

A Theoretical Study on the Concept of Risk in Enterprises, Dynamics of Risk in International Business, Investing in Turkey & Evaluation of Macro Risks Abstract

İşletmelerde Riskin Kuramsal İncelemesi, Uluslararası İşletmecilikte Riskin Dinamikleri, Türkiye'ye Yatırım ve Makro Risklerin Değerlemesi

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ABSTRACT

The management of risk has always possessed a sweeping importance in the field of business. Risk management can be most plainly defined as the neutralization of uncertainties or the sources of a possible ambiguity a business could confront. The management of risk comprises the origination of risk from both inside of an enterprise and outside environment. Moreover, the management of risk can be considered in a combined approach involving internal and external factors and comprises political, financial, commercial and economic aspects. Turkey is a considerable state at the threshold of Eurasia. It is close to many markets and promising with economic regards. However, owing to various negative economic reasons, it is exposed to considerable degree of uncertainty and investment climate is not as favorable as it is supposed to be. Thus, the aim of this study is to evaluate the risk and the concept of risk management depending on credible national and international publications and provide a comprehensive conceptual point of view on investment risks with comprising the Turkish case and offer suggestions for future developments.

Keywords: Risk, international business, investment, Turkey.

ÖZET

Risk yönetimi, uluslararası işletmecilikte her zaman öneme sahip olmuştur. Bu kavram, en yalın tanımı ile işletmenin karşılaşılabileceği belirsizliklerin bertaraf edilmesidir. Bununla beraber, hem içerden, hem de dışardan kaynaklanabilecek belirsizlikleri içerir. Dahası, risk yönetimi, politik, kültürel, finansal ve ekonomik risklerin hem işletme içi, hem de işletme dışı kaynaklar açısından değerlendirilmesini kapsar. Türkiye Avrasya'nın kesişme noktasında önemli bir ülkedir. Birçok pazara yakın ve gelecek vaat etmektedir. Ancak, pek çok ekonomik etkenden dolayı önemli derecede belirsizliğe maruzdur. Bu çalışmanın amacı ise, risk ve risk yönetimini kuramsal anlamda ulusal ve uluslararası kaynaklara dayanarak incelemek ve de durumu Türkiye açısından değerlendirip, çeşitli önerilerde bulunmaktır.

Anahtar Kelimeler: Risk, uluslararası işletmecilik, yatırım, Türkiye.

1. INTRODUCTION

The risk management applications of today is quite divergent than the applications relative to the ones implemented some decades ago. The management of risk has ascended the inner dynamics of a business and became a matter that is closely related to the strategic, long term objectives and external environment of a business. Moreover, in today's business world the management of risk has become a substantial issue which could lead to significant legal and financial liabilities when managed wrong (Nielson et al., 2005).

The first item of risk management shall be to prevent the penetration of risk from external environment and terminate the risk factors or

diminish if there is any. Additionally, since this process requires financial and human resources, the sources to manage the risk should be supplied on time in order to achieve prompt risk prevention and optimal source allocation. The management of risk shall be of top priority for the primary executives in a company. Other factors pertaining to the management of risk involve the contribution of middle and lower level managers and workers too. With respect to this, the first step towards risk management shall be to preserve the assets of a company and securing the safety of it in the turbulent business arena (Nielson et al., 2005). Henceforth, the aim of this study is to focus on the management of risk theoretically depending on comprehensive national and international

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publications and review the investment risks, involving with the macro indicators, with respect to Turkey also with including the international factors as well. The study is limited with the figures dating until the end of 2012.

2. LITERATURE REVIEW AND THE CONCEPT OF RISK WITH DOMESTIC AND INTERNATIONAL DIMENSIONS

Businesses that are highly involved in commercial or investment activities are the ones which are akin to face any sort of risk at any time. Among these businesses, the ones that aim to maximize the profit and utility from their operations are likely to encounter risk more and some of them could prefer a modest level of profit and risk. However, a firm dealing with profound and international sorts of business activity is likely to face a level of risk that stems from uncertainty. That's why, the responsibility of executives is to avert risk factors and avoid the rise of more important risk factors; because, a well-functioning business and executive framework shall operate in a safe sequence and in order to ensure a secure future for a business, the uncertainty must intercept at a certain level. Besides, the existence of fuzzy and uncertain factors in business or the soaring of them, multiply the factor of risk in a business and might bring about uncertain and perilous results for companies as well as might affect enterprises as sunk costs, deficiencies and the loss of alternative investments (Armour, 2005).

The management of risk is a vulnerable and significant subject for executives. A lean definition of risk could be the possibility of a chosen activity or action to bring about a loss or damage and to determine, evaluate and give priority to unexpected events, pursued by coordinated and economical implementation of sources in order to minimize and supervise the situation about the possibility and influence of unfortunate incidents. A term that is closely related to risk is uncertainty. Uncertainty is the deficiency of certainty among multiple possibilities that could lead to unsolicited aftermaths. Even though, the management of risk emerges as a subject that is closely related to top and middle managerial team, it is a subject closely related to any stakeholder in a company. Besides, management of risk is not an issue that concerns an industry of a group of firms, it is a wide range subject prevailing on global basis that compels the generation of preventive tools and progress of development continuously on an extensive scale. On these grounds, risk management is a process that is to be reinforced with sound decision making abilities

and robust analysis. Additionally, it is possible to state that management of risk is a pivotal issue for enterprises influencing the business life cycle, profits, costs, alternative investment possibilities, production and planning process and many more (Gomez-Meija, Balkin, 2012: 189; Thompson, 2001: 821-828; Alquier, Tignol, 2006; McAdams, 2004; Akmut, Sariaslan, 2006: 106). Within the management and supervision of this process, a sound and proactive structure and a business approach closely related with the external environment and global business arena are fundamental (Nielson et al., 2005).

Risk can be related to the probability of uncertain events. Risk management also involves utilizing the opportunities existing parallel to risks and take advantage of them in favor of the business. Moreover, this entails the supervision of risks that can emerge both from internal sources and external sources. The risks that can arise within the company could be denoted as dependant variables and easier to manage. However, the risks rising from external sources such as economics, finance, commerce, consumer demand, legal matters, political matters, business cycles etc... are not easy to predict and prevent (Alquier, Tignol, 2006; Wong, 2003; McKimmie, 2007; Brinson, 2005; Demireli, Taner, 2009; Akmut, Sariaslan, 2006: 135-136).

Even though the management of risk is mostly affiliated with financial matters, there are other forms of risk resulting from social, cultural, legal, technical and many other matters (Brinson, 2005). Within the management of risk, enterprises are supposed to make considerable forecasts on uncertainty. As to accommodate this objective, it is necessary to collect data continuously and utilize the data with necessary means. On these grounds, it would be possible to take necessary measures and envisage the unsolicited matters (Gasparini et al., 2004).

If risks relative to internal environment of a business is considered, these could be denoted as (Cerullo, Cerullo, 2004; Scott, Vessey, 2002; Young, Case, 2004; Akkaya et al., 2008):

- Human related risks,
- Communication based risks,
- Risks resulting from the insufficient equipment,
- Utilization of inadequate software,
- Operational risks,
- Worker absenteeism and psychological affairs,
- Data and knowledge hacking,
- Insufficient asset structure and process deficiency.

Henceforth, every business could be subject to any sort of risk resulting from financial, economic, commercial, social, cultural, legal, technical, human matters or any other uncertain events and these possibilities remain infinitely. Business would be safe enough as long as they organize their structure with necessary precautions against uncertainties. The ones that do not comply with this process might face severe burdens or cease to exist. The risks effecting the operation of a business vary diversely. These risks could vary like natural disasters such as fire, earthquake, flood; human based such as incompetent work force, absenteeism and low performance; economic downturn, recession, stagnancy, currency differentiations, lack of inputs and price fluctuations relative to inputs; legal, social, cultural matters; hacker assaults and software & data piracy; political issues, business cycles and global negative developments. Therefore, businesses shall consider these and other sorts of risks in depth and chose the business branch or industry to operate with the outmost care (Cerullo, Cerullo, 2004; Scott, Vessey, 2002).

2.1. Sources of Risk in International Businesses

The process of risk management could be evaluated from a macro and global point of view, including the issue of uncertainty in international business. Businesses have affinity with their domestic markets, but the situation diversifies when the operations are transferred to another national (host) market. For instance, the economic conditions in France differentiate considerably from the ones in Pakistan, or the cultural variables in China are not similar to the ones in Finland. Therefore, a business striving for an international investment or commercial activity has got to consider various factors pertaining to the host country market. Moreover, if a business tends to prevent or minimize risk in international business, it is supposed to consider cultural risk, country risk, currency risk and commercial risk comprehensively since an environmental factor in a home country could be sweepingly different than the other one in a host country (Çavuşgil et al., 2008: 11).

Cultural risk arises when the cultural tendencies of a home country enterprise is not concerted with the ones in home country. The sources of country risk could be as differences in language, life style, mind sets, communication, tradition and customs, religious beliefs, ethical values and etc... Cultural values exist for an uncertain amount of time and inherited in every society from one generation to another one. Cultural merits change gradually and in along time span. These values influence the life styles of individuals, consumer preferences and business life. Therefore,

a product that is designed for home market could be regarded from a discrete point of view by the consumers in a host country market; for, the consumer wants and demands could vary substantially. With respect to international business, it is quite natural to be subject to cultural risk. It is harder and sophisticated to define and solve a cultural risk owing to intangible variables. Additionally, the impact of cultural risk on international business is wide. Culture influences the individuals' purchase behaviors as well as the value chain in the design, production, promotion and sales of a product. (Stonehouse at el., 2004: 60-70; Keegan, Green, 2013: 140-142; Phatak et al., 2009: 108-111; Culleen, Parboteeah, 2010: 196-200; Çavuşgil et al., 2008: 126-128; Ball et al., 2004: 291-300; Hill, 2009: 88-94).

Therefore, comprehending the cultural differences and adapting the business and its strategy according to the host country cultural properties would facilitate the business performance profoundly; for, adapting to the national, social, business, industrial and organizational cultural variations equip an international business with competitive advantages over other international businesses. Detecting the cultural differences accurately when penetrating a host market could bring about establishing better relations with local partners, understanding the local customs, a sweeping determination of the wants and demands of consumers and creating advantage over rivals (Stonehouse at el., 2004: 51-54; Çavuşgil et al., 2008: 130-131; Culleen, Parboteeah, 2010: 196-200; Daniels et al., 2004: 62- 66).

Country risk is another source of international business uncertainty that stems from the unfavorable developments resulting from the economical, legal and political issues in a country bringing about possible losses and unexpected results for international businesses. Country risk rises from government intervention, protectionism, barriers to trade and investment, corruption, red tape, administrative delays, legal deficiencies and intellectual property issues, legislative situations, embargo, confiscation, expropriation, boycotts, economic downturns, social and political turmoil and etc... Even though the primary reasons for country risk are generally political and economic, there could be other reasons such as financial, social, technological and developmental. Some legal, economic and financial initiatives could adversely impact on the operations of international businesses, even if they do not intend. Coupling with that, on the contrary to the extensive application of legislation, unsatisfactory or inadequate application of legislations and regulations might lead to

unfavorable results for international businesses. (Çavuşgil et al., 2008: 160-161; Phatak et al., 2009: 57-60; Keegan, Green, 2013: 171-179; Sullivan, 1999: 369-370; Harrison et al., 2000: 84-85).

Internal debt, external debt, current account balance, inflation rates, unemployment, legal deficiencies, political and social unrest could be used to assess country risk and uncertainty. On these grounds, the safest countries in the world with regards to country risk are the developed Western ones. Middle Eastern, some African and some Asian countries pose uncertainty on the country basis. Doing business and investing in a host country always brings some degree of uncertainty for international firms. A company having a favorable market share in home market may not be able to acquire the same or relative share in a host market. In other words, competition, costs, legal obstacles, red tape, economic downturns, financial market imperfections, insufficient demand, political turmoil, regional conflicts and other various reasons could crowd out the foreign investment. Furthermore, it is vital for international firms to understand the realities on a host market, evaluate the country risk profoundly and invest eventually (Çavuşgil et al., 2008: 161-164; Taaka, Beneman, 1991: 230-232; Culleen, Parboteeah, 2010: 226-229).

Financial (currency) risk and conditions are considerable for both local and international firms. Especially, the currency risk is substantial for international businesses. When a home country business invests in a host country market, the transactions made by the international firm are supposed to be denoted in terms of a common currency or international currency. However, both the value of the investments and commercial operations and revenue repatriations may indicate variations in terms of currency fluctuations which could affect the international business operations adversely in some cases. Nonetheless, the emergence of such currency risks is conventional in international business, investment and trade, since there are various currencies traded in the international business arena (Keegan, Green, 2013: 96-100; Çavuşgil et al., 2008: 12; Ball, McCulloch, 1990: 170-172).

When the businesses are subject to a financial or currency risk; cash flow, revenue, debt and asset composition would alter in accordance. Therefore, there are three sorts of currency risks that international firms should avoid, namely transaction exposure, translation exposure and operational exposure. Transaction exposure emerges when a sudden change in the exchange rate between two

countries occur. Translation exposure rises when an international firm's financial reports are affected by currency fluctuations. This would lead to unreal and unsolicited alternations in the value of assets, liabilities and profits of businesses. Operational (economic) exposure occurs when market value of a firm is affected by the unforeseen currency fluctuations. These sort of currency fluctuations could negatively impact on a business in the face of its competitors, cash flows and revenue composition and finally its total value too (Ball, McCulloch, 1990: 568-578; Çavuşgil et al., 2008: 592-594; Sullivan, 1999: 207-2011; Hill, 2009: 324-326).

Another risk factor that businesses could confront in the international business is the commercial risk. Commercial risk is the one that rises from wrong business strategy, managerial failures, errors in tactics and procedures. By all means, the decision taken by executives and incentives pose great importance. Choosing a wrong business, product and market strategy, failure of timing in market penetration and setting unrealistic or deceptive objectives for a business lead firms to commercial risk. A commercial risk could emerge both in the national and international markets. A home country business could cope with the risk in its local market better since having a market affinity and experience. However, when the commercial risk stems in a host country market the results would be grave owing to unfamiliar conditions and unsolicited events in the new market. If the investment is made by merger & acquisitions (M&A), business venture or greenfield investment, the cost of a failure in the face of the commercial risk would be much more. Choosing a wrong local partner, variations in the legal implementations, subsidy to local firms by a government could also cause commercial risk (Çavuşgil et al., 2008: 12-13; Sullivan, 1999: 366-367).

Nevertheless, a product that has a high sales volume in a home market may not present the same achievement in a host country market owing to divergent consumer preferences. Different cultural expectations, legal obstacles, alternative consumer wants and demands, shortcomings in production, promotion and sales facilities might cause commercial risk. Being subject to uncertain events is another factor bringing about commercial risk. There is a considerable difference between investing in a developed economy and a developing or a turbulent one. It is easier and more feasible to invest in a country that enjoys a strong economy, financial markets, political stability, intensive consumer demand and extensive trade facilities. However, when in investing

in a host country with a turbulent economy, financial markets, political instability, low consumer demand would ease the emergence of commercial risk (Wall, Rees, 2001: 208-220; Rugman, Hodgetts, 1995: 216-218).

Investing in and making a new business operation in a home country without selecting a long lasting and prospective business strategy on the local business conditions would cause commercial risk. In order to avoid a failure in investment, variables on macro economic, political, legal, financial indicators and consumer wants and demands shall be reviewed comprehensively beforehand and decide a sweeping business and investment strategy consecutively. Since international investments are generally comprised of significant fixed investments and it would not be possible to transfer a fixed investment from one location to another instantly, initial investment decision should be a thorough one in the first instance (Rugman, Hodgetts, 1995: 296-300; Cullen, Parboteeah, 2010: 47-54).

3. DOING BUSINESS IN TURKEY, CURRENT CONDITIONS AND RISK ASSESSMENT FOR INTERNATIONAL BUSINESSES ON THE MACRO LEVEL

Turkey, consolidating the East with the West and North with the South, is located at the convergence of Europe and Asia. Owing to its special disposition, the primary aim of Turkey is to secure and enhance prosperity, stability and economic improvement in her geography and beyond as a net contributor to regional development¹.

Turkey with her democratic institutions, secular pluralistic political system fostering the human rights and rule of law, robust liberal economy functioning in compliance with the European Union (EU) which it established the Custom Union with (CU) and reconciliation modernity with her cultural identity is a generator of development and stability in her region and beyond. Turkey is at the same time, a European, Balkan, Black Sea, Caucasus, Asian, Middle East and a Mediterranean country. Resulting from this wide geography, Turkey endeavors to accomplish economic prosperity, cooperation and stability in its region and beyond, also complies with the developments in the globe as well as in international economics and business².

Turkey is located in the junction of many countries and regions. Its neighbors to Europe, Asia, Middle East and Mediterranean. With regards to this, it is possible to make investments in Turkey and establish trade

relations with the Turkish business partners both pertaining to the local and nearby region markets. It has strong historical, cultural and economic ties with the regional countries. Utilizing the geographical disposition of Turkey as an advantage both to invest in Turkey and later move business operations to nearby countries would be a critical business strategy to penetrate into new markets, allocate international risks, diversify consumer profile and gain advantage over rivals. Turkey is also a member of the United Nations (UN), International Monetary Fund (IMF), World Bank (WB), World Trade Organization (WTO) and has close ties with European Union that also involves the accession negotiations as well. The Turkish government complies with the regulations of these substantial international organizations as well as contributes positively to global economic, financial, commercial and political issues. Thus, memberships of Turkey in these international organizations is an indicator of safe and prospective investments for international investors and businesses also application of global investment, trade and business standards in Turkey. In other words, Turkey by complying with the regulations of the prominent international economic, financial and commercial institutions, attempts to establish a safe investment atmosphere and to promote contemporary business applications, political stability, economic expansion, rule of law and more... for foreign investors. As a whole, it is possible to state that the investment atmosphere in Turkey is likely to be favorable and involves the international business risks no more than the other developed countries³.

3.1. Economic Situation in Turkey and its Prospects for International Investors

Economy is one of the most prominent issues while investing in a new market. Therefore, a stable and profound economic position facilitates new international investments in a country. Turkey has gone through a sweeping economic reformation since 2002. It has made all endeavors to improve its GDP and GDP growth rate. Currently, Turkey has a significant amount of GDP and GDP growth rate, which only declined in 2008 Global Financial Crisis with the other global partners. Currently, Turkey is in the top 20 large economies of the world. Monetary policy of Turkey also goes parallel to improving economic conditions. The Central Bank of the Republic of Turkey (CBRT) has been pursuing a monetary policy to reduce and stabilize the inflation rate at a moderate level. With respect to this, the inflation figures have declined to low and single digit figures from very high levels. While the rate of inflation was well over 75% before 2002, it

materialized as single digit for the first four months of 2012. The fiscal policy of the government depends on a tight discipline implemented in accordance with the monetary one. The government has been quite cautious on balancing the budget. The proportion of the budget deficit to GNP was 17% in 2001 and for the first eight months of 2012 it is less than 1%. Turkey pursues economic policies harmonious with the international organizations. Therefore, Turkey initiated an austerity program with the IMF in the 2008 Global Financial Crisis, tackled the issues and reversed the economic downturn to an economic expansion. The liquidity position of Turkey has also enhanced since 2001, since ability of meeting financial liabilities is a significant factor in economic activities. The foreign currency reserves of the CBRT was about 18 billion USDs in 2001 and it is over 100 billion USDs for 2012⁴.

Economic integration is also of great importance for Turkey. It established the CU with the EU in 1996, which it has significant commercial ties with. Currently, about 45% of Turkey's commercial volume is with the EU and it also abides by agreements with the WTO and free trade agreement it has made with more than 50 countries around the world. This substantiates the dedication of Turkey to liberal international economic and commercial framework rested on free competition and removal of commercial hindrances. Additionally, by way of its location in the threshold of Eurasia, Turkey is at the convergence of international trade and business affairs and a transportation channel and energy hub. In accordance with the liberal economic policies, Turkey has been following an export-led economic growth strategy since 1980s. Resulting from the economic reforms and contemporary initiatives, import substitution policy was abandoned and import applications were set free, safeguard implementations lowered and foreign exchange transactions were relinquished. Eventually, the volume of commercial activities multiplied in Turkey. Also, the composition of the trade components varied too. Once, the composition of the trade volume was based on agricultural merchandises, later the industrial goods comprise the greater portion of the commercial volume. Foreign direct investments (FDI) also gained impetus in Turkey. The annual volume of FDI inflow did not exceed 1 billion USDs before 2001. After the year 2001 the FDI inflow increased as result of intensifying privatization policy and merger & acquisitions by multi national enterprises (MNEs) in the fields of finance, telecommunication, steel mills, sea ports, gas and oil refineries. While implementing the privatization strategy, foreign participation,

investment and partnership were encouraged as well as the foreign investors have always enjoyed the same rights with the domestic investor and partners. By nature of Turkey's geographical disposition, it is located at the center of substantial energy corridors. Turkey is neighboring to oil and natural gas rich countries of the world as well as it is a pivotal energy bridge between the source rich countries of the Middle East, Caspian region and global markets. Turkey, with its cultural and historical ties with the countries in the mentioned regions acts as a connecting point, economic and investment destination⁵.

Risks arising from various reasons could adversely affect the efficiency of a business and prevent from attaining its organizational goals effectively. Any business risk related to the internal, external or international environment of a firm might deteriorate its business progress and processes as well as negatively influence the operative capacity. Eventually, extra measures are to be taken to prevent uncertain and unfavorable events that would emerge as additional costs and loss (Sakthivel, 2007). Therefore, Turkey adheres to the basics of liberal market economy. It favors liberal international economic and commercial system operating on the basis of rule of law, free competition, non-discrimination against international businesses as well as removal of investment and commercial barriers as to avoid any sort of risk for investors. Turkey has a vigorous private and real sector leading the economic development with the encouragement of the government in every field such as financial, commercial, production and research. The main objective of the Turkish economic system is to secure sustainable development, increase in the GDP, high income per capita, lowering the public and private debt stock, improve the commercial volume thus to be favorable investment location for foreign investors⁶.

3.2. Investing & Establishing a Business in Turkey and Potential Outcomes

International business activities and investments have become a considerable source of business operations in the 21st century. The reason for the increase in the volume of international business operations and investment are the prevailing effect of globalization, diminishing national borders, enhancements in information and telecommunication technologies, fast transportation of merchandise and increasing demand for any sort of commodity all around the world. Additionally, MNCs always seek favorable investment opportunities in the globe and make investments in every promising market.

Nevertheless, global economic activities, investment and trade have gained such an impetus that any country or corporation immune of these operations fail in the international competition rivalry (Mardas et al., 2008; Mody, 2004; Mihci et al., 2007).

International investment is considered an economic catalyst both in developing and developed countries emerging as imports & exports, M&As, greenfield investments, franchising, licensing, establishing an overseas subsidiary or creating a business venture with a local partner. International investments help secure an increase in volume of business operations in a country, raise the production and trade volume too. International investments and business operations facilitate the exchange of financial capital, knowledge, know-how, technology and managerial techniques among foreign affiliated firms and local ones. Moreover, the exchange of advantages among firms would ease the development of new goods and services, increase the production and trade volume, thus help improve the GDP stock and income per capita. Increasing production, intangible capital and enhancing know-how shall improve the competitive advantage of that country over other ones, improve human resources, develop macroeconomic indicators and attract more foreign businesses and investors in the forthcoming years (Mody, 2004; Mullen, Williams, 2005; Zheng et al., 2004; Javorcik, Saggi, 2010; Ghahroudi, Hoshino, 2007).

As stated previously, Turkey is at the threshold of Eurasia and adjacent to many countries and markets. Thanks to its geographical position, it enjoys close historical and cultural ties with regional countries and has got considerable commercial links. Turkey has comprehensive trade ties with the European, Asian and other regional countries. Therefore, it is a favorable investment and commercial destination for international businesses and investors. Since Turkey is culturally and historically close to nearby markets, the possibility of being exposed to such a risk is low. Besides, the current government has been holding the office since 2002 which could roughly provide some level of political stability as well. Therefore, it could be stated that Turkey is a good location for foreign investors⁷. In addition to these there are numerous appealing reasons to invest in Turkey such as its developing economy⁸; population of 75 million; qualified and competitive labor force of well over 20 million; liberal and

reformist investment atmosphere compatible with contemporary standards⁹; infrastructure of highly developed transportation, modern information and communication technologies; location at the convergence of Europe and Asia; advantage as an energy corridor and terminal; tax benefits, R&D and innovation support to investors¹⁰; Customs Union with the EU and free trade agreements with more than 50 countries; as well as large domestic market¹¹.

Thanks to these advantages mentioned above it is possible to state that investing and doing business in Turkey could be favorable. Doing business in a country is closely related with being how easy or difficult for an international business or investor to establish and run a business in a country while also abiding by the current regulations and conditions. Ten different items could be stated when establishing a new business in a new market namely, starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. It could be possible to indicate the level of risk while investing in a country, also with considering ten items given above carefully. Moreover, doing business and investing in a country have constraints such as macroeconomic stability and the status of economic indicators, proximity to neighboring country and large markets, the quality of infrastructure and superstructure services as well as transparency and credibility in government and legal applications. The figures with respect to Turkey on these issues are given in Table 1. The alternations in rankings are indicators of how easy or difficult it could be to establish a new business in a new market. Annual motions in the figures may inspire opinions on the strength of the economy, legal environment and overall investment climate of a country to new investors and international businesses. The indicators about a country might vary depending on the performance of its economy, another economy, legal alternations and reforms, regional developments and turmoil, political conditions, consumer preferences, commercial constraints in other countries and more... Therefore, having high scores could indicate confidence and promising investments for the future as well as how far the country improved when compared to past performance. The figures can also be utilized to compare an economy to other ones or regional economies too.¹²

Table 1: Doing Business Ranking and Investment Conditions For Turkey

Subjects	2012	2011	Change in Rank
Starting A Business	61	63	2
Dealing With Construction Permits	155	153	-2
Getting Electricity	72	73	1
Registering Property	44	39	-5
Getting Credit	78	75	-3
Protecting Investors	65	60	-5
Paying Taxes	79	83	4
Trading Across Borders	80	79	-1
Enforcing Contracts	51	51	---
Resolving Insolvency	120	122	2

(Source: <http://www.doingbusiness.org/data/exploreeconomies/turkey/>)

The items given above are a degree of measuring how easy to establish a business in a host market by presenting all requirements which are officially necessary or generally demanded by local governments to set up and run a business also with comprising the essential time frame and costs too. These items could also be indicators of how appealing a country for foreign investors and facilitates to make comparison with other possible investment destinations as well as indicator of risky investment situations¹³.

Table 2: Foreign Direct Investment 2002-2012

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
FDI ¹⁴	1.13	1.75	2.88	10.0	19.9	22.0	19.5	8.4	9.03	16.0	12.4

(Source: www.ekonomi.gov.tr.)

When the FDI figures are considered, it is obvious that Turkey has an improving performance except for 2008 Global Financial Crisis experienced with other countries. However, FDI figures are not sufficient to interpret the investment climate in Turkey. Turkey holds the middle ranks in doing business rankings and economic indicators are considerable recognize a safe and low risk tendency economy. Economic indicators are presented in Table 3 and matter substantially to assess the investment climate in Turkey with respect to risky situations and developments.

When the negative indicators are considered, Turkey has always been subject to substantial amounts of foreign trade, current account and budget deficit. In addition to this the volume of

From a global point of view, Turkey holds the 61st position in the ease of establishing a business among 183 economies. Among the given items above, Turkey was able to improve four out of ten. From 2011 to 2012, two ranks of enhancement are observed in the table and Turkey holds the 61st position. However, by disposition of its geographical location and proximity to various regions, countries and markets, this rank shall be better to obtain more investments in order to make more production, trade and receive more revenue. Additionally, Turkey has a middle ranking with respect to getting credit and trading across borders. Especially, the item related to trade should be much better in order to appeal to new investors. This could also be interpreted as low commercial volume by foreign investors which ought to be improved profoundly. Moreover, the ranking in resolving insolvency has improved from 122 to 120 in 2012; but, this figure is still too high in 183 countries. With respect to ranking in getting credit and resolving insolvency, Turkey shall make endeavors to enhance the figures in order to obtain more investors, avoid financial, economic and investment risks. Also, trading across borders and dealing with construction permits rankings are to be considered sweepingly to prevent commercial and country risks, thus to be as appealing as possible to new investors and international businesses. The success of Turkey in obtaining foreign investment could be demonstrated with the FDI figures. FDI comprises M&As, Greenfield establishments, business ventures as well as licensing and franchising could be considered in this regard.

internal and external debts are substantial. Having a considerable amount of deficits and debts might indicate a vulnerability, turbulent economic climate and possible risks on return on investments. Thus, a vulnerable and turbulent economic and investment climate may deter international businesses and investors as well as drive them to other safer and less risky investment opportunities and markets.

As mentioned previously, Turkey enjoys a favorable geographical location as a bridge between many regions, countries and markets. This would facilitate to increase the commercial volume of Turkey. It has a significant commercial volume. This indicates an important amount of production and revenue turnover. However, in the contrary to this reality,

imports comprise the larger share within the trade volume. Additionally, Turkey holds the middle rank in the doing business ranking in Table 1. This means that Turkey does not have an adequately achieved commercial policy and implementations. It imports more than exports, thus the focal point of trade is on the internal market and this would indicate that the investment possibilities in the nearby countries and markets are not utilized sufficiently, actually utilized by competitors. Having a trade deficit contributes to the current account deficit along which brings about

the loss of revenue and hardly earned currency to the rivals. Eventually, a country having profound deficits would inherently experience sweeping debt amounts that could jeopardize future business operations and investments owing to uncertainty. What is necessary to be done is to increase internal production volume and its quality, develop core competences, access to new markets to increase the export volume and decrease deficits eventually in a risk averse manner also with providing a safe and prospective investment atmosphere for international businesses.

Table 3: Main Macroeconomic Indicators for Turkey, 2003 – 2012 (billion USD)

Years	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP	239	390,4	481,5	526,4	659	741,8	617,6	730	772	822
GDP per Capita	3383	4172	5008	7609	9100	10400	8400	10	10,3	10,9
Labor Force	23,6	24,2	24,5	24,7	24,1	24,8	25,3	25,8	25,7	26
Unemployment (%)	10,5	10,3	10,3	9,9	9,9	12,3	16	11,9	9,8	10
CPI (%)	18,4	9,3	7,7	9,7	8,4	10,1	6,5	6,4	10,4	8,5
WPI (%)	13,9	13,8	2,7	11,6	5,9	8,1	8,9	8,8	13,3	7
Exports	47,3	73,5	73,5	85,5	107	132	102,2	113,9	135	152,4
Imports	-69,3	-117	-117	-140	-170	-202	-141	-186	-240	-237
Foreign Trade Deficit	-22,1	-42,3	-42,3	-54	-62,8	-69,8	-38,7	-71,6	-105	-84,1
Current Account Deficit	-8	-15,7	-22,6	-32,2	-38	-41,4	-13,9	-48,6	-77,1	-48,8
Internal Debt	194	224,5	182	175	195	211	219	235	232	208
External Debt	145	162,3	170,6	206,5	247	289,8	268,2	282,3	306	318,3
Budget Deficit	-39,8	-30,3	-7,2	-3,8	-10,6	-13	-34,8	-26,4	-10,5	21,4
CBRT Reserves	33,6	36	50,5	60,9	70,7	73,4	74,8	86	88,2	120,3

(Sources: www.tuik.gov.tr, www.dpt.gov.tr, www.hazine.gov.tr, www.ekonomi.gov.tr, www.tcmb.gov.tr)

However, considering the macro economic indicators in Table 3, as one of the 20 largest economies in the world, one cannot conclude that the economic situation is promising a safe atmosphere in the Republic of Turkey. The deficits and debts on the public and private respects indicate fragility in economic and financial prospects. This issue also would deter long term investments and bring about the accumulation of pervasive portfolio investments in on the stock exchange as hot money. Unfortunately, currently Turkey has comprehensive structural problems in economic and financial issues. Furthermore, it could not possible to attract more long term investments such as FDI before solving the structural issues in economics. Also, without solving the macro economic issues, the investments would continue to be done profoundly on the stock market in order to make quick profits and repatriate the remittances to home country capital markets which means to be exposed to lost economic value

to foreign sources of production, employment and investments. Coupling with that, the disorder and insurgency in the neighboring country of Syria deteriorates the economic and commercial climate in the region. Thanks to globalization, mutual economic and commercial and economic activities, the comprehensively negative developments in the Middle East would also impact on the future investments of foreigners in Turkey also with considering it in a risky geography.

4. CONCLUSION

Enterprises of today are operating in a global turbulent business arena where the intensive rivalry prevails. That's why, the risks that companies could encounter multiplied and diversified. About half a century ago, business risks comprised of time constraints, malfunction in goods and services, economic or financial ones. However, after the second millennium, risks in the business life diversified ranging

from cultural, political, commercial, transaction, financial and economic risks to cyber, natural, legal risks, protection of intellectual rights, data and knowledge hacking, confiscation, nationalization and legal diversification in international markets, divergent demand of consumers and more... Therefore, the management of risk in companies has become a more significant and difficult issue for executives.

Moreover, the 21st century businesses are the fundamental components of national and international development, production and employment. Therefore, a failure in one link of the chain may cause a down turn in the markets and industries. Thus, the proper operation of the mechanism is considerable since a failure in the system may cause to stagnation, recession and depression in the severest cases leading to unemployment and decrease in the GDP and company profits. A well-functioning business mechanism, both nationally and internationally, would foster national and international trade, investments, businesses, capital flow, production and consumption eventually. However, as an aftermath of the emergence of various risks and uncertainties, all stake holders of a business such as employers, consumers, executives, shareholders, creditors, suppliers, government and etc... would be affected adversely. Therefore, achieving a stable structure in the economy, financial markets, trade, legal matters, political issues and in other micro issues would enhance country wide business success leading to macroeconomic stability, increase in competitive power and prosperity for all.

Negative developments in the macroeconomic figures affect business (whether local or international investors) in terms of micro point of view too. When a business is considered from an individual respect, they might be subject to various risks in a sequence with macro economic indicators. For, businesses of today operate in a global environment in which severe competition prevails. Within this severe competitive global business environment, the businesses not only have to compete with rivals, but also are compelled to consider the uncertain future developments too; because, rigid risks which could be encountered would bring about unsolicited costs, decrease in efficiency and productivity and loss of possible investment opportunities. Therefore, it is considerable for businesses to detect and act beforehand against the uncertainties operating in the turbulent business arena in order to have competitive advantage over rivals (MacAdams, 2004).

There are various reasons leading businesses to uncertain developments. These factors could result from inter-business dynamics or from the external conditions which is not under the supervision of managers as well as risks occurring in various paths. The sources and emergence patterns of business risks could be denoted as (Sakthivel, 2007; Scott, Vessey, 2002; Jalivand et al., 2003; Akgüç, 947-948):

- Risks emerging from weak managerial structure and insufficient business processes,
- Lack of reorganization and restructuring in business leading to weak business framework,
- Deficiency in the software utilized in the company,
- Inadequacy in the design of organizational structure and network,
- Using old dated technology and process in planning and production,
- Failure in communication and its networks,
- Deficiencies in goods and services leading to legal liabilities and compensations,
- Investing in turbulent economies, financial and commercial markets,
- Not being able to meet the market conditions in new investments and incompetent partners in new markets,
- Inadequacy in business processes and organizational frameworks,
- Being subject to organizational blindness and not complying with current market conditions,
- No intention of implementing continuous change in the business and accommodating to global business applications,
- Investing in countries with turbulent economies and unreliable financial, commercial and legal environments,
- Low sales volume and credit turnover,
- Choosing an unfavorable location to set up a business,
- Not being able to obtain proper raw materials, low-cost energy and competent human resource,
- Unfavorable legal environment falling short of protecting the rights of businesses.

Business may have to stand extra costs stemming from the sources of risks mentioned above. Also, within the negative process affected from the risky developments, the efficiency of the firms decrease, alternative investment opportunities may be lost,

business structure could be influenced adversely, product quality may fall short of expectations and new costs may rise bringing about new expenditures. When this reality couples with the negative macroeconomic figures, the result would be more severe for the businesses both individually and as a whole of the economy (Sakthivel, 2007).

Therefore, some remedies must be designed as to facilitate the resolution of various problems resulting from numerous business risks in the micro basis. First of all, the investment policy of the business shall be reviewed and the business shall leave a market with considerable uncertainties if necessary. Moreover, the composition of the investment decisions also matters. The business should not target a single market or industry or financial possibility for the destination of an investment. Allocation of resources for different investment decisions in different markets or possibilities would also disseminate the chance of encountering uncertain situations and compensating a loss with another return from another investment as well as the design of an effective cost-benefit analysis. Also, a permanent digital memory for the storage of company specific knowledge and data could be designed and established to accumulate, improve and use the knowledge and data as well as secure these assets to develop a business specific competitive advantage over rivals and emerge as a forerunner in the competition process both on the national and international level. Moreover, a source planning with respect to the future necessities of the business ought to be made in order to meet the potential resource necessity increase in the company. Additionally, the consistency of the organizational structure and its cohesion with the current market and economic conditions is substantial; because, the enterprises of the 21st century must be agile and easy to adapt to ever-changing business conditions (Alquer, Tignol, 2006). Furthermore, in order to meet business necessities and achieve competitive advantage, an enterprise is not supposed to provide for its need solely with its internal resources. If a source, whether human or physical or financial, is less costly than utilizing an internal source, then outsourcing could be a good option both to decrease costs and save financial sources for future investments as well as accomplishing allocation of risks (McAdams, 2004).

When the situation is assessed for Turkey, Turkey has a favorable geographical disposition at the threshold of various states, regions and markets. Turkey conforms to the principles of liberal economy, free trade and present opportunities for all international investors. Additionally, the

rule of law, fair competition and international law are regarded in Turkey as to ensure a safe and risk free atmosphere for international businesses and inventors. However, even though Turkey possesses a significant commercial volume and it is close to various countries and markets, the commercial and real sector policies fail to take advantage of these opportunities. Despite the fact that starting a business is relatively easy for investors, Turkey is subject to considerable deficiencies and debts macro economically. These negative indicators bring about uncertainties and may avert international businesses and investors to utilize new investment opportunities. What is supposed to be done is to enhance the macro economic indicators as soon as possible, increase real sector production also cooperating with international investors and lead through a risk free atmosphere and commercial surplus in the forth coming days of the Republic of Turkey.

The focal point is especially the economic situation that shall be boosted with the real sector in Turkey. Turkey has been pursuing an export-led economic growth strategy since mid 1980s. However, today, the reality is so much different. The export-led economic growth is now implemented as import-led-export growth. Within the import volume of Turkey, capital and intermediate goods comprise the majority (about 85% annually) (Gökmen, 2010). This means that Turkey has been and still importing foreign sources of production. Instead of improving real sector production, it imports intermediate and capital goods and then export the merchandise manufactured by foreign sources of production. This would definitely lead to a negative trade balance, foreign currency deficit and new debts acquired to cover internal and external debts and current account and commercial deficits. What is supposed to be done is to foster the domestic industries to make local production, increase employment opportunities, enhance export volume and create a safe investment atmosphere, far from possible investment risks as much as possible, in order to attract more international investment in the real sector in addition to stock exchange and instigate the domestic investments in the real sense. For, the international investors would prefer a risk-free investing climate with stable production involving profound sources of production and constant development with a long term view excluding sweeping debts and deficiencies.

END NOTES

¹ www.mfa.gov.tr _ synopsis of the Turkish Foreign Policy.

² www.mfa.gov.tr _ synopsis of the Turkish Foreign Policy.

³ www.mfa.gov.tr _ synopsis of the Turkish Foreign Policy & Economic Outlook; www.dpt.gov.tr_Economic Outlook & Indicators; www.ekonomi.gov.tr_ Economic Outlook; www.ekonomi.gov.tr_ Economic Outlook.

⁴ www.mfa.gov.tr _ Economic Outlook; <http://www.invest.gov.tr/en-US/Pages/Home.aspx> _ Economic Outlook; www.ekonomi.gov.tr; www.dpt.gov.tr_ Economic Outlook & Indicators; www.ekonomi.gov.tr_ Economic Outlook.

⁵ www.mfa.gov.tr _ Economic Outlook; <http://www.invest.gov.tr/en-US/Pages/Home.aspx> _ Economic Outlook; www.ekonomi.gov.tr_ Economic Outlook; www.ekonomi.gov.tr_ Economic Outlook.

⁶ www.mfa.gov.tr _ Economic Outlook; <http://www.invest.gov.tr/en-US/Pages/Home.aspx> _ Economic Outlook; www.ekonomi.gov.tr_ Economic Outlook; www.ekonomi.gov.tr_ Economic Outlook.

⁷ www.mfa.gov.tr _ synopsis of the Turkish Foreign Policy & Economic Outlook; <http://www.invest.gov.tr/en-US/Pages/Home.aspx> _ Economic Outlook; www.

ekonomi.gov.tr_ Economic Outlook; www.ekonomi.gov.tr_ Economic Outlook.

⁸ Apart from 2008 Global Financial Crisis and downturn experienced with the other states.

⁹ Very competitive investment conditions, Strong industrial and service culture, Equal treatment for all investors, Around 30,000 companies with international capital, international arbitration, guarantee of transfers (<http://www.invest.gov.tr/en-US/investmentguide/Pages/10Reasons.aspx>).

¹⁰ Corporate tax was reduced from 33% to 22% and individual income tax varies between 15%-35% as well as there are tax benefits and incentives in technology development industrial and free trade zones (<http://www.invest.gov.tr/en-US/investmentguide/Pages/10Reasons.aspx>).

¹¹<http://www.invest.gov.tr/en-US/investmentguide/Pages/10Reasons.aspx>; www.ekonomi.gov.tr_ Economic Outlook; www.ekonomi.gov.tr_ Economic Outlook.

¹²<http://www.doingbusiness.org/data/exploreconomies/turkey/>.

¹³<http://www.doingbusiness.org/data/exploreconomies/turkey/>

¹⁴ Figures in terms of billion USDs.

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