



**2023 PRESIDENTIAL  
ELECTIONS IN TURKEY  
AND THE IMPACT ON BUSINESSES**

Turkey's 23rd term Presidential and Parliamentary elections saw President Erdogan win another five-year term with a majority in Parliament, on top of the 21 years he has already served as President. In the first round of voting on 14 May, Erdogan's ruling bloc won the majority in Parliament with 344 of 600 seats. On the second-round election conducted on 28 May, President Erdogan received 52.18 percent of the vote, and the opposition candidate Kemal Kilicdaroglu received 47.82.

Turkey currently faces challenges such as currency devaluation, dwindling reserves, and inflation. These conditions may present investment prospects for European companies, as devaluation boosts exports and production relocation to Turkey becomes attractive; however, the current economic challenges in Turkey may prompt the government to implement new policy measures aimed at stabilizing the economy. While risks exist, Erdogan's third term may bring political and economic reforms that may restore investor confidence in the long run. European businesses should monitor macroeconomic indicators, adhere to regulations, and adapt their strategies accordingly to succeed in the Turkish market. Nevertheless, there are concerns regarding Erdogan's consolidation of power and the potential impact on checks and balances and the rule of law. Transparency issues and corruption allegations also pose integrity and competition risks.

Turkey's role in regional dynamics and its balancing act between Russia and the West can influence international relations. Therefore, Turkey's international relations can affect supply chains and trade, and business should monitor the complex geopolitical landscape. However, infrastructure development and construction projects in Turkey present opportunities for European companies, but disaster preparedness is necessary due to the risks posed by natural disasters.

This global risk monitoring and strategic foresight paper is an essential read for business leaders with business operations and interests in Turkey.



# 2023 PRESIDENTIAL ELECTIONS IN TURKEY AND THE IMPACT ON BUSINESSES

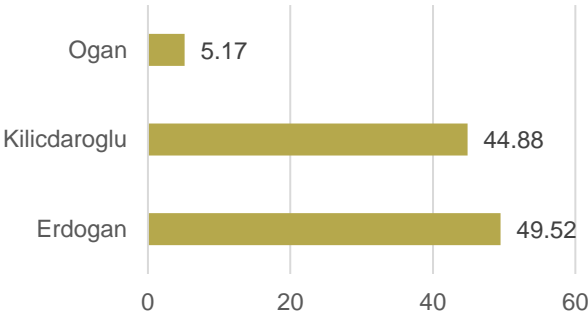
Turkey's 23<sup>rd</sup> term Presidential and Parliamentary elections began on 14 May. Like in previous elections, turnout was high with 88 percent of all eligible voters participating. In the first round of voting on 14 May, Erdogan's ruling bloc won the majority in Parliament with 344 of 600 seats. The run-off was held after neither candidate was able to secure more than 50 percent of the votes. On the second-round election conducted on 28 May,

52 %

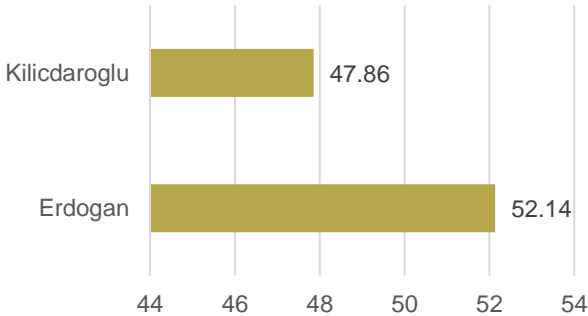
of the votes went to Erdogan, who will stay in power after 21 years as president of Turkey

President Erdogan received 52.18 percent of the vote, and the opposition candidate Kemal Kilicdaroglu received 47.82. President Erdogan will remain President for another five years on top of the 21 years he has already served as President. This paper will consider what another five-year term means for European business leaders amid the myriad of economic, geopolitical, and natural disasters affecting Turkey.

**14 May First Round**



**28 May Run-off**



## TURKISH MARKET FIGURES

|                                 |  |                                   |  |
|---------------------------------|--|-----------------------------------|--|
|                                 |  |                                   |  |
| <b>Population</b><br>85 million | <b>GDP 2023 est.</b><br>\$1,029 trillion | <b>GDP Per Capita</b><br>\$10,661 | <b>Turkey/EU trade in 2022</b><br>€198.1 billion |

|   |   |  |   |
|---|---|--|---|
|   |   |  |   |
| <b>Turkey/EU trade</b><br>6 <sup>th</sup> biggest trade partner of EU | <b>Economic Growth in 2022</b><br>5.6 percent | <b>In OECD countries</b><br>19 <sup>th</sup> largest economy | <b>FDI from EU countries</b><br>\$4.2 billion |

In his third term, Erdogan now faced the worst economic conditions since the 2001 financial crisis. In challenging economic times like Turkey is currently facing, governments are likely to resort to protectionist measures and policies. These policies are already in place, including preventing businesses to purchase large amount of foreign currencies without requesting to the Ministry of Finance first. Another example is obliging exporters to exchange a part of their foreign currency earning into Turkish Lira 90 days after the export date.

*The current economic challenges in Turkey may prompt the government to implement new policy measures aimed at stabilizing the economy. Changes in regulations, taxation, or trade policies can disrupt business operations and impact profitability. As the deteriorating economic conditions raise concerns among foreign investors about the ease of repatriating profits and capital from Turkey, tightened currency controls or restrictions on capital outflows could lead further uncertainty.*

While the current economic conditions are challenging, they could serve as a catalyst for necessary political and economic reforms. If Erdogan takes steps to address the underlying issues causing the economic downturn in his third term, it potentially could restore investor confidence and create a more favourable investment climate for European businesses in the long run.

*President Erdogan is expected to use his mandate to further consolidate his one-man rule, eliminating what has remained of institutions that provide checks and balances.*

In 2017 Turkey held a successful referendum that was held in 2017, the governance system has changed to Presidential Government system where the President can change legislation with Presidential decrees. With the Presidential system change, the suspension of rule of law has become visible as the most structural problem in Turkish politics. This systemic-structural problem of the lack of checks and balance mechanisms explains not only the peculiarity of the Turkish dominant party experience vis-à-vis those of the Japanese, Swedish, and Italian examples, but also how Turkish democracy has drifted towards majoritarian authoritarianism.



## POLITICAL RISKS

With Erdogan winning his third term, concerns arise regarding the consolidation of power in Erdogan's ruling bloc. The concentration of power could possibly limit checks and balances, impacting political stability and democratic governance. Even if Erdogan had 52 percent of support, he is criticised as he will be tilted to one man rule system even more than his previous terms. Erdogan's continued leadership may result in further changes to the legal framework, including constitutional amendments or legislative reforms. During his election campaign, Erdogan showed signals that he is planning to make constitutional amendments while convincing other far-right parties to join his bloc.

According to Turkish Law, Parliament requires 400 of the 600 votes for constitutional changes. However, the President's power to change regulations with presidential decrees has been criticised deeply as violation of the separation of power and compliance. The implication on European business leaders today is the obscurity of future laws which Erdogan could pass only with his decision. Here again the weakening of the institutions that provide checks and balances over the President's decisions proves its importance.

The frequent use of presidential decrees has criticised to weaken the rule of law in Turkey. This is due to concerns over the lack of judicial review and potential arbitrary decision-making, which impacted the consistency and predictability of the regulatory system.

*The regulatory changes introduced through Erdogan's decrees have had direct implications for businesses operating or having ties in Turkey. Businesses have had to navigate new regulations, adapt to changing requirements, and manage compliance risks which can add complexity and uncertainty to the business environment.*

Any perceived challenges to the rule of law and judicial independence could impact contract enforcement, protection of property rights and overall business confidence. Additionally, reports and allegations of corruption have been a concern in Turkey.



According to the **Corruption Perceptions Index** that has become a global indicator of public sector corruption, in 2022, Turkey was ranked as 101 out of 180 countries and the country's transparency score was 36 out of 100.

In 2022 rankings, Sweden was ranked as fifth country out of 180 with a transparency score 83 out of 100.

*Continued scrutiny surrounding corruption and perceptions of cronyism could undermine business integrity, hinder fair competition, and introduce operational risks.*

## GEOPOLITICAL RISKS

Turkey's geopolitical landscape remains complex and prone to conflicts, such as the war in Ukraine and the latest tension in the Middle East between Afghanistan's Taliban and Iran. In the last two decades, Turkey has become a crucial actor and a defiant ally in world politics. So far, Erdogan has followed a balancing position in geopolitical conflicts among regional powers.

Since the Syrian war began in 2011, Turkey has played a significant role to provide military, financial and logistical support to Syrian opposition groups as well as hosting millions of Syrian refugees. Also, along Turkish border with Syria, Turkey has maintained a military presence and conducted cross-border operations targeting Kurdish militia groups.

As the head of a strategically vital NATO power, Erdogan's international influence is critical in Ukrainian war as well. From the start of Ukraine-Russia war, Turkey continued to pursue its role in between Russia and the West. So far, Turkey remained committed to Ukraine's independence and offering to mediate the conflict while tilting toward Russia. Erdogan refused to pose sanctions against Russia however played a vital part in negotiating the Grain deal to allow the export of Ukrainian grain through the Black Sea.

During his campaign, Erdogan also received the support of Russian President Putin while he was opening nuclear energy plant in Southern Turkey. Erdogan's close ties with Putin was always criticised by western countries; however, so far Erdogan maintained the relation with both sides. Although it remains highly unlikely, in the event of a future conflict with the West, Erdogan holds the opportunity to build alliance by keeping Russia close.

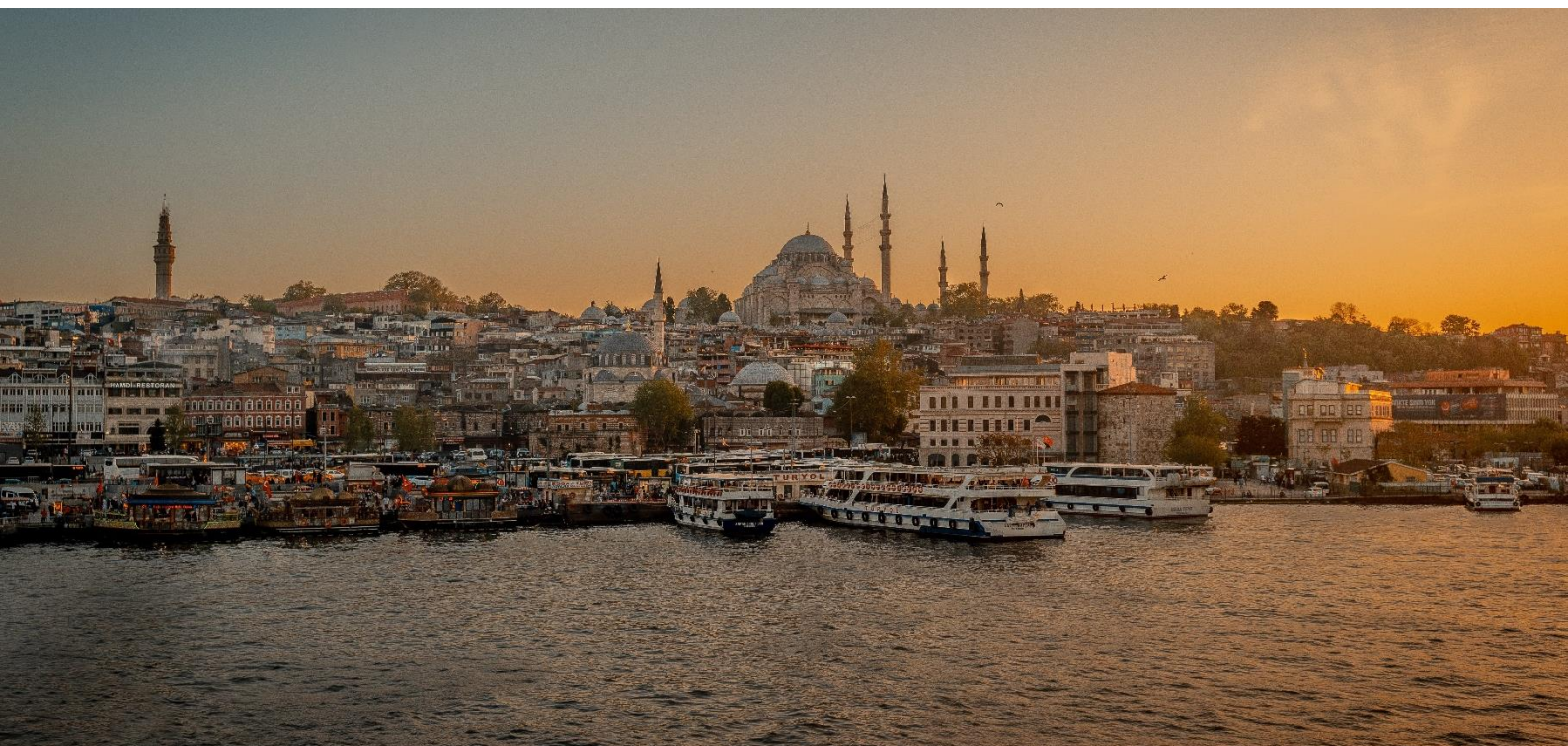
*In his third term, it is expected that Erdogan will continue to follow robust diplomatic and economic ties with Moscow, while remaining a critical but difficult NATO ally.*

As a NATO ally, just before the elections Turkey has approved Finland's entry to NATO but still hesitant to approve Sweden's membership. Ratification of

Sweden's NATO membership is expected if NATO permits Erdogan to buy more F-16 jets from the US.

The new term may have implications for Turkey's stability, security, and its involvement in regional dynamics, potentially affecting business operations and regional trade. Any shifts in international relations, trade disputes, or geopolitical tensions may introduce risks for foreign investors and businesses operating in Turkey.

*If the security outlook changes rapidly in Turkey, international companies should rely on their crisis management plans that they have already prepared. As it was seen in Russia after Putin's attack to Ukraine, international businesses had to leave the country and keep their employees safe. Therefore, crisis management and crisis preparedness carry a significant importance in Erdogan's third term just in case of any security shift within the region.*



## ECONOMIC RISKS

While Erdogan continues his third term, Turkey will be expected to continue being a hub for foreign businesses. After the election on 28 May, Turkish lira hit a new record low against the US dollar. The lira weakened to 20.065 to the dollar, breaking its latest record low levels just before the election. As it was Erdogan's intent that changing Turkey into an oasis for foreign companies, it is expected that Erdogan will continue to follow his intent.

Devaluation of the Turkish lira led increase in export of goods. Turkish exports of apparel increased by 25.7 percent between January and September 2021 compared to the same period in the previous year, largely due to the devaluation of the lira and large supply chain disruptions during the pandemic.

Due to the plunge of Turkish lira, many foreign investors prefer Turkey to operate part of their production centres in Turkey. IKEA has announced to move more production to Turkey to minimize problems with global supply chains and increased shipping costs in 2021. As Erdogan's financial policies continue as it was in the last five years, more European businesses could decide to move their production centres to Turkey.

Since the start of 2023, the Turkish lira has slumped around 7 percent, and lost more than 90 percent of its value over the past decade, during the second half of Erdogan's rule. The economic challenges faced by Turkey, including the currency crisis, and dwindling foreign exchange and gold reserves, are expected to continue creating macroeconomic instability for the country.



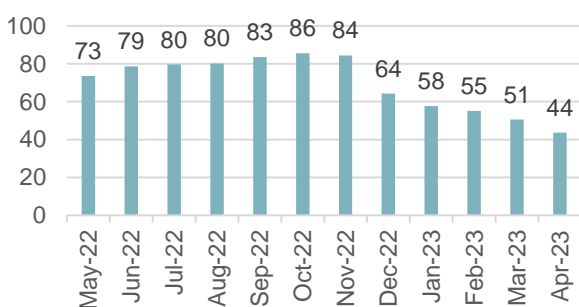
During his campaign, Erdogan's bloc has avoided expressing a new financial policy or an economic reform. In his new term even if Erdogan has not announced his new cabinet yet, it is expected that Erdogan will bring Mehmet Simsek as the Minister of Economy. Simsek is known as a former Economy minister in 2007 and 2018 who advocates free market economy rules and orthodox economic policies that can be defined as the generally accepted rules of economics, which is known as the rule that interest rates should be increased to combat high inflation.

Before the elections, Erdogan advocated the exact opposite of these rules and decreased interest rates to combat inflation. Therefore, inflation increased even higher and reached today's position. According to Turkish Statistics Institute, inflation in 2022 was 64 percent the highest in the OECD countries.

Currently, economists hold a fear of a foreign currency crisis. As the Turkish lira at record lows, the Central Bank's foreign exchange reserves in negative for the first time in 21 years. Exporting companies have been forced to exchange part of their foreign currency earnings into Turkish Lira. They also must request permission from the Ministry of Finance and justify each of their foreign currency purchases. Given the country is not in excessive debt, the salvation of Turkish economy lies in the better economic policies.

If Erdogan follows interventionist measures and takes drastic changes against the orthodox policies, this can introduce uncertainties for foreign businesses alongside the Turkish businesses in the coming term. These policy shifts may impact taxation, subsidies, trade agreements, and investment incentives, potentially affecting profitability and investment decisions.

Inflation rate evolution



*To strengthen the Turkish economy, drastic changes in fiscal policy could be expected. Businesses who operate in Turkey need to closely monitor macroeconomic indicators and adapt their strategies accordingly.*

## OPERATIONAL RISKS

Amid the economic uncertainties, expansion of operations under Erdogan's third term could entail risks related to changing market dynamics. Understanding these risks and their implications on business expansion plans is crucial for informed decision-making for European businesses.

Analysis of labour laws and regulations that could impact businesses is required as the next five-year term may affect hiring practices, employment contracts, and labour rights. For businesses who are considering expanding operations in Turkey, it is necessary to ensure compliance and mitigate potential legal risks.

*The evolving political, social landscape and ongoing crisis have been impacting the availability of skilled labour and talent pool in Turkey.*

*Potential challenges in recruitment, retention, and talent development are crucial for maintaining an efficient workforce during businesses operations.*

In the last ten years, Turkey has lost a significant amount of high-skilled labour force who migrated to western countries due to their financial and future concerns. After the re-election of Erdogan, it is safe to expect that the migration of high-skilled labour from Turkey to countries that have higher welfare and better living conditions will most likely continue.



The statistics show that high-skilled labours that have moved to another country have increased 50 times in 2022 compared to 2012.

Especially, computer scientists, engineers and doctors have moved to other countries preferably in Europe, the US and Canada.

## INFRASTRUCTURE AND LOGISTICS



Port congestion in Turkey is a growing concern for the shipping industry. The country's ports have been facing increasing pressure due to rising cargo volume and limited capacity especially after the Covid-19 pandemic. The government and industry are working together to address the issue through infrastructure upgrades and the implementation of new technologies.



However, it remains a concern for businesses operating in the country and those looking to do business with Turkey.



Bottlenecks and delays at ports of entry or export could impact the smooth flow of goods and increase clearance times.

This can impact production schedules, distribution, and customer satisfaction, affecting the overall competitiveness and profitability of foreign businesses operating in Turkey. Inefficient trade procedures, excessive bureaucracy, and inconsistent enforcement of regulations are posing challenges for international businesses in terms of import/export operations, compliance, and cost management.

During his 21 years of rule, Erdogan and his party have given more importance to construction sector and infrastructure projects. In his new term, it is also expected that the construction sector will continue to be the centre of attention. And this means new opportunities for European companies especially that work in construction sector.



On 06 February, 11 cities were affected by the earthquakes hit the south-eastern region of Turkey. These earthquakes showed once again, Turkey is in a region that is prone to natural disasters. Turkey is vulnerable not only earthquakes also floods and other extreme weather events. These events can damage infrastructure, disrupt transportation networks, and lead to supply chain interruptions. Turkey has experienced all these implications after the latest earthquakes and is still experiencing to some extent. The 2023 February earthquakes also gave substantial damage to pipelines, roads, airports, and electricity infrastructure, including a major fire in Iskenderun port that led port congestion.



According to geologists who work on the major fault lines of Turkey, another big earthquake is expected in the northwest region of Turkey where Istanbul and several industrial cities are located. One study by a group of European researchers estimated that 30,000 to 40,000 would be killed if a magnitude 7.5 happens today due to Istanbul's building qualities and population. Istanbul composes 31 percent of

Turkish economy as well as being the finance centre of Turkey and most of the foreign businesses are located in Istanbul. The risk of a major earthquake

affecting Turkish business and foreign investors and businesses remains a medium to high risk.



All companies with operations or interests in Turkey should have robust and practiced disaster preparedness plans and ensure business continuity measures are in place.

## CONCLUSION

In conclusion, European businesses considering opportunities in Turkey must approach the market with caution and thorough analysis. While the recent elections have created a stable political environment, there are economic challenges that Erdogan's cabinet need to address.

*Despite the challenges, Turkey offers immense investment opportunities for foreign businesses. Turkey has increased export potential and presents attractive opportunities for production relocation. European businesses can benefit from exploring these possibilities as relocating their production centres closer to Europe.*

It is crucial for businesses to navigate the political landscape and consider the consolidation of power, integrity issues, and corruption allegations. Transparency and adherence to regulations are essential to mitigate risks and maintain competitiveness in the Turkish market. Operational considerations such as labour laws, talent availability, and logistics bottlenecks should be carefully evaluated.

In the long run, Erdogan's third term may bring political and economic reforms, which could restore investor confidence. European businesses should monitor macroeconomic indicators and adapt their strategies accordingly to succeed in the Turkish market.

Overall, with thorough analysis, strategic planning, and a keen awareness of the risks and opportunities, European businesses can find success in their collaborations with Turkey.

# 2SECURE RECOMMENDS

1. In the next five-years, many European businesses will identify significant opportunities in Turkey. Business leaders with interests in Turkey must understand the complexity of the environment to successfully navigate the current economic uncertainty and evolving social and market dynamics in Turkey. Ensure your business or risk-consulting partners develop a robust understanding of the risk landscape and conduct detailed scenario planning for possible eventualities for success and mitigate the most pressing risks.
2. With another confident win, President Erdogan is likely to implement several new policies in an attempt to strengthen a weak Turkish economy. European companies should implement systematic regulatory and political-atmospheric monitoring in Turkey to ensure business leaders are informed and able to make the right decisions at the right time.
3. The risk of a major earthquake affecting the Turkish economy, as well as foreign investors and businesses, remains medium to high. All companies with operations or interests in Turkey should have robust and practiced disaster preparedness plans and ensure that business continuity measures are in place. Given the significant loss of life in the February 2023 earthquake, companies should have incident response systems and 24/7 emergency support for staff working in and travelling to Turkey, as well as pre-deployment training to ensure staff know how to act in case of an incident and minimise their risk exposure.
4. Given the medium to high levels of corruption and fraud in Turkey, companies should conduct due diligence when working with Turkish partners to reduce operational risks. Companies operating in Turkey should also have anti-corruption risk management systems in place, including whistleblowing and reporting systems. Anti-corruption policies and staff training on the company's tolerance of corruption and bribery is also important to reduce insider threats and reputational risks.

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