AmCham ★ Turkey

American Business Forum In Turkey

Business and Investment Climate Survey in Turkey

2016

Business and Investment Climate Survey in Turkey 2016

"We are the strong voice of American business in Turkey"

Sponsored by

Message from the Executive Director

American Business Forum in Turkey (AmCham Turkey/ABFT) has been an important voice of American business in Turkey with a mission to act as a bridge between Turkey and the U.S. to further improve bilateral trade, investment and relations and to support Turkey's economic development by strengthening the business environment and stimulating foreign direct investments.

We have conducted our annual "Business and Investment Climate in Turkey" survey to provide a tool to support our work in order to improve and strengthen the business and investment environment in Turkey since 2007.

The Survey accomplishes this goal by encouraging American investments in Turkey and the region, and also acting as a platform through which AmCham Turkey/ABFT members and non-members can share their views about the business climate in Turkey.

Our purpose was to analyze the perceptions of U.S. company executives regarding the general investment climate, macroeconomic situation, infrastructure, taxation system, education system and workforce in Turkey in a comparable manner by soliciting their views, both today and in the future. The research and report are published every year, and the findings are shared with top stakeholders in both countries.

We would like to express our gratitude to the U.S. company executives who have participated our Survey and the sponsors of this research for their contribution.

E. Demircan

Elif Demircan
Executive Director
AmCham Turkey/ABFT

AmCham ★ Turkey
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About AmCham Turkey/ABFT

The American Business Forum in Turkey (AmCham Turkey/ABFT) is a business association and NGO comprised of 135+ prominent U.S. companies with investments of more than 50 billion USD having created over 60.000 jobs in Turkey. Founded in 2004, AmCham Turkey/ABFT operates with a mission to act as a bridge between Turkey and the U.S. to further improve bilateral trade, investment and relations and to support Turkey's economic development by strengthening the business environment and stimulating foreign direct investments.

AmCham Turkey/ABFT supports Turkey's reforms and works to strengthen the existing relations between institutions in Turkey and the U.S. business community through straightforward dialogue and cooperation.

AmCham Turkey/ABFT endeavors to be a credible, respected and effective partner and the bridge between the public and private sectors in Turkey and the U.S. As an affiliate of the U.S. Chamber of Commerce, AmCham Turkey/ABFT is well positioned to improve the bilateral economic and trade relations and to represent its 135+ U.S. member companies with operations in Turkey.

In the past 12 years of operations, AmCham Turkey/ABFT has held a number of educational and service events, hosted numerous officials from Turkey and the U.S., and conducted research on behalf of its members to develop and improve bilateral relations among Turkey and the U.S. It is also continuously engaged in the promotion of its members' interests.

This study has been conducted annually since 2007 to better understand the outlook and perceptions of senior executives of U.S. companies operating in Turkey regarding the business and investment climate. The survey was conducted by the Nielsen Company for 2016.

This research outlines the key findings of AmCham Turkey/ABFT "Business and Investment Climate Survey in Turkey" for 2013, 2014, 2015 and 2016.

About Nielsen

nielsen

The Nielsen Company (NYSE:NLSN) is a global information and measurement company with leading market positions in marketing and consumer information, television and other media measurement, online intelligence, mobile measurement, trade shows and related assets. The company has a presence in approximately 100 countries, with headquarters in New York, USA. For more information on The Nielsen Company, visit www.nielsen.com.

CONTENTS

1. EXECUTIVE SUMMARY

AmCham Turkey/ABFT Business and Investment Climate in Turkey 2016 Report findings are summarized as follows:

- Overall, respondent companies have a strong tendency to continue their operations in Turkey and the future investment propensity remains high, each scoring above section averages over the years.
- 70% of respondents believe that the market potential of Turkey is considerable, 80% plan to stay in Turkey in the coming years whereas 56% of respondents plan to invest more in the coming years.
- The business world's positive perceptions on the general business environment and the market advantages of Turkey have been maintained over the years.
  - ❏ The strongest elements of Turkey's business environment are its market potential, geographical attractiveness as a hub for regional operations, and its status as a priority market for company headquarters.
  - ❏ More than half of the respondents see the business environment in Turkey as conducive to the development of their business, and, as such, Turkey is seen as an attractive market compared with other similar emerging markets.
  - ❏ Respondents indicate level of investment incentives and access to credit and expansion capital as areas for improvement.
- In general, satisfaction with the macroeconomic environment in Turkey remained at a median level.
  - ❏ The interest rate environment in Turkey, Turkish lira exchange rate, and inflation are cited as priorities for improvement.
- Comparative annual scores on infrastructure quality in Turkey show a consistent positive trend since 2013.
  - ❏ The key strengths of Turkey's infrastructure are internet speed and quality, airport infrastructure, and the road and highway networks. More than half of respondents found the electrical power infrastructure as sufficient for their business needs and operations.
  - ❏ 61% of the respondents expressed confidence that the long-term infrastructure development agenda will be carried out successfully.
  - ❏ Rail network and port infrastructural quality are highlighted as areas for improvement.
- Respondents' assessments of the taxation system in Turkey overall remained at a median level.
  - ❏ While 51% of respondents agree to the statement that tax rates change frequently and are difficult to predict, almost half of the respondents indicate that calculation and payment of individual and corporate taxes are complicated.
  - ❏ While still an area for improvement, comparative annual results indicate that respondents increasingly feel tax laws are being more equally applied across all businesses.
- Comparative annual scores on the education system and workforce show a continuous positive trend since 2013.
  - ❏ The greatest strengths of the Turkish labor market are its level of productivity, ability to provide skilled white-collar and clerical-level employees in line with the business community's needs, as well as the labor market's ability to provide workers that have satisfactory customer service and soft communication skills.
  - ❏ While 54% of respondents agree that the high-school educational system needs to be improved so that it can better serve the business community needs, 52% share the view that the availability of skilled blue-collar employees and the foreign language proficiency of the workforce are challenges for businesses. 69% of respondents also believe that the labor market should be more flexible.

2. METHODOLOGY AND OBJECTIVES

The objective of the project was to collect information about the perceptions of U.S. company executives on the business and investment environment in Turkey, examining the following topics: *General Business Environment, Macroeconomics, Infrastructure, Taxation System, Education and Workforce,* and *Future Expectations on Investment Trends.*

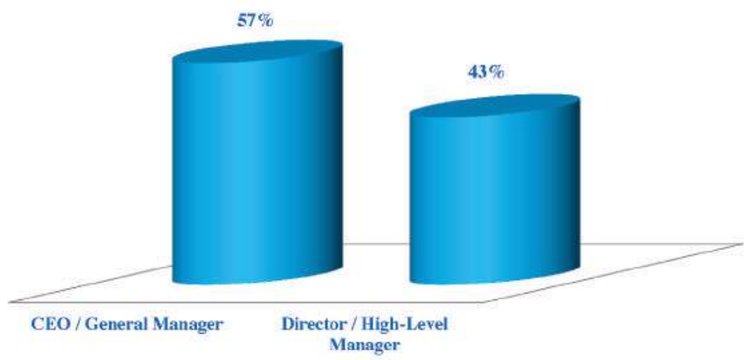
The study has two main components: The *Survey* with questions related to the business and investment climate in Turkey and the *Report,* which analyzes and presents the survey results in a comparable format over the years.

After the approval of the questionnaire as prepared by The Nielsen Company, the survey was transferred to an online survey platform and participants were invited to take the survey. The online survey was conducted from February to April 2016 and ended by May 2016. 106 participants from AmCham Turkey/ABFT member and non-member U.S. companies indicated their opinions on the business and investment environment in Turkey.

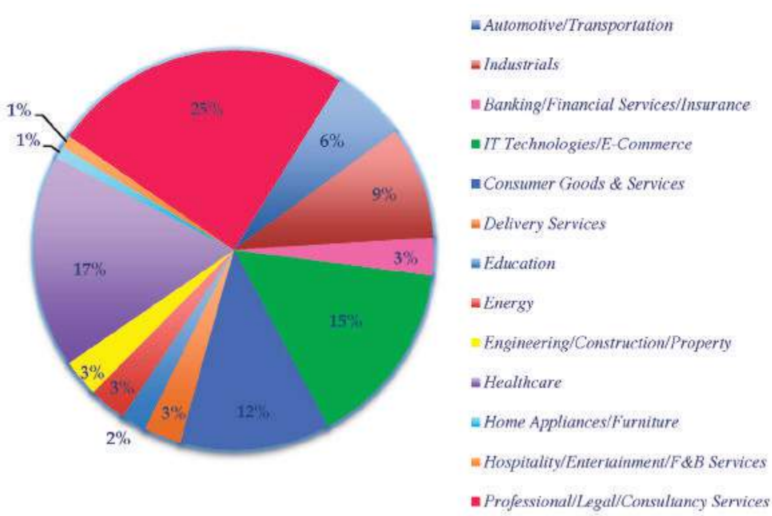
The questions were generally in a four-item Likert scale format, ranging from "totally agree" to "totally disagree". Scores presented in this report are computed by calculating the weighted averages and transforming them to a 100 scale. Scores approaching 100% represent total agreement; scores approaching 0%, total disagreement. The pink bars indicate each component's averages, calculated with an assumption that each question has an equal weight.

Response Rate and Respondents' Profile

106 companies participated in the survey and it was exclusively addressed to high-level business executives of U.S. companies in Turkey comprised of CEOs/General Managers as well as Directors with in-depth country experience and information about the overall business and investment environment in Turkey.



Profile of Participating Companies



3. BUSINESS and INVESTMENT CLIMATE in TURKEY 2016 REPORT

3.1. General Business Environment

Figure 1. Components of the General Business Environment

The above figure shows the positive answers given to questions regarding the business environment in Turkey. When the general average section score is considered, it is observed that the majority of the business environment components scored well.

The strongest elements of the business environment in Turkey are indicated as follows:

- Turkey's market potential and its geographical attractiveness as a hub for global companies' regional base of operations scored well, with 70% and 62% of the respondents, respectively, agreeing with these statements. Turkey's *market potential* received the highest score in the General Business Environment section.

- 61% of respondents indicate that Turkey is a priority market for their companies' global headquarters.

- Turkey's level of observation of its international obligations (62%) has been acknowledged as a positive factor in the domain of regulations.

- More than 50% of respondents agree that Turkey's business environment is conducive to the development of U.S. businesses and the business and investment environment of Turkey is more attractive compared to other similar emerging markets, each scoring above the section average.

On the other hand, below issues scored under the section average and are highlighted as areas for improvement:

- 63% of respondents share the perception that investment incentives need to reach an adequate level in Turkey to attract and maintain more foreign direct investments and that the cost of credit and access to expansion capital must be improved.

- The score in the public-private partnerships signals a need for improvement of agency-related issues, rather than major structural changes in Turkey.

Figure 2. Components of Business Environment in Comparative Perspective

The above figure reflects the changes observed in the views of U.S. company executives on the general business environment in Turkey for the years 2013, 2014-2015 and 2016.

- While Turkey's market potential and its attractiveness as a hub for companies to use as their regional base of operations continue to score well, comparative analysis indicates slight decreases in respondents' assessments for these indicators. Overall, there has been 5% decrease in Turkey's market potential and 8% of decrease in Turkey's attractiveness as a regional hub.

- The conduciveness of Turkey's business environment shows 1% of decrease while assessments regarding Turkey's comparative attractiveness in relation to other similar emerging markets show a decline of 2%.

- Turkey's compliance with its international obligations remains among the key drivers of international investments in the country, showing 62% of agreements in the past two years.

- Comparative annual scores indicate that better investment incentives and improved access to credit and expansion capital are areas for improvement.

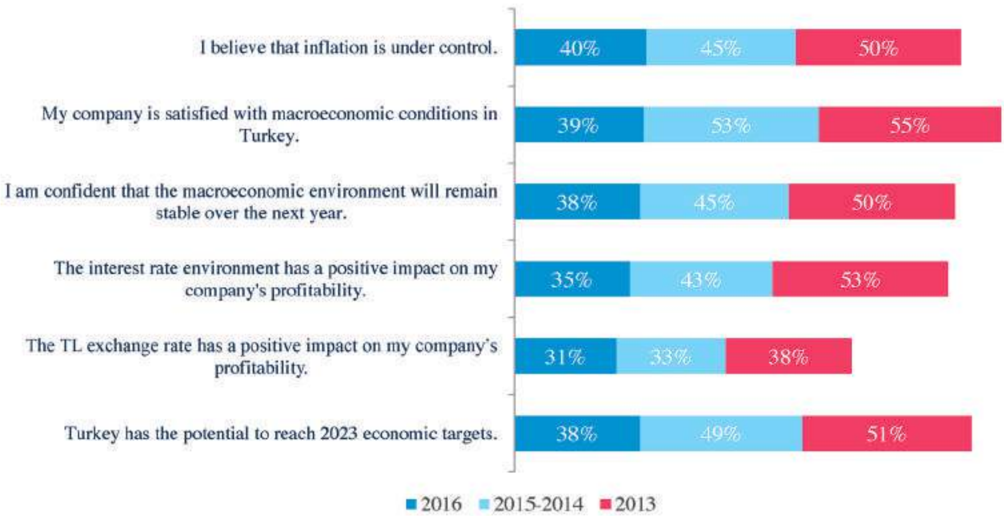
3.2. Macroeconomic Conditions

Figure 3. Components of Perceptions about Macroeconomic Conditions

The above graph reflects respondents' views on Turkey's macroeconomic conditions. The overall observation is that satisfaction with the macroeconomic conditions in Turkey remained at a median level, in general.

Areas for improvement in this domain are the Turkish lira exchange rate, interest rates, and control of inflation.

Figure 4. Macroeconomic Environment in Comparative Perspective



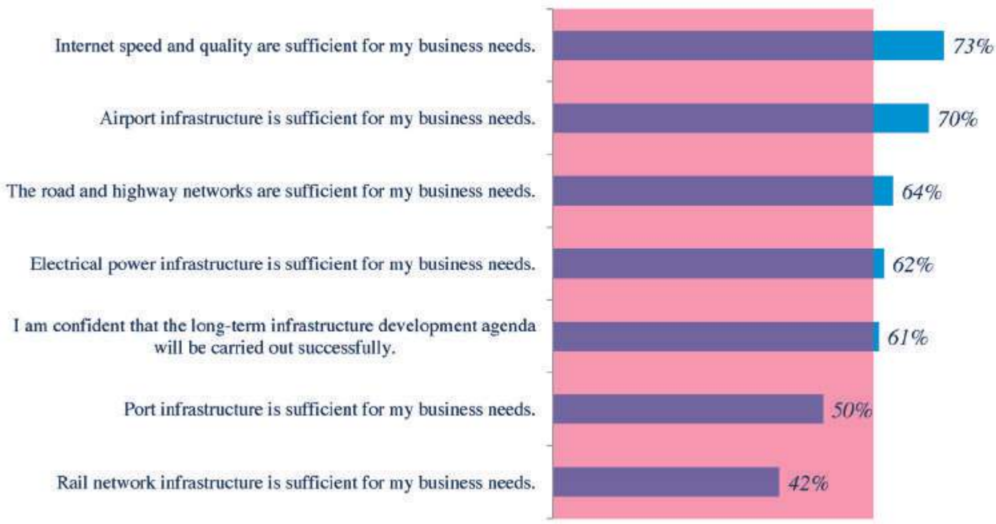
The above graph allows us to make a comparison with the previous years' results on the macroeconomic environment in Turkey.

Satisfaction with the macroeconomic conditions in general declined 14% in comparison to 2014-2015, and confidence in the stability of macroeconomic environment has declined 7%.

Since 2013, a consistent pattern is observed for necessary improvements in three specific areas: interest rates, inflation control and Turkish lira exchange rates.

3.3. Infrastructure

Figure 5. Components of Perceptions about Infrastructure

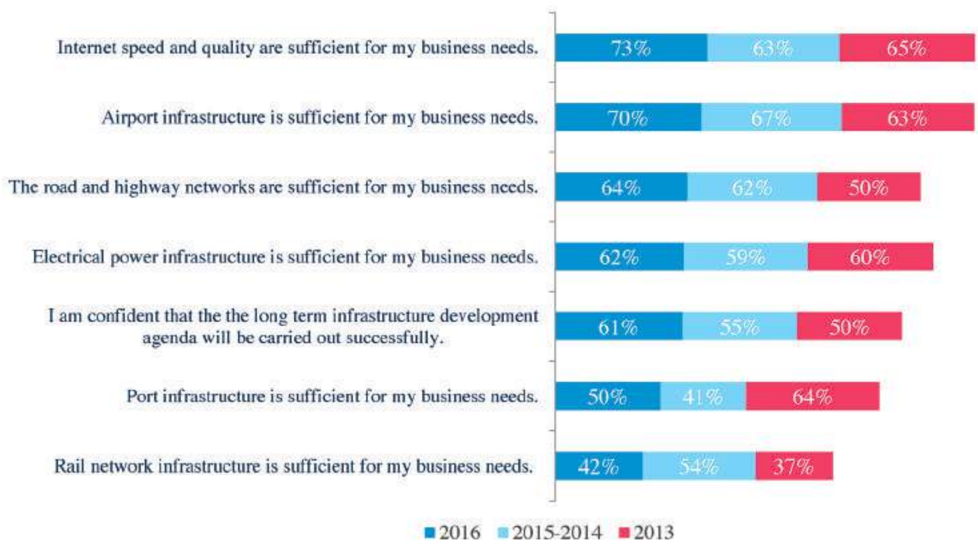


The above figure shows the components of perceptions of infrastructure in Turkey. Overall, assessments on infrastructure quality in Turkey demonstrate that internet speed and quality, airport infrastructure, and road and highway networks are among the key strengths of the country.

More than half of the respondents found Turkey's electrical power infrastructure to be sufficient to serve business needs and operations.

While 61% of respondents have indicated their confidence that the long-term infrastructure development agenda will be carried out successfully, rail network and port infrastructural quality were highlighted as areas of improvement.

Figure 6. Perceptions about Infrastructure in Comparative Perspective



The above graph shows changes in perceptions of infrastructure quality in Turkey since 2013. Except for rail network infrastructure, assessments for all components have positively increased over the years.

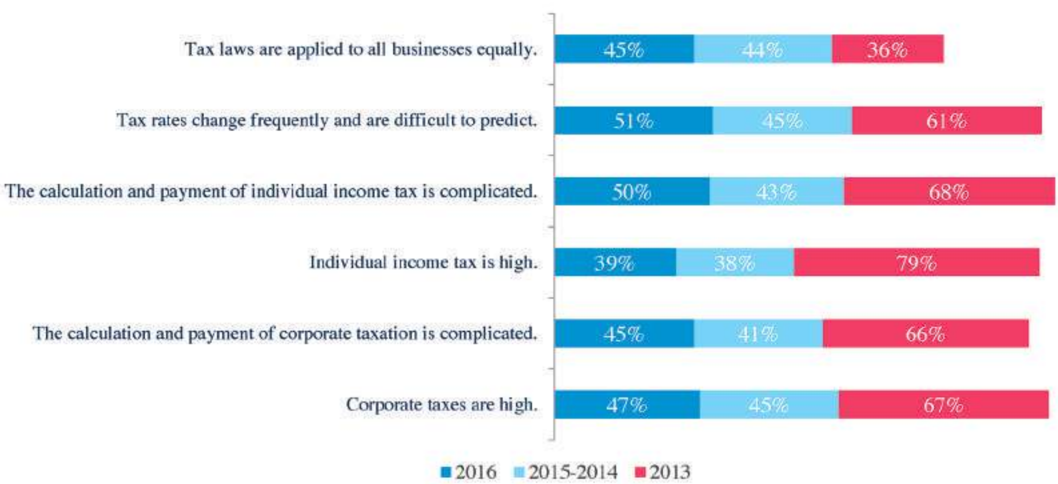
Significant positive changes are observed in respondents' assessments about the quality of port infrastructure (9% of increase) and internet speed and quality (10% of increase) as well as confidence that the long-term infrastructural development agenda to be carried out successfully (6% of increase).

3.4. Taxation System

Figure 7. Components of Perceptions about Taxation System

The above graph shows the components of perceptions of taxation system in Turkey. While 51% of respondents agree to the statement that tax rates change frequently and are difficult to predict, almost half of the respondents indicate that calculation and payment of individual and corporate taxes are complicated. 47% of respondents find that corporate taxes are high, while this ratio is 39% for individual income tax.

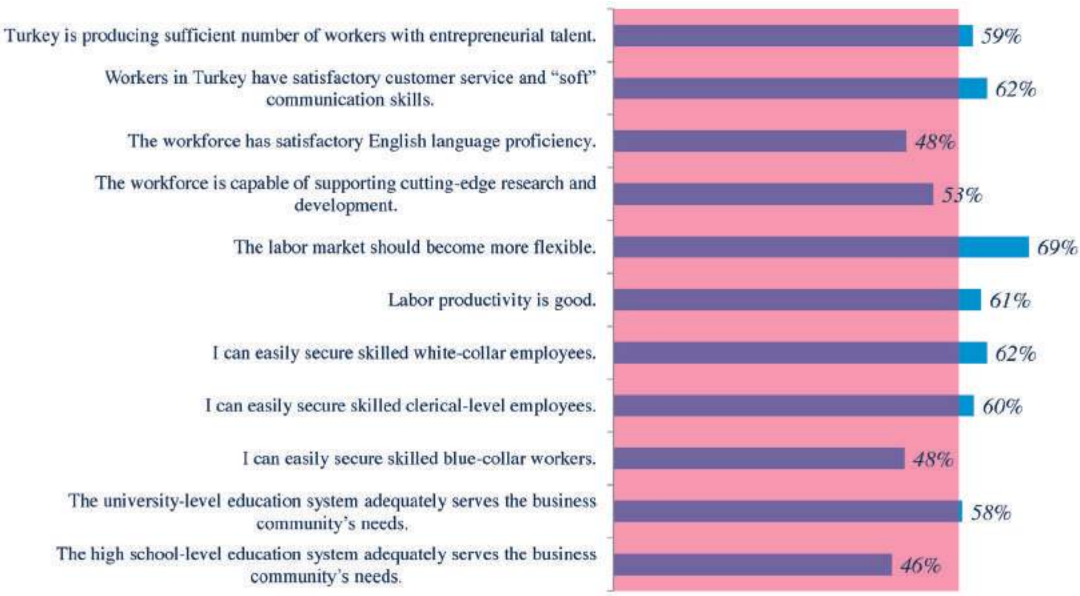
Figure 8. Components of Perceptions about Taxation System in Comparative Perspective



The above graph depicts the changes observed in perceptions on the taxation system in Turkey. While still seen as an improvement area, comparative annual analyses show that respondents increasingly assert that tax laws are being more equally implemented across all businesses.

3.5. Education and Workforce

Figure 9. Components of Perceptions about Education and Workforce



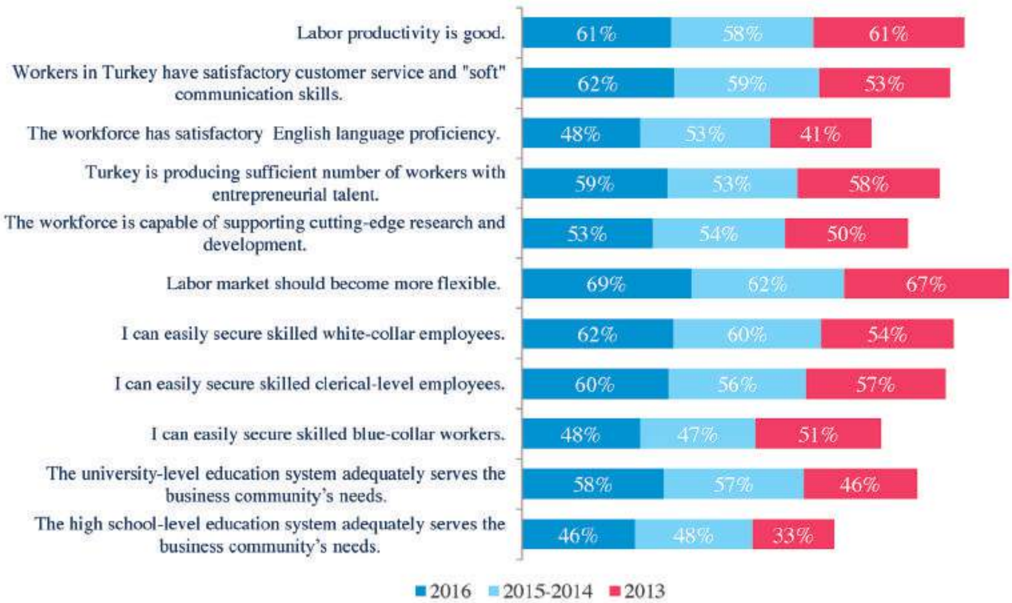
The above graph shows that the strongest aspects of the Turkish labor market are its level of productivity, its ability to easily provide skilled white-collar and clerical-level employees in line with the U.S. business community's needs, as well as labor market's ability to provide workers that have satisfactory customer service and soft communication skills.

The perceptions that the university-level education system is adequate for the business community's needs and that Turkey is producing a sufficient number of workers with entrepreneurial talent also scored above the general section average at 57%.

Respondents' assessments of the workforce's foreign language proficiency and the capacity of the workforce to support cutting-edge research and development remained at a median.

While 54% of respondents agreed that the high-school education system needs to be improved so that it can better serve the business community needs, 52% shared the view that the availability of skilled blue-collar employees is a challenge for businesses, requiring further attention.

Figure 10. Perceptions about the Education and Workforce in Comparative Perspective



The above graph shows changes in perceptions about the education system and workforce in Turkey.

The overall observation is that assessments for the majority of components under investigation have improved over the years. Significant changes are observed in respondents' assessments on labor productivity and increased customer service and soft communication skills of workers (3% of increases), availability of sufficient number of workers with entrepreneurial talent (6% of increase), and ease of securing skilled clerical (4% of increase) and white-collar employees (2% of increase).

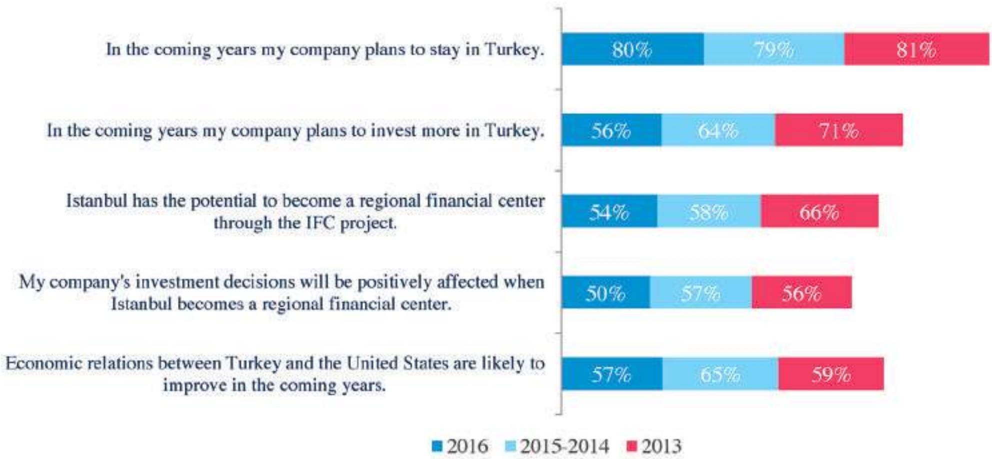
The main areas for improvement were identified as foreign language proficiency levels, flexibility of labor market conditions, changes in the high-school education system to better serve business community needs and increased availability of blue-collar workers.

3.6. Future Expectations on Investment Trends

Figure 11. Components of Investment Tendencies

As shown in the graph above, participant companies have a strong tendency to stay in Turkey in the coming years (80%). More than half of the respondents state that they plan to invest more in Turkey, that Istanbul has the potential to become a regional financial center, and that bilateral economic relations between Turkey and the U.S. are likely to improve in the coming years.

Figure 12. Perceptions about Investment Tendencies in Comparative Perspective

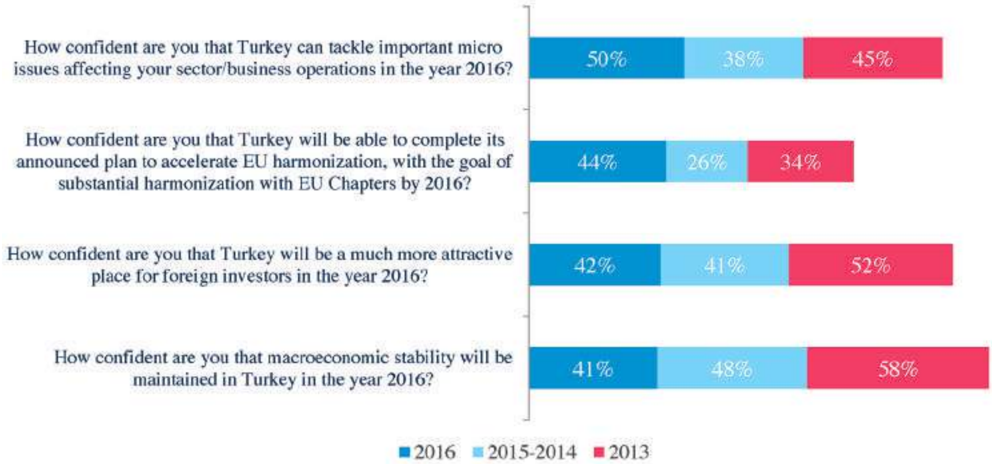


The above graph shows changes in perceptions about future expectations for investment trends. There is a strong tendency for companies to continue their operations in Turkey. A majority of respondents believe that Istanbul can become a regional financial center.

Figure 13. Components of Future Expectations

The above graph shows respondents' confidence that factors affecting the business climate will improve. While 42% of respondents believe that Turkey will be a more attractive place for foreign investors in 2016, half believe that Turkey can tackle important industry-based issues affecting business operations this year.

Figure 14. Perceptions on Future Expectations in Comparative Perspective



The graph above shows changes in respondents' assessments as to future expectations in Turkey. The comparative annual scores indicate a positive trend in increased confidence in tackling important industry-based issues (12% of increase) and for Turkey to be able to accelerate its EU harmonization (18% of increase).

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