

# TURKEY- Uncovering opportunities in uncertain times

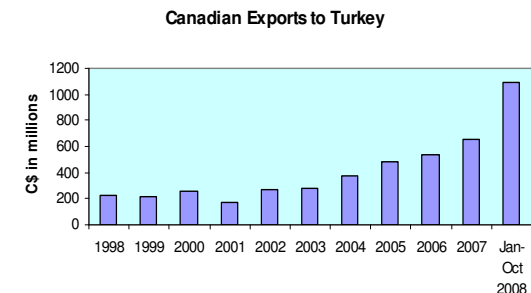
## The Economy:

Turkey is the world's 15<sup>th</sup> largest economy and a key member of both the G20 and the OECD. With 73 million inhabitants, it is the second most populous nation in Europe, after Germany, with consumers who are oriented towards western goods and services. The country is strategically located between key markets in Europe, the Middle East and Central Asia, and it serves as a major energy corridor. Turkey's economy grew by nearly 200% between 2001 and 2007, due largely to bold reform programs and successive IMF agreements. Turkey and the European Union (EU) signed a Customs Union accord in 1995 giving Turkish goods duty-free access to the \$19 trillion EU market. Foreign Direct Investment reached US \$22 billion in 2007 up from US \$19 billion in 2006, and despite the recent global economic turmoil, reached US\$15 billion in the first 10 months of 2008.

There is no question that the global economic slowdown is impacting the Turkish economy with some sectors (e.g.; construction) more vulnerable in the near term than others (e.g.; energy). Export oriented sectors are most susceptible due to their reliance on the ailing EU market. Around 50% of Turkey's exports are destined to the EU market. Turkey's economy grew by an estimated 1% in 2008, and like similar emerging markets, is expected to remain low, or to contract somewhat, throughout 2009. Moderate growth is anticipated to resume in 2010.

Turkey and Canada are important commercial partners. Canada-Turkey bilateral merchandise trade has more than doubled in the last

decade, to reach \$1.3 billion in 2007. In the first 10 month of 2008 Canadian exports stood at over \$1 billion, an increase of almost 105% from the same period a year earlier. Cumulative Canadian direct investment in Turkey is approaching \$1.5 billion, mostly in the telecommunications, mining, media, energy, agri-food and tourism sectors.



## SECTOR OVERVIEWS

### Environment

As a rapidly industrializing country, Turkey is facing acute environmental challenges caused by municipal and industrial waste. In order to address these challenges the government has taken a number of legislative measures. This has given momentum to the sector and opened new market opportunities for local manufacturers as well as for international firms. The sector is now valued at \$2 billion. Turkey has some 300 companies active in the environment sector; providing engineering, contracting and fabrication services. Approximately half of the market is dominated by foreign companies that provide technical know-how and instrumentation. The EU accession process has been a key driving force behind a recent environmental law (2006) that is designed to harmonize Turkey's environmental regulations with European standards. This is still in the transition phase and enforcement is being improved. It is estimated that complete implementation of these regulations will take approximately 15 years and create a \$90 billion market for environmental technologies and infrastructure. This expanding market represents new business opportunities for the Canadian environmental industry, in particular those specialising in water and solid waste management.

### Energy Sector

In recent years, demand for power in Turkey has grown by about 8% annually, whereas per-capita consumption has

remained low compared to other European countries, indicating potential for further growth and additional investment. Although the current economic slowdown will reduce consumption to an extent, there remains a requirement to increase and to diversify national capacity. The country currently has 40,000 MW installed power generation capacity, of which 40% uses natural gas; 25% hydro, 25% coal and 10% other sources. In order to keep pace with the growth in demand, the industry needs to invest heavily (\$125 billion over the next 20 years) and develop diversified resources in power generation including wind, solar, biomass and nuclear.

The government provides incentives for investments in renewable energy: a special law with financial incentives was passed in 2006 to encourage activity in this area. As a result, 800 license sites were offered to investors, some of which are now under development, for wind and solar energy, while others await investment and technical support.

The Turkish government has been pursuing nuclear generation as another option and recently called for tenders for investment at a site located on the Mediterranean coast. Only one bid was received and it is expected that the tender will be renewed for a more competitive bidding exercise. More tenders for nuclear plants are expected in coming months.

Increasing energy efficiency is also a priority for the government. Power plant rehabilitation and reduction of

power losses in transmission are areas which require new technologies.

Overall, the Turkish energy sector (power production and distribution) offers good business potential to investors, contractors and suppliers of engineering services and equipment.

### **Mining**

With its 72.9 million sq km land area, Turkey is among the richest countries in the world in terms of natural resources and diverse mineral deposits. After liberalization of the economy and incentives introduced for foreign investment, a new Mining Law came into effect in 2005 which stimulated investments in the mining sector. As a result, mining exploration licenses issued were tripled within four years and growth rate of the sector reached 12% in 2007. Total foreign investment in the Turkish mining operations is currently estimated to be \$1.7 billion, while the market for equipment and services is approximately \$1.8 billion, of which about \$1.4 billion is for imported equipment. The majority of exploration and operation companies active in Turkey are Canadian: Turkey's largest copper and gold producers are Canadian firms. Canadian suppliers of equipment and services also enjoy an excellent reputation in Turkey.

### **Information and Telecommunications**

The size of Turkish telecom market is about \$28 billion (wireless services: \$15 billion). Turkey has over 64 million

mobile subscribers with an 85% penetration rate, and about 22 million wired line subscribers. The Turkish wireless market comprises 2G (GSM) and 2.5G (GPRS and EDGE) networks. 3G licences were sold (given for 1900 MHz) in late 2008 to three local GSM operators, who are expected to start 3G service by mid-2009. The official plans are to tender 50-60 Wimax licenses in 2009. Other available services are Wireless Internet (WiFi) and satellite broadband (communication and broadcasting). Ericsson, Siemens, Motorola, Alcatel, Nortel, and Huawei are the top infrastructure equipment providers. Opportunities: All infrastructure equipment related to 3G, and Wimax, 3G VAS (value-added-services), mobile entertainment related products, Next Generation Network (NGN) systems for wired networks, IPTV, and HSDPA systems, etc. Software for telecommunication and industrial manufacturing also has good potential.

### **Automotive**

In early 2008, there were predictions that Turkey would become the world's 10<sup>th</sup> largest automotive (vehicles and parts) producer by 2012. By the end of 2008, Turkey had manufactured over 1.2 million vehicles of all types, of which the majority were passenger vehicles and light commercial trucks (European, Japanese, and S. Korean automotive companies are all major investors in Turkey). That same year, Turkey generated sales revenues of approximately \$30 billion from exports of 910,000 vehicles and autoparts, and spent another \$23 billion for imports of 297,861 vehicles (all types) and autoparts (most of the latter were imported by the local

automotive industry to be used in vehicle manufacturing). The EU has traditionally purchased almost 70% of Turkey's vehicle exports.

Of the sectors outlined in this document, the one most impacted by the economic downturn is automotive. As a result of the downturn, Turkish vehicle exports are expected to fall by 40-50% in 2009. It is also estimated that the Turkish automotive industry will have to layoff 40-50% of personnel employed. The sector has been putting pressure on the Government for financial support in the form of incentives to maintain employment. It has also requested a reduction in the sales tax, which averages 60-65% for every new car sold in Turkey (highest in the world). It is widely believed that the sector will be able to re-establish its potential once economic conditions improve, especially in EU countries.

As the economy improves, and more cars are produced, fortunes for the automotive parts industry will also resume. This is a high-growth market, with about 47% of demand met through imports, while one third of production is exported. In terms of its production capacity, product range and standardization, the industry is capable of supporting 80% of the requirements for automotive industry production and after sales servicing of the vehicle park of Turkey and also supplies major European producers. Over the longer term, there will be good potential for OEM and aftermarket producers due to the presence of 14 motor vehicle manufacturers (mostly European, Japanese, and S. Korean)

and 3 tractor manufacturers and the need for replacement parts.

### **Agriculture and Agri-food**

Cereals, especially wheat and barley, are Turkey's most important crop. Other major crops include industrial (sugar beet, tobacco), oilseeds, rye, millet, corn, rice, pulses, olives, fruits, and vegetables. In 2007, Turkey's agri-food exports totalled \$10.2 billion, while imports stood at \$5 billion. Turkey's major imports are oilseeds, grains/cereals, lentils, food industry residues, tobacco, cotton, oils and fats. Due to an import ban, the country does not import fresh meat or live animals. The majority of Turkey's agri-food imports are supplied by the EU and the United States. Canada's exports to Turkey reached \$350 million during first 11 months of 2008. Current Canadian agri-food trade includes lentils, canola seeds, wheat, corn, food industry residues, hatching eggs, bovine semen and pet food. Turkey has a very strong processed and value-added agri-food sector, which is net exporter mainly to neighbouring markets in the region. The share of imported processed foodstuff is very small in the local market. The local wine market is growing quickly, and imports are estimated to have reached about 30% of local market size.