

Tomorrow's trade routes lead to Turkey



Riding high on stronger-than-expected growth in 2017, Turkey is now positioning itself to prosper further from China's plan to revive ancient trading routes.

In 2023, Turkey will mark the centenary of the modern state. The country is hoping to have more to celebrate than a birthday, however: its Vision 2023 strategy has set ambitious economic targets, including Turkey's ascent to the top 10 global economies.¹

It may be aiming high (it currently ranks 17th in the world by GDP²), but Turkey has kept a steady eye on trade despite recent geopolitical developments. If it navigates these issues adeptly and makes the most of its strategic advantages, it seems set for further success.

Famously poised between East and West, Turkey offers a large and youthful consumer market of 80m people.³ The economy notched up growth of over 6% in 2017, partly driven by strong export performance, and is projected to enjoy a still-enviable hike of between 4.5 and 5% in both 2018 and 2019.⁴

A further lure for European investors is Turkey's access to markets in Asia and the Middle East – access that is set to become even smoother as Turkey establishes itself as a key point on China's evolving Belt and Road initiative.

Expanding connections

Turkey's connections are already second to none. With Istanbul as its hub, Turkish Airlines flies to 120 countries – more than any other airline – and recently added Phuket and a string of African destinations to its itinerary.⁵ Istanbul's third airport, including the world's biggest terminal under one roof, is set to open in 2018, taking the strain off the overstretched Ataturk International.⁶

Turkey's close relations with China in developing its proposed Belt and Road links will add a new dimension of connectivity. Turkey is a founding member of the Silk Road Fund and the

Asian Infrastructure Investment Bank, which will be key to driving the initiative, and the two countries have signed a memorandum of understanding to develop the new framework.

This partnership is symbolised by the opening last year of a new 500-mile train line connecting Turkey with Georgia and Azerbaijan.

Described by Turkey's transport minister as "the missing link between European and Asian transport corridors", the link halves the travel time for goods from China to 15 days. It has an annual freight capacity of 6.5m tonnes, rising to 17m by 2034.⁷

Infrastructure partners

The project is part of a rapidly developing infrastructure in Turkey. The new line will link with a fast-expanding high-speed rail network founded on Chinese technology.⁸

And China's investment doesn't stop at transport: other collaborations include a new agreement to build Turkey's third nuclear plant, and major investment in its telecommunications sector. China's FDI flow into Turkey seems certain to grow quickly beyond current levels of around US\$2bn.⁹

"Over the last decade, Turkey has invested US\$90bn in infrastructure projects, and a further US\$64bn of investments will be made through 3,400 projects in the pipeline," notes Selim Kervancı, CEO of HSBC Turkey.

"Attracting Asian investors to these projects will be key."

European presence

If it is to maintain growth, however, Turkey needs to continue to boost trade with western partners too. EU businesses have long been the dominant investors and currently account for around two-thirds of foreign direct investment.¹⁰

Among recent activity, Siemens outbid Chinese competition to win a US\$1bn contract for a 1,000MW power plant and wind turbines¹¹. And Marriott plans to open at least 11 new hotels in Turkey over the next three years, reflecting confidence in tourism prospects.¹²

Last year Petrol Ofisi, the Turkish market leader in fuel supply and distribution, was sold to Vitol Investment Partnership, managed by the Swiss-based commodities firm Vitol for US\$1.45 billion.¹³

Major UK players with a Turkish presence include Diageo, Rolls Royce and Vodafone. Total trade in goods and services between the two countries amounts to £14.5bn, a figure that both countries' administrations are keen to expand.¹⁴

Businesses exploring Turkish links will find a range of investment incentives and free zones. Meanwhile, regulatory reforms enabled Turkey to improve its global ranking for ease of doing business by nine places in 2017.¹⁵

Global network

The country also offers a highly regulated, resilient and internationalised banking sector, with a level of technology to rival that of most advanced nations.

HSBC Turkey, operating in the country since 1990, is recognised as a leading international bank with a strong value proposition for corporates, financial institutions, public sector and premium retail clients alike. It offers access to many of the world's most dynamic and innovative capital markets to help clients achieve their international ambitions.

“Our vision is to be the bank of choice for those international companies that are willing to trade with or invest in Turkey, by making banking in Turkey as easy as banking back in their home countries,” explains Kervancı.

Of particular help to foreign investors entering the Turkish market is HSBC's International Banking Team, formed in 2012. It is made up of relationship managers with strong language skills and experience in international operations and handling the requirements of subsidiaries, from start-ups to large corporates.

Firsts in the capital markets

Over the next few years, Kervancı expects to see more corporates enter the international capital market scene, historically dominated by Turkish Treasury and financial institutions.

HSBC acted as joint lead manager and bookrunner for 12 of 21 Turkish bond issuances during the first nine months of 2017. Among them were TSKB's US\$300m green tier 2 Eurobond – the first-ever structure of its kind – as well as the Republic's first euro-denominated bond issuance since 2014.

HSBC also played a role in being one of the only banks to have been mandated for all five bond issuances in the Islamic Sukuk format, by the Republic of Turkey's Undersecretariat of Treasury.

“The transactions in the Turkish capital market have been very important signs of continued trust in Turkey's credit and Turkish issuers,” Kervancı says.

Belt and Road knowledge

HSBC is already supporting clients to make the most of opportunities generated by the Belt and Road initiative: the bank was recently recognised by Asiamoney magazine for its expertise in the programme.

More widely, with a presence in 67 countries and access to more than 90% of world trade flows, HSBC makes best use of its worldwide network to act as a bridge between customers and help ensure their success on the global stage.

Turkey seems on course to toast its 100th anniversary from a powerful economic position – and given the potential rewards on offer, businesses across the globe will want to be sure of their place at the party.

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³ CIA Factbook,
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<http://aa.com.tr/en/economy/istanbul-s-3rd-airport-to-welcome-1st-plane-by-feb-2018/928527>

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⁹ Daily Sabah, October 2017 <https://www.dailysabah.com/economy/2017/10/28/close-cooperation-on-belt-and-road-to-fuel-chinese-investments-in-turkey>

¹⁰ Hurriyet Daily News, August 2017 <http://www.hurriyetdailynews.com/turkeys-foreign-direct-investment-close-to-5-bln-with-eu-being-top-investor-117090>

¹¹ Reuters, August 2017 <https://uk.reuters.com/article/uk-turkey-energy-windpower/germanys-siemens-wins-tender-for-turkish-wind-power-project-idUKKBN1AJ1ZR>

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¹³ Reuters, March 2017 <https://www.reuters.com/article/us-omv-m-a-turkey/omv-agrees-to-sell-turkish-unit-petrol-ofisi-to-vitol-for-1-45-billion-idUSKBN16A2KI>

¹⁴ UK government,
<https://www.gov.uk/government/news/international-trade-secretary-travels-to-turkey-to-promote-trade-ties>

¹⁵ World Bank, Ease of Doing Business 2018,
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