

## Implications of the Global Economic Crisis for the United States and Turkey



Ayşe Yüksel

### Key Points: Implications of the Global Economic Crisis for the U.S. and Turkey

According to Ayşe Yüksel, head of the Turkey/MENA practice at Chadbourne & Parke:

- “Investors are interested in Turkey – one must not drive them away.”
- “We see Turkey in a rather favorable position (with regard to the economic crisis) when compared to the United States, Europe and England.”
- “Turkey’s financial sector is in healthy condition.”
- “The sooner the IMF standby agreement is finalized, the better.”

### Article: Implications of the Global Economic Crisis for the U.S. and Turkey

NEW YORK (A.A.) – February 2, 2009 – Ayşe Yüksel, a partner at the international law firm of Chadbourne & Parke and the head of the firm’s Turkey and Middle East and North Africa (MENA) practice group, stated that foreign investors continue to be interested in Turkey even in the context of the global financial crisis and added, “We see Turkey in a rather favorable position when compared to the United States, Europe and England.”

Ms. Yüksel answered questions of the A.A. reporter regarding the impact of the global crisis on Turkey and the economic condition of the United States from the head office (located at Rockefeller Plaza in New York) of the international law firm that has nearly 500 lawyers, 13 offices, including four in the United States, and a total of 976 employees.

Ms. Yüksel explained that her clients are companies, banks and funds from around the globe that are interested in investing in Turkey, the Middle

East and North Africa, as well as entities from such regions that wish to engage in cross-border transactions around the globe. She added that the Turkish economy has been very active in the past few years, and so her group has been working extensively in Turkey. She has worked with private equity fund clients as well as strategic investors from the Middle East, the United States and Europe that want to invest in Turkish companies.

### “Investors are Interested in Turkey”

Ms. Yüksel said, “The number of foreign investors has naturally declined due to the crisis, but foreign investors continue to be interested in Turkey. The investors are waiting because they are not certain about valuations, they think company valuations may decline further.”

Indicating that investors will be more inclined towards acquisitions once company valuations decline further in a few months, she added: “We are seeing transactions which are smaller than last year’s, because foreign investors cannot secure the same amount of financing, cannot achieve the same leverage in acquisitions, and therefore they are focusing on smaller targets and a more selective range of sectors.”

Expressing that foreign investors in Turkey have lately focused on specific sectors such as energy, infrastructure and healthcare, she said, “We have transactions that started this month, which was surprising even to me, but a very positive thing.”

Ms. Yüksel indicated that the decline in foreign investment in Turkey is not necessarily due to conditions in Turkey, but more prominently due to problems abroad, especially the lack of liquidity in European and American banks and the consequent lack of financing for foreign investors.

Emphasizing that while economic analysts, foreign funds and investment banks all anticipate short-term (1-2 years) hardship in the Turkish market, they foresee sound economic recovery in the medium term. She noted “an investor sees that

making an investment now will turn into a very profitable investment in the next 4-5 years, and for that reason thinks that the timing is good now to enter into the Turkish market.”

### Global Crisis and Turkey

Ms. Yüksel pointed out that the global economic crisis impacted Turkey as it did all other countries, and that economic growth in Turkey is expected to be “0% (plus or minus 1%) at the end of this year and that global economic growth is expected to be 0.5-1% for the same time period.

“Turkey is not in a worse position when compared to the rest of the world, and we see Turkey in a favorable position when compared to the United States, Europe and England,” said Ms. Yüksel. She also emphasized that Turkey’s financial sector, especially its banks and insurance companies, was strengthened by the reforms implemented following the 2000 crisis and is currently in healthy condition.

She also noted that banks in Turkey are less leveraged than their counterparts in the United States, “For that reason, Turkish banks and companies were not vulnerable when the global economic crisis began.”

Ms. Yüksel indicated that despite the country’s high foreign debt, Turkish companies are less leveraged and hedge funds and mortgages are not as pervasive in Turkey as in the United States and Europe where these issues created significant economic problems. She stated that this is very positive for Turkey.

Ms. Yüksel mentioned that the global economic crisis has slowed down Turkey’s exports in the automotive and textile sectors and that Europe’s economic condition especially impacts these sectors since a large percentage of their exports are to Europe.

### IMF Standby Agreement

Ms. Yüksel said the following regarding the IMF standby agreement:

“The sooner Europe emerges from the crisis, the sooner Turkey’s exports will increase. We are also anticipating the IMF standby agreement. The sooner the agreement is finalized, the better. This will facilitate liquidity in Turkey, and allow for cheaper

financing. The benefits will not just be financial; the standby agreement will also provide confidence for Turks and foreign investors.”

Ms. Yüksel indicated that Turkey should not drive away foreign investors, and that interest in Turkey remains strong and Turkey-related seminars and conferences have not been cancelled. To the contrary, there are increased numbers of foreign participants. Ms. Yüksel noted that pending amendments to Turkey’s commercial code and code of obligations will facilitate foreign direct investment into Turkey and that less bureaucracy will always have its benefits.

Ms. Yüksel described “hot” money flowing into Turkey as moving very quickly in reaction to the stock market and interest rates and thus unlike direct and strategic investments. She said that there is no reason to expect that “hot” money will leave Turkey immediately following the global economic crisis.

### Foreign Direct Investment

Ms. Yüksel pointed out that \$8 billion of foreign direct investment is expected in Turkey this year, and that this figure had been as high as \$20 billion when the country’s economy was better.

She also mentioned that \$11 billion of foreign direct investment is expected in Turkey in 2010 compared to only \$2.8 billion in 2004. She added: “Turkey has reached a different stage regarding foreign direct investment and no matter how much the economy slows down we will never go back to the pre-2004 years. For this reason, it is necessary to continue the reforms and not to drive away the foreign investors. Even if there is a crisis, one should not be of the frame of mind that it is all over and there will not be any more foreign investment.”

### The Economic Crisis and the United States

Ms. Yüksel indicated that the economic crisis has not only negatively impacted New York financially, but it has also affected its people psychologically. She noted that unemployment is high in the United States and especially in New York, and that banks and investment banks are in a very bad state. “For example, Bank of America is a very large bank and its future is uncertain. It continues to receive assistance

from the government but that may still not be enough.”

Evaluating the new president and administration as a positive development in the United States, Ms. Yüksel stated that the new administration is trying to take very quick action and that the House of Representatives recently passed the \$819 billion incentive package. She expressed hope that economic conditions will improve if the new administration continues to work at this fast pace, but noted that economists expect very little growth in the United States economy over the next 1-2 years.

Ms. Yüksel stated that more regulation will be introduced in the United States following the economic crisis, especially regulation of banks and hedge funds. She also noted that United States tax regulations may change, and it remains to be seen what else the new administration will do.

Ms. Yüksel noted that while Democrats and Republicans usually have very different economic policies, in an economic crisis like this, even Republicans would have had to enact emergency incentive packages in Congress had they been in power. She noted that while Republicans have never been proponents of nationalization or quasi-nationalization, they have also been forced to take, and have taken, such actions. “They would have done the same had they been in power,” she said.

In response to my question, Ms. Yüksel noted that the period following Barack Obama's election was very critical for the economy, but unfortunately neither Bush nor Obama were able to do much during this transition period.

### **Ayşe Yüksel**

Ayşe Yüksel Mahfoud (who recently married and took her husband's last name), is a partner at her firm, the head of the firm's Turkey and Middle East/North Africa (MENA) practice group for the past three years, and a young and successful manager. She was educated at two of America's most prestigious schools: Harvard University and Columbia Law School. She became a member of the New York bar 13 years ago, and started practicing law. She has been working at the international law firm of Chadbourne & Parke for the last five years as a partner-manager. Lawyers in Ms. Yüksel's practice group work out of the firm's London, Dubai and New York offices.