

Markus J. Beyrer
Director General
BUSINESSEUROPE
Brussels

Istanbul, October 14th, 2014
Ref: SSB/ZY/gm:14/1621

**TURKISH
INDUSTRY & BUSINESS
ASSOCIATION**

MEMBER OF
THE CONFEDERATION OF
EUROPEAN BUSINESS
BUSINESSEUROPE

Dear Mr. Beyrer,

At TÜSİAD; one of our main working areas is identifying ways to improve the investment environment in Turkey. Therefore, we would gladly share our findings and our member's feedback regarding the challenges they have been facing when making investment decisions in Turkey and we hope that this will contribute to the draft paper that you are currently working on.

If we set aside the ongoing slow global economic recovery as an impediment to investment expenditures, there are several important structural challenges Turkey has been facing that influence the *predictability of the investment environment*. In this brief note, we would like to elaborate on these domestic issues:

- First and foremost, Turkish legal system poses significant challenges to investors: Legal processes are usually run inefficiently and the duration of resolving disputes is significantly long. Different interpretations and implementations of courts create significant ambiguities in the business world. Additionally, there has been an inclination towards amending laws on a very short notice. The limited consultation processes during both the design and the implementation of laws and the lack of regulatory impact analyses further aggravate the existing uncertainty in the system. Thus, a need to reform the administrative judicial system based on the principle of rule of law and improve its quality have become a pressing necessity in order to alleviate these problems.
- Another area where significant reform is needed is the sizeable informal sector in Turkey. The informal economy creates huge negative externalities, poisons the fair competitive environment in the business sector and impedes the enlargement of the formal part of the economy. Tax system and high non-wage costs are the major factors that encourage informality. Also, informal economy erodes tax base and increases tax burden of formal business sector.
- Following on the tax issue, the complexity of the Turkish tax system has been one of the key challenges for businesses in Turkey. Simplifying the tax system

Istanbul

Meşrutiyet Caddesi,
No:46 Tepebaşı 34420
Istanbul - Türkiye
T +90 (212) 249 19 29
F +90 (212) 249 13 50
E tusiad@tusiad.org

Ankara

İran Caddesi No: 39/4
Gaziosmanpaşa 06700
Ankara - Türkiye
T +90 (312) 468 10 11
F +90 (312) 428 86 76
E ankoffice@tusiad.org

Brüksel

Avenue des Gaulois, 13
B - 1040 Brussels
T +32 (2) 736 40 47
F +32 (2) 736 39 93
E bxloffice@tusiad.org

Washington, D.C.

2101 L Street NW, Suite 800
Washington, DC 20037 - USA
T +1 (202) 776 77 70
F +1 (202) 776 77 71
E usoffice@tusiad.org

Berlin

Märkisches Ufer, 28
Berlin 10179 Germany
T +49 (30) 28 878 6300
F +49 (30) 28 878 6399
E berlinoffice@tusiad.org

Paris

33, rue Galilée 75116
Paris - France
T +33 (1) 44 43 55 35
F +33 (1) 44 43 55 46
E parisoffice@tusiad.org

Pekin

European Union Chamber of
Commerce in China
Beijing Lufthansa Centre
Office C-319, 50 Liangmaqiao Road
Chaoyang District Beijing 10025 P.R.
T +86 (10) 6462 2066 ext. 65/51
F +86 (10) 6462 320
E tusiad.china@european-chamber.com

www.tusiad.org

**TURKISH
INDUSTRY & BUSINESS
ASSOCIATION**

MEMBER OF
THE CONFEDERATION OF
EUROPEAN BUSINESS
BUSINESSEUROPE

will increase the level of voluntary compliance with tax laws and combat against the informal economy. Furthermore, issues with tax audits persist, despite the organizational restructuring in the tax administration including the establishment of Turkish Tax Inspection Board. Additionally, frequent tax amnesties in Turkey discourage voluntary tax compliance and encourage the informal economy.

- One other difficulty investors often come across is the land allocation process. Finding investment land that matches that investment's specific needs, i.e. investment areas that provide suitable infrastructural development, have proximity to various transportation modes and offer clustering opportunities that create invaluable synergies, have proven to be a challenge.
- Last but not least, we would like to touch upon your question on difficulties in finding external funding to investment projects. As TÜSİAD, our members represent the largest corporations in Turkey and thus, financing does not come up as a priority issue. However, Turkish SME's *do* face funding problems. These problems usually arise due to SME's insufficient compliance with general corporate governance and transparency principles and their limited capacity at project application processes that tend to require special expertise.

We have tried to identify the most important factors that have been hampering investments in Turkey. We hope that you will find our input valuable. We would also very much like to be informed on the progress of your draft paper on investment obstacles in Europe.

Best regards,

(original copy signed)

Zafer Ali YAVAN
Secretary General

Istanbul

Meşrutiyet Caddesi,
No:46 Tepebaşı 34420
Istanbul - Türkiye
T +90 (212) 249 19 29
F +90 (212) 249 13 50
E tusiad@tusiad.org

Ankara

İran Caddesi No: 39/4
Gaziosmanpaşa 06700
Ankara - Türkiye
T +90 (312) 468 10 11
F +90 (312) 428 86 76
E ankoffice@tusiad.org

Brüksel

Avenue des Gaulois, 13
B - 1040 Brussels
T +32 (2) 736 40 47
F +32 (2) 736 39 93
E bxloffice@tusiad.org

Washington, D.C.

2101 L Street NW, Suite 800
Washington, DC 20037 - USA
T +1 (202) 776 77 70
F +1 (202) 776 77 71
E usoffice@tusiad.org

Berlin

Märkisches Ufer, 28
Berlin 10179 Germany
T +49 (30) 28 878 6300
F +49 (30) 28 878 6399
E berlinoffice@tusiad.org

Paris

33, rue Galilée 75116
Paris - France
T +33 (1) 44 43 55 35
F +33 (1) 44 43 55 46
E parisoffice@tusiad.org

Pekin

European Union Chamber of
Commerce in China
Beijing Lufthansa Centre
Office C-319, 50 Liangmaqiao Road
Chaoyang District Beijing 10025 P.R
T +86 (10) 6462 2066 ext. 65/51
F +86 (10) 6462 320
E tusiad.china@europeancommerce.org

www.tusiad.org