TURKEY

Redefining the Role of Europe's Rising Star

Inspiring Investment

Despite its increasingly important role as a transportation hub and its status as the commercial capital of Turkey, interest in Istanbul is far from recent. Hilton Worldwide has had a presence in Turkey since 1955. Its iconic Hilton Istanbul was one of the company's first international investments proving that the cultural and historic allure of Istanbul has always been a great draw. The country's rising popularity in the tourism stakes has led a myriad of big hospitality brands - like Nikki Beach Hotels, MGM, Emaar, Bvlgari, Armani, Jumeriah, Shangri-La, Mandarin, Wyndam Hotels and Soho House - to invest in Turkey's various cities. Moreover, those already established in the market are furthering their commitment to the destination. Last year Hilton added 8 new hotels to its Turkey portfolio as part of its plan to set up 13 new hotels in Turkey in 2 years.

It is no accident that one of the most feted luxury hotel brands, Four Seasons, has two distinct properties in Istanbul catering for high-end tourists. Levent Gurcay, in charge of marketing at the Four Seasons Bosphorus, muses that natives of Istanbul have sometimes been oblivious to the great strides the city was making. "The incredible growth in Istanbul was not obvious to locals but to outsiders yes," he maintains. "It was a radical idea to open in Istanbul and many wondered whether it would be profitable." Four Seasons was chosen as the management company of the Sultanahmet property and it was well embraced as a restoration project. The Bosphorus hotel followed and offers a more "resort" feel with its location contributing to its ranking as No2 European Hotel by Conde Nast. "From the gardens of the Four Seasons, you view the Asian hills," says Gurcay motioning outside to the spectacular vista. "Having the two best hotels in the same two best locations creates the best synergy," he says. The properties definitely offer their guests a luxury base from which to experience and explore both the rich culture as well as the hip and trendy face of Istanbul.

Four Seasons Hotel Istanbul at Sultanahmet

Discover more about Turkey's tourism potential on Page 4

Growth Market Dynamism

While the fast recovery reflex of the Turkish economy won wide acclaim throughout 2010, fears have since been voiced about the potential of it "overheating". Turkey's "hot" economy definitely stands out from its neighbour Greece, who could probably learn a few hard-won lessons from its old rival about bouncing back from economic adversity.

BY SORCHA HELLYER & GABRIELE VILLA ➤ Addressing matters in a timely fashion seems to be the order of the day. As such, the government – in its "Medium Term Fiscal Plan 2012-2014" – outlines that the weakest point in the Turkish economy likely remains the current account balance.

Although TurkStat has yet to release official figures, Economy Minister Zafer Caglayan estimates that Turkey's GDP grew 8.5% last year. However, efforts will ostensibly be made to slow this to 4% this year. Equally the central bank limits on credit growth aim to rein in consumption and cut demand for imports. To a certain extent these are nice problems to have, especially in light of the largely lacklustre economic data coming out of the EU and other developed countries. Turkey's performance has earned it confidence votes from impressive quarters and there is a sense of a "coming of age" in a country that has taken great steps to transform itself. Of course, there are still a number of key obstacles to overcome but, as an industrialised nation enjoying steep increases in GDP per capita, top analysts believe that Turkey can no longer be considered an "emerging market".

Jim O'Neill, Chairman of Goldman Sachs Asset Management - who 10 years ago famously coined the term BRIC - ranks Turkey among his "Next-11" (N-11). These countries are the next to watch. O'Neill posits that, "Given their superior growth potential, the N-11 will deliver better returns than you would get from more developed country investments." Given his track record predicting the rise of the BRIC, his words should be heeded. Brazil, Russia, India and China continue to lead the world out of recession but there are additional rising stars in the firmament. O'Neill continues, "What happens in these 15 countries is going to determine the absolute level of world growth in the next decade and beyond." He also acknowledges that despite having challenges to overcome, they have proven their ability to perform.

Echoing these thoughts, President Gul took time out of his State visit to see the Queen, to address the Annual Conference of the Confederation of British Industry late last year. He pointed out that, "The past 5 decades have witnessed substantial changes in the distribution of world gross domestic product across different groups of economies. Between 1960 and 1985, advanced economies on average accounted for about three quarters of global GDP. This share has declined gradually over time; before the global financial crisis it was down to 56% and this year it is likely to go down to 51%. In contrast, emerging market economies' share in the world GDP has risen steadily from just about 17% in the 1960s to 44% before the global crisis."

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> *"The UK is Turkey's 2nd largest partner in exports and 10th largest partner in imports."*
>
> **Abdullah Gul - President of Turkey**

The Turkish premier went on to say, "According to the IMF forecasts, by 2013 emerging markets will have been producing more than half of the global output. Indeed, if emerging markets keep on growing three percentage points a year, faster than the US, they will account for two thirds of the global output by 2030. In light of these figures, the role of emerging markets today - in supporting global growth in the current different conjuncture - is even more important, as advanced economies face strong headwinds."

If one thing is for sure it is that Turkey's performance, along with other vibrant growth markets, will be paramount in the stablisation of the world economy. Undoubtedly, high inflation and high interest rates not only characterised - but also cast a long, dark shadow over - the Turkish economy in the past. However, the macro normalisation of the first decade of this millennium helped bring inflation down to single digits. This is a trend that has recently seen a reversal, as rates scaled the 10% barrier. Add to that a weakened Turkish lira and a record current-account deficit in 2011 of \$77.2bn (c£48.6bn) – equating to 10% of GDP – and the challenges are clear to see. However the government is confident that the Turkish economy rests on sound macro foundations.

The Central Bank's bold steps to cut interest rates in the last two years saw the country seize the opportunity created by weak global output. Admittedly this helped Turkey enjoy an environment of historically low interest rates but it has also contributed to increasing the leverage appetite of households. With a population of approximately 76m people - half of them under 30 – Turkey boasts a young, dynamic consumer base that has been prompted to spend their rising income, rather than save. This is a trend that puts the economy at the mercy of foreign capital inflows.

Like many other "growth markets", Turkey is relying on the spending power of its internal market to support weak external demand. And although it is quite an achievement to register a doubling of GDP per capita in a decade, Turkey's expanding middle class is still towards the bottom rung at \$10,400 (c£6,547), according to 2010 World Economic Forum figures. This means that Turkey cannot afford to take its eye off the ball and needs its export markets as much as ever.

If these continue to suffer from the downturn and debt crises then they will further impact Turkey's economic indicators. As Gul elucidates, "The spill-over effects from the rest of the world can significantly influence our economies. Take Britain and Turkey for example - we heavily depend on the euro zone as a trading partner. Over 40% of the UK's exports go directly to the euro zone, whereas the EU accounts for half of Turkey's foreign trade volume." By the same token President Gul acknowledged the significance of UK-Turkey trade relations. "Despite the global economic crisis, annual trade volume between our countries reached \$12bn (c£7.56bn) in 2010. As of September 2011, our trade volume reached \$10.2bn (c£6.42bn). The UK is Turkey's 2nd largest partner in exports and 10th largest partner in imports." Besides the UK, Turkey enjoys a notable trade surplus with very few, if any, countries - making it ever critical to nurture their trade relations and continue to deliver value to British consumers with brands like Beko.

Proud and determined are definitely characteristics of the Turkish people. Nevertheless, they are far from immune to external global pressures and ongoing internal issues. Economics aside, the year-long unrest in bordering Syria, coupled with tragic events - like the PKK's killing of 24 soldiers on 18 October 2011 and the earthquake in the Van region just 5 days later leaving scores dead - clearly dented the national psyche. However, industry players are just as bullish about Turkey's economic prospects as the country's politicians - and this has much to do with the spirit of the nation. As Yasar Ascioglu, of the eponymous construction and real estate company puts it, "Turkey has very bright prospects especially because the Turkish are lateral thinkers. This is one of the reasons that they are so successful – not only in Turkey but around the world – because they are multi-dimensional in their way of thinking and solutions are in abundance."

O'Neill appears to have acknowledged Turkey's penchant for performing - by selecting it from the N-11 and grouping it with Mexico, Indonesia and South Korea - in what has been dubbed the MIST. Although a somewhat more nebulous-sounding acronym than the BRIC, Turkey is no doubt pleased to be featured with these economies. Companies struggling in debt-ridden nations are increasingly looking to BRIC and MIST countries for their salvation. Turkey, being on the geographic doorstep of the EU, quite simply represents the most logical and strategic solution for UK entities that are seeking a large, local consumer base, a cost-appropriate location for operations or a powerhouse that is a springboard to the region.

Building a Better Future

Relations between Turkey and Britain may be entering what David Cameron referred to as a "golden age" and it's true that the ties that bind the two countries have been long fostered. However, although the history of constructive diplomatic, economic, trade, business and cultural relations between these nations continues to be nurtured, there is an understanding that more could be done. As Yasar Ascioglu who heads up a prominent Turkish real estate and construction company puts it, "Despite sharing prominence in the world, the two countries don't know each other well enough. Our dealings need to be stronger - both politically and commercially - for the good of the world. Additionally, British businesses and individuals need to invest now because in the next 10 years there will be an explosion of growth and it will be too late then." To a great extent he is right, the foundations are strong but together with the right strategy – and appreciation of each other's assets – this partnership could become a "tower of strength".

This month sees British and Turkish counterparts working in tandem to heighten awareness of the synergies between the two nations at the Turkey-UK Business Forum - being held at Church House Conference Centre in Westminster, London. The event is one in a series, organised to promote bilateral trade and investment between the UK and Turkey and provide assistance to British and Turkish businesses. It will highlight success stories, explore competencies and the business cultures as well as demonstrate how the two countries can continue to capitalise and build on their individual areas of proficiency for the benefit of both nations, as well as create new opportunities. Jessica Hand, Consul-General in Istanbul & Director of UKTI Turkey is one of the keynote speakers at the event. A passionate advocate of this intrinsic and mutually rewarding relationship, she explains, "We are seeing more UK companies realising the potential of Turkey as a partner with which to move into the markets of the surrounding region. British expertise in architecture, design, financing and project management make them excellent complements to Turkish strengths in construction, energy, and other sectors." Along with her eminent panelists, Hand will be elucidating prospects and drawing attention to the need for action; "This is a time of opportunity in Turkey, but we are not alone in seeing this, so companies should engage now - and UKTI Turkey is there to help."

Among those offering their perspectives at the Turkey-UK Business Forum there will be the Turkish Ambassador to the UK, Unal Cevikoz and the Lord Mayor of the City of London, Alderman David Wootton. Besides being an excellent chance to hear – directly from the source – the nature of Turkey-UK relations, it will also be a chance to discover how current synergies can be heightened, how areas of expertise from both countries can be of great advantage to each other and how the two nation's future – being shared and shaped together – can be even more mutually rewarding. It is eagerly anticipated that Jim O'Neill – the coiner of the famous acronym BRIC – will also be speaking. Given his passion for "growth markets" it is possible that he will be imparting his thoughts on what a rising power, like Turkey, has to offer and how the UK cannot afford to miss out.

Places are limited if you wish to attend the Turkey-UK Business Forum on 19 April. To register either call 020 7321 0999 or email info@tbcci.org

FDI

Growing Confidence in the Turkish Economy

A few days before New Year's Eve - when the forecasts for 2012 were commonly underlining the uncertainties about the state of the global economy - Turkey was busy announcing new greenfield investment projects. On 29 December 2011, the Aditya Birla Group – an India-based global giant with a turnover of $35bn (c£22.25bn) and operations in various sectors including textiles, metal, retail, carbon black, cement, telecommunications, and financial services, employing over 133,000 in 36 countries – announced a $510m (c£324m) investment to establish a viscose stable fibre production facility in Turkey. Nine days earlier, on 20 December, another international industry leader, Dow Chemical Company, had announced an investment worth $1bn (c£636m) to manufacture and commercialise carbon fibre and derivatives in Turkey.

These are just a couple of capital intensive ventures which the country has been attracting in an unprecedented way in the past decade. Consequently, the year 2011 yielded increasingly positive results for the nation. A total of $15.7bn (c£9.98bn) of foreign direct investment (FDI) flowed into Turkey last year, representing a 74% increase when compared with 2010. The country also outperformed its competitors, such as Poland which received $13.7bn (c£8.7bn) of FDI in 2011.

Its continuous economic growth, and the government's political commitment to attracting FDI, have made Turkey one of the most appealing investment destinations in the world. A number of factors have been instrumental in ensuring the outstanding rise in the amount of FDI attracted between 2003 and 2011. These include economic and political stability, coupled with Turkey's young, dynamic population, skilled labour force and the country's strategic location. The past nine years has seen Turkey win foreign direct investments totalling over $110bn (c£69.9bn), whereas in the preceding eight decades, from 1923 to 2002, it had accumulated only $15bn (c£9.5bn). Similarly, the number of international companies in the country has increased from 5,600 to almost 30,000 in the period 2002-2011.

Turkey is an increasingly attractive location for investment not only because of its stable economic outlook but also thanks to its proximity to a number of promising, emerging markets. This, coupled with its burgeoning local consumer base, saw Turkey chalk up GDP growth of 9% in 2010, making it stand out as one of the most dynamic markets in the world. Turkey's robust performance also continued into 2011, with the economy expanding by 9.6% in the first nine months. Such sound and consistent figures have been encouraging experts and international institutions to make confident forecasts about the country's future. According to the OECD, Turkey is expected to be the fastest growing economy among their members during 2011-2017, with an annual average growth rate of 6.7%. Moreover, the most recent IMF staff report for Turkey predicts that the country will attract more than $111bn (c£70.5bn) of FDI in the next five years. A projection by the Economist Intelligence Unit, an independent consulting company within the Economist Group, proposes an even higher figure, with a forecast of $114bn (c£72.5bn) of FDI for the same period.

Impressed by the country's economic performance, global investor confidence in Turkey has also been increasing in the last decade. A recent survey among top executive management of multinational companies, conducted by A.T. Kearney, ranks Turkey as the 13th most secure and attractive FDI destination in the world in 2012.

Currently Turkey is the 17th largest economy globally and it is predicted to be among the top 10 in the next decade. It has also become a powerhouse in industry; as the world's 10th biggest steel producer, it is actually ranked 2nd when compared to the 27 EU countries. Turkey is also the 16th largest automotive manufacturer worldwide and the leading maker of commercial vehicles in Europe, producing more than 1m motor vehicles each year. Furthermore, it is the top TV manufacturer in Europe. A little known fact is that many of the TVs and household appliances in UK homes were actually produced in Turkey.

Beyond strong trade ties between the UK and Turkey, abundant investment opportunities exist in all regions of Turkey. Besides manufacturing, in areas like automotive, iron and steel, there are also the petrochemical, energy and renewables sectors to consider along with real estate, finance and ICT. Different avenues of investment in Turkey are available for British investors. The expertise of British companies in public private partnership (PPP) ventures is more than welcome. The Turkish authorities – both national and local - have been implementing numerous investment projects through PPPs and they are keen to realise further initiatives in education, energy, defence, health, transportation and other public services.

Having set specific and major targets to be achieved in time for the centennial anniversary of the foundation of the Republic, Turkey offers various partnership prospects for British companies. By this landmark year - 2023 - Turkey aims to be one of the top 10 economies in the world with a GDP of $2 trillion (c£1.27 trillion) and $500bn (c£318bn) in exports. In the last nine years, Turkey's privatisation efforts totalled $48bn (c£30.5bn). However, there are still several more areas to be privatised, such as infrastructure and energy generation, presenting excellent potential opportunities for UK investors. The government is working to upgrade the country's energy, transportation and health infrastructure. Critical objectives include the building of hospital cities, more than doubling electricity generation, building new bridges on the Bosporus and the Dardanelles straits, and making Istanbul an international financial centre.

Did you know...? TURKEY IS THE:

2nd powerhouse in industry in Europe

10th world's biggest steel producer

13th most secure and attractive FDI destination in the world in 2012

16th largest automotive manufacturer worldwide

17th largest economy globally

Having been tested by the global economic crisis, Turkey has one of the most stable and profitable financial sectors in its region

Having been tested by the global economic crisis, Turkey has one of the most stable and profitable financial sectors in its region. The Turkish government's "Istanbul International Finance Center" project offers international companies a chance to run their regional financial operations through the city. Thanks to diverse incentives, a skilled workforce, and its world-renowned status as a truly global, cosmopolitan environment with a vibrant local economy, Istanbul is set to play an even greater role – not only nationally but also internationally. Financial investors from the UK are welcome to contribute to, and benefit from, this development.

Certainly the vivacity and resilience that has characterised Turkey's recent economic success has garnered much interest in the past decade. British entities have been among the top investors in the country because, as an industrial powerhouse and a regional business hub, Turkey offers tremendous opportunities to UK companies to penetrate the growing economies of the Middle East, North Africa, Central Asia, the Balkans and the Caucasus. Today, there are more than 2,300 British companies in the country - up from around 400 in 2003 - and they have invested billions of pounds in Turkey within the past decade. It is clear those that have invested have benefitted from Turkey's flourishing economic performance. One such shining example is HSBC. The bank has successfully ridden the wave of economic growth in Turkey. As of today, it has registered a tenfold increase in its assets in the country following the acquisition of a local bank in 2001. Equally, Vodafone Turkey has doubled its subscribers, having reached 18m in 2011, up from approximately 9m in 2005 when it acquired a local GSM operator. This made Vodafone Turkey the fastest growing unit within Vodafone Europe.

Over the past four years around 2.5m British tourists have been visiting Turkey annually and, more importantly, they have been buying real estate and have started to settle there. Currently about 36,000 British nationals have property in Turkey, and count as the highest among foreign owners in the country. This demonstrates the allure of the Turkish real estate sector which has attracted over $20bn (c£12.74bn) in FDI during the last decade. In fact, Turkey ranks as the 3rd most attractive real estate investment destination among emerging countries in 2012, according to a survey conducted by the Association of Foreign Investors in Real Estate.

In particular Istanbul's rapid rise as a lucrative property investment location has overtaken top capitals (such as London, Paris, and Madrid), with the city emerging as the top growth market in Europe's real estate industry. This has been revealed in a study by PricewaterhouseCoopers and Urban Land Institute, which is based on the opinions of 600 industry experts and is entitled "Emerging Trends Real Estate 2012". It placed Turkey's metropolis at the top of the "Development and Investment" categories. A booming economy, positive outlook and its young population lifted the city to the top spot. Indeed, Istanbul scored highest in the "Existing Property Performance", "New Property Acquisitions", and "Development Prospects" categories. Affected by Europe's financial crisis, traditionally strong markets like Paris, London and Madrid fell considerably behind - ranking 6th, 10th and 21st respectively. Furthermore, a draft law which would abolish reciprocity conditions on foreign ownership is currently under debate in the parliament. Should the new legal amendment be approved it will allow non-Turkish nationals to buy property more freely and will see Istanbul's attractiveness, as Europe's top real estate market, skyrocket in the coming years.

Investment Support and Promotion Agency of Turkey (ISPAT)

ISPAT was established under the auspices of the Prime Ministry in 2006. It is the official organisation for promoting Turkey's investment opportunities to the global business community and providing assistance to investors before, during and after their entry into Turkey. The agency serves as a reference point for international investors and as a point of contact for all institutions engaged in promoting and attracting investments at national, regional and local levels. It works on a fully confidential basis and combines a private sector approach with the backing of all governmental bodies. ISPAT's free-of-charge services include, but are not limited to, market information and analyses, industry overviews and comprehensive sector reports, assessing conditions for investments, site selection, finding companies for potential partnerships and joint ventures, negotiations with relevant governmental institutions, facilitating legal procedures and legislation issues such as establishing business operations, incentive applications, and obtaining licenses and work/residence permits.

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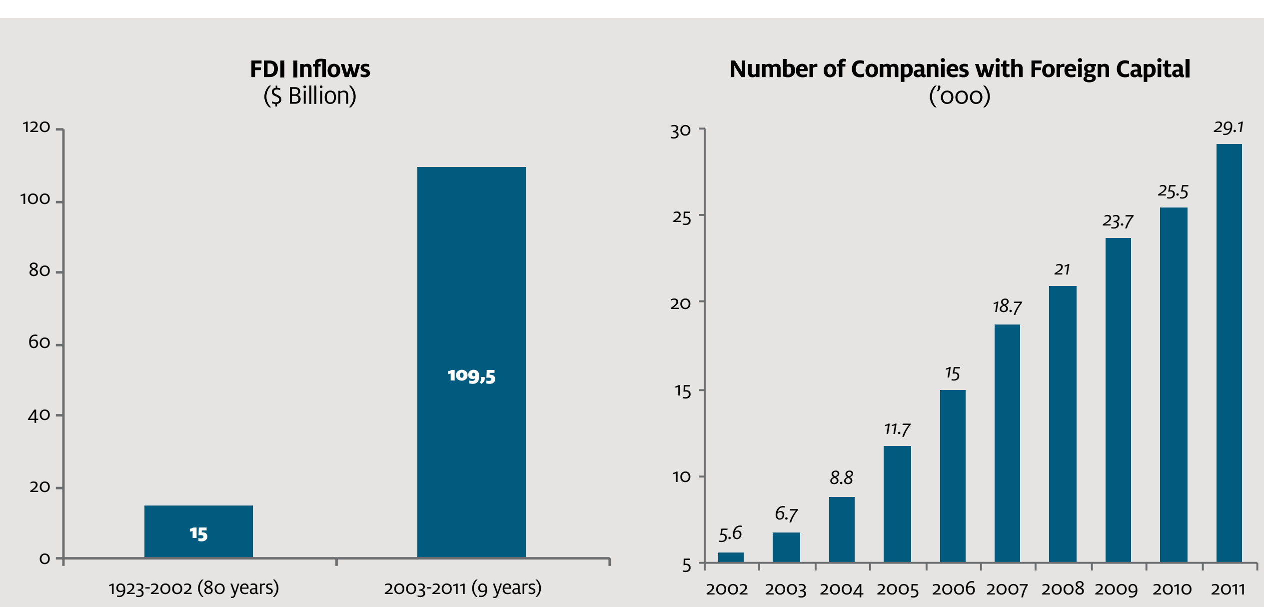
According to the OECD, Turkey is expected to be the fastest growing economy among their members during 2011-2017, with an annual average growth rate of 6.7%



Source: Central Bank of the Republic of Turkey and Ministry of Economy

Partners in the Pipeline

It's not every day that family-run businesses get the recognition they deserve. That said Erciyas Steel Pipe Co is not just any family-run company. It is Turkey's 25th largest exporter - which is no doubt one of the reasons why the Turkish President, Abdullah Gul, paid a visit to the factory in Duzce. During his visit the President presented an award from the government in appreciation of Erciyas' contribution to the economy of Turkey, as well as its contribution to employment of the town where its factory is located.

However, Erciyas is not looking back on its past performance; it is looking to the future and how to maximise its strong position. In order to do this it is actively seeking strategic partnerships with pipeline and energy companies or steel producers – or even both. Their approach is very pragmatic; joining forces with energy or pipeline companies would give their partners "hands-on control, better quality and cheaper pipes produced by the most advanced machinery and engineers in the field," according to Emre Erciyas who heads up Business Development. By the same token, partnering with steel companies would provide Erciyas with the opportunity to acquire cheaper raw materials – a cost saving they could pass on to their clients.

In return, the company believes that a strengthened position would enable their providers to benefit from increased demand. Certainly its expertise and pioneering technologies enables Erciyas to put the "most powerful and fastest, large diameter steel pipe manufacturing machine in the world" at the disposal of industries who need such services. With a genuine reference to fraternal comradery, Emre Erciyas says, "If a bigger brother is willing to hold our hand and we can work together, we have no doubt that we can make him earn more and grow faster."

So this is no one-way street. Erciyas is emblematic of industry players in Turkey that are outward looking, not only in production, but also in strategic terms. Such is the foreseeable potential that they are also considering a joint venture with global trading companies.

Energising all Sectors

Given Turkey's upward trajectory, there are a lot of sectors in which foreigners are looking to invest. One such critical sector is energy where there is tremendous potential for growth. Average consumption of electricity per capita in Turkey is 2.4 megawatts per hour. While the world average may be 2.8, neighbouring Greece consumes 5.3 – a stark comparison that underlines future capacity requirements. The UK's consumption at 6 megawatts may be lower than the OECD average of 8.5 but all these statistics point to an inevitable rise in energy demand in Turkey as its economy grows.

1st worldwide in terms of highest growth rate in wind energy plants

Currently Turkey's generation capacity is limited and yet the expectation is that energy consumption is going to rise significantly so in the coming years there will be a mismatch. This is why there is a concerted push to consolidate Turkey's energy assets, representing an opportunity to make provisions for one of the world's fastest growing economies. As Suha Gucsav, CEO of Akfen Holding specifies, "It is making Turkey a very attractive destination for energy players to come and invest in. Solar, wind and hydro energy are the way forward and Turkey has extraordinary potential in these renewable sectors as it is rich in these natural resources. They represent the future of the market. In Turkey another interesting proposition is the natural gas market because it is just being liberalised. This is why German, Italian and American energy companies are keen to make big investments – because of the huge potential for growth the market offers."

Here are the Top 5 highlights for each energy segment:

Hydro

- Largest undeveloped hydro energy potential in Europe
- Hydroelectric potential around 36GW
- By end of 2010 total installed capacity was 15.7GW
- Licences are usually granted for 49 years
- Government aims to reach full utilisation of 36GW technical hydro capacity by 2023

Wind

- 2nd best wind energy potential in Europe after the UK due to topography and climate
- 1st worldwide in terms of highest growth rate in wind energy plants
- Wind power generation potential 48GW
- By end of 2010, total installed capacity was 1.3GW
- Government aims to reach 10GW installed capacity in 5 years and 20GW by 2023

Solar

- Considered a major growth market by the international solar industry
- Estimated solar energy potential of 380TWh/year, double the total electricity consumption in 2008
- Area of 4,600km² suitable for solar investments with average radiation of 7.2 hours a day
- At infancy stage, with less than 2MW installed in total
- Goverment is popularising the use of solar energy for electrical generation

Geothermal

- World's 5th largest capacity for geothermal
- Geothermal capacity of 2GW, 78% of which is in the Western Anatolian region
- Less than 100 MW installed to date; corresponding to 0.2% of the total installed capacity
- 5,140 geothermal fields that hold geothermal fluids warmer than 40°C
- Goverment aims to increase the geothermal power to 300MW by 2015 and 600MW by 2023

Oil & Gas

- Turkey's domestic oil and gas production meets less than 3% of its energy requirements
- Main import markets - Saudi Arabia, Iran, Iraq, Russia and Azerbaijan
- Energy corridor - increasingly important role in the transit of oil and gas supplies from Russia, the Caspian region, and the Middle East to Europe
- Possible merger of the TANAP (the Trans-Anatolian natural gas pipeline) and Nabucco projects
- Demand for natural gas is increasing rapidly as it is preferred as fuel for industrial use as well as for power generation

Besides these major segments, Turkey is also looking to position itself as the bio-fuel supply centre of Europe by taking advantage of the nation's high potential in agriculture and its installed capacity in biodiesel and bio-ethanol.

According to ISPAT, Turkey's investment agency, the total amount of investments that need to be made to meet the rising energy demand in Turkey until 2023 is an estimated $130bn (c£81.92bn). Good news then that India's largest conglomerate, Tata Group, is considering Turkey to expand the energy portfolio of its power generation, distribution and transmission division, Tata Power. Impressive opportunities exist for foreign investors to enter this promising field and take advantage of the – as yet - untapped energy market.

FINANCE

From Concept to Concrete

If Turkey's registered 74% increase of FDI in 2011 (as compared to 2010's figures) seems impressive, think on this. A survey by the Istanbul Chamber of Commerce (ITO) found that foreign investment in Istanbul actually increased by a whopping 110.7% last year. Interestingly, the research also showed that Scotland featured among the top 4 countries that poured capital into Istanbul, along with France, Iran and Germany.

The largest proportion of foreign investment that the metropolis attracted came from the banking and insurance sector according to the ITO's findings. This is in line with the government's strategy to create a financial services hub. "Istanbul Financial Center" (IFC) is taking shape as it moves from the planning stage to construction. The project is slated to "outclass by size its competitors in New York, London and Dubai." Once it is completed and, given its physical proportions - spanning more than 2,500,000 square metres of land - that may well turn out to be the case.

The complex is being built on the Asian side of Istanbul in the Atasehir district and will consist of office space, residences, a conference hall, a shopping mall and a hotel. The headquarters of state-owned banks such as Ziraat Bank, VakifBank, Halkbank and other public financial institutions like the Banking Regulation and Supervision Agency (BDDK), the Capital Markets Board (SPK) and the Turkish Banks Association (TBB) will all be relocated to IFC. The government also envisages strong interest from private banks and financial institutions – both national and international - that will be attracted to Turkey's vibrant local financial markets as well as using the metropolis as a springboard to the region.

Entities eyeing Istanbul's potential will undoubtedly be encouraged by the first licence granted to a foreign lender in 11 years. The entry of Bank Audi (from Lebanon) into the market demonstrates the importance being attached to Turkey's growing significance. It is anticipated that this foray will probably be followed by other Arab banks – a fact that has been substantiated by recent strong interest being signalled by Moroccan banks. They are keen to partner with Turkish counterparts in order to take advantage of Turkey's geo-strategic positioning and sound economic performance. According to The Banks Association of Turkey, a total of 7 Arab banks already operate in the country, with a total asset volume of $24bn (c£15.12bn). Similarly, Turkey's trade volume with Arab countries has peaked at $34bn (c£21.42bn) in 5 years proving that besides the EU, these nations represent an important export market. Given recent tensions in the Arab world, it makes sense for these countries to look increasingly to Turkey as a safe haven for investments. As President Gul underlined in his speech at the Annual Conference of the Confederation of British Industry last year, "Today, we have an economy with strong public finances, sustainable debt dynamics, a sound banking system, functional credit markets and able monetary transmission mechanisms."

Of course, Turkey had its own - very significant - growing pains in the shape of a financial meltdown just over a decade ago but stability has been hard won and is much coveted. Substantial measures were taken by Gul who (as the first Prime Minister of the ruling AK Party government) laid down the foundations for the current sound macroeconomic strategy and prudent fiscal policies, and initiated major structural reforms as stipulated in the Urgent Action Plan in 2002. With particular regard to the strong financial system that now exists, Gul points out that, "Since the 2001 crisis, significant structural reforms have been put into effect in order to restructure and rehabilitate the banking sector in Turkey. In this context, the government enhanced the financial structure of private banks, restructured state banks and improved the regulatory and supervisory framework. The activities and ratios of all the actors in the financial sector have been closely monitored by the regulatory bodies. The banking sector has achieved a much healthier and more robust position through reinforcing its capital structure and implementing effective risk management. As a result, today, Turkish banks are strong, highly profitable and well capitalised with a capital adequacy ratio (CAR) of 17%."

Turkey had its own - very significant - growing pains in the shape of a financial meltdown just over a decade ago but stability has been hard won and is much coveted

One of the banks that led the path through those difficult times - and emerged stronger than ever - is Akbank. Its CAR is at the top end of the scale at 16.9%, compared with a sector average of 15.4%. According to consultancy firm Brand Finance, Akbank is one of the top 100 most highly-valued banks in the world and it's not hard to see why - its brand equity stands at almost $1.6bn (c£1bn). Characterised by strong fundamentals, Akbank's asset size, as of the third quarter of 2011, was $77.7bn (c£48.96bn), while its loans-to-deposits ratio stood at 94.5%. Even more vitally, the financial leverage ratio, that of debt to asset size (indicating how much of the assets are financed by foreign sources) is significantly lower - at 7.8% - than the sector average of 8.6%. It is Akbank's approach to risk management that is responsible for a non-performing loan ratio which is nearly half the sector average at 1.6%.

Its prudent and rather conservative strategy may be one that has served Akbank well, but it seems that 2012 will see some ambitious changes - as plans point toward a more aggressive policy in terms of expansion. According to top executives, it is calculated that 19m individuals in Turkey remain "bankless", while 25m are seen as "half-banked." Akbank's growth plan counts on a new wave of consumers embracing their services and it looks set to win an even greater market share. The fact that the market is so unsaturated is a boon for those who have already gained brand value in the nation's awareness and have that to bank on. Those who are contemplating Turkey as a new base for their lending operations had better move quickly to take advantage of the incredible opportunity that the financial markets represent. Otherwise they may well just miss out.

TELECOMS

Vodafone Views Turkey as Regional Centre

Having just inaugurated their Network Operations Centre in Istanbul's Tuzla district in February, Jorge Fernandes, Vodafone Turkey's Chief Technology Officer, took the opportunity to outline the company's plans in the country. "Vodafone is carrying out studies to move the management of its Middle Eastern and North African markets to Turkey. These developments are very important for Turkey to become a regional centre for Vodafone," he said.

Besides Turkey's obvious geo-strategic positioning in the region, a decision like this is also based on pure potential backed up by strong projected statistics. According to the nation's internet regulator, the Information and Communication Technologies Authority (BTK), the next 5 years is set to see a 75-fold increase in Turkey's data traffic.

Tayfun Acarer, Head of BKT asserts that Turkey's telecommunications infrastructure has become more advanced than many European countries but adds that, "More network investments are necessary to accommodate increased data traffic in the near future."

INDUSTRY

Driven to Make the Right Choice

The Ministry of Economy has chosen to incentivise specific sectors in its new scheme so as to improve local production. While the economic downturn may have affected output and exports abroad, the outlook remains positive in Turkey. As Minister Caglayan points out, 'Turkey maintained high productivity at home despite problems in the country's export markets." Given the tight squeeze in traditional markets, industry leaders in all sectors are looking to boost their investments in a bid to counter the shrinkage in former mainstay countries. Sectors given prominence in the new incentive scheme are critical to sustainable growth and include automotive, chemicals, aerospace and electronics.

One of Turkey's greatest assets is excellence in production at a lower price point. This is why UK companies should be looking more seriously at investing in the country

A number of car manufacturers have recognised Turkey's value proposition and are making significant further investments. A prime example is Renault. Turkish production of the Clio 4, making its debut in September, undoubtedly ruffled some feathers in France, but the figures are a no-brainer. The cost difference between the Turkish and French manufactured versions of the Clio 4 was reported to be around €1,300 (c£1,087). For a car of its class this is a pretty significant sum. Renault's Chief Operating Officer, Carlos Tavares put this into stark context when he purportedly told the French Parliament that, "The high cost of manufacturing in France was eroding the company's competitiveness." In a nutshell this is one of Turkey's greatest assets – excellence in production at a lower price point. It is also one of the key reasons why UK companies should be looking more seriously at investing in the country.

Undoubtedly France is not the only country reluctantly seeing such volumes of production leave its territory. Nor would Renault be the only company in the EU seeking to rationalise without compromising quality. In today's economic climate, with customers who are more demanding than ever, it makes good business sense. Renault invested over €200m (c£167m) in its Turkish plant in Bursa for the production of its Clio 4, yet at the rate of the anticipated 160,000 vehicles roll off the production line it will save €280m (c£234m) yearly. The intense debates in France about the proposed move may well have incited national concern but they were overridden by one simple fact; manufacturing the Clio 4 in Turkey will enable Renault to cut costs by as much as €1bn (c£836m) during the 3 plus years that the model will remain in production there. And that's not where Renault's love affair with Turkey ends; the Bursa facility - Renault's second largest plant in the world with a production capacity of 360,000 vehicles annually – will also manufacture the revamped Megane 3 hatchback and, potentially in the near future, LCVs. Turkey's va-va-voom certainly doesn't seem to be abating.

INFRASTRUCTURE

Bridging the Gap

Momentum is building for the upcoming privatisation prospects in Turkey. Lucrative opportunities in the country's maritime sector, with tenders for Istanbul Galataport, Izmir Kruvaze Port and Izmir Pasaport, Istanbul Kalamis and Mersin Tasucu marinas are taking place this year. Ahmet Aksu, Deputy President of Turkey's Privatisation Administration (OIB) recently announced that the privatisation process for the country's highways and bridges is set to begin by June. The two bridges over the Bosphorus with their ring motorways are seen as among the most prized assets of the country's privatisation program and it is expected that foreign investors from the US, Europe and the Far East will express interest.

Consumer Revolution

Turkey represents a massive consumer base that should not be ignored. The country is experiencing a retail boom and there is huge potential – not only in the malls but also online. Here are some surprising facts which point to why retailers should get smart about how to reach their customers:

35m internet users—out of a total population of around 77m

70% of these users are younger than 34

5th largest internet audience in Europe

3rd longest time spent online in Europe (behind Holland & the UK)

60% credit card penetration rate (versus European average of 50%)

1 of Top 5 audiences on Facebook

1 of Top 10 audiences on Twitter

Source: Comscore

HOSPITALITY

The Truth Behind the Tourism Boom

A deeply rich and varied country, Turkey is often viewed, somewhat incongruously, through the prism of mass-market-bucket-and-spade tourism. This strategy has served a purpose in appealing to a wide audience and gaining a general awareness in the consciousness of the global tourism market. However, the reality of what Turkey has to offer is somewhat different. It is a nation that is at once distinct and instantly recognisable; yet its fabric has been influenced and enhanced by the threads of the diverse cultures that have left their traces. The country has been home to a "mosaic of people" and offers today's traveller the chance to glimpse and savour the marvels of ancient civilisations, while also experiencing all that is expected from a dynamic, modern and industrialised nation.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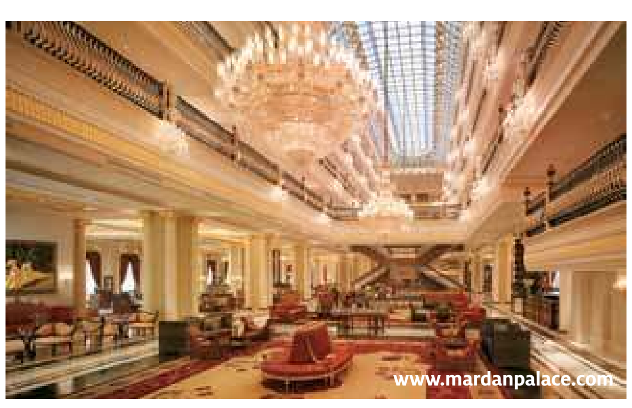
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Described as a land "where the sea meets the mountains and where cultures meet each other", Turkey has a profusion of tourism offerings that are frequently overlooked. For instance, did you know that Turkey boasts no less than 20 ski centres, 14 golf courses, 40 marinas and that Istanbul alone holds over 100 major congresses a year? Besides, it is an increasingly popular destination and considered by many to be the perfect combination of nature, history and culture. For this reason its capacity to reposition its brand perceptions will become as critical as its ability to undergo a transformation in practical terms. It is a revolution that has been underway for some time but is starting to pay dividends to those who have invested heavily in a sector that could well be seen as the "golden goose" of the global economy.

As a veteran of the industry, Turgut Gur, Chairman at TYD (the Tourism Investors Association) has long believed that tourism is the locomotive of economic development especially with regards job creation and infrastructural progress. To his mind it is the one industry that joins investors from all sectors and geographic areas and has the power to give "the spirit of business" to all cross-sections of Turkish society. Looking back, he points out that the period 1985-1993 were boom years with a lot of incentives and subsidies. This was critical to make the nation and investors aware of the country's latent potential and capability in the tourism sector. Although given TurkStat's recent data, it is hard to imagine that there was ever a time when this was necessary. Turkey's 2011 tourism revenue was up 10.6% on the year before, hitting $23bn (c£14.5bn) – approximately 10% of the country's GDP.

Ministry of Culture and Tourism statistics show that the UK features in the top 3 markets with 2.5m Brits visiting Turkey last year. Germans claimed the No1 spot with 4.8m followed by 3.4m Russians. Iranian, Bulgarian, Dutch, Georgian, French, Syrian and US nationals also visited Turkey in 2011 in considerable numbers. With exponential growth Turkey is well on its way to entering the top 5 in global tourism. In about a decade the amount of tourists has increased threefold; from 2001's 10.4m to last year's 31m. As of late 2011, Turkey ranks 7th in the most-visited global destinations list, according to the World Tourism Organization (UNWTO).

Consequently, stakeholders in the sector today are, in general, confident that sufficient significance is being given to the sector by both political figures and the nation as a whole. That said, Gur maintains that there is always room for improvement. "Perhaps only 40m of our 76m population really appreciate the importance of tourism to the Turkish economy," he believes. This is clearly imperative for the Turkish hospitality industry. In addition, due to its tendency to attract largely the mass market, the country has to work on further diversifying its tourism offerings. Turkey proudly boasts its UNWTO ranking and the fact that it is 2nd globally in terms of bed numbers but it is in 9th place when it comes to revenues. Hence, it is frequently perceived as a "cheap" destination as opposed to being "cost appropriate".

Breathtakingly and unashamedly grandiose, Mardan Palace has done more than simply wow its guests... it has garnered acclaim from industry experts, scooping 15 World Travel Awards in less than 3 years of operation

Boosting tourism receipts per visitor means vying for luxury tourism spends, in what is an increasingly competitive market. It also means providing first-class service and more upgraded, upscale resort tourism catering for segments like golf, thermal and wellbeing. This will be paramount in tipping the balance in favour of Turkey. Back in 2009, Mardan Palace - touted to be the most expensive hotel to be built in Europe at a cost of $1.4bn (c£1.05bn) - opened in Antalya to great fanfare. The glittering inauguration was befitting of its status as Turkey's first 5-star destination luxury hotel. Sharon Stone, Richard Gere, Paris Hilton, Seal and Monica Bellucci were among the 600 dignitaries and stars at the gala opening who were serenaded by Mariah Carey and Tom Jones. The resort is the vision of Telman Ismailov, Chairman of Russia's biggest property developers AST, who fell in love with the region of Antalya. Despite not hailing from Turkey, Ismailov has managed, with a modern take, to capture the magnificence of the Ottoman Empire in the property.

Breathtakingly and unashamedly grandiose, inside and out, Mardan Palace has done more than simply wow its guests. Since the very first year of operations it has garnered acclaim from industry experts, scooping literally armfuls of awards. In under 3 years it has won no less than 15 "Travel Oscars". The World Travel Awards ceremony in 2011 saw the General Manager, Cumhur Ozen accepting recognition of Mardan Palace as the "World's Leading Hotel Spa", the "World's Leading Luxury Resort", "Europe's Leading Luxury Hotel", "Europe's Leading Presidential Suite", "Europe's Leading Spa Resort" and "Turkey's Leading Spa Resort". All this opulence could be yours to enjoy for the remarkably accessible price of £145 per Premium Room per night.

However, offering a supremely lavish holiday experience is not the only way to raise the bar when it comes to attracting high-end visitors. There is a lot to be said about the merits of improving perceptions of Turkey through a greater appreciation of the cultural heritage of the nation. "Anatolia, in particular," remarks Gur "is an open-air museum that has yet to be exploited." The dynamic, unstoppable, Bulut Bagci is the next generation visionary of Turkey's tourism potential. As Chairman of the Turkey Young Tourism Professionals Association, he agrees that there are special areas of Turkey that should be developed and branded in their own right. He believes that, in a country as vast as Turkey, it would be wise to focus on "destination marketing" and in creating brands for these areas so that they become individually appealing to particular types of travellers.

Whether this becomes a new official strategy or not, the government still has its sights set on reaching the extraordinary target of 60m visitors by 2023 - tantamount to doubling tourist inflows in just over a decade. No small feat but one that is entirely feasible. It is certainly a target that the industry is gearing itself up for. In Bagci's opinion, "If Turkey moves beyond traditional marketing tools, and embraces new marketing trends like social media, it is perfectly possible that the country may even attract $70bn (c£44bn) in annual tourism income by the centennial anniversary year – 2023." However, Bagci maintains that, "The greatest challenge now is to provide educated, well-trained staff in all Turkey's hotels and travel agencies." He sees it as the role of government and NGO's to give special attention and incentives to hospitality students so that Turkey can move up the value chain.

"Nowadays," says Gur, "The sector employs 1.5m of the country's 20m workforce. Tourism is a dynamic and resilient sector that has overcome all the crises that Turkey suffered in the past." The promise of tourism is evident to Gur who sees impressive growth on the cards, citing new land allocations which will offer incredible new investment opportunities in the hospitality business. He feels that UK investors are keen to invest but are "indecisive" - as yet. "Most do partnerships to manage hotels but they don't invest capital and this is what we would like to see," he affirms. If it is a question of confidence then perhaps the figures should speak for themselves. As Murat Ersoy, CEO of Atlas Jet says, "Turkey has benefitted in a positive way from the crises in Egypt and Tunisia," and this is evident in the bottom line. When it comes to building hotels he cites labour costs as being significantly lower than those found in Europe and almost all materials can be sourced in Turkey itself. Energy and electricity are also cheaper.

Although many Brits would routinely think of a sun-drenched, all-inclusive beach resort as being the typical Turkish holiday, it is actually Istanbul that is the most lucrative destination for those willing to invest in hospitality infrastructure. "There is a lot of competition in the resort business and you need to have a minimum of 500 rooms in order to recoup costs in the usual 15 to 17-year timeframe," says Ersoy. This is great news for cash-strapped British holidaymakers who find their pockets squeezed in these times of austerity. Competitiveness has certainly contributed to making Turkey a favourite destination among those seeking sunshine on a budget. For those visiting Istanbul the story is rather different. Occupancy rates are high for the most part of the year and it can often be hard to find a good deal especially in the central part of this sprawling metropolis.

This kind of market saturation represents an excellent return on investment (ROI) for hospitality investors though. According to Ersoy, hotel builds in Istanbul show the greatest potential in real terms, with ROI typically being 5 to 10 years. While there are many contributing factors, he attributes the renaissance of Istanbul largely to Turkish Airlines' decision to be a global, rather than simply a flagship airline. "Daily, there are over 1,000 take-offs and landings at Ataturk airport," remarks Ersoy. This is notwithstanding the carrier's presence at Istanbul's second international airport - Sabiha Gokcen (SAW) - on the Asian side.

SAW was initially constructed because Ataturk, based on the European side, was not able to cope with the booming demand from both domestic and international passengers. Very soon it became clear that even this needed to be revamped and a new terminal was inaugurated in 2009. This meant that SAW's capacity rose from 3.5m a year to 25m – the 2023 target. Just one year after the expansion, passenger numbers had jumped 71% to just over 11m and they are set to keep climbing. The airport is host to a long list of airlines including low cost carriers (LLC's) easyJet and Pegasus as well as Turkish Airlines' partner, AnadoluJet. As in other markets, LLC's are engendering accessibility and making pricing more competitive. SAW has a major role to play and industry leaders have recognised this. In September 2010, it was voted the "World's Best Airport" at the World Low Cost Airlines Congress in London. Additionally it won the award of "Turkey's Most Successful Tourism Investment 2010" by Routes Europe.

Appropriately, the airport is named after the pioneering Turkish aviatrix, Sabiha Gokcen who was one of Mustafa Kemal Ataturk's eight adopted children. Belonging to the family of the "Father of the Nation" was clearly inspiring since she became not only the first Turkish female combat pilot at the age of 23, but also the first female fighter pilot in the world. In the same vein Turkey is trailblazing a revolution in tourism and is both much admired, and envied, for its success.


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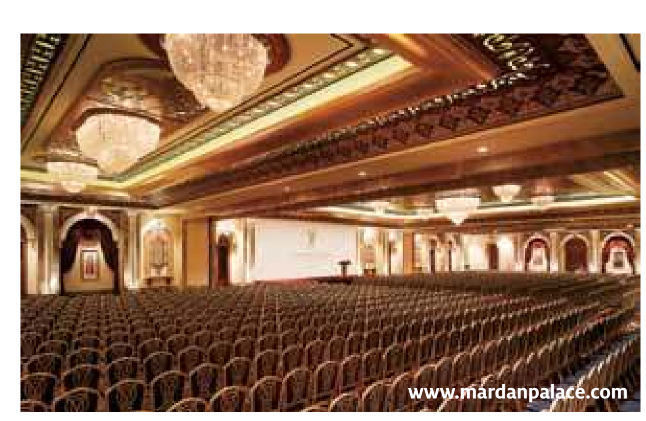
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Hot Destination

Given the amount of investments and developments that have taken place in Turkey's hospitality industry, it might not come as such a surprise to know that savvy travellers from the UK (who have visited the country more than once in recent years) have noticed marked improvements.

Here are the general perceptions the British have of the destination, according to Mintel Consultancy which conducted a survey to ascertain the level of satisfaction entitled "Turkey in United Kingdom Market 2011."

Turkey's image is defined as being:

SUNNY (68%)

HISTORICAL (55%)

CULTURAL (48%)

8/10
tourists from the UK visit historical places and museums even though most vacations spent in Turkey are seaside holidays

1/3
of those polled said that they had visited Turkey in the last 2 years

1/3
of those polled said that they visited Turkey more than 3 years ago

1/3
of those polled said that Turkey is on their wish list for a future trip

A large majority of Brits who had visited Turkey reported being favourably impressed by their experience:

76%
stated that their holidays in Turkey were better than expected in at least one aspect

8
reasons to be satisfied were the hot climate, historical and cultural values, fair price, natural values, Turkish hospitality, family-friendly environment and accommodation facilities

7/10
stated that they liked their last visit to Turkey and ranked their trips as 1 or 2 (on a scale of 1-5 where 1 is the best score)

Competitive Advantages

When it comes the economy, Turser has its operations in a wide range of sectors, including the hotel business with the award-winning Sheraton Ankara which has welcomed stars and dignitaries from across the globe. Ibrahim Birkan, Turser's General Manager, believes that it is important to look at critical sectors with a good multiplier effect in Turkey. The shift in ideals can be symbolised by the country's move away from the textiles industry, which as Birkan affirms, "Tends to create a multiplier effect in other countries." Like many players in the industry he believes that the tourism sector is different. Here are some of his economic viewpoints about an industry that positively impacts on the country:

80% of materials used in tourism construction come from Turkey

90% of what is used in tourism operations is sourced in the country

2.5 is the multiplier of value giving companies a great competitive advantage

£1,500 was the cost per square metre to construct their luxury hotel in Ankara

10% growth in Turkey's tourism industry (compared with tourism's global average of 4.1%)

According to Birkan, Turkey gained a huge competitive advantage when, during the last 10 years, it "reintroduced the dying system of all-inclusive". In an era of austerity where tourism is considered a luxury expense for many, this indicates that Turkey is, and will largely continue to be, chosen for its price accessibility. It means that British tourists can take their place in the sun for less.

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