

TURKEY



Leaders at the G20 Summit in Brisbane, Australia, 2014

Turkey fights for inclusive growth

During its G20 presidency, Turkey has put inequality, trade, SMEs, climate change, and the challenges of low-income developing countries as top priorities

Political uncertainty and wider regional tensions have taken their toll on Turkey but the country's sustained and resilient economy points to the possibility of a more stable and prosperous future.

Despite ongoing domestic and international challenges, Turkey has placed inclusive domestic and international growth at the heart of its G20 presidency, giving more prominence to engagement groups and ensuring that the needs of low-income developing countries (LIDCs) are thoroughly considered.

"G20 members account for a substantial part of global growth, output, trade and population," explains Cavit Dağdaş, Turkey's G20 Finance Deputy. "Decisions taken by the G20 have an impact on all countries, regardless of their size. Hence, for a healthy and balanced global economy, we need to take into consideration the concerns of other economies, in particular LIDCs, and put thought into how the G20 can address them."

Turkey's own political and economic direction remained unclear, with no government being formed following general elections in June. But on November 1, the people were asked to vote again and decided to reinstall the incumbent AKP party. With the economy posting growth figures of more than 3%, many observers believe that the return of political stability could put the country on a renewed path to prosperity.

Attracting foreign direct investment (FDI) remains key as does boosting its exports and Nihat Zeybekci, Turkey's Minister of Economy, says the country has more potential. Turkey's Vision 2023 includes ambitious targets for increasing exports to \$500 billion and Mr. Zeybekci points to the past 12 years of growth – at an average rate of more than 5% – as proof that such targets are achievable.

"If this increase continues at the same level, we will reach \$500 billion of exports," he says. To power further prosperity, Mr. Zeybekci wants Turkey to bolster its relationships not just with the EU but countries across Central Asia, the Caucasus, the Middle East, the Gulf, Northern Africa and the Balkans. Indeed, while the country's geographical location poses political challenges it also offers considerable export opportunities.

"From a logistical perspective, Turkey has great advantages to enable it to control the chains of consumption and distribution," Mr. Zeybekci says. "We can be active and efficient in determining the consumption habits of our neighboring countries and sphere of influence. Moreover, we can go into partnerships with the sectors and firms in these countries. We can establish joint ventures. We can take action together and seek new opportunities."

There are also numerous domestic opportunities and supporting the creation of small- and medium-sized enterprises (SMEs) has become central to Turkey's economic future.

"They are very important," says Ayşe Sinirlioğlu Turkey's G20 Ambassador. "First of all, SMEs are the biggest employment generators and in Turkey, they are responsible for 77% of employment. Within the G20 there is special attention from all countries – it's a shared goal – to pay attention to SMEs. SMEs were badly affected by the financial crisis, specifically with respect to accessing finance."

Turkey is now refocusing its attention on this sector and Ms. Sinirlioğlu says the country is exploring how it can provide alternative access to funding. Meanwhile Turkey's financial institutions are trying to provide solutions, not just for SMEs but also for consumers, with improved pension provisions, better investment opportunities and varied insurance policies. Concerns remain that US interest rate changes could jolt both Turkey and the region but Prof. Dr. Turalay Keç, Deputy Governor for the Central Bank of Turkey, says the country is ready.

"We have experience so we are well prepared this time; we accumulated reserves and prepared ourselves for an eventual Fed normalization," he says, adding that policies around "prudential borrowing, improving the choice between core and non-core liabilities, improving maturities of FX liabilities of Turkish banks and improving an external safety net" have all been implemented.

Obstacles to growth remain but Turkey's presidency of the G20 is providing an opportunity to put its concerns around inclusive prosperity on the global stage. Just as importantly, it is also enabling international partners, who have contributed more than \$150 billion of FDI over the past decade, to readjust their focus and consider Turkey's potential in a new light.

Supporting Turkey in its G20 Presidency



Vision to reach \$500bn exports by 2023

Turkey is aiming to more than treble the annual value of its exports by 2023 by transitioning towards high-tech, value-added manufacturing supported by state-sponsored branding and innovation initiatives

Generally Turkey is not known as an industrial country, with people more likely to think of sun, sand, and sea. But as Adnan Dalgakiran, the Chairman of the Turkish Machinery Promotion Group explains, Turkey is in fact an industrial powerhouse. "Turkey's industrial exports are greater than Russia's. Our annual exports across all sectors already total \$150 billion, and the machinery sector contributes \$15 billion to this. Machinery exports are growing more than the average rate of growth in exports across all sectors."

The country aims to achieve this ambitious goal by making more investments in high value-added manufacturing, particularly high technology intensive products. The production of high value goods has been based around four main pillars: innovation, R&D, branding and design.

Koleksiyon is one of the most innovative firms in Turkish manufacturing at the moment. According to Doruk Malhan, a Senior Board Member, the firm prides itself on "design, originality and quality", three crucial elements that have helped it to become a world leader

in the manufacturing of a vast range of products, from furniture, glass, and porcelain accessories to household rugs and carpets.

Like many other companies, Koleksiyon has benefited from a set of government incentives to stimulate innovation and exports known as 'Turquality'. The program seeks to support qualified local businesses as they branch into overseas markets to strengthen the Turkish brand. As Burhan Başar, the general manager of Kervan Gıda, the largest confectionery producer in Turkey, explains, "Turquality supports our activities in foreign markets, and has definitely changed our point of view quite drastically and helped us in the right direction."

Turkey is making great strides towards the Vision 2023 goals, something which is extraordinary considering the challenges posed by instability in its major export markets – namely the Middle East and Russia. Over the last couple of years, political events and civil conflicts in many of the main Turkish export markets and neighboring countries have had a negative effect on Turkish export performance. Despite all this however, Turkey is steadily proceeding on its course, and although export growth has slowed a little, there is still a steady increment, helping GDP to grow at an average rate of more than 5% for the last 12 years.

Earlier this year, Turkey and the EU agreed to update and expand their 20-year Customs Union, which has been the foundation of a strong and fruitful trade relationship. The EU remains Turkey's biggest export market, with almost \$20 billion worth of

sales in the first quarter of 2015. For the EU, Turkey is its sixth-largest market. The strengthening of the Customs Union goes some way towards offsetting Turkey's concerns about the proposed Transatlantic Trade and Investment Partnership (TTIP) between the US and the EU, which could increase competition for Turkish manufacturers without granting them reciprocal access to the US market.

In addition, Turkey chairs the prestigious G20 summit this year, and has been a key player in global discussions on trade barriers. One of the guiding principles of the G20 this year is inclusiveness, which has both national and international dimensions.

As G20 President, Turkey has given greater importance to B(Business)-20 and the other official engagement groups to ensure a more inclusive discussion on the pertinent issues facing the global economy, including issues related to trade and protectionism. Pointing to its rapid economic development since 2002 and its clear strategy for boosting the value of its exports and trade through innovation, Turkey sees itself as a role model for emerging and developing economies around the world.

However, there is still work to be done to achieve the goals of the G20 and Vision 2023. Turkey was ranked 51st overall in the Open Markets Index (ODI) published in September 2015 by the International Chamber of Commerce. The index assesses countries based on their trade openness, trade policy, FDI openness and trade infrastructure.

But as Orhan Kılıç, Chairman of Kılıç Holding says, "I have 100%



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Adnan Dalgakiran,
Chairman, Turkish Machinery Promotion Group

confidence that Turkey will develop into one of the world's most powerful economies and external factors cannot hold us back."

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Turkish investment in Africa reaches \$6bn

Business tycoon Oktay Ercan urges Turkish firms to find partners from other G20 nations to take best advantage of opportunities on the African continent

Turkish foreign investments across the world have grown considerably over the past decade, particularly in Africa, where their value has reached \$6 billion. Observers say investments in North Africa have more than doubled in the past five years, while in the sub-Saharan region Turkish investors have mainly targeted countries such as Ethiopia, Cameroon, Cote d'Ivoire and Nigeria.

"Turkish investment has reached this level because of the success of foreign policy initiatives of the Turkish government in Africa and Middle East since 2005," says Oktay Ercan, Chairman of OE Group.

By employing the local labor force, using home-produced resources and exporting final products, Turkish firms are contributing significantly to Africa's development, while at the same time benefiting from the opportunities in the world's fastest growing continent.

Mr. Ercan believes that further investment in Africa is crucial if Turkey aims to sustain its economic growth and move up the ranks of the G20. "For Turkey to grow more in the African market, it has to conduct projects with countries that want to do business in Africa, be it the other G20 countries or the Gulf States," he adds.

"If Turkish investors and entrepreneurs cooperate with these countries which are not having any financial difficulties, we will be more successful in the region. In brief, with the business and investment opportunities in Africa, the Turkish know-how, the financial mechanism in the Gulf should be established. The African countries declare that they have been taking Turkey as an example for development especially in the last five years," says Mr. Ercan.

The OE Group, which is owned by Mr. Ercan, has been operating in Africa and in the Gulf region

since 2001, in the textile, retail, import-export, construction, mining, agriculture, livestock breeding and tourism sectors, employing 6,500 in total with its operations in 14 companies in the region: in the Middle East – in the UAE, Qatar and Saudi Arabia – and Africa, in Sudan, Kenya, Cote d'Ivoire and Cameroon.

One of Mr. Ercan's most successful African ventures is Sur International Investment Co. Ltd., which is based in Sudan and a partner of the Sudanese and Qatari military. The company produces clothing for the armed forces in the Middle East and in Africa at the first fully integrated military textile industrial complex in the world, where it employs 3,500. In recognition of his operations in the region, Mr. Ercan was made the honorary consulate of the Turkish Republic to Sudan.



Oktay Ercan, Chairman, OE Group



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SMEs and entrepreneurship take center stage at G20

Turkey has placed special emphasis on supporting entrepreneurs and SMEs for sustainable economic growth during its G20 presidency

One of the three pillars of Turkey's G20 agenda is 'Inclusiveness'; and under this pillar it has emphasized issues pertaining to small- and medium-sized enterprises (SMEs), particularly investment bottlenecks and better integration of SMEs into global value chains. It is the first time that such issues facing SMEs have come into particular focus at a G20 summit. By bringing these issues to the fore, Turkey hopes to leverage the G20's power to help SMEs address such challenges.

Turkey has been a leader in the SME agenda of the G20 since its inception, and has served as co-chair of the SME finance subgroup since this issue became a priority for the G20 in 2009. As part of its G20 strategy, the World SME Forum (WSF) was launched earlier this year. This is a major new initiative to enhance the contribution of SMEs to global economic growth and employment.

"There is broad recognition that SME growth will be a central driver of economic growth over the next decade. The WSF will play a key role in helping SMEs tap global markets for the first time—and will ensure that global policies are designed with the needs of small businesses and entrepreneurs in mind," said Secretary General of the

International Chamber of Commerce John Danilovich at the launch.

Entrepreneurship, particularly in relation to women and young people, has been the subject of various events and panel discussions at the G20. The fostering of startups and young entrepreneurs will be vital to this initiative to drive global growth through SMEs, believes Ümit Leblebici, CEO of Turkish bank TEB.

"My message to the G20 is that we must support these young entrepreneurs," he says. "I think Turkey will be one of the best countries for young entrepreneurs. TEB is the only bank which has a startup branch in our network, where we listen to young people and their ideas. We take them to incubation centres and create a network for them, helping to put them in touch with investors."

Turkish firm Yataş started 40 years ago as a small family company, and now exports to 44 countries. With Turkey's and the WSF's agendas focusing on helping SMEs to access global markets, Yataş Chairman Yavuz Altop offers advice on how to go global: "Make a solid plan, stick to it and be patient. In order to be a good global player, you also need to focus on quality in terms of your product and services."



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Turkey becomes world leader in energy and infrastructure mega projects

According to the OECD, by 2030 the global infrastructure gap is expected to total a staggering \$70 trillion. This is a gap more closely resembling a gape, which is why infrastructure and energy are pressing issues on the table at this G20 Summit

Over the past decade, Turkey has unleashed a number of large-scale projects and this trend shows no sign of slowing down. Using the public-private partnership (PPP) model the country is building tunnels, bridges, airports and canals, while its energy companies are contributing to massive pipeline projects spanning Eurasia that will deliver Caspian and Middle Eastern oil and gas to European markets.

The \$10.2 billion Istanbul Grand Airport (IGA) is perhaps the finest example of these mega projects. "Our project is the biggest PPP project in Turkey and it will have a huge impact," says Nihat Özdemir, Chairman of Limak Holding, a member of the airport consortium.

"We are planning to conduct an economic impact study within the coming months to show this project in detail. As you know, there is a huge debate in London on whether to build an additional runway at one of their airports. Both Heathrow and Gatwick were lobbying to be chosen but they were both advocating increasing the capacity in order to remain connected, attractive and competitive in the global market. We are building the world's biggest airport for the same reasons.

Speaking on how this enormous project is being financed, Mr. Özdemir says, "IGA is a PPP project with a 25-year concession period. We are going to close financing in the fourth quarter of 2015. It

is a long-term financial solution, which is mutually beneficial both for creditors and our consortium. A total of EUR 4.5 billion out of EUR 6 billion will be provided by a group of private and state banks."

"Istanbul New Airport has many standout features," he continues. "To name a few of them: it is going to have the world's largest terminal complex, which is more than 1.3 million meters squared, under one roof serving 90 million people per year. In the initial phase we are going to have one terminal and three runways but when all phases are completed, it will be handling more than 150 million passengers with its three terminals and six runways. It will be serving more than 150 airlines and more than 350 destinations. It is expandable up to 200 million people per year. Currently more than 7,500 people are working for this project. It will generate 100,000 direct and 1.5 million indirect jobs."

But why does Turkey need to build the world's biggest airport? Mr. Özdemir replies, "The Turkish aviation industry has experienced double-digit growth rate since 2002. On the other hand, Istanbul is a popular destination for O&D (origin and destination) passengers as well. The recent MasterCard 2014 Global Destination Cities Index ranks Istanbul as the third most popular European destination for international travelers, behind London and Paris."

Turkish firms are not only helping to address the infrastructure gap in Turkey itself, but also across the globe. Builder of the Eurasia Tunnel project, Yapi Merkezi Construction has been active in the Middle East and North Africa, and is now looking towards sub-Saharan Africa. "Africa needs a lot of infrastructure and this provides an opportunity for us to grow. Some of the major African cities also now need metros and tramways. We see a lot of potential there," says Chairman Başar Arıoğlu.

Turkey also intends build a regional energy bridge and will take steps to guarantee stability in energy security.

Mithat Cansız, CEO of Turkish Petroleum International Company, says the country is geo-strategically situated in a very favorable position between the energy hungry west and the energy-surplus east, but he envisions a greater role for Turkey than mere transit.

"The Ukraine-Russia crisis and ISIS issue in Iraq have obviously increased the strategic importance of Turkey. In this context, as an alternative to Ukraine, Turkey can play a much more crucial role in transiting Russian oil and gas to Europe," he comments.

Agreements Turkey has with the Iraqi central government and regional authorities have also helped facilitate the flow of crude oil from northern Iraq to the international market. A further agreement is in place for the transportation of 3-6 trillion cubic meters of natural gas from its energy-rich neighbour.

"Consequently, I am not satisfied with the role which has been cast for Turkey as just a transit country; I want it to be cast as an important international energy hub," says Mr. Cansız. "Existing and planned oil

and gas pipelines like BTC (Baku, Tbilisi, Ceyhan), BTE (Baku, Tbilisi, Erzincan), Blue Stream, TANAP (Trans Anatolian Natural Gas Pipeline), Kirkuk-Ceyhan, North Iraq-Ceyhan, and the Iran-Turkey gas pipeline reinforce this."

Besim Şişman, CEO of Turkish Petroleum, says Turkey adds the element of stability to the global energy picture. "Even in its most troubled times, Turkey's message to the world has been that peace is important. We can build not only an energy bridge, but also a cultural bridge. The G20 countries need to acknowledge that Turkey is the one economy that can connect the east and west, and to support us in this goal."



"Regional countries need a politically and economically stable Turkey to enable their energy resources to reach the global market. Lots of countries should support Turkey in this goal"

Besim Şişman,
CEO of Turkish Petroleum

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Resilient finance sector rides out stormy year

Regulatory improvements and the establishment of the Istanbul Financial Center have put Turkey on track to becoming a global financial hub

Turkey might have faced political and economic pressures during the past 12 months but its financial services sector has remained remarkably buoyant throughout.

Having avoided much of the turmoil that struck the global markets in 2008, the country has been able to build a sustainable and profitable financial industry that is now well placed to enjoy considerable growth both domestically and abroad.

Indeed the banking sector has become crucial as Turkey seeks avenues for growth – and the creation of the Istanbul Financial Centre is proof of the ambitions. Numerous regulatory changes were made more than a decade ago when the country experienced its own financial meltdown and more recent changes such

as the Capital Markets Law and the planned IPO of Borsa Istanbul are also helping to reposition Turkey as a global financial center.

Ümit Leblebici, CEO of TEB, admits challenges remain but says the country's capital adequacy ratio of 14%-15% means it has the capacity to absorb shocks.

"In the 2001 crisis, the banking sector had low equities and so was not able to absorb shocks. Consequently, the regulators took many actions and as a result, everything is now under the control of the regulators and there is strong cooperation between the banks and the Central Bank."

Mr. Leblebici also says that Turkey's nimble workforce is providing considerable cause for optimism as the country can "easily switch from one lane to another. As a consequence, we are not getting stuck with any particular industries, our economy is quite flexible, so if we decide or aim to grow faster, we can achieve it."

Such macroeconomic changes are enabling the firm to prosper, backed by a solid 10-year partnership with BNP Paribas, the world's sixth largest bank.

The firm is also keen to embrace Turkey's emerging SME sector, which is set to play a key role in Turkey's economic future and Mr. Leblebici says building relationships here will enable it to withstand wider economic pressures.

The potential of Islamic finance is also emerging, not least with the Islamic Finance Research Center, which was established in Istanbul in 2013. Turkish bank Ziraat recently became the first state institution to open an Islamic finance unit, with two other state banks – Halkbank and Vakif - expected to follow next year. Vahdettin Ertaş, Chairman of Turkey's Capital Markets Board, says regulatory reforms are helping operators to make the most of the boon.

"We renewed our Sukuk regulation in 2013 and also made a new regulation after the reform on the private pension system which allows for the establishment of Sharia-compliant pension funds," he says, adding that developing the Islamic insurance sector is also planned.

The result of these changes, according to Osman Çelik, CEO at Türkiye Finans, will enable widespread finan-



■ "We are not getting stuck with any particular industries, our economy is quite flexible, so if we decide or aim to grow faster, we can achieve it"

Ümit Leblebici, CEO, TEB

cial sector growth. Coupled with Turkey's skilled workforce and its global outlook, the hope is that Istanbul will become a regional financial center within a decade and a global financial hub within 30 years.

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Turkey aims to welcome 60 million arrivals a year

Already the sixth-largest tourist destination in the world, Turkey is "a role model and a powerhouse in tourism," says UNWTO Secretary General Taleb Rifai

With 41 million visitors descending on Turkey in 2014, it is now the sixth largest tourist destination in the world, and the aim for 2023 is to grow that figure to 60 million. While the goal is ambitious, leaders in the sector are generally optimistic and believe the opening of the new Istanbul Grand Airport in 2018 and the successful hosting of the G20 Summit will have a major impact.

Secretary General of the UN World Tourism Organization Taleb Rifai praises Turkey's ability to prioritize the development of tourism. "Turkey is a role model and a powerhouse in tourism. It has not only realized tourism's enormous importance as an economic sector, but it has also shown great political will to advance its progressive vision."

The country's thriving tourism industry has been built upon the efforts of companies like Atlasglobal, whose president, Murat Ersoy – also chairman of the Turkish Tourism Investors Association – says, "Our group is the biggest tourism group in the country. We have

12 five-star hotels with a bed capacity of 12,000. We have 70% of the market share in the organized travel market with Etstur, and we have an airline, Atlasglobal Airlines. This makes our group the biggest and the strongest in the tourism industry in Turkey."

Expanding into the CIS, the Balkans, Southern Europe, North Africa and the Middle East, Mr. Ersoy plans to operate eight airlines under the name Atlasglobal Partners. It is this type of initiative that is propelling Turkey's tourism sector forward.

Like Atlas, Turkey's great global ambassador, Turkish Airlines, which was voted Europe's best airline at the 2015 Skytrax Passenger's Choice Awards, has been and will continue to be instrumental to the growth of tourism industry.

"In the last 10 years Turkish Airlines is accepted in the hearts of people all over the world and the company grows much faster and better because of the quality and hospitality we offer. In terms of international passengers, we have

grown from 10 million to 63 million, which means we are carrying six times more people to Turkey who are contributing to business and commerce," says Temel Kotil, who became CEO in 2005.

"Istanbul has its own strategy based on its unbeatable geographic advantage," adds Nihat Özdemir, Chairman of Limak Holding. "There are more than 200 destinations in Europe, MENA and Central Asia, which Turkish Airlines and other airlines can serve with a narrow-body fleet. This brings a couple of competitive advantages over gulf airlines. As a result of this narrow-body operation, Turkish Airlines can utilize its wide-body fleet for flights in long-haul operation to Eurasia, Africa, Americas and the Far East."

Turkey is increasingly focusing on niche markets such as sports and MICE (meetings, incentives, conferences and exhibitions) tourism; and the hosting of the G20 Summit showcases its ability to hold such large-scale MICE events.

Ali Şafak Öztürk, Vice President of the Regnum Carya Golf & Spa Resort,



■ "The most beautiful city in the world is Istanbul. If we add the commercial facts and transit assets to its beauty, Istanbul automatically becomes the perfect destination"

Murat Ersoy,
President, Atlasglobal

which is hosting the G20 Summit, believes Turkey, and indeed the hotel, will capitalize on this great opportunity. "It will definitely be a plus on the revenue side, but reputation is the real important factor here," he says. "The G20 is a great place to make our voices heard."

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