



# COUNTRY REPORT

The State of the Country

Country Risk Status

Business Environment

Partial extracts

June 2019

**PREAMBLE**

The **State of Turkey** study was prepared by the Country Studies Division of the **ICDM** with the contribution of the following areas of expertise:

**LÉPAC**

The **Laboratoire d'études prospectives et d'analyses cartographiques** (Laboratory of prospective studies and cartographic analysis) is a private and independent research centre specialised in international, geopolitical and forward-looking issues. Founded in 1992, and based in Paris, **LÉPAC** stands out in terms of the multi-disciplinarity of its team, the transversal nature of its analyses, its data visualisation know-how and its map expertise.

**TAC ECONOMICS**

Founded 25 years ago, **TAC ECONOMICS** is a group of experts which makes diagnoses and metrics based on scientific models in the field of economic and financial risks. TAC ECONOMICS provides analysis and expertise for large groups and major international banks.

ICDM is a partner of **ADIT**, Europe's largest strategic intelligence group.



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## GENERAL FRAMEWORK - (2/3)

While the country is largely **dependent on hydrocarbon imports** (oil and gas), despite its abundant coal resources, it has considerable natural wealth, which is still under-exploited.

Its mountainous terrain, temperate climate, dual status as a continental and maritime country, and its water resources offer the **country a high potential in the field of renewable energy.**

In the future, the country also intends to use its geographical position at the crossroads of continents and civilisations to serve as a platform for connecting these different worlds, particularly in the fields of air travel and energy.

In order to achieve its economic and regional ambitions, the country can rely on three major economic centres with a population of more than 4 million (**Ankara, Izmir** and above all **Istanbul** and its 15 million inhabitants) and on a small number of other cities, including Central Anatolia, with a population of more than one million.

Similarly, in economic and industrial terms, **although the role of the State remains important, the country is structured around large, powerful and influential family-owned holding companies, mainly concentrated in Istanbul and Ankara, and a network of small- and medium-sized enterprises spread between the west coast and central Anatolia.**

Finally, although European Union (EU) integration is no longer really on the agenda, **Turkey has largely adapted its standards, regulations and practices, particularly in legal and trade matters, to European standards,** which in turn contributes to strengthening investor confidence. In addition, despite stretched political ties, Europe remains Ankara's largest trading partner, and the continent shares with Turkey many of the demographic, societal and cultural trends that shape it today.

On the **security front, Turkey's geographical position places it in a tense geopolitical environment,** fuelled recently by the conflicts in Syria and Iraq. This regional precariousness is compounded, on the internal level, by an increase since 2015 in acts of violence linked to Kurdish independence organisations, a risk that could affect tourism and **restrain some foreign investors, given the freedom-curtailing responses provided by the Erdoğan government.**

The authoritarian and nationalist drift of President Recep Tayyip Erdoğan, the leader of the AKP Islamic religious party, is a source of major uncertainty for domestic and international economic actors. In power for 17 years, his presidential prerogatives had been strengthened following the entry into force of the constitutional reform, which formally endorsed the transition from a parliamentary to a hyper-presidential regime.

## KURDISH CONTEXT - The Kurdish community, the internal enemy (1/1)

Religious reassertion as a component of Turkish identity for the last two decades has also been accompanied by the revival of Turkish nationalist rhetoric. **It found its external enemy in so-called Western values, and in the Kurdish community it had previously tried to deny and eradicate, it found the figure of the internal enemy.**

The lack of recognition of real minorities since the Republic was established is at the root of the Kurdish question. Since the late 1920s and 1930s, the desire to form a homogeneous, organic Turkish nation has led to the denial of the rights and cultural claims of a Kurdish community that is also Muslim. Faced with the refusal of the Kurdish community to renounce its own identity and be assimilated into the Turkish community, the successive Turkish authorities have repeatedly attacked this population, which accounts for around 15% of the total population of Turkey and **which is certainly the only ethnic group capable of challenging the exclusive identity that has been affirmed since the beginning of the Republic.**

### *Kurdish revolts and violence*

While the 1960s marked a revival of Kurdish nationalism (and its separatist impulses), the following decades have been marked more by armed violence and guerrilla practices of the Kurdistan Workers' Party (PKK), an organisation founded in 1978 with the aim of creating a Kurdish State and which **since 1984 has been engaged in an armed confrontation with the Turkish Government.**

After two years of inconclusive peace talks between 2013 and 2015, the armed conflict with the PKK resumed, in a regional context marked by the war in Syria, the autonomy of Iraqi Kurdistan and the role of the Kurdish forces of Syria in the fight against the Islamic State of Iraq and the Levant (Daesh).

President Erdoğan does not hesitate to use the Kurdish issue as an instrument to strengthen Turkish nationalist sentiment.

A century after the proclamation of the Republic, as Mustafa Kemal 'Atatürk' belatedly acknowledged, the Kurdish issue remains an internal problem. And while the Kurdish groups do not seem to be in a position to question the sustainability of the Turkish State, the current violence caused by the relationship between the government and the Kurdish community is creating a climate of instability which, without affecting the general business climate, could eventually, if the violence were to increase, damage economic sectors such as tourism.



Young Kurdish fighters from the PKK

## URBAN DENSITY - The challenge of modernisation (2/2)

There are now **eight 'millionaire' cities** in the country, one of which has more than 10 million inhabitants (Istanbul), **ten cities with 500,000 to 1,000,000 individuals** and nine cities with 300,000 to 500,000 inhabitants. In all, **more than a third (37%) of the Turkish population lives in an urban area of more than one million inhabitants**. 12% of the population lives in slums.

In 2015, the World Bank estimated that Turkey's 'pace and scale of rapid urbanisation distinguishes it from other developing countries.' Turkey's urban centres and metropolitan areas can be classified into two groups:

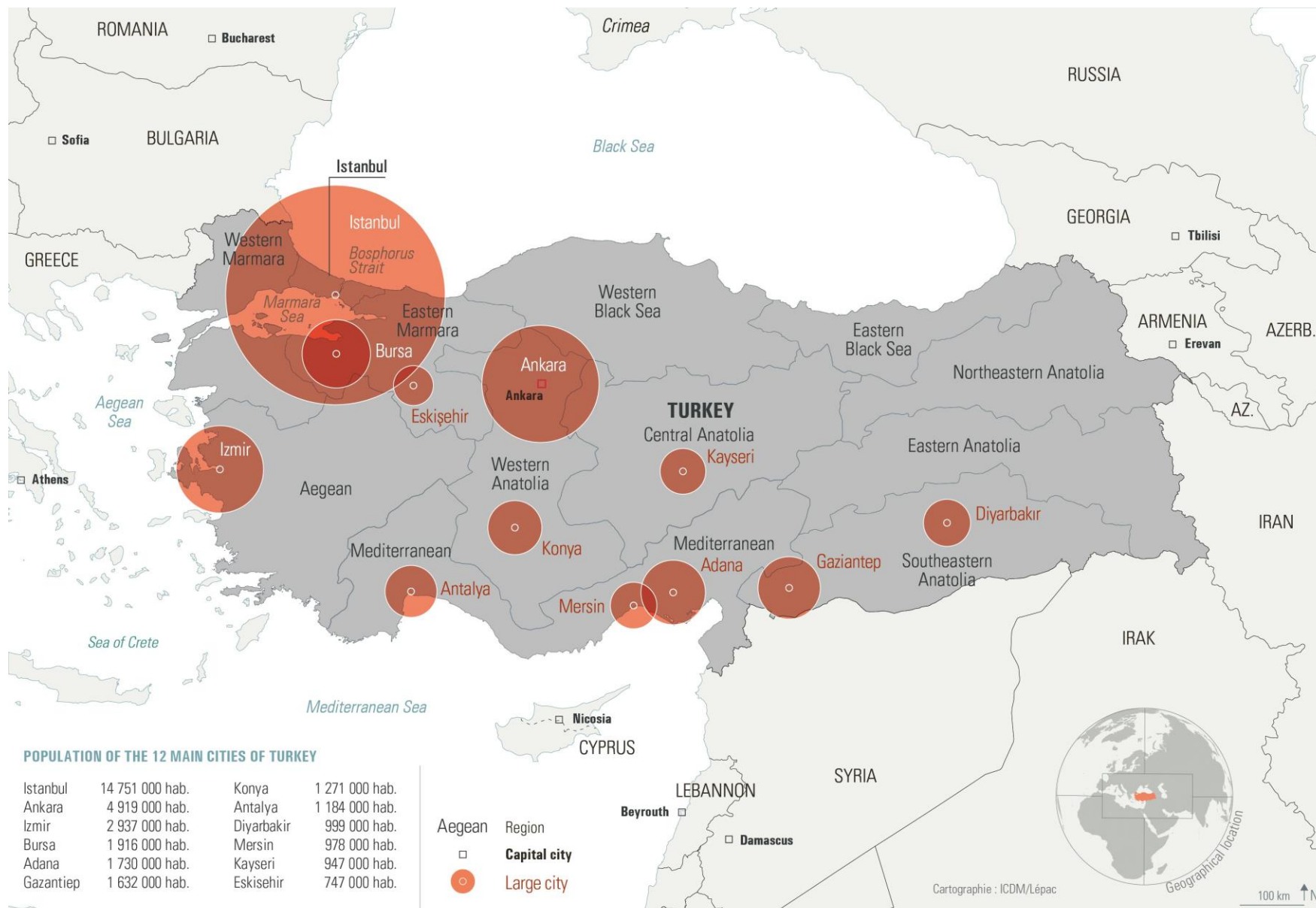
- **major urban centres** (Istanbul, Ankara, Izmir)
- the '**Anatolian Tigers**' (Bursa, Adana, Gaziantep, Konya, Kocaeli, Antalya, Kayseri, Mersin, etc.), smaller but in rapid urban and economic development.

Urban and economic dynamism was also made possible, in legal and administrative terms, by **the adoption, in 1984, of a Metropolitan Municipalities Act**, which encouraged better urban governance, guaranteeing autonomy in the adoption of public policies. Thirty municipalities have this status as metropolitan area, one of the objectives of which is to promote economic growth.

- ☐ **Istanbul is Europe's largest metropolitan area by population.**
- ☐ **Ten cities with a population of 500,000 to 1 million.**
- ☐ **Nine cities with a population of 300,000 to 500,000.**
- ☐ **61 million people live in cities.**
- ☐ **37% of the population lives in a city with > 1 million inhabitants.**
- ☐ **An urbanisation rate** close to the large countries of the European Union.
- ☐ **Istanbul, a badly congested** metropolitan area in terms of traffic
- ☐ The major metropolitan areas have **modern transport infrastructure.**
- ☐ The three largest urban centres: Istanbul, Ankara, Izmir.
- ☐ The main Anatolian Tigers: Bursa, Adana, Gaziantep, Konya, Kocaeli, Mersin.
- ☐ By 2050, 86% of Turks will live in urban areas.



# MAIN METROPOLITAN AREAS - Eight cities with a population of more than one million



MAIN URBAN CENTRES IN TURKEY, in 2019

Sources : Nations unies, World Urbanization Prospects: The 2018 Revision Database, 2018. Türkiye Cumhuriyeti İçişleri Bakanlığı, 2019.



## Infrastructure - President Erdoğan's colossal projects



### The new airport in Istanbul

Inaugurated in April 2019 - Budget \$10 billion - 90 million passengers - Forecast: **200 million passengers in 2030.**



### The second canal project

Designed to ease traffic on the Bosphorus, which sees the passage of 44,000 ships per year - Length of 45 km - Budget \$10 billion - Implementation for 2023 - Project highly criticised by environmental advocates.



### Ankara Presidential Complex

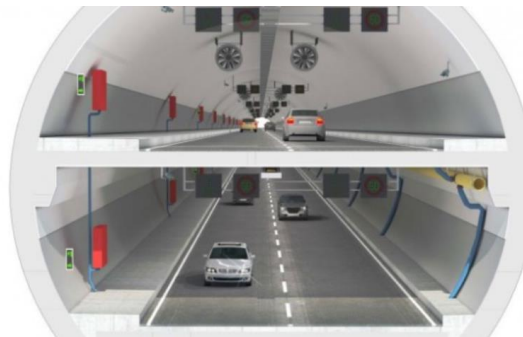
The presidential complex is built on a 200,000 m<sup>2</sup> piece of land, and has 1,000 rooms.

A monument built in violation of all urban planning procedures, a symbol of the sovereign's absolutism.



### The Bridge on the Bosphorus

The main span is among the longest in the world at 1.4 km - 59 m wide - 8 lanes and two railways - Inaugurated in **2016** - Budget **\$900 billion**



### The Tunnel under the Bosphorus

Inaugurated in **2016** - **5.4 km long** - Allows for crossing from one bank to the other in 15 minutes - Telephone and wifi link



### Camlica Mosque - Istanbul

Inaugurated in March 2019 - Turkey's largest mosque - Can accommodate **64,000 worshippers.**

## POLITICAL CONTEXT - The Turkish paradox: political stability amid constitutional and democratic concerns (1/4)

The political stability that has been observed in Turkey for several decades, and particularly since the early 2000s, is, however, a dismal concealment of **a country which has experienced a great deal of tension**. While the current state of the Turkish economy has given rise to social frustrations, it is above all in the political, constitutional and civil liberties spheres that major concerns have arisen.

### *Political stability: Seventeen years of AKP, the all-powerful party*

Since 2002, Turkey has had a cycle of **twelve elections** (legislative, presidential, municipal, referendum), all won by Recep Tayyip Erdoğan's Justice and Development Party (**AKP**). This **conservative Islamic , party, which constitutes a powerful electoral machine with deep social ramifications spanning much of the territory**, has gradually developed nationalist rhetoric that was consistent with an already observed global trend (Russia, India, China, the United States, Hungary, the Philippines, Brazil, etc.).

During his seventeen years of rule, first as prime minister, and then as president since 2014, Erdoğan **extended the economic liberalisation measures adopted in the 1990s, while promoting conservative societal values**. The dynamism of the Turkish economy during the 2000s, combined with the promotion of Islamic religious values, allowed the AKP to strengthen its base, while developing a new electoral clientele in the medium-sized cities of Central Anatolia.



With the exception of the aborted coup of July 2016 (a two-year state of emergency followed), and social movements opposed to the concentration of power, the **country has only rarely been in a state of deadlock**.

Turkey **is emerging from an electoral cycle that has lasted almost five years** (nearly one major vote each year during this period) and that has just ended with municipal elections. **The next national election dates** (presidential and legislative elections) **will take place in 2023**, giving time to the current power in place, which now controls all the workings of the executive, legislative and judicial branches, to implement its programme without short-term electoral interference.

### *Municipal elections in March 2019: Erdoğan's power challenged.*

In the municipal elections held in March 2019, the ruling AKP party received 44% of the votes cast, maintaining its position as the largest party in the country. Despite its alliance with the MHP, the AKP lost the two largest cities in the country, Istanbul and Ankara.

## UNITED STATES / TURKEY RELATIONSHIP - A lasting alliance despite situational disagreements (2/2)

**Relations between the Turkish army and its American counterpart remain intense, the fruit of decades of cooperation within NATO.** And, while Turkey recently has not always met all of America's military and strategic demands, particularly concerning Russia's presence in the Black Sea, the fact remains that **both countries continue to be major strategic allies.**

If Turkey's political power is to rebalance its relationship with the US, including by developing more cordial relations with Russia, the Turkish military institution may not be ready to strategically follow President Erdoğan's diplomatic and military adventurism.



AS400 Russian Anti-Air Missiles

**For the United States, Turkey is the eastern linchpin of the Military Alliance.** As the second-largest military in NATO in number of troops, Turkey is also offering the United States the possibility of using the military base at Incirlik, located in the south of the country, at the door of the Arab world. Turkey's integration into such a strategic, military and economic network gives it security guarantees that no other organisation can compete with.

**It is therefore in the well-understood interest of both countries to continue to cooperate,** both militarily and strategically, as well as economically. **Given Turkey's heavy dependence on the dollar, a break with Washington would be dramatic for Ankara.**

## BREAKDOWN OF WEALTH - the emergence of new urban centres in Anatolia (2/3)

Generating **almost a third (31%) of the country's wealth each year, the Istanbul metropolitan area** is Turkey's real economic heartland, which contributes in large part to the powerful *TÜSIAD*, the country's leading employers' organisation.

Further east and in the centre, **Ankara, the country's administrative and political capital**, is the **second largest metropolitan area in Turkey**. Located in the heart of Anatolia, it forms, with some 5 million inhabitants, the only major urban metropolis in **Central Anatolia**, while **Izmir, with its 4 million inhabitants**, is the largest urban metropolitan area in Western Anatolia on the Aegean coast. Although these three cities continue to grow, **their share of the country's urban population has been declining steadily since 2010, a sign that a new generation of urban and economic centres has emerged over the past decade.**

### *Services to the west, industries to the centre - The 'Anatolian Tigers'*

The expansion of service activities in these three major hubs - notably in Istanbul - has doubled since the 1990s, with part of their industrial activities being relocated to a second generation of urban areas, which have since experienced a boom **in their economic activity, the 'Anatolian Tigers.'**

This name covers sometimes very different realities. For some, it defines the emergence of a new generation of urban and economic areas, while for others it refers to a new class of entrepreneurs who appeared in the 1980s-1990s in Central and Eastern Anatolia. These cities are the product of the economic liberalisation measures adopted in the 1980s.

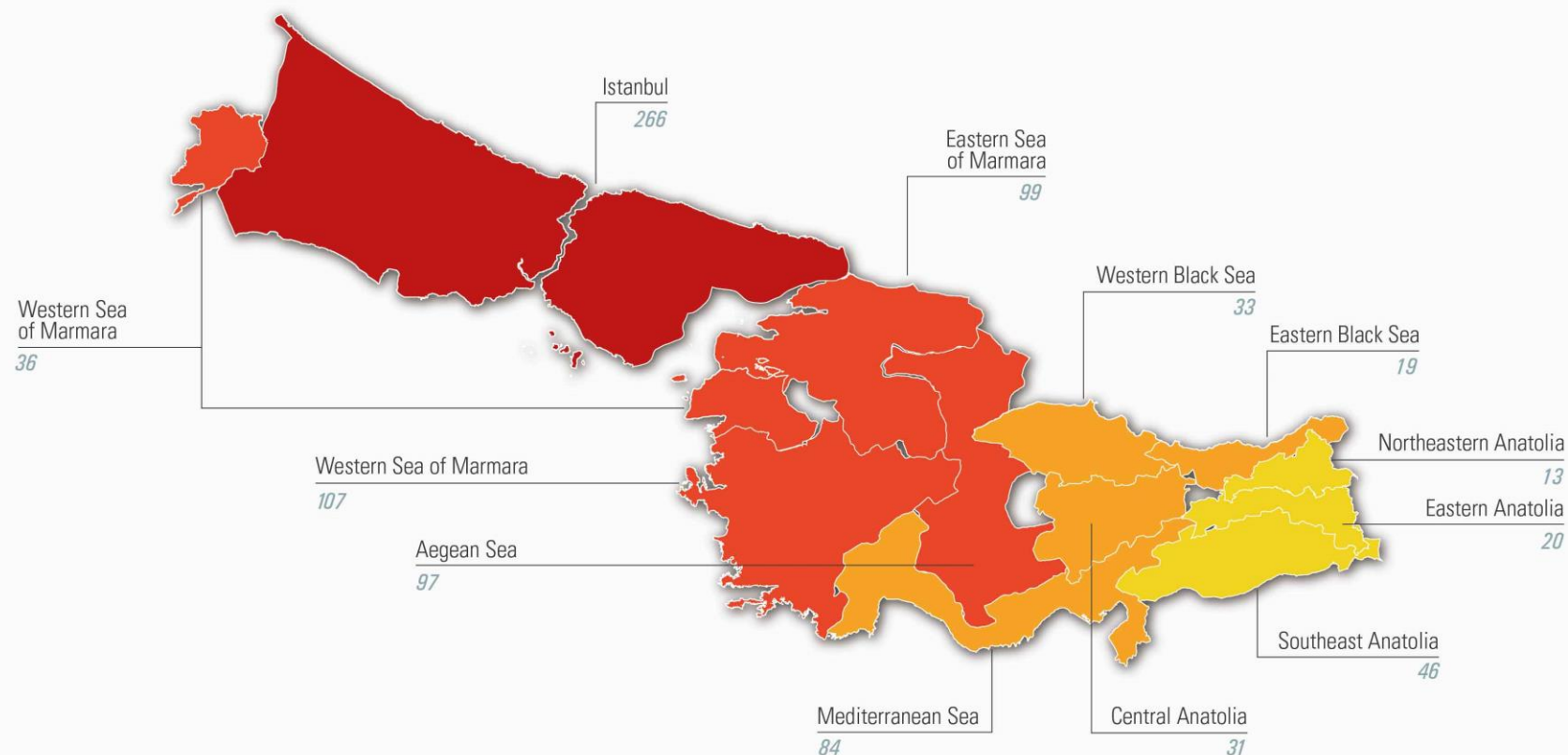
These cities are less populous than the three major economic centres mentioned above, but they attract more and more households and businesses. Their urban development is combined with economic development, which in turn increases the attractiveness of the city and the region.

Among these Anatolian Tigers are **Bursa** (2.5 million inhabitants), **Adana** (1.5 million), **Gaziantep** (1.5 million), **Konya**, **Kocaeli**, **Antalya**, **Kayseri** and **Mersin**.

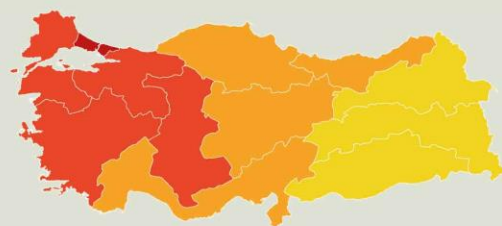
The **first feature of these cities is that they are located in Anatolia**. The **second characteristic concerns the economic activities carried out in these cities**.



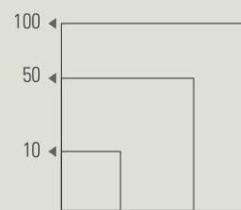
## BREAKDOWN OF GDP IN THE TERRITORY - The dominant weight of the Istanbul region in GDP terms



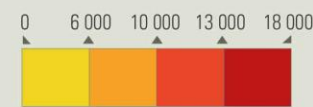
Cartographie : ICDM/Lépac



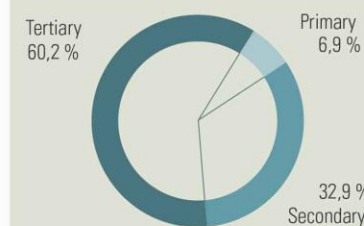
Real geographical proportions of the 12 Turkish administrative regions



Gross domestic product by region in 2017 (in billions of current dollars)



GDP per capita in the region in 2017 (in current dollars)



Breakdown of gross domestic product by major sector in 2017

### BREAKDOWN OF GDP BY MAJOR ADMINISTRATIVE REGION IN 2017

Sources : Türkiye İstatistik Kurumu, 2018. Banque mondiale, 2018.

## ECONOMIC CHARACTERISTICS - The government and entrepreneurs, engines of the Turkish economy (1/5)

### *In Turkey, between holding companies and family-owned SMEs*

Until the establishment of the modern Republic in 1923, the largest businesses were owned by foreign, or at least non-Turkish, owners from Greece, Italy, etc. At that time, there were only some 60 small-sized Turkish family-owned businesses. **After 1923, the new government decided to support the development of Turkish firms, through the creation of public enterprises and the payment of aid for the formation of private groups.** These measures set the stage for the emergence of large Turkish family-owned economic groups. Since then, it is on the model of family-owned businesses that an entire economic and industrial fabric has developed throughout the country. Today, in Turkey, **more than nine out of ten companies are family-owned businesses**, whether they are large and old holding companies or more recent small- and medium-sized businesses.

Among the oldest family-owned holding companies, two groups occupy a central position: **Koç Holding** and **Sabancı Holding**. The former, **Koç Holding**, now stands out as the largest in Turkey. Created in 1926, it is now home to more than 100 companies operating in the automobile, construction, defence and energy sectors, as well as in education, agri-food, information technology, communication and tourism. The latter, **Sabancı Holding**, also founded in 1926, is focused on banking, insurance, energy, cement and retail businesses.

To these two historic and emblematic family-owned companies of modern Turkey, there are also the conglomerates that are present in sectors such as construction and engineering, energy, real estate, retail, insurance, and media: **Eczacıbaşı Holding, Doğuş Holding, Doğan Holding, Anadolu Holding, and Enka Holding.**

Like **Koç Holding**, whose added value alone accounts for almost **9% of Turkey's GDP**, these large groups continue to play a central role in the country's economy.



Sabancı Holding Headquarters - Istanbul



## LARGE, DIVERSIFIED FAMILY-OWNED HOLDING COMPANIES: The Top 7

**Koç Holding**

Established in 1926, Turkey's first family holding, **Koç Holding** is made up of about 100 companies operating in the automotive, construction, defence, energy, education, agri-food, information technology, and tourism sectors.

**Sabancı Holding**

**Sabancı Holding**, also founded in 1926, focuses on banking, insurance, energy, cement and distribution.

**Eczacıbaşı Holding**

**Eczacıbaşı Holding**, established in 1942, operates about 40 businesses, mainly in the areas of finance, new technology and real estate.

**Doğuş Holding**

**Doğuş Holding** controls over 250 companies involved in automobile production and construction, as well as in catering, media, retail and tourism.

**Doğan Holding**

**Doğan Holding** is present in media, energy, real estate and financial services.



ANADOLU GROUP

**Anadolu Holding**

**Anadolu Holding** manages businesses ranging from beer and soda production to automobile production and retail sales.

**Enka Holding**

**Enka Holding** is a construction and engineering specialist, but remains invested in the energy and property sectors.

## ECONOMIC REGIONS - Automotive, Textile, Agri-Food, Hydrocarbons, Mining



MAIN INDUSTRIAL AREAS IN TURKEY IN 2018

Sources : Türkiye Cumhuriyeti Cumhurbaşkanlığı Yatırım Ofisi, 2019. TCDD, 2018. Türkiye Cumhuriyeti Enerji ve Tabii Kaynaklar Bakanlığı, 2018.

## WEALTH OF THE POPULATION - Consumption &amp; Retail - From West to East (3/3)

**The wealth gradient changes considerably going from the west to the east. In the centre and east of the country, classic distribution is dominant**, and most shopping centres are very traditional, with surface areas from 5,000 to 10,000 square metres. The proportion of markets covered by local brands that are less expensive and not very innovative is rising as the level of economic wealth falls. There are virtually no price differentials across the country, but the market share of premium brands declines as you move away from Istanbul. Wealth distribution is very skewed in Turkey. **In the eastern part of the country, the omnipresence of hard discount can be seen.** Life is **very sober**. The consumers' approach in the east is very geared towards consumption that is very low-cost.

We have seen a **decline in the hypermarket format and a very strong emergence of express convenience stores**. Drive (click and collect) shopping has not yet emerged in Istanbul. We also see a very strong migration of consumers to retailers' brands.

**Wealth and Consumption** - On the premium segment, the desire to 'be seen' is often relatively evident - It has been noted that there is a certain sensitivity concerning status, expressed in the choice of a car, smartphone, or household appliances. Consumption has stagnated, but has not fallen. The government continues to support consumer credit. Individuals are excessively indebted in Turkey. They routinely accumulate several credit cards, with rates subsidised by the government (interest-free payment in 10 instalments) to stimulate consumption. The Turkish government, however, can no longer sustain this pro-consumption policy.

**Adaptation of brands.** The packaging that is used is the packaging for international products. Advertising and in-store communication are adapted locally to the Turkish market, but the overall messages on product communication are the same across the country. There are no differences related to religions, cultures or ethnic groups that involve different communication media across the territory.

**e-commerce** - Although the population is ultra-connected, e-commerce is slow to take off. E-commerce is still very underdeveloped in food (3 to 4% market share) but it is growing in clothing. *Alibaba* made a big acquisition in Turkey. *Amazon* is preparing to enter.

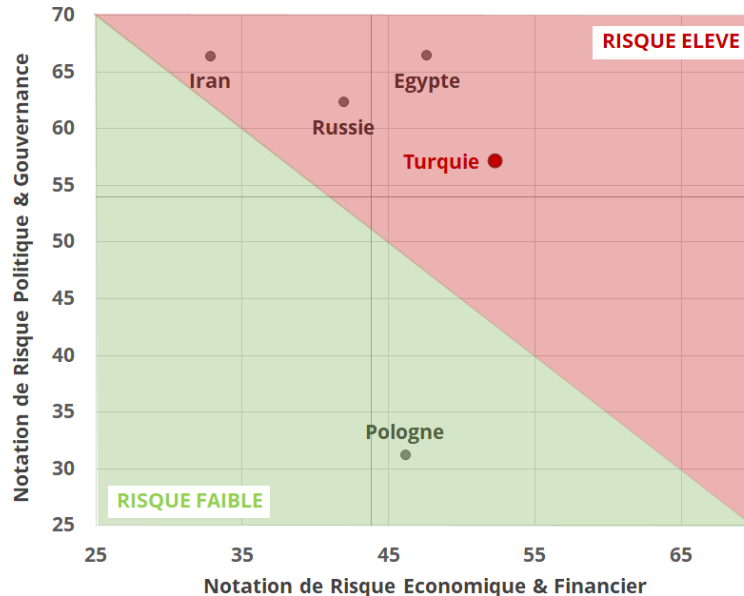
E-payment is not yet developed, as distrust of paying by card is a barrier. Furthermore, logistics are difficult to cover east of the Ankara / Adana corridor.

- ❑ **440 malls in Turkey, of which 115 in Istanbul.**
- ❑ The country as a whole is very well-equipped with malls, 120 of **them are considered as modern concepts.**
- ❑ **The weight of premium brands decreases as you move eastward.**
- ❑ There is an **omnipresence of hard discount networks** in the centre and east of the country.
- ❑ Despite its ultra-connected population, **e-commerce is slow to take off in the country.**
- ❑ The brand **packaging used is the packaging used for the international market.** Product communication and advertising messages **are homogeneous across the territory.**

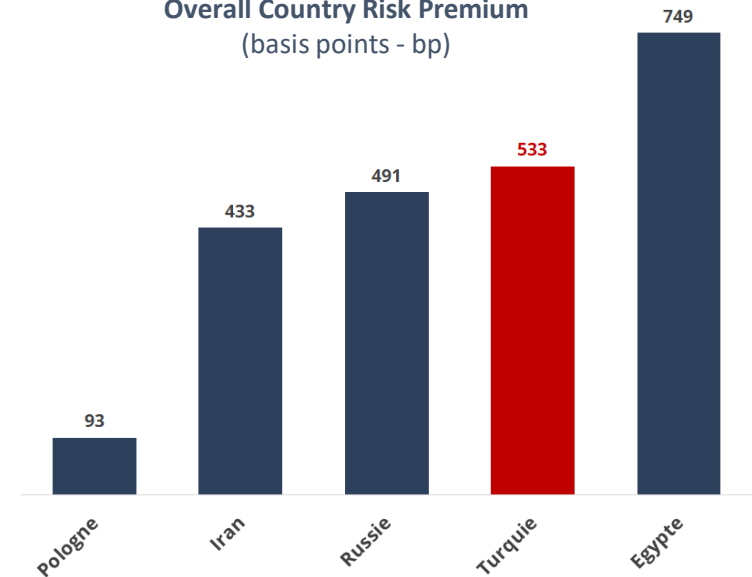
**International comparisons**

Compared to other countries that are close geographically and of relatively comparable size, the combination of TAC ECONOMIC's Financial and Economic Risk and Policy & Governance Risk ratings puts Turkey (533 bp) close to Russia (491 bp), while remaining well below Egypt (749 bp).

**RiskMonitor ratings: Economic & Financial Risk** (horizontal axis) and **Policy & Governance Risk** (vertical axis) from 0 (low risk) to 100 (high risk)



**Overall Country Risk Premium**  
(basis points - bp)



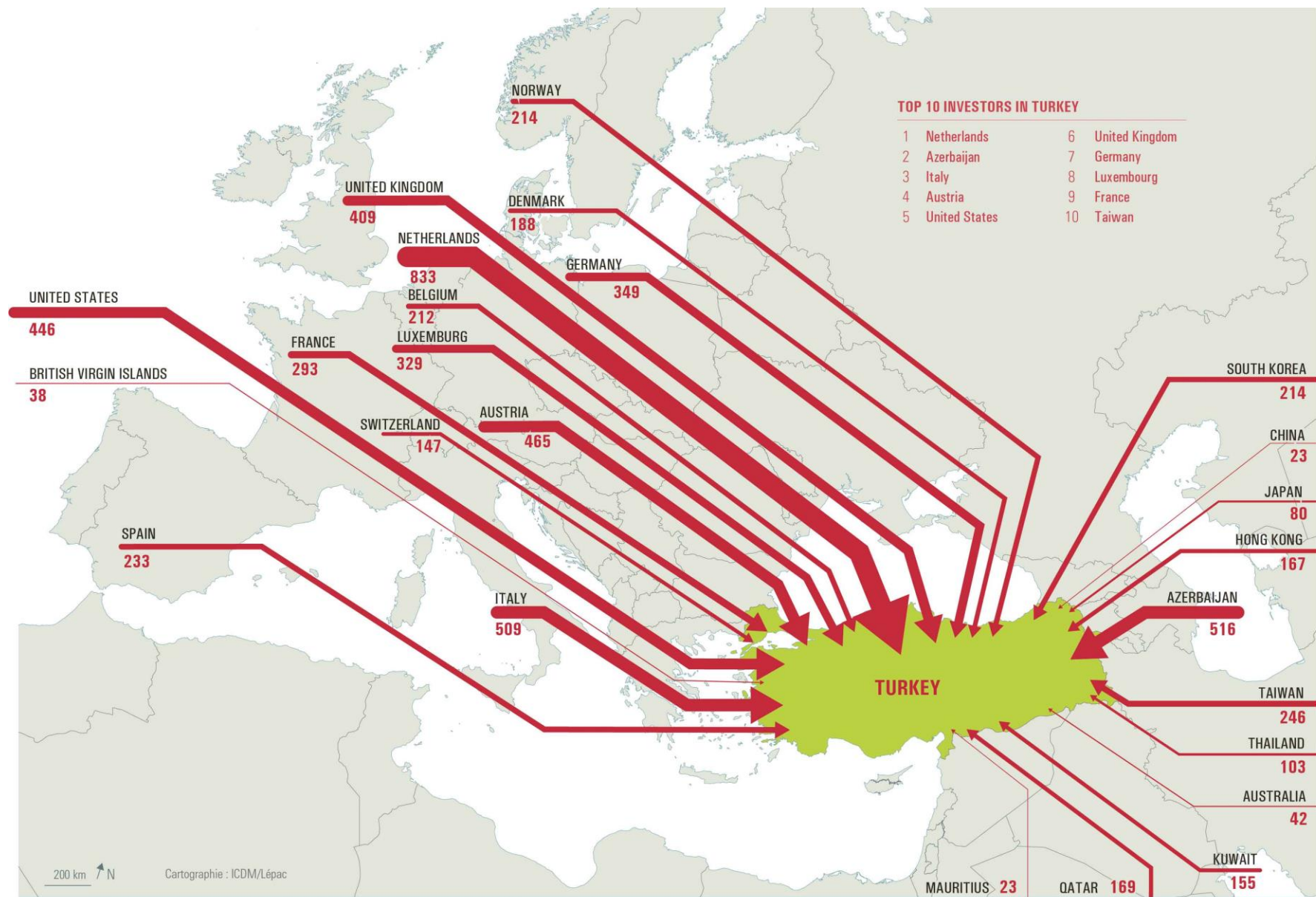
This unfavourable country risk premium **is due in particular to the 100 bp premium associated with the crisis signals on business and the exchange rate**. The ongoing recession in Turkey validates the business crisis signal; in contrast, given the delicate political environment, the vulnerability and volatility risks of the lira remain high, suggesting the maintenance of the 100 bp premium combined with the forex crisis signal.



## FOREIGN DIRECT INVESTMENT FLOWS (\$ billion)

## TOP 10 INVESTORS IN TURKEY

- |                 |                  |
|-----------------|------------------|
| 1 Netherlands   | 6 United Kingdom |
| 2 Azerbaijan    | 7 Germany        |
| 3 Italy         | 8 Luxembourg     |
| 4 Austria       | 9 France         |
| 5 United States | 10 Taiwan        |



MAIN FOREIGN DIRECT INVESTMENT FLOWS INTO TURKEY IN 2018 (in millions of current dollars)

Sources : Türkiye Cumhuriyet Merkez Bankası, 2019. CNUCED, 2019.

## THE COUNTRY'S WEAKNESSES

- ❑ An economy exposed to the **very sharp depreciation of the national currency and its erratic developments.**
- ❑ **An economy exposed to a sharp contraction in FDI** due to political and economic uncertainty.
- ❑ **High exchange rate vulnerability** to internal and external shocks.
- ❑ The heavy **dependence of the balance of payments on FDI flows.**
- ❑ A **high dependence on external loans.**
- ❑ Strong exposure of the economy to **higher energy and commodity prices.**
- ❑ A country exposed **to the vagaries and uncertainties of the president's political governance.**
- ❑ A **very fragile relationship with the European Union.**
- ❑ A **very chaotic relationship with the US** despite NATO membership.
- ❑ A country torn between the population of large cities **focused on the West and on modernity**, and the population of the rural areas and medium-sized cities **focused on the East** and marked by strong religious conservatism.
- ❑ **An economic capital, Istanbul, with high road traffic.**
- ❑ **A climate of distrust that pervades all of society in the face of the control exercised by political power.**
- ❑ **The large family holding companies** that weigh on GDP are **heavily indebted in foreign currency** due to their strong commitment to large infrastructure projects.
- ❑ **High dependence on imports of hydrocarbons.**
- ❑ **Very high inflation and interest rates.**
- ❑ **A sharp fall in purchasing power since mid-2018.**
- ❑ **Large current account deficits** financed by short-term debt.
- ❑ **High exposure of state-owned banks** with high foreign currency indebtedness.
- ❑ A country exposed to **an unstable geopolitical environment** in the Middle East region.
- ❑ **A country weakened by the huge influx of immigrants** from Syria.
- ❑ **The growing tension between the central government and the PKK.**
- ❑ **The existence of safety risks in the east of the country** towards the borders of Iraq and Syria.



**PROFILE OF EXECUTIVES - Interviews organised by ICDM in the country**

- 1 - Executive officer - 15 years of experience in Turkey - Area Director & Country CEO - Industrial equipment
- 2 - General Delegate - European bank - One of the Top 5 foreign banks in Turkey.
- 3 - Chief Executive Officer - European manufacturer - Automotive industry - Distribution networks
- 4 - CEO - French group - Process industry - BtoB Commodity products - Industrial installations
- 5 - Chief Executive Officer - German group - Energy operator - Production unit networks
- 6 - Chief Executive Officer - European group - Consumer products manufacturing - Non-food sector
- 7 - Country Chief Executive Officer - French group - B2B distribution - Healthcare and industrial consumable products.
- 8 - CEO - Industrial group - Transformation industry - Large industrial and commercial installations
- 9 - Country CEO - Large European automotive supplier - Strong industrial presence in Turkey
- 10 - Chief Executive Officer - French agri-food group - Industrial and commercial subsidiary
- 11 - Chief Executive Officer - French group - Large player in equipment rental - JV with a Turkish partner.
- 12 - Managing Director of the Board - Group in the Top 3 of investors in retail malls.
- 13 - Interview with two partners - Franco-Turkish law cabinet specialised in business law and M & A
- 14 - CEO - French group - IT Industry - Development and managed services outsourcing
- 15 - CEO - French group - Healthcare sector - Medical equipment industry
- 16 - Leadership - Executive Committee of the Institut du Bosphore - Large employers' think tank – Istanbul
- 17 - Two associate directors - French accounting firm
- 18 - Country CEO - Process industries - Agri-food processing sector
- 19 - CEO - French pharmaceutical laboratory - Human healthcare sector

## SUMMARY OF INTERVIEWS - 19 Executives of foreign groups based in Turkey. (3/20)

**The political context**

*'The purge of Gülen's network of supporters that started in 2016 has had a terrible effect. It must be noted that the people in the administration who came from Gülen's training system (university, school, association, etc.) were very well-trained. They constituted the backbone of a competent government administration in the army, the judiciary and central administrations. Many of them have been replaced by AKP leaders or movement supporters, the majority of whom have come from the countryside, which has led to a serious decline in levels and skills in government bodies.*

*Today a citizen can go to prison for his tweets or comments on social networks.*

*The Turkish people were surprisingly resilient at the time of the coup. Two weeks after the turbulent period of gunfire and the F16s flew just above the houses, business had returned to normal.'*

**Country CEO - French group - Important player in equipment rental**

**Status of Turkish society**

The country is very young, with half the population under 30 years of age. It has become particularly fractured, between the westernised anti-Erdoğan population, who have turned toward Europe, projected into a world of modernity and oriented toward globalisation, and the rather eastern pro-Erdoğan population, those living in the much more conservative medium-sized cities and countryside - This divide has grown considerably wider - Turks are highly nationalistic, the flag is seen everywhere - Citizens are wary of sharing views due to the risk of possible repression.

*'There is a deep divide within Turkish society. Overall, in summary, 60% of the population belongs to the conservative movement, 30% of the population lives in liberal culture, the remaining 10% is made up of highly nationalistic citizens. It can be said that Turkish society is 20 years behind society in the large European countries. The family still plays an extremely important role.*

*The gap between Istanbul and the rest of the country is very wide. Istanbul is Europe's largest city. The standards of living are the same as those in the great modern cities of Western Europe. The level of comfort in business is quite high. The western part of the country is the most developed. Ankara is also a city that has everything. Istanbul is a city with a Western culture. But foreign groups, which are heavily based in Istanbul, must ensure that management and bargaining points integrate a capacity to deal culturally with the country's two dominant cultures'.*

**Chief Executive Officer - Belgian group - Operator in the energy sector**

**SUMMARY OF INTERVIEWS - 19 Executives of foreign groups based in Turkey. (6/20)****Organisation of the economy**

Turkey is a country that is generally well-regulated by law. Most of the laws come from Western countries, the Civil Code is inherited from the Swiss Code, the Commercial Code is derived from a mixture of German and Swiss systems, administrative law is of French origin, the Criminal Code is derived from Italian law. There has been a very strong modernisation of Turkey's legal framework during the discussions on the EU accession chapters - the Code of Commerce was completely changed in 2012 - many Turkish laws have been amended to reflect the *acquis communautaire*. In terms of law, the legal system does not distinguish between a Turkish and a foreign company.

The country's economy has been structured for a long time. It has developed a great deal in textiles, automotive, household appliances, construction (the world's third-largest player) and the pharmaceutical industry. But essentially an economy based on production. Major Turkish groups understood early on that in order to develop and acquire expertise, partnerships with large foreign groups were needed. This explains the fact that their management, methods and systems are very in line with the standards of Western groups.

The management of the major holdings is also very Westernised in spirit and methods of negotiation. On the other hand, SMEs in the industrial fabric have a very family-oriented, vertical and sometimes opaque mode of operation (in family companies it is difficult to delegate to teams that are not part of the family group).

Turkish production is based on the production of commodities and not on value-added products - A number of R & D centres have been opened by foreign and Turkish groups, but of limited size - Turks are still copying a lot, they are innovating little but they know very well how to produce what exists - Turkey is not an engineering country - Virtually all raw materials are imported - Turkey imports a lot of commodities - There is an explosion of tech start-ups throughout the country.

The country is facing a major challenge for its industry - the large private groups have a very large footprint in the country - The Turkish government does not have industrial production companies (there were many privatisations 20 years ago).

The country has no leading industry operating internationally (if the construction sector is not considered an industry) - Turkey's large specialised industrial parks are organised as in China - Industry is organised and modern - There are few mid-cap companies in industry.

There is a very large number of industrial SMEs with between 50 and 300 employees - most large SMEs are modern with strong expertise and real technical competence clusters. Turkish companies often export considerably to the surrounding area - Companies have a great capacity to respond to technical needs - The country's R & D capacity is still limited.

**SUMMARY OF INTERVIEWS - 19 Executives of foreign groups based in Turkey. (9/20)****Business environment - business risks**

Investment projects have broken down overall due to the situation of rate instability - Nike just opened a large factory - Entrepreneurs are going from optimism to pessimism in 24 hours, and vice versa - Actions and reactions are ultra-sensitive. Example: A US pastor was jailed in August 2018, rates which were at 10-12% shot up instantaneously to over 20%, following a tweet by Donald Trump.

**Large projects - Calls for tender - Compliance**

We are surprised by the results of calls for tender: In recent years, almost all the successful bids from 2016 to 2018 have been large Turkish investors, in construction, large infrastructure equipment, renewable energy - Large family groups have been forced by the ruling power to invest heavily in tourism, construction, infrastructure - The example of Istanbul's new airport, which is the world's largest airport, is a case in point: Erdoğan's pressure on private interests to get them to participate in building the airport with massive leverage has been phenomenal - Many of these groups no longer meet their hard currency debt repayment requirements. It is difficult to have information on the individual situations of these holdings.

The city management system is very clientelist - Turkish groups in construction are very powerful - Calls for tender give an economic advantage of 15% if production is local. Calls for tender are very basic and simple - It is difficult to demonstrate the value of innovative products in calls for tender - Price is the dominant driver of calls for tender - quality is difficult to value - The government has embarked on major modernisation projects in e-procurement.

On calls for tender for large private groups, the clauses are inherently very strict, but there are many possible arrangements - On public calls for tender, there is no chance of being able to change clauses on contracts, even on price indexing.

*'We see that the large groups close to power are bringing together all the large projects, particularly in the field of energy construction, foreign operators are having great difficulty in accessing calls for tender. There have been outflows from the country from international groups working in the energy sector. The construction sector has boosted GDP significantly over the past 20 years. There is a great deal of opacity on calls for tender. Companies experience cancellations or postponement without a specified reason.'*

*The law on calls for tender has been amended 186 times over the past 16 years, which is not a good indication of transparency'*

**Interview with two associate directors - French audit firm****Calls for tender - Protectionism - Local content**

The country's leaders aim to make Turkey a mini-China close to Europe. The development of local production is becoming a high priority for the authorities - Brands that do not produce in Turkey are highly penalised with customs duties - Local content area weighs on calls for tender - Local production gives a 15% advantage in calls for tender.

## SUMMARY OF INTERVIEWS - 19 Executives of foreign groups based in Turkey. (13/20)

## Living and working with Turks

Working with employees in Turkey is very widely considered to be very pleasant - they are helpful, and have a sense of service - They have a very emotional side - Turks are ultra-effective in the short term, but often have a hard time planning for two years - they apply good ideas very quickly - Turks are proud but lack confidence in themselves - The teams are very young - The culture of transmitting knowledge is not very developed - The employees are smart and flexible - very great ability to adapt to events, great responsiveness - The emotional dimension has to be well-integrated into relations - Keep an eye on progress - Turks are proud and will never say that they cannot do something - They are very resilient - Their ability to relax in business is exceptional.

Turks are very effective in the short term, but they have a hard time projecting out two years - a three-month plan is a strategic plan. They are remarkable in their deployment of short-term actions, in a number of ways they ultimately operate in a way that is very similar to that of the Germans - Turks are also very proud, but not arrogant. They must be respected as such. But their overconfidence in themselves often leads them to push through decisions at the expense of risk control. This phenomenon is quite marked among young people. It must be borne in mind that the Turks spend a lot of time on commuting, so they have a relationship with time that is quite unique. They like transactions to be fast. Just look at how service operates in restaurants.

*'One characteristic of Turks is that they are very resilient to crises and adversity. There is not much memory among the population. There is not a lot of capitalisation. Things often have to be repeated. The advantage is that you are not being held back by the history of failures. The Turkish people are very reactive. Boundaries for their actions have to be well-established. You have to be very explicit with comments and instructions, and they are very Germanic from that point of view. But if there is a problem, lots of talk can ensue. The teams are waiting for the boss to say what needs to be done, and they are waiting for the leader to be rather paternalistic. Cross-functional management and working groups do not work well in Turkey'*

**Country CEO - French group - B2B distribution - Healthcare and industrial consumable products.**

*'I think this country is quite extraordinary when it comes to life at work. People say what they are doing, and they do what they are saying. They are very well-educated. I did not at all find myself in the position of having to explain every last detail to the learners. It is, however, very striking to see how little confidence the Turks have in themselves. Their way of working and the country's level of development is much higher than how they see themselves. The Turks are very attentive to others from that point of view, and it is the eastern side that takes precedence. People stand up from their seats on the metro to offer their place to someone else. When my payment card is empty, it is not uncommon to see Turks offering to pay for me. Turkish employees are very easily and quickly mobilised on an objective, and it is more that we follow their progress instead of having to guide and encourage them. We are five expatriates in the office. The rest of the team are as old as our children, which is very nice and inspiring in our daily routine'.*

**Chief Executive Officer - Belgian group - Operator in the energy sector - Production unit networks**



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