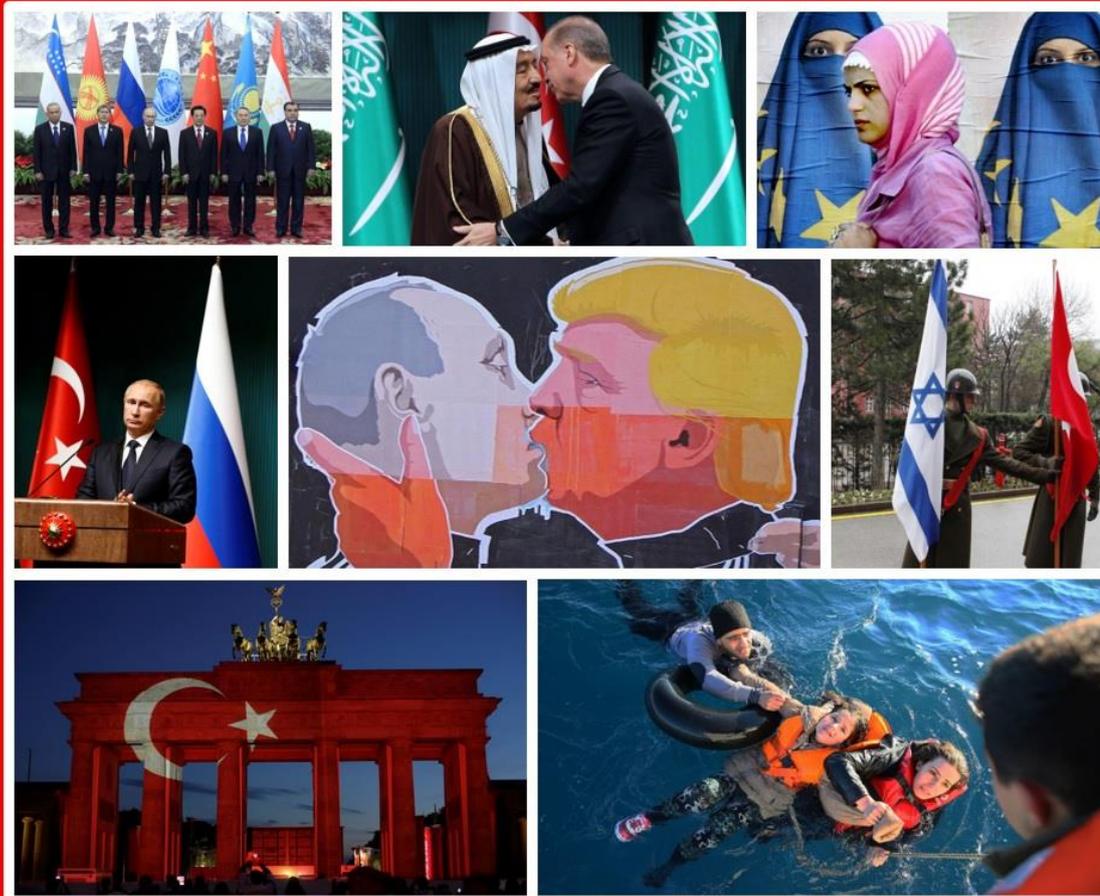




Turkey Outlook 2017

Assessing the risks and opportunities on political, economic and security domains for international business

A special report by QU4TRO Strategies

**TURKEY
OUTLOOK
2017**
RISKS & OPPORTUNITIES



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Executive Summary

As we have started to feel the heat of 2017, Turkey, being in the epicentre of the rift between the East and the West, is going through a huge change in business, politics, and security domains that offer plenty of opportunities and pose significant risks to keep an eye on, as well.

Turkey's performance as an emerging regional power since 2000 has been impressive. It also recovered well from the global crisis of 2008/09. However, developments since 2012 raise concerns about Turkey's capacity to sustain progress.

The influx of more than 3 million Syrian refugees in 2015–16 created new social, economic, and political demands. Political developments in 2015 and 2016 have presented further challenges.



A young refugee plays violin in front of a line of Turkish police at Edirne, a border town in western Turkey.

Elections in June and November 2015, a cabinet reshuffle in May 2016, an attempted coup in July 15th, and the consequent replacement of public officials have all affected the Government's reform momentum. At the same time, a series of terrorist attacks has weakened tourist arrivals and foreign investment. Private investments have been delayed, leading to slower economic growth.



The presidency of the G20, assumed in December 2014, was seen by Ankara as a major opportunity for Turkey to showcase its status as an economic and political power.

In 2017, Turkey is highly likely to hold a historic referendum on constitutional change, suggesting a major shift from Parliamentary System by granting the head of the state with robust executive authority.

Despite repeated statements by government authorities, trying to convince the business world and the public that the earliest general elections will be hold as planned in 2019, there is a good chance that Turkey finds itself in an election year in 2017.

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As per not-so-bright U.S.-Turkey relationships, we reckon both countries are like old married couples, who don't believe in divorce but cannot sleep together anymore, either.

The magic has long gone and both are flirting with different actors, although they know they shouldn't. It requires a pinch of foresight to analyse whether Mr.Trump will bring the magic back to bedroom.

For how long the two traditional anchors, NATO and EU, will satisfy Turkey's future strategies and ambitions, will unfold in 2017.

TURKEY in 2017: Traversing the Transition

For every actor in business world, there are some controllable factors and uncontrollable factors that can create a huge difference in their very existence.

The transition Turkey has been going through tops the list of the most significant uncontrollable factors in recent memory as it seems irreversible in many aspects.



Russian military operations abroad increased the demand for Russian military hardware. Is Turkey on the horizon?



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Transition means, by definition, “the process or a period of change from one state or condition to another”. The real wisdom however lies in the ability to describe and understand what will be the “new condition” Turkey is set to be transformed into after this process or period, the duration of which is, by itself, a source of instability and vagueness for businesses.

The main transition, in that sense, will be in the political domain. As politics and business is pretty much intertwined when doing business in Turkey, understanding what this change will bring is of utmost importance.

Change is inevitable in the history of nations. The never-ending cycle of historical pendulum has started to swivel to the other corner again, this time both in Turkey and in the World simultaneously.

The question is, though, how the corporate world will get affected by this almost lightning fast change in Turkey on political, economic, social and defense domains.

The traditional alliances are shifting, bringing shocks to populations and the world order like the Brexit referendum in UK, coup-attempt in Turkey, presidential elections in the U.S. and the assassination of Russian Ambassador in Turkey.

The new normal in Turkish politics

The political system in Turkey is far from bringing hope to masses doomed to survive in poverty conditions. Representative democracy, as it is practiced today, is a source of disappointment rather than a solution generating mechanism in social and economic hardships the society faces. Different groups in the society voiced their discontent in many occasions

Seeing this appetite for change in the public, AKP leadership, in very close cooperation with the members of the government and with a limited cooperation represented by the leader of the nationalist movement, decided to gamble on a referendum to change the course of modern parliamentary Turkey, something they have been aspiring for a long time. Although AKP has the strongest Kurdish representation after the Kurdish nationalist People’s Democratic Party (HDP), Erdogan is willing to take the bid to neglect this group and their voter reserve to be able to succeed in the referendum, which is only possible with the aid of the Turkish nationalists.



The passive resistance of an independent deputy, Aylin Nazliaka, an ex-CHP deputy in the parliament during the final voting of constitutional change bill, faced fierce backlash from the MPs defending the bill at any expense.

Rise of populism in the political discourse, as it is seen all over the world, mixed with nationalistic flavour will be the new normal in Turkish politics and it will be here to stay for a long time, even if the upcoming referendum blocks the way forward to a system change.

Hence, we strongly believe that international businesses should take this new normal into account, from strategic planning and strategic communications to advertising and public relations.

The shift in the centre of gravity in economic decision-making

We are witnessing the politicization of Central Banks all over the world, and Turkey under President Erdogan is no exception to that. It is not a secret amongst the people with knowledge that the main actors of finance and economic policies in Turkey, the Central Bank of Republic of Turkey (CBRT), is far from being independent and does not have the ability and freedom to regulate the market with the decisions taken about economic incentives.

The CBRT, under the leadership of Ali Çetinkaya, prefers unorthodox methods to control currency supply and demand dynamics of Turkish economy, not because they are willing to test new approaches but they rather feel they are covertly forced not to touch political interest rate corridor of the CBRT.

Amongst these orthodox techniques, the most controversial one is the “late liquidity window”, which normally is a means to provide currency to Turkish banks at the end of every trading day only to be utilized in emergency and extraordinary circumstances. However, the CBRT is “unofficially” raising interest rates, as if it’s a normal tool to regulate market fluctuations. The use of “late liquidity window”, by itself, is sending a message to foreign investors that the CBRT is indeed far from taking independent decisions.

No matter what will be the outcome in economic terms, the political control over CBRT will get tightened in 2017. Unlike many analysts argue, the primary incentive of Turkish voters is not about religion, conservatism, social layers or even security. It is and has always been economic conditions and outlook.

The balance between growth, inflation, interest rates and foreign currencies will be handled in line with the new political normal. Consequently, doing business in Turkey will require a new mind set, ready to tackle some irrational decisions from the economic decision makers on major issues.

The new concept of “pre-emptive action” in defense policies

Another significant change in the mind set of companies having stakes in Turkey requires a profound understanding of how Turkey will try to handle security business in this transition period.



Defense Minister Fikri Işık speaks during the first welding ceremony of Istanbul frigate.



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The political actors now have realized that, regardless of the means and capabilities at hand, employing sheer military power behind the borders even with no clear strategic objective, is serving in a very positive way to the new normal in politics.

In 2017, we will most likely to see an Iraqi version of “Operation Euphrates Shield” currently being conducted in Syria.

This approach will bring a significant change in defense needs and procurements of Turkey. Regional and global alliances will also be shaped around this new normal in defence as well.

2017 will be the year of success for defense companies that can develop innovative set of “politically effective” equipment and technologies to market in Turkey.

Content: Top-10 Risks & Opportunities in 2017

- The new era with Putin administration
- The Trump effect on Turkish risk landscape
- Turkey-Israel re-rapprochement and its implications
- The constitutional referendum
- Early general elections
- The increase in economic and financial fragility
- Terrorism and security
- The election year in the European Union
- Social polarization and mismanagement of human resources
- Re-defining traditional alliances



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The complex nature of contemporary business world presents a range of potential risks, threats and opportunities as well, to governmental, corporate and individual interests. Keeping vast range of factors in mind, QU4TRO provides tailored solutions to give its clients a strategic advantage; hence they can identify opportunities in advance, make sound decisions and manage risks through information that is timely, relevant and actionable."

Founded in 2004 and headquartered in Istanbul since then, QU4TRO serves its clients in 4 core sectors:

Political campaigning for corporate interests. If politics is the "art of the possible", campaigning is the science and art of changing what is possible. As your local partner with global know how, QU4TRO provides campaign strategies and management, media relations, crisis management, strategic communications, micro targeting, political advertising and lobbying.

Government relations. Regular surveys show that CEOs and big corporations alike share one thought: The government relations are key to a company's current and future economic value. QU4TRO supports your relationship with Turkish Government, NGOs, and business associations, which will prove crucial in your future endeavours in the Turkish Market.

Corporate Strategies. Business and politics are usually intertwined and need each other to survive. New developments and future trends in politics affect businesses, and vice versa. QU4TRO helps your business to have political connections, makes your company aware of political developments and builds projections for the future to let you revisit your business strategy.

Risk Analysis. QU4TRO Risk Analysis service provides in-depth analysis and regular risk reporting to individuals, corporations, organizations and governments around the world. By placing events happening in and around Turkey in a geopolitical framework, we help our clients anticipate and exploit opportunities and better understand local, regional and international developments.

Contact us on info@quattrostrategies.com to reach our tailored strategic solutions.