



Geopolitical Situation and Impact on the Turkish Business Environment

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SUMMARY

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- II. Regional Outlook
- III. Relationships with the EU
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TURKEY AT A GLANCE



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TÜRKİYE'NİN KOMŞU ÜLKELERİ HARİTASI

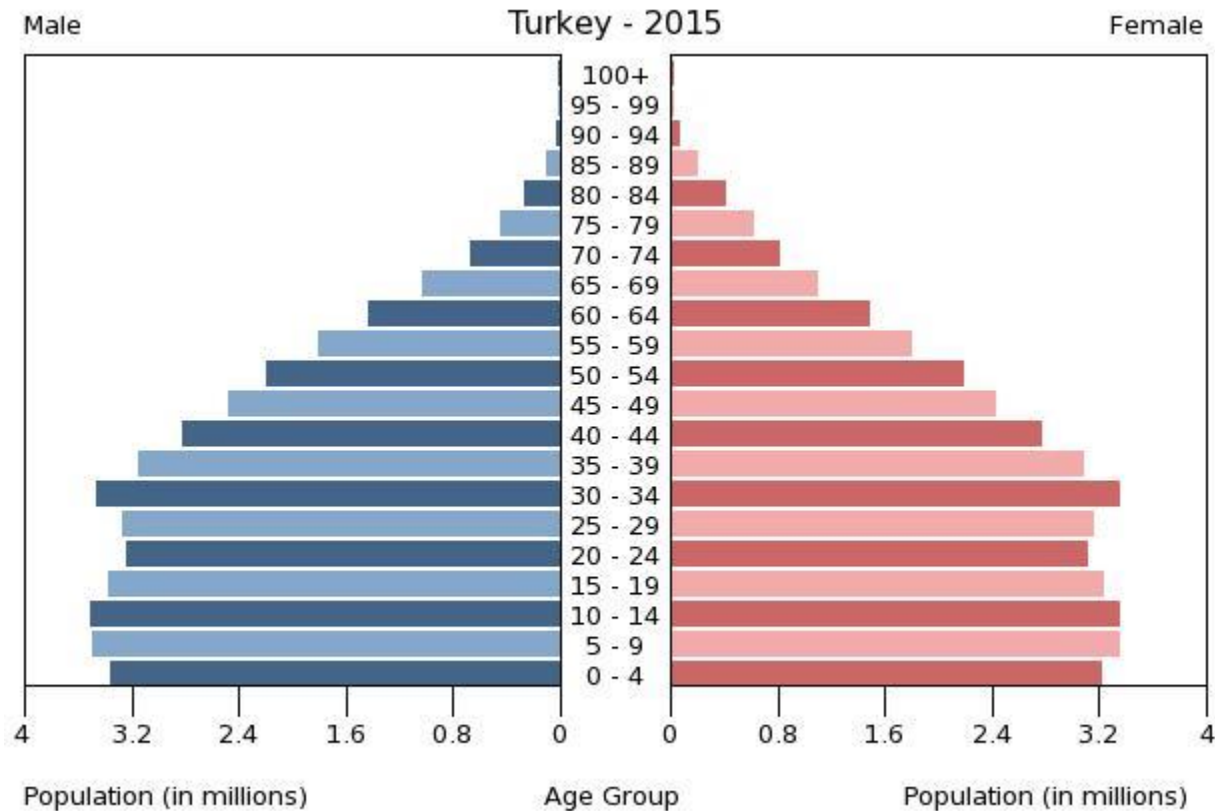
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TURKEY AT A GLANCE

- A secular republic founded in 1923
- Capital: Ankara
- Political system: Parliamentary democracy
- Chief of State : Recep Tayyip Erdoğan (President)
- Prime Minister : Binali Yıldırım (head of government)
- Legal system: Civil law - influence of European legal system and especially Swiss civil and obligations codes

TURKEY AT A GLANCE



Population : 78,741,053 (according to TUIK as of 2015)

Working age population (between 15 and 64): 67.9%



REGIONAL OUTLOOK

- Turkey - a strong country in the region
- Historical ties / Cultural similarities
- Business is interconnected with neighboring countries
- Down side: Instability in the region directly and immediately impacts on Turkey
- Resilient and developing economy despite geopolitical context: constant wars at the doors of Turkey since late 70s

REGIONAL OUTLOOK / CAUCASUS

Russia

- EU sanctions on Russia (March 2014): positive and negative impact
- Major bilateral crisis (November 2015): Russian warplane down at Turkey-Syria border:
 - Negative impact on tourism in 2016 (2nd tourist originator)
 - Ban on Turkish products exported to Russia
 - Nevertheless, boost in Turkish local consumption and positive impact for economic growth
- Recent development: Efforts to normalize relations

Armenia

- No diplomatic tie – Borders are closed
- Cultural similarities and reciprocal business opportunities exist despite historical conflicts
- 1915 events frequently used as national politics material in various European countries - adoption of genocide related resolutions

REGIONAL OUTLOOK / MIDDLE EAST



Syria and Iraq

- Two countries affected by civil war – Interconnected context
- Major impact on trade relations – loss of two major markets for Turkey
- Strengthening of ongoing PKK terrorism against military forces
- Rise of ISIS
- ISIS raid on Turkish Consulate in Mosul (Iraq) in June 2014 - 49 Turkish nationals held hostage
- Border security issues
- Terrorist attacks on civilians in major cities (ISIS and PKK)

REGIONAL OUTLOOK / MIDDLE EAST



Major refugee flow to Turkey

- Increase of public debt: significant cost of hosting close to 3 million refugees in Turkey
- Need for more employment opportunities / Demographic issues
- TRY 1,2 billion (CHF 400 million) Syrian deposits in Turkey as of 2016/Q1
- 4,729 new companies with foreign capital incorporated in Turkey in 2015: 1,599 Syrian, 330 German, 304 Iraqi.



REGIONAL OUTLOOK / MIDDLE EAST

Iran

- Turkey and Iran – Historically two powerful nations in the Middle East
- UN nuclear-related sanctions abolished in January 2016
- Competing markets / Partnership opportunities
- A new major market for Turkey as an alternative to Iraq and Syria
- Use of Turkey to invest/trade in Iran: Cultural proximity - Turkish entrepreneurs know-how



REGIONAL OUTLOOK / MIDDLE EAST

Israel

- A concrete example to the Caucasian / Middle eastern foreign politics
- Mavi Marmara (ship) incident in 2010: major crisis
- Political relationship seems to come to a standstill – current negotiations between Ankara and Tel Aviv (expected to be closed in late June):
 - Indemnification for Mavi Marmara victims
 - Lifting of embargo on Gazza
- Compared to 2009, trade figures have **doubled** in 2014 and expected to hit **USD 5-6 billion in 2016**
- Cooperation between Turkey and Israel in the Leviathan natural gas field project / Expected to be completed in 2020



RELATIONSHIPS WITH THE EU

European Union

- Negotiation on EU accession – ongoing
- Active until 2010 / 2011-2012 suspended / reactivation in 2016
- Monetary support for refugees
- Execution of the readmission agreement
- Negotiations on liberalization of the visa requirement for Schengen: **65 out of 72 criteria have been met** – (data protection, operational partnership with Europol, adoption of legislation with border management, implication of readmission obligations...)

Cyprus

- Talks for unification
- Potential softening of reactions regarding blockage of Turkey's EU membership process



TURKISH POLITICAL ENVIRONMENT

Past Elections

- First « direct democracy » presidential election in Turkish history in August 2014 (51.8%)
- Parliamentary elections in June 2015 – AKP (40.8%)
- Failure to form government
- 2nd parliamentary elections in November 2015 – AKP (49.5%)
- Replacement of PM Ahmed Davutoğlu by Binali Yıldırım (former Minister of Transports)

Recent political tensions

- Presidential system
- Plans on Drafting a New Constitution
- Lifting of parliamentary immunities
- Centralized decision-making mechanism (anti-democratic criticisms vs. efficiency and political stability)

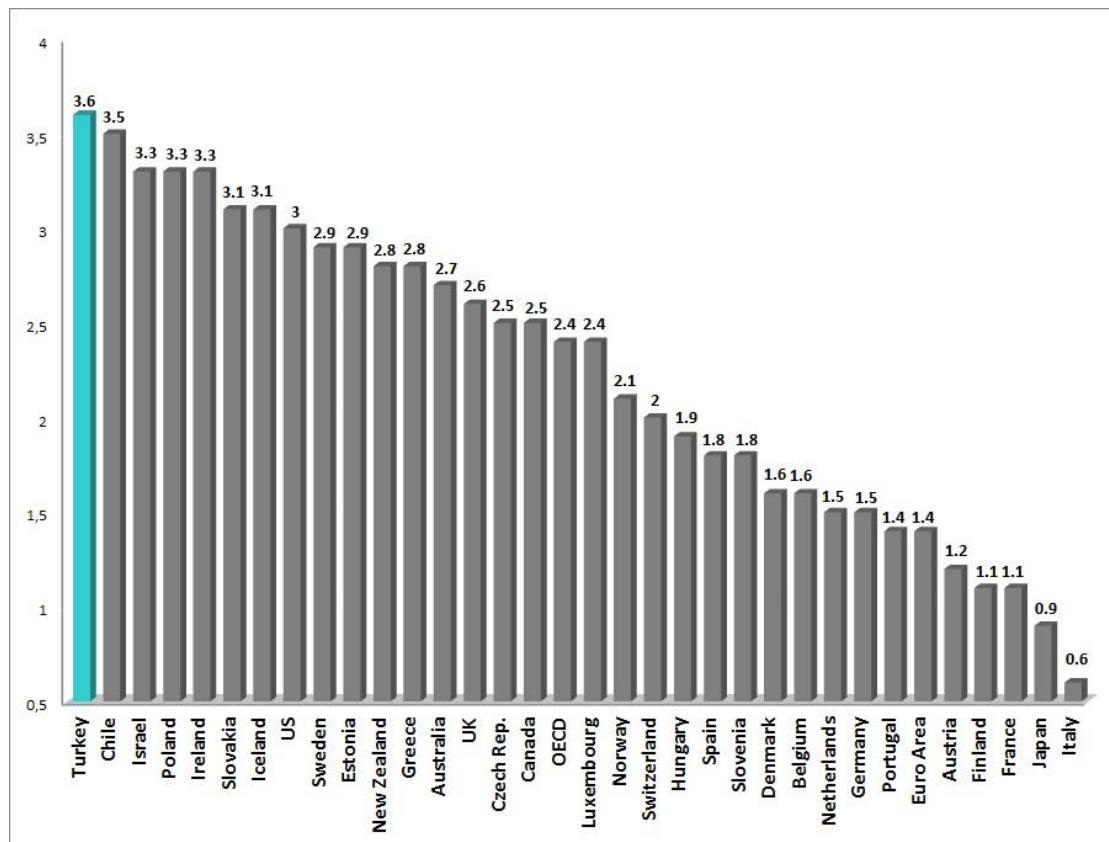
ECONOMIC OUTLOOK

Key Economic Indicators

- **17th** largest economy in the world – **7th** in Europe
- Total GDP approx. USD 800 billion
- GDP per capita is **USD 10,975**
Comparison → Brazil : USD 11,307
China : USD 7,590
- Government nominal debt stock: 33.5% (Maastricht criteria is 60%)
- Average GDP growth in 2014-2016 is expected to be 3.6%, highest within OECD countries (4.8% in 2016/Q1)
- Main driving force behind the strong economic activity is domestic demand

ECONOMIC OUTLOOK

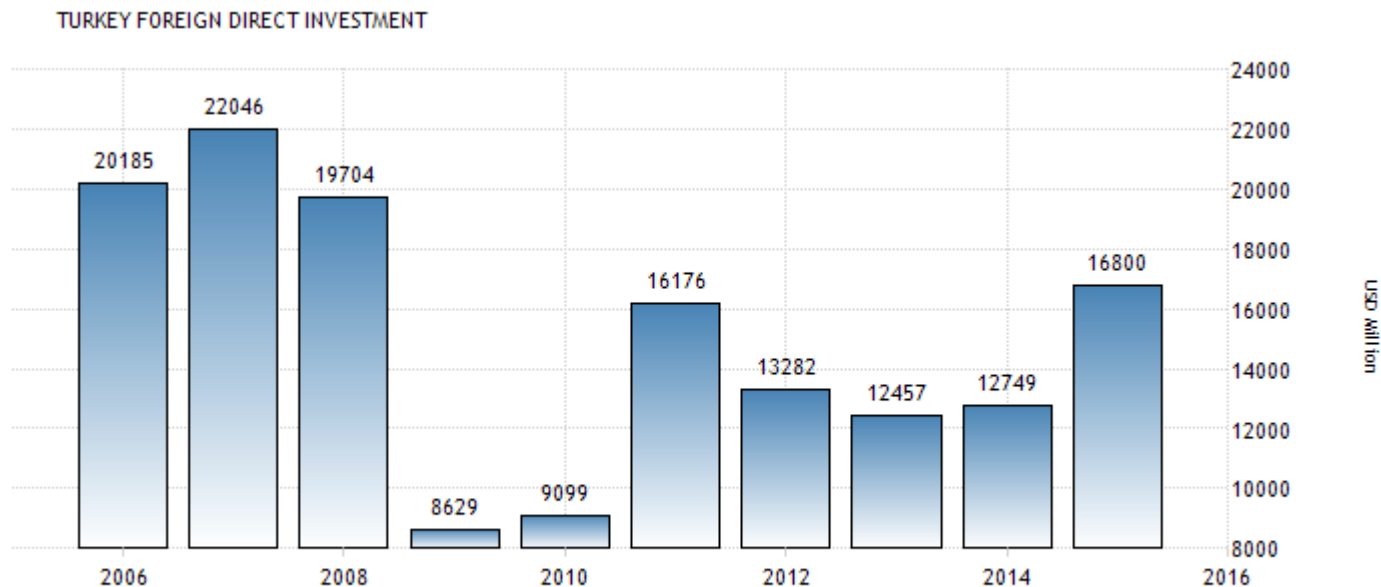
Annual Average Real GDP Growth (%) Forecast in OECD Countries 2014-2016



ECONOMIC OUTLOOK



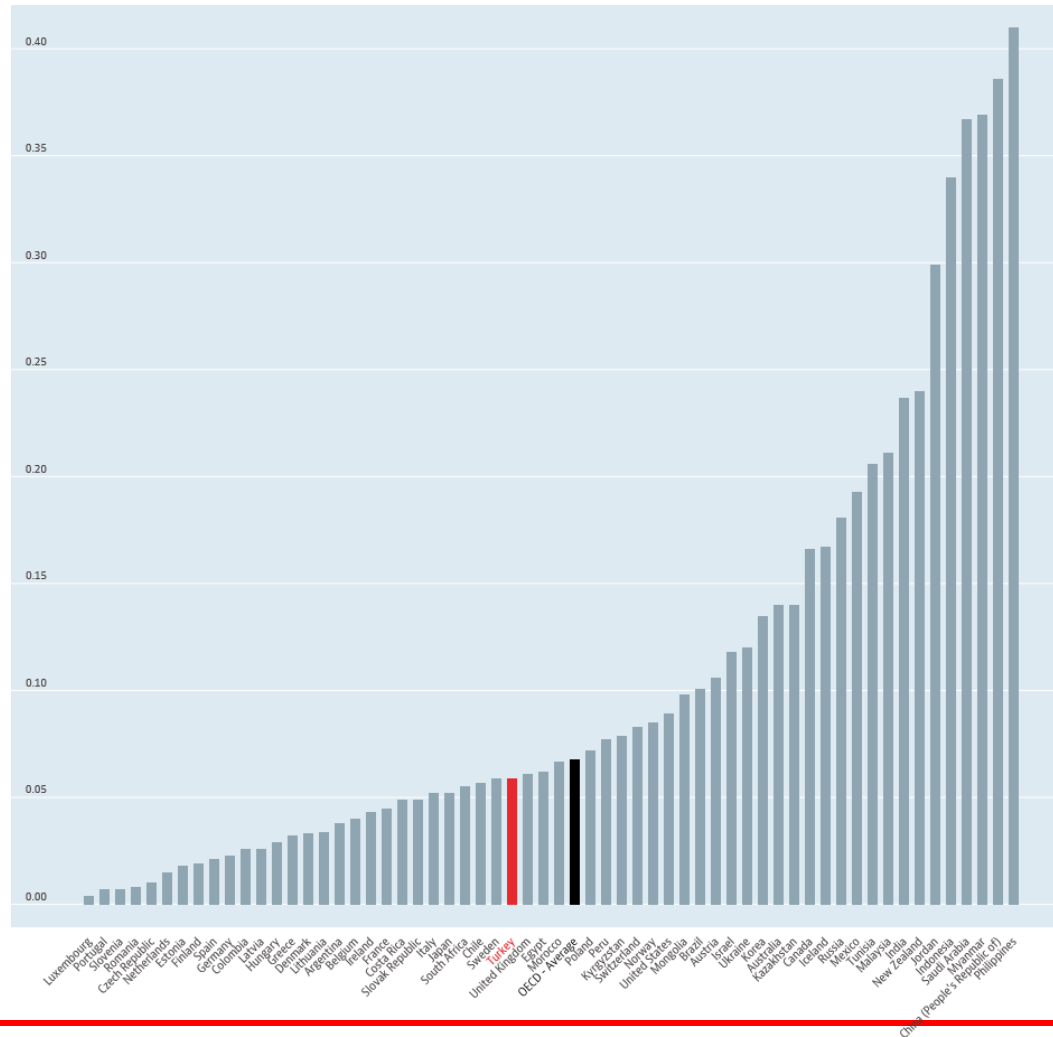
- Net FDI inflows declines by 54% in the first quarter of 2016 as a result of geopolitical situation
- Turkey needs more investments to reduce high unemployment rate and keep economic growth on a sustainable track



SOURCE: WWW.TRADINGECONOMICS.COM | INVESTMENT SUPPORT AND PROMOTION AGENCY (ISPAT)

ECONOMIC OUTLOOK

FDI restrictiveness - OECD





ECONOMIC OUTLOOK

A Reliable Business and Investment Environment

- Private participation in investments remained high in 2015: 7 projects closed totaling US\$44.7 billion financing
- Major projects: 3rd airport in Istanbul / Gebze-Izmir Motorway
- Strong appetite of international investors and financial institutions for the Turkish market
- Sign of confidence in the government's policy and rule of law protection



ECONOMIC OUTLOOK

Upcoming Reforms

- Measures for improvement of investment environment (simplified setting-up procedures, decrease in various taxes and charges)
- Facilitation of work permit procedures for Syrian citizens

2023 Plans of Turkey

- Promotion of R&D investments
- Transition to high value added production – higher productivity
- Reforms for workforce contribution of disabled persons
- Social security premium exemption (of 3 years) for women and young persons if employed for the first time
- Legal reforms on local administration structure for the harmonization with EU
- Establishment of support programs for the female entrepreneurs
- Launching new projects for the construction of new ports, airports, expansion of the high-speed railway



THANK YOU