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Turkey:
Stepping into a New Era

After a phenomenal post-crisis recovery, Turkey's economy avoided a hard landing, with a growth of 2.2% in 2012 and 4% in 2013. Despite several setbacks in the past months, President Erdoğan and the ruling party, Justice and Development Party (AKP), has again proven their firm foothold in Turkey with President Erdoğan victory at the presidential elections. However, there is no time to bask in the glory of success; the challenges are far from over as the country deals with the remnants of market reactions to Turkey's political situation. The next 12 to 15 months will be trying for the Turkish economy but we are optimistic about the country's long-term prospects.

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Singapore

Driving Singapore's External Economy

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Summary

// Investor confidence has dwindled as a result of several domestic issues troubling Turkey in the past 12 months. Taking a closer look, Turkey's fundamentals are strong with its solid fiscal position, low public debt ratios, sound banking sector and low household debt. These will allow Turkey to remain relatively unscathed through the challenging times.

// Turkey's institutional and economic convergence towards European Union norms will continue to progress, albeit at a slower pace than over the previous decade. An established manufacturing base, vast infrastructure needs and a strategic location will continue to offer attractive investment opportunities, while Turkey's young and rapidly growing population will support growing consumption.

// As Republic of Turkey approaches its 100th anniversary of establishment, President Erdoğan shared his 2023 Vision for the country and set economic, social and infrastructure improvements goals for Turkey. The Turkish Government is committed to achieving these targets, announcing new projects, implementing new incentives and legislations to attract more private investment.

// Opportunities in healthcare, renewable energy and infrastructure sectors remain vast for foreign players.

Recent Political and **Economic Developments**

With its stellar growth in the 2000s, Turkey came to be part of a group of four countries termed as MINT, the rest being Mexico, Indonesia and Nigeria. Coined by the economist Jim O'Neill in 2011, the MINT countries are tipped to be the next emerging economic giants, supported by favourable demographics and advantageous geographical positions. While recent domestic uncertainty has resulted in a cooling of Turkey's economic engine, its outlook for the medium term remains largely positive.

Domestic Woes

After a volatile 1990s and a banking crisis in 2001, Turkey propelled into the international limelight with its stellar economic performance of 5% average annual growth from 2003 to 2013. Goldman Sachs had even forecasted for Turkey to be the 9th largest economy in the world by 2050.

In November 2012, Turkey passed a critical threshold when Fitch raised the country to investment grade, ending a two-decade cycle of bad ratings. Following in Fitch's steps, both Moody's and the Japan Credit Rating Agency (JCR) also declared Turkey fit for investment in May 2013, raising the country's rating to Baa3 and BBB- grade respectively.

However, the positive news came to a screeching halt by mid-2013. Ever since, Turkey has grappled with a series of blows, starting with the events at Gezi Park and the the corruption scandal involving senior government officials in May 2013 and December 2013 respectively.

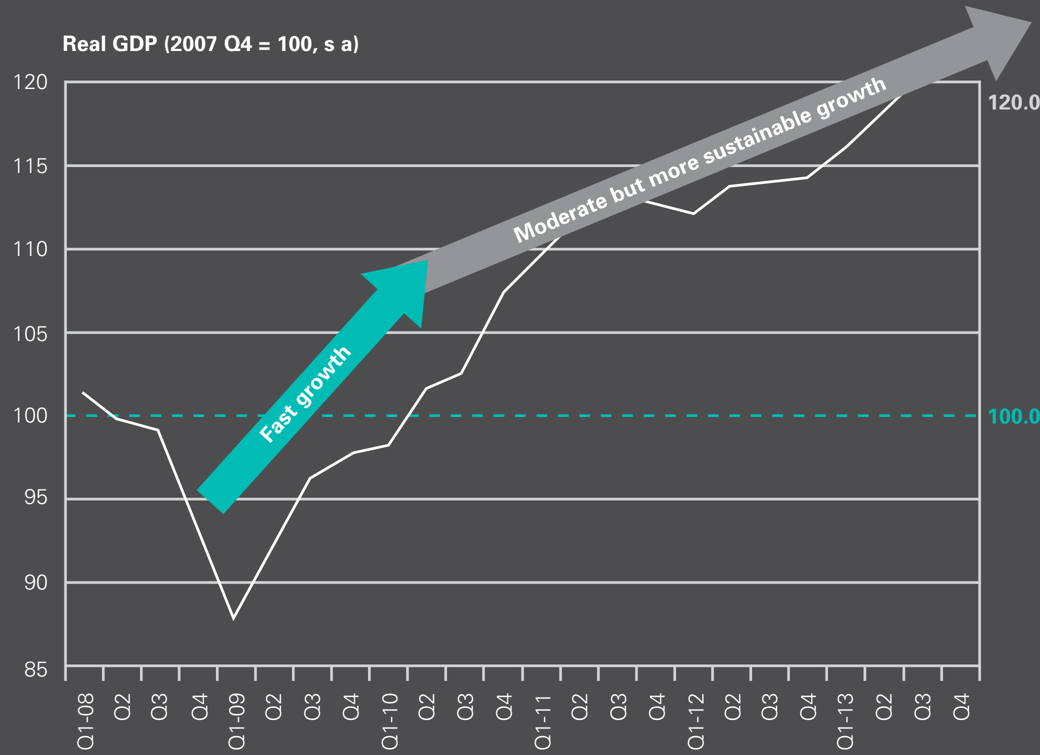
The local elections held in March 2014 saw the ruling AKP emerge victorious, garnering 43.6% of the votes, up from 38.8% in 2009. On the same day, there was a timely release of 2013 GDP figures by the Turkish government. Despite the financial volatility and political tension, the Turkish economy grew at an annual rate of 4% in 2013. The figure was slightly higher than the forecast of 3.6% due to a strong 4th quarter performance, with domestic demand being the biggest contributor to growth.

On 10 August 2014, Turkey held its first presidential election via popular vote. For the first time, the Turks had the right to vote to elect their President. Recep Tayyip Erdoğan received 51.8 % of votes securing his Presidency in the first round elections. He will be Turkey's head of state for the next 5 years.

Economic Outlook for Turkey

Over the past decade, the Turkish economy grew by US$383 billion, exports rose from US$63 billion to US$135 billion and per capita income doubled (in current US$) against a backdrop of central government debt shrinkage from three-digit levels to 46% of GDP. To put things into perspective, the Turkish economy has grown so fast that the average Turk now earns twice as much as he or she did just a decade ago.

Figure 1: Overview of Turkey's Economic Growth



Sources:
Turkstat, Eurostat

Following the strong post-2008 crisis recovery, Turkey managed to achieve growth of 2.2% in 2012 and 3.9% in 2013, despite concerns that it was a ticking time bomb with rising external risks. This represented a move away from the "boom and bust" periods that characterised the Turkish economy in the 1990s. The International Monetary Fund (IMF) has commented that Turkey is entering a period of moderate growth (shown in Figure 1) and is expected to grow 2.3% in 2014 and 3.1% in 2015. The Economist Intelligence Unit (EIU) forecasts real GDP growth to drop sharply in the second half of 2014, from 4% in 2013 to an average of 3% this year. Improved export competitiveness should drive a gradual acceleration to about 4% in 2015, and about 5% in 2017-18.

1 World Bank Data

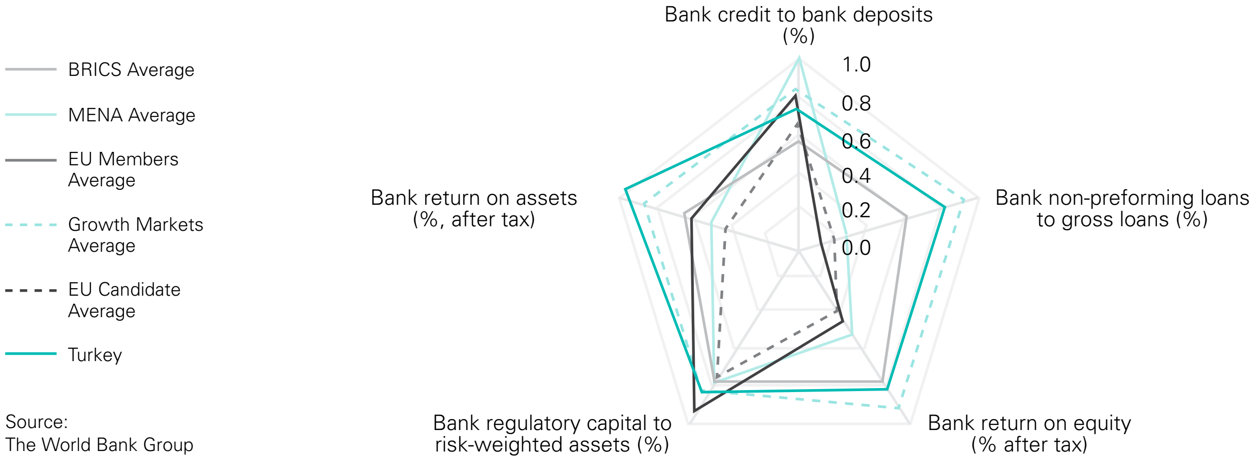
Key Fundaments
of Turkish Economy

Turkish Finance Minister Mehmet Simsek has commented that Turkey's fundamentals are strong with its solid fiscal position, low public debt ratios, sound banking sector and low household debt.[2]

Strong Banking Sector

Figure 2: Strong Banking Sector in Turkey

Turkey's Banks – Among the Strongest in Emerging Markets



Source:
The World Bank Group

A study by the World Bank had revealed that Turkey's banks are among the strongest in emerging markets (Figure 2). Having learnt their lessons during the 2001 banking crisis in Turkey, the sector is now well-regulated. Today, Turkey has a concentrated banking market with three state-owned banks and 37 private banks, while the top seven banks control 80% of the sector's assets. The Turkish government owns just 30% of the banking system, as compared to 55% in Russia, 40% in Brazil, and 75% in India, according to a Fitch report.

It has a strong capital adequacy ratio and a healthy balance sheet with quality assets. There is no exposure to toxic assets and derivative products other than those used for hedging purposes. The banking sector has registered strong double-digit growth in fundamental banking products in the last decade. It had also helped the economy absorb the adverse impact of global volatility.

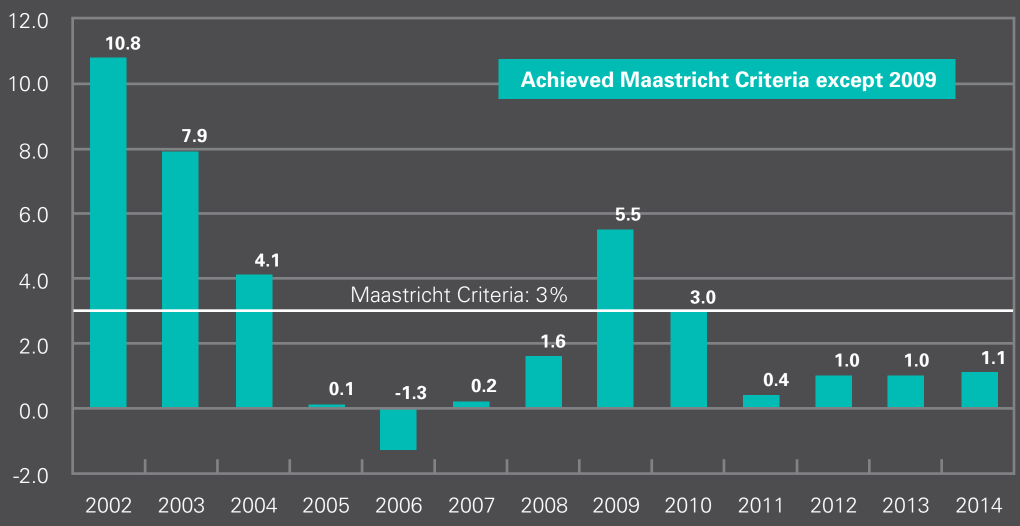
2 "Turkey's fundamentals are strong", Mehmet Simsek, Minister of Finance, 7 May 2014

Solid Fiscal Position

Figure 3: Turkey's Fiscal Position

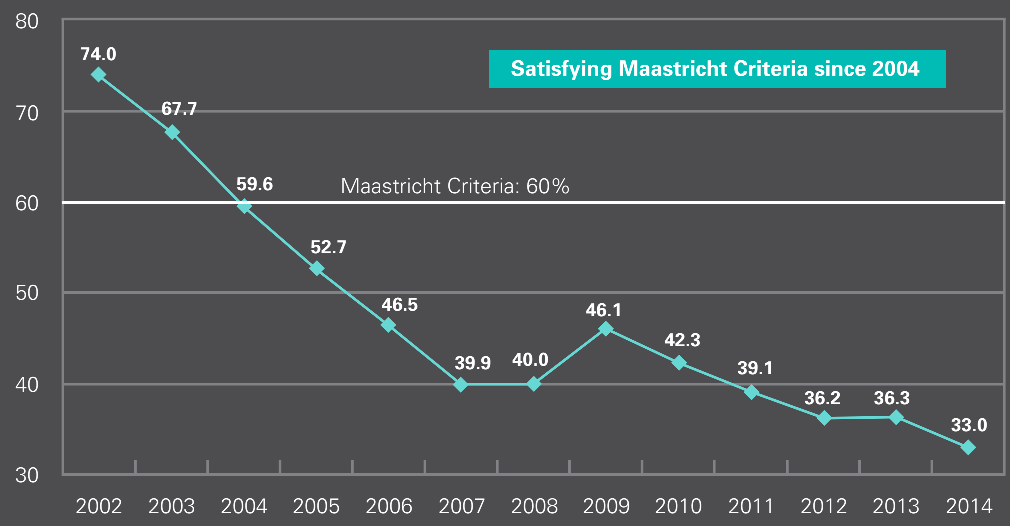
Low Deficit

Budget Deficit-to-GDP, %



Low Public Debt

Debt-to-GDP, %



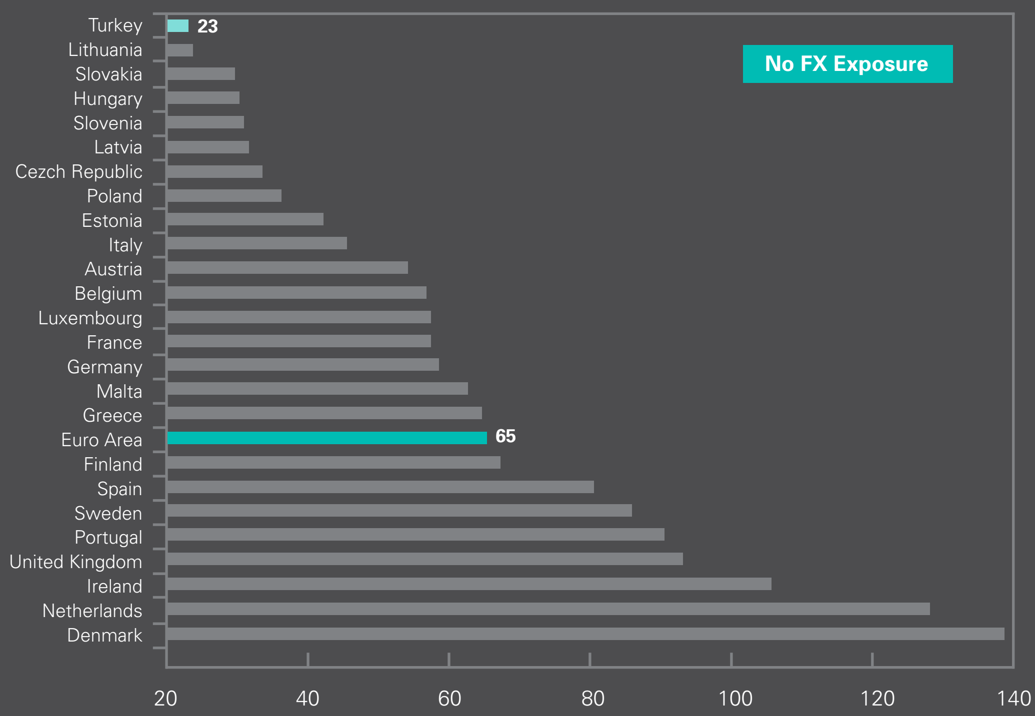
Sources:
Turkish Treasury and
Turkish Ministry of
Development

As shown in the figures above, Turkey has outperformed relative to the EU's Maastricht criteria[3]. In 2013, the fiscal deficit-to-GDP ratio was just one-third of the euro zone's convergence target of 3% and debt-to-GDP ratio was almost half of the 60% target. As of Q3 2013, only five out of the 18 countries that use the Euro met the Maastricht debt criteria. Among those, only Estonia and Luxembourg had better ratios than Turkey.

Low Household Debts

Figure 4: Household Debts in Turkey

Households: Low Leverage



Sources:
CBRT, ECB

Turkey exhibits relatively low household debts, as illustrated in Figure 4. One characteristic is the very low proportion of housing loans, which still represent less than 10% of GDP. Based on local regulations, households are not allowed to borrow foreign currencies hence all debts are in Turkish Lira and not foreign currencies.

3 There are five criteria set out in the Treaty of Maastricht that must be met by European countries if they wish to adopt the European Union's single currency, the Euro. They are: 1) inflation of no more than 1.5 percentage points above the average rate of the three EU member states with the lowest inflation over the previous year; . 2) A national budget deficit at or below 3 percent of gross domestic product (GDP).; 3) National public debt not exceeding 60% percent of gross domestic product. A country with a higher level of debt can still adopt the Euro provided its debt level is falling steadily.; 4) Long-term interest rates should be no more than two percentage points above the rate in the three EU countries with the lowest inflation over the previous year.: 5) The national currency is required to enter the ERM 2 exchange rate mechanism two years prior to entry.

Ongoing **Challenges**

Companies should note that there exist some potential headwinds to Turkey's economic performance, in the form of its large current account deficit and dependence on foreign borrowing. Domestic political tension stemming from an upcoming general election in mid-2015 could also serve to exacerbate the situation by dampening investor confidence.

Despite a spectacular performance, there are glaring risks which must not be ignored.

Economic Weaknesses

// **High inflation has burdened Turkey for over a decade**
After inflation reached 54.4% in 2001, significant monetary adjustments by the authorities brought it down to roughly 6.5% in 2011. The Central Bank expects inflation to be 5.3% in 2013 and 4.9% by end 2014.

// **Turkey's high current account deficit is its Achilles heel and is a constraint on long-term growth**
According to an IMF report, Turkey must also improve its structural policies and the competitiveness of its domestic goods, relative to imports, which would allow exports to move up the value chain. The strong growth in the export volume over the past decade has not made up for high import needs.

// **Turkey's dependence on external financing leaves it prone to volatile cycles**
When the outlook for the global economy is bright or investors are keen to take risks for other reasons, "hot" money flows into Turkey in search of high investment returns. That pushes up the Lira, encourages spending on imports and widens the current-account deficit. More recently, the US Federal Reserve's bond purchase tapering has been cited as the forefront risk threatening Turkish growth.

// Turkey needs to make comprehensive reforms in its judicial system, public procurement contracts law and reduce red tape to attract and anchor more foreign direct investment. **The transformation is still in progress; Turkey needs careful calibration of economic policies and further reforms to bring about the necessary structural changes in its economy.**

Domestic Political Tension

For a country that has gone through four military coups since the 1960s, having a stable government for the past 10 years has been one of the key ingredients in the country's economic revival. Yet, the past 12 months had investors holding on tight to their seats as the country went through patches of protests, corruption scandal, and elections.

Recent protests have revealed the polarisation within Turkey over President Erdoğan's social policies and political leadership style. However, his electoral success has been rooted in Turkey's economic prosperity, and the sustainability of high growth rates will be a big popularity booster for him.

In June 2015, Turkey will find itself in the middle of general elections. As such, political instability and social tensions will remain elevated up to mid- 2015.

According to Turkey's Finance Minister Mehmet Simsek, "Political noise is part of the Turkey story".[4] While protests and domestic political problems in Turkey will not likely disappear overnight, the focus should be on the country's strong economic fundamentals and the capitalisation ofthe opportunities available.

4 "Turkey will redesign its mining sector, minister tells summit", Today's Zaman, 20 May 2014

Observations and **Opportunities**

Turkey's favourable demographics, pro-growth government policies and strategic location straddling Europe and Asia, present opportunities across a multitude of sectors, from consumer to infrastructure, manufacturing to healthcare.

Firmly Anchoring its Regional Position

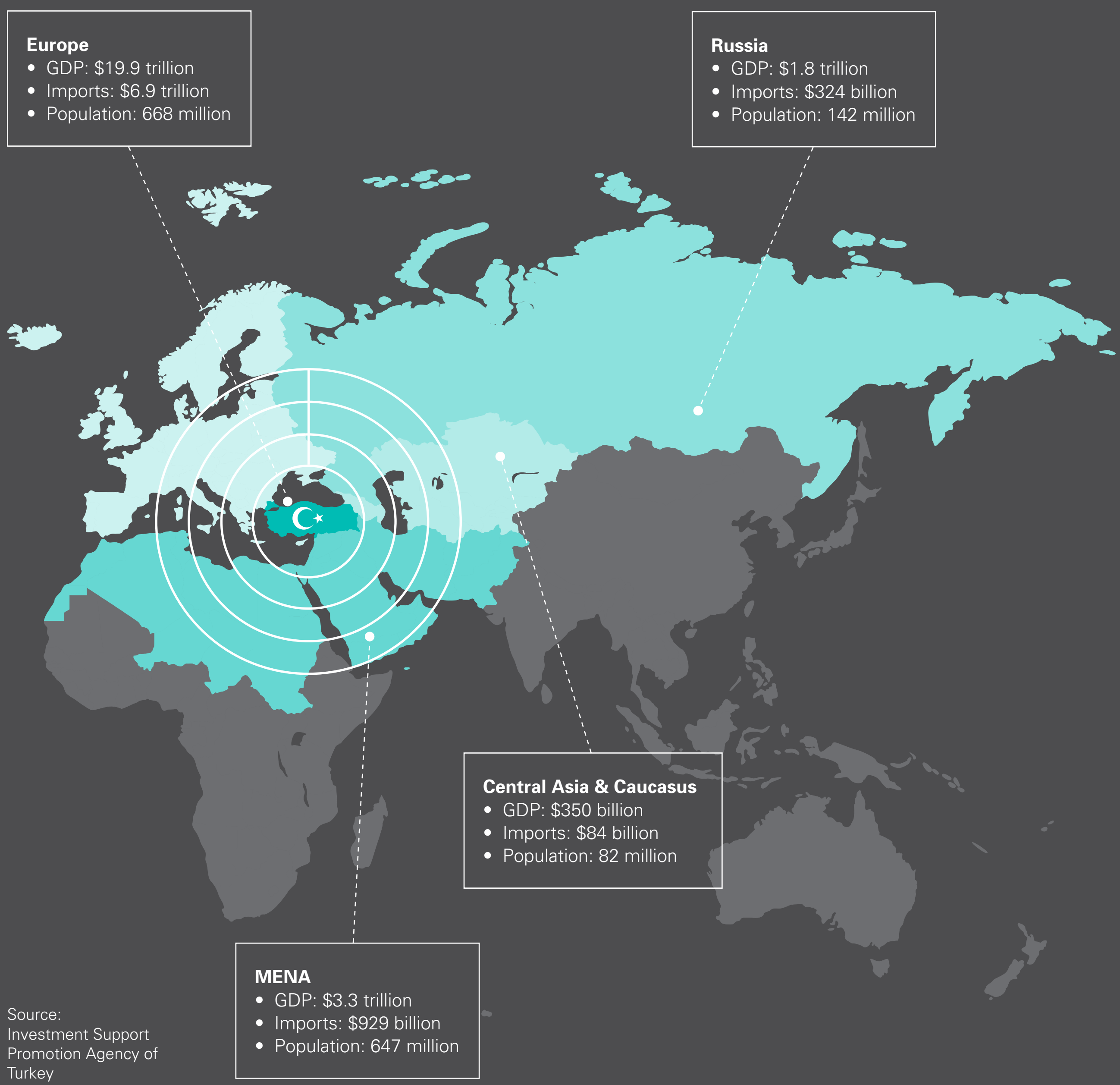
Turkey is ideal as a hub for manufacturers as it benefits from a customs union with the EU[5], its connections to the Middle East and ready logistics capabilities. As shown in Figure 5, Turkey provides access to over 1.5 billion people with a total GDP of approximately US$25 trillion. Turkish Airlines, via its Istanbul hub, connects to 220 destinations in 98 countries, the most of any airline in the world.

5 A Customs Union between EU and Turkey came into force on 31 December 1995. The Customs Union covers all industrial goods but does not address agriculture (except processed agricultural products), services or public procurement. Goods can travel between the two entities without any customs restrictions.

Figure 5: Regional Outreach from Turkey

Top Reasons to Invest in Turkey

Access to Multiple Markets	1.5 billion people; $25 trillion GDP; $8 trillion trade



Source:
Investment Support Promotion Agency of Turkey

Favourable demographics have always been a source of vitality for the Turkish economy and one of the main points of attraction for multinationals looking for growth markets. Turkey's 75 million-strong population is growing by 1.3% per year, has an average age of 29.2 years and only 15% of the population is expected to be over 60 in 2025.[6] Turkey's youth bulge is an important contributor to its labour force growth and has contributed to Turkey's better ranking against its competitors.

Turkey is a regional manufacturing powerhouse—it makes more televisions and buses than any other European country. A report published by Deloitte in 2013 has pointed towards Turkey being the second most competitive manufacturing hub in Europe after Germany.

There were only 4,300 MNCs in Turkey a decade ago but now we see over 37,700. UNILEVER entered the Turkish market in 1950s. To date, they employ 5,000 people and have seven facilities in Turkey. It has recently announced a US$100 million investment in an ice cream plant in Konya. 90% of its production in Turkey is exported to the Middle East & North Africa and the EU. The world's textile giant, Japan-based Uniqlo Group, has also recently announced its decision to make Turkey its production hub for the company's exports to Europe.[7]

On the growing list of companies that use their Turkey regional headquarters to manage their operations in surrounding countries are Alstom, Axa, BASF, Benetton, BMS, Bosch, BP, BSH, Citibank, Coca-Cola, FMC Biopolymer, Coface, Diaverium, General Electric, Gefco, GlaxoSmithKline (GSK), Hafele, Hewlett-Packard (HP), Hugo Boss, Hyundai, Imperial Tobacco, Intel, İpragaz, ISI, JTI, LG, Lifung, Mapfre, Mercedes-Benz, Metro Group, Microsoft, Pepsi, Pirelli, Procter&Gamble (P&G), Samsung, Schott Orim, Siemens, TeliaSonera, Tetrapak, Vaillant and Visa.

Rise of the Anatolian Tigers

The Anatolian Tigers[8] is a generic term used to describe a fast growing Turkish city, company, or entrepreneur engaged in a high-growth business. In this section, we will focus on the entrepreneurs.

The Tigers were unleashed by Turgut Özal, Turkey's Prime Minister in the 1980s who later became President. The former World Bank official, influenced by his experiences as a US-trained economist, adopted a market economy in Turkey, cut down state subsidies for the country's leading enterprises and encouraged all citizens to get involved in business.

As a result, many Turkish entrepreneurs followed his call, resulting in the industrial boom in several provincial, conservative regions. There has been an emergence of a new class of entrepreneurs in central Turkey, as opposed to the traditional conglomerates based in Istanbul. The table below shows some of the key Anatolian tigers.

6 The World Bank Group, 2014
7 Investment Support Promotion Agency of Turkey
8 The term was coined after the Asian Tigers (Hong Kong, Singapore, Taiwan and South Korea) which were the main inspiration by their fast growth model and the economic success they exhibit.

Figure 6: Key Anatolian Tigers

Conglomerates	City	Key Sector	2012 Turnover (Billions in Turkish Lira)
Boydak	Kayseri	Furniture	6.2
Sanko	Gaziantep	Textile	4.3
Erbakır	Denizli	Metal	2.3
Kroman Çelik Sanayi	Kocaeli	Iron and steel	2.3
Tosçelik Profil	Hatay	Iron and steel	2.3
Tiryaki Agro Gıdą Sanayi	Gaziantep	Food	2.0
Yıldız Entegre Agaç Sanayi	Kocaeli	Wood	1.9
Kardemir	Karabük	Iron and steel	1.7
Eti Pazarlama A.Ş.	Eskişehir	Food	1.5

Boydak Holding is exemplary of the Anatolian tigers; illiterate carpenter Mustafa Boydak started with a first carpentry workshop in Kayseri. Under the reforms, the small workshop developed into a furniture company, and from there into an industrial conglomerate operating in eight sectors with 35 companies. Today, Boydak Holding has joined the ranks of its fellow Istanbul-based counterparts with an annual turnover of TL 6.15 billion.

The Anatolian Tigers' contribution to economic growth has been more important in recent years as they have become the main engine of Turkey's export expansion into the Middle East & North Africa. It is estimated that they make up 10-11% of annual Turkish exports and about 10% of the gross domestic product. Over time, the Tigers have created an alternative elite group in Turkey, amassing sufficient capital to begin competing with Istanbul-based holdings in other business sectors.

It is worthwhile to look beyond Istanbul's elite and start engaging the Anatolian Tigers. Singapore companies can tap their existing regional network for fast track entry into this region.

Reforms Driven by the Prospect of EU Membership

Turkey's EU membership accession negotiations started in 2005. Out of the 35 chapters of the Acquis Communautaire[9], only 13 have been opened since Turkey's negotiations began, and only one chapter—science and research—has been closed. Despite all the obstacles and opinions from EU leaders, Turkey maintains EU membership as a strategic aim.

The prospect of membership has been the key driver of major reforms. EU membership for Turkey is no longer just about economic interest; it will now focus on food security, environment, protection of intellectual property and improving overall quality of life.

In particular, the environment sector has gained in importance in recent years as one of the priority sectors for the Turkish government. Turkey's rapid industrialisation and high population growth (one of the highest in the OECD), along with the expansion of cities have created complex environmental problems related to public services (solid waste management, potable water supply, water treatment and wastewater, sewage and power distribution). Today, about half of Turkey's population still does not have access to any waste disposal / recovery and waste water treatment services. Moreover, 44% of the municipal solid waste is still dumped into open dumping sites, and on average, only about 24% of the industrial waste water discharged is treated.

Since the start of the EU accession in 2005, Turkey has been defining and adapting all its regulations with regard to waste management and wastewater treatment corresponding to the existing EU Directives and in line with the "EU Integrated Environmental Approximation Strategy for Turkey (2007-2023)". According to the Ministry of Environment and Urbanization (MoEU)'s "Strategic Plan 2013-2017", 61 controlled landfill sites, 550 waste bringing centres and 63 dual waste collection systems will be established by 2017. In addition, 460 waste water treatment projects will be approved, 50% of which will be paid by the state as investment incentive of the energy bills. All these projects will very likely be publicly tendered under the responsibility of Municipalities and Metropolitan municipalities and follow public-private partnership (PPP) structures.

Development of the waste management and wastewater treatment industry constitutes more than half of Turkey's total environmental expenditures today. It is estimated that Turkey will need €51 billion[10] of investments in this sector over the next ten years which could translate into opportunities for Singapore companies in the entire value chain of waste management: from consultancy, technical pack, supply of equipment to possible operations. Multilateral Development Banks, such as the European Bank for Reconstruction and Development which has a significant presence in Turkey, can provide exclusive information to projects in the pipeline. However, it remains most important to cultivate a potential Turkish partner. While the focus of most conglomerates has not shifted to environmental projects, a handful have been planning their involvement in the sector. As such, this is a critical time to impress upon them the capabilities of Singapore companies and our value add to the partnership.

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9 The EU Acquis is a set of legislation which constitutes the body of the European Union Law. The EU Environmental Acquis comprises approximately of 300 directives and regulations, which countries have to transpose and implements in their national legal orders, as a condition for Membership of the Union.

10 Investment Support Promotion Agency of Turkey

The 2023 Vision for Infrastructure

2023 marks the 100th anniversary of the establishment of the Republic of Turkey. The 2023 Vision is a series of goals that President Erdoğan envisages for his country, with ongoing economic, social and infrastructure improvements.

By 2023, Turkey aims to achieve a GDP of US$2 trillion from US$820.8 billion in 2013. It also hopes to make social improvements to achieve a per capita income of US$25,000 by 2023 and reduce unemployment to 5%.

On the infrastructure end, these are some of the ambitious targets[11]:

// A third airport in Istanbul that is expected to be one of the world's largest when it opens in 2019. Costing an estimated US$29 billion, this is currently Turkey's most expensive mega project.

// A 26-mile shipping canal to link the Marmara and the Black Sea, which is expected to cost US$15 billion.

// A 24-tower public-private real estate development that will contain approximately 5,000 luxury apartments, at a cost of US$8.4 billion.

// A US$5 billion rail tunnel that will run under the Bosporus.

// A third bridge across the Bosporus that will cost US$4.4 billion.

// A US$2.6 billion financial centre complex for the central bank, financial regulators, and private financial firms.

// A US$2.5 billion luxury high-rise that includes a hotel, a new mall, office space, and a spacious performing arts centre.

// A large new tunnel under the Bosporus that will cost US$1.4 billion.

// A US$1.35 billion development with two marinas, two five-star hotels, a massive mall, and a 1,000-capacity mosque.

// A US$700 million cruise port, along with luxury hotels and offices.

11 Investment Support Promotion Agency of Turkey

Some projects are well underway, such as Istanbul's third airport, which is also slated to be the world's largest, and a third bridge over the Bosphorus Strait. These mega projects have drawn the attention of global players which are preparing their involvement in the projects.

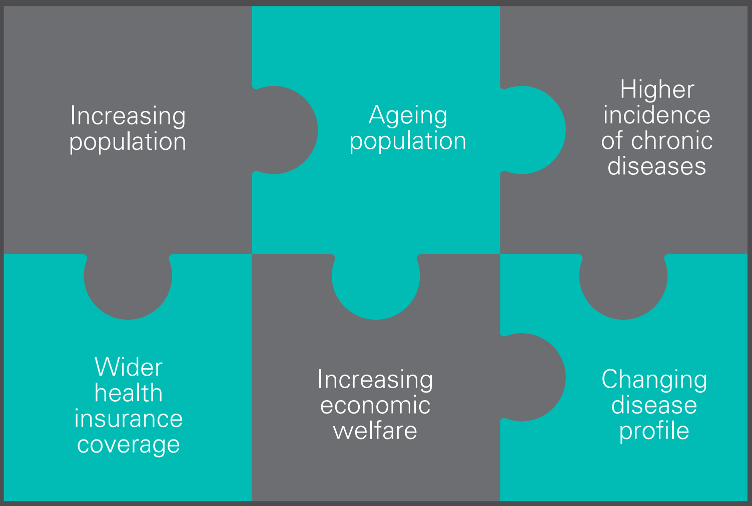
The projects are likely to be led by Turkish players with the support of foreign expertise. In May 2013, a consortium of five Turkish companies (Limak Holding, Cengiz Holding AS, Kolin Insaat, Mapa AS and Kalyon Group) won the bid to build and operate one of the world's largest airports in Istanbul. All, except for Limak, have no experience in operating airports. The support and expertise of foreign parties will complement the existing consortium.

These mega projects present a wide range of lucrative opportunities for Singapore players. Involvement in these prominent projects will propel Singapore companies' entry into other projects.

Transformation of the Turkish Healthcare System

According to the EIU, the healthcare sector in Turkey is set to boom as healthcare spending per capita is expected to increaseat a CAGR of 5.6% between 2013 and 2017, while most developed countries will be experiencing relatively lower growth rates. Figure 7 highlights the key drivers of growth for this sector.

Figure 7: Drivers of Healthcare Growth in Turkey



Source:
Investment Support Promotion Agency of Turkey

Observations and Opportunities

The Turkish Ministry of Health (MoH) is implementing a plan to expand and improve its medical sector by creating a new and efficient public health infrastructure. As part of the programme, Turkey passed new PPP laws in 2013 aimed at liberalising investment regulations in private healthcare within the country, a move designed to expedite foreign direct investment into the healthcare sector. Under the PPP law, the state will lease city hospitals built and run by the private sector for up to 30 years. All materials, devices and other supplies, apart from medical services offered directly to patients, are provided by privately operated companies. In the past, the lack of regulatory certainty has been a barrier to foreign investment; this new piece of legislation provides and guarantees value-added tax exemption and cheaper loans to foreign investors. It also promises to cut red tape for investors, reducing the number of permits and level of planning permission required.

With the new legislation in place and in line with its 2023 vision, Turkey is moving full steam ahead with several development projects. According to MoH, a total of 35 health campuses and city hospitals will be built, adding 40,000 – 50,000 new beds. Assuming the MoH will lease the facilities for 25 years, the total lease payments will reach an estimated of US$38 – 47 billion.

In addition, Turkey is emerging as one of the most popular destinations in Europe for medical tourism. The country's medical tourism industry has seen unprecedented growth over the last few years. 270,000 foreign patients visited Turkey seeking treatment in 2012, up from 74,000 in 2008. These ranged from moustache implants and liposuction to operations for serious health problems. MoH is projecting US$7 billion in revenue from 500,000 foreign patients in 2015 and US$20 billion in revenue from 2 million foreign patients in 2023.

MoH also plans to launch four medical free zones by 2017, and increase this number to ten by 2023. Medical free zones will provide investors with numerous advantages such as tax incentives and cost effective infrastructure. Currently, there are no medical free zones in Turkey.

Figure 8: M&A in Turkey's Healthcare Sector

Mergers & Acquisitions in Healthcare Sector surpassed USD 1.4 billion between 2009 and 2012

Acquirer	Target	Date	Deal Value USD Millions	Stake
Euromedic International	Oylat Diyaliz Merkezi	2009	N/ D	100%
The Carlyle Group	Medical Park Hospital Group	2009	N/ D	40%
Rhea Investments	Dentistanbul	2010	0.2	100%
NBK Capital (Swan Holding)	Dünya Göz Hastanesi	2010	N/ D	30%
Argus Capital Partners & Qatar First Investment Bank	Memorial Health Group	2010	N/ D	40%
ADM Capital	Kemer Medical Center	2011	27.0	N/ D
ADM Capital; PGGM N.V.; IFC	Universal Hospitals Group	2011	140.0	26%
Ethemba Capital; NBGI Private Equity	BirgiMefar Group	2011	N/ D	N/ D
Global Investment House	Bıçakçılar Tibbi Cihazlar	2011	N/ D	80%
Mid Europa Partners	Kent Hospital	2011	N/ D	65%
Mineks International	Istanbul Cerrahi Hastanesi	2011	60.0	80%
NBGI Private Equity	Sante Group	2011	N/ D	N/ D
Integrated Healthcare Holdings	Acıbadem Sağlik Hizmetleri	2011	1,260.4	75%
Amplifon	Maxtone	2012	1.3	51%
Integrated Healthcare Holdings	Acıbadem Sağlik Hizmetleri	2012	88	6.5%
Acıbadem Sağlik Hizmetleri	Jinemed	2012	8	65%
Bureau Veritas	Kontrollab	2012	N/ D	100%
Fresenius	Ren Grup Diyaliz	2012	N/ D	100%
Euromedic International	Ultra Görüntüleme Merkezi	2012	N/ D	100%

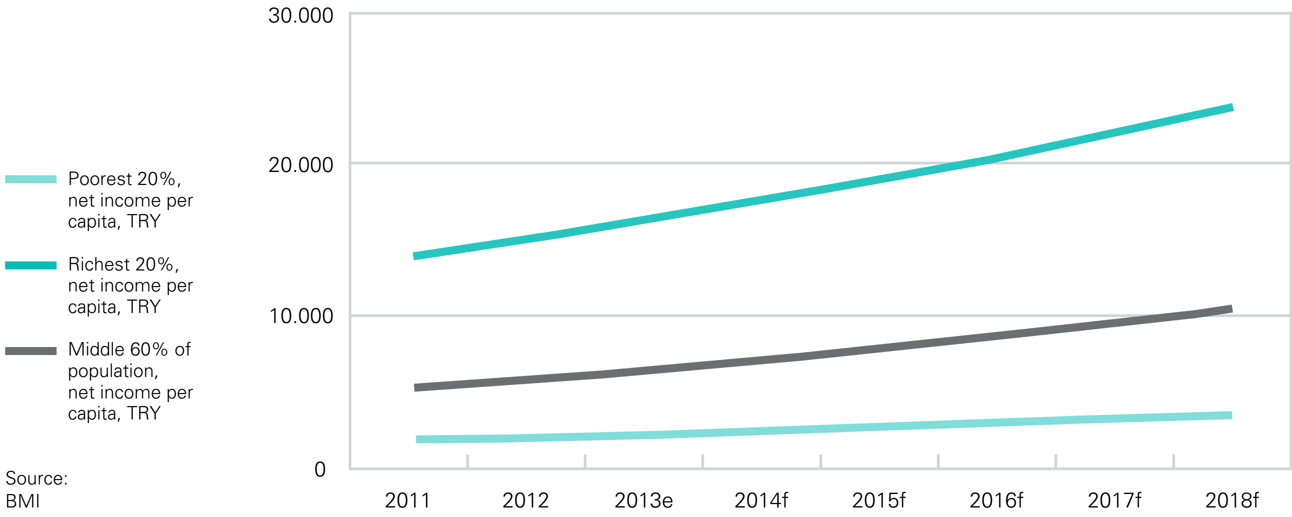
Source:
Investment Support Promotion Agency of Turkey

The potential from this transformation has already drawn foreign companies into Turkey, shown in the table above. Opportunities in healthcare infrastructure, related services and medical devices remain vast.

Growth of the Turkish Middle Class

Classified as an upper-middle-income country by the World Bank, Turkey's GDP per capita jumped by 246.5 percent over the last decade — from US$3,037 in 2001 to US$10,524 in 2011. GDP per capita in Turkey is nearly twice that in China and seven times India's. Moreover, the middle class now constitutes 59% of the population or roughly 43.5 million. Most people (71%) live in urban areas.

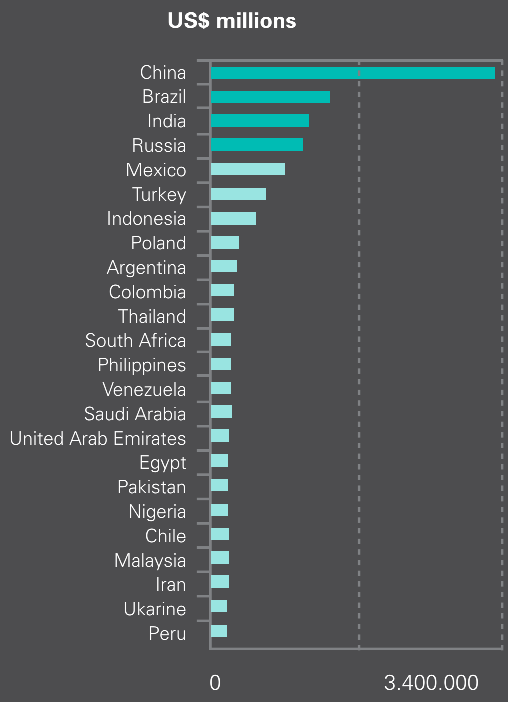
Figure 9: Income per Capita Breakdown (2011 – 2018)



Source: BMI

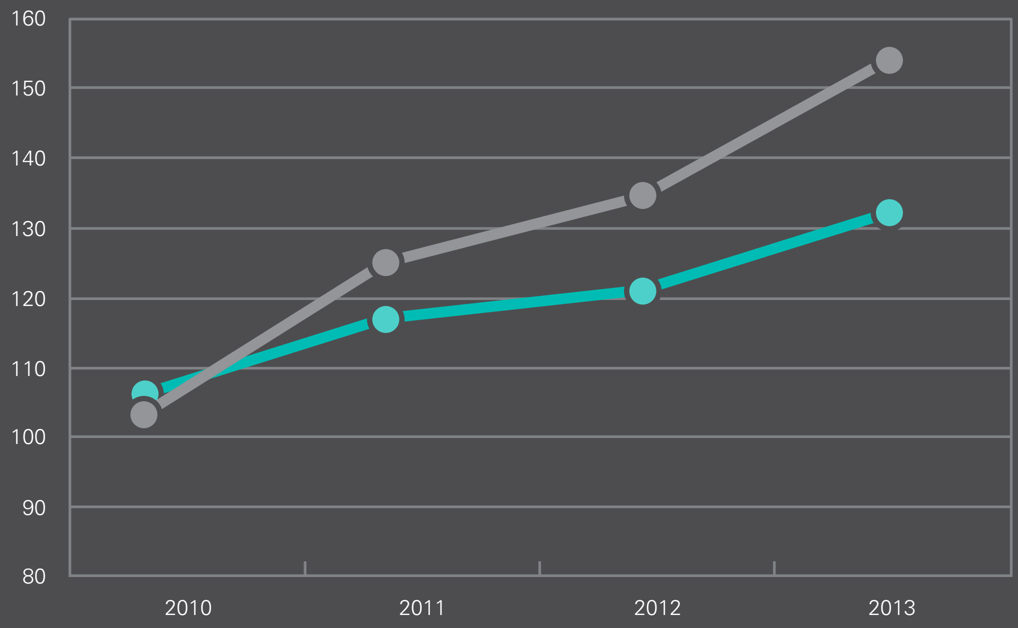
BMI expects strong per capita income growth in the middle 60% of the population and top 20%, with CAGRs of 9.8% and 7.2% respectively from 2014 to 2018. Per capita private consumption, which stood at US$7,350 in 2011, is expected to exceed US$10,000 by 2015. Hyperinflation in the past had also driven consumption rather than savings. Figure 9 compares the total consumer expenditure in the top 20 Non-BRIC emerging markets and Turkey falls slightly behind Mexico.

Figure 10: Top 20 Non-BRIC Markets Total Consumer Expenditure in 2013



Source:
Euromonitor

Figure 11: Retail Sector Indices



Retail Trade

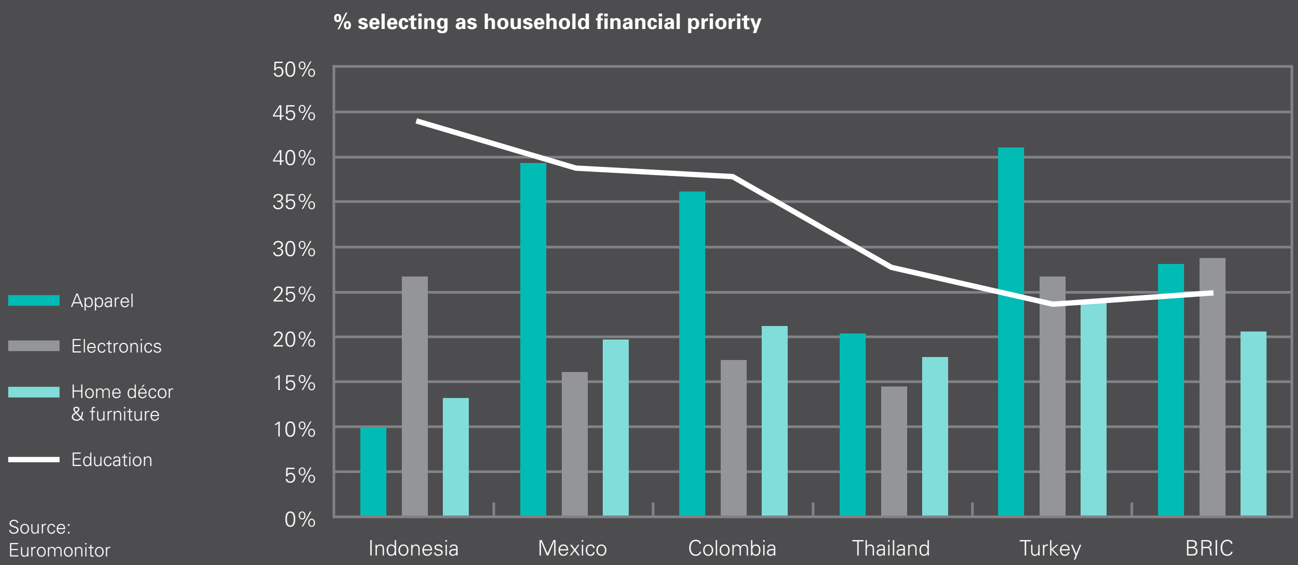
Retail Sales Volume

Source:
TurkStat

Observations and Opportunities

Against the backdrop of an expanding middle class, increasing per capita income and urbanisation, the retail sector has experienced significant growth in recent years, as shown in Figure 10. The more than 50% increase in retail trade and almost 25% increase in retail sales volume signify bright prospects for this particular sector. A fast-developing retail sector will help to develop consumer awareness of brands.

Figure 12: Emerging Middle Class Prioritisation of Education VS Consumer Goods



Source: Euromonitor

Figure 12 sheds some light on Turkish consumer behaviour with Apparel and Electronics taking priority over education. According to BMI, the consumer electronics market, defined as the addressable market for computing devices, mobile handsets and video, audio and gaming products, is estimated to have reached a value of US$12.4 billion in 2013, an increase of 10% from 2012. This attests to the significant opportunities for consumer goods companies.

The Renewables Story

As a fast-growing country, power consumption in Turkey will grow at an annual average of 6% year-on-year between 2014 and 2023, and substantial investment in new generating capacity will be necessary.

In 2013, the Turkish Government announced plans to increase the ratio of the country's renewable energy resources to 30% of total energy production by 2023 and it is seeking considerable investments to fund projects in wind, solar, hydropower, biomass and geothermal energy. Turkey's potential in the renewables sector is very rich as its resources have not been fully utilised, as shown in Figure 13.

Figure 13: Overview of Turkey Renewable Potential

Type	Potential	In Operation
Hydro	45.000 MW	17359,3 MW
Wind	48.000 MW	1792,7 MW
Solar	300 TWh/yil	-
Geothermal	600 MW	114,2 MW
Biomass	17 MTEP	117,4 MW

Source:
EMRA Turkey

The Turkish Parliament has passed a law to incentivise the usage of renewable sources in power generation. Based on this legislation, the incentives for the use of renewables in power generation include Feed-in-Tariffs, purchase guarantees, connection priorities, lower license fees, license exemptions in exceptional circumstances and various practical conveniences in project preparation and land acquisition. Efforts are ongoing to further enhance the investment framework in the renewables sector and to provide investors with fair and timely returns on their investment.

Most Turkish Conglomerates are already involved in the conventional energy business. Renewable energy however is becoming one of the hottest topics as it is also a way of mitigating import dependency in energy resources. Turkey has already attracted major international investors such as General Electric and Siemens. General Electric opened the 22.5 MW Sares wind farm and 10 MW Karadag site, and is scheduled to supply turbines to Fina Enerji Holding AS. Siemens is contracted to supply turbines to a 50-MW wind farm, and the firm expects to be involved in further projects in 2014. E.ON, the German utilities giant, entered the market with a 50-50 partnership, Enerji SA with Sabanci Holding. As of the end of 2013, Enerji SA had approximately 2.4 GW of installed power generating capacity, encompassing gas (54%), hydro (37%), and wind (9%).

With the demand and new policy in place, this sector is geared to attract more investments from local and foreign companies.

Strategic Thoughts
for Singapore Companies

To make an efficient market entry into Turkey, it is crucial that Singapore companies identify their unique value proposition and ride on the momentum of growing sectors. Tapping the in-market know-how of a local partner would be another key ingredient for success.

Easing the Path of Entry

The Turkey Singapore Free Trade Agreement (TSFTA) was formally launched in January 2014 during President Erdoğan's visit to Singapore. Both leaders instructed their respective economic ministries to begin negotiations on a comprehensive Turkey-Singapore FTA (TSFTA). Notably, President Erdoğan publicly stated Turkey's commitment to negotiate a comprehensive TSFTA with no boundaries, covering all sorts of sectors. The conclusion of the FTA will draw both countries economically closer and open new channels for expanding businesses.

The Value of Partnerships

While the Turkish market holds significant attractions for Singapore companies, there are also obstacles impeding entry. Similar to emerging markets, there will be challenges such as language barriers and unfamiliarity with regulations. These obstacles are not impossible to overcome, but having a Turkish counterpart who can provide knowledge of the local regulatory framework, language assistance and valuable business contacts, will help Singapore companies speed up their learning curve.

Singapore companies should understand and appreciate that the Turkish partner is meant to complement their capabilities for success in Turkey. This is one of the most successful, proven ways to access the market quickly. Even global giants have found it difficult to be independent in the market; the UK consumer electronics group Dixons sold its loss-making ElectroWorld operations to Turkey's specialist electrical retailer Bimeks, which also snapped up the unprofitable Turkish arm of French group Darty for a nominal amount this year.

Targeting Growth Sectors in Turkey

Turkey is not an unknown market to the world. Singapore companies will face tough competition hence it is critical to understand their value proposition and relevance to the market. It would be important to identify growth sectors which Singapore companies are more competitive in.

Short Term

Leveraging on the existing track records in Europe, Singapore companies will have additional advantages for market entry in terms of mutually recognised EU certifications and brand awareness.

Companies which have obtained the CE mark[12] for products can consider Turkey as a new market beyond Europe. The CE mark is deemed as a compulsory certification for Turkey. This is applicable in sectors such as Consumer Electronics and Medical Devices.

Total spending in the Consumer Electronics sector in Turkey is forecasted to grow at a CAGR of 3.7% from 2014 to 2018. Analysts are in view that Turkey's consumer electronics market is well positioned to outperform most emerging Europe markets.[13] Through a Consumer Electronics mission led by IE Singapore, three Singapore companies had managed to attain market entry through partnership with one of the Turkish distributor.

The Turkish medical device market is expected to grow by a CAGR of 3.4% over the 2013 to 2018 period, largely driven by the expansion of healthcare facilities, including the large city hospital complexes, and rising health expenditure.[14] Though the Government is encouraging local production, Turkey still relies heavily on imports for medical devices. Singapore companies who are successful in developed Europe, should tap their existing expertise and consider Turkey as a new market for expansion.

Medium/ Long Term

With the Turkish Government refining legalisation and setting new targets, the Healthcare and Waste/ Wastewater Management sectors are forecasted to grow immensely. New legislation will increase PPP opportunities. Singapore companies must start by understanding the market and engaging potential partners in preparation for projects.

The pipeline of infrastructure projects in Turkey is expanding due to the 2023 vision. Though these infrastructure projects are likely to be long term in nature, it is important to be involved in a few of these, as each of these projects will likely hold a range of opportunities for Singapore companies. Successes in these iconic projects will boost Singapore companies' track records in Turkey, and will significantly increase their credibility and access to other projects.

12 The CE marking indicates a product's compliance with EU legislation and so enables the free movement of products within the European market
13 BMI Industry View 2014, Business Monitor, 6 August 2014
14 Espicom Industry View, Espicom, 27 August 2014

Conclusion

After 14 months of struggle since the Gezi Park protests, President Erdoğan and his supporting party, AKP, are again firmly rooted in power. It is apparent that the government wants to shift its focus back to growing various sectors, building up its economy and be the shining star of the region. IE Singapore has identified the sectors of Infrastructure, Energy, Healthcare, Waste/Wastewater Management and Consumer Electronics as promising sectors for Singapore companies to explore deeper.

Undeniably, there will be 'political noise' from time to time but this is part of a developing democracy. Turkey has also proven to be resilient through many crises in the past few decades. Prior to the General Elections in 2015, domestic political tensions may heighten again, however the results are unlikely to surprise as the AKP is strongly favoured to win.

A closer look reveals an eager Turkish business community whose hunger for success is also a key driver for Turkey's growth. They are ready partners and can help to accelerate Singapore companies' access to the Turkey and even to the region.

Singapore companies are entrenched in various markets globally. IE Singapore believes that their capabilities and experience will be valuable in Turkey. Singapore companies should start to understand the market and plan to be part of this new era.

Annex

Snapshot of Turkey

Official Name	Republic of Turkey
Capital City	Ankara
Government	Parliamentary Democracy
Population	76.6 million (2013)
Labour Force (Population)	28.8 million (2013)
Median Age	30.1 (2013)
Official Language	Turkish
President	Recep Tayyip Erdoğan
Prime Minister	Ahmet Davutoğlu
Area	783,562.38 km²
Neighbouring Countries	Bulgaria, Greece, Syria, Iraq, Iran, Azerbaijan, Armenia, Georgia
Surrounding Seas	Black Sea, Sea of Marmara, Aegean Sea, Mediterranean Sea
Major Cities (Population)	Istanbul (13.3 million), Ankara (4.8 million), Izmir (3.9 million), Bursa (2.6 million), Adana (2.1 million)
GDP	US$820 billion (2013-Current Prices)
GDP Per Capita	US$10,782 (2013)
Exports Value	US$152 billion (2013)
Imports Value	US$251 billion (2013)
Foreign Direct Investment	US$12.9 billion (2013)
Number of Companies with Foreign Capital	36,450 (2013)
Major Exports Markets	Germany (9%); Iraq (7.8%); UK (5.8%); Russia (4.6%); Italy (4.4%); France (4.2%); USA (3.7%); UAE (3.3%); Spain (2.8%); Iran (2.4%) (2013)
Major Imports Sources	Russia (9.9%); China (9.8%); Germany (9.6%); Italy (5.1%); USA (5%); Iran (4.1%); Switzerland (3.8%); France (3.2%); Spain (2.5%); India (2.5%) (2013)

International Enterprise Singapore

International Enterprise (IE) Singapore is the government agency driving Singapore's external economy. We spearhead the overseas growth of Singapore-based companies and promote international trade. Our vision is a thriving business hub in Singapore with Globally Competitive Companies (GCCs) and leading international traders.

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