

## ***If, when and how will foreign investors return?***

It is difficult to make a meaningful assumption as to when foreign investors will again start to make strategic investments in Turkey. It is, however, less difficult to predict that foreign investors will not start investing in Turkey in levels close to those between 2005-2015 in the near future. Is there something to be done to speed this up? The judicial reform recently vowed by the government also to attract foreign investors might be a good opportunity.

### **How did we come here?**

Measures taken by the government to help the Turkish economy, which was heavily damaged during the 2001 economic crisis in Turkey, resulted in a very strong and healthy banking and financial sectors in Turkey starting 2003-2004. That was a period when liquidity levels were already starting to rise in the world. The strength of the Turkish banking and finance sector helped Turkey sail through the global economic crises in 2008 with a lot less damage compared to many other markets. This resulted in even a bigger chunk of the global liquidity floating to Turkey, the only OECD country with double-digit investment returns at that time, and also in record levels of foreign investment.

However, especially for the last five years, many things happened which negatively affected the investment appetite of both strategic and financial investors. One example is the government not being able to replace Mehmet Şimşek, the Finance Minister at the time who was well respected by the foreign investors, with a similar caliber alternative. Another obvious example is the negative implications of the attempted coup in 2016.

### **Rule of law**

However, the investment appetite of the strategic foreign investors started to decrease before that. Doubts in rule of law, although also a very important deterrent for financial investors, is a no-starter for strategic ones. Amendments to the Turkish Constitution starting in 2010 restructured the whole higher court system in Turkey, making it possible for the government to control the judiciary and get favorable rulings (which existed but rather rare before). This was the first major sign showing that the government would not hesitate to circumvent basic principles of a democracy to get what it wants. One of the pillars of democracy, separation of powers, and the universally accepted principles of law and constitution were starting to be disregarded. I believe the danger at the time was overlooked not only by foreign investors, but also by the Turkish people.

### **Other actions by the government**

By that time, actions by the government negatively affecting the position of the foreign strategic investors were already piling up. Significant and unexpected tax increases were made in recently privatized sectors and government-owned competitors to recently privatized companies were created, discouraging foreign investors to participate in the privatizations. Moreover, the government continuously introduced legislation favoring government-owned companies and put pressure on the private sector to act in a certain way. These resulted either in unfair competition

or difficulty to act in accordance with free market rules, both, again, major deterrents for the strategic foreign investors.

Politically motivated high-profile cases such as Balyoz and Ergenekon which ended up with acquittals of the accused after years of imprisonment were noted by the foreign investors, understandably, as examples of using the legal system to strengthen the grip on the country.

Corruption claims at the top levels of government and their immediate family members were not properly examined and were unpunished by the courts, as this was also noticed by foreign investors.

Even blunt examples of openly breaching the Constitution (such as disregarding the rulings of the Constitutional Court or the European Court of Human Rights for the release of certain arrested reporters) took place and got wide coverage in the foreign press.

### **We should focus on ‘what not to do’**

Turkey was already not doing well with the strategic foreign investment before the [pandemic](#) because of the above-listed issues. In addition to that, unfortunately, we continue to do things that deteriorate the trust of foreign investors. One example of this is making “unorthodox” changes to our laws and regulations relating to the financial sector and then reversing them back. Another similarly important example is announcing scientifically and statistically implausible data regarding the pandemic. These examples are only adding to the negative perception of [foreign investors](#).

Maybe it is about time we focus not on what we should be doing but on what we should not be doing. We cannot continue to hide the truth from the Turkish people and the world, in any kind of data or statistic. This is a must, so telling the truth, without exception, would be a good start. Secondly, we have to stop using the legal system as a means-to-an-end, breaking laws without punishment or changing them when inconvenient. These are making rule of law questionable in Turkey and it is not realistic to expect strategic foreign investors to return before that question is eliminated.