Chapter 16

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ABSTRACT

The purpose of this chapter is to provide a background to the Turkish business environment and market conditions in light of the European Union (EU) Customs Union integration and emerging market characteristics as well as including information about its economic and political dynamics, financial volatility and risks, consumer habits and consumption patterns, ethical issues, and physical and institutional infrastructure. A brief historical overview of Turkey's economic development starting from the early years of the new Turkish Republic will also be provided. Besides its academic contributions, the chapter can also be used as a guide by practitioners and business people who consider conducting business in Turkey.

INTRODUCTION

Emerging markets such as China, India, Argentina, Brazil, Mexico, Turkey, Indonesia, Malaysia, Poland, South Africa, Egypt, Philippines, Taiwan, and Russia have become important players in the world economy due to their unprecedented growth, dramatic structural changes, and remarkable market transformation over the past 20 years (Garten, 1996; Bonaglia et al., 2007; Tatoglu & Demirbag, 2008; Cavusgil et al., 2013). Depending on the conspicuous economic developments and growth, these emerging markets have become the strategic destinations for the direct investments of multi-national corporations (MNCs)

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(Cui & Lui, 2005; Yang et al., 2009; Cavusgil et al., 2013). Considerable amount of academic work (e.g., Krugman, 1994; Khanna & Rivkin, 2001; Fatás & Mihov, 2009; Rodrik, 2011) was conducted in order to understand the underlying factors of this “miracle” success. Apparently, the economic growth of these countries was realised through the success of their firms which developed unique resources within the specific market contexts. According to Khanna and Rivkin (2001), the relative importance of the resources leading to firm performance differ in emerging markets due to the country-specific economic, political and social structures and, hence, every MNC which attempts to do business in these countries must understand their market dynamics thoroughly.

Among the aforementioned emerging markets, Turkey has been designated as a major emerging market which features some important characteristics in terms of its geographical location, and cultural and linguistic proximities to Central Asian, European, and Middle Eastern markets (Garten, 1996; Demirbag & Tatoglu, 2008). Moreover, it is the only developing country that agreed to be a part of the European Union (EU) custom union without becoming a full member of the EU itself. According to the World Bank Report (2011), “the country is among the world’s leading producers of agricultural products, textiles, motor vehicles, ships and other transportation equipment, construction materials, consumer electronics and home appliances”. Garten (1996, p. 9) states that Turkey will play a pivotal role in the future, for it is both the link and the buffer between Europe and the Middle East and the southern tier of the former Soviet Union.

Turkey exhibits typical emerging market characteristics such as higher political risk, a relatively more dominant role of government in the economy and higher rate of volatility in financial markets and weaker institutional infrastructure compared to the developed countries such as the United States (US) and EU nations (Tatoglu & Demirbag, 2008; Cavusgil et al., 2013). Business systems can be considered as more relationship-based compared to those in developed countries. Family businesses are common and structures based on multiple firms operating together due to family ties are also frequent. In the absence of family connections, long-term relationships are very important to be able to conduct business activities – a situation which can create entrance barriers for foreign MNCs. Against its difficult and harsh business environment conditions, no firm can ignore the Turkish market due to its huge potential that will hold ever greater share of global assets and wealth in the following years.

However, stiff and complicated environmental factors compel the Turkish and foreign firms to have a comprehensive understanding about the Turkish market to experience successful business operations in the country. Therefore, this chapter aims to provide a detailed background to the Turkish business environment and market conditions in light of the EU Customs Union integration and emerging market characteristics as well as including information about its economic and political dynamics, financial volatility and risks, consumer habits and consumption patterns, ethical issues and physical and institutional infrastructure. A brief historical overview of Turkey’s economic development starting from the early years of the new Turkish Republic will also be provided. Besides its academic contributions, the chapter can also serve as a guide to practitioners and business people who consider conducting business in Turkey.

BACKGROUND

The World Bank considers Turkey as a country with an upper-middle income economy. According to the International Monetary Fund (IMF) world economic outlook database (2014), Turkey’s Gross Domestic Product GDP was US$822.2 billion and per capita GDP was approximately US$10,721 in 2013, close