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BRAZIL ECONOMIC REVIEW



Brazil is the largest economy in Latin America and the 9th largest in the world. Being one of the BRIC (Brazil, Russia, India, China) countries, Brazil is expected to determine the dynamics of the world economy in 2050. Turkey and Brazil celebrate 160 years of formal diplomatic relationship in 2018.



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One of the rising powers of the 21st century, Brazil is a leading country in its region. With the largest economy in Latin America and the ninth largest economy in the world, Brazil is one of the world's leading countries in the mining, agriculture and manufacturing industries. In addition, it has a growing service sector. Having started ethanol production in the 1970s with the aim of reducing its dependence on oil exports, Brazil is now the second largest producer of ethanol after the United States. While Brazil opposes the protective agricultural policies of developed countries, it advocates free trade policies in areas such as agriculture and textiles where developing countries are more advantageous.

Brazil, together with Russia, India and China (BRIC Countries), is expected to be one of the countries that will determine dynamics of world economy in 2050s. It should not be forgotten that Brazil, which has new oil reserves and is expected to become a petroleum giant in the future, remains a supplier country rich in natural resources, while still maintaining its presence among BRIC countries.

The main products of Brazilian exports are; soybean, iron ores, crude oil, sugar, automobiles, poultry, wood pulp, corn, coffee, frozen beef. The most important trading partners in Brazil's exports are China, USA, Argentina, Netherlands, Japan and Chile. The share of the top 5 countries in total exports is 49%. Turkey ranks #31 in the Brazilian exports and it has a share of 0.8% in total.





Brazil's import products, petroleum oils, motor vehicles parts and components, mobile phones, electronic circuits, hard coal, pharmaceuticals, crude oil, automobiles. The most important trading partners in Brazil's imports are China, USA, Argentina, Germany and South Korea. The share of imports of 5 countries in total is 50.6%. Our country ranks 48th among the countries that Brazil imports to with 0.3% share.

MERCOSUR¹ has signed FTA (Free Trade Agreement) with Israel, Bolivia, Chile, Peru, Cuba, Colombia, Ecuador, Egypt, Palestine and the latest South African Customs Union. Free Trade Agreement negotiations between MERCOSUR and Turkey, the European Union, Jordan, Morocco, the Gulf Cooperation Council are continuing. The result of the ongoing FTA negotiations between MERCOSUR and EU is expected to be finalized soon. When this process is completed, under the scope of the Customs Union Agreement Turkey has with the EU, Turkey can sign FTAs with MERCOSUR countries. In the MERCOSUR Bloc where the average customs duty is around 15%, the sectors that have a large share in Turkey's exports (such as machinery equipment and textile products) are subjected to fairly high customs duty rates, at around 14-20%. When VAT and other taxes are included, product based protection can go up to 25% in most items.

Latin American integration and the development of relations with Southern countries has become one of the basic principles of Brazilian foreign policy, especially since the early 1990s. On the other hand, the start of the

development of relations between Turkey and Brazil are fairly new. The Ottoman Empire - Brazilian diplomatic relations was established in the 18th century. In fact, a significant majority of Muslims living in the region today are from Lebanon and Syria, which have migrated from the Ottoman lands since the beginning of the 19th century.

Following crises in the 1980s and 1990s, Brazil had the worst growth rate of Latin America at the beginning of the 21st century. However, it has entered a period of recovery between 2003 and 2014. Especially, after the second period of Luiz Inácio Lula da Silva (2003-2011) government, the pace of development has increased significantly. According to World Bank data, 29 million people were saved from poverty and inequality in this period. With inflation and public borrowing under control and an expanding middle class, the overall Brazilian population experienced a 4.4% increase in their income. The low income population, however, experienced a whopping

BRAZIL IS ONE OF THE WORLD'S LEADING COUNTRIES IN MINING, AGRICULTURE AND MANUFACTURING INDUSTRIES. THE COUNTRY IS EXPECTED TO BECOME A PETROLEUM GIANT WITH ITS NEW OIL RESERVES.

40% increase. During the Lula period, Brazil's entry into the fastest economic development process of the last 50 years is primarily due to the intense demand for Brazilian export. As a result of this supply, exports have doubled between 2003 and 2006. Another reason for the growth in the economy is the increase in domestic consumption. This is the result of the increase in the purchasing power of the population due to increase in minimum wage, social security programs and *Bolsa Familia*². External borrowing, corresponding to 33% of GDP before the Lula period, fell to 3% of GDP in 2007. However,

in the past few years, the decline in commodity prices, combined with the political instability, has led to one of the worst economic declines in Brazil in the last century.

While the unemployment and poverty rates have rapidly increased, 2 million people lost their jobs in the past year, budget deficit exceeded 10% of GDP and Brazilian currency lost 20% value. One of the reasons for this recession is that the prices of products such as iron ore and soybean products, which constitute almost half of the commercial income resources of the country, have declined worldwide. In the last decade, with the global crisis, external borrowing has increased significantly in countries with export-driven economies and poor saving habits while the economy is performing well. The economic crisis, combined with the corruption scandal of the country's largest oil company state-owned Petrobras, led to a political crisis in the country that ended with the impeachment

**BRAZIL
ECONOMIC
REVIEW**

**ESTABLISHED
IN 2007, DEİK/
TURKEY-
BRAZIL
BUSINESS
COUNCIL AIMS
TO INFORM
AND BRING
CLOSER
BUSINESS
COMMUNITIES
IN BOTH
COUNTRIES.**

of then President Dilma Rousseff. Although Michel Temer, Deputy President of Rousseff said that the financial adjustments to the economy would create a safer environment for investors and this reform program is faced with the opposition of the congress. In the face of this economic stagnation and political uncertainty, the corruption scandal has shaken consumers and investors' confidence in the market, causing investments to shrink rapidly. As a result, growth in the Brazilian economy, which grew by an average of 4% during the Lula period, fell below 2% during the Rousseff period. The overcoming the economic recession in Brazil, which is regarded as one of the most important rising powers of the 21st century depends on breaking the political crisis and taking necessary measures in the economic arena.

Brazil is Turkey's first strategic partner in South America and its biggest trade partner in the region. The first official visit to Brazil at



DEİK Latin America Business Councils Coordinator Melike Hocaoglu is with H.E. Ambassador Paulo Roberto França, Consul General of Brazil in Istanbul.



THE EXEMPTION FROM VISA REQUIREMENT AND EASY ACCESS BY FLIGHT INCREASE THE CAPACITY OF TOURISM BETWEEN TURKEY AND BRAZIL.

TURKEY-BRAZIL BILATERAL TRADE (Thousand US Dollars)				
Year	Export	Import	Volume	Balance
2015	458,367	1.792,241	2.250,608	-1.333,875
2016	333,741	1.788,012	2.121,754	-1.454,271
2017	384,904	2.545,015	2.929,919	-2.160,111
2017 / (1-5)	146,146	934,853	1.080,999	- 788,708
2018 / (1-5)	199,064	1.323,951	1.523,015	-1.124,887

Source: TurkStat

the Presidency level, Suleyman Demirel, took place in 1995 during his visit to Latin America, including Chile and Argentina. In 2009, after the visit of the Brazilian President Lula da Silva to Turkey, in 2010, President Erdoğan, then Prime Minister, paid an official visit to Brazil during which the "Action Plan for Strategic Partnership" was signed. The strategic nature of the relations between the two countries was further reinforced with the joint declaration titled "Turkey-Brazil: A Strategic Perspective for Dynamic Partnership" during President Dilma Rousseff's visit to Turkey in 2011. President Lula's visit to Turkey, it is also important because for the first time a Brazilian President paid an official visit. A year after this visit, with the help of the newly fortified close relations, Brazil and Turkey undertook a joint mediating role in the talks of the Tehran Declaration focusing on Iran's nuclear program.

INVESTMENTS IN BOTH COUNTRIES

The largest Turkish investment in Brazil is the Kordsa factory in Salvador, Bahia. The Kordsa plant produces 80% of its production for the Brazilian domestic market while the remaining 20% is exported to Argentina, Colombia and Venezuela. Brazil is attractive for international investors due to various factors:

- An internal market with a population of approximately 210 million
- Easy access to raw materials
- A diversified economy against international crises
- A strategic geographic location providing easy access to the South American countries

Nevertheless, investment in Brazil remains risky due to some unfavorable factors such as complex taxation, cumbersome bureaucratic delays, and heavy and strict labor legislation.

If we look at the Brazilian partner company in Turkey, Anadolu Group partnering with Brazil Cutrale Company, is Turkey's leading fruit juice and fresh fruit company with 350 million dollar investment value. Also recently with Brazil-based BBRF and the Qatar Investment Authority entered Turkish market by acquiring the Banvit Poultry Company with 915 million Turkish lira value. Finally, the world-leading Brazilian Votorantim Cimentos invested 140 million euros in a new cement plant in Sivas.

TURKEY AND BRAZIL SIGNED PREVENTION OF DOUBLE TAXATION AGREEMENT IN THE MERCOSUR SUMMIT HELD IN THE CITY OF FOZ DO IGUAÇU ON 16-17TH DECEMBER, 2010.

POTENTIAL PRODUCTS IN TURKEY-BRAZIL TRADE:

 Hazelnut and products	 Dried fruits (dried figs, grapes and especially apricots)	 Olive and Olive Oil
 Maya	 Automotive Primary and Side Industry (Auto Spare Parts, commercial vehicle),	 Goods from Iron and Steel and Iron and Steel
 Processed Natural Stones (Block Marble, Traverten)	 Machine Tools (Metal Forming-Cutting Machines and Presses)	 Petroleum Products and Oils
 Textile & Ready Wear	 Cement	

When Brazil's import from other countries are examined; it can be said that opportunities for cooperation in aircraft sub-industry, contracting sector (roads, airports, ports, marinas), tourism (especially ship tourism / cruise services), chemical carrier ships, medicine and cosmetics industry can be evaluated.

HIGHLIGHTS OF BRAZIL MARKET

 Biofuels 1st exporter	 Airplanes 3rd world exporter	 Hydroelectric power 3rd world producer	 Automotive industry 7th exporter	 Software and IT 12th world market
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DEİK/TURKEY-BRAZIL BUSINESS COUNCIL

DEİK/Turkey-Brazil Business Council was established in 2007.

After the Business Council's establishment in 2007, a delegation of Brazilian business people is invited to Turkey to inform them about business opportunities and to arrange meetings with its members. Under its terms the partners are to hold Annual Joint Conferences to be organized in turns by Brazil and Turkey.

Close cooperation with Brazil will facilitate Turkish companies' entry into South American markets i.e. MERCOSUR, who's other members are Argentina, Paraguay and Uruguay. Vice versa, Brazilian companies can use Turkey as springboard to Europe and markets of neighboring countries.

The purpose of the Council is to organize conferences, seminars and bilateral negotiations in order to inform the business communities in both countries and to bring them closer together. Besides that, the Business Council is tasked with identifying legal and practical restrictions to trade and joint ventures, and holding talks on their removal or improvement with the respective bodies that represent the business community.

¹ Mercosur is a South American trade bloc established by the Treaty of Asunción in 1991 and Protocol of Ouro Preto in 1994. Its full members are Argentina, Brazil, Paraguay and Uruguay. Venezuela was a full member but has been suspended since December 1, 2016. Mercosur's purpose is to promote free trade and the fluid movement of goods, people, and currency.

² Bolsa Familia is a social welfare program of the Brazilian government that provides financial aid to poor Brazilian families; if they have children, families must ensure that the children attend school and are vaccinated.

Brazil and Turkey 160 Years of Diplomatic Relations

BY H.E. AMBASSADOR PAULO ROBERTO FRANÇA
CONSUL GENERAL OF BRAZIL IN ISTANBUL



THE DIPLOMATIC RELATIONS BETWEEN

Brazil and Turkey started in 1858 with the signature of the Treaty of Commerce and Friendship between the Empire of Brazil and the Ottoman Empire. The year of 2018 celebrates 160 years of formal diplomatic relationship between Brazil and Turkey.

After the foundation of the Turkish Republic, a new Treaty of Friendship was signed in 1927. In recent decades, several other agreements were signed in the fields of agriculture, commerce, defense, industry, tourism and others. Three agreements are worth mentioning: Agreement on Visa Exemption for Holders of Common Passports, signed in 2001; the Action Plan for Strategic Partnership, signed in 2010 and the Agreement to Avoid Double Taxation and Prevent fiscal evasion with respect to income tax, signed in 2012. The Brazilian Embassy in Ankara opened in 1930 and the Consulate General of Brazil in Istanbul operates since 2009. Several visits of highest authorities of both countries, including two visits of Brazilian Emperor D. Pedro II to the Ottoman territories, numerous visits of Head of States and other authorities of both governments are also highlights of the bilateral diplomatic relations.

Brazil and Turkey have a lot in common. Both are upper-middle income level developing economies and regional powers. Brazil is the 9th biggest economy in the world, with a GDP of USD 2.02 trillion and has the 5th biggest population, 205 million people. Both are members of the G20 and have robust economies. Despite the geographic distance, there are many potential opportunities to be explored between both countries.



BRAZIL AND TURKEY HAVE A LOT IN COMMON. DESPITE THE GEOGRAPHIC DISTANCE, THERE ARE MANY POTENTIAL OPPORTUNITIES TO BE EXPLORED BETWEEN BOTH COUNTRIES.

The bilateral trade reached almost USD 3 billion in 2017, a 38% increase from 2016. In the period of 10 years, the trade volume has increased 108%.

Turkey imported USD 2.5 billion from Brazil, out of which the main products were: iron, steel, metallic ores, wood, cotton and live animals. Turkey exported USD 385 million to Brazil, mainly industrial goods, among which were: vehicle parts, boilers, machinery, inorganic chemicals and textiles. The Brazilian trade surplus in goods is to some extent counterbalanced by the predominance of more value added products on the Turkish export side, a more significant portfolio of Brazilian investments in Turkey and an important surplus in the tourism sector.



Turkey is a demanded touristic destination for the Brazilian population. An average of 60 thousand Brazilian tourists come to Turkey every year. The screening of Turkish television series in Brazil have contributed to the increase of the tourism exchange, which became more dynamic after the launch of direct flights between Istanbul and São Paulo by Turkish Airlines. There are several opportunities for bilateral partnerships in the audiovisual production field.

There is also a significant number of Brazilian investments in Turkey: Votorantim, Cutrale (Anadolu Etap), Banvit (BRF), Hayes Kemmerz Jantas (Maxion) and Klimasan (Metalfrio).

Turkey is a country admired by Brazilians. In addition to its rich history, it has shown admirable economic, technological, educational, artistic and social growth in recent years. Turkey has been showing generosity to immigrants and is playing important role in world affairs. In this aspect we have great affinities. Brazil and Turkey share similar views on a number of global issues. We also have many common

challenges as countries of great regional importance, and wish to have a stronger presence in a more just and democratic international order.

After facing a severe economic crisis, Brazil is back to full activity and has returned to its strong dynamism. The year of 2018 is also important for Brazilian politics, since a new president will be elected. Brazil has invested strongly in several sectors such as infrastructure, energy, defense, and others, and launched a huge privatization program, encompassing 75 projects, among airports, pre-salt rounds, railways, and others, representing several opportunities for Turkish businessmen and investors. There are several sectors with potential for partnership, such as renewable energy, construction, tourism, among others.

The celebration of the 160 years of diplomatic relations between our countries is an emblematic moment in the current history of Brazil and Turkey. There are many challenges ahead and great opportunities to strengthen our friendship ties and enhance our bilateral trade and investments.