



American Business Forum In Turkey

Business & Investment Climate in Turkey Survey Report 2018

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BUSINESS & INVESTMENT CLIMATE SURVEY

2018

“We are the strong voice of American business in Turkey”



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Message from the Executive Director



Dear Colleagues,

AmCham Turkey/ABFT celebrates its **15th year** in 2019, with the main mission to act as a bridge between Turkey and the U.S. to further improve bilateral trade and investment.

The **“Business and Investment Climate in Turkey”** survey that is conducted since 2007, serves as a tool to support our work to further improve and strengthen the business and investment environment in Turkey and to stimulate foreign direct investments.

The Survey acts as a platform through which AmCham members and non-members can share their views on the business climate in Turkey, under 6 main topics: general investment climate, infrastructure, taxation system, education system and workforce, investment trends and digital ecosystem.

We would like to thank **U.S. company executives** who participated in our Survey, **Nielsen** for their cooperation and research analysis and our research sponsor and member **Iron Mountain** for their contribution.

Regards,

Aslı ÖZELLİ
Executive Director
AmCham Turkey/ABFT

About AmCham Turkey/ABFT

AmCham Turkey/ABFT is a business association and NGO comprised of 110 prominent U.S. companies. 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 and investment and to support Turkey's economic development by strengthening the business environment and stimulating foreign direct investments.

As an affiliate of the U.S. Chamber of Commerce, AmCham Turkey endeavors to be a trusted and credible business partner for the public and private sectors in Turkey and the U.S.

In the past 15 years of operations, AmCham Turkey held a number of business events, hosted numerous officials from Turkey and the U.S., and conducted research to further develop bilateral economic relations. It is also continuously engaged in the promotion of its members' interests.

'Business and Investment Climate in Turkey' survey has been conducted since 2007 to better understand the outlook and perceptions of senior executives of U.S. companies operating in Turkey on the business and investment climate. The survey was conducted by the Nielsen Company for 2015, 2016 and 2018 with a comparative analysis.

About Nielsen



Nielsen is a global measurement and data analytics company that provides the most complete and trusted view available of consumers and markets worldwide. Our approach marries proprietary Nielsen data with other data sources to help clients around the world understand what's happening now, what's happening next, and how to best act on this knowledge.

For more than 90 years Nielsen has provided data and analytics based on scientific rigor and innovation, continually developing new ways to answer the most important questions facing the media, advertising, retail and fast-moving consumer goods industries. An S&P 500 company, Nielsen has operations in over 100 countries, covering more than 90% of the world's population.

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The Business and Investment Climate in Turkey 2018 Report findings are summarized as follows:

- Overall, respondent companies have a strong tendency to continue their operations in Turkey. The future investment propensity remains high, with more than half of the respondents having plans to invest more in the coming years.
- 73% of respondents believe that the market potential of Turkey is considerable, while 64% consider Turkey as being an attractive regional hub for companies in their sector.
- Additionally, 60% of respondents believe that Turkey is a priority market for their companies' global headquarters.
- The business world's positive perceptions on the market potential of Turkey have been maintained over the years;
 - *The strongest elements of Turkey's business environment are its market potential (73%), advantageous geopolitical position for commercial activities (65%), attractiveness as a hub for regional operations (64%), Turkey's place in the World Bank Doing Business rankings (61%) and its status of being a priority market for company headquarters (60%).*
 - *Respondents indicate level of investment incentives, access to credit and expansion capital, public-private partnerships, frequent changes on legislations and regulations as areas for improvement.*
- Two new components on investment tendencies provide promising results on the innovation ecosystem;
 - *More than half of the respondent companies (53%) follow entrepreneurs & start-up companies and they can consider supporting them if it will avail to the company.*
 - *45% of the respondent companies invest in R&D activities in Turkey.*
- In relation to that, the results of the Report's new section "Digital Economy" highlights the following results;
 - *Half of the respondents believe Turkey has a technological infrastructure to contribute to its digital ecosystem, and the country has a positive approach to the "protection of data" and "cyber security".*
 - *46% of respondents consider Turkey to have adequate education and workforce to develop its digital ecosystem and 44% believe the country has a beneficial digital ecosystem that is useful for their companies.*

- Comparative annual scores on infrastructure quality in Turkey show a positive trend;
 - *The key strengths of Turkey's infrastructure are specified as the internet speed and quality, airport infrastructure, as well as road and highway networks.*
 - *More than half of the respondents expressed confidence in the long-term infrastructure development agenda.*
 - *Rail network and port infrastructure are highlighted as areas for improvement.*
 - *A new component on the "Mega Projects" found out that nearly half of the respondents plan to put Turkey's Mega Projects on agenda.*
- Respondents' assessments of the taxation system overall remained at a median level.
 - *42% of respondents agree to the statement that tax rates change frequently, while there is a 9% improvement in this area compared to 2016.*
 - *40% indicate that calculation and payment of corporate taxation is complicated and remains to be an area of improvement.*
- Annual scores on the education system and workforce show a positive trend, and a new component of the study highlights that 57% of the respondent companies aim to increase employment this year.
 - *The greatest strengths of the Turkish labor market are highlighted as the level of productivity, availability of skilled white-collar employees, satisfactory customer service and soft communication skills, and entrepreneurial talent.*
 - *Half of the respondents agreed that there is room for improvement related to university level and high school education, foreign language proficiency, and skilled blue-collar employees.*

METHODOLOGY & OBJECTIVES

The objective of the **Business & Investment Climate Survey** is to collect and assess the perceptions of U.S. company executives on the business and investment environment in Turkey.

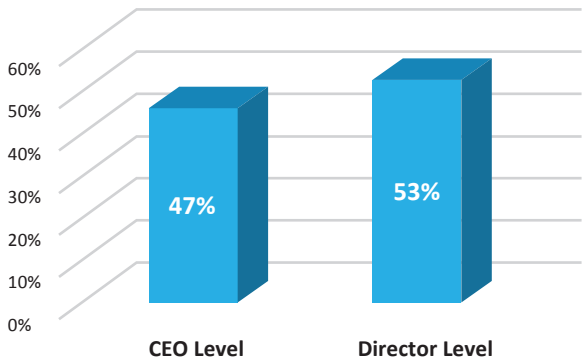
The survey examines the key topics including; *General Business Environment, Investment Trends, Infrastructure, Taxation System, Education and Workforce*, and a new section called the “*Digital Ecosystem*”.

The survey was conducted by The Nielsen Company through an online platform between April and September 2018. Overall, 80 high level executives from 60+ different U.S. companies including both AmCham members and non-members participated to the survey.

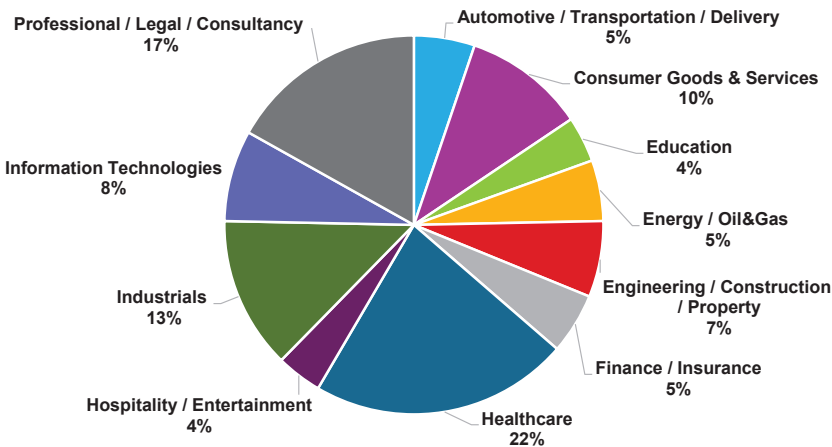
The survey questions were generally in a four-item Likert scale format, ranging from “totally agree” to “totally disagree”. Scores are computed by calculating the weighted averages and transforming them to a 100 scale. Scores approaching 100% represent total agreement; scores approaching 0% total disagreement.

Response Rate and Respondents’ Profile

60+ U.S. companies from diverse sectors participated to the survey. The survey was exclusively addressed to high-level executives of U.S. companies in Turkey including CEOs as well as Directors with in-depth country experience and information on the overall business and investment environment.

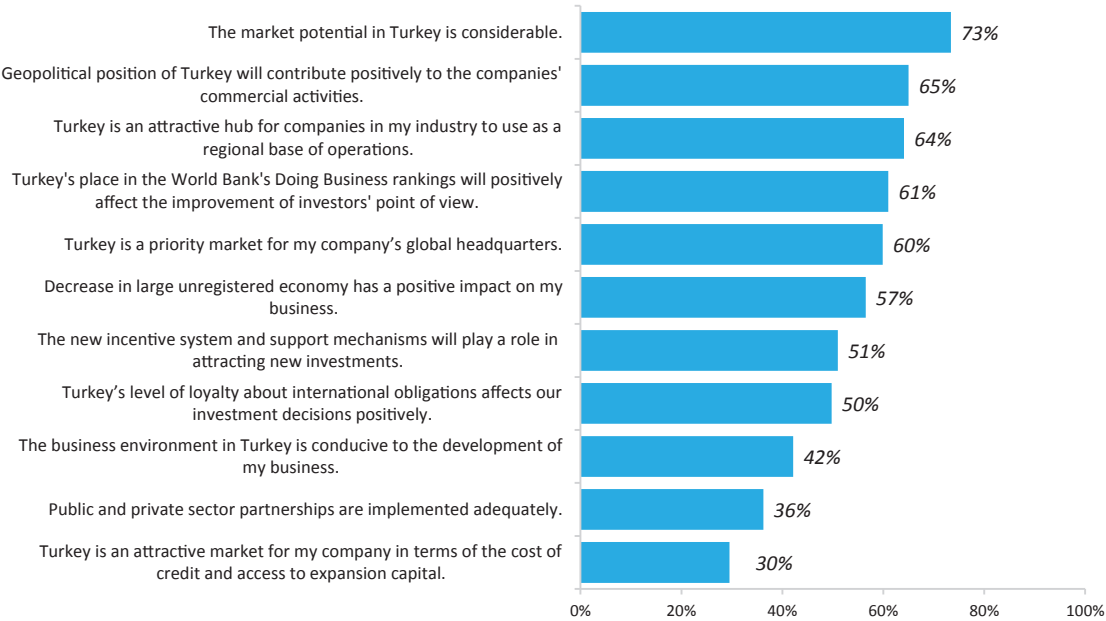


Sectoral Breakdown of Participant Companies



GENERAL BUSINESS ENVIRONMENT

Figure 1 - Components of the General Business Environment



Considering the general average of the section scores, it is observed that a meaningful number of general business environment components has been scored well above the average.

The strongest elements of the business environment can be indicated as follows;

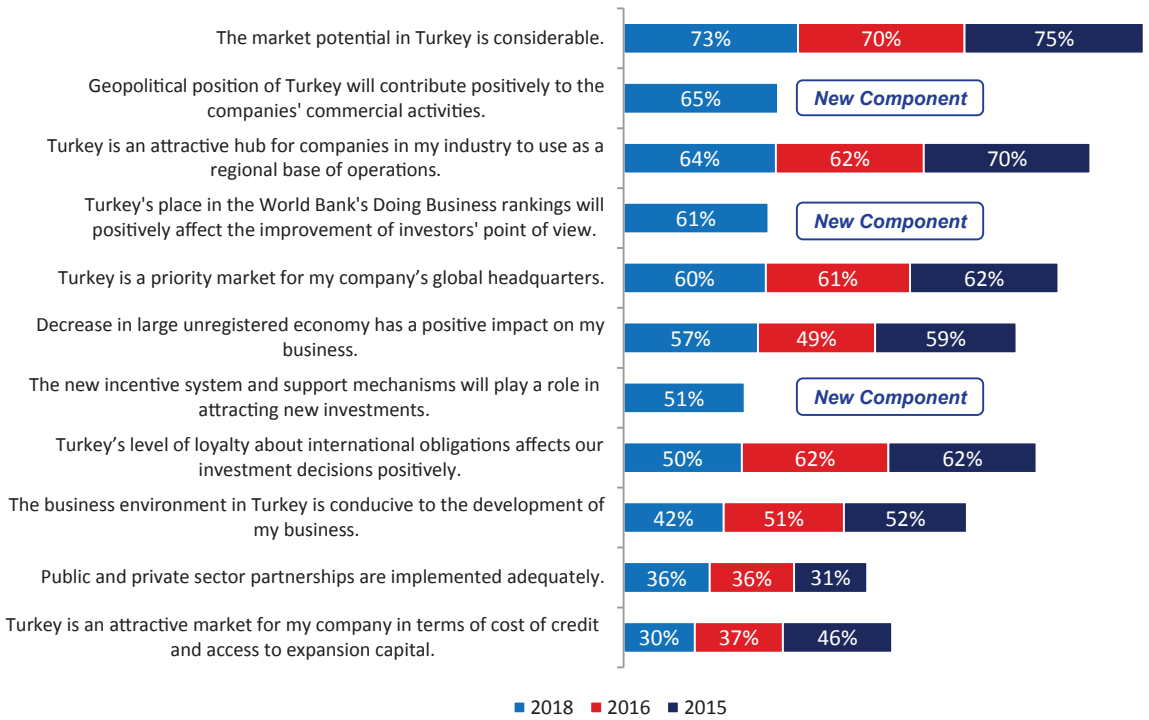
- *Turkey's market potential and geographic attractiveness* for the global companies' commercial activities and *regional hubs* scored well, with respectively 73%, 65% and 64% of the respondents agreeing with these statements.
- 60% of the respondents indicate that *Turkey is a priority market* for their companies' global headquarters, while 61% believe Turkey's place in the *World Bank's "Doing Business" Rankings* will positively affect the improvement of investors' point of view.
- More than 50% of respondents agree that *the new incentive system and support mechanisms* will play a role in attracting new investments and *decrease in large unregistered economy* has a positive impact on their business.

Below areas scored under the section average are highlighted as areas for improvement:

- 64% of respondents share the perception that *public and private sector partnerships* need to be implemented more adequately, and thus efficiently.
- The score in *the cost of credit and access to expansion capital* signals a need for improvement to attract more foreign direct investments.

OUTCOMES of the 2018 REPORT

Figure 2 - Business Environment in Comparative Perspective

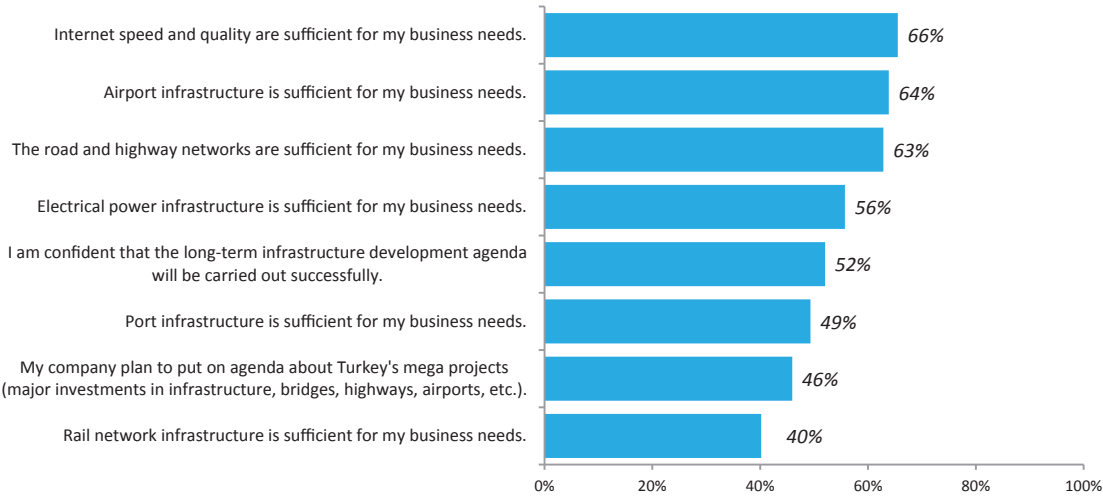


The graph reflects the changes observed in the views of U.S. company executives on the general business environment in Turkey for the years 2015, 2016 and 2018.

- Turkey's market potential and its attractiveness as a **hub** for companies to use as their regional base of operations continue to score well. Overall, there has been 3% increase in Turkey's market potential and 2% increase in Turkey's attractiveness as a regional hub.
- The new components of the research give results above the average, indicating positive feedback with 65% on Turkey's geopolitical position, 61% on Turkey's place in the World Bank's Doing Business rankings and 51% on the new incentive system.
- Comparative analysis indicates a slight decrease in respondents' assessments for the conduciveness of Turkey's business environment that show 9% decrease and attractiveness in relation to cost of credit and access to expansion capital that show a decline of 7%.
- Turkey's position of being a priority market for U.S. companies remain the same with 60% of agreement among respondents in the last 4 years.
- Comparative annual scores indicate that investment incentives, access to credit and expansion capital and compliance with international obligations are areas for improvement.

INFRASTRUCTURE

Figure 1 - Components of Perception on Infrastructure

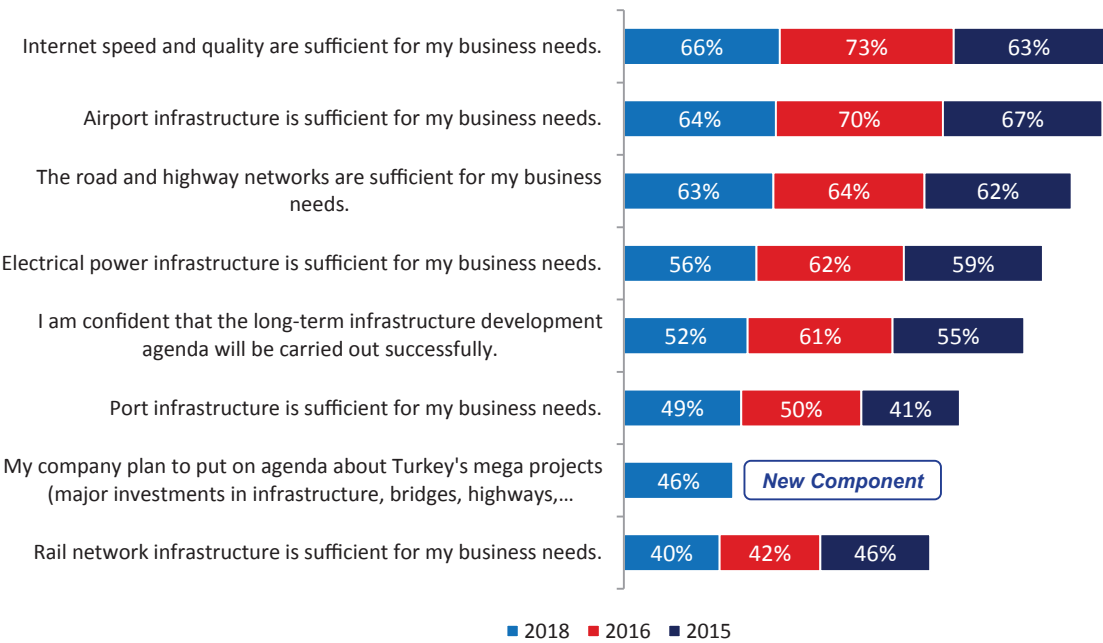


Overall, assessments on infrastructure in Turkey point out that *internet speed and quality, airport infrastructure, as well as road and highway networks* are considered as the country’s key strengths.

High-value opportunities offered by Turkey on mega projects, including major investments such as airports, highways and bridges, in line with its geopolitical position, led around 50% of U.S. investors to consider putting these projects on their agendas.

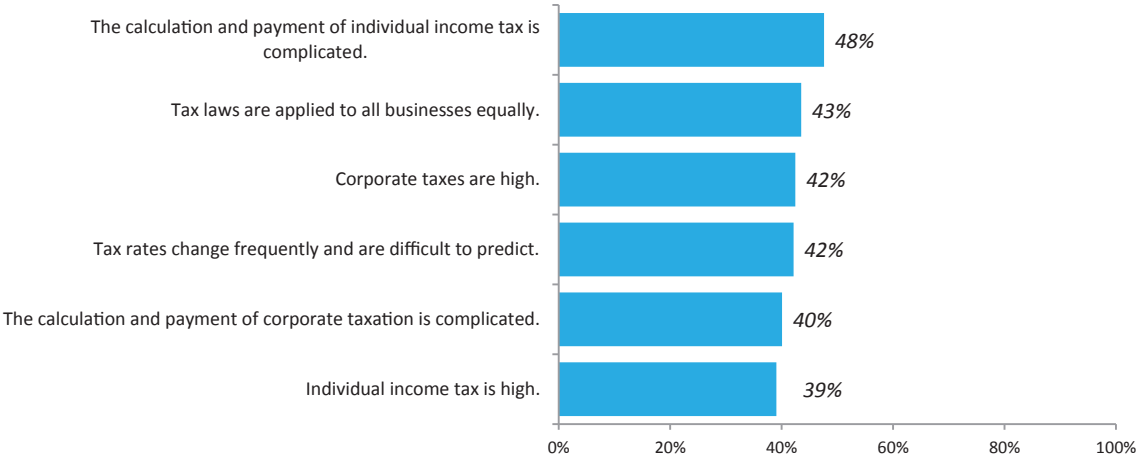
While 52% of the respondents indicated their confidence on the successful implementation of long-term infrastructure development agenda, *port infrastructure and rail network* are highlighted as areas of improvement.

Figure 2 - Infrastructure in Comparative Perspective



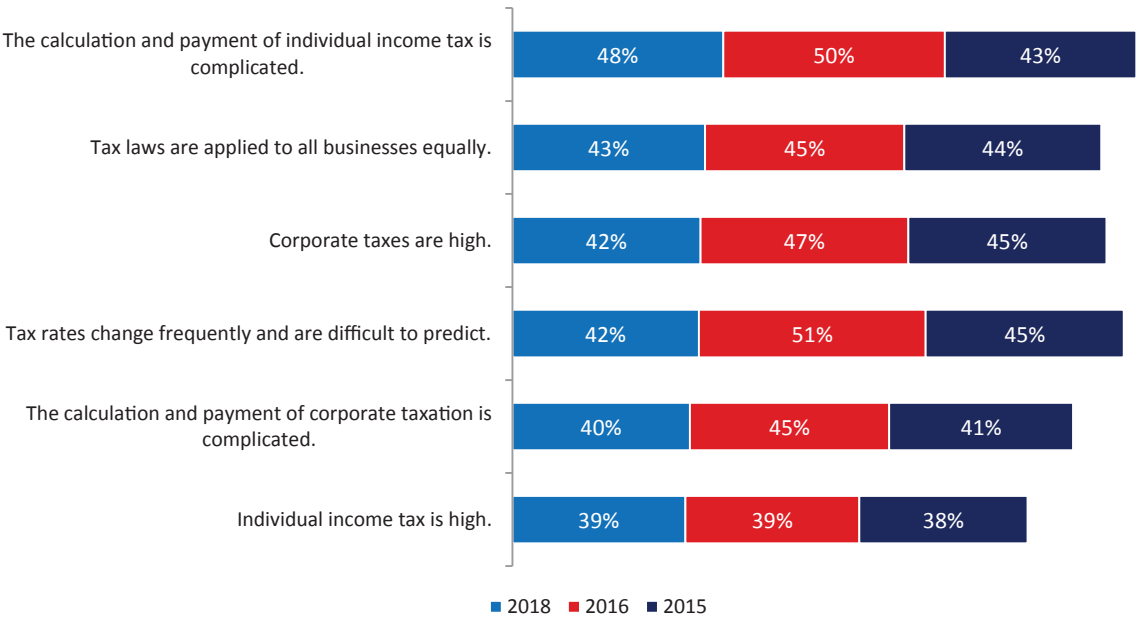
TAXATION SYSTEM

Figure 1 - Components of Perception on Taxation System



Around 40% of the respondents believe that *tax laws* are applied to all businesses equally, while the same number of respondents point out that *tax rates* change frequently, corporates taxes are high, the calculation and payment process is complicated. *Taxation system* is still seen as an improvement area with similar rate of responses received over the last three years.

Figure 2 - Taxation in Comparative Perspective



EDUCATION & WORKFORCE

Figure 1 - Components of Perception on Education & Workforce



The strongest aspects of Turkish labor market are its *level of productivity*, its ability to provide *skilled white-collar 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*.

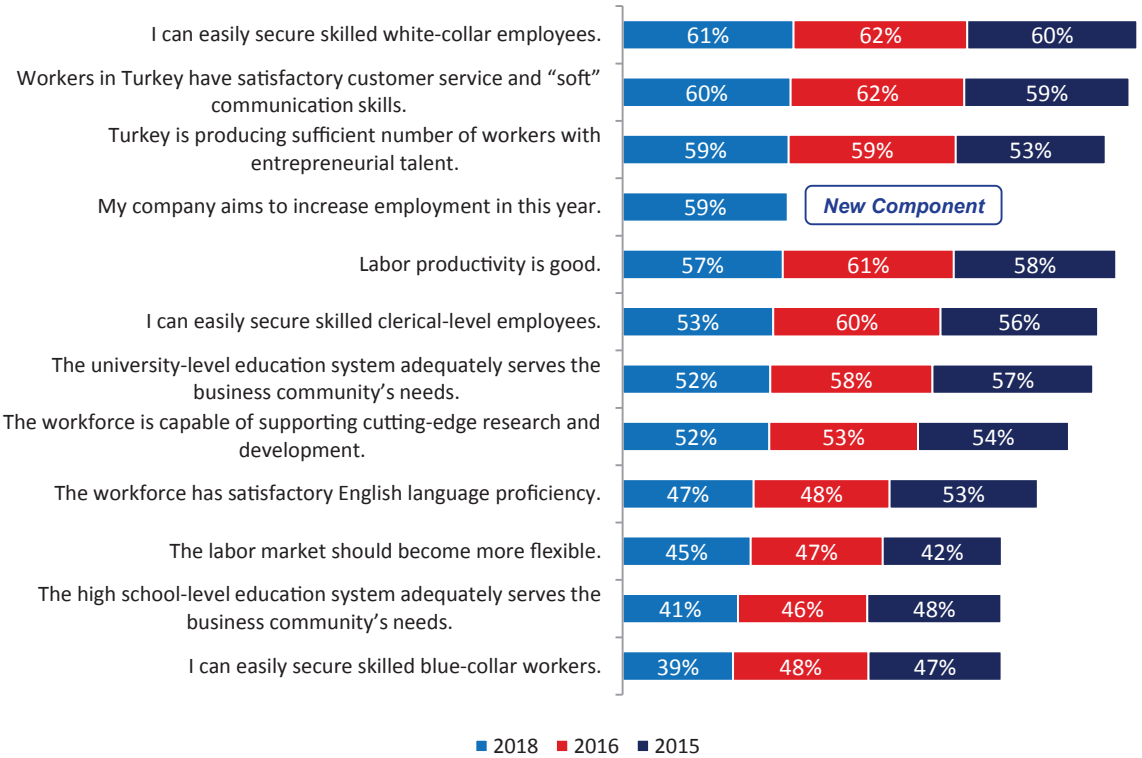
Additionally, 59% of the U.S. company executives indicated that their company aims to *increase employment* this year, and they believe Turkey is producing a meaningful number of employees with *entrepreneurial talent*.

Respondents’ assessments on the capacity of the workforce to support *cutting-edge research* and the adequacy of the *university-level education system* to serve the business community’s needs remained at a median.

While 59% of respondents agreed that the *high-school education system* needs to be improved to better serve the business community needs, the *availability of skilled blue-collar employees* and *English language proficiency* remains to be a challenge for businesses, requiring further attention

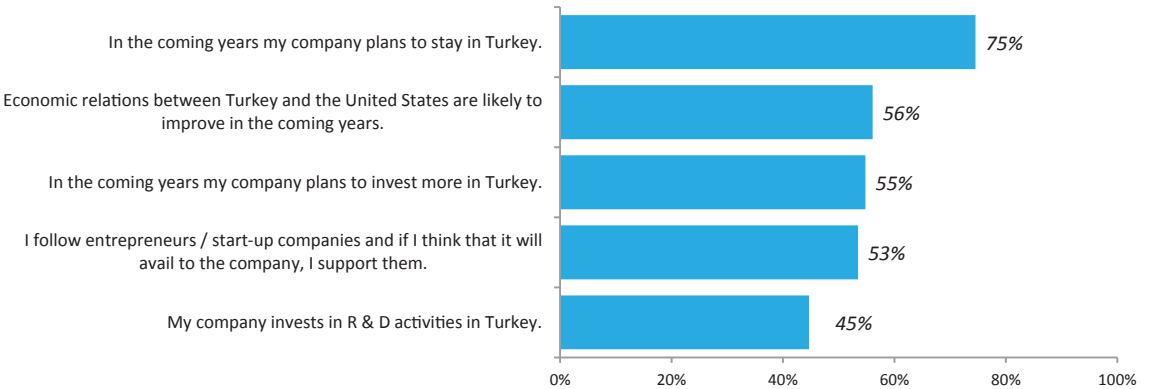
OUTCOMES of the 2018 REPORT

Figure 2 - Education & Workforce in Comparative Perspective



INVESTMENT TRENDS

Figure 1 - Components of Perception on Investment Trends

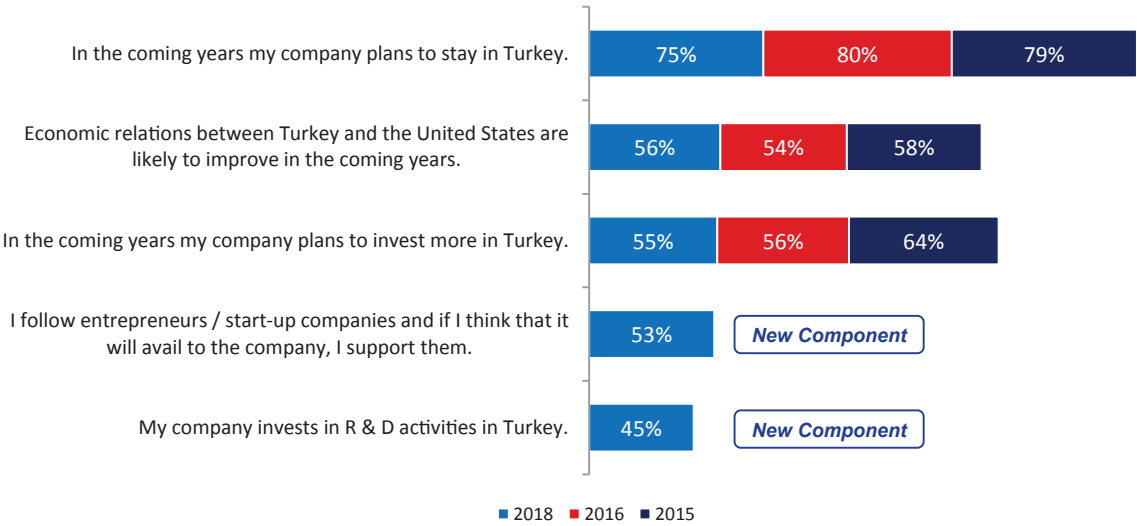


Participant companies have a **strong tendency to stay in Turkey** in the coming year with a rate of 75%. Additionally, more than half of the U.S. companies indicated that they **plan to invest more in Turkey** and 56% of the respondents believe that **bilateral economic relations** between Turkey and the U.S. will further improve in the coming years.

Among the participants, 45% of the U.S. companies have **R&D investments** in Turkey and 53% of them follow **entrepreneurs and start-up companies** for further investments.

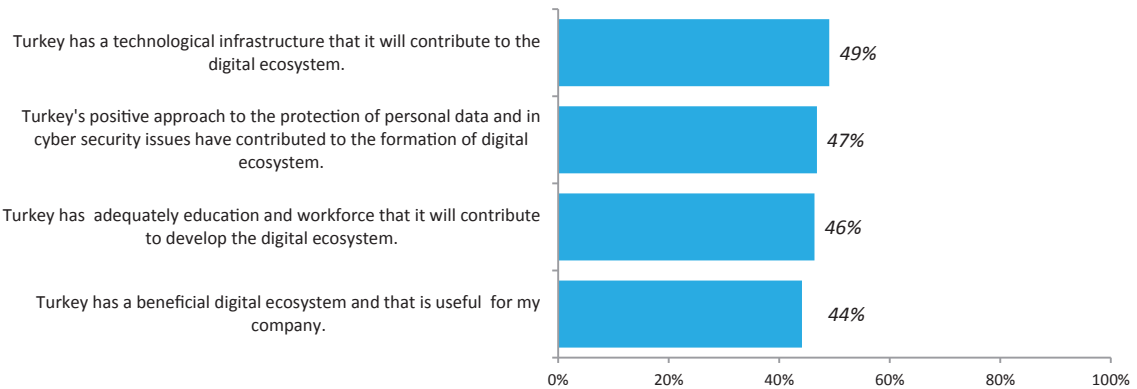
OUTCOMES of the 2018 REPORT

Figure 2 - Investment Trends in Comparative Perspective



DIGITAL ECONOMY

Figure 1 - Components of Perception on Digital Economy



The **Digital Economy** section is a newly created section to reflect and measure the digital trends in doing business across the globe. Around half of the U.S. company executives believe that Turkey has the **technological infrastructure**, as well as adequate **education and workforce** to support the digital ecosystem. Nearly the same ratio of respondents also believe that Turkey has a positive approach to **cyber security** issues and **protection of personal data** and the country's digital ecosystem is useful for their companies.

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