



TALKING POINTS

Turkey in the Euro
Mediterranean Area

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TALKING Points

Turkey in the Euro Mediterranean Area

- Turkey's standing as a cultural and geographic crossroads spanning Europe, Asia, the Middle East, and the Mediterranean underscores the country's growing importance as an economic and geopolitical power.
- Turkey has a deep and longstanding relationship with the European Union, including membership in the EU Customs Union. But Turkey encounters a number of political and economic obstacles to EU accession that are likely to delay its admission until 2019.
- Despite the slow pace and uncertain outcome of Turkey's EU accession process, the country plays a critical role in the European Union's Euro Mediterranean initiative that aims to stimulate commercial/ economic ties between Europe and the Mediterranean countries.
- The global recession has dealt a powerful blow to Turkey's economy, particularly manufacturing industries (automotive, construction, electronics, et al) vulnerable to slumping demand in the European Union, Turkey's foremost trading partner.
- But popular sentiment about the economy is more positive in Turkey than in other European states, and the country's young and dynamic population bodes favourably for Turkey's long-term growth trajectory.
- Energy, retail, financial services, hospitality, and pharmaceuticals constitute Turkey's most promising growth industries in coming years. Turkish export manufacturers also enjoy strong growth prospects in segments where proximity to market confers a competitive advantage over Chinese rivals.
- Turkey stands to benefit from the Euro-Mediterranean Partnership's adoption of EU technical standards and forthcoming creation of a Free Trade Area, which will augment Turkey's position as a bridge connecting Europe and the Mediterranean.

Turkey in the Euro Mediterranean Area

The Euro Med Partnership now includes all 27 member states of the European Union, along with 16 partners across the Southern Mediterranean and the Middle East. However, in the bars, tea gardens and boardrooms of Istanbul the question is still asked 'Is Turkey Middle Eastern, Asiatic or European?'

It is a question that dates back 85 years when Kemal Ataturk (founder of the Republic of Turkey) swept away the remnants of the Ottoman Empire and adopted the dress, customs, laws, music, and alphabet of Europe to create a modern, westward-looking state.

As a result, modern day Turkey has a close cultural affinity with the nations bordering the Mediterranean Sea. But Turkey has other neighbours, and its stated policy is "zero problems with neighbours" - Armenia, Azerbaijan, Georgia, Iran, Iraq and Syria.

Some think of Turkey as a bridge, a gateway, a door to be left shut, or America's "Trojan Horse" in Europe. But as a crossroads linking the European Union, the Mediterranean and the Middle East, Turkey's global role will clearly grow as economic and political power shifts East.

Turkey's Relations with the EU

Turkey has been on the 'Road to Europe' since 1959 and the finish line is not yet in sight. It became an associate member of the European Economic Community in 1963, and applied for Community membership in 1987. Turkey joined the EU Customs Union in 1996, and trade with the European Union now accounts for half of Turkey's foreign trade. But it was not until 2005 that the European Union formally began Turkey's accession process, which may take until 2019 to complete.

With the recent waves of eastward enlargement, the EU has absorbed a large number of new members and will require a significant amount of time before accepting Turkey as a full-fledged member. Turkey must address several outstanding issues (notably rights of the Kurdish minority, relations with Armenia, and the ongoing dispute over Cyprus) and enact a wide range of economic and political reforms to prepare for EU accession.

Notwithstanding the slow pace of Turkey's path to EU membership, the country occupies a critical position in the pan-European space. It is a key player in the Euro-Mediterranean Partnership, which is slated to launch a Free Trade Area in 2010. Turkey is one of Europe's fastest growing economies with a dynamic, youthful population that will cushion the looming demographic crisis of the aging European continent.

Impact of the Global Downturn

Turkey suffered a serious financial crisis in 2001-02, but posted strong GDP growth numbers in 2003-07. The global downturn has dealt a strong blow to Turkey's economy, which is projected to contract by 5% in 2009 and to grow by only 2% in 2010.

Turkey's main industries are agricultural products, garments/textiles, motor vehicles, transport equipment, construction materials, consumer electronics, home appliances, mining, steel, petroleum, lumber, and paper. All of these have been hit hard by the global downturn, as Turkey's industrial output has fallen by around 20 percent year on year.

Turkey's construction industry (3rd largest in the world) is labouring under the housing slump. The country's textile manufacturers and chemical producers have come to a standstill as EU demand has fallen. Consumer electronics sales (including TVs, radios and mobile phones) have dropped by 55 percent, while iron and steel production has declined by 24 percent. The automotive industry (which includes major exporters like Ford and Oyak-Renault) is experiencing only minor growth.

But some of Turkey's service sectors (including banking) are enjoying increasing profits. There is liquidity in the market, but bank sources indicate that the private sector has US\$200 billion of debt. The Banking Supervision Board is monitoring availability of credit and interest rates have almost halved from 16.5% to 8.5% and are not expected to rise again until 2010. Banks are lending at rates of 20% – 30% ensuring their continued profitability.

Turkey's macroeconomic indicators have weakened amid the global recession. Unemployment is approaching 15 percent, and the budget deficit is expected to reach \$40 billion in 2009. Despite these unfavourable data, Eurobarometer's recent survey of popular attitudes about the economy ("European Employment & Social Policy") reports Turks as the second most hopeful population in Europe.

Growth Opportunities for Turkish Companies

Looking forward, the energy and retail industries offer the best growth opportunities for Turkish companies. Turkey is a net importer of energy from Russia and the Middle East. But the country has made several recent discoveries of oil and natural gas, particularly in the Black Sea region. Turkish state-run TPAO, Exxon Mobil, Petrobras and Toreador are working with national logistics, pollution control and on and off shore service firms to exploit these new fields.

The Nabucco Gas Pipeline has provided Turkey with a strategic card in its relationship with the EU. The 3,300 km pipeline will connect the Caspian region to European gas markets via Turkey. Construction of Nabucco will start 2011, and the first gas will flow 2014. Turkey will benefit from €4.5 billion in foreign direct investment related to the project, along with the production of 2 mn tons of steel and dividends as a Nabucco shareholder. Taxes paid by Nabucco to the Turkish government will surpass €400 million annually. Meanwhile, a variety of renewable energy projects (hydro, geothermal, wind) are underway in Turkey. Turkey's OYAK (the Armed Forces Pension Fund) plans to spend up to US\$1 billion expanding its energy venture with Germany's Evonik Industries. Also on Turkey's energy agenda is the long planned construction of the country's first nuclear power plant.

With several large metropolitan cities (Istanbul, Ankara, Izmir), an unsaturated domestic market, and few organised chains, Turkey offers great promise to retailing companies. According to Planet Retail, Turkey has just three hypermarkets and 17 supermarkets per one million persons, compared to an average of 15 hypermarkets and 150 supermarkets in EU countries.

The total turnover of Turkey's retail industry (non-food and food) is expected to reach US\$199 billion by 2010. The most important segment of the market is food retailing, which accounts for 53% of total sales. Cultural values and traditional tastes represent a barrier or an opportunity to convenience packaged foods. Other promising sectors of the Turkish economy include:

- The highly profitable banking and insurance industries
- Manufacturing for export to regions where Turkey enjoys proximity to market advantages over China
- Hospitality for travelers to Istanbul (the European City of Culture 2010) as well as tourists and retirees seeking sun and lower prices than available in the Eurozone
- Pharmaceutical products for Turkey's large and growing population

Turkey suffered a reversal in capital inflows between October 2008 and January 2009 amounting to US\$13.2 billion compared to a net capital inflow of US\$18.5 billion the previous year. But capital inflows to Turkey are expected to stabilise in 2010, spurring a rebound in merger and acquisition activity.

Turkey's Geographic Markets

Internationally active Turkish companies focus on the European Union, Japan, the Russian Federation, and the United States. Heavily indebted companies with weak balance sheets are facing difficulties raising capital to finance their international activities. Some Turkish companies are shifting from traditional collateral-based loans from domestic banks to international bank credits based on IFRS reports.

Turkish firms are keen to work in the Caucasus, and are seeking foreign partners to support their expansion in that region.

Turkey benefits significantly from its membership in the EU Customs Union, reinforcing the European Union's role as Turkey's foremost trading partner. Turkey's labour laws are in line with EU norms, and the country's minimum wage makes Turkish workers better paid than their counterparts in nine EU countries. Turkey's Draft Commercial Code, which will bring businesses in line with EU standards, is still in the Parliament and will take some time to pass. The Code aims to integrate the Turkish Commercial Code with EU law, improve transparency, protect minority rights and strengthen corporate governance principles.

Turkey also stands to gain from the forthcoming liberalisation of trade in the Euro-Mediterranean group and EuroMed's convergence toward EU standards on rules of origin and technical regulations. The Euro-Mediterranean area thus stands as Turkey's second most important market after the European Union and a growing regional market in which Turkey will be a leading player.

This article was written by Alan Greenhalgh from Kapital Karden, RSM member firm in Turkey.



Biography

Alan Greenhalgh

Alan has over 15 years experience in business development, marketing, PR and communications having worked extensively with blue chip and entrepreneurial companies in a variety of business development, training, logistics, public relations and journalism roles. A graduate of business and finance and Post Graduate of Marketing Management and Statistics (Liverpool John Moores University) he has found a welcoming home in RSM International.

He has acted as a trainer for banks (Bancomer) and media organisations (Televisa) in Mexico, a business developer for a global snack company (Mars Inc) throughout the Middle East, a government body in Russia, a national newspaper (Trinity Mirror) in the UK and now as Head of International Department for Kapital Karden in Turkey, Azerbaijan and The Caucasus.

He joined Kapital Karden in 2007 having arrived in Turkey as a freelance trainer, since then the firm has progressed to full membership and increased its ability to serve cross border clients, its reach both geographically and in service lines. His clients include Turkish and international clients in the Technology, Construction, Energy, Banking and Insurance, Retail, Conference and Textiles sectors with operations throughout Europe, the Euro Med area, China, Middle East and Russia.

Having attended two RSM Academies, once as an academician and then as Faculty member, and also attending a number of RSM International meetings and conferences has met and worked with a number of other member firms.

Alan's role includes:


International Contact for RSM International

Business Development

Training

Business set-up, working with foreign clients and institutions on accounting, corporate finance and tax issues

Member of Global Communications Team



Kapital Karden is a financially-focused, professional business services provider that serves growing organisations with independent audit, accounting and payroll, tax, consulting, VAT refunds, corporate finance, restructuring, energy audit, forensic accounting and wealth management throughout Turkey, Azerbaijan and The Caucasus. Kapital Karden was established in 1994 and became the correspondent firm of RSM International in 1996 and member firm in 2008. It is ranked number 7 in Turkey and No 5 in Azerbaijan. The International Accounting Bulletin, June 2009, named Kapital Karden 'the fastest growing accountancy firm in Turkey'.

Kapital Karden's strengths lie in their being a well-known and trusted adviser; their understanding of the client, the nature of its business and the scope and timing of the assignment; and also that the partners of the firm came from the Turkish Revenue Service and Capital Markets Board. Weathering the storm of the financial crisis of 2001 the firm emerged stronger and better able to serve its clients. The firm provides a high quality service in Turkish, Azeri, English, Japanese and Russian.

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