

May 2013

# Global Advantage of Turkey

 DİŞ EKONOMİK İLİŞKİLER KURULU  
FOREIGN ECONOMIC RELATIONS BOARD

 TÜRK - AMERİKAN İŞ KONSEYİ  
TURKISH - AMERICAN BUSINESS COUNCIL

**BCG**

THE BOSTON CONSULTING GROUP

# DEİK President's Message

**Dear Readers,**

The global business community is facing a new Turkey, because Turkey has been in a structural transformation for the last three decades. The results of this transformation have been significant and promising. Turkey has the largest free market economy and is the biggest industrial power between Italy and China. As a country which is well integrated into the European market, Turkish companies already penetrate other rising economic regions, such as Latin America, Africa, GCC Countries, and the Asia-Pacific. With its growth performance, Turkey is one of the growth engines of the newly emerging multi-polar global system.

Istanbul is not only the business center of the region, it is the center of global diplomacy. Eventually, it will also be a global financial center. Having such a transcontinental position in the global market place, more and more multinational companies are establishing their headquarters in Istanbul, not only because of Turkey's huge domestic market, but also for access to the region. Moreover, emerging Anatolian cities have emerged in addition to Izmir, Bursa, Ankara and Adana. Gaziantep, Kayseri, Konya and Denizli not only became an industrial base, they also became pioneers of modern urban life.

With its young population, rising income levels, growing global influence, consolidated democratic system, strong free market economy, strong growth potential, Turkey offers abundant business opportunities for global firms in many sectors. More than 30,000 foreign enterprises operate in Turkey to capitalize on the opportunities the country offers. Thanks to the economic stability and the government's business friendly policies, the volume of global investment in Turkey since 2003 has reached \$100 billion. Turkey's annual trade volume is around \$390 billion and rising. Its exports increased 10 times in the last 20 years, reaching \$152 billion in 2012. Since 1972, Turkish contractors have undertaken more than 7000 projects in 100 countries, with a total value of some \$242 billion.

Having a transcontinental position, Turkey is an ideal investment destination between Asia, the center of global growth, and the Euro Zone, the largest single market. With its political model, political and macro economic stability, growth friendly monetary and fiscal policy, new commercial code, solid financial system, Turkey has better investment climate.

The global business community should not miss the business opportunities of rising Turkey, a transcontinental investment destination.

I would like to invite you to come and invest to the Turkish market.

Foreign Economic Relations Board of Turkey (DEİK), with its wide national and global network, is ready to support and guide your business initiatives in Turkey and in its close neighborhood.

**M. Rifat Hisarcıklioğlu**

President  
TOBB-DEİK

# Turkish-American Business Council (TAİK) Chairman's Message (I)

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**Dear Readers,**

Turkey's economy has displayed unprecedented growth since the beginning of the 2000s, and incredible durability and stamina in these past few tumultuous years. A carefully thought-out macroeconomic strategy as well as prudent fiscal policies and major structural reforms in effect since 2002 have all combined to help Turkey assimilate its economy into the globalised world, while transforming the country into one of the major recipients of FDI in its region.

For years, structural problems had been identified as the key roadblocks to the fulfilment of Turkey's economic potential and aspirations. The reforms carried out by the government since 2002 has seen to the elimination of most of these issues, and the EU accession process introduced a secondary momentum to Turkey's transformation into a regional economic powerhouse.

Thanks to these widespread efforts, the role of the private sector was substantially increased in the Turkish economy, the efficiency and durability of the financial sector was made sustainable, and the social security system was placed on a more solid footing. The reforms galvanised the macroeconomic fundamentals of the country, with a drastic decrease of inflation to 6.4 percent by the end of 2010, down from 30 percent in 2002, while the EU-defined general government nominal debt stock fell to 39.4 percent from 74 percent in a period of ten years between 2002 and 2012. In effect, Turkey has been meeting the "60 percent-EU Maastricht criteria" for the public debt stock since 2004.

Turkey's GDP levels more than tripled in 2012 to USD 773 billion, an incredible jump from USD 231 billion in 2002, and the GDP per capita soared to USD 10,524, up from USD 3,500 in the same period.

In 2010, Turkey's economy increased by 8.9%, one of the largest in the world. The Turkish economy grew by 8,5% in 2011, outstripping China and confirming Turkey as Eurasia's rising tiger. This figure, compared with the year-earlier period, easily beat market expectations, at a time when many of Turkey's neighbours in the Middle East and Europe struggle with political turmoil and bailouts. Despite of the economic crisis in Europe, Turkish economy achieved to grow by 2,2% in 2012.

In short, Turkey has emerged as a truly strong country: its industrial base is more competitive and export-oriented, its banks are better capitalised, its fiscal position is more solid and restrained, and the economy is more open to the world. This remarkable recovery is the real platform, and, in fact, foundation, for the wider Turkish revival.

## **Turkish-American Business Council (TAİK) Chariman's Message (II)**

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Naturally, Foreign Direct Investments (FDI) also played a substantial role in this very revival. According to the A.T. Kearney FDI Confidence Index, Turkey is the 13th most attractive destination for FDI in the world. As of the end of 2012, more than 32,000 companies with foreign capital were operating in Turkey. Two-thirds of them were established in the last nine years.

Nonetheless, it is somewhat unfortunate that Turkey receives a limited share from global US direct investment either from a macroeconomic or geographical perspective. Similarly, Turkey's key FDI sectors do not benefit from the large US FDI inflows. As The Turkish-American Business Council, it is our main aim to contribute to efforts to improve the environment for bilateral trade, investment, and industrial cooperation. As such, we commissioned the following report from The Boston Consulting Group to highlight the global advantages of Turkey. It is our true belief that the report will serve to improve investment relations between our two countries.

**Haluk Dinçer**

Chairman  
Turkish-American Business  
Council

# Foreword

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**Dear Readers,**

As the world is going through one of the most volatile economic periods in recent history, businesses and investors, more than ever, are feeling the need to look for returns in markets that did not take center stage previously. With long-term growth prospects looking weaker in most of the developed economies, more attention is being directed to developing countries that have attained a level of increasing economic robustness even in such times of global volatility.

For the first time in history, foreign direct investment directed to emerging economies has surpassed investment directed to developed economies in 2010. This trend is getting more and more pronounced and does not seem reversible due to a clear "decoupling" growth story between these markets.

In this context, with its structural competitive advantages and the sustainable growth story it has displayed over the last decade, Turkey has been and will be a clear priority destination for investments in today's global market context.

Attracting Foreign Direct Investment (FDI) has been one of the key pillars of Turkish economic agenda since the early 2000s and the country has shown a remarkable boost in its FDI performance. Despite these recent successes, we believe that Turkey still has ample room for further growth in terms of FDI, especially when compared to other rapidly developing economies.

The following report, "Global Advantage of Turkey" was prepared, in cooperation with the Foreign Economic Relations Board of Turkey (DEİK) and Turkish – American Business Council (TAİK), with the aim of sharing lesser known key facts & figures on Turkey, to highlight investment opportunities and to raise discussions on Turkey's role in this global transformation.

**Burak Tansan**

Partner and Managing Director  
The Boston Consulting Group

# There are 6 key elements driving Turkey's global advantage



Turkey is one of the largest economies of the world, and is expected to continue growing

## Key highlights

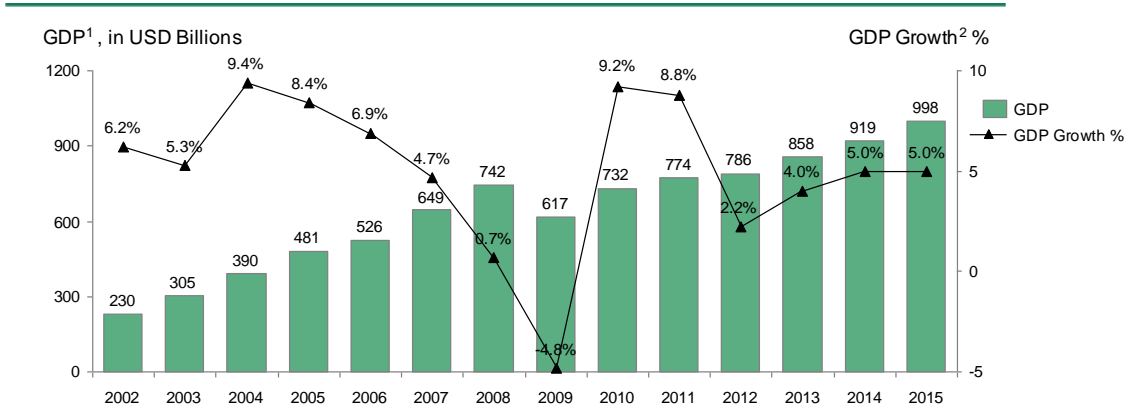
1. Turkey's GDP expected to **reach USD 1 trillion by 2015**
2. Turkey ranks **16th by GDP** and **GDP-per-capita**, among largest countries – has scale advantage
3. Turkey will continue to grow with emerging markets, in line with the decoupling of world economy, **maintaining its scale advantage**



# Turkey's GDP to reach \$1 trillion by 2015



## Annual GDP<sup>1</sup>



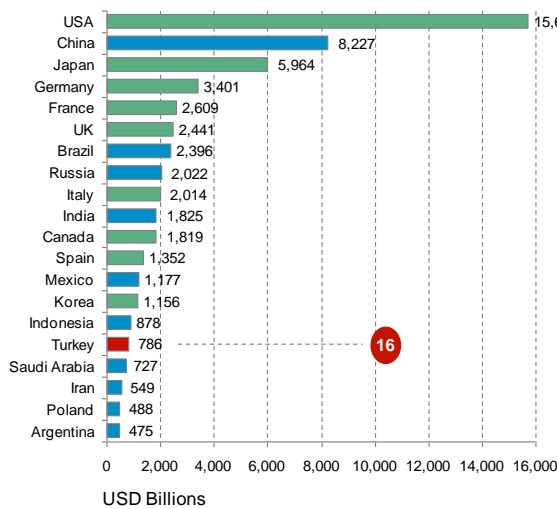
**Sustained GDP growth over the next 3 - 4 years**

1. Gross domestic product, current prices, in U.S. dollars 2. Gross domestic product growth, real prices, in Turkish liras  
Note: Growth and Gross domestic product forecasts for 2012-2105 are based on the Medium Term Plan for 2013-2015 by Ministry of Development  
Source: TURKSTAT, Ministry of Development

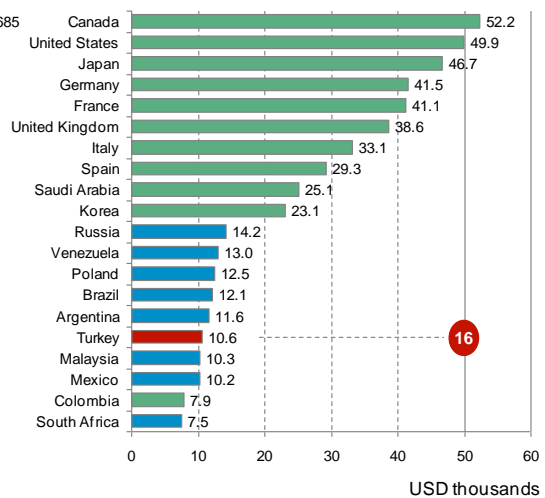
## Turkey is one of the largest economies of the world, and is expected to continue growing



### Top-20 in GDP<sup>1</sup> (2012)



### Top-20 in GDP-per-capita<sup>1</sup> in (2012)



1. Among countries GDP>\$250Bn and Population>25Mn 2. According to IMF List  
Note: TURKSTAT figures are used Turkey  
Source: IMF World Economic Outlook; TURKSTAT

# Key macroeconomic indicators yield a positive picture of Turkey, with major stabilization over the last decade



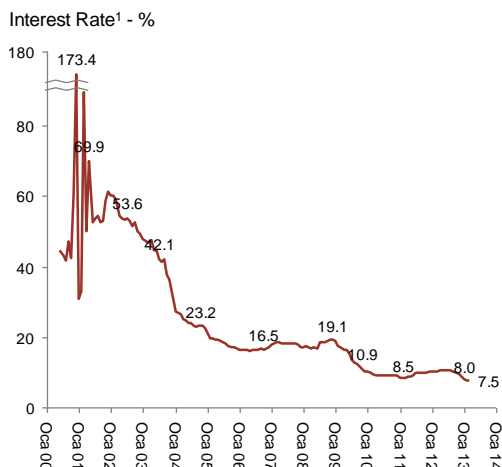
## Key highlights

1. **Interest rates** have been decreasing over the past decades from ~60% to ~7%
2. **Inflation rates** have been stabilizing in the range of 6-10% since 2004
3. In line with inflation, the **Turkish Lira FX rates** have also mostly stabilized
4. Turkey's new mid-term economic plan seems feasible and ensured fast(er) recovery in the global crisis times
5. Turkey has a relatively low **debt-to-GDP ratio** among Eastern European countries yet under-rated by rating agencies
6. Turkish **CDS premiums** have been far less volatile in comparison to other countries

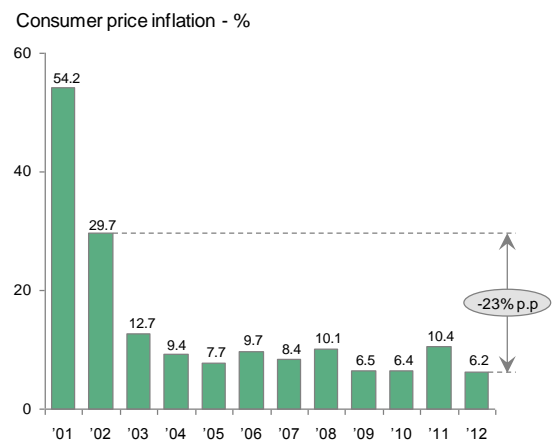
## Macro environment has stabilized with low inflation and declining interest rates



### Interest rates decreasing significantly over the last 10 years...



### ...and inflation is stabilizing



**Key macroeconomic indicators yield a positive picture for Turkey, with major stabilization over the last 5 years**

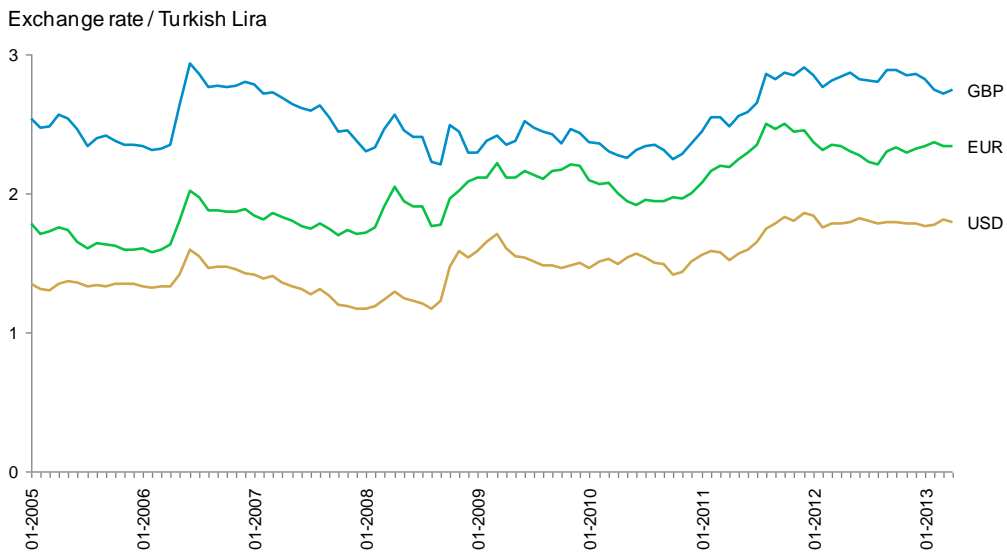
1. Average time deposit rates up to 1 year  
Source: Central Bank of the Republic of Turkey, TURKSTAT, investment bank reports, BCG analysis



# Turkish Lira has remained quite stable against major currencies



## Turkish Lira Exchange Rate Against Major Currencies



Note: Exchange rate – Daily buy rate monthly averages  
Source: Central Bank of the Republic of Turkey

## Turkey's new mid-term economic plan is feasible, and ensured fast(er) recovery from the global crisis



### Mid Term Economic Plan Summary

#### Main objective is to reach a rapid and sustainable growth period

- Target annual GDP growth for 2013 – 2015 period is 4.0-5.0%

#### Realignment in public sector investments

- Priority to infrastructure investments in education, health, technological research, transportation and communication
- Bringing down inter-regional development disparities via social infrastructure projects

#### Reduction in public sector deficit and increase in debt management transparency

- In 2012 budget deficit was 2.0% and it is expected to stabilize around 2.2% in 2013

#### Strengthened public revenue channels

- Encouragement of individual and institutional savings
- Stability in audit and implementation of tax administration; renewal of the income tax law in 2010
- Reduction in informal economy

#### Re-organization in and Privatization of State Economic Enterprises (SEEs)

- Complete public withdrawal from electricity distribution and sugar production
- Decrease in public share in telecommunication and port operation
- Introduction of new corporate governance for SEEs
- Initial studies for partial public offerings for Ziraat Bank

Source: BCG-Analysis; State Planning Organization; Morgan Stanley Economic Outlook Report; Economist Intelligence Unit, May 2011; Deloitte Economic Outlook Report (3Q2009)

# Turkey's credit ratings are gradually being upgraded to investment grade...



## A well deserved rating after 18 years...

### Fitch and Moody's upgraded Turkey to investment grade

- Fitch rates Turkey at "BBB-" with a "stable outlook" since November 2012
- Moody's rates Turkey at "Baa3" with a "stable outlook" since May 2013

### The upgrade to investment grade reflects a combination of factors

- Easing in near term macro-financial risks as Turkish economy heads for a soft landing
- Credit strength of the economy
- Moderate and declining public debt burden
- Sound banking system
- Favorable medium term growth prospects
- A relatively wealthy and diverse economy

...reflecting Turkey's economic resilience similar to many other emerging countries

### Moody's Ratings<sup>1</sup>

Cz. Rep.	A1
Israel	A1
Poland	A2
Malaysia	A3
Russia	Baa1
Bulgaria	Baa2
Brazil	Baa2
Mexico	Baa2
India	Baa3
Indonesia	Baa3
Romania	Baa3
<b>Turkey</b>	<b>Baa3</b>
Hungary	Ba1
Morocco	Ba1
Ukraine	B2
Argentina	B3

### Fitch Ratings<sup>1</sup>

Cz. Rep.	A+
Israel	A
Malaysia	A-
Poland	A-
Mexico	BBB+
Russia	BBB
Brazil	BBB
Bulgaria	BBB-
India	BBB-
Indonesia	BBB-
Morocco	BBB-
Romania	BBB-
<b>Turkey</b>	<b>BBB-</b>
Hungary	BB+
Ukraine	B
Argentina	CC

Inv. grade  
Speculative grade

A significant improvement expected in the quality of external financing and investment climate after the rating upgrades

1. As of May 21<sup>st</sup>, 2013  
Source: Desktop research, Moody's, Fitch ratings, investment bank reports, BCG analysis

## ...However, Turkey still remains under-rated compared to its debt position



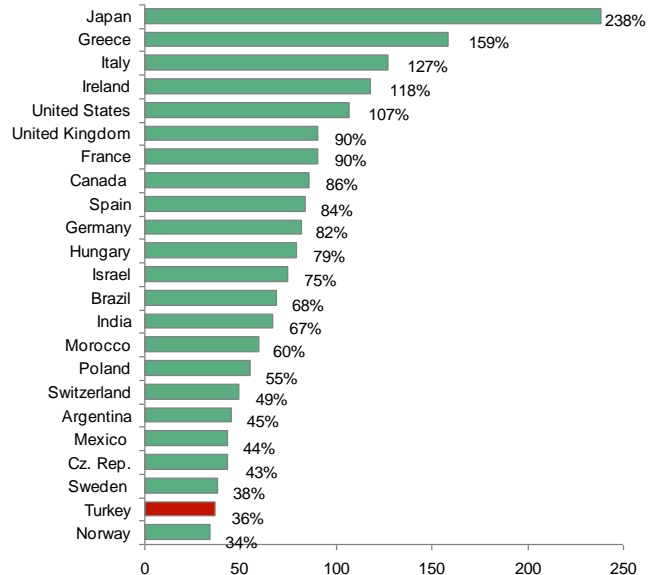
### S&P Ratings<sup>1</sup>

Cz. Rep	AA-
Israel	A+
Poland	A-
Ireland	BBB+
Italy	BBB+
Bulgaria	BBB
Brazil	BBB
Russia	BBB
Morocco	BBB-
Spain	BBB-
Romania	BB+
<b>Turkey</b>	<b>BB+</b>
Hungary	BB
Ukraine	BB

Inv. Grade

Speculative Grade

### Gross Debt-to-GDP<sup>2</sup> % in 2012



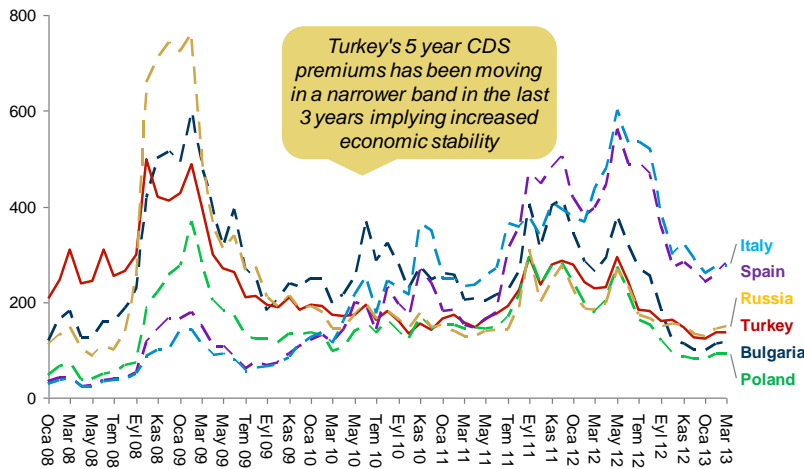
1 As of May 21<sup>st</sup>, 2013, long-term debt rating in foreign currency 2. General government gross debt as a ratio of GDP  
Source: Standard&Poor's, IMF World Economic Outlook, April 2013

# Open markets already mirror Turkey's more favourable position through the CDS premiums



## Credit Default Swap Premiums

CDS premiums (basis points)



**Turkish CDS premium is less volatile and its current steady-state is lower than competitors with better rating !**

Source: Bloomberg

## Key Facts

- CDS premiums are priced "freely" in the market, in proportion to the risk perception for a country
- FDI attractors with better S&P rank, actually show wider volatility and higher steady-state prices
- Thus, Turkey exhibits higher stability and perceived as a lower risk country in the market.

# Investments in Turkey will boost with the new incentive scheme



## The new investment incentives system has 6 main objectives

- 1 Decreasing Turkey's current account deficit by increasing production of import-dependent intermediate goods
- 2 Increasing support for the relatively less developed regions of Turkey
- 3 Overcoming the differences in development among regions
- 4 Increasing the effectiveness of the state support mechanisms
- 5 Supporting the clustering efforts
- 6 Supporting high tech investments to pave the way for Turkey's technological transformation

## The system offers various forms of support under 4 main schemes

	General Investment Incentives Scheme	Regional Investment Incentives Scheme	Large-scale Investment Incentives Scheme	Strategic Investment Incentives Scheme
VAT exemption	✓	✓	✓	✓
Customs duty exemption	✓	✓	✓	✓
Tax reduction		✓	✓	✓
Social Sec. premium support (employer)		✓	✓	✓
Income Tax withholding allowance <sup>1</sup>		✓	✓	✓
Social Sec. premium support (employee) <sup>1</sup>		✓	✓	✓
Interest rate support <sup>2</sup>		✓		✓
Land allocation		✓	✓	✓
VAT refund				✓

1. Only if the investment is made in Region 6.2. Only in Regions 3, 4, 5 or 6 and within regional scheme 3. Min. fixed investment of 500 MTL  
Source: Prime Ministry Investment Support and Promotion Agency

# Turkey's growing and young population fuels the growth of its trade volume and the rise of the middle class



## Key highlights

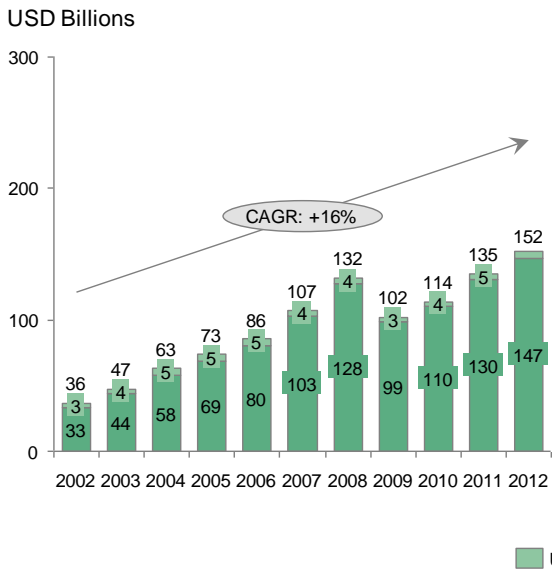
- 1. Turkey's trade volume has grown to **USD 389 billion** while running a trade deficit
- 2. Turkey has a dynamic population that constitutes an **extensive labor pool**
- 3. Moreover, Turkey's extensive labor pool is also **well-educated**
- 4. In comparison to competitors, Turkey offers a **cheaper, yet more productive labor force**
- 5. Turkey is already **urbanized** and the growing significance of its **middle class** is illustrated via numerous economic & social indicators

## Turkey's trade volume has grown to ~\$389 billion in 2012

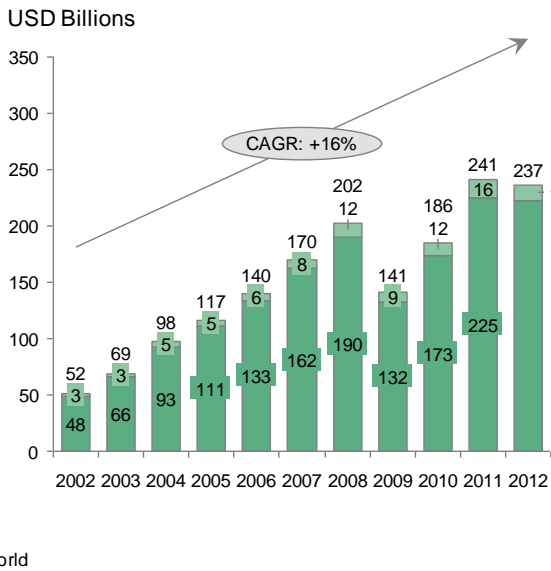
Experienced trade deficit every year in the past 10 years



### Export Volume



### Import Volume

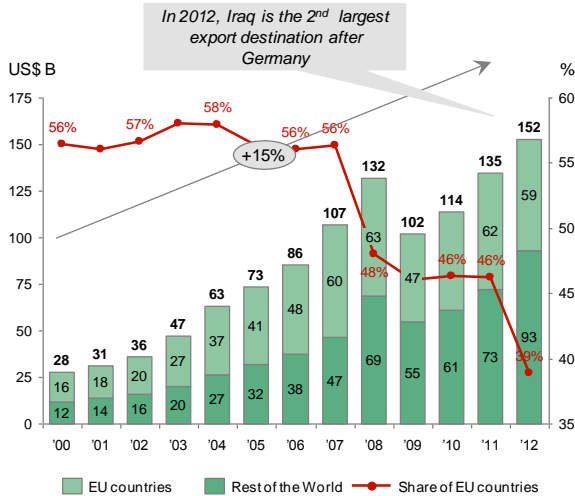


Source: TURKSTAT

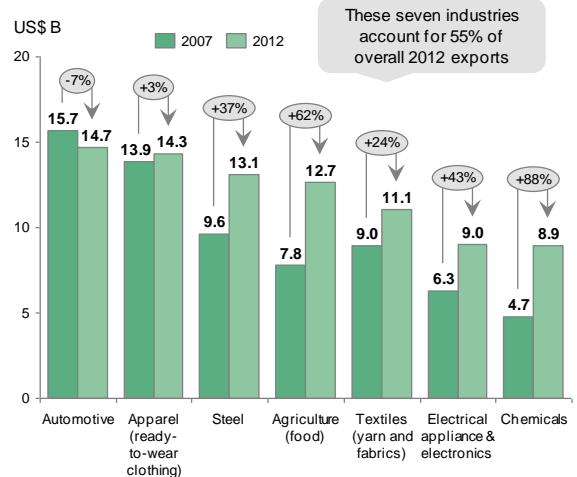
# Turkey's exports exceeded \$ 150 billion in 2012 on the back of globally competitive industries



## Turkey's export volume has shown substantial growth in the last decade



## Automotive, textiles, chemicals, steel and food industries are the export champions



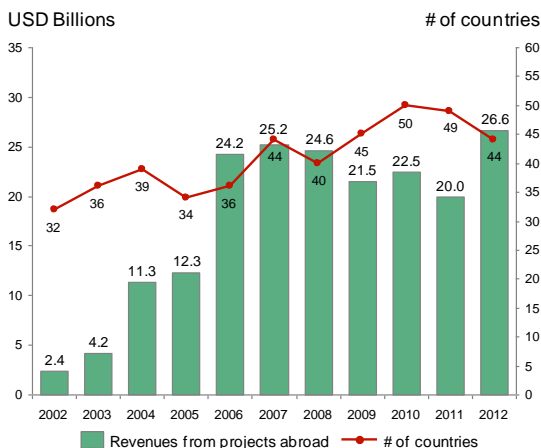
**Government actively incentivize investors through "investment incentives system" in order to support production**

Source: TURKSTAT, BCG analysis

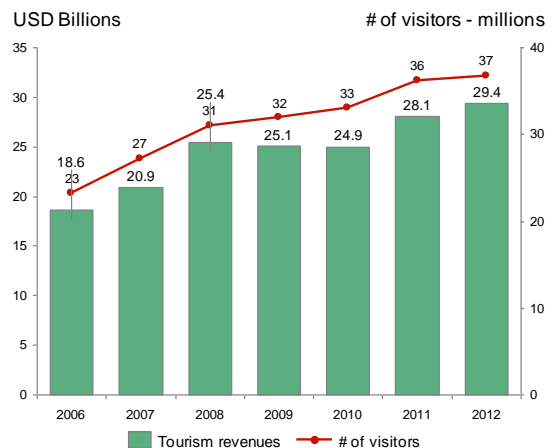
## In addition, Turkey is a major global contractor and a preferred tourism destination



### Turkey generates substantial revenues from construction projects abroad



### Tourism sector is a significant contributor to the economic activity



**Turkey already has regional players in both industries with potential to transform into global challengers**

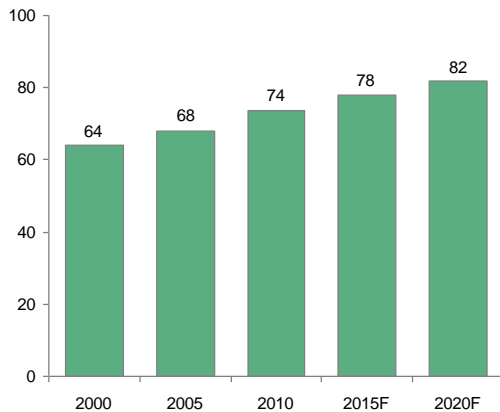
Note: Arriving foreign and national citizens  
Source: TURKSTAT, Turkish Contractors Association

# A young and growing population forms a large labor pool

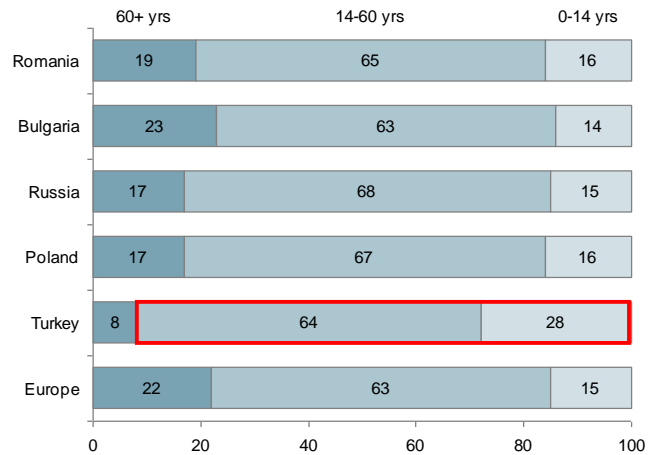


## Large and growing population ...

Population (millions)



## ... With favorable demographics



Notes: Population of 74 million is growing steadily, European countries have reducing populations. Urbanization is taking place rapidly, making especially Turkish cities a clear economic growth area: 65% of population lives in urban areas; Growth of urban areas is 2.6% p.a. (vs 1.1% p.a. for total Turkish population); TR cities are populated by 47 million inhabitants; Large cities of Turkey are Istanbul (12m), Ankara (4m), Izmir (3m), Konya (1m), Bursa (1m), Adana (1m) and Gaziantep (1m). Turkey's population will remain young for the coming decades. Total number of households is around 17 million up from around 15 million in 2000  
Source: TURKSTAT; UN World Population Prospects, the 2010 Revision

# Labor pool not only sizable, but also well educated



## Level of Education Attained: Total number of Tertiary Education Graduates<sup>1</sup> in 2011

Tertiary Education Graduates (Millions)



## Some Key Facts

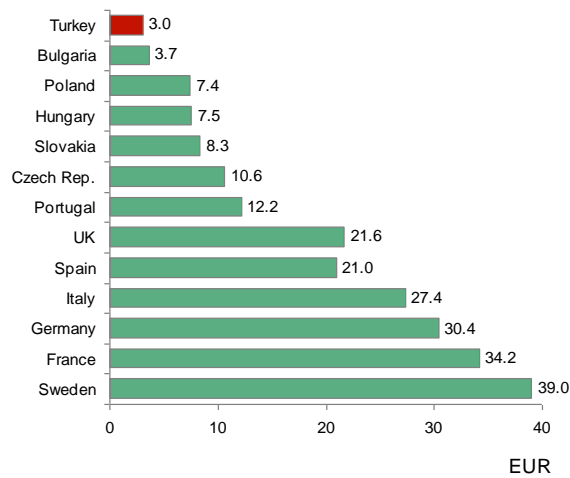
- Turkey has the largest working age population in EU and CEE with 50.3 million people<sup>2</sup> (i.e. age 15-64)
- Turkey has the one of the largest employed labor forces of EU and CEE with 25.4 million people<sup>3</sup>
- Current unemployment level is 9.2% ;thus available labor pool to employ
- Labor pool is mostly educated, at least at middle school level
- White collar labor pool costs much less than EU
- Labor pool committed and motivated; also to work in the surrounding regions of Turkey
- There are good executive and middle management officers in Turkey- many top level Turkish executives in global Coca-Cola, Microsoft, Intel, Pepsi, Gillette, Pfizer, P&G, NBG, GE, Unilever, etc.

Note: Selected countries due to historic ties, current relations or neighboring borders; excl huge markets that all globals cover separately such as India and Russia  
1. At least a university degree education aged 15-64 2. According to 2011 Address Based Population Registration System results  
Source: TURKSTAT, Eurostat

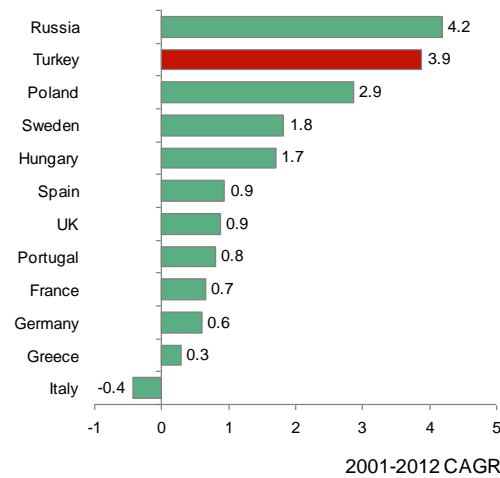
# Labor force is cheaper and with a stronger productivity growth within CEE/ EU



Labor Cost Per Hour (2012)

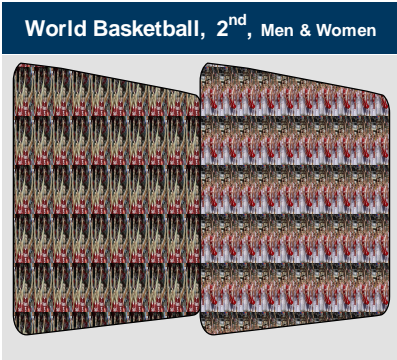
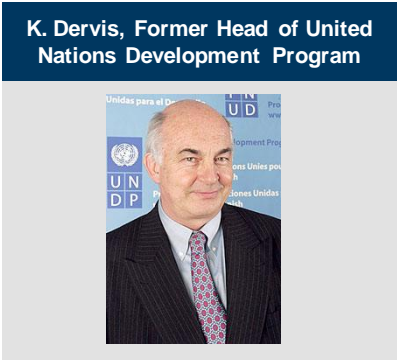
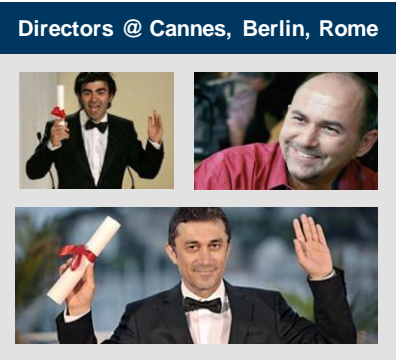


Labor Productivity Growth (%)



Note: Labor cost per hour in Euros for enterprises with 10 or more employees for the business economy – excluding public sector and other services  
Source: Eurostat, The Conference Board *Total Economy Database*™, January 2012

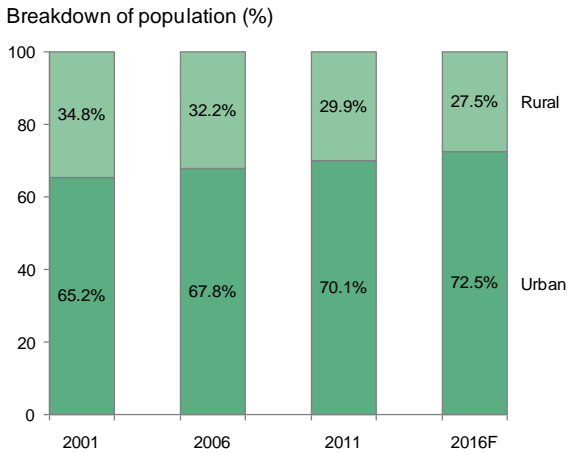
## Turkey has a diverse, and highly qualified talent base Some key examples



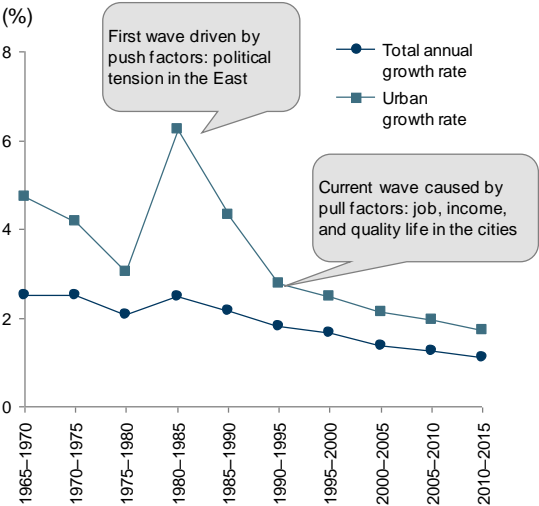
# Turkey is already an urbanized country



## Urban accounts for 70% of total population



## Big urbanization wave occurred in the past

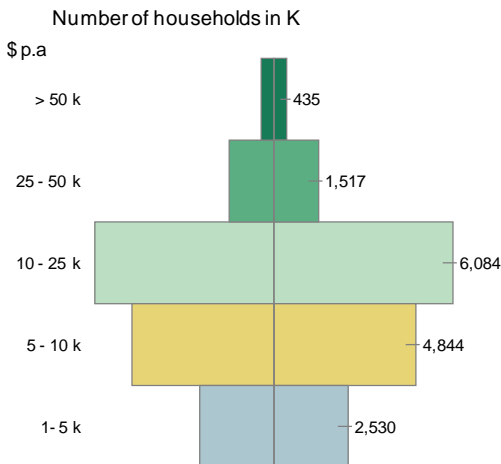


Source: Turkey Statistics Institute, desk research, BCG analysis

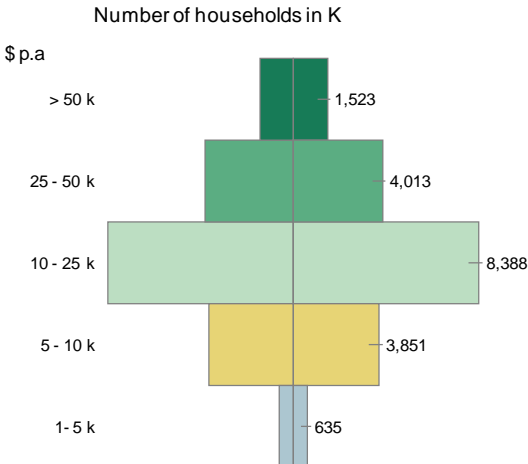
# There is a significant rise in the "middle and upper-middle class" in parallel to the urbanization



## Household income distribution in 2005



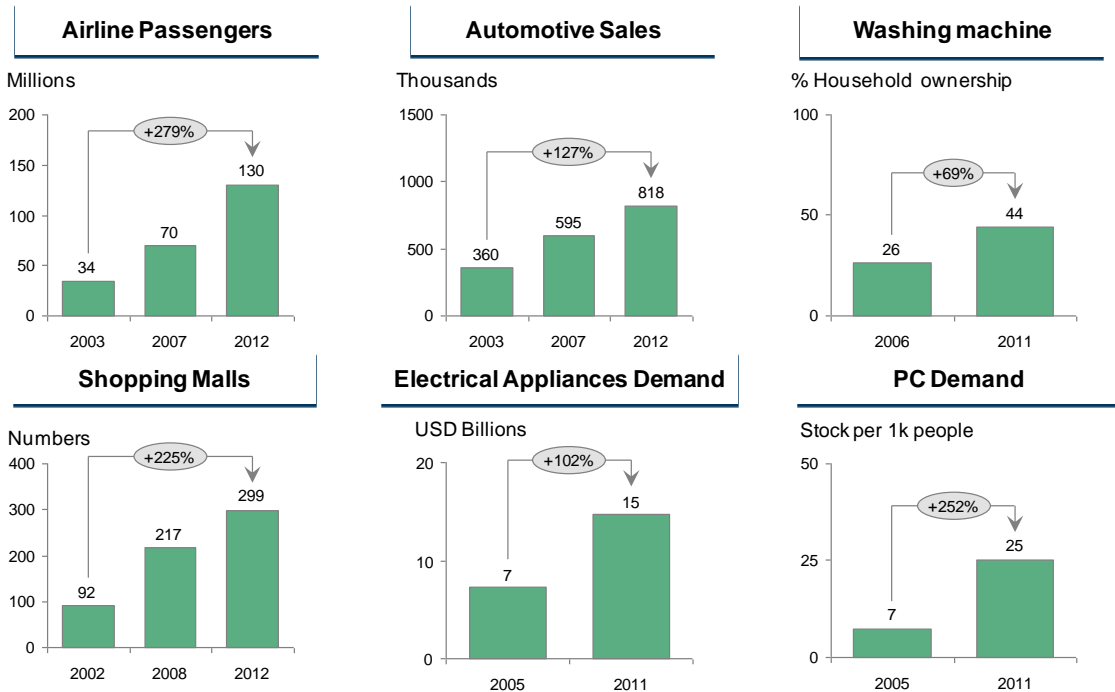
## Household income distribution in 2015



Source: EIU data, BCG analysis

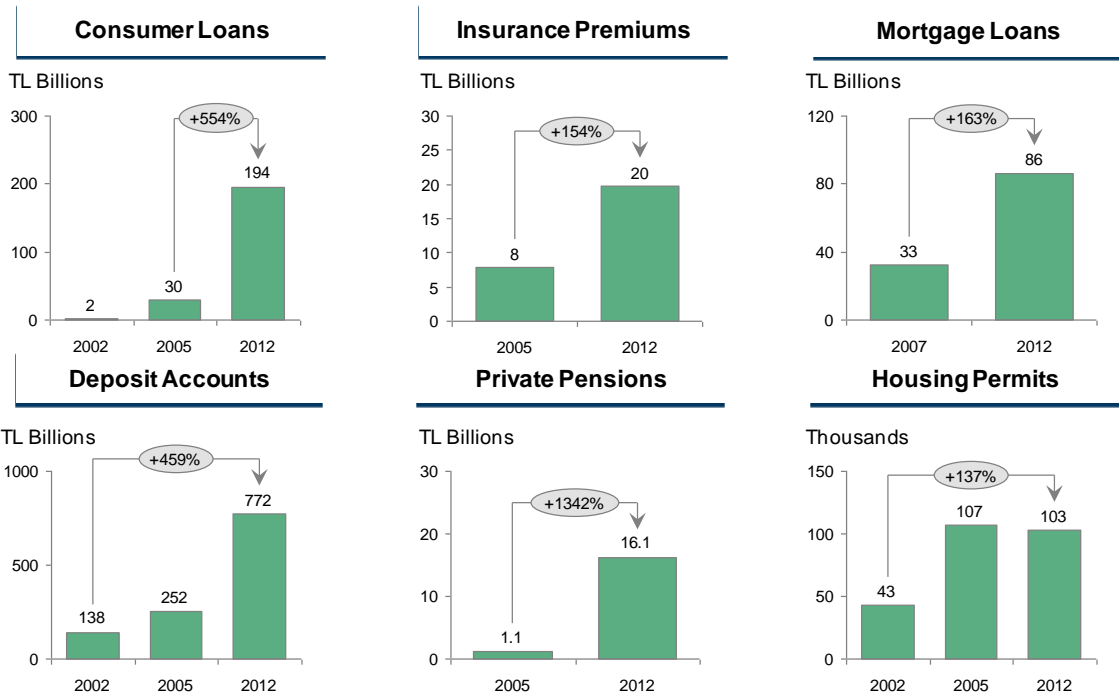


# Emergence of the Turkish middle-class observed in many key dimensions : "Consumption"



Source: TURKSTAT, General Directorate of State Airports Authority, Automotive Distributors Association, Council of Shopping Centers, Economist Intelligence Unit

# Emergence of the Turkish middle-class observed in many key dimensions : "Financial"

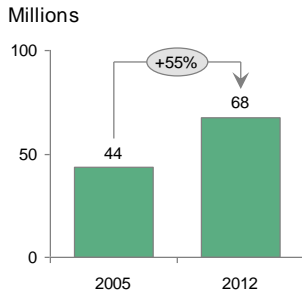


Source: TURKSTAT, BDDK, TSRSB, TBB, EGM

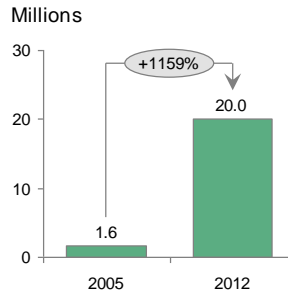
# Emergence of the Turkish middle-class observed in many key dimensions : "Telecom, Media, Technology"



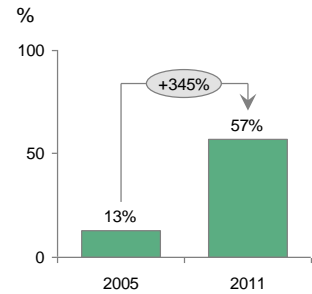
## Mobile Subscribers



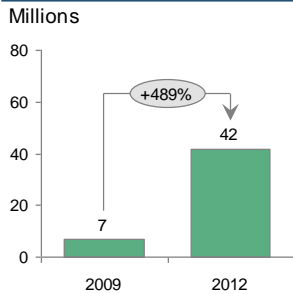
## Broadband<sup>1</sup> Subscribers



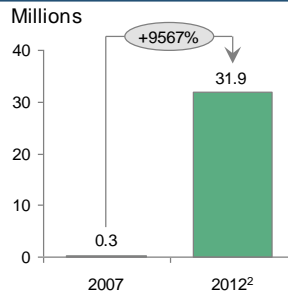
## Households w/ computer



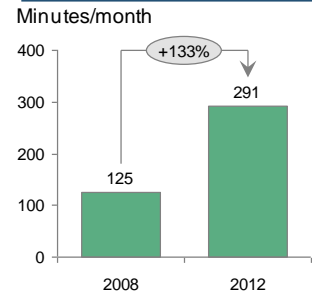
## 3G Users



## Facebook Users



## Minutes of Usage<sup>3</sup>

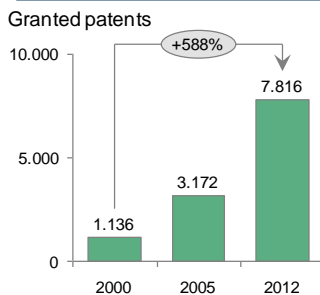


1. Fixed and mobile 2. As of December 13, 2012 3. Minutes of usage on mobile phones  
Source: TURKSTAT, ICTA, InsideFacebook, socialbakers.com

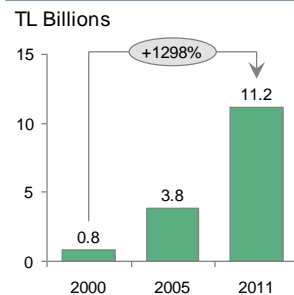
# Emergence of the Turkish middle-class observed in many key dimensions : "Value added output"



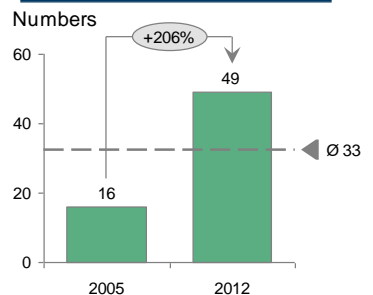
## Patents & Registrations



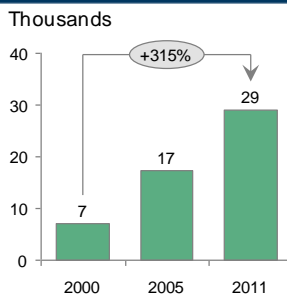
## R&D



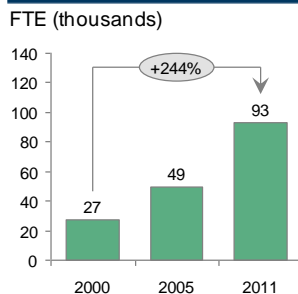
## Technoparks



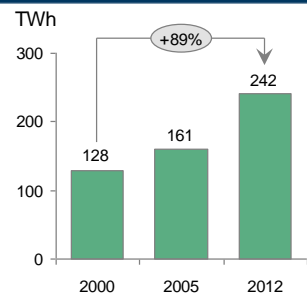
## Scientific Publications



## R&D Workforce (FTE<sup>1</sup>)

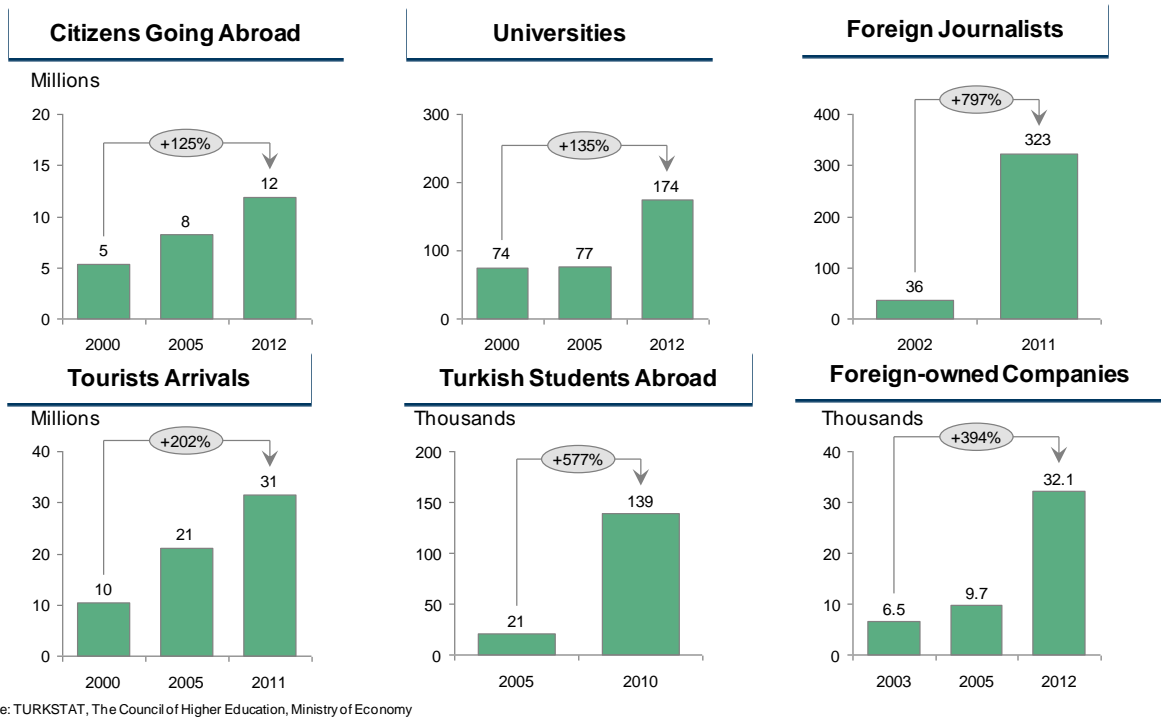


## Electricity Consumption

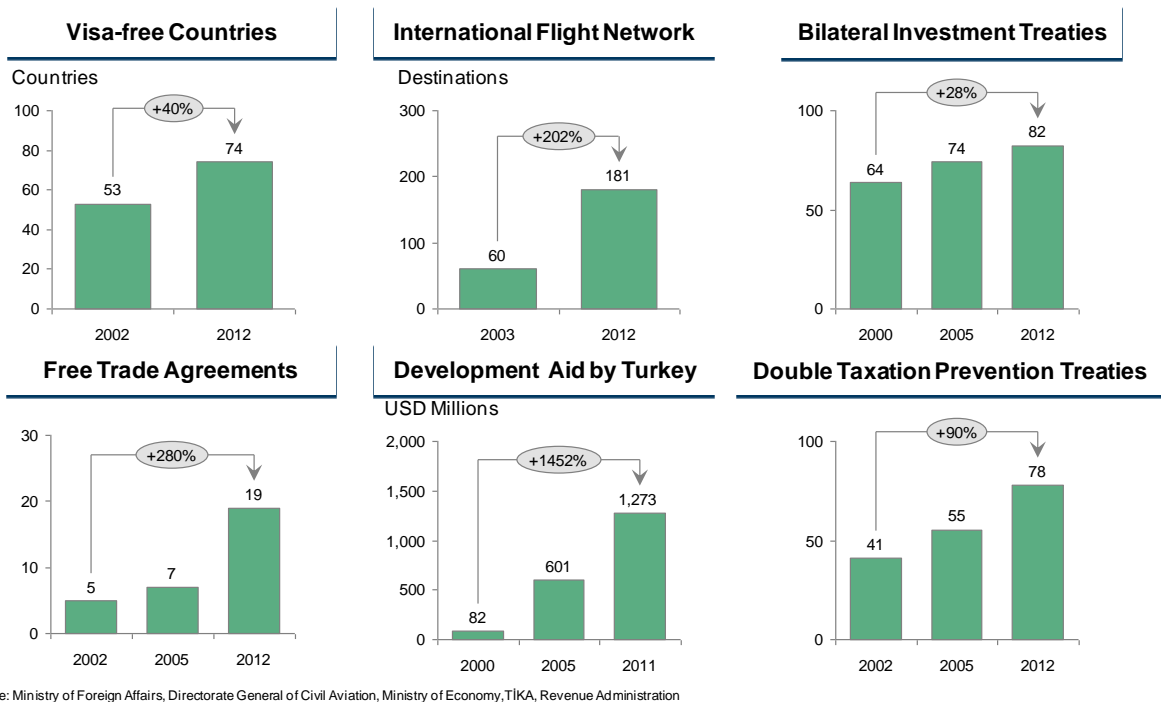


1. Full time equivalent  
Source: TURKSTAT, TPE, TÜBİTAK, TEİAŞ

# Emergence of the Turkish middle-class observed in many key dimensions : "Education, Tourism, Press"



# Emergence of the Turkish middle-class observed in many key dimensions : "Increasing globality"



# Turkey has strategic advantages in its geo-political positioning; plus improving technological and social standing

## Key highlights



1. Turkey is strategically important acting as a **natural link and bridge** to markets in Caucasia, Central Asia, Balkan states and the Gulf
2. Turkey is a **key participant** of the global economical and political scene
3. Turkey is increasing its **technological** capabilities and status
4. Turkey is becoming important **socially** as well

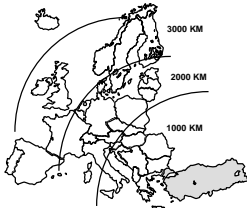
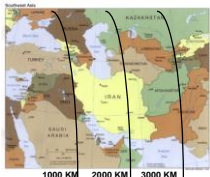
## Turkey is strategically important

A natural link to markets in Caucasia, Central Asia, Balkan states and the Gulf



### Proximity and Corridors

TURKEY IS STRATEGICALLY LOCATED IN BETWEEN EU AND ASIA WHILE ENJOYING PROXIMITY TO NEWLY EMERGING MARKETS



Note: JADI name derives from the initials of the following cities; Jeddah (Saudi Arabia), Amman (Jordan), Damascus (Syria) and Istanbul (Turkey); it is an integrated multi-pass fiber optic network. The silk road is also similar covering Fujairah (United Arab Emirates) going over Riyadh (Saudi Arabia), Amman (Jordan) and Tarsus (Syria) to reach Istanbul. For the first time in Middle East, covering the entire Gulf area and having a total distance of 7750 km with its spare structure, the RCN Project will be the longest terrestrial fiber optic infrastructure in the region between Fujairah and the West

Source: BCG-Analysis, ICT news Eurasia, TT

### Strategic Importance

- Extremely close to CIS, ME and Africa – newly emerging markets:
  - Access of the West to Central Asian countries
  - Offers easy access (proximity) to all such nations without the risk
  - Ensures flexibility in all fronts
  - Strong cultural ties especially with the CIS region
- Turkey is a gateway to energy resources such as gas and oil pipelines in the region
- Turkey, with Russia, is the leader in Black Sea Economic Corporation
- Proximity to EU now better with the customs union:
  - Trade-wise Turkey is integrated into the EU
  - Full EU-integration potential is a reality for Turkey

# Turkey is a key participant in the global economical and political scene...



## Turkey is a key member of leading international Organizations



### Turkey was a founding member of the United Nations in 1945

- Nine UN agencies are officially represented in Turkey: FAO, ILO, UNDP, UNFPA, UNHCR, UNIC, UNICEF, UNIDO and WFP. The IOM has an office in Ankara and UNODC and WHO also have liaison offices in Turkey
- Turkey has a permanent mission at the UN
- Turkish nationals played key roles at the UN – e.g. Kemal Dervis was the 3rd highest ranking official at the UN as the administrator of UNDP
- Member of UN Security Council during 2009-2010



### NATO member since 1952

- Ex- Turkish Minister Hikmet Çetin was the NATO Senior Civilian Representative in Afghanistan during 2003-2006



### One of the Founding Members of OEEC<sup>1</sup> in 1948, which became OECD<sup>2</sup> in 1961

### Organization of the Islamic Conference (OIC) member 1969

- Secretary General of OIC is Ekmeleddin Ihsanoglu, since 2005



### Member of G-20

### Member of EU custom-union, since 1996



### Founding member of BSEC<sup>3</sup>, since 1992

### Member of World Trade Organization



### Active in key organizations like Worldbank, IFC, Islamic Development Bank,...

- Worldbank and IFC utilize Turkey as a hub to serve broader regions



### ALLIANCE OF CIVILIZATIONS

The initiative seeks to galvanize international action against extremism through the forging of international, intercultural and interreligious dialogue and cooperation since 2006. Its co-sponsored by Turkey and Spain.

1. Organisation for European Economic Co-operation 2. Organisation for Economic Co-operation and Development 3. Blacksea Economic Cooperation Council  
Source: BCG-Analysis; NATO, OIC/OECD, G20, BSEC, WTO, UN websites

## ... and is a technologic contributor to the global scene



### Volitan, Int'l Desgin Award 2007



### NYC Taxi, by KARSAN\*



\* a DEIK member.

### JSF Member & Parts Producer by TAI\* and Kale\*



\* DEIK members.

### Subway by DURMAZLAR



### Pars 8x8 by FNSS\*



\* a DEIK member.

### Altay... National Tank by Otokar\*

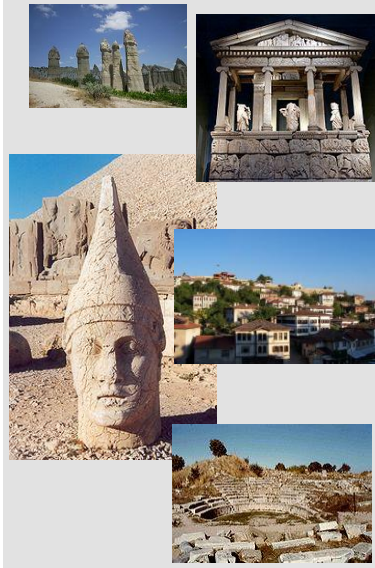


\* a DEIK member.

# Turkey has a rich social heritage...



## Unesco World Cultural Heritage (9)



## Sports Events



## European Capital of Culture 2010



## 320+ museums and 131 historic sites

### City museums

- e.g. Edirne Museum, Kars Museum, Niğde Museum

### Ethnography museums

- e.g. Balıkesir Sıdıka Erke Ethnography Museum, Konya Ethnography Museum

### Islamic art museums

- e.g. Erzincan-Yakutiye Turkish & Islamic Art Museum, Istanbul Turkish & Islamic Art Museum

### Science museums

- e.g. Islamic Science & Technology History Museum, METU Museum

### Monothematic industry museums

- e.g. Düzce Sarsılmaz Museum, Istanbul PTT Museum

### Pluri-thematic industry museums

- e.g. Rahmi Koç Museum, Istanbul Marine Museum (History & Art center)

### Monothematic art museums

- e.g. Pera Museum

### Pluri-thematic art museums

- e.g. Istanbul Modern, Santral Istanbul Energy & Modern Arts Museum

## ... which is enhanced even further due to Istanbul's uniqueness as a global center



### World Capital

Capital to 3 giant empires – Roman, Byzantine, Ottoman

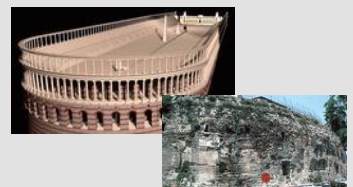
129 emperors in 1600 years



### A cross-road : Only city linking continents by car



### Worlds Largest Stadium (Hippodrome of Constantinople)



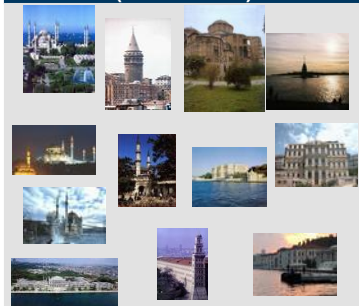
### Worlds Largest Church btw 537 and 1629



### Worlds Oldest Shopping Mall



### Cultural Accumulation (Old and New)





# Turkey is a major player in construction globally

Turkey ranks 2nd after China with 33 companies according to "ENR Int'l 225 list"



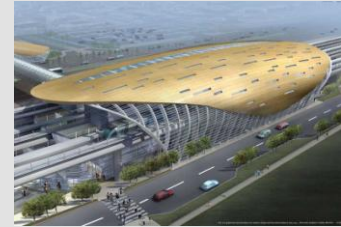
Museum of Islamic Arts, Qatar



Khan Shatryr, Kazakhstan



Dubai Metro



Tunisia Airport



Blue City, Oman



GM Car Assembly, Russia



## Turkish businesses have been playing increasingly important roles in the global business circles



BCG Global Challenger List Entrants



Turkish Airlines

USD 8.3 billion revenues in 2012

46 million passengers expected to be carried in 2013 (+18% increase)

Seat occupancy rate has improved to 77.4%

Fleet of 202 aircrafts with 40 additional wide-body orders for the next 5 years

181 international<sup>1</sup> and 36 domestic destinations

Chosen as the best airline in Europe at the 2012 SkyTrax World Airline Awards

Acquisitions by Turkish Co.'s



1. As of December 2012. Excludes planned international destinations

Note: RPC by Gubretas; BH Airlines by Turkish Airlines, BeST by Turkcell, Godiva by Ulker, CMA CGM by Yildirim Holding, Invitel Intl by Turk Telekom, Cacharel by Aydinli Group, Finlux by Vestel, Grundig by Koc Group, Villeroy & Boch by Vitra Source: Bloomberg, Reuters, Financial Times, Haberturk, Businessweek,

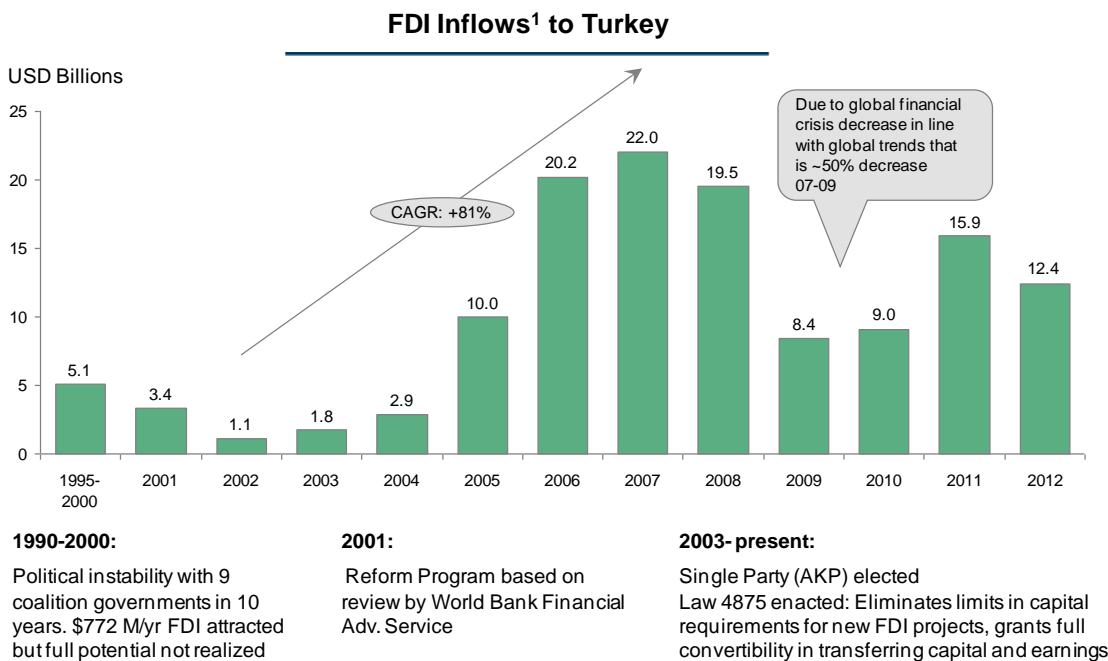
# Privatizations and private sector M&As expected to fuel the FDI inflow into Turkey in the short and medium terms

## Key highlights



1. **FDI stock** in Turkey started to grow significantly, largely due to increased political stability
2. Pace of **privatizations** increased since 2005, bringing the historic total to USD 46 billion
3. Sizable privatization opportunities exist from 2013 onwards

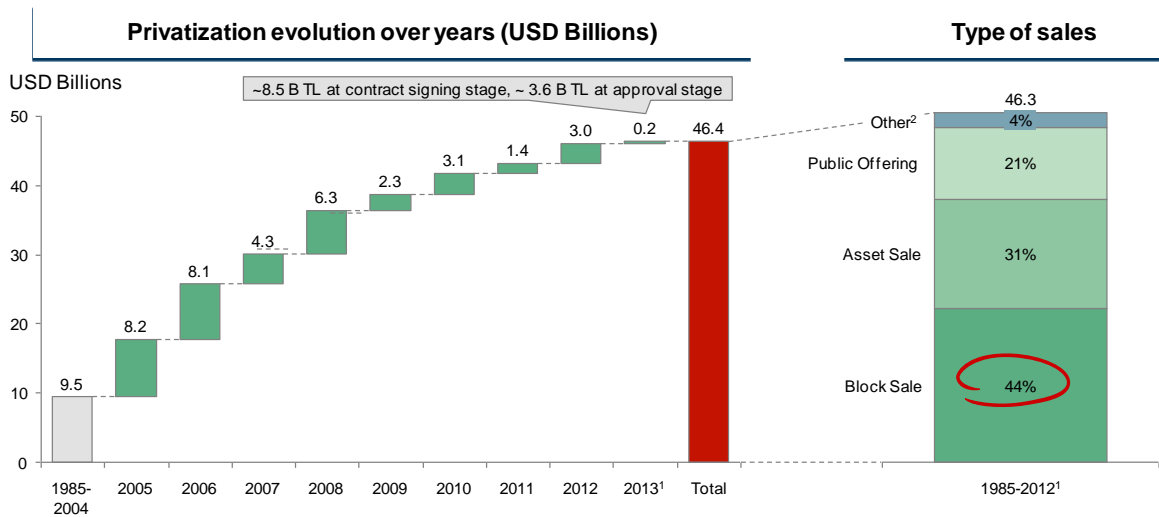
## FDI stock in Turkey settled on a fast growth path



1. Including real estate and loans FDI inflow  
Source: Central Bank of the Republic of Turkey, Invest in Turkey



# Privatizations in Turkey reached a cumulative of USD 46 billions since 1980s



**44% of privatization done via block sales, creating opportunity for institutional & strategic investors**

1. As of end of April 2013. 2. Others including sales in Istanbul Stock Exchange, right issue transfer  
Source: Privatization Administration

## Top 10 privatized entities generated ~USD 34 billion in sale value



### Top 10 privatization by size

Target	Sector	Privatization type	Block sale acquirer	Total share privatized <sup>1</sup>	Sale (Mn \$)
Türk Telekom	Telecom	Block sale + Public offering	OGER Telecom	60%	8,423
Tedaş	Electricity Distribution	Asset sale			5,422
Tupraş	Petroleum Refinery	Block sale + Public offering	Koc Holding	83%	5,251
Halkbank	Banking	Public Offering		49%	4,348
Erdemir	Iron & steel	Block sale + Public offering	OYAK	49%	2,823
Petkim	Petrochemicals	Block sale + Public offering	Socar & Turcas	100%	2,633
Tekel	Alcohol & Tobacco	Asset Sale	Various investors		2,012
Petrol Ofisi	Petroleum Marketing	Block sale + Public offering	İşbank – Doğan	71%	1,443
İDO <sup>2</sup>	Sea Transport	Block sale	Tepe - Akfen	100%	861
Isbank	Banking	Public Offering		12%	633
<b>TOTAL</b>					<b>33,849</b>

Note: Excludes stand-alone land and facilities (e.g. ports) sales. Total of all privatization efforts on the target entities, excluding land sales

1. Total shares privatized by block sale and public offering. 2. İDO was not privatized by the Privatization Administration and thus is excluded from the USD 46.0 billion calculation  
Source: Privatization Administration, BCG Research

# Further sizable privatization opportunities marked in Turkey's agenda for 2013 and beyond



	Target assets/companies	Description	Timeplan	Responsible authority
Energy	• EUAS, various power plants	• 1 priority thermal PP (Soma) & portfolio of hydro & thermal PPs	2013	PA
	• IGDAS, Istanbul Gas Dist.	• 4.2mn customers	TBD	Istanbul Muni
Food	• Sugar plants of Türk Şeker	• A total of 29 sugar plants	TBD	PA
Transportation	• Toll roads & bridges	• 2,000 km of toll roads and bridges, 25 years operating license	2013	PA
	• Ports	• 2 ports (İzmir, Derince)	TBD	PA
	• Airline (Turkish Airlines)	• 49% via SPO and/or block sale	TBD	PA
	• Parking (ISPARK)	• Istanbul parking rights	TBD	Istanbul Muni.
Telecom	• Turk Telekom	• 15% to be sold via SPO	TBD	PA
Lottery	• Milli Piyango (National Lottery)	• 10 years of operating license	TBD	PA

Source: Privatization Administration, BCG Analysis

## Global companies that have invested in Turkey have witnessed very strong returns in these investments



### Key highlights

- Two main types of foreign investors are present in Turkey: Private Equities and Strategic Investors
- Various successful examples include the Turkey operations of:
  - General Electric
  - TPG
  - Ford
  - Coca-Cola

# Examples of high return generating investors



## Private Equity Examples



## Strategic Investors Examples



## GE almost quadrupled its original investment in Garanti in 5 years



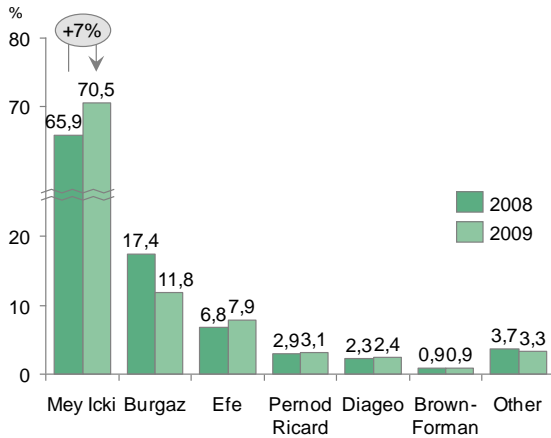
	2005	2007	2008	2010
Transaction	GE buys 25.5% stake from Dogus	Garanti buys back 4.65% stake from GE	Garanti buys back 370 founder shares	BBVA buys 24.9% stake (18.6 p.p. from GE)
Amount	Pays \$1.8 Bn	Pays \$674 Mn	Pays \$1.1 Bn	Pays \$5.8 Bn
Implied Equity Value	\$6.6 Bn	\$14.5 Bn		\$23.5 Bn

Source: Garanti Bank investor presentation, press reports, BCG analysis

# TPG bought Mey for \$810Mn and sold for \$2.1Bn after 5 years



## % Market Share in Volume



## Key Facts

- Mey has ~80% share in domestic raki market with access to 50k retail outlets
- In 2004, Mey Icki JV<sup>1</sup> bought Tekel's alcoholic beverages division for \$292Mn in 2004
- In 2006, TPG bought %90 of Mey for \$810 Mn
- In 2008, Mey sold Tekel Birası brand to Efes for \$3.8Mn.
- In 2011, Diageo agreed to buy Mey Icki for \$2.1 Bn at x9.9 of Mey's 2010 EBITDA

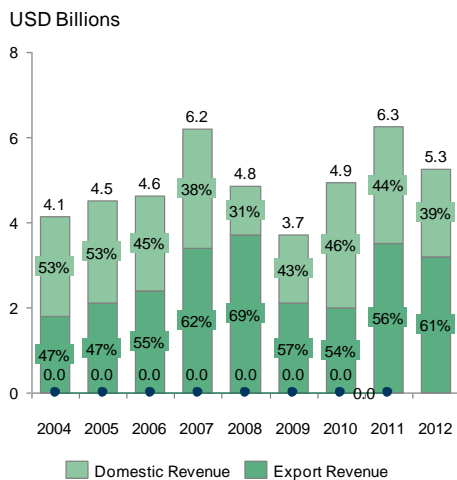
**Mey's value grew at 21% CAGR under TPG control<sup>2</sup>**

1. JV consortium was composed of Nuroi-Limak-Özaltın-Tutsab 2. Based on buy and sale prices of TPG.  
Source: Euromonitor, Company websites, Bloomberg, Financial Times, Wall Street Journal, Bloomberg HT, Hurriyet Economy, BCG Analysis

# Ford-Otosan JV uses scale advantage to lessen costs Ford increases ownership to 41% progressively, making TR an export center



## Company Performance



## Key Facts

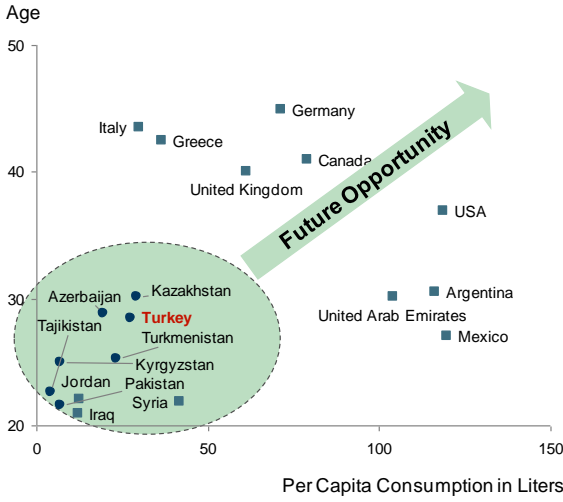
- Since 1959, Ford increases ownership progressively to 41%<sup>1</sup>
- Kocaeli Plant, with 320,000 units of annual production capacity, is the Best Ford Brand Assembly Plant in Europe since 2002<sup>2</sup>.
- Inonu Plant is the Best Powertrain Plant in the World since 2005<sup>2</sup>.
- Large-scale exports diversify domestic risks, while lowered costs give competitive advantage.
- Distributed \$2.1 Bn in total dividends the past 7 years<sup>3</sup>
- 6 consecutive years<sup>4</sup> of leadership btw 2003-2008 in sales from production

1. While Koç owns 41%, 18% is publicly owned. 2. According to Ford Production system ratings 3. Dividend payments between 2005-2011 4. Renault breaks leadership streak in 2010.  
Source: Ford Investor presentation, Thomas Reuters, Financial Times, Automotive Manufacturer's Association, BCG Analysis

# The Coca-Cola Company has been enjoying market leadership in a fast growing market



## Median Age vs. Consumption/Capita<sup>1</sup>



1. Carbonated drink consumption per capita 2. The Coca-Cola Company 3. Coca-Cola İçecek  
Source: Coca Cola İçecek Investor Presentations, Euromonitor, Worldbank, CIA World Factbook 2010, The Coca-Cola Company

## Key Facts



- **Long Presence:** since 1988. Currently, 20% stake belongs to TCC<sup>2</sup>, %50 to Anadolu Efes
- **Scale:** 6th largest bottler in TCC<sup>2</sup> system; operates across 10 countries with 2 plants
- **Operational Excellence:** CCI<sup>3</sup> improved water and energy use ratios by 16% in 5 yrs
- **Growth:** Consolidated Net Sales grew at 16.7% CAGR between 2004-2011
- **Leadership:** Market leader with 70% share
- **Exports:** Share of exports by revenue grew to 28% in 2011 from 15% in 2005
- **Management:** CCI also controls part of Middle-East and Central Asia operations
- **CEO:** Muhtar Kent became the CEO of TCC, previously led Turkey&Central Asia operations

## For further questions



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