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# Is Turkey doing enough to drive FDI to sustain its domestic economy?


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**Pelin Baysal, partner, and Begüm Okumus, senior associate, of Turkish Law firm Gün + Partners, on the Turkish government's ambitious plans for the country's economy**

Owing to its geo-political importance Turkey has long been a popular recipient of foreign-direct investment (FDI). 2014 has seen FDI rise significantly with an increase of 9.8% compared to 2013. Foreign investments also reached USD 8.6 billion according to data released by the Ministry of Economy.

Between January and July 2014, some 2373 new companies and branch offices were established and an additional 94 foreign capital participations to existing local companies were also made. To date, the total number of international companies operating in Turkey is just over 40,000, 63% of these originate from the EU – where Germany leads investment levels followed by the UK.

Both the hosting company and the investor have benefitted from increased levels of FDI in Turkey. Investors are seeking to find the most appropriate country to minimize costs incurred for the production and transportation of goods and also seeks to be located close to key resources. Turkey, as a host country, is seeking to increase its employment levels, productivity and income flow.

As a developing nation, Turkey is seen as a favoured destination for investment, yet it faces challenges in terms of adopting national policies to suit the needs of foreign investors. There have been calls to establish more transparent, broader and more effective policies to facilitate FDI, whilst stabilizing the economic and political environment.

The investment legislation and incentive system in Turkey is widely considered to be investor friendly with foreign investors being subject to the same treatment as local investors.

The objective of Turkey's Foreign Direct Investment Law is chiefly to encourage foreign investment whilst also protecting the rights of foreign investors, defining both investments and the investor in line with international standards, and transforming the screening and approval system into a notification based structure.

Notably, foreign investors may freely transfer profits, dividends and proceeds from the sale or liquidation of all or any part of investment proceeds derived from their commercial activities as well as payments under license and management agreements.

The Turkish government has set ambitious goals for the next decade, which include becoming one of the world's ten largest economies, the aim is to reach this goal and for it to coincide with the centennial of the founding of the Republic. In order to realize these targets, several key sectors such as finance, energy, infrastructure and TMT were identified – and there is no doubt that these ambitious goals cannot be achieved without high levels of FDI.

In order to attract more investment, the government adopted a structural incentive system in 2012, the outcome of which has been seen in the preceding years. With the intention of decreasing the current account deficit and decreasing the development disparities among the regions, the incentives includes among others VAT exemption, tax reduction, social security premium support, land allocation, interest rate support and income tax withholding allowances.

The Turkish government has also overseen the establishing of special investment zones. These are in areas such as technology development, organized industrial zones and free zones which provide investor friendly environment with exemptions from various duties and taxes.

In the area of life sciences, the Ministry of Health is planning to open health "free zones", which will include hospitals, rehabilitation centers, nursing houses and R&D centers. The government has also encouraged foreign investors to move their manufacturing sites to Turkey. In the medical devices sector, Covidien established an innovation centre in Istanbul making USD 21 million of investment and is the global company's fourth innovation centre (after those in China, India and South Korea). Similarly Recordate, the Italian pharmaceuticals giant, broke new ground with its USD 50 million new plant, creating 130 new jobs.

In terms of information, communication and technology, Ericsson, Huwai and Vodafone are among the biggest investors in Turkey. Huawei recently established its second largest R&D centre in Istanbul with a USD 50 million of investment.

Renault, Ford and Hyundai have also recently established manufacturing plants in Turkey. Ford Otosan has built its third manufacturing plant in Turkey totalling USD 534 million accompanied by a R&D centre with an extra USD 27 million of investment.

In the energy sector, the Turkey Trans Anatolian Pipeline Project (TANAP) was approved to build a transit link for Caspian gas through Turkey to the European market. TANAP is a strategically important project for Turkey and the region.

Nuclear energy has also been on the agenda for some time with nuclear plants to be constructed in Akkuyu and Sinop among big recently approved energy projects with Russia's Rosatom establishing a company in Turkey to oversee these developments.

Another key issue is renewable energy. The goal is to maximise renewable energy resources and further develop feed-in tariffs to attract investors.

There are many reasons for foreign investors to invest in Turkey. It has had a notable economic performance in the last 10 years, largely surviving the global economic turmoil unscathed. Its market size coupled with its highly skilled labour force and strategic location has prompted international institutions to express more confidently their predictions on continued investment growth.