Prior to his government positions, Albayrak served as an executive in the private sector in the economics, energy, and finance fields and taught banking and finance at Marmara University. He has an undergraduate degree from Istanbul University's business department and master's and PhD degrees from New York Pace University's Lubin School of Business.

# TBY ANALYTICS TURKEY 2020

**106 interviews** were conducted for *The Business Year: Turkey 2020* analytics. This is a breakdown of the answers to the questions we posed.

## BUSINESS CONFIDENCE INDEX

How confident are you about the outlook for business in Turkey this year (1-5) ?

**3.43**

 AVERAGE  
RATING

### BREAKDOWN BY SECTOR



FINANCE

**3.25**

 INDUSTRY  
& DEFENSE

**3.3**


SHIPBUILDING

**3.25**

 MINING  
& METALS

**3.2**

 IT &  
TELECOMS

**3**


ENERGY

**3.5**

 TRANSPORT  
& LOGISTICS

**3.7**

 REAL ESTATE &  
CONSTRUCTION

**3.5**

 AGRICULTURE  
& FOOD

**3.72**

 HEALTH &  
EDUCATION

**3.57**


TOURISM

**3.75**

## ADVANTAGES AND CHALLENGES

What are the most commonly mentioned advantages and challenges of doing business in Turkey?

### ADVANTAGES

Young population

---

Important export hub

---

Geographic location

---

Skilled talent

---

Diversified marine sector

---

Attractive tourist destination

### CHALLENGES

Lira crisis

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Fluctuating exchange rates

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High inflation

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Unstable economy

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Shortage of R&D

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Lack of public investment

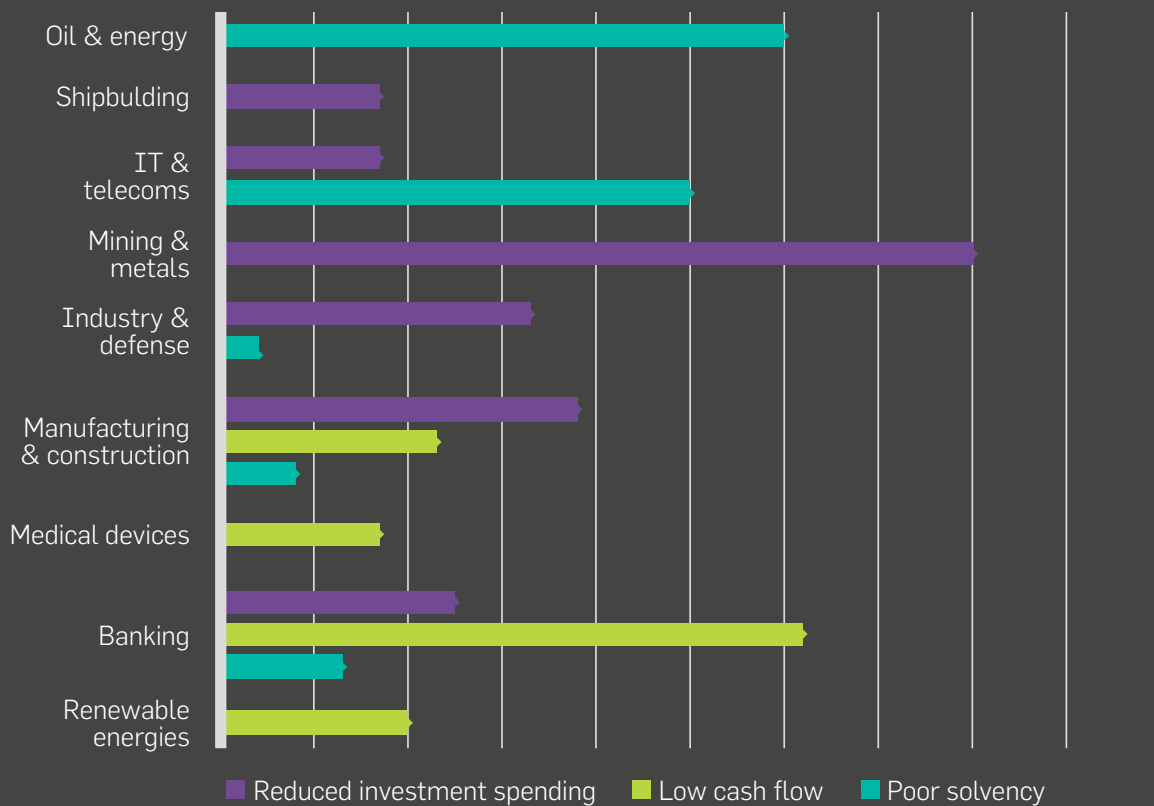
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Youth unemployment



## ECONOMIC SLOWDOWN

How has the lira's depreciation negatively impacted your business?



However, there have been some advantages to the currency depreciation, especially for exporters, and the economic slowdown is not unique to the Turkish market.

“We have not been affected by the volatility of the lira and the economy. In fact, 95% of our revenue comes from export. That means domestic foreign exchange fluctuations do not affect demand for our products; however, it affects our suppliers, because they have many hard currency inputs, which requires us to be more sensitive to their situations.”

Sevda Aydın  
GENERAL MANAGER,  
AYTİM GROUP

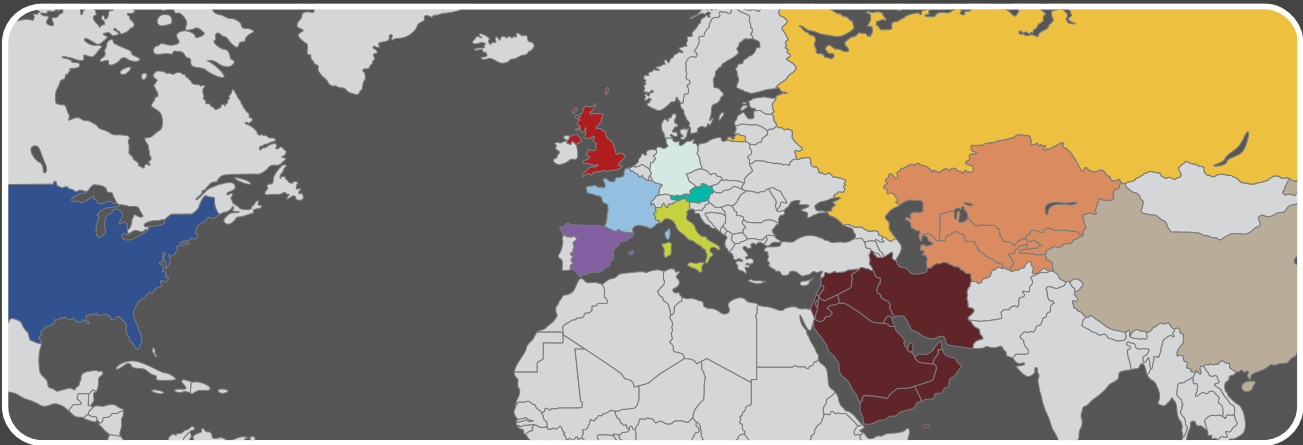
“The slowdown in 2019 was not in Turkey alone. After a strong 2018, activity around the globe hit bottom in 2019 due to economic uncertainty, trade wars, rising nationalism, government intervention, and anti-globalization. However, with its dynamic private sector, favorable demographics, sizable and growing economy, and geographical advantages, Turkey will continue to be a preferred investment location for multinationals and financial investors.”

Levent Bosut  
MANAGING PARTNER,  
inHERA CAPITAL

Which currency do Turkish companies feel safer to invest in?



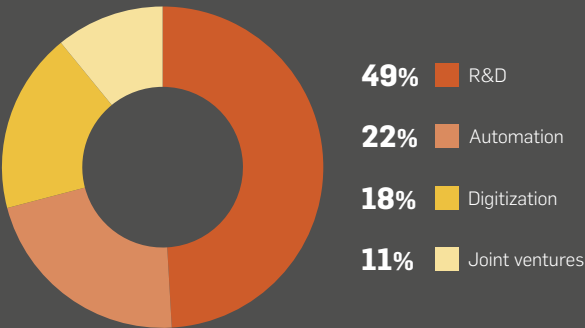
37% of our interviewees believe the lira's falling value has created a competitive atmosphere internationally for Turkish companies. How has the depreciation resulted in international investors and partnerships bilaterally?



ITALY:		Agriculture, Shipbuilding, Transport
GERMANY:		Agriculture, Energy, Industry & Defense, Mining & Metals, IT & Telecoms, Transport
FRANCE:		Agriculture, Energy, Industry & Defense, Transport
AUSTRIA:		Agriculture, Transport
UK:		Agriculture, Energy, Industry & Defense, IT & Telecoms, Real Estate & Construction, Transport
US:		Energy, Industry & Defense
THE MIDDLE EAST:		Agriculture, Energy, Industry & Defense, Mining & Metals, Shipbuilding, IT & Telecoms, Transport
RUSSIA:		Agriculture, Energy, Industry & Defense, Mining & Metals, Transport
SPAIN:		Real Estate, Industry & Defense, Agriculture, Energy
CHINA:		Agriculture, Industry & Defense, Shipbuilding, IT & Telecoms, Transport
CENTRAL ASIA:		Real Estate, Industry & Defense, Agriculture, Energy

INDUSTRY & DEFENSE

Which areas hold the greatest potential for investment in the sector?



**38%**  
of interviewees in the sector  
leverage government support  
for investment projects

AGRITOURISM

How diversified is Turkey's agriculture sector?



Hazelnuts  
**31%**



Walnuts  
**19%**



Fruit  
**13%**



Vegetables  
**13%**



Honey  
**12%**



Wheat  
**6%**



Animal husbandry  
**6%**

Globally, Turkey is the:

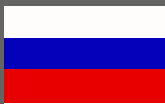
**Largest**  
*hazelnut exporter*

**2<sup>nd</sup> largest**  
*honey producer*

From where do the majority of tourists to Turkey come?



Germany



Russia



Dubai



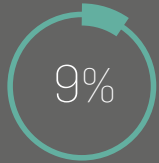
Iran



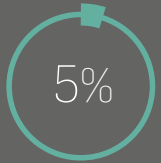
Kuwait



Greece



Qatar





# strengthening RELATIONS

Caner Çolak  
SECRETARY GENERAL,  
FOREIGN ECONOMIC  
RELATIONS BOARD (DEİK)

DEİK will continue to create new and strengthen existing ties around the world through various initiatives and events.

**Which Turkish industries are set to contribute most to increased exports to the US, and how is DEİK facilitating US-Turkish trade growth?**

Bilateral trade between Turkey and the US has significantly grown and reached USD23 billion in 2018. However, the state of global trade and Turkish-American bilateral relations indicate a need for multi-front effort to reach target levels. As DEİK, we prepared a report with the Boston Consulting Group to analyze the ways of reaching the USD100-billion trade target set by Turkey and the US in the coming years. This report was presented to both countries' leaders and cabinet officials. According to the report, automotive and parts, textile and apparel, jewelry, civil aerospace, white goods, building materials, and furniture are the sectors identified to contribute the most towards increasing Turkey-US bilateral trade. The Turkish American Business Council (TAİK), the primary business channel between Turkey and US, has been organizing business events such as high-level roundtables and trade missions to both in Turkey and US. After US Commerce Secretary Wilbur Ross's visit in September 2019, the USD100-billion trade volume target was discussed during Turkish President Recep Tayyip Erdoğan's visit to Washington, DC in November 2019. DEİK and TAİK will closely work to realize this target by organizing more business events and creating new networks in the future.

**In Turkey, what sectors of the economy are expected to see increased Chinese investment, and what Turkish products are most suitable for exporting to China?**

As a result of the increase in the importance of the "China, Central Asia, West Asia Economic Corridor" in China's Belt and Road Project, Turkey will benefit more from Chinese investments in the future. In recent years, two Chinese banks have been increasing their financing activities and a Chinese insurance company has increased its support for trade finance in Turkey. Tourism represents a big area of growth with China. After tourism—although we still do not have a trade agreement with China—the food sector has the highest potential for Turkish exporters, with dried fruits, fresh fruit, and vegetables the most prominent subsectors. We also see high potential for



our branded products, such as our fashion brands in the textile sector, as well as white goods, glassware, souvenirs, and small appliances.

**Outside of the immediate region, what targets has DEİK set for opening new trade relations with developing nations?**

Turkey has been interesting in developing deeper economic and trade links with African countries since 2005, which Turkey declared as "Africa Year." Since then, Turkey's share in Africa's imports increased from 1% to 2.6% with a stable pace. During the same period, Turkey's number of embassies increased to 41 African countries, and Turkish Airlines now flies to 55 destinations in 37 countries on the continent. DEİK has been organizing Turkey-Africa Business Forums in Istanbul in every two years since 2016 in cooperation with Turkish Ministry of Trade and African Union Commission, hosting over 50 guest ministers and 3,000 business people from all over the African continent. Also, Turkey has free trade agreements with four African countries—Morocco, Egypt, Mauritius, and Tunisia. With the implementation of Africa Continental Free Trade Area, we expect a trade boom that will reach every corner of the continent. Having highly improved relations with Africa since 2005, Turkey will focus now more on young and developing African countries.

**Over the next 12 months, what are DEİK's most important objectives?**

As DEİK, our priority is to create new and strengthen existing ties around the world. We are launching events on partnerships with Japan and European countries to make joint investments in African and Asian countries. We are connecting investors in countries with Islamic to use Islamic finance to manage their investments. In order to realize this purpose, we will organize a PPP event with the Islamic Development Bank on March 2020. Africa will be a priority of ours in the future as well. Finally, along with increased Chinese investments and because of the cultural and historic ties with Turkey, Central Asian countries will be one of the most important targets for Turkish business people along with the recently announced Turkey foreign policy, "Asia Anew." ✕

## BIO

Caner Çolak has been the Foreign Economic Relations Board's secretary general since 2018. He previously served as the deputy secretary general of the Turkish Exporters Assembly, a department head at the Prime Ministry Privatization Administration, an advisor to the minister at the Ministry of Economy, and in roles at the Development Bank of Turkey and Halk Bank. He graduated from Hacettepe University's Department of Economics.

## FOCUS

Economic reform

# TOUGH TIMES CALL FOR SWEEPING MEASURES

Treasury and Finance Minister Berat Albayrak has introduced comprehensive reforms to stabilize the nation's economy.

**OFFICIALS ARE ACTING TO STABILIZE** the nation's fragile economy and rebuild confidence in the banking sector following the 2018 currency crisis. On April 10, Treasury and Finance Minister Berat Albayrak introduced a sweeping economic reform package that will strengthen state banks' capital position, prioritize loans for export and other high-performing sectors, and lower corporate and individual taxes.

"We continue to uphold our fiscal discipline after the [March 2019 municipal] elections," Albayrak said during a speech on April 10 while unveiling the reform plan. "We issued tax incentives to some sectors. We will take steps that will ensure fairer taxation on higher income groups that will have minimum effect on inflation."

Outlining the long-awaited reform package, Albayrak said TRY28 billion in debt securities would be injected into state banks to boost capital. He added private banks might receive similar government aid in the future if necessary, but noted that dividend and bonus payments would be limited during the rebalancing period.

The move seeks to counter the weight posed by a large number of non-performing loans held by banks, which are expected to double in 2019. Albayrak said some problematic loans would be transferred to off-balance sheet funds of local banks and international investors, and two funds focusing on energy and real estate would be created.

Albayrak emphasized government loans would prioritize strategic sectors such as manufacturing, exports, and value-added production. Turkish exports remain competitive following the devaluation of the lira, which has narrowed the foreign trade gap by 63.6%, from USD40.8 billion in 1H2018 to USD14.85 billion in 1H2019. By injecting support into local production, Albayrak seeks to bolster Turkey's exports, nearly half of which is directed toward EU trading partners. In 1H2019, trade between Turkey and the EU amounted to USD41.4 billion.

In addition, a new government tax structure will be implanted to reduce exemptions and gradually lower corporate taxes, while combating black market activity and modifying taxes on high-income earners to create a more balanced tax scheme. Albayrak also said he plans to integrate the nation's severance pay fund with its private retirement insurance fund.

"The new individual pension system will be based on citizens' income level; in five years, we expect the funds in the new retirement reserve to exceed 10% of Turkey's GDP," he said during the April 10 speech.

While presenting the reform package, Albayrak underscored that previous budget reforms had already resulted in savings of TRY44 billion. That figure is set to cross TRY76 billion on the back of new measures. International investors observed the presentation closely, seeking assurance the central bank would move swiftly to address ongoing economic turbulence.

Following the currency crisis in August 2018, the economy suffered its worst quarterly contraction in nearly a decade, in which inflation rose as high as 25%, leaving enterprises and banks saddled with high levels of foreign-currency debt. The lira, which lost 30% of its value against the dollar in 2018 and remained volatile, stabilized in the spring of 2019 as analysts weighed the risk of higher deficits and potential government interventions.

Initial response to the reform package was positive, following which bank stocks rallied, with the majority state-owned Halkbank leading the pack with a 2% rise. The government's sustained efforts continue to bode well for the overall economy, but most importantly, they have started to bear fruit for the average citizen, as according to Turkish Statistical Institute, YoY inflation has dropped steadily over the summer period, from 18.71% in May 2018 to 15.72% in June 2019. ✖

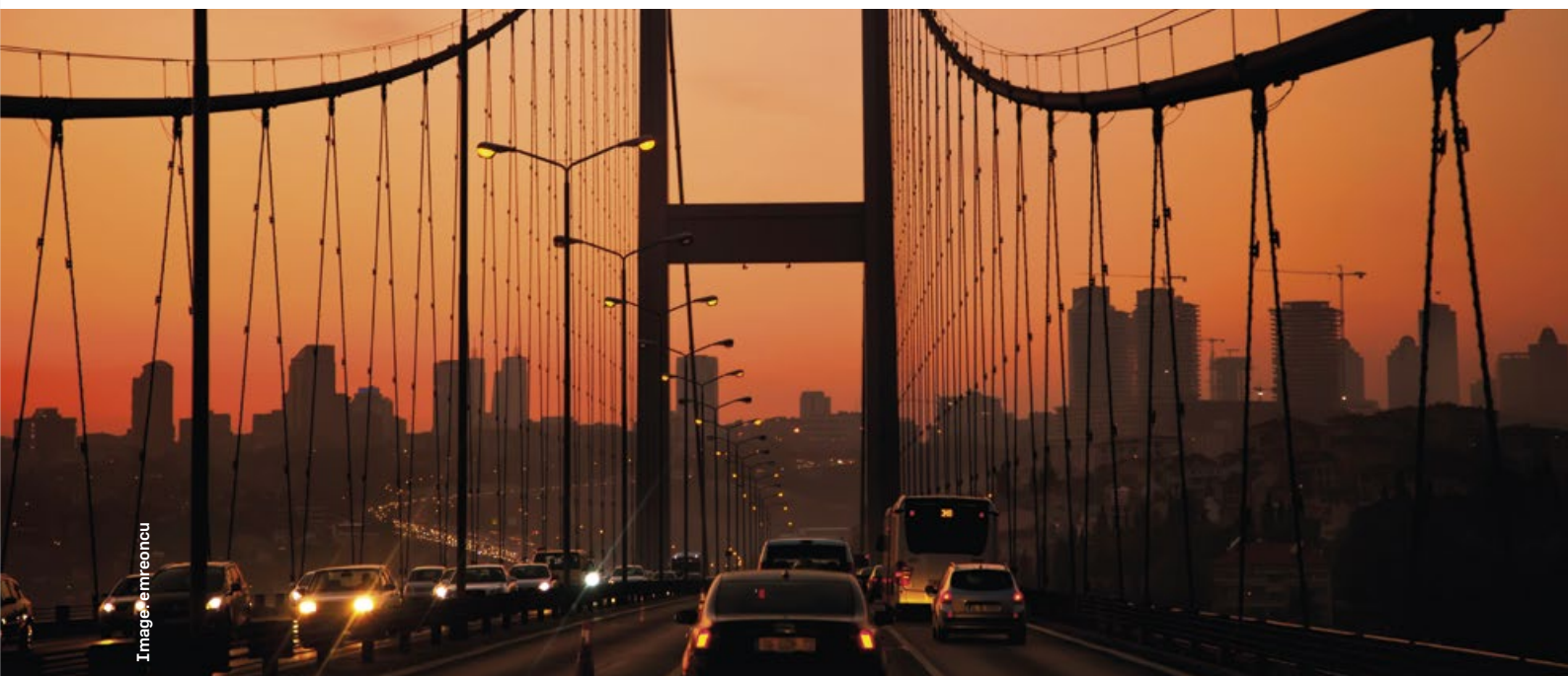


Image: emre oncu

## EFFECTING REAL CHANGE

From diplomacy and finance to energy and transportation, key players in Turkey's most important sectors have their eye on preparing the country for the future.

Turkey's success story stems from its leaders' vision to steer the economy toward sustainable growth and financial stability. Despite the challenging circumstances in the last few years, regulatory and corporate strategies have been implemented to put the economy back on track, ensuring a healthier and more predictable investment environment across all sectors. Turkey continues to build and nurture political and economic ties, making a substantial contribution to regional and global stability through diplomacy. Its commercial aviation industry, which has grown by leaps and bounds in recent years, is set to gain greater momentum when Istanbul Airport, which opened in 2019, reaches full capacity. Mining, which produces vital raw material inputs for the industrial sector, also looks set to grow in the coming years, not least because. Looking toward the centennial of the Turkish Republic in 2023, the country has never been more ready to take the next step and acquire a leading role on the global stage.

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Mevlüt Çavuşoğlu  
MINISTER OF FOREIGN  
AFFAIRS

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Berat Albayrak  
MINISTER OF  
TREASURY  
AND FINANCE

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Murat Uysal  
GOVERNOR,  
CENTRAL BANK OF THE  
REPUBLIC OF TURKEY  
(TCMB)

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Hüseyin Aydın  
CHAIRMAN OF  
THE BOARD,  
THE BANKS  
ASSOCIATION OF  
TURKEY

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Fatih Dönmez  
MINISTER OF  
ENERGY AND NATURAL  
RESOURCES

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Mehmet Cahit Turhan  
MINISTER OF  
TRANSPORT AND  
INFRASTRUCTURE





Mevlüt Çavuşoğlu  
MINISTER OF FOREIGN AFFAIRS

**DESPITE VARIOUS SHIFTS AND CHANGES** over the centuries, the core functions of diplomacy persist in the 21st century. In places where war, coups, failing states, suffering, oppression, and bloodshed are taking place, Turkish diplomats perform their duties uninterrupted and are devoted to protecting Turkish interests. They are in constant negotiations in capitals, international organizations, and the tables of various processes. We have developed comprehensive consultations and cooperation methods including bilateral, trilateral, quadrilateral, and other sorts of multilateral mechanisms. We will make more use of those not only on political but also technical levels. We continue to make a substantial contribution to regional and global stability and order through diplomacy. Turkey is the leading country in mediation initiatives in three different international organizations. We will devote even greater attention to resolving disputes and frozen conflicts in the upcoming period. Turkish diplomacy is also highly active in the development of our foreign economic and commercial relations. The amount of FDI, which was USD14.6 billion from 1984 to 2002, reached USD210 billion from 2003 to 2019. We concluded or are in negotiations for free trade and preferential trade agreements with many countries. Turkey's interests at home and abroad require working efficiently and in a focused manner. Our state and nation stand tall and strong as the guarantor of regional peace and prosperity.



Berat Albayrak  
MINISTER OF TREASURY  
AND FINANCE

**AFTER A YEAR OF SIGNIFICANT REFORMS,** the government remains committed to an ambitious agenda of economic transformation. With no elections for the next four years, Turkey offers great investment opportunities. We acted swiftly upon assuming office to restore price stability and guide the economy toward a more sustainable growth path. The results of our intervention are encouraging—inflation is already lower than a year ago. The Central Bank continues to take measures independently to pursue its fight against inflation. In tandem we are working to contain food prices by supporting the optimization of supply chains. This is critical given food prices have been a nagging source of inflation since early 2010s. Following the structural transformation steps announced in April, certain policies have been implemented to improve the economic outlook in the near term as well as to increase the productivity and growth potential in the long term. Our goal is to achieve sustainable growth while addressing Turkey's main source of fragility, the chronic current account deficit, which has been financed by short-term debt. Looking into the financial system, Turkish banks have capital adequacy ratios well above global benchmarks. We are also developing state-of-the-art macro prudential oversight capabilities to detect systemic risks to financial stability. *\*This first appeared on Euronews.*



Murat Uysal  
GOVERNOR,  
CENTRAL BANK OF THE  
REPUBLIC OF TURKEY (TCMB)

**ECONOMIC ACTIVITY**, which contracted in 2H2018, started to recover at a modest pace in 2019. Both domestic and external demand contributed to the recovery in the first two quarters of the year. The main driver of domestic demand was private consumption, while investment demand remained weak due to tight financial conditions and elevated levels of financial volatility. On the external demand front, the contribution of net exports remained positive, also with the help of buoyant tourism demand. The composition of growth has a positive effect on the external balance. The current account balance, which posted a sharp improvement during the rebalancing process, is expected to remain favorable. Inflation has displayed a persistent downtrend since October 2018. Tight monetary policy stance has been instrumental in controlling inflation and inflation expectations. In order to steer inflation expectations in the right direction and contain risks to pricing behavior, we have strengthened the emphasis on the role of published inflation forecasts as intermediate targets. Accordingly, we have made an explicit commitment to keep the underlying trend of inflation close to the published projections for the next three years. Accordingly, actual inflation has mostly remained close to, or even below, the lower bound of the TCMB's published projections since October 2018, which has improved forecast credibility.



Hüseyin Aydın  
CHAIRMAN OF THE BOARD,  
THE BANKS ASSOCIATION  
OF TURKEY

**DUE TO THE SLOWDOWN IN THE ECONOMY**, the banking sector saw slow growth in 2019. Total assets annually grew by 15% in nominal terms as of June 2019 and reached TRY4.2 trillion; however, in dollar terms, total assets fell by 9%. The ratio of loans to GDP was around 64% in mid-2019, while the loan-to-deposits ratio was 57%. TRY loan stock remained almost the same compared to June 2018, while FX loan stock increased by 23%—a 3% decline in USD terms. Commercial loans grew by 11% and individual loans by 1%. Commercial loans accounted for 78% of total loans, while loans to consumers took 22% of the total. SMEs' share of total loans was 25%. Inflation started to decline in the second half of 2019 and is expected to level off around 12% in December, below the target. A slowdown in domestic demand and a rather stable trend in TRY value pulled inflation down and had positive impact on expectations. According to the government program, inflation targets are 8.5% in 2020 and 6% in 2021. Demand for the TRY increased in 2Q2019 due primarily to the reverse currency substitution of residents. This caused the TRY to reach 5.8 against a USD/EUR basket in nominal terms, a considerable appreciation from 6.6 in April.



Fatih Dönmez  
MINISTER OF ENERGY AND  
NATURAL RESOURCES

**IT IS IMPORTANT TO INCREASE THE** output of the mining sector in Turkey for a number of reasons—beyond just GDP growth. Mining activity in Turkey produces vital raw material inputs for the industrial sector, and its expansion will reduce our dependence on imports. Turkey imported around USD27 billion in mining products in 2018 and exported around USD6-7 billion. Much of that USD20-billion trade deficit is from gold imports, which amounted to USD8.5 billion in 2018. We have a significant amount of imports when we look at other products such as copper, iron ore, and similar products. Contrary to what these figures might indicate, Turkey has significant mining resources—there are about 90 kinds of mining products around the world, and 70 of them exist in our country. Mining is a time- and cost-intensive activity. Investments in the sector are long-term commitments and therefore we need to be patient in this sector. The sector's expansion is also limited by environmental and location constraints. In some cases, the Ministry of Agriculture or the General Directorate of Forestry have to be consulted, and we engage in studies about the environmental and economic impact of initiating a project. There are protections in place to ensure that citizen land rights and forested lands are respected.



Mehmet Cahit Turhan  
MINISTER OF TRANSPORT  
AND INFRASTRUCTURE

**THE NEW ISTANBUL AIRPORT WILL** satisfy the needs of not just Istanbul and Turkey also the greater region. This project will also raise Istanbul to its deserved position in the international airline market. Istanbul Airport will also make the country a major center and a bridge among nations. We will be able to see the effects of this project in 2020, and this is really exciting for us. Furthermore, because of its geopolitical and geostrategic location, Turkey needs to be a strong maritime country. Today, 84% of global trade is being done via sea transportation. We are currently in the top 20 in terms of maritime transportation and shipbuilding. Turkey's overall maritime trade fleet is 29 million DWT. Our national shipbuilding industry has been successful in commercial shipbuilding and maintenance, in nationally designed and 100% domestically built warships, and is one of the top three industries globally for yacht building. Students are being trained in our maritime universities and other maritime schools to lead us in this industry. Ports are one of the most important parts of the logistics chain in maritime transport. Our investments are all long-term investments rather than one-year investments. When we look at the past 17 years, the point reached today is the greatest evidence that dreams can turn into reality.



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