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TURKEY AS AN INVESTABLE COUNTRY AND RECENT TURKISH ECONOMIC DEVELOPMENTS

A. INTRODUCTION

This work has been conducted with the aim of providing a wide perspective on the Turkish Economy due to the reason that Turkish Economy is one of the developing economies among the World Countries. This determination is not a subjective evaluation since economic reports of various International Organizations reflects so. During the report, Turkey Economic Report of World Bank, Global Economic Outlook Report of IMF, EuroStat Reports are benefitted and referenced since those reports are objective evaluation of recent developments of Turkish Economy and thanks to these reports it became clearer how the Turkish economy reacted to the financial changes around the World. Moreover, after the foreign exchange rate crisis that affected the Turkish Economy in 2018, the value of Turkish Lira has been diminished, even though in internal market manage to cover the negative effects, the foreign investors were benefited from this opportunity since Turkey became a market which provide advantageous atmosphere and cheap investment opportunities. The investor friendly policies have been adopted by Turkish Government so that Incentive Policies of Ministry of Industry and Technology of Turkish Republic, TurkStat Datas are also benefitted. Lastly, Turkey Assets Fund which has been established with the aim of increasing economic stability and managing public assets more effectively and efficiently was given place in the Report since the policies of Turkey Asset Funds may have an important effect on decision making process of the investors.

B. ANALYSIS AND EVALUATION OF TURKISH ECONOMY

Among its peer countries, Turkey is the 11th largest economy in terms of GDP per capita among countries with population over 50 million with increase of its income per capita from USD 3,581 in 2002 to USD 9,632 in 2018 .In the IMF’s October 2019 Global Economic Outlook Report, the global growth forecast for 2019 was revised down from 3.2 percent to 3 percent, and from 3.5 percent to 3.4 percent for the coming year. Additionally, IMF predicts in the very same report that in 2020-2022, Turkey will maintain a growth rate of 3 percent. In Turkey Economic Monitor (TEM) Report of World Bank it is emphasized that one difference of Turkey with peer countries is the elevated risk premium and borrowing cost, which constrains fiscal space and the multiplier. An analysis of how fiscal space evolves under different macroeconomic scenarios suggests that Turkey can absorb limited shocks. It should be also noted that effective use of available fiscal space can play a useful role in supporting Turkey’s economic recovery.

The depreciation of Turkish lira has affected the inflation, economy and policy noticeably as well. If the last 5 years’ inflation rates are taken into consideration, it can be pointed out that the inflation rate increased nearly %50 recently so that it can be concluded that the depreciation of Turkish lira is carried out as a natural flow. As a result, it can be stated_that, there is a big loss in value of Turkish lira where this makes foreign currency especially dollar quite valuable when compared to Turkish Lira. In the World Economic Outlook Report of IMF, it is emphasized that the 2019 growth forecast of Turkey is raised from minus 2.5 percent to minus 0.2 percent and for 2020 the growth expectation was raised to 3 percent from 2.5 percent. Turkey's inflation forecast is retreated to 15.7 percent from 17.5 percent for this year and to 12.6 percent from 14.1 percent in the next year. Whereas, the inflation rate of 2018 was announced as %20,3 by Turkish Statistical Institute. The inflation rate was %11,92 in 2017, %8,53 in 2016, %8,81 in 2015 and %8,17 in 2014. Thus, the statistics reveal that the inflation rate is getting higher and the inflation rate of 2018 is the highest of the last fifteen years.

According to TEM Report it is underlined that sustaining growth and improvements in living standards in Turkey will require higher productivity in the economy. It is also stated that the pace and sustainability of Turkey's incipient recovery will depend in part on reducing uncertainty and restoring investor confidence. According to the inference of this report and in the light of the predictions of some officials from the IMF; While it has many more investment opportunities in the both short term and long terms periods compared to peer countries, Turkey may not be benefitting all of its capacity owned in the area of investment and manufacturing. European Union countries have the highest rates of capacity in terms of investment and manufacturing which they have completely benefitting, whereas the same situation could not be achieved for Turkey. That is why, in the scenario in which Turkey is assisted to develop improvement especially in terms of manufacturing capacity, it is possible to say that the Turkish Economy can be among these successful economies without the help of the IMF.

Turkey has diminished the public debt stock from above 70 percent in 2002 down to around 30 percent in 2018 and the positive effect of the fiscal discipline has been reflected as a diminished deficit in Turkey's budget balance during the past 16 years as it is stated in the EuroStat Reports. However in Turkey, annual debt of the private sector has reached to approximately 250 billion dollars recently. According to TEM Report and World Bank; corporate stress has contributed to a falling asset quality in banks. Non-Performing Loans (NPLs) across all banks went from 3.2 percent in mid-2018 to 4.4 percent in mid-2019 with the biggest increases in foreign and domestic private banks. Since this increase in private sector debts includes credit debts to public banks; the public borrowing ratio is also at risk of increase. As it is known, if the private sector cannot repay the loan debts to public banks, the debts of the public sector will increase. This debt is high, because Turkish Companies have difficulties to pay for relatively expensive western industrial products which cause most of the foreign debt. Therefore Turkey is looking for much cheaper potential goods to import in. In this context, considering that most of the debts in the private sector originate from mechanization and the purchase of spare parts and such purchases are made mainly from European countries; by importing these products at lower costs from China and other Eastern countries, Turkey will be reached a solution for reducing this debt. Also, this situation will increase competition within Turkish market which will bring the benefit of producing better quality goods by the companies. In addition, it will upset the balance, in the market dominated by these countries. For instance if you buy a certain machinery for 10 million dollar from Germany but if Chinese companies provide it in Turkey for 5 million dollar of course, this would be helpful not only for Turkish economy but also for the Chinese/Eastern companies who can benefit from the several incentives in the future.

When above mentioned situation is taken into consideration, localization and incentive program of Turkish Governmental Authorities are gained importance for Western investors. According to the Local Product Regulation numbered 2014/35, incentive possibilities are: %15 price advantage in tenders, possibility of negotiating the incentives directly with the Ministry of Trade depending on investment amount, possibility to receive long term incentive package with wide scope from the Ministry of Industry and Technology. If the product is a medical product, there is a possibility of obtaining purchase guarantee by Medicine and Medical Devices Agency. Localization of manufacturing aims to reduce an import dependence of Turkey; to increase export of Turkish products as they are; to make Turkish products competition-resistant in global markets and to provide technology transfer. The foreign investors are always supported under these programs since the effect of the investments is quite positive on both covering Turkish Internal debts and improve the situation of the local economy. Therefore, German and other European companies are supported with those opportunities for the investments they made in Turkey especially in the field of technology within the frame of foreign direct investment. In economy, these kinds of great crises such as too much private sector debt and decreasing the value of money also contain great opportunities. However, the emphasis should be given to the fact that, from now on, the Turkish Economic policies, governance and the management should focus on how to pay the foreign currency debts. This is the normal way of using the economic crisis as a profit, benefit. Also, Turkey need these kinds of actions and these actions will meet the cash need of the private sector. In this case, driving forward economic relations and trade with Turkey, will enable Turkey to deal with this problem and allow the investors to obtain more profit with less investment cost.

To reach a solution for abovementioned public debt stock of Turkey, it is clear that there is need for accessible and reliable credits with low interest rates. As it is known, banking sector's raison d'être is the manufacturing sector. If this sector does not work, attempts of enhancement of trade might not give the expected result. Within this framework, it will be beneficial if Exim Banks of countries should steer common commercial and investment policy. Thus, costs will be reduced by common projects and state guaranteed financial projects. This will pave the way for serious financial projects.

In addition to all these points, primary objective of development of trade and investment relation is finding and identifying areas that will mutually improve countries' economies. The public and private sectors of both countries should come together in order to determine identified business areas of investment and make cooperation which will be efficient and led to compete with third countries. On the other hand, parties in trade, pride a lot on how much they have exported but do not put effort for import. However, being so much proud of export is a significant obstruction to bilateral commercial relations. To establish a trade balance, both parties should work on import as much as on export. The substance of this objective should be the enhancement of bilateral trade which will establish more humane and refined peaceful relations between the countries. In this regard the ultimate goal must be trading equilibrium. Wasting all of the effort on exportation and not thinking about what can be imported, leads to a never ending commercial race between countries, which will not serve the peace between countries. For this reason, both the Commercial Consulates and Promotion Agencies should think, with common mind, about the possibilities of improving import and export simultaneously. The biggest problem is finding a way to develop cooperation. The solution to this is acting in harmony to achieve the common goal in the light of objective criteria.

On the other hand, due to the fact that the recent depreciation of the Turkish lira has led to the development of state policies to reduce the import rate which is depending on the foreign currency. Therefore, in order to reduce the impact of the higher foreign exchange rates on the local economy of Turkey, localization issues have begun to occupy the agenda of the country, that is why, the localization field is being an important reform in Turkey. Especially for the products in the medium-high technology segment and in energy market, it is planned to reduce import dependency by strengthening national economic independency. It is quite important to emphasize that, both local and foreign investors shall benefit from the localization incentives with equal conditions. Basic legal provisions are regulated under the Local Product Communiqué numbered 2014/35. These incentive possibilities are, 15% price advantage in tenders and possibility of negotiating the incentives directly with the Ministry of Trade. Moreover, depending on investment amount, it is possible to receive long term incentive package with wide scope from the Ministry of Industry and Technology. If the product is medical, it gives a possibility of obtaining purchase guarantee from Medicines and Medical Devices Agency as also mentioned above.

In addition, when a research has been conducted on the products that Turkey imported from the foreign countries in accordance with the abovementioned localization process, the incentive program of Turkey should be given more emphasis. To illustrate, recently we developed tractor production project in Turkey for a corporate Indian company, for which we benefited from millions of dollars' incentives and tax reduction. In return for this, this company undertook the exportation of these products with nearly hundred percent localized engine productions. So these are great opportunities.

Moreover, being a member of Custom's Union makes Turkey a good transit market for the non-member countries like China, India as they can benefit from the certificate of circulation (A.TR) used for the goods exported from Turkey to EU (and other Custom's Union members) by benefiting from the exemptions in the event that the conditions are met. Also if the investor company is making the export from the free areas determined in Turkey it can benefit from further exemptions and discounts applicable specific to those areas.

Fortunately, it is accurate to state that, Turkey is growing without competition, which means, that foreign investors prefer to make investment in Turkey so as to utilize Turkish excellent location and possibilities for the exportation. In other words, they are not only investing for the Turkey by considering Turkish market but they also consider the other markets Turkey is in connection with. As it is known, mainly due to its geopolitical position, Turkey has always been an easily accessible market for both European and Asian Countries. As a consequence, lots of new trade corridors have been constructed. To illustrate, thanks to the port connections in Turkey, cargo loads from Asia can reach the Middle East, North Africa, and the Mediterranean regions (and vice versa). Moreover, with the help of Trans-Caspian East-West-Middle Corridor (Middle Corridor in short), new and remarkable economic opportunities for the Central Asian countries has been created especially on behalf of the trade between China and Europe, which is estimated to be worth USD 600 billion annually. Moreover, it can be stated that Turkey has free access to large domestic and regional markets, which means according to the data given by the EuroStat, Investors have the opportunity to access to a total of 945 million customers freely since Turkey is a part of Customs Union and FTA Area in 27 Countries (which means Turkey has direct access to EU Market and FTA Area) when the total population as of 2017 is considered.

Although it has not achieved the same momentum in recent years, according to TurkStat data, Turkey's industrial production increased 14% in 2010 and 15% in 2011 and has continued to increase with the average of 6% in the last 10 years. It is clear that this upward trend will continue in the coming years. In this case, assuming that Turkey is constantly accelerating and expanding train, it will be a great opportunity to catch this train and get a seat early for foreign investors.

On 1 January 1996 with the establishment of Customs Union the trade volume especially between Turkey and EU gained momentum which amounted to 165 billion dollars in 2018 and EU has continued to be Turkey's most important trading partner. Turkey, with 4 percent share of the EU's total exports share took 5th place. EU has taken the first place in Turkey in terms of export with %50 share amounting $ 84 billion in 2018. Turkey has the 6th place in EU's total imports with 4 percent share. (Excluding the trade EU countries made between themselves). EU takes the 1st place in imports in Turkey as well as the exports. According to 2018 figures; Turkey conducted 81 billion dollars of the total imports of goods (36,3% share) among total import of 223 billion dollars from the EU. In 2018, the ratio of exports to imports in Turkish trade with the EU was 103.7 percent. Among the EU's trading partners, Turkey was the fifth largest partner for EU exports of goods in 2017, and the sixth largest for the EU imports in general. Among the EU Member States, Germany was the largest trading partner of Turkey, both for imports of goods (EUR 14 billion) and exports (EUR 22 billion), in 2017. In 2017, manufactured goods made up 81 % of EU exports to and 89 % of EU imports from Turkey.

By taking into account the strategic and economic importance and hinterlands of Turkey, foreign investors are investing in Turkey with the aim of exporting their products to abroad (such as Caucasus and Middle East) using Turkish market as a means. To illustrate, Hyundai produces automobiles in Turkey and exports approximately %65 of its products to EU countries and the remaining part is sold to Turkey and the other countries. Therefore, we can clearly understand that there are overwhelming opportunities within the framework of the government's domestic production policy. As such, I highly recommend foreign companies to consider making investments in Turkey in the field of technology within the frame of foreign direct investment.

When the role of Turkey in world politics is taken into consideration, it is clear that Turkey is a bridge between East and West due to the close relations it has developed with Turkic countries and the Shanghai Five as well as being in many Western alliances. Therefore, Turkey is a balance between East and West. In terms of the western states that want to reach to the east and the eastern states that want to reach to the west, Turkey is an opportunity for both sides with its unique role.

When the size of the economy is taken into consideration, as it is reflected under the data provided by Turkish Statistical Institute (TurkStat), over the past 16 years, Turkey has shown an efficient performance by increasing the size of its overall economy from USD 236 billion in 2002 to USD 784 billion in 2018 and according to OECD values. Turkish economy, from 2003 to 2018, has posted a remarkable growth and climbed from 18th place to 13th globally in the list concerning economies by GDP at Purchasing Power Parity (PPP) according to the International Monetary Fund World Economic Outlook of IMF WEO dated April 2019.

It is acceptable that, economy of Turkey is much bigger than what is written on paper. In this respect, it can be stated that unrecorded economy statistics will affect the attitude of the economists. According to the statistics the unrecorded economy rate was %31, 6 in 2009. In 2016 it was %28,72. Even if the ratios were decreasing, the unrecorded economy rate is higher than many European Countries and Turkey ranks first among OECD countries in the unrecorded economy. Thus, it can be predicted that Turkish real economy is much higher than its gross domestic product rate. Moreover, agricultural income is not duly recorded and exercised in the scope of taxation. I believe that if the per capita income in Turkey is assessed by taking into consideration the consumer price index, the real economic statistics will be much higher. This unrecorded economy is an economic illness that needs to be healed. As it is known, Turkey is a member of G20 and this membership demonstrates that Turkey is one of the top 20 economies in the world. While the national income per capita calculations are made, losses caused by the informal economy are also experienced. Therefore investors should take into consideration that per capita income of Turkey will rise up to $15.000 - $20.000 levels rather than $10.000 when the unrecorded economy is also incorporated into the system even if the population is higher than 80 million which is one of the highest in Europe.

When TEM Report and evaluations of World Bank have been taken into consideration; There has been an increase in the number of changes in the overall policy framework in Turkey in recent years which could be in part due to the ongoing reorganization in government; as it is known even though new roles and responsibilities take time to settle whereas transparency and predictability that are provided by new polices are started to build investor confidence in the Market. World Bank survey with more than 700 CEOs of multinational companies around the world, policy and regulatory uncertainty is the second most important deterrent to foreign investment, following political stability. An analysis of legislative changes in Turkey points to an increase in the volume and the frequency of changes in rules and regulations positively affecting business operations**.**

The Importance of Turkey Assets Fund and its Actions in Turkey

Turkey Assets Fund has been established with the aim of developing and contributing to increasing economic stability; managing public assets more effectively and efficiently; adding value to existing public entity established to prepare a more powerful Turkey for future generations.

Turkey Assets Fund constitute from, the institutions and assets that are decided to be transferred to the TVF by the Privatization High Council; the cash surplus to be transferred from the Privatization Fund; surplus income, resources and assets transferred to the TVF decided by the Council of Ministers; the financing and resources purchased from domestic and foreign capital and money markets without relevant legislation permits and approvals; sources and finance received in means other than money and capital markets.

Thus, Turkey Assets Fund’s resources are very important and shall be used for the right purposes in a right way. Some examples of its fund usage areas and how it receives its funds are exemplified below (taken from the current news):

- *“1 billion euro syndicated loan given to Turkey Assets Fund*

Turkey Assets Fund (TAF) completed the first syndicated loan of 1 billion EUR procurement process successfully under the coordinatorships of ICBC and Citi and in coordination with 10 banks from 8 countries of Asia, Europe, North America and the Middle East.

Turkey Welfare Fund Board Member and General Manager Zafer Sonmez said : "Receiving of such big financing from the world’s leading banks with an appropriate cost by coming up in the market for the first shows the trust of international banks *to Turkish economy and Turkey Assets Fund. This financing will be used for the investments that will create added value in line with Turkey's strategic goals, the co-investment platforms with other national asset funds and for the capital needs of our subsidiaries".*"

- *"Turkey Assets Fund will take over 465 thousand square meters of the Istanbul Finance Center in return for 1 billion 670 million Turkish Liras."*

- *"Asset Fund of Turkey made $ 10 billion investment in refineries and petrochemical fields."*

- *"With the decision of Cabinet, the shares of state-owned companies under Treasury and some companies which are under the privatization program with the decision of Privatization High Council are transferred to Turkey Assets Fund.*

- *It was decided by council of ministers decision to transfer the 3 billion TL resource belonging to Defense Industry Support Fund or under the management of this fund to Assets Fund.*

- *"Former Turkey Asset Fund General Manager Zafer Sönmez stated that "Turkey Asset Fund (TVF) will reach a size of $ 100 billion by 2023. Today, our size is 33 billion dollars. We need to move fast at critical points. So, we have identified insurance as a strategic sector in order to grow the non-bank financial sector and increase the savings of the country, and that insurance is important for the deepening of the markets. With investments in this area scale economies will be created and saving will increase. As a first step, public insurance companies will be mergered under the Asset Fund.*

- *TRANSFERRED COMPANIES (to Turkey Assets Fund):*

  - *BOTAŞ: Treasury share 100 percent. Paid-in capital of 4.15 billion TL*
  - *TPAO: Treasury share 100 percent. Paid-in capital of 3 billion liras*
  - *Ziraat Bank: 100 percent of the Treasury. Paid-in capital of 5.0 billion TL*
  - *Postal and Telegraph: Treasury share 100 percent. Paid-in capital 981.5 million pounds.*
  - *BIST: The share of the Treasury is 73.6 percent. The paid-in capital is 423.2 million pounds.*
  - *Türksat: Treasury share 100 percent. Paid-in capital 1.47 million pounds.*
  - *Eti Maden: Treasury share 100 percent. Paid-in capital 600 million pounds.*

- *Tea Enterprises: Treasury share 100 percent. Paid-in capital 1.49 billion pounds.*
- *49.12 percent of THY and 51.11 percent of Halkbank were transferred to the Asset Fund.*

C. CONCLUSION

To conclude, according to the predictions of the world leading financial authorities like IMF, World Bank etc. it can be said that although Turkey experienced difficult times due to increase in inflation and decrease in the value of Turkish Lira especially in 2018, Turkey reserves a great capacity and chance of recovery by using the tools of reducing uncertainty and restoring investor confidence as well as paying the foreign currency debts which will turn the economic crisis into an advantage.

When the role of Turkey in world politics is taken into consideration, it is clear that Turkey is a bridge between East and West due to the close relations it has developed with Turkic countries and the Shanghai Five as well as being in many Western alliances. Thus, Turkey provides an opportunity for both sides with its unique place.

In this regard, the public and private sectors of countries should come together with Turkey in order to determine identified business areas investment and cooperation will be efficient and led to compete with third countries. Turkey has free access to large domestic and regional markets, which means investors from all over the world have the opportunity to access to a total of 945 million customers freely since Turkey is a part of Customs Union and FTA Area in 27 Countries (which means Turkey has direct access to EU Market and FTA Area) when the total population as of 2017 is considered. Also Turkey being a member of Customs Union provides 3rd countries a bridge to make trade with EU.

On the other hand, due to Turkey's important geopolitical conditions it will be beneficial to find a way to develop cooperation with both EU and non-EU countries, the most significant markets in which the foreign companies can invest should be determined and a trading equilibrium between exports and imports must be provided.

Turkey also holds important opportunities and policies in order to reduce the impact of the higher foreign exchange rates on the local economy like localization. The localization field is being an important reform in Turkey as both local and foreign investors shall benefit from the localization incentives with equal conditions. The Assets Fund of Turkey also contributing to the development of certain markets by making investments as well as developing the relationships with the foreign leading banks by entering into financial relationship.

From all given data and comments and expectations mentioned above (which are supported by the reports of most authorized international institutions) it is clear that this upward trend will continue in Turkey in the coming years. So what we believe is that, as Turkey is constantly accelerating and expanding train, it will be a great opportunity to catch this train and get a seat early for foreign investors from EU, Asian and other 3rd countries.

Best regards,

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