

# **How to Export to Turkey**

# **2018**

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# 1 Why Turkey

## 1.1 General Information

Geographically, the Republic of Turkey is a bridge between Europe and Asia. Due to its location, surrounded by sea on three sides, Turkey has always been the center of great trade, silk and spice routes. Today, even in the most inaccessible or isolated corners, one can easily feel and see the traces of different cultures.

The Republic was founded by Mustafa Kemal Atatürk in 1923 which marked the end of the long reign of the Ottoman Empire. Since then, Turkey has developed into a modern, democratic state, but at the same time, careful measures ensured that culture and traditions continue to live and evolve. Turkey is currently a candidate for membership of the European Union.

Turkey is a country of diverse cultures, beliefs, ideas, nature and history. This diversity is reflected in the landscape which is the life support and habitat for 80 million people. The Turkish landscape encompasses a vast variety of geographical zones. This landscape has the combined characteristics of three continents of the world: Europe, Africa and Asia. Between 2000 B.C. and A.D.1500, Anatolia was the center of world civilization manifested in the ruins and monuments which adorn today's landscape. Turkey is also known for an abundance and diversity of handicrafts, cuisine, music, customs and traditions due to its rich flora, fauna and regional differentiation as well as its imperial legacy.

Turkey's focal points are its three largest cities: İstanbul, Ankara, and İzmir which have become major urban centers by their historical heritage as well as modern design. Mythology and history are intermingled in Antalya on the Mediterranean coast, together with its beautiful beaches and seaside resorts. Myra (now called Demre), near Antalya, is where St. Nicholas is buried. "Cappadocia," named during the Roman Empire, was a well-known religious center during the Byzantine Empire. Even today cave dwellings in rock cones and village houses of volcanic tuff merge harmoniously into the landscape. The Black Sea region is renowned for its mountainous green landscape. The 14th-century "Sumela Monastery" (Virgin Mary) is perched on a cliff-face 270 meters above a deep gorge. Nemrut Mountain in Adıyaman is where the tomb of King Antiochos I was built two thousand years ago, surrounded by huge stoneheads of gods. In the east, Mount Ararat, where Noah's ark is believed to be buried, rises to a height of 5,165 meters. On the ancient Silk Road, near Kars, lie the ruins of the medieval city Ani.

These are just a few of the characteristics and excitements of Turkey. In general, Turkey fascinates, astonishes and informs. Perhaps the most thrilling aspect of visiting Turkey is to become an active participant in this landscape.

## 1.2 Geography

**Turkey**, country that occupies a unique geographic position, lying partly in Asia and partly in Europe. Throughout its history it has acted as both a barrier and a bridge between the two continents.

Turkey is situated at the crossroads of the Balkans, Caucasus, Middle East, and eastern Mediterranean. It is among the larger countries of the region in terms of territory and population, and its land area is greater than that of any European state. Nearly all of the country is in Asia, comprising the oblong peninsula of Asia Minor—also known as Anatolia (*Anadolu*)—and, in the east, part of a mountainous region sometimes known as the Armenian Highland. The remainder—Turkish Thrace (*Trakya*)—lies in the extreme southeastern part of Europe, a tiny remnant of an empire that once extended over much of the Balkans.

Anatolia (Turkish: *Anadolu*) is a large, roughly rectangular peninsula situated bridge like between Europe and Asia. The Anatolian part of Turkey accounts for 97% of the country's area. It is also known as Asia Minor, Asiatic Turkey or the Anatolian Plateau. The term Anatolia is most frequently used in specific reference to the large, semiarid central plateau, which is rimmed by hills and mountains that in many places limit access to the fertile, densely settled coastal regions.

The European portion of Turkey, known as Thrace (Turkish: *Trakya*), encompasses 3% of the total area but is home to more than 10% of the total population. Istanbul, the largest city of Thrace and Turkey, has a population of 11,372,613. Thrace is separated from Anatolia (the Asian portion of Turkey) by the Bosphorus (Turkish: *İstanbul Boğazı*), the Sea of Marmara (Turkish: *Marmara Denizi*), and the Dardanelles (Turkish: *Çanakkale Boğazı*); which collectively form the strategic Turkish Straits that link the Aegean Sea with the Black Sea. Mount Ararat, Turkey's tallest mountain with an elevation of 5,137 m (16,854 ft), is the legendary landing place of Noah's Ark and is located in the far eastern portion of the country.



The country has a north-south extent that ranges from about 300 to 400 miles (480 to 640 km), and it stretches about 1,000 miles from west to east. Turkey is bounded on the north by the Black Sea, on the northeast by Georgia and Armenia, on the east by Azerbaijan and Iran, on the southeast by Iraq and Syria, on the southwest and west by the Mediterranean Sea and the Aegean Sea, and on the northwest by Greece and Bulgaria. The capital is Ankara, and its largest city and seaport is Istanbul.

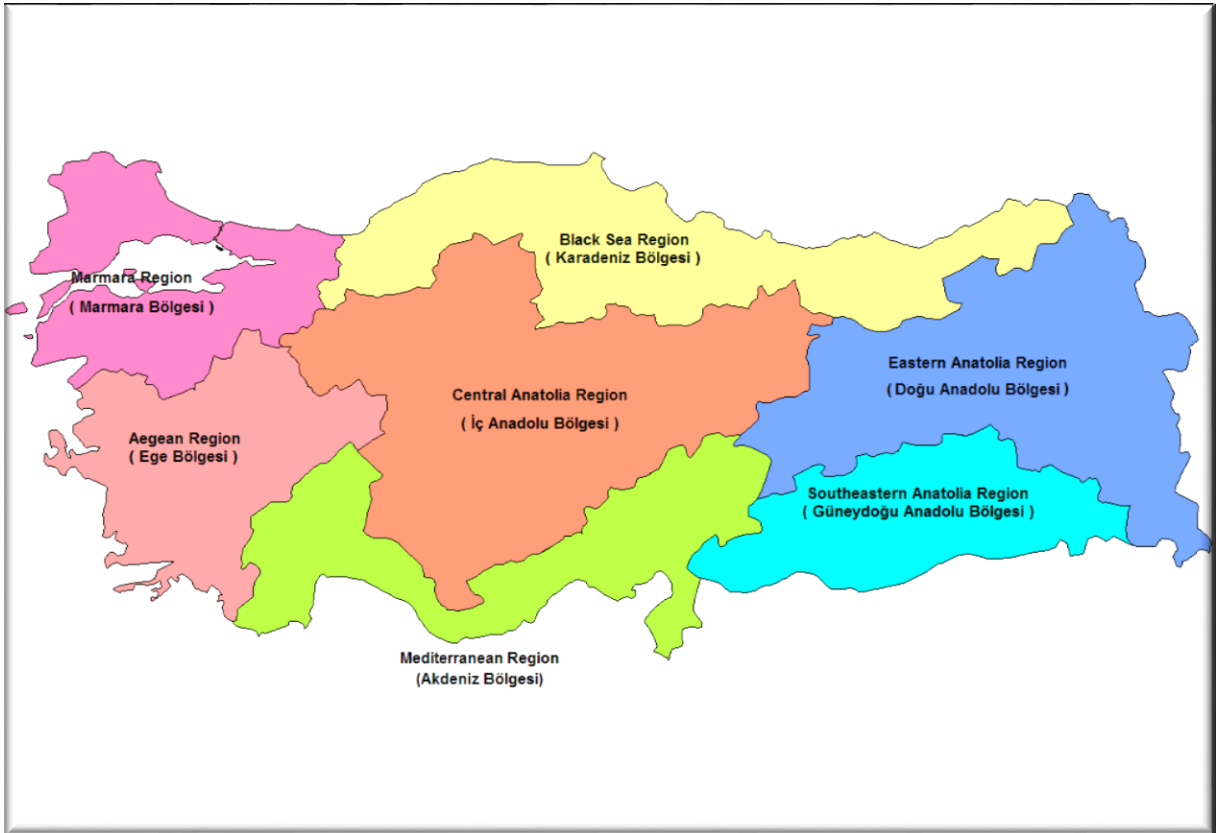
Location:	Southwestern Asia (that part west of the Bosphorus is included with Europe), bordering the Black Sea, between Bulgaria and Georgia, and bordering the Aegean Sea and the Mediterranean Sea, between Greece and Syria.	
Area:	Total area:	780,000 square km (300,000 square miles)
	Land area:	770,760 square km
	Thrace (Europe):	23,764 square km.

	Anatolia (Asia):	755,688 square km.
	Max. length:	1,565 km.
	Average width:	550km.
Coastline:	Total:	8,372 km.
	Aegean:	2,805 km.
	Mediterranean:	1,577 km.
	Black Sea:	1,695 km.
	Marmara:	927 km.
Land Boundaries:	Total:	2,753 km.
	Syria:	877 km.
	Former USSR (Georgia, Armenia, Nakhitchevan);	610 km
	Iran:	454 km.
	Irak:	331 km.
	Bulgaria:	269 km.
	Greece:	212 km.
Land Use:	Arable land:	30%
	Permanent crops:	4%
	Meadows and pastures:	12%
	Forest and woodland:	26%
	Other:	28%
	Total:	9,423 square km.

Lakes:	In order of size:	Van, Tuz Golu (Salt Lake), Beysehir, Egridir, Aksehir, Iznik, Burdur, Manyas, Acigol, Ulubat (Apolyont).
Mountains <b>Max. altitude:</b>	Mt. Ararat:	5,165 m.
	Kackar;	3,923 m.
	Erciyes;	3,917 m.
	B Hasan;	3,268 m.
	Nemrut:	2,282 m.
	Uludag (Mt. Olympus):	2,543 m.
	Average altitude;	1,131 m.
	Land above 500 m. altitude	80%
Rivers:	Firat (Euphrates):	1,263 km. (in Turkey)
	Kizilirmak:	1,182 km.
	Sakarya:	824 km.
	Murat:	722 km.
	Seyhan:	560 km.
	Menderes (Meander):	584 km.
	Dicle (Tigris):	523 km. (in Turkey)
	Yesilirmak:	519 km.
	Ceyhan:	509 km.
	Porsuk:	488 km.
	Coruh:	442 km.
Gediz:	401 km.	



Islands:	Aegean Sea:	Gokceada, Bozcaada, Uzunada, Alibey
	Marmara Avsa Isles:	Eknik, Koyun, Pasalimani
	Princes' Isles:	Buyukada, Heybeliada, Burgaz, Kinali, Sedef,
	Mediterranean:	Karaada, Salih, Kekova
Straits:	Bosphorus	Links Black Sea to Marmara Sea
	Dardanelles	Links Marmara Sea to Aegean Sea
Regions:	Seven geographical and administrative regions:	Marmara, Aegean, Mediterranean, Black Sea, Central Anatolia, East Anatolia, Southeastern Anatolia



### 1.2.1 Distances

A summary table is given below to specify some distances from ANKARA, the capital city of Turkey , to the capitals of some neighboring and European countries, and another table provides distances between major Turkish cities.

<b>Distances from Ankara to the Capitals of Some Neighboring and European Countries</b>	
<b>Capitals</b>	<b>Km</b>
Athens (Greece)	819.9
Sofia (Bulgaria)	852.3
Bucharest (Romania)	748.1
Damascus (Syria)	777.3
Beirut (Lebanon)	711.7
Baghdad (Iraq)	1263.8
Tehran (Iran)	1694.1
Baku (Azerbaijan)	1443.8
T'bilisi (Georgia)	1023.2
Moscow (Russia)	1793.0
Lisbon (Portugal)	3579.1
Paris (France)	2597.4
Berlin (Germany)	2036.0

Source: General Directorate of Highways

<b>Distances from Ankara to some major cities:</b>	
	<b>Km</b>
Adana	490
Antalya	545
Bursa	382
Denizli	478
Diyarbakır	912
Gaziantep	672

İskenderun	682
İstanbul	453
İzmir	580

Source:General Directorate of Highways

### 1.2.2 Climate of Turkey

Turkey's diverse regions have different climates, with the weather system on the coasts contrasting with that prevailing in the interior. The Aegean and Mediterranean coasts have cool, rainy winters and hot, moderately dry summers. Annual precipitation in those areas varies from 580 to 1,300 millimeters (22.8 to 51.2 in), depending on location. Generally, rainfall is less to the east. The Black Sea coast receives the greatest amount of precipitation and is the only region of Turkey that receives high precipitation throughout the year. The eastern part of that coast averages 2,500 millimeters (98.4 in) annually which is the highest precipitation in the country.

Although Turkey is situated in large Mediterranean geographical location where climatic conditions are quite temperate, diverse nature of the landscape, and the existence in particular of the mountains that run parallel to the coasts, result in significant differences in climatic conditions from one region to the other. While the coastal areas enjoy milder climates, the inland Anatolian plateau experiences extremes of hot summers and cold winters with limited rainfall.

The Aegean and Mediterranean coasts have cool, rainy winters and hot, moderately dry summers. Annual precipitation in those areas varies from 580 to 1,300 millimeters, depending on location. The Black Sea coast receives the greatest amount of rainfall. The eastern part of that receives 2,200 millimeters annually and is the only region of Turkey that receives rainfall throughout the year.

Turkey's diverse regions have different climates because of irregular topography. Taurus Mountains are close to the coast and rain clouds cannot penetrate to the interior part of the country. Rain clouds drops most of their water on the coastal area. As rain clouds pass over the mountains and reach central Anatolia they have no significant capability to produce rain. In the Eastern region of Anatolia, the elevation of mountains exceeds 2500-3000 m. Northern Black Sea Mountains and Caucasian Mountain hold the rain clouds, and therefore the area is affected by the continental climate with long and very cold winter. Minimum temperatures of -30°C to -38°C are observed in the mountainous areas in the east, and snow may lie on the ground 120 days of the year. Winters are bitterly cold with frequent, heavy snowfall. Villages in this region remain isolated for several days during winter storms.

Summers are hot and dry, with temperatures above 30°C. Spring and autumn are generally mild, but during both seasons sudden hot and cold spells frequently occur in the region Annual precipitation averages about 500-800 millimeters with actual amounts determined by elevation.

In Istanbul and around the Sea of Marmara the climate is moderate (winter 4°C and summer 27°C); In winter however the temperatures can drop below zero. In Western Anatolia, there is a mild Mediterranean climate with average temperatures of 9°C in winter and 29°C in summer. On the southern coast of Anatolia the similar climatic conditions are observed. The climate of the Anatolian Plateau is a steppe climate. There is a great temperature difference between day and night. Rainfall is low but it usually in form of snow. The average temperature is 23°C in summer and -2°C in winter. The climate in the Black Sea area is wet, and humid (summer 23°C, winter 7°C). In Eastern Anatolia and South-Eastern Anatolia there is a long winter, and snow remains on the ground from November until the end of April (the average temperature in winter is -13°C and in summer 17°C).

Summers are hot and dry, with temperatures above 30°C. Spring and autumn are generally mild, but during both seasons sudden hot and cold spells frequently occur in the region. Annual precipitation averages about 500-800 millimeters with actual amounts determined by elevation.

Because of Turkey's geographical conditions, one can not speak about a general overall climate. In Istanbul and around the sea of Marmara (Marmara region) the climate is moderate (winter 4 deg.C and summer 27 deg.C); in winter the temperature can drop below zero. In Western Anatolia (Aegean region) there is a mild Mediterranean climate with average temperatures of 9 deg.C in winter and 29 deg.C in summer. On the southern coast of Anatolia (Mediterranean region) the same climate can be found. The climate of the Anatolian Plateau (Central Anatolian region) is a steppe climate (there is a great temperature difference between day and night). Rainfall is low and there is more snow. The average temperature is 23 deg.C in summer and -2 deg.C in winter. The climate in the Black Sea area (Black Sea region) is wet, warm and humid (summer 23 deg.C, winter 7 deg.C). In Eastern Anatolia and South-Eastern Anatolia there is a long hard winter, where year after year snow lies on the ground from November until the end of April (the average temperature in winter is -13 deg.C and in summer 17 deg.C).

Of the land area, 16.9% has a semi-arid/ steppe climate (BS), 2.2% has a temperate/ mesothermal climate with significant precipitation in all seasons (Cf), 48.2% has a temperate/ mesothermal climate with dry summers (Cs), 32.7% has a alpine/ highland climate

Of the population, 14.1% live in a semi-arid/ steppe climate (BS), 2.7% live in a temperate/ mesothermal climate with significant precipitation in all seasons (Cf), 64.1% live in a temperate/ mesothermal climate with dry summers (Cs), 19.2% live in a alpine/ highland climate.

#### *1.2.2.1 Air temperature changes until now*

Annual temperature over the period 1961–1990 showed a trend of statistically significant warming over land in south-east Europe of approximately 0.4–0.6°C per decade (14). For Turkey, annual mean temperature seems to have increased only after

the first half of 1990s (16): statistical analyses of Turkish temperature series over the period 1950–2006 showed a turning point at the year of 1992 (1993). Following this year, annual temperatures began to increase gradually (16).

#### 1.2.2.2 Precipitation changes until now

Throughout the period 1951-2004 winter precipitation in the western provinces of Turkey has decreased significantly. Fall precipitation, on the other hand, has increased at stations that lie mostly in the northern parts of central Anatolia. In the spring and summers, there are only a few stations with statistically significant changes; still, they do not show a coherent regional behavior (2). For the period 1961-1990, precipitation trends differ between regions and seasons; a decrease in spring and winter precipitation was found to be statistically significant over Turkey (14).

#### 1.2.2.3 Air temperature changes in the 21st century

According to results from different climate change scenarios, an increase of 1.2°C in mean annual temperature can be expected for 2030. In 2050, the mean annual temperature increases by around 2°C. In the context of model estimations, increase in monthly temperatures indicate that warmer winters are expected, while summers get hotter (2).

#### 1.2.2.4 Precipitation changes in the 21st century

In general, precipitation decreases in the period 2071-2100 with respect to 1961-1990 along the Aegean and Mediterranean coasts and increases along the Black Sea coast of Turkey. Central Anatolia shows little or no change in precipitation. The most severe (absolute) reductions will be observed on the southwestern coast; in contrast, Caucasian coastal region is expected to receive substantially more precipitation. These observations are valid both for the annual and the winter totals (2).

### Maximum , minimum and average temperatures and seasons (in main cities)

Extreme Maximum, Minimum and Average Temperatures Measured in Long Period (°C)												
ANKARA	January	February	March	April	May	June	July	August	September	October	November	December
<b>Maximum Temp.</b>	16.6	19.9	25.7	30.3	33.0	37.0	40.8	39.0	35.2	32.2	24.4	18.0
<b>Minimum Temp.</b>	-21.2	-21.5	-19.2	-6.7	-1.6	5.0	6.8	7.2	2.8	-3.4	-8.8	-14.6
<b>Average Temp.</b>	0.4	1.9	6.0	11.2	15.9	19.9	23.4	22.9	18.5	12.9	6.6	2.3

Extreme Maximum, Minimum and Average Temperatures Measured in Long Period (°C)												
ISTANBUL	January	February	March	April	May	June	July	August	September	October	November	December
<b>Maximum Temp.</b>	18.3	24.0	26.2	32.9	33.0	40.2	39.7	38.8	33.6	34.2	27.2	21.2

<b>Minimum Temp.</b>	-7.9	-8.0	-6.9	0.6	3.6	9.0	13.5	12.2	9.2	3.2	-1.0	-3.4
<b>Average Temp.</b>	6.1	5.9	7.7	12.1	16.7	21.5	23.8	23.5	20.0	15.6	11.2	8.0

Extreme Maximum, Minimum and Average Temperatures Measured in Long Period (°C)												
IZMIR	January	February	March	April	May	June	July	August	September	October	November	December
<b>Maximum Temp.</b>	20.4	23.5	30.5	31.8	37.5	41.3	42.6	43.0	38.0	36.0	28.6	25.2
<b>Minimum Temp.</b>	-4.0	-5.0	-3.1	0.6	7.0	10.0	16.1	15.6	12.6	5.7	0.0	-2.7
<b>Average Temp.</b>	8.9	9.1	11.7	15.9	20.8	25.7	28.1	27.4	23.6	18.9	13.7	10.3

Extreme Maximum, Minimum and Average Temperatures Measured in Long Period (°C)												
ADANA	January	February	March	April	May	June	July	August	September	October	November	December
<b>Maximum Temp.</b>	23.0	25.0	30.3	36.8	40.6	41.3	44.0	43.8	43.2	39.4	33.3	27.4
<b>Minimum Temp.</b>	-4.2	-6.4	-3.6	-1.3	5.6	13.7	16.8	16.8	10.9	4.8	-1.0	-3.5
<b>Average Temp.</b>	9.7	10.4	13.3	17.5	21.7	25.6	28.3	28.4	26.1	21.6	15.3	11.1

Extreme Maximum, Minimum and Average Temperatures Measured in Long Period (°C)												
GAZIANTEP	January	February	March	April	May	June	July	August	September	October	November	December
<b>Maximum Temp.</b>	19.0	21.0	26.6	32.8	37.8	39.6	44.0	42.0	38.6	34.4	27.3	22.2
<b>Minimum Temp.</b>	-9.6	-13.0	-11.0	-2.5	3.2	7.1	11.8	12.7	6.4	0.0	-7.0	-10.0
<b>Average Temp.</b>	3.4	4.3	8.2	13.3	18.6	24.0	27.9	27.3	22.8	16.3	9.3	4.9

Source: Turkish State Meteorological Service

### 1.2.3 Turkish Political Map



## 1.3 Culture

### 1.3.1 Turkish Cuisine

It is said that three major kinds of cuisine exist in the world; Turkish, Chinese, and French. Fully justifying its reputation, Turkish Cuisine is always a pleasant surprise for the visitor.

In addition to being the refined product of centuries of experience, Turkish Cuisine has a very pure quality. The variety and simplicity of the recipes and the quality of the ingredients are guarantees of delicious meals.

Kebabs are dishes of plain or marinated meat either stewed or grilled. Almost every district of Anatolia has its own kebab specialty. Lamb is the basic meat of Turkish kitchen. Pieces of lamb threaded on a skewer and grilled over charcoal form the famous "Sis kebab", now known in many countries of the world. "Doner kebab" is another famous Turkish dish, being a roll of lamb on a vertical skewer turning parallel to a hot grill. You should also try "Alanazik", "Sac kavurma", "Tandır" and different types of "Kofte" as typical meat dishes.

The aubergine is used in a wide variety of dishes from "karniyarik" and "hünkarbegendi", to "patlıcan salatası" (eggplant salad) and "patlıcan dolması" (stuffed eggplants). It can be cooked with onions, garlic and tomatoes and served cold as "imam bayıldı".

A delicious Turkish specialty is "pilav", a rice dish which is difficult for the inexperienced cook to prepare. In the Black Sea region of Turkey they make a great dish with rice

and small fish called "Hamsili pilav". Another interesting dish from the same region is "Mirolooto".

"Börek" are pies of flaky pastry stuffed with meat, cheese or potatoes. The delicious Turkish natural yoghurt, "yogurt", is justifiably renowned. A typical appetizer prepared with yogurt is "Cacik". And, of course, don't forget to try "Manti", with loads of yogurt.

One notable variety are the "zeytinyaglılar", dishes cooked with olive oil. "Dolma" is a name applied to such vegetables as grape leaves, cabbage leaves, and green peppers stuffed with spiced rice (Biber dolma). You should also try "Baklali Enginar" (with artichoke) and "Tekmil Lahana" (with cabbage).

Turkish sweets are famous throughout the world and many of these have milk as the basic ingredient such as "sütlac", "tavuk göğsü", "kazandibi", "helva", "asure", but the best-known are "baklava" and "kadayif" pastries.

Among the national drinks, Turkish coffee, Turkish tea, ayran, shira, salgam, sahlep and boza should be mentioned. Turkish coffee comes thick and dark in a small cup and may be served without sugar, with a little sugar or with a lot of sugar. Either way, it is truly delicious. If you like alcohol you can try "Raki" made of anise, it is called as "lions drink" because you must be strong as a lion to drink it.

Soups are coming in a wide variety. These may be light, or rich and substantial. They are generally based on meat stock and served at the start of the meal. Lentil soup is the most common and best loved variety, but there are other preferred soups such as yayla, tarhana, asiran and guli soups.

Mezes are "Hors d'oeuvres" or appetizers figuring mainly at meals accompanied by wine or raki. Eaten sparingly, they arouse the appetite before the meal proper. Examples of meze include gozleme, fried aubergines with yogurt, lakerda (bonito preserved in brine), pastirma (pressed beef), kisir, humus, fish croquettes, and lambs' brains with plenty of lemon juice. At many restaurants a selection of meze is brought to the table on a tray immediately after the drinks are served for the customers to make their choice.

Some other typical Turkish dishes are:

### **Pilav**

Generally made of rice, but also of bulgur (cracked wheat) and sehriye (vermicelli), pilaf (pilav) is one of the mainstays of the Turkish table. The rice should not be sticky but separate into individual grains. The pilaf may include aubergines, chick peas, beans or peas. Although pilaf is traditionally a course in its own right, in recent years it has appeared as a garnish with meat and chicken dishes at many restaurants.



## **Borek**

Thinly rolled pastry, often the paper thin variety known as yufka, is wrapped around various savory fillings or arranged in layers. The myriad types of börek are unmatched delicacies when cooked to perfection. Boreks can be fried, baked, cooked on a griddle or boiled. Traditionally it was said that no girl should marry until she had mastered the art of börek making. Preferred fillings are cheese, minced meat, spinach and potatoes. In the form of rolls filled with cheese or minced meat mixtures and fried, böreks are known as "Sigara (cigarette) boregi". Böreks should be light and crisp, without a trace of excess oil.

## **Doner Kebap**

Slices of marinated lamb on a tall vertical spit and grilled as it slowly turns are delicious. The cooked parts of the cone of meat are cut in very thin slices by a huge sword-like knife, and arranged on a plate with Ace or flat pide (pitta) bread. This dish is the most formidable obstacle to the victory of the hamburger in the fast food market. Doner kebab in rolls with slices of pickle and chips is the most common stand-up lunch for city office workers.

A local variation of Doner Kebap would be Cag Kebabi from Erzurum. It is made with slices of lamb threaded on a spit, with 10 percent minced beef mixed with milk, chopped onion, black pepper and flaked chili pepper spread between each slice to hold them together. The surface is covered tightly with wood ash, and then the kebab is roasted horizontally over a wood fire. As the outer surface browns, the cook takes a metal skewer and threads it through the cooked surface, slices off the portion with a long döner knife, and serves it with thin lavas bread.

## **Kofte**

The diverse köftes of all shapes and sizes are a culinary world of their own. Finely minced meat mixed with spices, onions and other ingredients is shaped by hand, and grilled, fried, boiled or baked. Koftes are named according to the cooking method, ingredients or shape. Plump oval köfte dipped in egg and fried have the evocative name of "Ladies Thighs" (kadin budu). Some köftes are cooked in a sauce as in the case of the delicious "Izmir köfte", the köftes are first grilled and then cooked with green peppers, potato slices and tomatoes in their own gravy. An interesting dish called "Hamsi köfte" comes from the Black Sea region of Turkey.

### **1.3.2 Sport (Football)**

The relationship between football and society in Turkey is unique and complex. Behind the corruption and fanaticism lies a culture that is challenging outdated social attitudes and leading Turkey's European aspirations.

Big Istanbul Football Clubs such as Galatasaray, Fenerbahce and Besiktas, respectively, are champions of the Turkish Football League. Galatasaray Football Team was an UEFA Cup champion in the 1999-2000 season and became the most successful team in history as a holder of the UEFA Cup in 2000; it also reached the quarter-finals of the Champions League more than once. Fenerbahce played in the quarter-finals of the Champions League in the 2007-2008 season, and in the 2012 – 2013 Season reached the semi-finals of the UEFA Cup. Besiktas played in the quarter-finals of the Champion Clubs' Cup in the 1986 – 1987 season, and in the 2002 – 2003 season it reached the quarter-finals of the UEFA Cup.

The Turkish Football League has recently acquired world famous football stars, such as Dutch National Footballer Wesley Sneijder, who currently plays for Galatasaray, and Didier Drogba from the Ivory Coast National Football Team. The Turkey National Football Team in its history was able to participate twice in the World Cup Finals and three times in the European Cup Finals. Turkey became third in the 2002 World Cup and reached the semi-finals of the 2008 European Championship. The National Team is currently in Group A shortlist for Euro 2016, and will host matches with Holland and Latvia in September. If you visit Turkey in September, it is possible to get a ticket for this important international event and enjoy Euro 2016. If Turkey is able to participate in Turkey's Euro 2016, the year of 2016 will be a real football feast for Turkey. Football popularity has lately spread into every activity of the fan base and even crossed the Turkish borders. Especially Çarşı Group – a fan community of Beşiktaş Football Club is famous for its wide range of activities in the sphere of blood donation campaigns in various locations, aid campaigns for earthquake victims, events and concert arrangements against violence in football. Today, some Çarşı Group events may take place in such cities as New York City, London and Berlin. Galatasaray fan communities UltraAslan and Tek Yumruk and Fenerbahce Fenerbahçeliler and Sol Açık organize similar events. With recently increasing activities of the fan clubs, almost every club in Anatolia has its own fan communities with distinctive features, that become more popular over time.

The kick-off in an Istanbul derby (between Galatasaray, Fenerbahce, and Besiktas) is said to not just start a football match, but also "pause life for 90 minutes" in the entire Turkey. The passion with which Turks follow football is well known even beyond the country's borders. From Paolo Maldini to Sir Alex Ferguson, from Pierluigi Collina to Ryan Giggs, the heavyweights of the game have attested to the zeal of Turkish football fans. Giggs, for instance, characterized his appearance against Galatasaray in Istanbul's Ali Sami Yen stadium as "one of those memories that will always stick with you".

Football, however, is not just a hugely popular and competitive sport. It is also a major social force transcending, crisscrossing, and at times, reinforcing gender, ethnicity, ideology and other fault lines. The national and international media have widely covered corruption, violence, and other negativities surrounding Turkish football,

drawing attention to the dangerous levels of football fanaticism, while the more positive consequences of the game have gone largely unnoticed. In reality, the unruly passion and antagonism of fans, the bickering of club directors and the cacophony of stadiums disguise a force with mindbogglingly complex social effects.

### 1.3.3 Art

Islamic Art varies substantially from Western Art due primarily to restrictions in the Koran on depicting the human form. Rather than being representational of the profane world, the perfection of Ottoman art lies in the pure balance of color, line and rhythm in geometric patterns and designs.

Of the Ottoman arts, Calligraphy was the most important. Such mundane items as tax reports, property deeds and imperial edicts became exquisite works of art. This aptly reflects the bureaucratic nature of the empire, with its stress on writing and registering. Turkish calligraphers contributed to the development of new and more ornate styles of calligraphy. Each of the sultans had their own monogram in stylized script, called a Tugra. Sultan Ahmet III and Sultan Bayezit II were skilled calligraphers. In 1928 Ataturk introduced the Latin alphabet, sounding the death knell of the art of Arabic calligraphy in Turkey. Many of the greatest works were preserved in the extensive Ottoman archives and can be seen at Topkapi Palace and Ibrahim Pasha Museum (Museum of Turkish and Islamic Arts).

"Ebru" or marbled paper is an art practiced in Turkey since Ottoman Empire. Mineral and vegetable dyes are sprayed on viscous water over which a sheet of paper is laid in order to create unique patterns. Today this art form is still very popular in Turkey. Ebru art was inscribed in the UNESCO's Representative List of the Intangible Cultural Heritage of Humanity in 2014.

Meerschaum (Lületasi) is a mineral substance found only in Turkey, from which pipes and ornaments have been hand-carved since the 1700's. Meerschaum, contrary to popular belief, is not the fossilized remains of sea creatures, but a mineral: Hydrous Magnesium Silicate, it is found from 30 to 450 feet below the surface of the earth near the town of Eskisehir. Meerschaum's magnesium content provides strength while the hydrogen and oxygen contribute porosity. As one of nature's lightest and most porous substances, Meerschaum is a natural filter. This natural absorbency causes the pipe to slowly change color, eventually turning rich brown color, filtering the nicotine. As few Turks smoke pipes, they are made mostly for export.

Under the Byzantines Constantinople (Istanbul) nearly bankrupted itself obtaining huge amounts of silk from China via the silk route, needed for the production of vast quantities of religious vestments and decorations. In the sixth century, a number of the closely guarded silkworm eggs were stolen by two Russian monks and brought to Constantinople. Silk making quickly became a huge industry, centered in Bursa, and was inherited by the Ottomans when they replaced the Byzantines. Today, Bursa is still an important textile center, famous for its salt-dye techniques.

The art of embroidery most likely traveled west with the Turkic nomads from their Central Asian homelands. It was widely used; the military equipment of the Selcuk and Ottoman soldiers included tents, pavilions, banners, saddles and holsters richly embroidered with motifs and battle scenes, many of which are preserved in the Military Museum in Harbiye, Istanbul. Religious hangings for mosques, prayer carpets and Koranic cases were covered in graceful floral patterns in delicate colors offset with silver and gold. Many of the items of daily life, such as towels, bed coverings and veils were similarly adorned. For the Ottoman Court, silk brocades and velvets were elaborately for ceremonial purposes, often using gold or silver threads on purple velvet. Embroidery designs were based on the geometric and floral patterns used in ceramics and woven silks, though motifs and styles varied from village to village. But tulip design had always a special place in people's heart. Some embroidery was commercially produced in workshops where men and some Christian women worked, but the quality and originality of this work was slightly inferior. The women of the harems produced magnificent work for their dowries (Çeyiz) or trousseaux and to grace their bridal chambers on their wedding nights. This art form reached its creative peak in the 16th century and then was revived again around 100 years ago with the establishment of Girls Technical Schools where it is still commonly taught. Many excellent examples can be seen in the Topkapi Museum and the Sadberk Hanim Museum in Sariyer - Istanbul, or bought in the Grand Bazaar.

Like traditional crafts everywhere, embroidery is being killed by cheap technology. However, most grandmothers still pass their time ornamenting bed coverings and clothes for their grandchildren. The Black Sea resort of Sile specializes in the production of embroidered cotton clothing, towels and tablecloths.

Turkish painting in the western sense only began in the 19th century, with the founding by Osman Hamdi Bey, himself an accomplished painter, of the Academy of Fine Arts. Turkish painters were sent to France and Italy by the Sultan, and foreign painters, mostly Italian, were brought from Europe to transfer their skills. Today this academy is known as Mimar Sinan University.

Ottoman Art consisted mainly of the traditional forms outlined above, with the exception of Turkish Miniatures. The Sultans and elite who patronized this often representational art, kept their paintings for private viewing, fearful of the religious zeal of the public. Miniature painters were divided into two categories; those who painted decorative murals and flowers, and the smaller number, many of whom were non-Muslims, who painted portraits, sieges and battle-scenes. Turkish miniatures are not as famous as Persian ones, although they are often more moving and powerful, due to the stronger shades used and to a greater attention to detail.

It was only in the 19th century that a Turkish painting movement in the Western sense occurred, with the founding by Osman Hamdi Bey of the Academy of Fine Arts (now the Mimar Sinan University School of Fine Arts). The Sultans began to bring foreign painters, mostly Italian or French, to live as court painters, and Turkish painters were sent abroad to learn from European masters. Among the best known of the early

Ottoman painters are Osman Hamdi Bey, Seker Ahmet Pasha, Hoca Ali Riza, Sevket Dag , Ahmet Ziya and Halil Pasha. They were primarily landscape painters, with few portraits. In 1919 the Ottoman Society of Painters held their first exhibition in Galatasaray - Istanbul. Following the War, impressionism was a major influence on Turkish painters. The most successful impressionist painter was Halil Pasha. Painting continued to develop through the thirties and forties, with increased emphasis on design and subject matter. The abstract and cubist movements were popular in Turkey, the best known painters in this genre are Sabri Berkel, Halil Dikmen, Cemal Bingöl and Semsettin Arel. Today's Turkish artists are no longer bound in subject or design by their past, and a wide range of techniques and approaches are being used by the many artists at work today. There is an ever - increasing number of art galleries showcasing these young talents, with regular exhibitions of new work.

### **The Top Art Galleries in Turkey**

Turkey's art scene revolves mostly around its largest cities including Istanbul, Ankara, and Izmir. Both renowned international and local names as well as up and coming artists are represented, from contemporary to classic. Check out some of Turkey's best galleries for art enthusiasts.

#### **Istanbul Modern**

Istanbul's main hub for contemporary art is located within a giant warehouse by the Bosphorus. Established in 2004, Istanbul Modern has not only played a large role in introducing Turkish artists to the city, but also abroad. The cinema center, sculpture garden, and café with a great Bosphorus view are also notable.

Address:

Kılıçali Paşa Mahallesi, Meclis-i Mebusan Cd., Beyoğlu, İstanbul +90 212 334 73 00

#### **Cer Modern**

Turkey's capital has been blessed with an excellent center for contemporary art that also happens to be a feat of architecture. Located in a space that used to be a train depot, the spacious Cer Modern not only holds engaging exhibitions but interacts with its audience through art history classes, kids' workshops, yoga sessions, and so much more.

Address:

Anafartalar Mahallesi, Altınsoy Cad. No:3, Altındağ, Ankara +90 312 310 00 00

#### **X-ist**

Known for their innovative approach, x-ist exhibitions are always striking examples of contemporary art that inspire much more than a few elongated glances. Focused on

up and coming artists that are ripe to make a lasting mark, the small gallery is enough reason to visit the Nişantaşı neighborhood.

Address:

Harbiye Mahallesi, Abdi İpekçi Cad. Kaşıkçıođlu Apt. No:42 D:2, Nişantaşı, İstanbul +90 212 219 56 22

### **Arkas Art Center**

Izmir's major art center is located in the former French consulate and therefore enjoys an excellent stance in terms of architectural integrity. Opened in 2011, Arkas has 10 exhibition rooms on two floors and has already displayed a unique array of art from Ottoman carpets to works of post-impressionism.

Address:

Kültür Mahallesi, 1380 . Sk. 3-1, Konak, İzmir +90 232 464 66 00

### **Arter**

Located right on İstanbul's busy İstiklal Street, walking into Arter is a very welcome distraction from the city's hectic flow. Focusing on local and international contemporary art, Arter has already had exhibitions from a wide spectrum of art forms including installation, video, sculpture, and painting.

Address:

Tomtom Mahallesi, İstiklal Cad. No:211, Beyođlu, İstanbul +90 212 708 58 00

### **Salt Galata**

Certainly one of İstanbul's most beautiful buildings, Salt Galata is much more than an art gallery. Located within a former Ottoman bank where gorgeous marble is in the foreground, Salt features an art gallery, research library, bookstore, restaurant, and auditorium.

Address:

Arap Cami Mahallesi, No:, Bankalar Cd. No:11, Beyođlu, İstanbul +90 212 334 22 00

### **Galerist Tepebaşı**

Since its opening in 2001, Galerist has become a leading representative of Turkish contemporary artist both in Turkey and all around the world via international art fairs. The space itself is also noteworthy due to the preservation of the original historic façade of the neoclassical building which Galerist calls home.

Address:

Asmalı Mescit Mahallesi, Meşrutiyet Cd. No:1, Beyođlu, İstanbul +90 212 252 18 96

### **Sakıp Sabancı Museum**

Once the summer residence of Turkey's wealthy and philanthropic Sabancı family, the Sakıp Sabancı Museum overlooks the Bosphorus from a hill above a beautiful lush garden. Inside the mansion, artists such as Rodin, Picasso, and Anish Kapoor have exhibited their works, while the Müzedechanga restaurant creates art through food.

Address:

Sakıp Sabancı Caddesi, 42 Emirgan, Istanbul +90 212 229 55 18

### **Mısır Apartmanı**

A beautiful example of European architecture in the middle of busy Istiklal Street, the Mısır Apartment is not only stunning aesthetically, but is also one of Istanbul's most important art centers. With an art gallery on every floor, you'll have lots to admire from the buildings beautiful details to the art works.

Address:

Istiklal Cad. Mısır Apt. 163, Galatasaray, Istanbul

### **Depo Gallery**

A gallery known for its strong social, cultural, and political reflection with open encouragement for debate, Depo hosts exhibitions from Turkey as well as the South Caucus, Middle East, and the Balkans. Depo also holds panel discussions and workshops to further interact with their audience.

Address:

Hacımimi Mahallesi, Koltukçular Çk. No:12, Beyoğlu, İstanbul +90 212 292 39 56

#### **1.3.4 Music**

Turkey's cultural fabric is made up of a rich combination of diverse cultures rooted deeply in history. By virtue of its geographical position, Turkey lies at the axis of the cultures of the East, the West, the Middle Eastern, the Mediterranean and Islam. Anatolia is one of the world's oldest human habitats – hosts of civilizations have called it home – and it enjoys a unique cultural richness with its thousands of years of history. Anatolia's cultural variety is so rich that we can see great cultural differences even in areas geographically quite close to each other.

This colorful portrait holds just as true for Turkey's music.

We can categorize the types of music heard through the years of Anatolia's long history into three groups:

#### **Traditional/Local Music**

The Concept of Traditional Music: This is generally music that is created in a common manner, has continued from the time of its production right down to the present day, is popular and frequently played and recited in its region and by local people, and is usually anonymous.

In Turkey, music that conforms to the above definition, which is produced by and located in a settled culture and which has thereby become traditional, can be classified as either 'religious' or 'secular.' These can also be considered under the headings 'Folk/Local Music' and 'Ottoman Music.' These two groups have many features in common, and can be classified as either 'instrumental' or 'with lyrics.'

### **Modern Turkish Classical Music**

Western influence had already begun to be felt in Ottoman music towards the middle of the 19th century. These increased towards the end of the century, and led to efforts to change Ottoman music from monodic to polyphonic.

With the declaration of the republic in 1923, Cemal Reşid (REY), who was then studying music in Europe, returned to Turkey and began to teach at a music school established in Istanbul. At the same time, a number of talented young people were sent by the republic to various cities in Europe to study music. After they returned to Turkey, the group that would later be called 'Türk Beşleri' (the Turkish Five) and which prepared the groundwork for Modern Polyphonic Turkish Music, emerged. The common aim of the group was to use the traditional themes of traditional Turkish music together with the values of Western classical music that they had studied to produce a new polyphonic structure. In later stages, every composer who aimed at a more contemporary sound interpreted the colours and mystery of popular melody in his own way, and instead of merely treating well-known popular melodies they began to achieve syntheses by means of abstraction.

The Turkish Five consisted of; Cemal Reşit REY, Ulvi Cemal ERKİN, Hasan Ferit ALNAR, Ahmet Adnan SAYGUN and Necil Kazım AKSES. Later, others produced and are still producing works in the same field, including; Nuri Sami KORAL, Kemal İLERİCİ, Ekrem Zeki ÜN and Bülent TARCAN of the second generation, Sabahattin KALENDER, Nevit KODALLI, Ferit TÜZÜN, İlhan USMANBAŞ, Bülent AREL and İlhan MİMAROĞLU of the third, and Muammer SUN, Cenan AKIN, Cengiz TANÇ, Kemal SÜNDER, İlhan BARAN, Yalçın TURA and Ali Doğan SİNANGİL of the fourth. An increasing number of other composers after that last generation continue to write works. The current number has now reached around 60.

### **Popular Music**

Popular music is to a large extent produced by the consumer generation, or even if not later came on to take on many of those characteristics, and takes its form from the criteria of its own particular sectoral features, in such a way that the values that comprise those criteria are not based on the preferences of the culture of any one section of society, and thus is a form that to a large extent brings together different



cultures. In the same way that Europe has seen an industrialised society, the increase in artistic products related to popular culture and their increasing spread in all sections of society, and the efforts towards industrialisation in Turkey and the concomitant rise in urbanisation, have all led to an independent popular cultural atmosphere in society. The basic values that the wide community in which popular culture is influential expects from artistic endeavours can be summed up as easy to understand and comprehend and requiring no great depth, thus calling for no great debate. In Turkey, the products of popular culture have lent colour to the last quarter of the 20th century in particular, and as objects, or from the visual point of view, have called to a wide constituency.

Rapidly changing and progressing cultural formations lead to a suitable environment for the emergence of such products as the artistic works of popular culture. In Turkey, popular culture and the music belonging to it are spreading in this environment with great rapidity in all sections of community. By 2000 it had become powerful enough to respond to the musical tastes of just about all of society.

Some of the best Turkish singers are;

- Zeki Müren - Classical Turkish Music
- Münir Nurettin Selçuk - Classical Turkish Music
- Müzeyyen Senar - Classical Turkish Music
- Sezen Aksu - Pop
- Aşık Veysel - Turkish Folk
- Erkan Oğur - Turkish Folk, Anatolian Jazz
- MFÖ (Mazhar Fuat Özkan) - Pop
- Erkin Koray - Psychedelic Rock / Folk Rock
- Barış Manço - Psychedelic Rock / Pop
- Cem Karaca - Rock / Pop
- Duman - Rock/Pop
- Yavuz Çetin – Blues

## 1.4 POPULATION, URBAN CENTERS AND STANDARD OF LIVING

### 1.4.1 Population

- The current population of Turkey is 80,810,525 as of 2017,
- Turkey population is equivalent to 1.07% of the total world population.
- Turkey ranks number 19 in the list of countries (and dependencies) by population.
- The population density in Turkey is 106 per Km<sup>2</sup> (276 people per mi<sup>2</sup>).
- The total land area is 769,630 Km<sup>2</sup> (297,156 sq. miles)
- 72.1 % of the population is urban (59,060,906 people in 2018)
- The median age in Turkey is 30.2 years.

### Turkey Demographics Profile 2018

Population	80,810,525 (July 2017 est.)
Age structure	0-14 years: 24.68% (male 10,209,284/female 9,745,057) 15-24 years: 15.99% (male 6,601,471/female 6,324,277) 25-54 years: 43.21% (male 17,691,703/female 17,243,428) 55-64 years: 8.58% (male 3,448,232/female 3,492,199) 65 years and over: 7.53% (male 2,712,323/female 3,377,241) (2017 est.)
Dependency ratios	total dependency ratio: 50.1 youth dependency ratio: 38.4 elderly dependency ratio: 11.7 potential support ratio: 8.5 (2015 est.)
Median age	total: 30.9 years male: 30.5 years female: 31.4 years (2017 est.)
Population growth rate	0.52% (2017 est.)

Birth rate	15.7 births/1,000 population (2017 est.)
Death rate	6 deaths/1,000 population (2017 est.)
Net migration rate	-4.5 migrant(s)/1,000 population (2017 est.)
Urbanization	urban population: 74.4% of total population (2017) rate of urbanization: 1.54% annual rate of change (2015-20 est.)
Major cities - population	Istanbul 14.164 million; ANKARA (capital) 4.75 million; Izmir 3.04 million; Bursa 1.923 million; Adana 1.83 million; Gaziantep 1.528 million (2015)
Sex ratio	at birth: 1.05 male(s)/female 0-14 years: 1.05 male(s)/female 15-24 years: 1.04 male(s)/female 25-54 years: 1.03 male(s)/female 55-64 years: 0.99 male(s)/female 65 years and over: 0.8 male(s)/female total population: 1.01 male(s)/female (2016 est.)
Mother's mean age at first birth	22.3 years (2010 est.)
Infant mortality rate	total: 17.6 deaths/1,000 live births male: 18.8 deaths/1,000 live births female: 16.3 deaths/1,000 live births (2017 est.)
Life expectancy at birth	total population: 75 years male: 72.7 years female: 77.5 years (2017 est.)
Total fertility rate	2.01 children born/woman (2017 est.)
Contraceptive prevalence rate	73.5% (2013)

HIV/AIDS - adult prevalence rate	NA
HIV/AIDS - people living with HIV/AIDS	NA
HIV/AIDS - deaths	NA
Drinking water source	improved: urban: 100% of population rural: 100% of population total: 100% of population unimproved: urban: 0% of population rural: 0% of population total: 0% of population (2015 est.)
Sanitation facility access	improved: urban: 98.3% of population rural: 85.5% of population total: 94.9% of population unimproved: urban: 1.7% of population rural: 14.5% of population total: 5.1% of population (2015 est.)
Nationality	noun: Turk(s) adjective: Turkish
Ethnic groups	Turkish 70-75%, Kurdish 19%, other minorities 7-12% (2016 est.)
Religions	Muslim 99.8% (mostly Sunni), other 0.2% (mostly Christians and Jews)
Languages	Turkish (official), Kurdish, other minority languages
Literacy	definition: age 15 and over can read and write total population: 95.6%

	male: 98.6% female: 92.6% (2015 est.)
School life expectancy (primary to tertiary education)	total: 16 years male: 17 years female: 16 years (2013)
Child labor - children ages 5-14	total number: 321,866 percentage: 3% note: data represent children ages 6-14 (2006 est.)
Education expenditures	4.8% of GDP (2013)
Maternal mortality rate	16 deaths/100,000 live births (2015 est.)
Children under the age of 5 years underweight	1.9% (2013)
Health expenditures	5.4% of GDP (2014)
Physicians density	1.75 physicians/1,000 population (2014)
Hospital bed density	2.5 beds/1,000 population (2011)
Obesity - adult prevalence rate	32.1% (2016)

During 2018 Turkey population is projected to increased by 1,382,681 people and reach 83,489,653 in the beginning of 2019. The natural increase is expected to be positive, as the number of births will exceed the number of deaths by 947,514. If external migration will remain on the previous year level, the population will be increased by 435,167 due to the migration reasons. It means that the number of people who move into Turkey (to which they are not native) in order to settle there as permanent residents (immigrants) will prevail over the number of people who leave the country to settle permanently in another country (emigrants).

### **Population change rates in 2018**

According to our estimations, daily change rates of Turkey population in 2018 will be the following:

- 3,885 live births average per day (161.87 in an hour)
- 1,289 deaths average per day (53.71 in an hour)
- 1,192 immigrants average per day (49.68 in an hour)
- The population of Turkey will be increased by 3,788 persons daily in 2018.

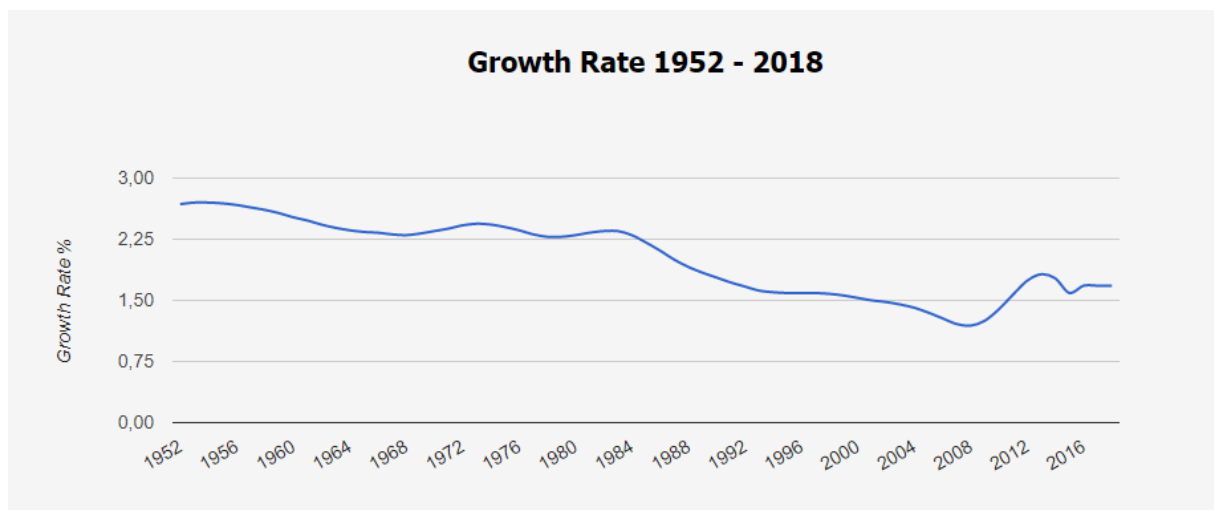
#### 1.4.2 Demographics of Turkey 2017

As of 1 January 2018, the population of Turkey was estimated to be 82,106,972 people. This is an increase of 1.68 % (1,359,783 people) compared to population of 80,747,189 the year before. In 2017 the natural increase was positive, as the number of births exceeded the number of deaths by 931,823. Due to external migration, the population increased by 427,960. The sex ratio of the total population was 0.990 (990 males per 1 000 females) which is lower than global sex ratio. The global sex ratio in [the world](#) was approximately 1 016 males to 1 000 females as of 2017.

**Below are the key figures for Turkey population in 2017:**

- 1,394,504 live births
- 462,681 deaths
- Natural increase: 931,823 people
- Net migration: 427,960 people
- 40,847,187 males as of 31 December 2017
- 41,259,785 females as of 31 December 2017

#### Growth Rate 1952 - 2018



#### 1.4.3 Turkey population density

Turkey population density is 104.8 people per square kilometer (271.4/mi<sup>2</sup>) as of November 2018. Density of population is calculated as permanently settled population of Turkey divided by total area of the country. Total area is the sum of land and water areas within international boundaries and coastlines of Turkey. The total area of Turkey is 783,560 km<sup>2</sup> (302,534 mi<sup>2</sup>) according to the United Nations Statistics Division [🌐](#).

#### 1.4.4 Religion in Turkey

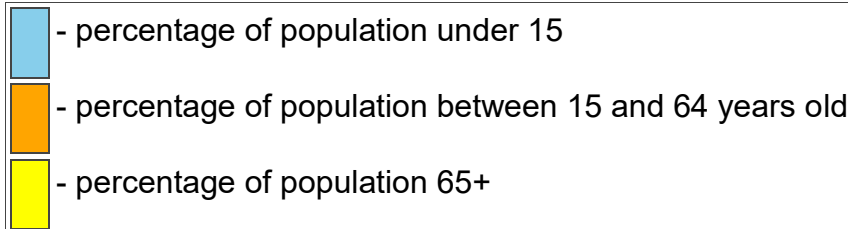
Religion	Number of followers	Percentage of total population
Islam	81,750,987	98.1
Religiously Unaffiliated	1,000,012	1.2
Christianity	416,672	0.5
Other	166,669	0.2

Source: Pew Research Center. The Global Religious Landscape: A Report on the Size and Distribution of the World's Major Religious Groups as of 2010 .

Number of followers estimated by Countrymeters (Wednesday, November 21 2018).

#### 1.4.5 Turkey age structure

As of the beginning of 2018 according to our estimates Turkey had the following population age distribution:



#### In absolute figures (estimate):

21,817,465 young people under 15 years old ( 11,159,159 males / 10,658,306 females)

55,134,011 persons between 15 and 64 years old ( 27,868,748 males / 27,266,083 females)

5,155,497 persons above 64 years old ( 2,354,828 males / 2,800,669 females)

We prepared a simplified model of the population distribution pyramid which is broken down into 3 main age groups. The groups are the same as we used above: population under 15, between 15 and 64 and population which is over 65 year old.

As we can see the Turkey population pyramid has an expanding type. This type of pyramid is common for developing countries with high birth and death rates. Relatively short life expectancy, as well as low level of education and poor health care are also describe such kind of population age distribution model.

Source: The estimation data for section "Turkey age structure" is based on the latest demographic and social statistics by United Nations Statistics Division [🔗](#).

### **Age dependency ratio**

Dependency ratio of population is a ratio of people who are generally not in the labor force (the dependents) to workforce of a country (the productive part of population). The dependent part includes the population under 15 years old and people aged 65 and over. The productive part of population accordingly consists of population between 15 and 64 years.

This ratio shows the pressure on productive population produced by the dependent part of population.

The total dependency ratio of population in Turkey is 48.9 %.

The value of 48.9 % is relatively low. It shows that the dependent part of population is less than a half of the working part. In other words the working population (labor force) in Turkey must provide goods for itself and cover expenditure on children and aged persons. And this part of population is less than 50% of working population. The value of less than 50% means that the pressure on productive population in Turkey is relatively low.

### **Child dependency ratio**

Child dependency ratio is a ratio of people below working age (under 15) to workforce of a country.

Child dependency ratio in Turkey is 39.6 %.

### **Aged dependency ratio**

Aged dependency ratio is a ratio of people above working age (65+) to workforce of a country.

Aged dependency ratio in Turkey is 9.4 %.

Source: The estimation data for section "Turkey age dependency ratio" is based on the latest demographic and social statistics by United Nations Statistics Division [🔗](#).

### **Life expectancy**

Life expectancy at birth is one of the most important demographic indicator. It shows the number of years a newborn infant would live assuming that birth and death rates will remain at the same level during the whole lifetime.



Total life expectancy (both sexes) at birth for Turkey is 72.5 years. This is above the average life expectancy at birth of the global population which is about 71 years (according to Population Division of the Department of Economic and Social Affairs of the United Nations).

Male life expectancy at birth is 70.6 years. Female life expectancy at birth is 74.5 years.

**Literacy of population**

According to our estimates 57,348,476 persons or 95.12% of adult population (aged 15 years and above) in Turkey are able to read and write. Accordingly about 2,941,852 adults are illiterate.

Literacy rate for adult male population is 98.39% (29,736,674 persons). 486,902 are illiterate.

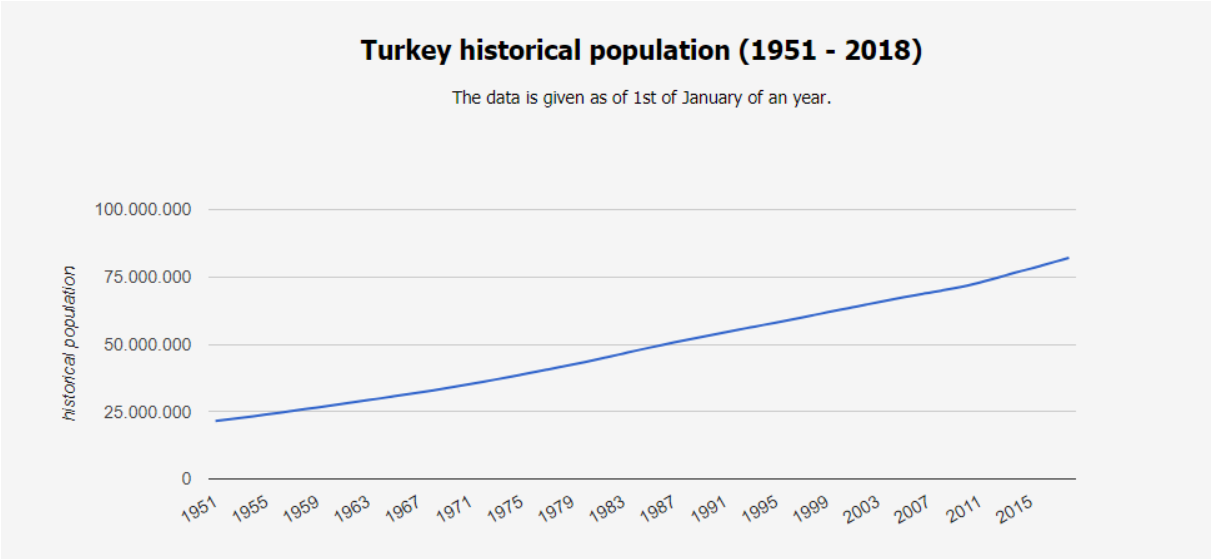
Literacy rate for adult female population is 91.84% (27,611,802 persons). 2,454,950 are illiterate.

Youth literacy rates are 99.68% and 98.81% for males and females accordingly. The overall youth literacy rate is 99.25%. Youth literacy rate definition covers the population between the ages of 15 to 24 years.

Source: The estimation data for section "Turkey population literacy" is based on the latest data published by UNESCO Institute for Statistics (retrieved March 13, 2016) [\[4\]](#).

**Turkey population history**

The data is given as of 1st of January of an year.



### Population projection (2020-2100)

<b>Year</b>	<b>Population</b>	<b>Growth Rate</b>
2020	83,835,758	N/A %
2025	86,124,855	2.73 %
2030	88,416,612	2.66 %
2035	90,915,256	2.83 %
2040	92,980,819	2.27 %
2045	94,561,421	1.70 %
2050	95,626,870	1.13 %
2055	96,182,055	0.58 %
2060	96,221,014	0.04 %
2065	95,792,899	-0.44 %
2070	94,969,865	-0.86 %
2075	93,848,008	-1.18 %
2080	92,500,585	-1.44 %
2085	90,987,820	-1.64 %
2090	89,329,715	-1.82 %
2095	87,575,493	-1.96 %
2100	85,776,307	-2.05 %

The data is given as of 1st of July of an year (medium fertility variant).

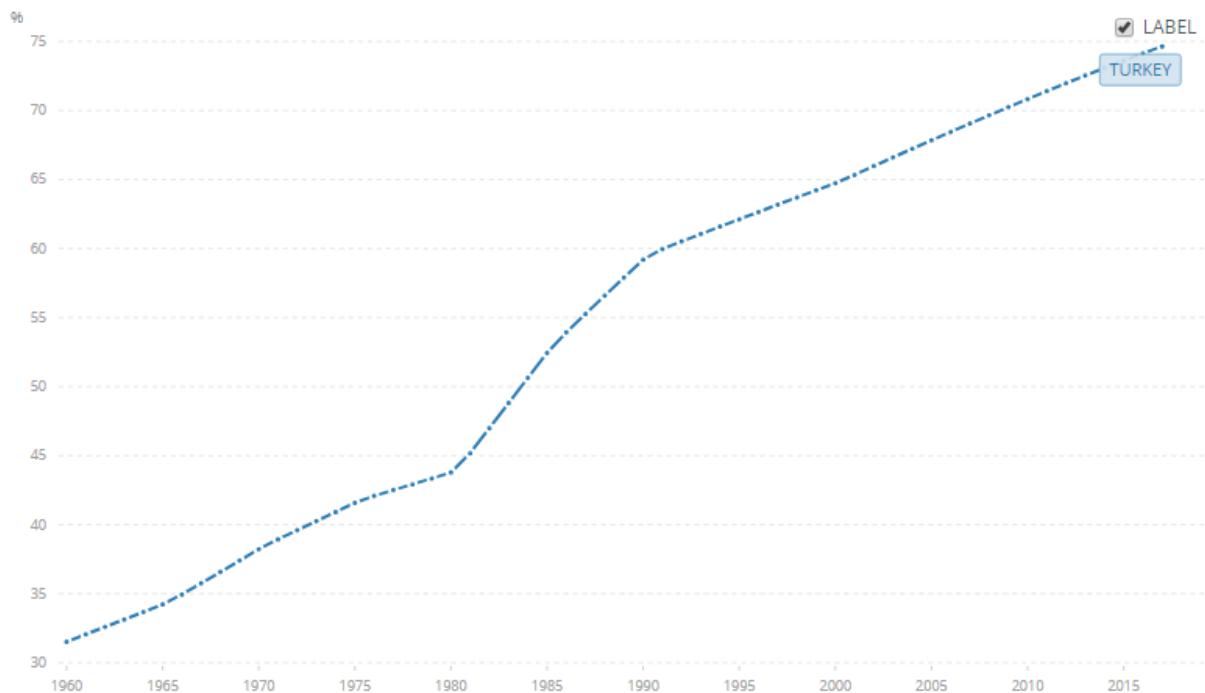
Source : United Nations Department of Economic and Social Affairs: P

### 1.4.6 Urban Centers

The majority of Turkey's inhabitants live within its urbanized cities, [with just 27% of the total population living in rural areas](#). Turkey has experienced steady growth over the years, and while some of the larger cities like Istanbul have been handling growth well, other major cities like Bagcilar have struggled because of illegal building and poor planning by the government, leading to narrow streets, rows of residential buildings crammed with residents and other effects seen from a lack of planning. Turkey is expected to see continued growth into the future, and only time will tell if its largest cities will be able to keep up.

Turkey has 6 cities with more than a million people, 74 cities with between 100,000 and 1 million people, and 424 cities with between 10,000 and 100,000 people. The largest city in Turkey is Istanbul, with a population of 14,804,116 people.

**Percentage of Population of Urban Centers in Turkey**



**Population of Major Cities (Pop. Above 1 mil.)**

İstanbul	15 029 231
Ankara	5 445 026
İzmir	4 279 677
Bursa	2 936 803
Antalya	2 364 396
Adana	2 216 475
Konya	2 180 149
Gaziantep	2 005 515

Şanlıurfa	1 985 753
Kocaeli	1 883 270
Mersin	1 793 931
Diyarbakır	1 699 901
Hatay	1 575 226
Manisa	1 413 041
Kayseri	1 376 722
Samsun	1 312 990
Balıkesir	1 204 824
Kahramanmaraş	1 127 623
Van	1 106 891
Aydın	1 080 839
Denizli	1 018 735
Tekirdağ	1 005 463

#### 1.4.7 Standarts of Living

Turkey has made considerable progress in improving the quality of life of its citizens over the last two decades. Notwithstanding, Turkey performs well in only a few measures of well-being relative to most other countries in the Better Life Index. Turkey ranks above the average in civic engagement. It ranks below average in income and wealth, health status, social connections, education and skills, jobs and earnings, subjective well-being, environmental quality, work-life balance, housing and personal security. These rankings are based on available selected data.

Money, while it cannot buy happiness, is an important means to achieving higher living standards. In Turkey, the average household net-adjusted disposable income per capita is lower than the OECD average of USD 30 563 a year.

In terms of employment, 51% of people aged 15 to 64 in Turkey have a paid job, below the OECD employment average of 67%, and one of the lowest figures in the OECD. Some 70% of men are in paid work, compared with 31% of women. In Turkey, almost 34% of employees work very long hours, the highest rate in the OECD where the average is 13%. About 37% of men work very long hours compared with 26% of women.

Good education and skills are important requisites for finding a job. In Turkey, 39% of adults aged 25-64 have completed upper secondary education, much lower than the OECD average of 74% and one of the lowest rates among OECD countries. This is truer of men than women, as 43% of men have successfully completed high-school compared with 34% of women. In terms of the quality of the educational system, the average student scored 425 in reading literacy, maths and science in the OECD's Programme for International Student Assessment (PISA), lower than the OECD average of 486. On average in Turkey, girls outperformed boys by 9 points, more than the average OECD gap of 2 points.

In terms of health, life expectancy at birth in Turkey is 78 years, two years lower than the OECD average of 80 years. Life expectancy for women is 81 years, compared with 75 for men. The level of atmospheric PM2.5 – tiny air pollutant particles small enough to enter and cause damage to the lungs – is 20.0 micrograms per cubic meter, much higher than the OECD average of 13.9 micrograms per cubic meter. Turkey also performs below the OECD average in terms of water quality, as only 63% of people say they are satisfied with the quality of their water, below the OECD average of 81%, and the lowest rate in the OECD.

Concerning the public sphere, there is a moderate sense of community and high levels of civic participation in Turkey, where 86% of people believe that they know someone they could rely on in time of need, less than the OECD average of 89%. Voter turnout, a measure of citizens' participation in the political process, was 85% during recent elections. This figure is higher than the OECD average of 69% and reflects the practice of compulsory voting in Turkey. Voter turnout for the top 20% of the population is an estimated 87% and for the bottom 20% it is an estimated 82%, a much narrower gap than the OECD average gap of 13 percentage points, and suggests there is broad social inclusion in Turkey's democratic institutions.

In general, Turks are less satisfied with their lives than the OECD average. When asked to rate their general satisfaction with life on a scale from 0 to 10, Turkish people gave it a 5.5 grade on average, much lower than the OECD average of 6.5.

Living in satisfactory housing conditions is one of the most important aspects of people's lives. Housing is essential to meet basic needs, such as shelter, but it is not just a question of four walls and a roof. Housing should offer a place to sleep and rest where people feel safe and have privacy and personal space; somewhere they can raise a family. All of these elements help make a house a home. And of course there is the question whether people can afford adequate housing.

#### *1.4.7.1 Housing*

Housing costs take up a large share of the household budget and represent the largest single expenditure for many individuals and families, by the time you add up elements such as rent, gas, electricity, water, furniture or repairs. In Turkey, households on average spend 20% of their gross adjusted disposable income on keeping a roof over their heads, in line with the OECD average.

In addition to housing costs it is also important to examine living conditions, such as the average number of rooms shared per person and whether households have access to basic facilities. The number of rooms in a dwelling, divided by the number of persons living there, indicates whether residents are living in crowded conditions. Overcrowded housing may have a negative impact on physical and mental health, relations with others and children's development. In addition, dense living conditions are often a sign of inadequate water and sewage supply. In Turkey, the average home contains 1.0 rooms per person, less than the OECD average of 1.8 rooms per person and one of the lowest rates in the OECD. In terms of basic facilities, 93.5% of people in Turkey

live in dwellings with private access to an indoor flushing toilet, less than the OECD average of 97.9% and one of the lowest rates in the OECD.

#### *1.4.7.2 Income*

While money may not buy happiness, it is an important means to achieving higher living standards and thus greater well-being. Higher economic wealth may also improve access to quality education, health care and housing.

Household net adjusted disposable income is the amount of money that a household earns each year after taxes and transfers. It represents the money available to a household for spending on goods or services. In Turkey, the average household net adjusted disposable income per capita is lower than the OECD average of USD 30 563.

Household financial wealth is the total value of a household's financial worth, such as money or shares held in bank accounts. In Turkey, the average household net financial wealth per capita is USD 4 429, considerably lower than the OECD average of USD 90 570 and the lowest figure in the OECD. While the ideal measure of household wealth should also include non-financial assets (e.g. land and dwellings), such information is currently available for only a small number of OECD countries, and is not included here.

Turkey is one of the few OECD countries where inequality of household disposable incomes declined in the 2000s, even if some of the progress achieved was reversed following the onset of the global crisis. Income inequality fell faster in Turkey than in any other OECD country between the mid-1990s and 2011. Also "direct poverty" – defined as lack of access to basic nutrition, clothing and heating – declined from 29% in 2006 to 21% in 2010.

#### *1.4.7.3 Jobs*

Having a job brings many important benefits, including: providing a source of income, improving social inclusion, fulfilling one's own aspirations, building self-esteem and developing skills and competencies. In Turkey, about 51% of the working-age population aged 15 to 64 has a paid job. This figure is much lower than the OECD employment average of 67%, and is the lowest rates in the OECD.

Unemployed persons are defined as those who are not currently working but are willing to do so and actively searching for work. Long-term unemployment can have a large negative effect on feelings of well-being and self-worth and result in a loss of skills, further reducing employability. In Turkey, the percentage of the labour force that has been unemployed for a year or longer is currently at 2.2%, higher than the OECD average of 2%.

Another essential factor of employment quality is job security, in terms of expected loss of earnings when someone becomes unemployed. This includes how likely you are to lose your job, how long you are likely to remain unemployed and how much financial assistance you can expect from government. Workers facing a high risk of job loss are

more vulnerable, especially in countries with smaller social safety nets. In Turkey, workers face an expected 13% loss of earnings if they become unemployed, much higher than the OECD average of 4.9% and one of the highest levels in the OECD.

### **Women's participation in the labour market**

Government subsidies for hiring female and younger workers, coupled with the increased need of families to secure second earner incomes in the global crisis, increased labour market participation among aged 25-54-year-old women from 29.3% in 2008 to 37.3% in 2012.

Traditionally, women have had very low labour force participation rates in Turkey, reflecting shortcomings in human capital as 78% of the female working age population have less than high school education, 58% have primary education or less and 17% are illiterate.

However, between 2005 and 2012, female participation and employment in urban areas both increased by over 50%. About half of the increase in urban female employment was achieved by university-educated women, reflecting an increase in female higher education. Employment rates also improved for women with high school education and, more drastically, for women with less than high school education, whose participation rate rose from 11.7% in 2008 to 16% in 2012. Female employment increased more rapidly in services. Nevertheless, the expansion of manufacturing jobs has also been an important driver for women with less than high-school education.

### 1.5 [Macro economic indicators of turkey](#)

Ranking of Economies by GDP at PPP\* – 2003 vs. 2017

**The Turkish economy has climbed from 18<sup>th</sup> place to 13<sup>th</sup> globally from 2003 to 2017.**

## 2003

- 1  USA
- 2  CHINA
- 3  JAPAN
- 4  GERMANY
- 5  INDIA
- 6  RUSSIA
- 7  FRANCE
- 8  UK
- 9  BRAZIL
- 10  ITALY
- 11  MEXICO
- 12  INDONESIA
- 13  SPAIN
- 14  CANADA
- 15  S. KOREA
- 16  S. ARABIA
- 17  IRAN
- 18  **TURKEY**

## 2017

- 1  CHINA
- 2  USA
- 3  INDIA
- 4  JAPAN
- 5  GERMANY
- 6  RUSSIA
- 7  BRAZIL
- 8  INDONESIA
- 9  UK
- 10  FRANCE
- 11  MEXICO
- 12  ITALY
- 13  **TURKEY**
- 14  S. KOREA
- 15  S. ARABIA
- 16  SPAIN
- 17  CANADA
- 18  IRAN

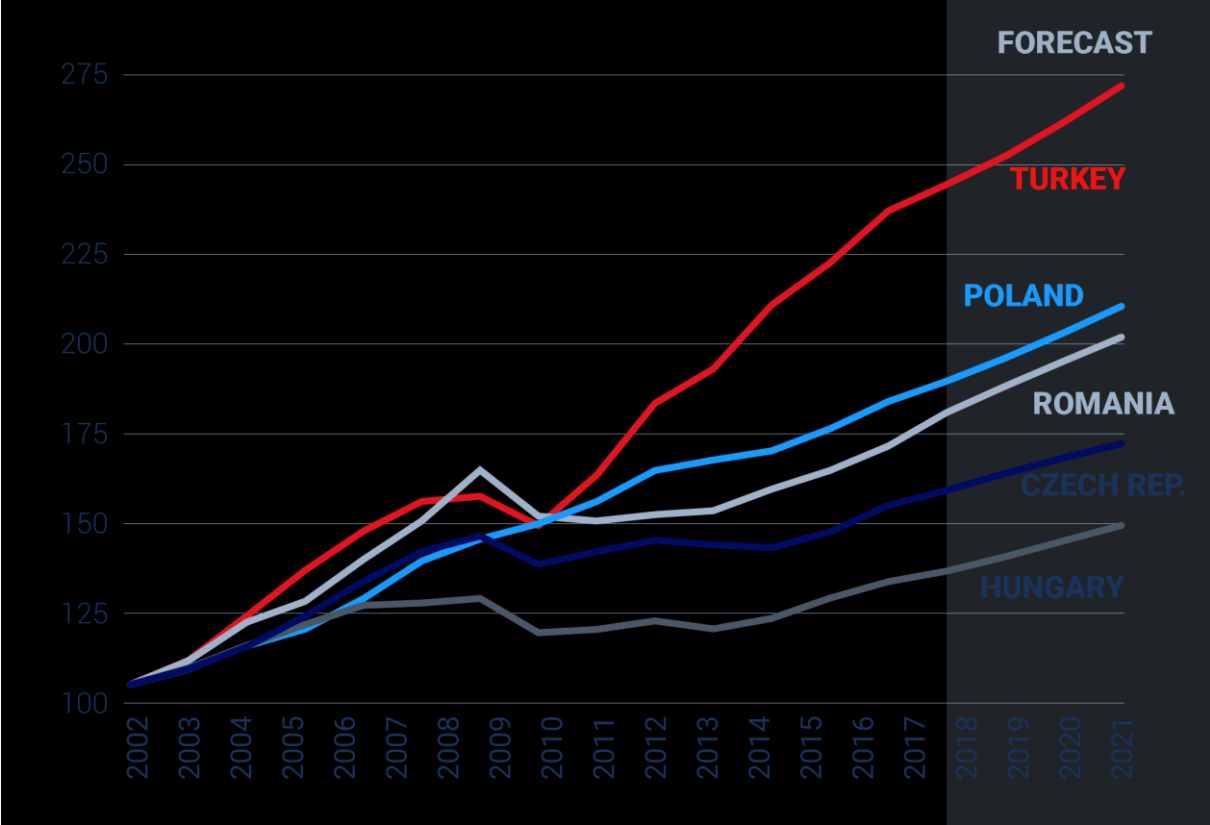
Source: International Monetary Fund World Economic Outlook, April 2018 (IMF WEO)

\*PPP: Purchasing Power Parity



**Real GDP Growth (Index: 2002=100)**

Turkey has outpaced its competitors, and the growth momentum is set to continue over the following years.



Source: IMF WEO

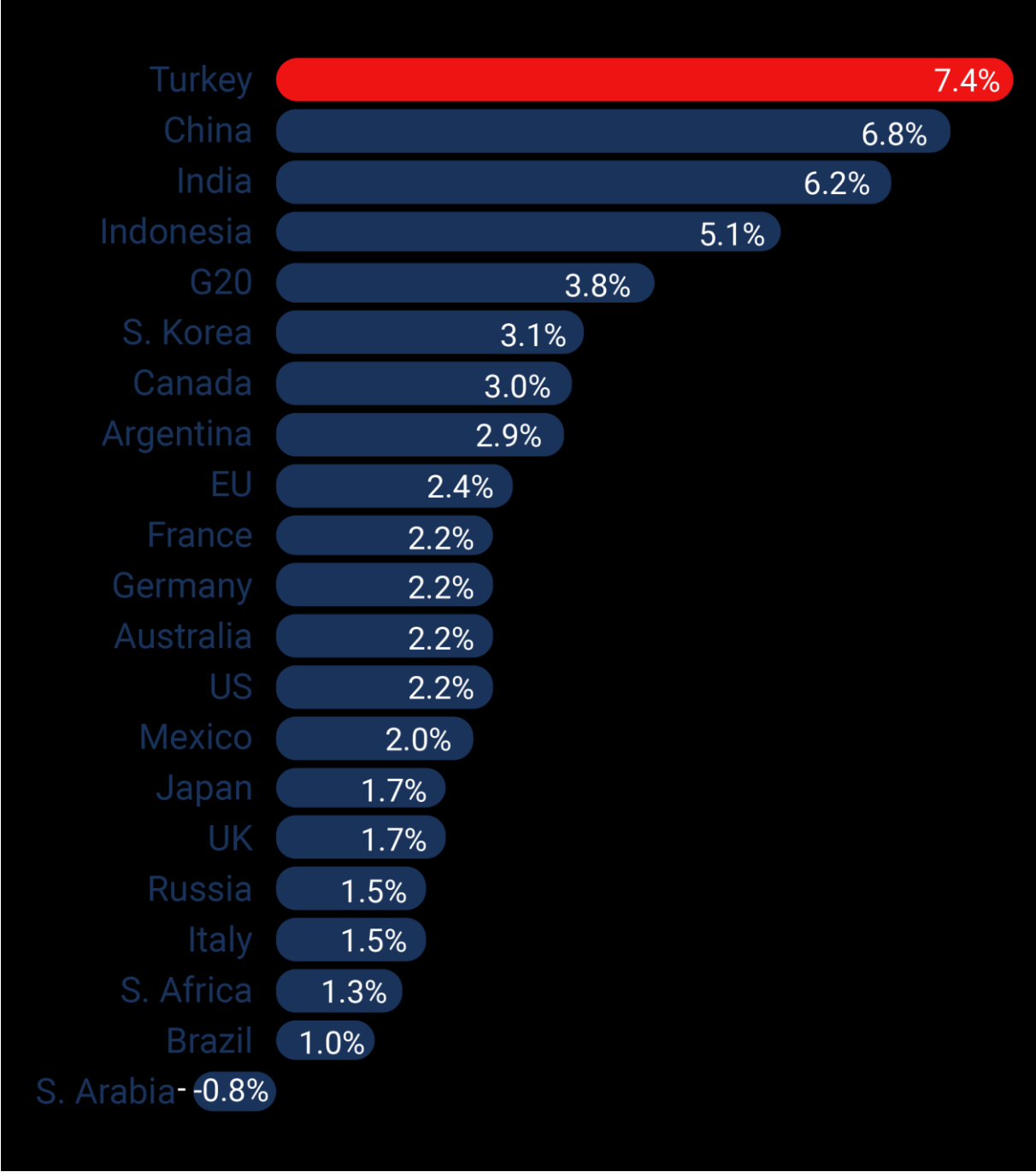
**Average Annual GDP Growth (%) – 2003-2017**



Source: IMF WEO

**Real GDP Growth in G20 – 2017**

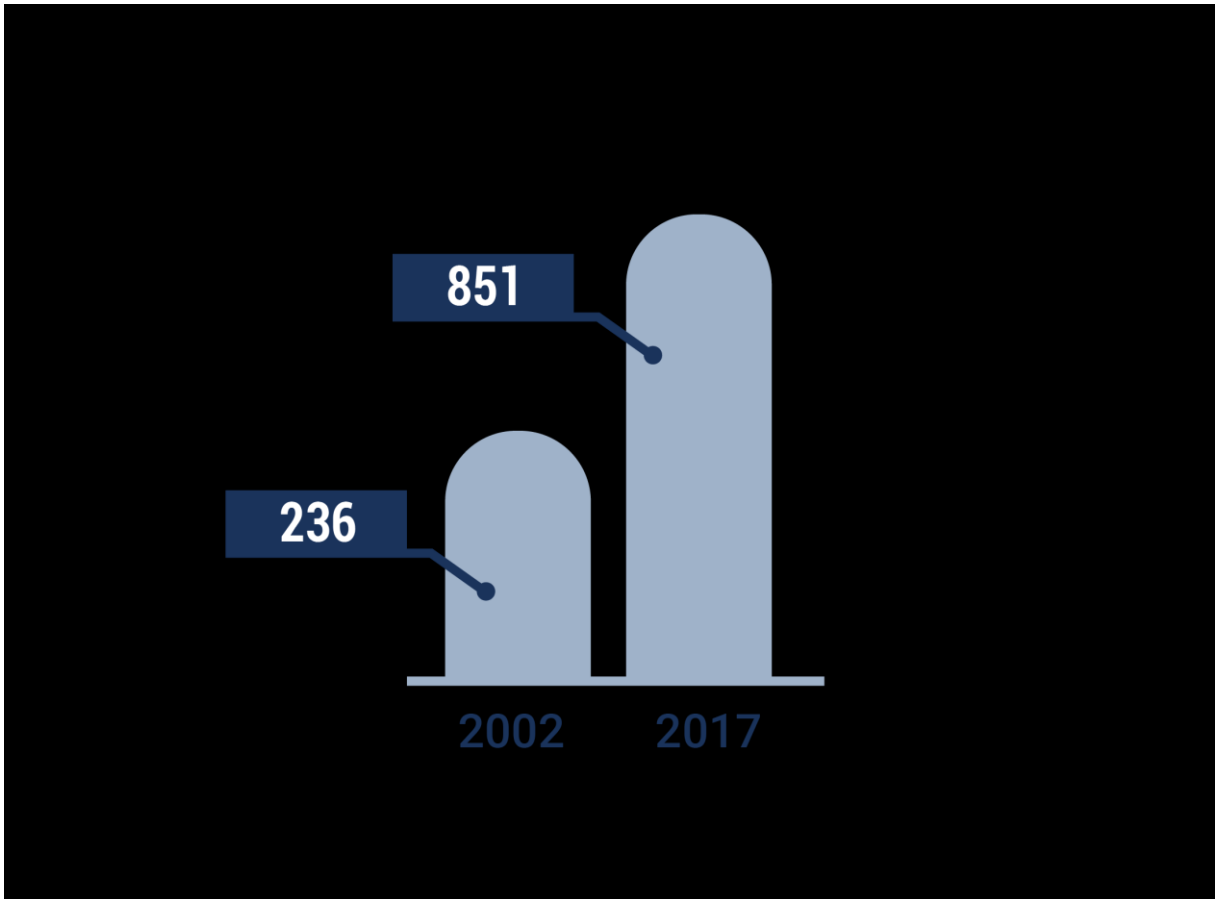
Despite global and regional challenges, Turkey was the fastest growing economy among the G20 members in 2017.



Source: OECD

**Turkish Economy (GDP at current prices, USD Billion)**

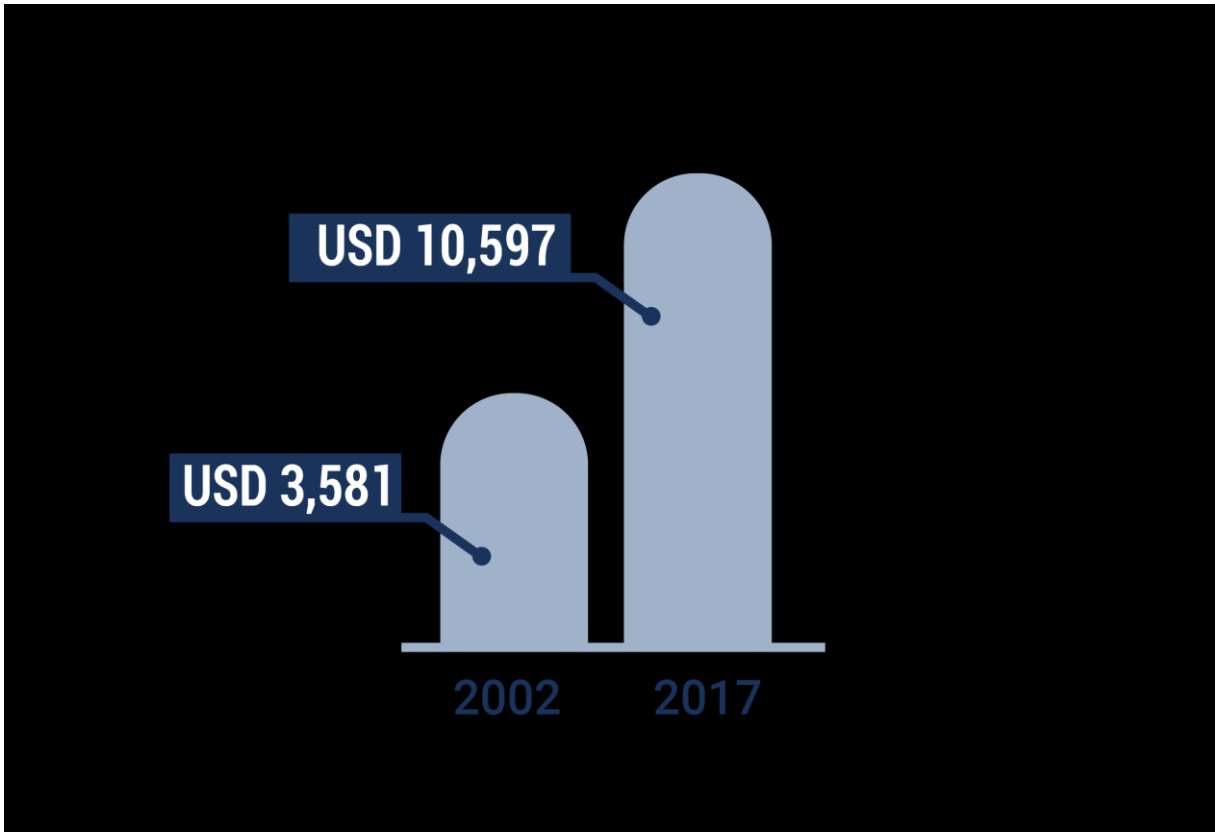
Over the past 15 years, Turkey has put in a noteworthy performance by increasing its overall economy from USD 236 billion in 2002 to USD 851 billion in 2017.



Source: TurkStat

### **Tripling Income per capita (GDP per capita, current prices)**

**Turkey's performance in economic development saw its income per capita triple, from USD 3,581 in 2002 to USD 10,597 in 2017.**



Source: TurkStat

#### **Contribution to GDP Growth (%) – 2003-2017**

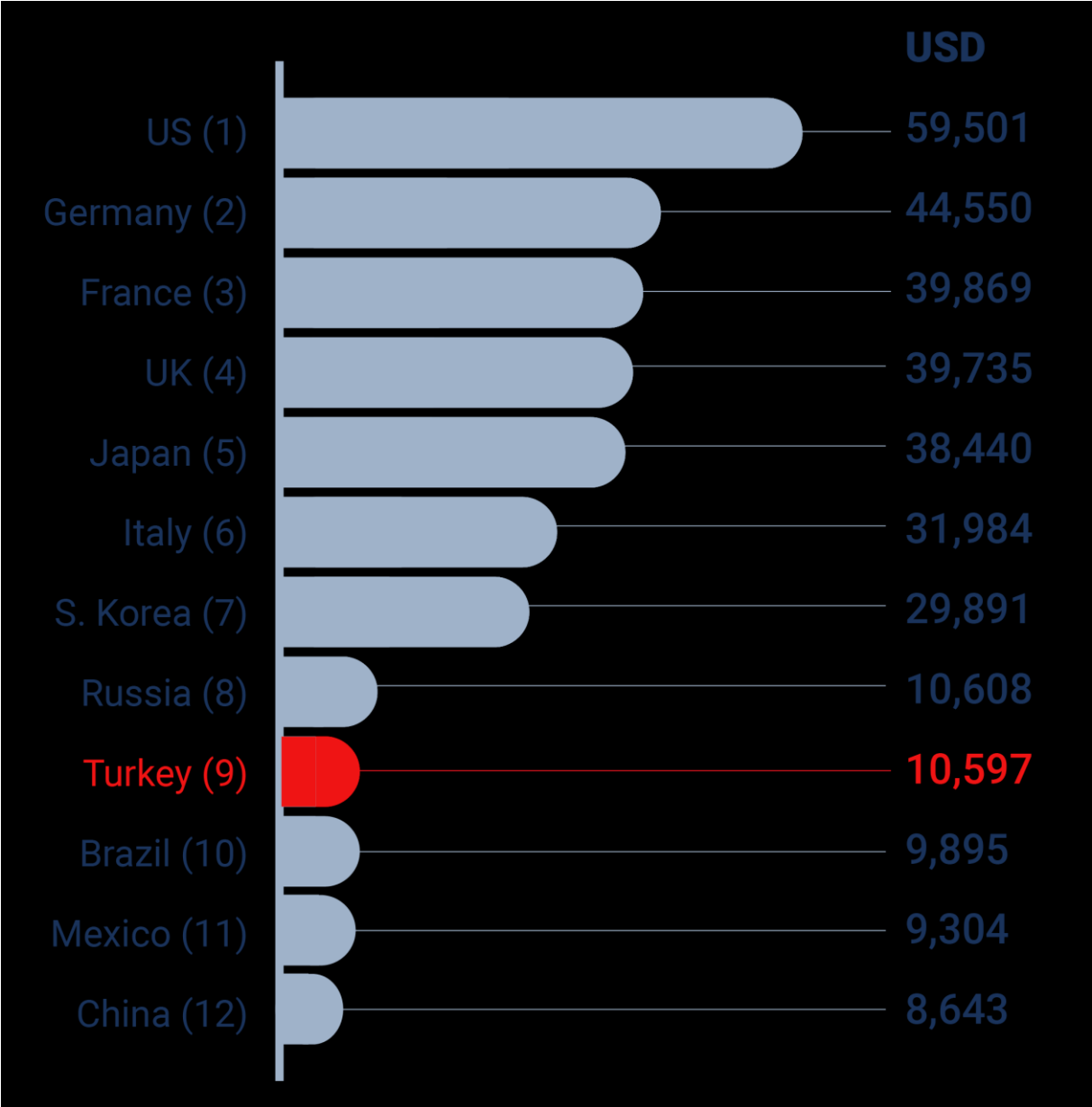
**Turkey's economic growth over the past 15 years has been driven by a robust domestic market and an entrepreneurial private sector that combined have spurred investments and exports.**



Source: TurkStat

### GDP per capita in Countries with Population over 50 Million – 2017

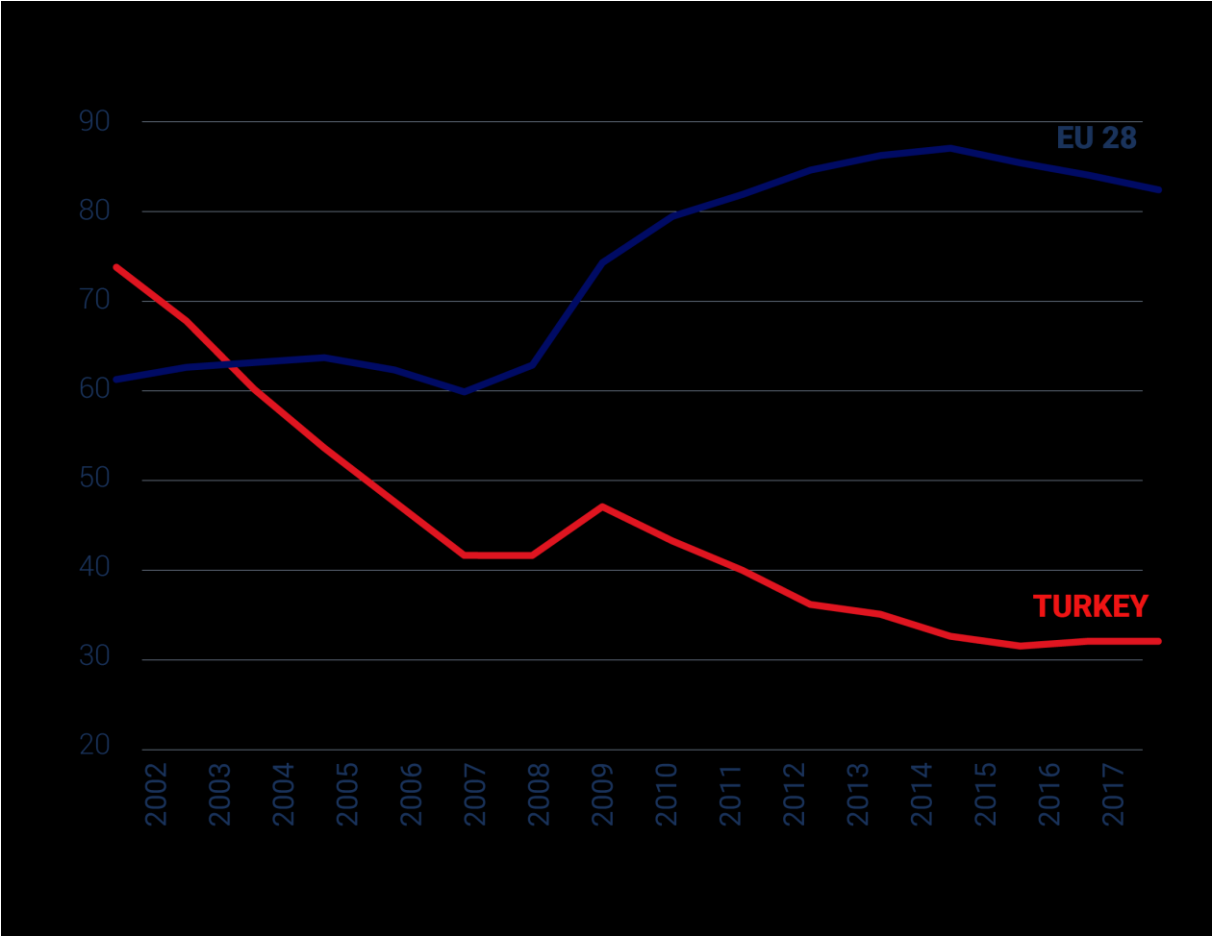
Turkey is one of the nine economies with GDP per capita over USD 10,000 among countries with population over 50 million.



Source: IMF WEO

**Gross Public Debt Stock as % of GDP**

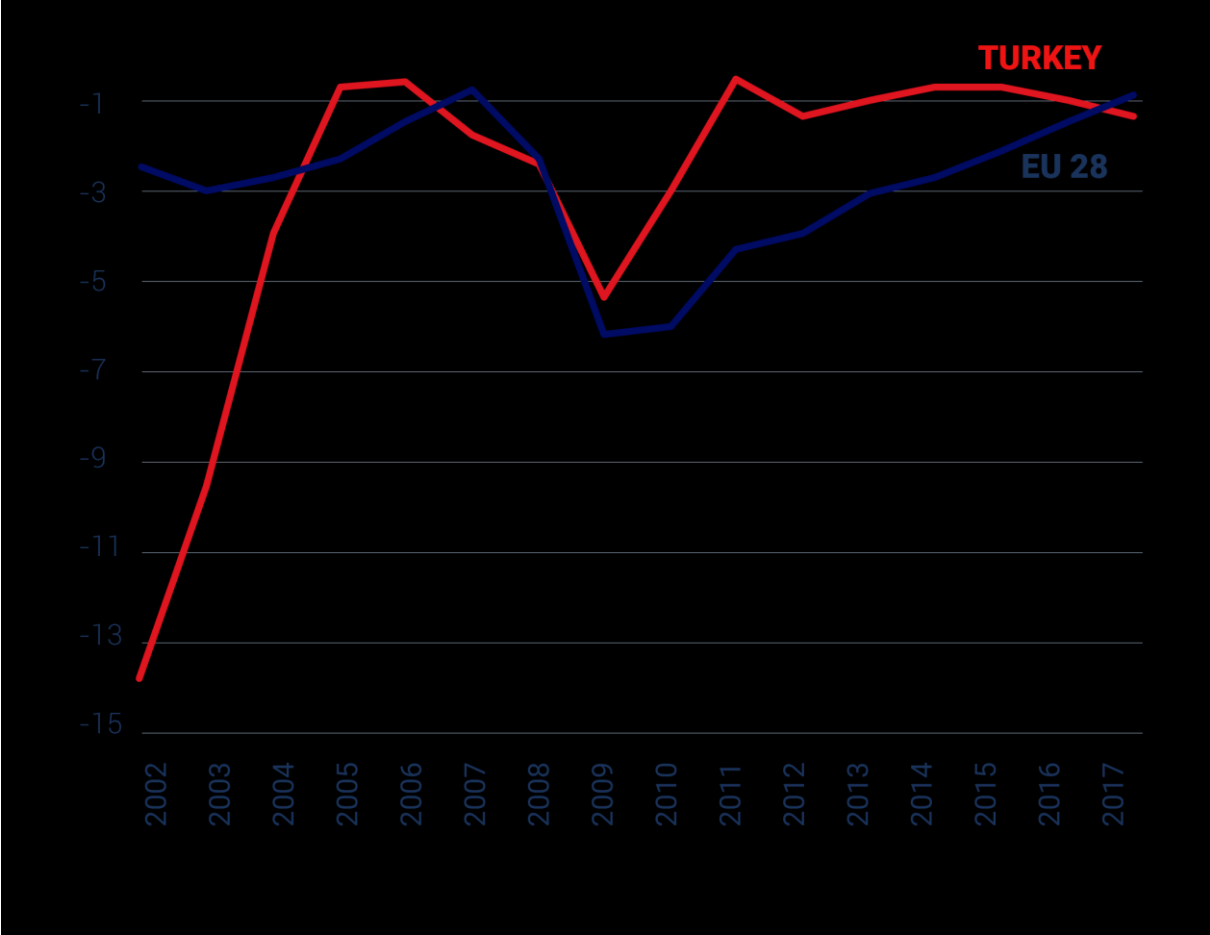
Having adhered to prudent fiscal discipline, Turkey has drastically diminished the public debt stock from above 70 percent in 2002 down to 28 percent in 2017.



Source: Eurostat, Ministry of Treasury and Finance, IMF WEO

**Budget Balance as % of GDP**

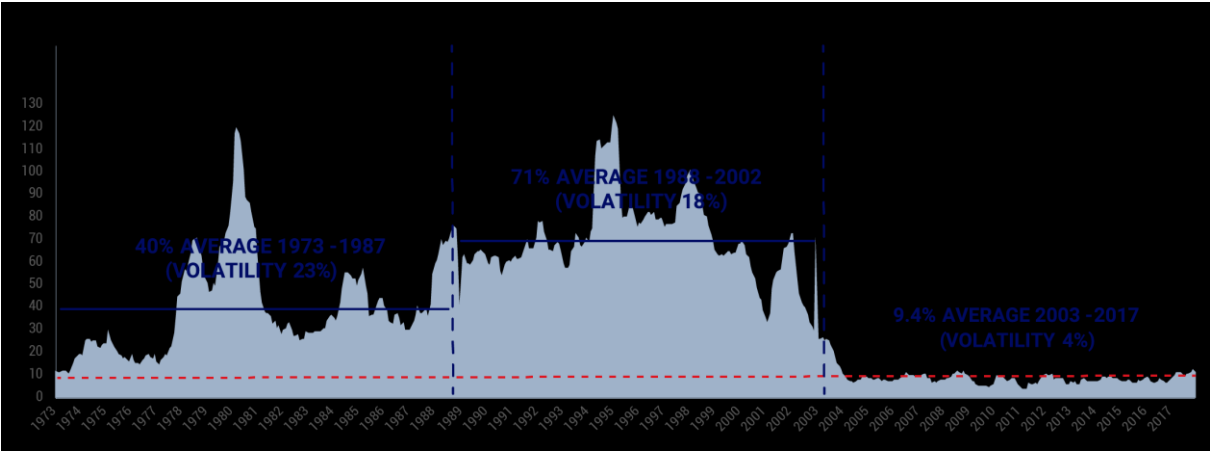
The positive effect of this fiscal discipline has been reflected as a noticeably diminished deficit in Turkey's budget balance during the past 15 years.



Source: Eurostat, Ministry of Treasury and Finance, IMF WEO

**Annual Inflation (%)**

Sky-high inflation rates and accompanying high volatility have plummeted, and have been kept under control since 2003.

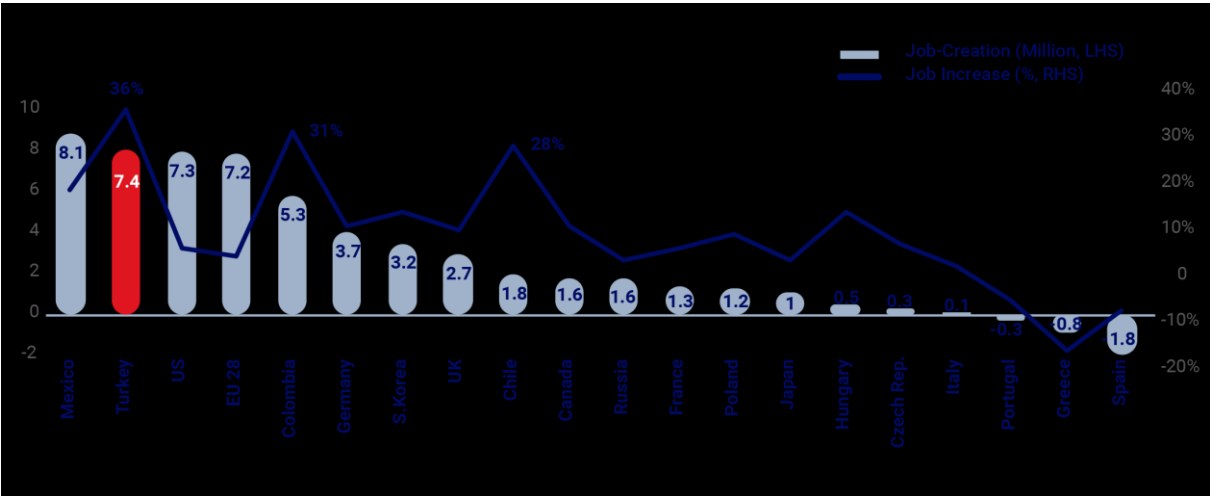


Source: TurkStat, OECD

**Employment Creation – 2007-2017**



Turkey successfully generated 7.4 million new jobs during the 2007-2017 period.

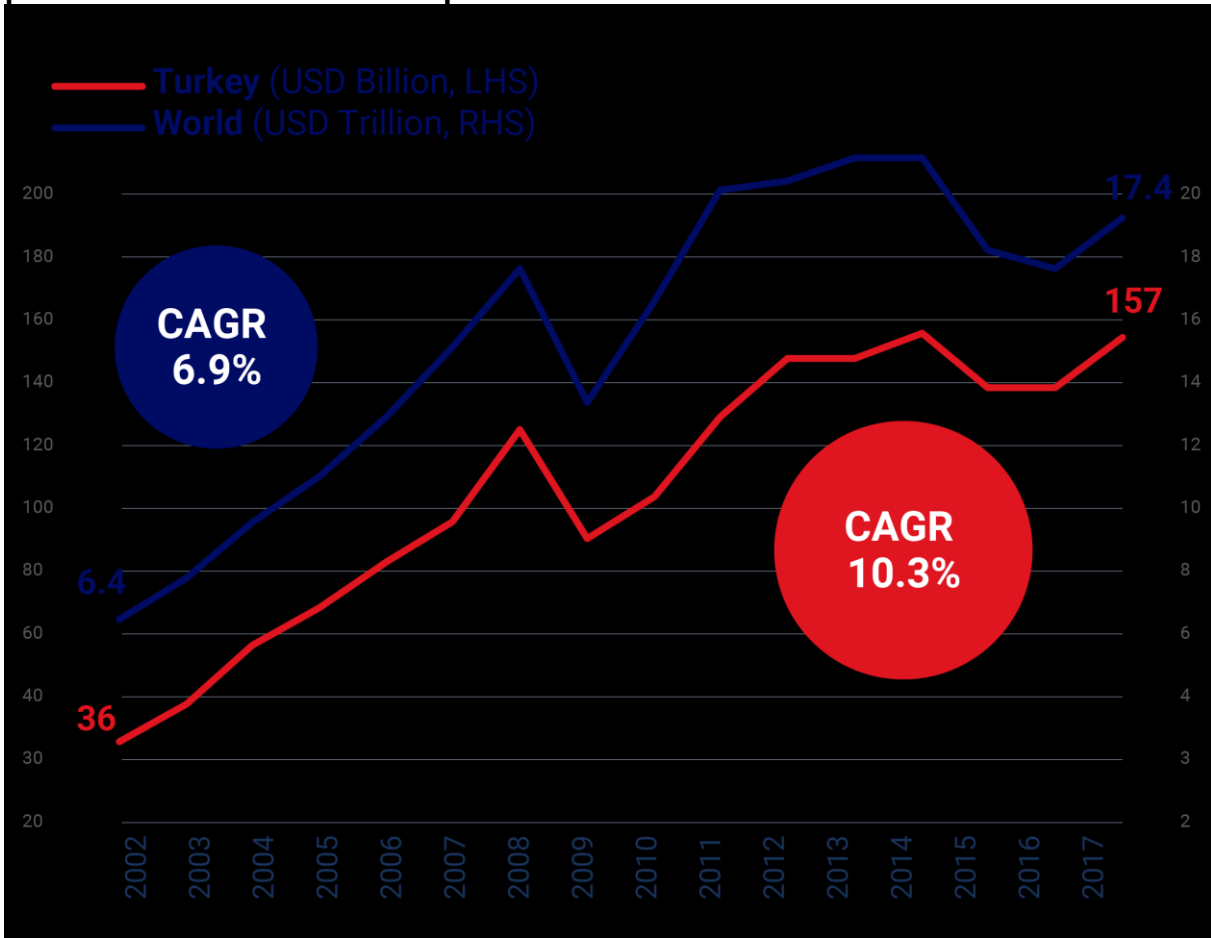


Source: OECD

### Exports of Goods in Turkey and World

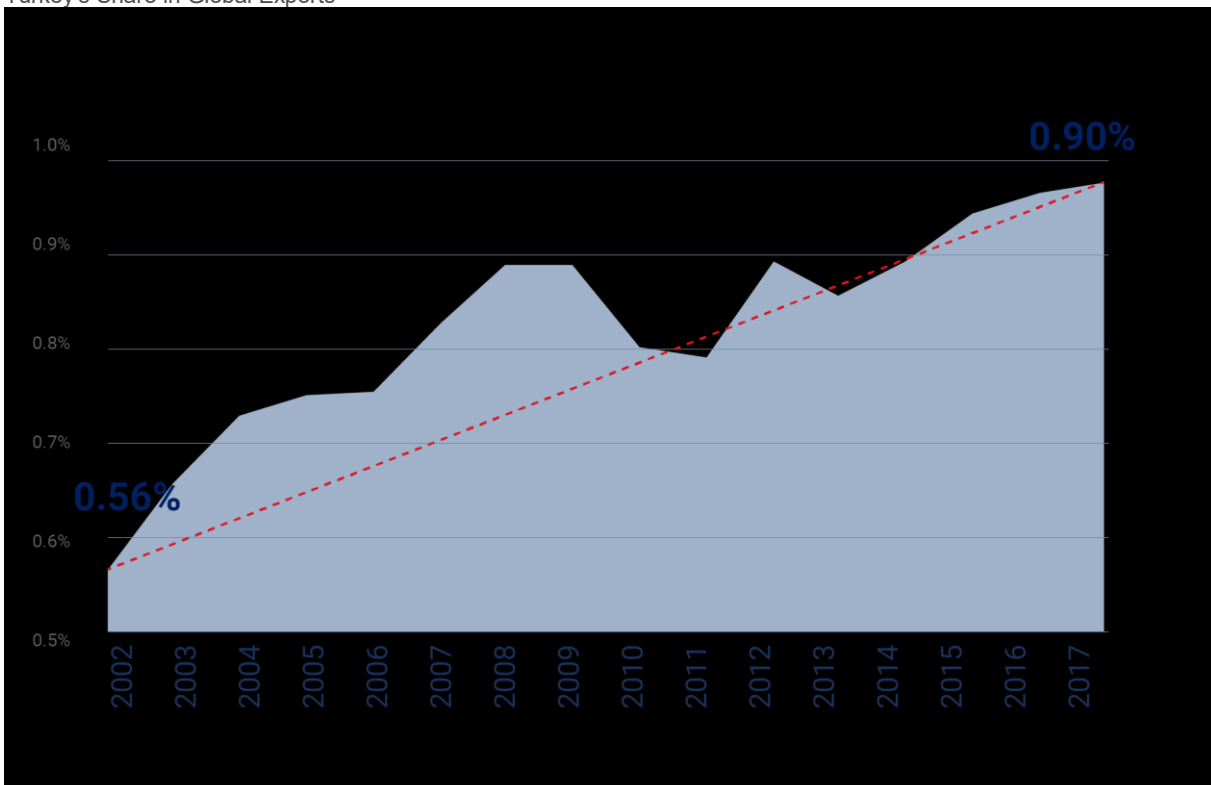
With an eye-catching 10.3 percent average annual growth in exports, Turkey has outpaced the world performance and increased its export volume from USD 36 billion to USD 157 billion over the past 15 years. In line with this performance, Turkey's share in global exports has increased from less than 0.6

percent in 2002 to close to 1 percent in 2017.



Source: TurkStat, International Trade Centre (ITC)

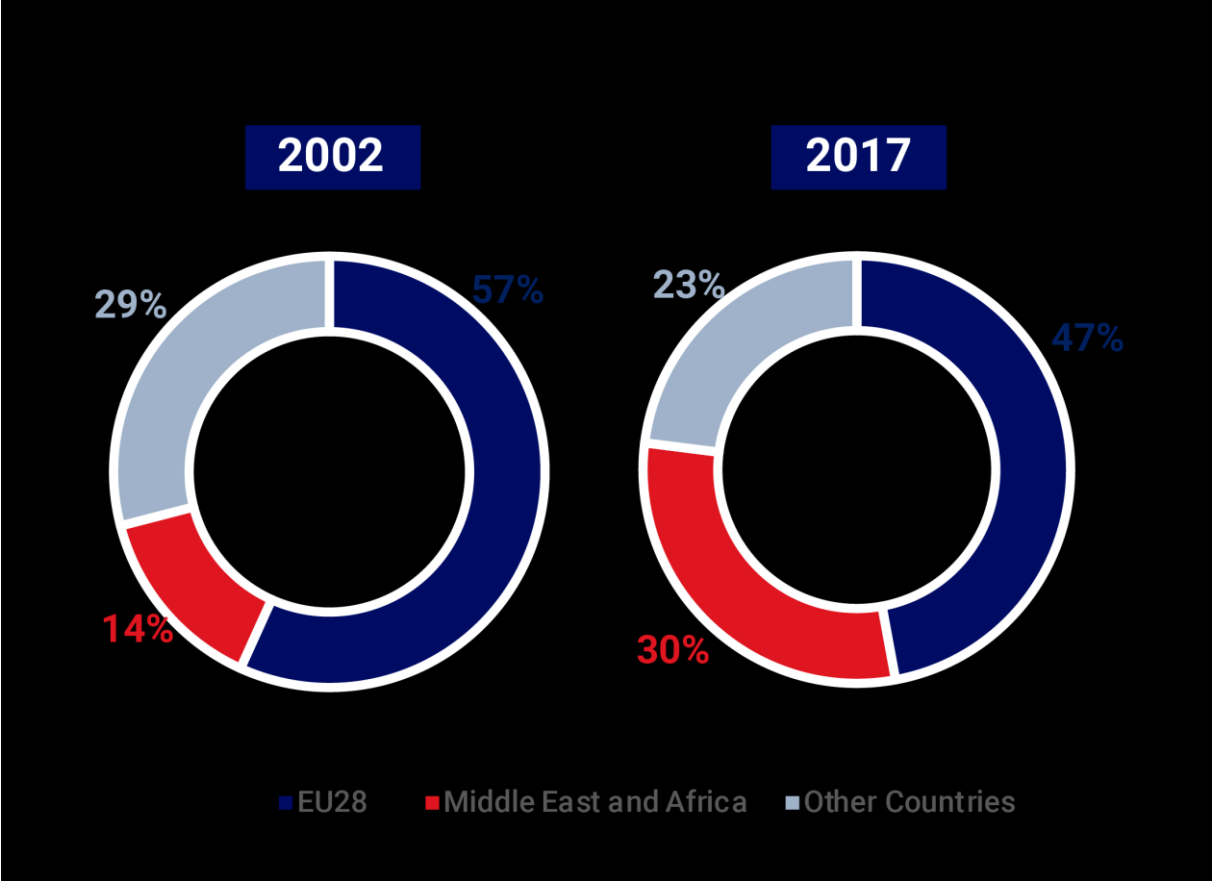
#### Turkey's Share in Global Exports



Source: ITC

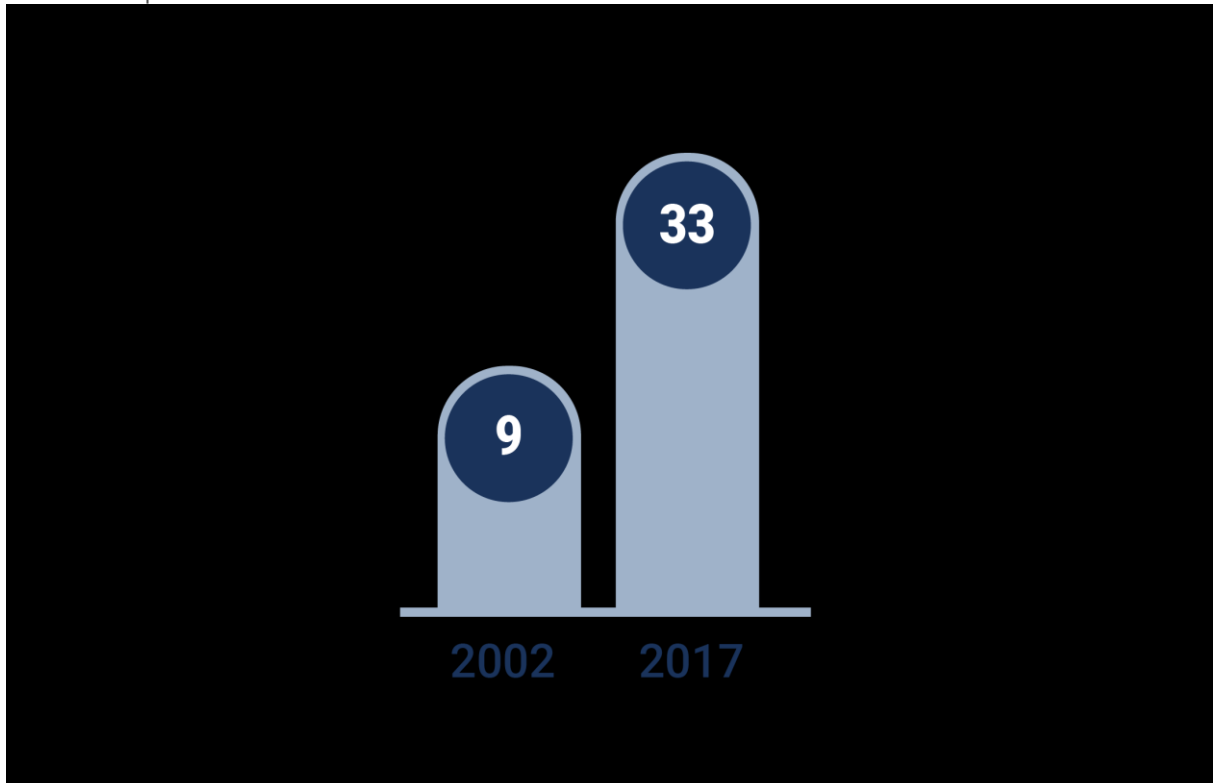
Turkey's Exports by Destination

Turkey has grown its overall export volume from USD 36 billion in 2002 to USD 157 billion in 2017 and has achieved significant export diversification both in terms of export destinations and products.



Source: TurkStat

Number of Export Products over USD 1 Billion



## 1.6 Infrastructure, transportation and communications

Turkey's infrastructure is impressive for what is still an emerging market, but will face challenges accommodating their exploding population in coming years. Still, though, Turkey's infrastructure holds up against EU-member nations.

Turkey's air infrastructure is well-developed throughout the country, with over 100 airports (about 20 of them are international). Istanbul's three major airports receive most of the country's air traffic. In 2013 Istanbul Atatürk Airport was named Airport Of The Year (Air Transport News), Europe's Best Airport (Skytrax World Airport Awards), was the 10th most trafficked airport in the world, and the 5th busiest in Europe. The trend in traffic through Istanbul is continuously on the rise; in 2014 Atatürk was the 4th busiest airport in Europe.

Turkey also has highly developed coastal and maritime infrastructure with 70% of its borders being coastline. The country's economy depends heavily on merchant marine and fishing fleets from its various surrounding seas. Communications infrastructure is excellent, as is the national road system.

The national rail system is the least developed aspect of the country. While there is quite a bit of track laid throughout the country, only about one-fifth of it is electrified. All the rails are state owned and operated. This makes improvement or expansion difficult; politicians aren't interested in revamping the railroads. Trains have been all but abandoned as modes of transportation in Turkey.

### 1.6.1 Massive Projects Reshaping Infrastructure in Turkey

Turkey has been inhabited since the earliest ages of human civilization. For its 80 million citizens, it is a nation of pride and historical significance. However, Turkey has been more prominent in recent years due to political reasons. The governing party in Turkey, the Justice and Development Party, has largely been in control of the country since 2002. This has indelibly had an impact on many facets of Turkish living. Infrastructure in Turkey has been one of the biggest beneficiaries, and amazing progress has transformed the country's foundation.

During the last 15 years, Turkey has spent nearly \$100 billion to construct new railways, roadways, tunnels, bridges and airports to support its growing status as an international trade partner. In March 2017, the Turkish government allocated an additional \$64 billion in order to complete the existing 3,500 infrastructure projects and begin new ones, such as a national space agency.

Due to Turkey's large size — it is slightly bigger than Texas — travel throughout the country has historically been difficult. The massive infrastructure projects sought to bring its citizens closer together. Improved roadways were necessary; however, Turkey drives less than any other country in Europe. Therefore, new railways and improvements to its bus system have been instrumental in making travel easier.

Perhaps the most important improvement to infrastructure in Turkey focuses on its principal city, Istanbul. As the largest city in Europe by population and fourth by landmass, traveling through Istanbul presents unique challenges. To this end, Turkey has created several innovative approaches to navigating the ancient city. These include the Metrobus system, a rapid-speed bus system completely separate from streets congested by cars. Of more ingenuity and significance is the Marmaray tunnel, a submarine railway system that traverses the Bosphorus Strait, one of the most important waterways in the world.

The glut of projects related to infrastructure in Turkey, despite the astronomical costs, was necessary. The sheer size of the country and the likelihood of earthquakes meant that the country's infrastructure had to be strong as well as convenient.

Turkey's bold moves to improve its infrastructure over the last 15 years have modernized the country and tripled its economy. Exports have quadrupled, and travel is faster and easier than it has ever been. Political turmoil aside, Turkey's efforts to strengthen its infrastructure and by proxy improve its economy should be recognized.

The last 15 years have witnessed the completion of many mega projects. The trend of constructing and operating transportation and infrastructure projects will continue in 2018 with new airports, tunnels and other infrastructure development. 2018 would be a year of mega projects in transportation. Noting that the first phase of the Istanbul New Airport, also known as the Third Airport, will be completed and open for service on Oct. 29, 2018, Minister Arslan said the bidding for the Kanal Istanbul and 3-Story Grand Istanbul Tunnel projects will also be held in 2018.

Istanbul's new airport is one of the biggest infrastructure projects in the world with an estimated investment cost of 10.5 billion euros.

After the completion of detailed modeling and fieldwork studies on the selected project area for Kanal Istanbul, it will be given its final design. "Alternative financial models are also being studied within the framework of the models, such as a build-operate-transfer [BOT] model," Arslan said, indicating that completion of the engineering work in the first quarter of 2018 will be followed by preparation, including financial models, in the first half the year, and then the ministry plans to launch a tender for the project's construction.

The details of the transportation investment scheduled for 2018. Recalling that Turkey continued its growth through investments and industrial production in 2017, Arslan said the strong pace of investments and employment would support Turkey's growth through domestic demand in 2018.

Investments will be maintained next year in the framework of the 2023 targets, as well as the 2053 and 2071 visions, and that giant investments, such as Kanal Istanbul and the 3-Level Grand Istanbul Tunnel project, will continue. He also stressed that 2018 will be an important turning point for the vision of Turkey, and added that Turkey has already been able to: Expand its high-speed railway network, form a fast railway corridor, renew existing roads, build a local railway industry that connects production centers and industrial areas to ports, domestically produce a national high-speed train, strengthen competitiveness in the country with logistics centers and become the central country of the Silk Road. Highlighting that the number of private sector operators providing services in railways will increase in 2018, Arslan said they will carry passengers as well as cargo on the Baku-Tbilisi-Kars (BTK) Railway line, one of the most important rings of the modern Silk Road, adding that they will also increase the amount of cargo carried on the BTK Railway Line in 2018.

Bidding for Kanal Istanbul in 2018. Within the scope of the Kanal Istanbul Preparation and Consultancy project engineering work continues and alternative corridors for the project's route were specified in the first stage. Arslan noted that work continues between these corridors, taking into account vitality, geological and topographic effects and existing infrastructure projects of the institutions.

Stating that after field studies, including detailed geotechnical and hydraulic modeling, are conducted on the selected project area, it will be given its final design, Arslan said preliminary preparations for Environmental Impact Assessment (EIA) studies also continue in this area. He added that in this respect, the canal shaft and width will remain within the selected area, and that the canal route and section will be finalized as a result of the preparation work. Within the scope of the preparation work, Arslan said financial models are being studied to realize the project, while alternative financial models are also being studied within the framework of public-private partnership (PPP) models, such as build-operate-transfer. After the completion of engineering in the first

quarter of 2018, followed by preparation work, including financial models, they plan to go to tender for the construction of the project.

PPP model projects are not a new concept for the Turkish economy. Since the early 1980s, Turkey has implemented numerous projects with this financial model to build highways, airports, railways, hospitals, energy facilities and ports. Over the last decade, a large portion of the most pronounced mega projects, including Yavuz Sultan Selim Bridge, the Eurasian Tunnel, the Istanbul New Airport, Osmangazi Bridge, city hospitals in Yozgat and Mersin, and the Istanbul-Ankara High Speed Railway, were completed with the successful and efficient implementation of the PPP model.

From 1986 to 2016, 47.9 percent of projects have been complemented by a financing model that includes public-private partnerships, while it accounts for 62.8 percent of the total contract value of these projects, according to data compiled by the Ministry of Development. With a contract value of \$67.5 billion, airport projects completed via the PPP model rank first in sectoral terms compared to energy projects, which have a contract value of \$25.3 billion, coming in second in the PPP market. Energy projects are followed by highway projects and health facilities, which are valued at \$13.6 billion and \$10.6 billion, respectively.

New airports continue to develop and expand the airline sector, which has transformed impressively over the past 15 years, with giant investments in 2018. "Today, we have 55 active airports, and we are among the top eight in the world passenger ranking. We are also among the top three in Europe, and aim to reach 205 million passengers by 2018.

The first stage of the Istanbul New Airport, which will serve 90 million passengers, on Oct. 29, 2018, adding that construction of the Rize-Artvin airport is under way, while construction work for the Karaman, Yozgat, Bayburt-Gümüşhane and Tokat New airports will be initiated throughout the year.

State postal service to start delivery with drones

Turkey's state run Post and Telegraph Organization (PTT), the Turkish post office, will launch delivery services with unmanned aerial vehicles, or drones, in 2018.

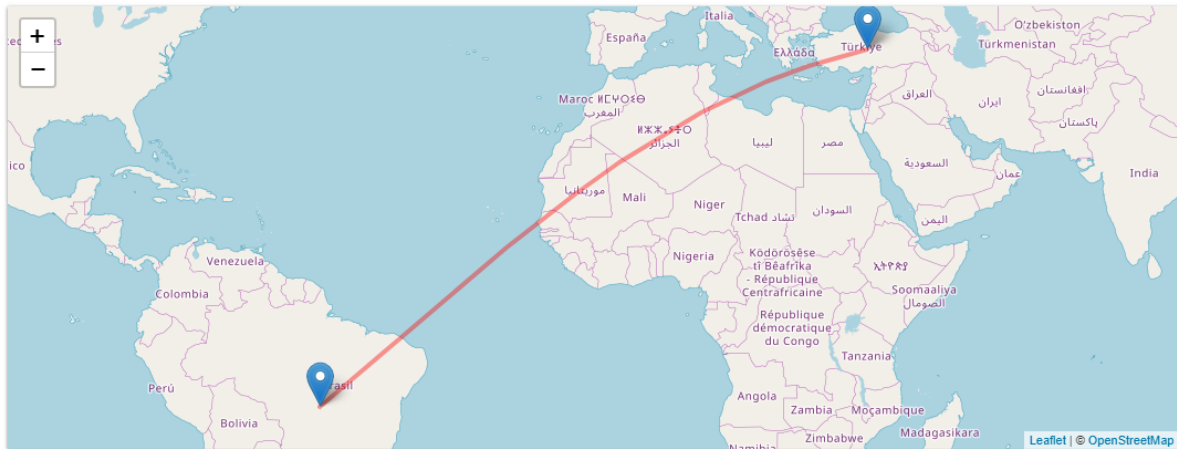
The ministry has made a total investment of TL 29.5 billion (\$7.78 billion) and will invest TL 28.8 billion in 2018.

The total cost of the 123 projects that the ministry completed in 2017 is TL 15.9 billion. Railway investments were TL 8.7 billion, while this amount will jump to TL 14.2 billion in 2018 as the ministry works to expand the network of railways.

Maritime investments in 2017 stood at TL 518 million, which will be raised to TL 717 million. The communication sector received TL 1.2 billion in investments, and the ministry will continue investing in the sector, while raising the amount to TL 1.9 billion.

## 1.6.2 Travel Between Brazil and Turkey

Distance from Brazil to Turkey is 10,753 kilometers. This air travel distance is equal to 6,682 miles.



The air travel (bird fly) shortest distance between Brazil and Turkey is 10,753 km= 6,682 miles.

If you travel with an airplane (which has average speed of 560 miles) from Brazil to Turkey, It takes 11.93 hours to arrive.

## 1.6.3 Highways

The fact that approximately 90 percent of all freight is carried out on highways increases heavy vehicle traffic on the roads, which in turn reduces traffic safety. Despite the fact that the average daily traffic on the state roads in Turkey is lower than the EU figures, casualties per 100 km length of the road due to road traffic accidents in Turkey are roughly 3.2 times higher than the EU-27 average, according to 2007 data.

## 1.6.4 Turkish Road Network

### 1.6.4.1 List of motorways in Turkey



**Motorways** in Turkey are a network in development. The length of the current network is 2155 km. The minimum speed limit on the Turkish motorways is 40 km/h and the maximum is 120 km/h. Most of the network is 6 lanes wide (3 in each direction). The motorway sign in Turkey is green and uses Highway Gothic typeface.



#### 1.6.4.2 History

The motorway network in Turkey is relatively new. In 1980, the network was only 27 km long and was focused on Istanbul. Currently, great efforts are being made to expand the network. In September 2009, plans were unveiled for 12 new highway routes that are to be built by 2023, a total length of about 4773 km.<sup>[5]</sup>

#### 1.6.4.3 Toll

All the motorways are toll roads. The toll is based on the distance traveled. On most sections, the toll can be paid only with RFID-based HGS and OGS. Cash and KGS card payment methods have mostly been abolished in recent years. Only the newly opened Otoyol 5 and Otoyol 6 have sections where it is possible to pay by cash or with credit card. Apart from motorways, the other state roads in Turkey are free of charge.

The revenue from tolls in 2001 were still about \$203 million, rising by 2012 to approximately \$542 million. In 2012, the Bosphorus bridges saw 150 million vehicles pass and the other toll roads saw over 210 million vehicles. In 2015, both bridges were used by 141 million vehicles while the other toll motorways were used by 271 million vehicles, generating a total revenue of \$391 million (both bridges and motorways combined).<sup>[7]</sup>

#### 1.6.4.4 Standards

Mainly because the country already has a wide network of double carriageways, the standards for motorways in comparison are very high. Each direction has at least 3 lanes, aside from the İzmit Bypass and a small stretch of the Otoyol 3 between Silivri and Esenyurt which only have 2. The lanes are each 3.75 meters wide. Most exits have a connection road, which helps avoiding wrong-way driving and illegal access to the road (bikes, tractors and horses are not allowed on otoyols).

The minimum speed is 40 km/h (25 miles per hour) and the maximum allowed speed is 120 km/h (75 miles per hour), although speeding is not punished under 132 km/h (82 miles per hour).

Alongside otoyols, there are resting areas, which are standardized as A, B, C and D type service areas. The D type is mainly a parking area. The C type has a fuel station added. The B type has a fuel station and a vehicle service station added. The A type additionally has a motel.

Dangerous stretches such as tunnels or bridges where there is often fog, exits, interchanges and service areas are illuminated.

Since gradients are expected to be very low and turning radii are expected to be very high, otoyols have many bridges and tunnels which makes them very expensive.

## 1.6.5 Projects

### 1.6.5.1 Under construction:

- Orhangazi-Bursa-Izmir Motorway (Otoyol 5) (Izmit South-Ovaakça (26 km)) & (Başköy-Kemalpaşa (280 km))
- Northern Marmara Motorway (Otoyol 7) (Kınalı-Odayeri (88 km)) & (Paşaköy-Akyazı (169 km))
- Remaining parts of the Izmir Beltway (Menemen bypass) (Otoyol 30) (8 km)
- Edirne - Pazarkule link (including Maritsa Bridge) (Otoyol 3) (8 km)

### 1.6.5.2 Tender Phase

- Ankara-Niğde (Gölcük) Motorway (including link to Kırşehir) (Otoyol 21) (330 km)
- Ankara-Kırıkkale-Delice Motorway (119 km)
- Çeşmeli-Erdemli-Silifke-Taşucu Motorway (Otoyol 51) (98 km)
- Menemen-Aliağa-Çandarlı Motorway (Otoyol 30) (76 km)
- Kınalı-Tekirdağ-Çanakkale-Balıkesir Motorway (including Çanakkale 1915 Bridgeover Dardanelles Strait) (352 km)
- Aydın-Kuyucak-Denizli-Burdur Motorway (Otoyol 57) (315 km)

### 1.6.5.3 Being planned:

#### 2023 Targets



- Afyonkarahisar-Burdur-Antalya Motorway (350 km)
- Antalya-Alanya Motorway (187 km)
- Ankara-Sivrihisar Motorway (164 km)
- Sivrihisar-Bursa Motorway ([Otoyol 22](#)) (231 km)
- Sivrihisar-İzmir Motorway (408 km)
- Şanlıurfa-Mardin-Habur Motorway (including link to Diyarbakır) ([Otoyol 52](#)) (454 km)
- Delice-Samsun Motorway (including Samsun bypass to Bafra and Ünye) (447 km)
- Gerede-Merzifon Motorway (336 km)
- Merzifon-Gürbulak Motorway (919 km)
- Yalova-İzmit Motorway (91 km)




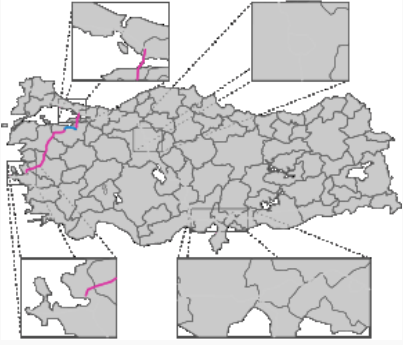

#### 2035 Targets


- Afyonkarahisar-Konya-Ereğli-Niğde (Ulukışla) Motorway (440 km)
- Afyonkarahisar-Bozüyük Motorway (105 km)
- Alanya-Silifke Motorway (200 km)
- Düzce-Zonguldak Motorway (105 km)
- Delice-Sivas-Refahiye Motorway (500 km)





- Nevşehir-Kayseri-Malatya-Diyarbakır Motorway (600 km)
- Sivas-Malatya Motorway (220 km)
- Şanlıurfa-Akçakale Motorway (50 km)
- Diyarbakır-Gürbulak Motorway (475 km)
- Trabzon-Refahiye-Malatya-Kahramanmaraş Motorway (540 km)
- Pasinler-Türközü Motorway (250 km)
- Rize-Erzurum-Diyarbakır Motorway (460 km)
- İskenderun-Cilvegözü Motorway ([Otoyol 53](#)) (78 km)
- Malkara-İpsala Motorway (Greek border) (50 km)
- Malkara-Havsa Motorway (110 km)
- Bandırma-Susurluk Motorway (56 km)
- Bandırma-Lapseki Motorway (130 km)
- Çandarlı-Bergama-Savaştepe Motorway ([Otoyol 30](#)) (80 km)
- Aydın-Muğla Motorway (90 km)



#### 1.6.6 List of motorways

Nr	Name	Length	Course	Map
0.	<a href="#">Bosphorus Bridge Motorway</a>	5 km	<a href="#">Istanbul</a> – 0.3 – <a href="#">Bosphorus Bridge</a> – <a href="#">Istanbul</a> – 0.4	
0.	<a href="#">Istanbul – Fatih Sultan Mehmet Bridge- Anatolian Motorway</a>	37 km	0.3 – <a href="#">Istanbul</a> – <a href="#">Fatih Sultan Mehmet Bridge</a> – <a href="#">Istanbul</a> – 0.4	

<p><b>0.</b></p>	<p><u>Edirne-Istanbul Motorway</u></p>	<p>229 km</p>	<p> – <u>Edirne</u> – <u>Lüleburgaz</u> – <u>Çorlu</u> – <u>Istanbul</u> – <b>0.2</b> – <b>0.1</b></p>	
<p><b>0.</b></p>	<p><u>Istanbul-Ankara Motorway</u></p>	<p>372 km</p>	<p><u>Istanbul</u> – <b>0.1</b> – <b>0.1</b> – <u>Gebze</u> – <u>İzmit</u> – <u>Düzce</u> – <u>Bolu</u> – <u>Gerede</u> – <u>Ankara</u> – <b>0.20</b></p>	
<p><b>0.</b></p>	<p><u>Istanbul-Bursa-İzmir Motorway</u></p>	<p>407 km</p>	<p><b>0.4</b> at <u>Gebze</u> – <u>Osman Gazi Bridge</u> - <u>Altınova</u> – <u>Yalova</u> – <u>Gemlik</u> – <u>Bursa</u> – <b>0.22</b> – <u>Karacabey</u> – <u>Susurluk</u> – <u>Balıkesir</u> – <u>Soma</u> – <u>Akhisar</u> – <u>Turgutlu</u> – <b>0.30</b> at <u>İzmir</u></p>	
<p><b>0.</b></p>	<p><u>Northern Marmara Motorway</u></p>	<p>95 km</p>	<p><b>0.2</b> at <u>Mahmutbey</u> - <u>Başakşehir</u> - <u>Odayeri</u> - <u>Yavuz Sultan Selim Bridge</u> - <b>0.2</b> <u>Çekmeköy</u> - <u>Paşaköy</u></p>	

<p><b>0.2</b></p>	<p><a href="#">Ankara - Ring Motorway</a></p>	<p>110 km</p>	<p><b>0.4</b> – Ring around <a href="#">Ankara</a></p>	
<p><b>0.2</b></p>	<p><a href="#">Tarsus-Ankara Motorway</a></p>	<p>159 km</p>	<p><a href="#">Tarsus</a> – <b>0.51</b> – <a href="#">Poza ntı</a> – <a href="#">Niğde</a></p>	
<p><b>0.2</b></p>	<p><a href="#">Bursa-Sivrihisar Motorway</a></p>	<p>34 km</p>	<p><b>0.5</b> at <a href="#">Bursa</a> – <a href="#">Yeni şehir</a></p>	
<p><b>0.3</b></p>	<p><a href="#">İzmir - Ring Motorway</a></p>	<p>40 km</p>	<p><b>0.32</b> – <b>0.31</b> – Ring around <a href="#">İzmir</a></p>	

0.3	<a href="#">İzmir-Aydın Motorway</a>	97 km	<a href="#">İzmir</a> – 0.30 – <a href="#">Aydın</a>	
0.3	<a href="#">İzmir-Çeşme Motorway</a>	79 km	<a href="#">İzmir</a> – 0.30 – <a href="#">Urla</a> – <a href="#">Çeşme</a>	
0.5	<a href="#">Adana-Mersin Motorway</a>	99 km	0.52 – <a href="#">Adana</a> – 0.21 – <a href="#">Tarsus</a> – <a href="#">Mersin</a>	
0.5	<a href="#">Adana-Şanlıurfa Motorway</a>	365 km	0.51 – <a href="#">Adana</a> – <a href="#">Ceyhan</a> – 0.53 – <a href="#">Osmaniye</a> – <a href="#">Gaziantep</a> – 0.54 – <a href="#">Nizip</a> – <a href="#">Şanlıurfa</a>	

<p><b>0.5</b></p>	<p><a href="#">Toprakkale-İskenderun Motorway</a></p>	<p>150 km</p>	<p><b>0.52</b> – <a href="#">Dört Yol – İskenderun</a></p>	
<p><b>0.5</b></p>	<p><a href="#">Gaziantep - Ring Motorway</a></p>	<p>35 km</p>	<p><b>0.52</b> – Partial ring around <a href="#">Gaziantep</a></p>	

### 1.6.7 Railway

Turkey holds an important function in regional and global transport corridors. Its strategic location essentially makes Turkey a regional crossroads, connecting Europe, Asia and beyond.

Despite its crucial geographic placement, Turkey’s railways remained underdeveloped until very recently. Now, however, the story is much different. A collection of high-speed passenger and freight lines are in the in the works, which could make Turkey the region’s primary rail hub – especially as \$40 billion worth of investment has been earmarked for rail development up until at least 2023.

#### 1.6.7.1 Liberalisation hits Turkish railways

A breaking up of Turkish State Railways’ (TCDD) rail monopoly is underway. It has been a long time coming, but since at least 2015 TCDD has been ploughing ahead with a splitting of its infrastructure and transportation operations.

TCDD will be the body in charge of maintaining Turkey’s rail lines, including maintenance and time-tabling. It is also responsible, as of January 2017, for the issuing of network access licenses and identifying regulatory compliant private firms. The newly formed TCDD Transport Joint Stock Company handles passenger and transport activities, and is likely responsible for the procurement of new rolling stock.

Turkey had already liberalized its rail freight sector, unofficially, prior to 2016. Statistics

from TCDD reveal that 35% of freight wagons were run by private operators across that year – double 2011's figure of 17%. Now, its fresh set of regulations seem to be simply codifying liberalization measures.

6% of all of Turkey's freight is carried by rail, equating to around 26 million tons. While this is a 60% increase over 2003's levels, exhibiting impressive growth, the 2023 goal is for rail to account 15% of total traffic – up to 94 million tons. Just over 6 million passengers travel by train annually, according to data from Turkstat. 300 high-speed services, carrying 120,000 passengers per day, are planned for 2023.

TCDD hopes opening up its railway networks will significantly boost both cargo and passenger volumes.

#### *1.6.7.2 High-speed line construction dominates Turkish rail construction*

Significant investment in fresh rail links is planned throughout next seven years. The Turkish government is aiming to more than double its existing 12,000 kilometres of track, boosting its length to a total of 26,000 km. Up to 10,000 km of new lines are to be high-speed passenger routes.

The drive to increase the quality and quantity of Turkey's high-speed links has led to a number of partnerships with major international rail solutions providers. Canada's Bombardier has inked a deal with domestic fabricator Bozankaya to provide new carriages, for example. Elsewhere Spanish firm Talgo has partnered with Turkey's Tümosan.

Siemens has provided electrification and modernisation technologies and services on several Turkish rail lines. Additionally, the German company is also supplying hi-tech Velaro-D trains for a number of networks, including the Ankara-Konya route.

The high-speed lines are designed to connect Turkey's urban centres. Over three quarters of Turkey's 75 million population live in cities, thus connecting the nation's metropolises is a high priority. There 20 lines either completed or under construction, which would increase Turkey's high-speed standings. At present, the nation ranks 7th in terms of high-speed track length (above the UK, but below Sweden).

#### *1.6.7.3 Turkey's rail sector on track for a stronger future*

Despite its ambitious nature, Turkey's rail ambitions appear to be travelling in the right direction. There is still work to go, but through collaboration with international technology and rolling-stock providers, Turkey is establishing itself as world-leader in rail transport.



Regarding the rail infrastructure, the new high-speed lines will be double-track and electrified, and with line speeds of 250 kph. Rolling stock will be partially constructed or assembled within Turkey.

The market is ready to work with international partners and there is desire to diversify these links.

In the wider (political) picture, Turkey is a member of NATO and wishes to join the European Union (EU). Currently, both France and Germany appear to be resistant to Turkish accession (to the EU), but despite this, both have traditionally strong positions in the Turkish rail market, with more recent involvement from the Chinese, Japanese and Koreans.

#### 1.6.8 Maritime

From 1962 onwards the era of planned development and the first five-year-plan of Turkey started. Turkish government provided legislative steps to improve the Turkish merchant fleet. The first shipbuilding plan was focused on the production of vessels smaller than 1.000 DWT. On the other hand, it was difficult for Turkish yards to build vessels larger than 3.000 dwt. bearing in mind that the price of these vessels built abroad were much cheaper and the deliveries were much faster, Turkey started to import these vessels. The first larger vessels were built in 1965. Camialtı shipyard had a capacity to build vessels of up to 18.000 dwt. However, the existing capacities were underutilized. At the end of this five-year plan, the average annual shipbuilding increased by 27.2%.

In the second five-year-plan (1967-1972), the ordering volume of vessels from abroad increased. In this period, vessels were ordered from Greece (484.0 thousand dwt), Bulgaria (114.7 thousand dwt), Romania (378.7 thousand dwt) and United Arab Emirates (361.6 thousand dwt). During the third period (1972-1977) the establishment of the first marine diesel engine factory came to a last stage; the Tuzla shipyard improved its infrastructure, the construction of the Pendik shipyard started, and the necessary arrangements started to build the largest maintenance and repair shipyard at Alaybey. At the end of this period, the Turkish merchant fleet reached 1.8 million dwt (2.753 vessels and 1.6 million GT). At the same period the cargo transportation increased by 24.6%. Turkey encountered a transit in the maritime traffic, which created bottlenecks at ports. This necessitated new settlements in the infrastructure.

The fourth period (1977-1982) was characterized by a fleet renewal policy. The average age of the vessels was very old. The merchant fleet reached a capacity of 1.9 million dwt in 1980. On January 24 1980, the Turkish government made a critical decision to restructure the Turkish economy. This introduced the foreign trade, and parallel, the foreign trade volume. This increase was reflected to the tonnage of the Turkish merchant fleet. Additionally, in 1981 the Chamber of Shipping was established.

During the first six decades of the republic, Turkey has mostly adhered to a strict government planning and government-imposed limitations over the private sector. However, in 1983 Prime Minister Turgut Özal initiated a series of reforms designed to

a more private-sector, market-based model. In 1982, Act no 2581 on the Development of Maritime Merchant Fleet and Encouragement of Shipping Construction Facilities had already passed. With this act, custom duties and related taxes for imported equipment for shipbuilding or repair yards were abolished. After the application of this act, the capacity of the Turkish merchant Maritime Hotspots 26 fleet increased to 6.0 million dwt in 1984. Although various amendments were made, this act survived and is still being used.

From 1983 to 1988 – during the fifth period – the annual production capacity of the Turkish shipyards reached 80.5 thousand dwt. It could only meet one seventh of the needed increase of the Turkish fleet. The remaining fleet was imported. The ports also increased their cargo capacity in this period, from 52.8 million tonnes in 1983 to 81.6 million tonnes in 1988.

Until 1992 – during the sixth period – the exported tonnage increased due to export incentives by the government. However, since 1993, these incentives did not cause an increase in vessels built in the domestic market nor the import of vessels. In accordance with the importance of the maritime sector and improve the allocation No. 491 decree was established on the 19th of August 1993 with the Ministry of Maritime Affairs.

### **Maritime suppliers Turkey**

Production volume at pre-crisis level:

In response to the strong development of the shipbuilding industry in the past ten to fifteen years, more and more (small) maritime suppliers are found in Turkey supplying to shipyards at home and abroad. For the moment these companies offer 'low grade' technology products and services. The production volume of maritime suppliers (including maintenance and repair) recovered strongly in 2010 following a contraction of more than forty percent at the lowest point in 2009. During 2011 the growth rate in production slowed down to pre-crisis level. Exceptions are repair and maintenance companies which showed a growth rate at the end of 2011 which was well below the level of 2007.

The development in employment in the maritime supplying industry showed the same trend over the past four years as the growth in production volume.

Following a sharp decline in 2009 employment recovered in 2010 and 2011. It is estimated that at the beginning of 2012 nearly 70,000 people work at maritime supply companies. This number is still well below the highest employment level which was reached in 2007 (100,000 employees).

### **Potential maritime industry sectors:**

Due to excess capacity owners of Turkish shipyards are looking for new markets. The strongest growth in the coming years is expected in the construction of new naval vessels, fishing vessels and vessels for the offshore industry. In addition, several

Turkish shipyards have a strong position in the niche market of mega yacht building. Due to the fact that Turkish maritime suppliers often cannot meet the high demands of shipyards in the building of these more complex vessels, the dependence of Turkish shipyards on foreign imports will continue in the next few years. For Dutch maritime suppliers this is an opportunity to enter the Turkish maritime market. Specifically for companies who can deliver high technology products and services such as outboard motors, marine propulsion engines, ship propellers and blades. Also, for Dutch companies in the manufacturing of marine navigation systems and other ship electronics Turkey is a very promising market.

#### 1.6.9 Air Transportation

In parallel with the rapid advances in aviation in the world, Turkey has reached an important position in civil aviation in the international arena with the records broken in the airplane traffic and number of passengers, exemplary airport investments to the world, developments in domestic and international flight network, and the arrangements made on flight safety and aviation security.

It can be said that Turkey, which has bilateral aviation agreements with 168 countries, is one of the countries with the highest number of flight networks in the world. As a result of the agreements made, it is seen that Turkey's international flight network has reached 286 points in 118 countries by the end of 2016. The fact that Turkey will realize a huge investment, which is the third airport in Istanbul which is Europe's largest airport, which will make it to become an aviation center on a world scale will make

Turkey one of the most important transfer centers between Asia and Europe. Flight safety and aviation security are as important as the strengthening the civil aviation infrastructure. In this context, Turkey, that has made great strides regarding the implementation of ICAO standards at the highest level in recent years, has become one of the countries that have made significant contributions to the development of the global aviation system not only with the passenger and airplane traffic figures but also on flight safety and aviation security.

These developments have enabled Turkey to become the member of the ICAO Council that sets international aviation rules in 2016. In order to ensure the sustainable growth of the aviation sector that has been rapidly growing with the liberalization steps taken in the aviation after the 2000s, legislative regulations are being put into practice within the framework of international legislations by General Directorate of Civil Aviation (SGHM), on the other hand, studies are being carried out to realize these standards at the highest level along with quality increasing practices in auditing activities (SGHM, 2016).

With the new investments in progress, both the aviation and the airport industries are expected to grow with an ever increasing pace in the upcoming decade. Especially with the strategies and policies implemented in recent years, the diversity of products and services in the aviation sector has increased rapidly and has made a leap in the

last fifteen years. By the end of 2016, the structure of the civil aviation sector in Turkey can be summarized as follows (DHMI, 2016; SGHM, 2017):

- A total of 55 airports,
- A total of 156 aviation businesses, 13 of which are airline companies,
- A total of 1,417 aircraft consisting of 540 airplanes, 231 air taxis, 237 balloons, 347 aircraft used in general aviation businesses and 62 aircraft used in agricultural spraying businesses,
- 29 flight (and type) training institutions, 80 maintenance organizations,
- 191,716 employees in the sector,
- Industry turnover of 23.4 billion dollars,
- 100,365 seats and 1,821,600 cargo capacity,
- 7 domestic centers, 55 domestic flight points and 286 international flight points abroad are available (Figure 1),

2017 Turkey Aviation Sector Assessment are summarized, according to the reports prepared by international aviation organizations in the world (SGHM, 2017);

- According to the 20-year Forecast Report prepared by the International Air Transport Association (IATA); Turkey ranks 10th worldwide by RPK (Revenue Passenger-Kilometers), 11th by RTK (Revenue Tonne-Kilometers), and 14th by FTK (Freight Tonne-Kilometers).
- According to the 20-year Forecast Report prepared by the International Air Transport Association (IATA); It is estimated that our country, which is not among the top 10 markets in terms of the number of passengers in 2016, will rise to 9th place in the world by 2036. It is expected to be the 5th fastest growing market by increasing the number of passengers by 119 million over 20 years.
- According to the International Airport Council (ACI) Atatürk Airport has become the 5th largest airport in Europe by increasing the number of passengers by 5.9 percent compared to the previous year. • According to the International Airports Council (ACI) Airport Hub Connection Report, Ataturk Airport ranks 7th in the world, with 591% increase among the 20 airports that make the most central connection in the world.



**Figure 1.** Demonstration of Airports in Turkey by Provinces (DHMI, 2017)

Significant progress has been made in airline traffic and cargo transport, along with the fact that airlines are in all cities and newly opened lines both on domestic and international routes.

As of the end of 2016, there are 13 airline companies registered in Turkey for passenger and cargo transportation or freight business in the civil aviation sector. The number of airplanes of airline companies has increased by 10% and reached 540 compared to the previous year. 515 of the planes are passenger planes, 25 of them are cargo planes. The total seat capacity of airline fleet is 100,365, and the total cargo capacity of the cargo planes is 1,821,600 kg. Within the scope of the study, statistical information about five major airline businesses in Turkey are presented in Table 2.

**Table 2.** Fleet Information of Airline Operators in Turkey (SGHM, 2017)

<b>Company</b>	<b>Number of Aircraft</b>
<b>Turkish Airlines</b>	304
<b>Pegasus</b>	66
<b>SunExpress</b>	52
<b>Onur Air</b>	24
<b>Atlasjet</b>	24
<b>Subtotal</b>	470
<b>Other Companies</b>	47
<b>Grand Total</b>	<b>517</b>

In air transportation, Turkey is one of the fastest growing countries in the world and Europe. It has been observed that the growth rates have continuously increased except for the small fluctuation in 2016 according to the graph. Nevertheless, the number of passengers increased from 174 million in 2016 to 193.3 million in 2017 and increased by 11 percent in one year. Turkey's civil aviation has not only continued to grow with double digits, but also increased the number of passengers by 20 million in one year and broke the 18 million passenger increase record in 2013.

The strong growth of Istanbul Airport and Middle Eastern hubs have changed the travel behaviours of transfer passengers in recent years and also affected the share of

transfer passengers at European hub airports. Due to their beneficial geographical location between Europe and Asia and notable governmental support, Turkish and Middle Eastern carriers such as Emirates, Qatar Airways, Etihad Airways and Turkish Airlines have managed to gradually attract an increasing number of transfer passengers travelling from Europe and North America to Australia, Far East and South East Asia (EU Report, 2016: 35).

In addition, Istanbul Ataturk Airport as the main hub of Turkish Airlines continues to advance on the list of the world's heaviest passenger traffic. According to Table 5 it can be seen that Ataturk Airport operated by TAV, was ranked to 11th place by advancing two steps and even surpassing Lufthansa's main hub, Frankfurt in 2015.

Source: A general overview of the development of the civil aviation sector in turkey

#### 1.6.10 Main Objectives and Targets of the Government for Transport Sector

The main objective in the transportation sector is timely creation of transportation infrastructure, which is safe, economical and in conformity with the necessities of national economic and social life, secures a balance among the modes, compatible with modern technological and international standards and is sensitive to the environment. Complementary operation of the transportation modes and widespread utilization of combined transport are essential.

The markets for CEP and 3PL services are not yet saturated and both segments are likely to extend the range of local service offerings significantly by 2030. Turkey has a great deal of potential with its young population and its dynamic market conditions. Traditional consumer behaviors which rely upon using the national post office seem to be changing as CEP services become available countrywide.

#### 1.6.11 Telecommunication Dissemination Of Information And Communication Technologies

Turkish telecommunication industry has been liberalized as of January 1, 2004 for voice and data transfer. The competition has developed firstly in long distance telecommunication services since the initial investment requirements are relatively low in the segment of the business.

#### **The Impacts of Competition Authority After Liberalization**

The main aims of the Competition Authority are to hinder the agreements, decisions and implications that obstruct the competition in good and service markets, and to hinder dominant entrepreneurs to abuse the power they have; to protect the competition in market by providing required arrangements and auditing. It uses this authority in telecommunication sector either, not surprisingly.

The most important structural change in Turkey's telecommunication sector was the law number 4502 in January 2000, which was making changes in principle laws of regulating the sector. With this law, the Telecommunications Authority was founded ( an independent regularity body), policy-making functions and managing functions were

separated. Policy-making functions have given to Telecommunications Authority. The main aim of Telecommunications Authority is to reach liberalization complete in the sector. The Telecommunication Authority was the first sectorised regulatory authority.

## 1.7 POLITICAL AND ADMINISTRATIVE STRUCTURE

### 1.7.1 Administration and Politics

President Tayyip Erdogan, former Prime Minister, former mayor of Istanbul, founder and leader of the ruling Justice and Development Party (AKP) since 2001

The Republic of Turkey was founded in 1923, following the defeat of the Ottoman Empire in World War I and the subsequent Turkish War of Independence led by Mustafa Kemal Atatürk. As the first president of the new republic, Atatürk initiated a programme of political, economic and cultural reforms, which became known as secular Kemalism, aimed at building a 'new Turkey' that was far from its Ottoman and Islamic heritage.

Atatürk's Republican People's Party became the dominant political organization of a one-party state until the end of World War II. Despite transitioning to a multi-party system after the war, Turkey's political system faced numerous difficulties, including three military coups between 1960 and 1980. In February 1997, in what was dubbed a 'post-modern coup' because no soldiers were involved, the military engineered the resignation of Prime Minister Necmettin Erbakan, the leader of the Islamic Welfare Party, for what it saw as the government's growing religious activities.

The political balance of power has since evolved into a state in which military coups seem a thing of the past. Since 2002 the moderate Islamist AKP has governed Turkey successfully. To date, the long drawn-out conflict with the Kurdish national movement remains unresolved, although significant shifts seem to be taking place.

In July 2016, a failed attempt was made to overthrow President Recep Tayyip Erdoğan. Coup attempt done by Fethullah Gülen and his Hizmet (or 'service') movement, which has been described as a 'parallel state' inside Turkey. In the months that followed, tens of thousands of members of the Hizmet movement were arrested.

In a referendum held on 16 April 2017, 51.4 per cent of Turks voted in favour of wide-ranging constitutional amendments, which will transform Turkey from a parliamentary republic to a presidential one.

Turkey was sharply divided over these amendments. Whereas Erdoğan supporters argue that they will improve the effectiveness of the executive branch, opponents believe they will grant Erdoğan sweeping new powers that will undermine the democratic process.

### 1.7.2 The Presidency

The election of former President Abdullah Gül (President from 2007-2014), which was strongly opposed by the Army and Kemalist circles in 2007, showed how politically important presidential elections are. Gül's two predecessors, Süleyman Demirel (born 1924) and Ahmet Necdet Sezer (born 1941), were the symbolic protectors of a political coalition with the Army. Sezer often opposed the laws adopted by the Grand National Assembly of Turkey and the nominations made by the government of then Prime Minister Recep Tayyip Erdoğan. With the election of Gül, a first lady wearing a headscarf for the first time entered Çankaya Palace, which is considered one of the Kemalists' sacred fortresses.

The current President of the Republic is Recep Tayyip Erdoğan, voted in as President on 10 August 2014. Erdoğan, who was Prime Minister from 2003 to 2014, in recent years paved the way for a presidential system similar to the American and Franco-Russian model.

In spite of the Gezi protests in May-June 2013, allegations of corruption against Erdoğan, his family, and members of his government the opposition proved unable to stop Erdoğan's march to the Presidency. Ekmeleddin İhsanoğlu, the candidate fielded jointly by the Republican People's Party (CHP) and the right-wing National Movement Party (MHP), garnered only 38.4 percent of the vote. Selahattin Demirtaş, representing the People's Democratic Party (HDP), won just under 10 percent of the vote, which was a strong result, at the national level, for a politician associated with the Kurdish movement.

As the head of the state and the Army, the President does not have executive authority in the strict sense of the word; rather, he has a great symbolic authority. However, before the 2014 Presidential election, Erdoğan had stated clearly that he did not intend to limit himself to the largely ceremonial role played by his predecessors. His focus was on the general elections, that were held by June 2015. To change the constitution and officially grant the presidency the executive powers Erdoğan sought, the government secured the backing of at least two-thirds of the members of the next parliament. In snap elections in November 2015, the AKP was able to secure the necessary seats in parliament to hold a referendum on Erdoğan's proposed amendments to the constitution.

The new constitution, which will be implemented after presidential and parliamentary elections scheduled for November 2019, will see the role of prime minister scrapped and make the president the head of the executive as well as the head of state, while allowing him or her to retain ties to a political party. In addition, the president will be given new powers to appoint ministers, prepare a budget, choose the majority of senior judges and enact certain laws by decree. The president will also assume the leadership of the army, and he or she alone will be able to declare a state of emergency. A presidential term will be set at five years and the president will be limited to two terms.



### 1.7.3 The Executive

After the transition to a multi-party system, the prime minister and the Council of Ministers supervised the executive branch. The president is the head of state and represents the Republic of Turkey and the unity of the Turkish nation.

The prime minister, who, until the referendum in April 2017, was appointed by the president, was often the leader of the largest party in parliament and responsible for supervising the implementation of government policy. Following the vote in favour of constitutional amendments, the role of prime minister will be scrapped and the president will assume the prime minister's executive powers. Binali Yıldırım has been prime minister since May 2016. He replaced Ahmet Davutoğlu, who assumed the position in August 2014 but fell out with Erdoğan over the proposed referendum.

During his era as a prime minister, Recep Tayyip Erdoğan (born 1954), headed the executive branch. He received diplomas from a school for the training of imams and preachers and from the School of Economics and Commercial Sciences. He was mayor of Istanbul from 1994 to 1998, and was imprisoned for four months in 1999. In 2001, he established the Justice and Development Party, following a split in the Islamic movement, that was led for a long time by engineer Necmettin Erbakan (1926-2011). Even though his authority was not challenged by the party of which he was the charismatic pillar, Erdoğan ran a government that was home to many orientations, ranging from the ultra nationalism of Minister of Interior İdris Naim Şahin (born 1956) to the liberalism of deputy Prime Minister Bülent Arınç (born 1948). As a result of the weakening of the Army after 2007, when many of its senior officers were imprisoned, and the Constitutional Court, which acted as a censorship authority in many legal and legislative domains between 1980 and 2000, the executive body came to wield vast authority.

Turkey experienced several periods during which only one party was in power: the Republican People's Party of İsmet İnönü, between 1946 and 1950; the Democratic Party of Adnan Menderes, between 1950 and 1960; the Justice Party of Süleyman Demirel, between 1965 and 1971; and the Motherland Party of Turgut Özal, between 1983 and 1991.

During the 1970s and 1990s coalition governments were often weak, leaving the Army with much room for manoeuvre. The internal fragmentation of the Turkish political space in the 1990s is one of the factors that enabled the Justice and Development Party led by Erdoğan to sweep to power, by winning most of the votes, with an increase from 34.6 percent in 2002 to 49.9 percent in 2011.

### 1.7.4 The Legislative

The legislative branch, by a motion of confidence by the deputies, is the government's main source of authority. The Grand National Assembly of Turkey, established in 1920 on the model of the Chamber of Deputies of the Ottoman Empire, has the power to conduct independent investigations which it deems necessary and may also propose

draft laws and, with a three-quarters majority, amend the Constitution following a decision of the Assembly.

In June 2012, the 550 seats in the Grand National Assembly were held by 326 deputies of the Justice and Development Party, 135 of the Republican People's Party (social democratic), 51 of the Nationalist Movement Party (far-right), 29 of the Peace and Democracy Party (Kurdish), and 7 independents. Two seats remain vacant. The President of the Republic may veto, only once, a law passed by the Assembly and is entitled, in case of a continuing dispute, to submit a claim to the Constitutional Court.

The constitutional amendments voted for in the referendum represent a pivotal moment in the history of Turkish politics. According to these amendments, which will become effective after parliamentary and presidential elections in November 2019, the number of MPs will increase from 550 to 600, and the age of candidates eligible to run in elections will be lowered from 25 to 18. A parliamentary term will be increased from four years to five. Parliament will lose its right to scrutinise ministers or propose an enquiry. However, it will be able to begin impeachment proceedings or investigate the president with a majority vote by MPs. Putting the president on trial would require a two-thirds majority. The president will have the power to dissolve parliament and call new elections.

Source: Wikipedia, Hurriyet Daily News. Click to enlarge. @Fanack

Parliament will also have the power to call elections, providing three fifths of its members agrees. The parliamentary positions of members who are appointed as vice-president or minister will be dropped.

Erdoğan's proposed constitutional changes have been one of the most divisive issues in recent Turkish politics. In the general elections held in June 2015, the AKP, for the first time in its history, failed to secure an outright majority in parliament, winning only 40.8 per cent of the vote (258 of the 550 seats). This also put it below the 367-seat threshold needed to change the constitution directly and the 330 seats needed to call a referendum to change the system.

Against the backdrop of a hung parliament, and the AKP's failure to form a coalition, Erdoğan called a snap election for 1 November 2015. This election resulted in the AKP regaining its parliamentary majority, winning 49.5 per cent of the vote and 317 seats. In contrast, the Republican People's Party won 25.3 per cent of the vote (133 seats), the Nationalist Movement Party 11.9 per cent (36 seats) and the People's Democratic Party 10.7 per cent (58 seats). Independent candidates won five seats.

### 1.7.5 The Legal System

The legal system in Turkey is influenced by European models and comprises the Constitutional Court (Anayasa Mahkemesi, seventeen members appointed by the President of the Republic and the Grand National Assembly) with vast censorship powers, the Turkish Council of State (Danıştay), the Court of Cassation (Yargıtay), and the Turkish Court of Accounts (Sayıştay), as well as superior courts and courts of first

instance. It distinguishes criminal-law judges from civil-law judges and from federal-law judges in charge of enforcing the corporate law.

The Turkish legal system owes its origins to the administrative reforms of the Tanzimat ('Reorganizations') of 1839-1876, the codification undertaken by Cevdet Pasha (1822-1895), during the reign of Abdülhamid II, and the radical reforms that took place at the beginning of the Kemalist Republic, under the leadership of Mahmud Esad Bozkurt (1892-1943), Minister of Economy and then Minister of Justice, who strongly opposed the separation of executive, legislative, and judicial powers. The main legal documents of the Kemalist Republic were the 1924 Constitution, the Civil Code of 1926 – considered a conservative adaptation of the Swiss Civil Code – and the penal code inspired by that adopted by the Fascist Italy at the time. Although the Constitution was thoroughly modified in 1961 and 1982, these documents were modified little in principle and constrained the Turkish legal space until the end of the 1990s.

#### 1.7.6 Political Parties

The history of political parties in Turkey is complicated and painful: political crises caused the fragmentation of these parties, and several of them were banned by military regimes or the Constitutional Court. Following the 1960 coup d'état, several politicians were given long prison sentences or were assassinated.

There are currently 22 active parties in Turkey, but the threshold to gain seats in the Parliament is ten percent of the votes cast (on the electoral-district level as well nationally), so only four parties hold seats in the Grand National Assembly. Hamit Bozarslan describes these parties as follows:

#### **The Justice and Development Party**

AKP-flags in Ankara, during the campaign for the 2007 elections, in front of a statue of Mustafa Kemal Atatürk, founder of the modern Turkish state Photo HH

The Justice and Development Party (AKP) was established in 2001 from a faction of the Islamist Virtue Party, which was dissolved by the Constitutional Court. It won three consecutive legislative elections, in 2002, 2007, and 2011, thus gaining a dominant position in Turkish political life. The party is politically conservative and economically liberal. President Recep Tayyip Erdoğan was the leader of the party between 2001 and 2014. He was succeeded by Ahmet Davutoğlu between 2014 and 2016. Until the referendum, AKP party leader was Prime Minister Benali Yildirim. In May 2017, Erdoğan returned the chief of the ruling party in a special party congress convened for re-electing him.

#### **The Republican People's Party**

The Republican People's Party was established by Mustafa Kemal (Atatürk) (1881-1938) in 1923 and played a central role in founding the republic in 1923 and establishing the single-party system in 1925. Having merged with the state in 1937, the party was obliged to accept political pluralism in 1945.

After the death of Mustafa Kemal in 1938, the party was led by İsmet İnönü (1884-1973) and then by Bülent Ecevit (1925-2006). The party experienced a major internal crisis between 1980 and 2000, especially under the leadership of Deniz Baykal (born 1938) and Kemal Kılıçdaroğlu (born 1948). The party is supported by about 25 percent of the voters, reportedly including many Alevis.

- Mustafa Kemal Atatürk (1881-1938)
- İsmet İnönü (1884-1973)
- Bülent Ecevit (1925-2006)
- Deniz Baykal (b. 1938)

### **The Peace and Democracy Party**

The Peace and Democracy Party was established to replace the People's Labour Party that was founded by Turkish and Kurdish left-wing activists in 1990. This was the first 'pro-Kurdish' party with parliamentary representation, but it was banned by the Constitutional Court. Earlier parties – the Democracy Party (DEP), the People's Democracy Party (HDP), the Democratic People's Party (DHP), and the Democratic Society Party (DTP) – were often severely suppressed and were also banned. The Peace and Democracy Party (founded in 2008) later formed a parliamentary group.

### **The Nationalist Movement Party**

The Nationalist Movement Party was established in 1969 by Colonel Alparslan Türkeş (1917-1997) by changing the name of a party he used to lead (Republican Villagers National Party) to the NMP. This party has always been the principal political focal point for Turkish ultranationalism. With the help of the Ülkü Ocakları (Hearths of the Ideal) network and the support of a group of voters in the Central Anatolia region and the coastal regions, Devlet Bahçeli took charge of the party after the death of its founding başbuğ (chief/commander) in 1997.

There are many right- and left-wing parties, such as the Felicity Party (Islamist), the neo-nationalist (Ulusalıcı) camp ('nationalist', Kemalist, and secularist), and illegal radical left-wing parties.

#### **1.7.7 The Military**

Turks, who have been referred to as the "Army-Nation" throughout the history, founded numerous states and subjugated and dominated numerous peoples, nations, and states over a wide ranging geography extending from Asia to Europe, and Africa. Vigorous living conditions of the steppes, demanding exceptionally energetic and strenuous living standards, compelled the Turks to become an rigorous and a militaristic nation; it was also a significant factor in their setting up of strong and well-organized armies.

The first orderly and disciplined formation of the Turkish Army dates back to 209 BC, during the Great Hun Empire; the greatest units in this organization were the divisions made up of 10.000 soldiers, divisions were further divided into smaller units composed

of a thousand, hundred, and ten soldiers; this organization continued to exist throughout the history in the Turkish states with small changes.

Ottoman State, the strongest Turkish state founded in Anatolia, inheriting the Seljuki military formation introduced certain novelties in organizing its army as of its foundation. Within this framework, during the reign of Orhan Bey, a permanent and orderly army, relying mainly on infantry and cavalry, was founded. The necessity of having a naval power felt during the Siege of İznik (1327) was met by a 24-ship fleet sent by the Karesi Principality under the command of Karamürsel Bey. For the building of ships necessitated by the Ottoman Army a shipyard was built in Karamürsel the same year.

Soon after the foundation of the Turkish Air Force, Turkish Army, making use of its deeply rooted military tradition, was compelled to fight on numerous fronts over a wide ranging geography with its army, navy, and air force in the World War I. World history witnessed how the valor and heroism of the Turkish soldier and nation that flowed throughout the centuries compounded with Mustafa Kemal's military genius and competence rendered Çanakkale impassible.

Understanding the importance of having a strong army in the protection of the motherland's internal and external security thus, in the Republican Era, priority was given to the reforms to be made in the army. The first steps in the founding of a strong army were taken by reorganizing the Land Forces under three inspectorates, and their equipping with heavy and light machineguns, mortars, anti-tank weapons, and modern artillery guns.

The Gendarmerie Organization that is believed to have been founded on 14 June 1839 with the aim of executing law and order in the country, received its present legal status upon the Law 1706 issued on 10 June 1930. The Turkish Gendarmerie Command has been affiliated to the Ministry of Interior under the Government Decree No.668 dated 27 July 2016.

Prior to the World War II, reorganizations were realized in the army, the inspectorates in the Land Forces were converted into army commands. Thus, the Land Forces were formed under three armies, and the battle strength of the Turkish Army was maximized. On founding Air Force Command on 23 January 1944, following the World War II, aviation units were brought under single command. Land Forces Under secretariat was converted into Land Forces Command on 1 July 1949; and the Under secretariat of the Navy was converted into Naval Forces Command on 15 August 1949.

Turkey, with the aim of contributing to world peace, responded affirmatively to UN Security Council Resolution on aid to South Korea, issued on 27 June 1950, and took active role in the Korean War with a brigade. Turkish forces were given tasks in the most crucial fronts as of the day they set foot in Korea until the signing of Ceasefire Agreement (27 July 1953). Turkish Forces fought altruistically in Korea under the guiding principle of "Peace at home, peace in the world," as always. The Korean War

improved the existing friendly Turkish-South Korean relations and paved the way to “blood brotherhood” where the relations continued to evolve further.

Turkish Armed Forces (TAF) initiated a reorganization process towards the end of 1980s. Aside from contributing the Turkish national interests in peace time, TAF has been undertaking tasks against risk factors ranging from terror without borders to cyber-attacks and intercontinental ballistic missile threats in the defense of the country. Furthermore, as a prerequisite of strategic security concept beyond boundaries, TAF signs military training and cooperation agreements with other nations, provides military support, and cooperates with its neighbors and regional states in establishing confidence and security building measures as well as taking active part in international arms control regimes.

TAF, with the aim of contributing to the world peace by providing regional and international security, has undertaken and still continues to take active roles in peace support operations in Somalia, Bosnia-Herzegovina, Kosovo, Afghanistan and Lebanon; and also conducts tasks in Somalia, Qatar and Albania within the bilateral relations.

Today, the Turkish Army has gained the capacity of launching operations under all kinds of weather conditions with its cross-border operational capabilities in launching defense against terrorism, level of technology it has gained, superiority of knowledge and education, and with its reliance mainly on national war industry. Moreover, TAF continues to strengthen its due place among the strongest armies of the world owing to its capacity of undertaking tasks with its extraordinary understanding of discipline and force under NATO flag in the most delicate corners of the world.

The Founder of our Republic and our eternal Commander-in-Chief Gazi Mustafa Kemal ATATÜRK, in his historical message, addressed the Turkish Army as follows:

The Turkish Armed Forces is composed of Turkish General Staff headquarters and its subordinate units and also Land Forces Command, Naval Forces Command and Air Forces Command.

## 1.8 Turkey and Middle East

The end of the Cold War seemed to portend a decline in Turkey’s strategic importance to the West; however, the political changes in the world since 1989 have also loosened the constraints within which Turkey can act. As a result, Ankara’s foreign policy has been redirected from its strictly western orientation to one in which the countries of the Middle East have become potentially more significant.

The foundations of Turkey’s foreign policy are a legacy of the country’s founder, Kemal Ataturk, who from the time of its establishment in 1923, had two fundamental goals for the new republic: modernization and westernization. Ataturk directed the country away not only from other Turkic peoples, but also, despite their historical relationship over centuries of Ottoman rule, from the rest of the Islamic world. He instituted a series of domestic reforms to bolster the new direction of the country, including secularizing the

political and judicial systems and changing the alphabet from Arabic to Latin. As a result of these radical changes, Turkey experienced an almost complete break with its past in both foreign and domestic spheres that remains a part of the nation's fabric. Although Ataturk's influence is not unshakable, his legacy endures, and any change in Ankara's foreign policy orientation must be examined against this background. Ironically, Turkey's relationship with the Middle East is colored by the very past that Ataturk sought to repudiate. On the one hand, many current Arab suspicions about Turkey date back to the period after 1908, when the extremist Turkification campaign of the Young Turks led to the suppression of Arab language and culture. On the other hand, Turks remember that Arabs sided with the British during World War I, an act that, while motivated by the Arab drive for independence, is still viewed by many Turks as unforgivable treachery. Thus, despite the revolutionary and enduring nature of Ataturk's reforms, when Arabs and Turks confront each other today, the past is not as much a dead issue as many in Turkey may want to believe.

The greater attention being given by Turkey to relations with the Middle East results not only from changing world politics but also from factors such as the Kurdish rebellion in southeast Turkey, the water dispute with Syria, and the peace accords between Israel and the Palestine Liberation Organization (PLO) signed in September 1993. Despite expanded relations with the Middle East, however, Turkey's most important political relationship will continue to be with the West, as will its principal trade relations.

For Arabs, relations with Turkey have never been as important as the Palestinian issue. Although there is currently a constructive "reinvention" of Turkey in Arab political discourse, Arabs remain skeptical of each of Turkey's potential roles. For example, Turkey simply would not have the necessary military power to act as regional caretaker in the face of a serious threat to the region, and it has too many serious economic problems of its own to be a credible model of economic development. Furthermore, Arabs tend to see Turks as living in a perpetual identity crisis, neither fully a part of the West or the Middle East nor fully independent of either.

Source: Turkey's Role in the Middle East, By Patricia Carley

## 1.9 International Organizations and Agreements

Turkey is a member of the following organizations:

- United Nations and its Agencies
- WTO
- International Monetary Fund (IMF)
- International Bank for Reconstruction and Developments (World Bank IBRD)
- Organization for Economic Cooperation and Developments (OECD)
- International Finance Corporation (IFC)
- World Health Organization (WHO)
- North Atlantic Treaty Organization (NATO)

- International Labor Organization (ILO)
- International Air Transport Association (IATA)
- International Atomic Energy Agency (IAEA)
- International Development Association (IDA)
- International Maritime Organization (IMO)
- International Olympic Committee (IOC)
- International Telecommunications Union (ITU)
- Customs Union (CU)
- Council of Europe
- Bank of International Settlements (BIS)
- Black Sea Economic Cooperation Council (BSECC)
- European Postal and Telecommunications Conference
- Conference on Security and Cooperation in Europe (CSCE)
- Economic Cooperation Organization (ECO)
- European Broadcasting Union
- Islamic Center for Development of Trade (ICDT)
- A Global Economic Group Developing 8 Countries (D-8)
- Islamic Conference Organization (ICO)
- Standing Committee for Economic and Commercial Cooperation (COMCEC)
- Universal Postal Union (UPU)
- World Council of Churches
- World Meteorological Organization



## 2 ECONOMY, CURRENCY AND FINANCE

### 2.1 Economic Outlook

Turkey has long been a poor country shaken by chronic economic and financial crises (1959, 1969, the 1970s, 1994, 2000-2001), but it has risen, in the last decade, to rank 17th among global economic powers, as a result of the restructuring of the banks in the 2000s; the conversion of many provinces (including Adiyaman, Denizli, Gaziantep, Kahramanmaraş, Kayseri, Konya, and Mersin) into industrial zones; the dynamism of a young population buying on credit; and the ability of the country to supply, through its manufactured products, the domestic markets of neighbouring countries such as Georgia and Iraq. Turkey is, however, facing a chronic deficit in foreign trade: in 2011, imports amounted to USD 240.8 billion (up 29 percent from 2010), of which 54.1 billion was in the energy sector, up 40.6 percent in one year), while its exports amounted to USD 134.6 billion, up 18.2 percent. The Turkish automotive industry was responsible for more than USD 20 billion of exports, followed by chemical and manufactured products (USD 16.3 billion) and textiles and clothing (USD 16.2 billion).

76.3 percent of the population resides in urban areas (compared to 25.2 percent at the beginning of the 1920s). Agricultural employment has fallen to 25.2 percent of the workforce, while 19.9 percent is employed in industry and 6.3 percent in construction. The service sector employs 48.6 percent of the workforce, a figure expected to exceed 50 percent in coming years.

Having reached 100 percent for many decades, inflation dropped in the 2000s and stood at 8.9 percent in 2010 and increased to 10.5 percent in 2011. According to an OECD report, Turkey showed great resilience in the face of the global monetary and financial crisis. Public-sector expenditures represent 14.7 percent of the GDP, while the revenues of the central government represent 22.5 percent of GDP. Most of the public debt, which is 48.8 percent of the GDP, is domestic (36.4 percent). While there is a great debate among economists and politicians on the actual level of savings (estimated by experts to be between 10 and 22 percent of the GDP), the transition to a consumer society was more pronounced in the 2000s – for the better, because consumption created true economic growth and strengthened the middle class, and for the worse, because it has been continuously increasing the foreign-trade deficit.

In its 2016 annual report, the World Bank pointed to declining growth in Turkey, down from 6.1 per cent in 2015 to 2.1 per cent in 2016. This was due in part to the impact on business and consumer confidence of the coup attempt in July 2016, and an annual decline in tourism revenues of 36 per cent. This put pressure on the Turkish lira while simultaneously restricting the growth of local credit as a result of the drop in interest rates. The coup attempt resulted in a drop in GDP growth to 2.7 per cent in the third quarter of 2016, the largest drop since March 2009.

Turkey Trade(2017)	Last	Previous	Highest	Lowest	Unit
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Balance of Trade	-7759.34	-6699.04	24.51	-10453.06	USD Million
Exports	14305.73	13855.88	15559.51	43380	USD Million
Imports	22065.07	20554.92	23245.30	15.00	USD Million
Current Account	-5890.00	-5430.00	1132.00	-9407.00	USD Million
Current Account to GDP	-5.50	-3.80	2.00	-9.00	percent
External Debt	466657.00	453207.00	466657.00	43911.00	USD Million
Terms of Trade	105.17	105.83	147.63	93.96	Index Points
Capital Flows	2502.00	5162.00	9186.00	-5630.00	USD Million
Foreign Direct Investment	10900.00	12300.00	22046.00	1800.00	USD Million
Remittances	25.00	22.00	574.00	22.00	USD Million
Tourism Revenues	1613.00	1301.00	4947.00	79.00	USD Million
Tourist Arrivals	3678440.00	2655561.00	5480502.00	213998.00	
Gold Reserves	236.00	582.20	582.20	116.10	Tonnes
Terrorism Index	Tem.52	Haz.74	Tem.52	Nis.62	
Weapons Sales	244.00	311.00	311.00	3.00	USD Million
Crude Oil Production	53.00	52.00	72.00	38.00	BBL/D/1K

The government's reform attempts were similarly impacted by the large number of civil servant lay-offs following the coup attempt, and foreign investment slowed as a result of a series of terrorist attacks between March 2016 and January 2017.

Also affecting Turkey's economic growth is the ongoing war in Syria and an economic slow-down in Europe.

Turkey ranked 55th in the Global Competitiveness Report 2016-2017, dropping from 51st place in 2015-2016.

GDP in 2015 was \$717.88 billion, compared with \$798.7 billion in 2014 and \$823.2 billion in 2013. In 2015, GDP per capita was estimated at \$9,950. The World Bank predicts that GDP will grow by 3.5 per cent in 2018 and 3.7 per cent in 2019.

### Economic Indicators 2018

Overview	Last	Reference	Previous	Range	Frequency
GDP Growth Rate	2 %	Mar.18	43282	-5.2 : 5.6	Quarterly
Unemployment Rate	10.1 %	Mar.18	43261	7.3 : 14.8	Monthly
Inflation Rate	15.39 %	Jun/18	42339	-4.01 : 139	Monthly
Interest Rate	17.75 %	Jun/18	43236	4.5 : 500	Daily
Balance of Trade	- 7759 USD Million	May.18	-6699	-10453 : 24.51	Monthly
Government Debt to GDP	28.3 %	Dec/17	43187	27.6 : 76.1	Yearly

#### 2.2 New Economic Program

Global and local markets had been eagerly waiting for Turkey's Medium Term Program (2018, MTP), which was renamed the New Economic Program (NEP), since the government took office in early June. Against existing problems in the Turkish economy, including currency volatility, running inflation and a double-digit deficit, the government's new plan was presented as a framework with a vision to battle these problems and set targets that are based on Turkey's macroeconomic realities, hence reassuring market confidence in the Turkish economy.

In his address during the presentation of the NEP, Treasury and Finance Minister Berat Albayrak stressed that the new program hinges on three principles: balancing, discipline and change. "We have devised a road map for economic rebalancing for the period of 2019 to 2021. As part of the rebalancing scheme, the government expects a 2.3 percent gross domestic product (GDP) growth in 2019," Albayrak said. For this year, the government foresees economic growth at 3.8 percent. The growth, Albayrak said, will start taking off when Turkey successfully implements the other principles of discipline and change and the new approach will institute an understanding of sustainable growth. According to the NEP, the Turkish economy is expected to grow 3.5 percent in 2020 and 5 percent in 2021. The Turkish economy registered a 7.4

percent expansion in 2017. In the first and second quarters of this year, it grew by 7.3 and 5.2 percent, respectively.

The concept of discipline corresponds to immense support for rebalancing via fiscal discipline. The last principle change aims at concentrating on increasing long-term production capacity and exports of Turkey, Treasury and Finance Minister Albayrak explained.

In line with the goal of cutting public spending, the Turkish government will also suspend investment plans for which the tender process have not been initiated or finalized yet, the minister emphatically stated.

Last week, President Recep Tayyip Erdoğan reiterated the government's dedication to a massive fiscal discipline plan and emphasized that the public sector has so far taken significant steps to reduce expenditures and limit investments to support public fiscal balance.

Since investment expenditures constitute an important bulk of the budget, the government also revises the projects and will prioritize those that are close to completion.

"We will plan our investments in accordance with how close to complete they are. Those projects that are nearly 90 percent complete will be prioritized," the president said.

In a later phase, investments with a completion rate of 70 percent and 50 percent will be completed.

The central government budget balance posted a deficit of TL 50.8 billion (\$11.4 billion) in the period of January to August and the budget revenues totaled TL 485.7 billion in the said period, up nearly 19 percent year-on-year.

Last year, the budget deficit was TL 47.4 billion, totaling around 1.5 percent of the country's GDP.

The new economic program suggests that the government predicts that the ratio of the budget deficit to the GDP will be 1.9 percent this year and 1.8 percent in 2019.

The rapid growth of the Turkish economy in the last two years largely fueled credits as companies heavily borrowed from abroad in dollars. With currency depreciation, as the Turkish lira has fallen over 40 percent since the beginning of this year, it has become rather difficult for corporates to pay their \$216 billion dollar net debt stock.

In order to rebalance the growth, cut the current account and budget deficit and help companies manage their foreign currency debt, the government has so far taken measures to reduce public spending and raise savings as well as stabilize the volatility.

On Sept. 19, Turkish banks and financial institutions signed a loan restructuring a framework agreement in order to help businesses having difficulty paying off their debts, Turkey's Banking Association (TBB) announced.

The agreement was signed by lenders and other financial institutions, whose share in total loans is around 90 percent, the association said and added other financial institutions were expected to sign the agreement as soon as their internal procedures were completed.

According to JPMorgan, \$179 billion in Turkish foreign debt matures in the year to July 2019, \$146 billion of which is owed by the private sector, especially banks which borrowed abroad.

The government needs to repay or roll over just \$4.3 billion and public-sector entities account for the rest.

Although banks have been exposed to major debts, their capital adequacy ratio and liquidity performance are still solid. According to the data of the Banking Regulation and Supervision Agency (BDDK), the total net profit of the Turkish banking sector amounted to TL 33.5 billion in January-July this year.

In an interview broadcast live on the A Haber and CNN Türk channels, Minister Albayrak stated that the banks and the corporations will launch restructuring negotiations on Monday.

New economic program to firmly fight inflation

One of the most highlighted points in the new economic program is the fight against running inflation.

Minister Albayrak highlighted that the Central Bank of the Republic of Turkey (CBRT) will continue deploying all instruments in order to institute price stability in a determined and independent manner.

"But this is not enough to become successful in mitigating inflation. Therefore, the Financial Stability and Development Committee will be functional again with a view to sustain financial security and stability," he said.

Albayrak added a specific program of total struggle against inflation would be announced soon.

The central bank hiked interest rates by 6.25 percentage points on Sept. 3 in a bid to tame double-digit inflation and put a floor under the lira, which has also been pressured by a row between Ankara and Washington over the trial of U.S. evangelical pastor Andrew Brunson, who is currently under house arrest in İzmir due to his alleged links with the Gülenist Terror Group (FETÖ) and PKK, a U.S. and EU-designated terrorist organization.

The Turkish lira has made moderate gains since the central bank's action.

Turkey's annual inflation was 17.90 percent in August, up from July's figure of 15.85 percent. Over the past five years, the annual inflation saw its lowest level at 6.13 percent in April 2013, while the figure reached its highest level last month.

According to the new economic program, inflation would rise to 20.8 percent this year before dropping to 15.9 percent in 2019 and 9.8 percent in 2020.

As for employment, the treasury and finance minister said they will generate two million new jobs by the end of 2021, with an unemployment rate target of 10.8 percent in 2021.

In June, Turkey's unemployment rate was 10.2 percent - some 3.3 million unemployed people - while the number of people employed was 29.3 million.

Last year, the lowest unemployment rate was seen in May and June with 10.2 percent. Over the past five years, the highest unemployment rate was 13 percent in January 2017, while the lowest was in June 2013 with 8.1 percent.

Sustainable levels for current account deficit

The Turkish government's new economic program also takes aim at reducing the current account deficit, which corresponded to 5.6 percent of the GDP last year.

Treasury and Finance Minister Albayrak noted that the current account gap narrowed significantly this year with the backing of increasing tourism and export revenues.

In the first half of this year, over 17 million foreigners visited Turkey and spent some \$11.5 billion. Last year, the country's tourism income was some \$26.2 billion while the number of visitors was 38.6 million.

Turkey's exports from January to August amounted to \$108.7 billion with a 5.3-percent rise year-on-year. As of August, the 12-month overall exports reached \$162.4 billion.

In 2014, Turkey's exports hit an all-time high of \$157.6 billion while the figure was nearly \$157.1 billion last year.

Over the past five years, the highest export-to-import ratio was recorded in 2016 with 71.8 percent, while the country's foreign trade deficit has fallen from \$99.8 billion in 2013 to \$76.8 billion in 2017.

In order to cut imports and boost exports, the Turkish government plans to boost development and production in most import-intense sectors.

"Investments in pharmaceuticals, energy, petrochemicals, machinery and equipment, and software sectors will be prioritized in public incentive to reduce current account deficit," Albayrak added.

According to the program, the current account deficit will constitute 4.7 percent of the GDP this year. The ratio will gradually decrease as of next year and fall to 3.3 percent in 2019, 2.7 percent in 2020 and 2.6 percent in 2021.

Additionally, according to the central bank, Turkey's current account deficit in July fell to \$1.75 billion in July with an annual down of 62.8 percent, while the 12-month rolling deficit reached \$54.6 billion as of July. The country's annual current account deficit in 2017 was around \$47.5 billion.

## 2.3 What is in the program?

### 2.3.1 Steady Growth

The program offers a detailed economic projection regarding the upcoming 3 years. Three main pillars defined in the program are establishing an economic balance, a fiscal discipline to accompany economic balancing and transformation of manufacturing and exports with a “valueadded” perspective. In terms of the pillars the GDP growth forecast in program is 3.8% for 2018. For 2019, 2020 and 2021 the expected growth rates are 2.3%, 3.5% and 5.0%, respectively.

### 2.3.2 Improving Fiscal Discipline

With regards to the fiscal discipline the program seeks to optimize the budgets without inflicting adverse effects on development. The budget deficit, which is estimated to be 1.9% of the GDP by the end of 2018, will most likely stay stable as the forecast of program is 1.8%, 1.9% and 1.7% for upcoming three years respectively. On the other hand primary surplus target, which is expected to realize as 0.1% of the GDP in 2018, will be raised to 0.8%, 1.0% and 1.3% over the tri-year period. The first step stated in program for reaching the targets is to implement some series of budget optimizations that will save around 60 billion TRY and generate extra 16 billion TRY revenue for 2019.

The preference of international funding options for mega infrastructure projects is in the agenda. Along with revising PPP models in use to ensure a more efficient and financially sounder structure, the social insurance system will also change. Also revoking non-effective tax advantages is planned.

### 2.3.3 Reducing Current Account Deficit

The current account deficit was 5.6% of the GDP in 2017 and despite the setbacks the deficit is expected to drop by 0.9% in 2018. For 2019 the program foresees further 1.4% decrease, as the estimation for current account deficit in 2019 is 3.3%, where the target for 2020 and 2021 are 2.7% and 2.6% respectively. In order to achieve the targets, the program includes a series of policies and measures. In the first phase the public incentives will focus on high value-added sectors, pharmaceuticals, petrochemicals, machinery/equipment and software sectors in particular, to encourage technology-oriented investments. Various PPP models will be introduced to promote and improve technology and R&D investments. Existing export incentives will be reorganized as new incentives will be provided for exporters. Being one of the primary factors stressing the account balance, foreign dependency on energy will be reduced by prioritization of renewable energy and further use of national coal resources. The new model implemented,

YEKA (Renewable Energy Resource Areas), will support the localization of energy technologies. Tourism will also receive extra support, in which health tourism is underscored as one of the strategic tourism fields.

#### 2.3.4 Besting Inflation

Inflation is another matter of high gravity. The end-year inflation rate estimated for 2018 is 20.8 and the program aims at reducing the inflation to a one-digit number as of 2020 and decreasing it to 6% by the end of 2021. The measures to be taken to reach such a challenging goal are of an extensive approach. The program underscores that the Central Bank of Turkey will use all tools in its disposal in a decisive and independent manner for building a sustainable price stability. Furthermore, new 'Financial Stability and Development Committee' will be in charge of the process for a smooth implementation. A sub-program named 'Collective Inflation Reduction Program' will be launched along with "Product Monitoring Mechanism" and "National Agricultural Project" to monitor the price volatility and food inflation closely. The rent prices also mentioned as they are going to be capped based on consumer price index instead of producer price index to decrease the vulnerability against exchange rates.

#### 2.3.5 Fighting Off Unemployment

Although over the past years unemployment rate was not a drastic factor for Turkish economy, as the unemployment rate fluctuates between 4% and 12% in developed countries, the program also focuses on creating new jobs. The program estimates 2018's 11.3% unemployment rate will reach to 12.1% in 2019, mainly because of the lagged effects of exchange rate volatility. On the other hand for 2020 and 2021 a downwards trend is expected with unemployment rate forecasts are 11.9% and 10.8% respectively.

In order to provide opportunities to young generation and control unemployment, program aims at creating 2 million jobs over 3 years. The actions to be taken to ensure that are signifying the government's eagerness on the subject.

In terms of the projection, a reform will be implemented, which will secure the benefits of all stakeholders, in severance payment system. The public sector is going to adopt a new flexible employment approach, whereas also reorganizing employment incentives. Occupational training programs, which will be held in association with private sector, and more strict auditing applications aiming at reducing informal employment will be auxiliary forces for the employment policies. Basically program is consisting of a hybrid set of policies that are aiming to restore the fiscal discipline while instead of limiting investments in production, building a more sustainable and technology oriented production infrastructure. In this sense two key aspects come to prominence; reliability and export. Why?..

#### 2.3.6 The trust and the heart

The fiscal policies part of the program needs to convince international financial markets and investors regarding the implementations and the feasibility, as reliability is the key for any fiscal policy or financial market. In that sense the program should build a certain



trust that international financial chambers can rely on. And the initial reactions show that the program is widely welcomed in finance sector.

Credit Suisse evaluates the program 'broadly satisfactory' in terms of technical details, according to a report released by the bank. The prominent corporation sees the program appropriate in both regards with fiscal policy and the banking sector.

Furthermore, the financial institution stated that the program turned out be more satisfactory than they had expected, in terms of an overall policy response to the market developments and the fiscal adjustments are consistent with what they would expect from a credible program. Economic Watch research conducted by BBVA brands New Economy Program as more realistic. Stating that the program hinders a rebalancing of the economy with fiscal consolidation in the short term in a more realistic way, the research concludes that the new stance in terms of fiscal policies is more sound and the content of program, which is adequate, should complement the existing monetary policies to rebalance the economy.

The U.S. based banking giant, Citibank issued Turkey Economics Review report, in which also referring to NEP realistic with regards to macro targets and assumption, that is sharing the downward expectation in inflation after 2019, seeing the growth forecast for 2020-2021 period challenging but obtainable, welcoming the establishment of Public Finance Transfer Office, finding the road map for fiscal policies and banking sector satisfactory. Furthermore, the bank finds the recognition of balance sheet vulnerabilities, and the resolve of policy-makers encouraging in terms of the upcoming terms.

The French international banking corporation BNP Paribas' "Turkey: A Realistic Roadmap" report is another vote of confidence from international finance sector to NEP. The report says that besides from finding the program reliable in general, the forecasts regarding growth and current account balance particularly are realistic. According to the report, the bank forecasts a sharp drop in current account deficit due to the strong increase in exports and recovery in tourism revenues. Furthermore the bank says that Turkey can achieve the targets set in NEP. Of course there are also negative reviews from other corporations, and some of the financial figures are taking the content of NEP with a pinch of salt. But it is obvious that NEP has signified an initiative regarding the reshaping of Turkish economy and managed to build an environment of financial trust in international scale.

Securing a positive feedback from the global economy, the program can be said to have gained the trust it required in terms of the fiscal policies. How about the heart of it?

### 2.3.7 Exports: the heart of nep

Since Turkey aims at creating a sustainable growth, it is obvious that export will occupy the top spots in the agenda. For building a competitive, high value-added producing and agile real economy, domestic demand can't be solely dependent on for a number

of reasons. In this sense exports lie at the heart of program in many aspects; growth, employment, current account balance and production reform in particular.

Turkey grows with exports. During the soaring growth period, which suffered a set back in the era of global banking crisis, the exports were always a main contributor. For example, the record quarterly growth of 3Q17, with which Turkey secured the top position of G-20 in quarterly growth with 7.4%, the share of net exports was 3.5 points.

Furthermore, although the rate of exports meeting imports is expected to grow rather slowly, there is a consistent increase expected. According to NEP export/import rate, which was 67% in 2017, will see an increase of 4.9% in 2018 as the contribution of net exports to GDP growth 1.4 points. For 2019 the contribution of net exports is expected to increase 0.1 point, thus reach 1.5 point where the export/import rate is expected to become 74.6%. This means that even before the structural reforms in production to support high value-added manufacturing can start to deliver results, the export is already a part of Turkey's GDP growth projection. In this sense, as well as being the key for long term sustainable growth models, Turkish exports hold an important position in short term rebalancing plan.

The employment is also another factor, in which export has an important role. According to a paper released in 2016, increase in exports is directly affecting the employment capabilities of exporter firms. The paper studies exporters in Turkey and focuses on the correlation between the increase in exports and employment by exporter companies.

The paper shows that for every 1% increase in exports, the employment in exporter firms is raised by 0.4% whereas 1% increase in domestic sales can only increase the employment by 0.2% in the same group. Considering that there are 75.000 exporters under TİM's umbrella the increase in exports can significantly help reaching the goals set in NEP. Instead of depending on domestic demand for growth, the export based growth model will be more beneficial in terms of employment too.

The current account deficit is another subject that is widely affecting Turkish economy and trade balance is main factor in balancing the current account. The positive and negative changes in current account caused by Exchange rate volatilities might be deceiving with narrowing down the deficits. But for a healthy account balance, a sustainable export growth is of utmost importance, as not only contributing in GDP growth, increased exports directly decrease current account deficit. In this context, export also reduces the dependency to foreign investment, which is likely to shrink in times of any global and/or local uncertainties. Thus, export has also an important for investments as it helps central banks to keep the interest rates at lower levels by reducing the pressure on local currencies.

Prioritizing high value-added production means prioritizing exports, since the competition in domestic markets is way lower than competition in international markets. Thus, the exporting companies intensify their investments in branding, innovation, R&D and design to penetrate foreign markets and keep their competitive profiles high. And

the main factors that are stimulating high value-added production are those 4 pillars. In an optimal manufacturing environment, the exporters invest in technologies, which nourishes R&D and innovation ecosystem. The ecosystem supplies exporters with input, with which they can diversify, enhance and improve their products. This positive feedback is the very thing that production reforms try to create.

Overall, export is the most efficient instrument for development and NEP remarks that Turkish policy makers are aware of this fact. When we look at NEP we see that exports directly or indirectly affect almost each and every aspect. In other words Turkish exports are at the heart of NEP, and Turkish exporters are the veins, which deliver the value created in Turkey to each and every part of the world.

#### 2.4 Effect of new US tariffs on Turkish Economy

The atmosphere in Turkey is not one of panic, and the economy is showing no sign of slowing down. Contrarily, many of Turkey's most prominent business people are optimistic and point to the more positive recent news, like the big Boeing-Turkish Airlines trade deal, which was subsequently praised by the US State Department.

Turkey's economic relationship with the US is a vital and mutually beneficial relationship. Despite what has transpired in bilateral politics, the trade volume between the US and Turkey expanded by almost 18.5 percent during President Trump's first year in office.

The importance of the US-Turkey economic relationship cannot be understated. The US is historically the second largest investor in Turkey and the level of exports from US businesses to Turkish consumers has been consistently in the double-digit billions of USD since 2010.

Regardless of temporary political fissures and even the current situation with respect to steel tariffs, our trade partnership and commercial links with the US run deep, and they remain a top priority for us in Turkey, especially given the business-minded nature of President Trump.

Across the board, the ties that bind us are stronger than any differences – Turkey and the US are historical allies against forces such as terror and communism – we remain united by NATO and its respective member shared goals, both in business and beyond.

Another hot topic that is likely to affect bilateral trade adversely is additional tariffs imposed on steel and aluminum by the US. The steel and aluminum tariffs remain an issue. Turkey has had to make clear that it is willing to impose its own tariffs against the US. It is clear that the US tariffs are groundless – none of the stated criteria apply to Turkey or Turkey's exporters. And while it is recognized that the President has a domestic agenda he needs to pursue, it is all too easy to point overseas as the root of all problems without understanding that international allies are part of the solution, too. Turkish business – particularly Turkish steel – is an asset and an ally, creating jobs and industry development in the US for years, a point that was actually highlighted to

President Trump in a letter sent to him by the head of the American Institute for International Steel, John Foster.

Turkey sees eye to eye with President Trump on free, fair and reciprocal trade. But as a partner with a trade deficit with the US and an important NATO ally which spends at high levels in comparison to its GDP for the security of all the members of our alliance, it is our expectation that fairness should go both ways, particularly when Turkish steel has been creating jobs in the US for years.

Fortunately for Turkey's partners on the continent, despite considerable regional and domestic pressures, the Turkish economy grew by almost 7.4% last year. In 2017, Turkey's economy expanded faster than both China and India, and ranked as the fastest growing economy in the G-20 group of nations, which is no easy feat.

Turkey's economy is extremely resilient and has been growing year on year following the slump (in the 3rd quarter of) 2016 – a trend we very much expect to continue, especially with households spending on everything from food to healthcare to appliances.

The labour market has also improved and the country is very much buoyed by foreign investment and exports. Just a few days ago, we saw more foreign investment in our banking sector with the sale of Denizbank in Turkey to the UAE's Emirates NBD for \$3.2 billion – a Dubai-based bank's largest overseas acquisition.

Exports to key economies, such as Germany, Britain and the US, are also rising.

Turkey's tourism industry has also been boosted. Following a one-off decline in 2016, total tourism income strongly recovered in 2017. And more importantly, this recovery trend is carrying on with an increased pace in 2018.

Overall, there is much to be encouraged by and we look forward to seeing more economic growth and strengthened, reinvigorated trade relationships in the months and years to come.

## 2.5 Turkey and Africa

Turkey attaches great importance to its relationship with Africa and in order to further develop our relations, we launched "Strategy for the Development of Commercial and Economic Relations with African Countries" in 2003.

As a result of Turkey's strategy, Turkey's trade volume with Africa reached \$20.6 billion in 2017, which was \$5.4 billion in 2003. In the same period, Turkish investments in Africa reached \$6.2 billion and the value of contracting projects undertaken by Turkish contractors in Africa was recorded as \$65 billion.

Turkey held Turkey-Africa Economy and Business Forum in İstanbul in November 2016 with the participation of 42 African countries, which was followed by the Turkey-ECOWAS Economic and Business Forum in February 2018.

In order to further develop our relations, we increased the number of Turkish Embassies in African countries to 41 and, in addition, Turkish Airlines now fly to 52 destinations in 34 countries in the continent.

Turkey's main objective is to contribute to the development efforts of our African counterparts, while enhancing bilateral relations at the same time. This is why we go beyond economic questions and support development programs involving health, infrastructure, transportation and environment and, thanks to joint projects, we have created a strong bond between Turkey and Africa. I firmly believe that we will continue our efforts in the continent in the years to come.

Additionally, Turkey has increasingly been turning towards Africa for opportunity; in the last 15 years, trade between African nations and Turkey increased over 600% to its current \$17.5 billion. Turkey has increased its diplomatic presence on the continent to over 40 embassies, and Turkish Airlines flies to over 50 African destinations. Turkey's interests in Africa rival those of France, the UK, and China.

## 2.6 Turkish Lira

The independent Central Bank has also stepped in at the right time to raise the benchmark lending rate, which is easing the situation and supporting currency. The governor and members of the monetary policy committee have our government's full backing in doing whatever they deem necessary to support our economic wellbeing.

Crucially, however, volatility of the Lira is not indicative of the economic realities in Turkey, where just last year we had a growth rate of 7.4 percent. Macro-economic and financial indicators are sound and stable, as is the stock market, and it's important to remember that the fundamentals of the Turkish economy are strong and remain fully committed to fiscal discipline.

## 2.7 New Intensive Program

Turkey have recently introduced a new investment incentive package to support an expected \$33 billion worth of investment in petrochemical, energy, health, manufacturing and agricultural industries. It is one of the most competitive investment incentives in emerging markets and its benefits to the economy will be vast, especially when you factor in the fact that all investment projects, regardless of being foreign or domestic, will be treated equally under the scheme, giving us the edge over other emerging markets like India, Indonesia and Mexico. Details of the support mechanism are negotiated with the investors and we provide a wide list of incentives which are tailored according to respective investor needs. We invite companies from around the world to learn and benefit from our investment incentives.

Importantly, according to estimates, it will directly benefit the people of Turkey by supporting employment through the creation of 134,000 jobs indirectly and 34,000 jobs directly. Job creation has always been a priority for this government, evidenced by the one million jobs we created last year.

Turkey is currently 60th in the World Bank's 'Ease of Doing Business Index' and goal, through programs is to take Turkey into the top 20 within the next two years.

## 2.8 Main Economic Sectors

### 2.8.1 Agriculture and Food

Home to the headwaters of the Tigris and Euphrates Rivers, Turkey's agricultural sector today is echoing the prosperity of ancient Mesopotamia. With its favorable geographical conditions and climate, large arable lands, and abundant water supplies, Turkey is considered to be one of the leading countries in the world in the field of agriculture and food.

Turkey has a robust agriculture and food industry that employs almost 20 percent of the country's working population and accounts for 6.1 percent of the country's GDP in 2016. The sector's financial contribution to the overall GDP increased 40 percent from 2002 to 2016, reaching USD 52.3 billion in 2016.

The strengths of the industry include the size of the market in relation to the country's young population, a dynamic private sector economy, substantial tourism income and a favorable climate.

Turkey is the world's 7th largest agricultural producer overall, and is the world leader in the production of dried figs, hazelnuts, sultanas/raisins, and dried apricots. The country is also one of the leading honey producers in the world. Turkey boasted production of 18.5 million tons of milk in 2016, making it the leading milk and dairy producer in its region. The country also saw production totals of 35.3 million tons of cereal crops, 30.3 million tons of vegetables, 18.9 million tons of fruit, 1.9 million tons of poultry, and 1.2 million tons of red meat. In addition, Turkey has an estimated total of 11,000 plant species, whereas the total number of species in Europe is 11,500.

This bountiful production allows Turkey to maintain a significantly positive trade balance thanks to its position as one of the largest exporters of agricultural products in the Eastern Europe, Middle East, and North Africa (EMENA) region. Globally, Turkey exported 1,781 kinds of agricultural products to more than 190 countries in 2016, accounting for an export volume of USD 16.9 billion.

Turkey is looking to position itself as the preferred option for being the regional headquarters and supply center of top global players in the agricultural sector. To encourage investment in the sector, Turkey offers a set of incentives for potential agribusiness investors.

According to McKinsey and Co., Turkey offers significant investment opportunities in agribusiness subsectors such as fruit and vegetable processing, animal feed, livestock, poultry, dairy, functional food, fisheries, and enablers (in particular cold chain distribution, greenhouses, irrigation, and fertilizer).

As part of its targets set for the agriculture sector by 2023 Turkey aims to be among the top five overall producers globally. Turkey's vision for its centenary in 2023 includes other ambitious goals, such as:

- USD 150 billion gross agricultural domestic product
- USD 40 billion agricultural exports
- 8.5 million hectare irrigable area (from 5.4 million)
- Ranking number one in fisheries as compared with the EU

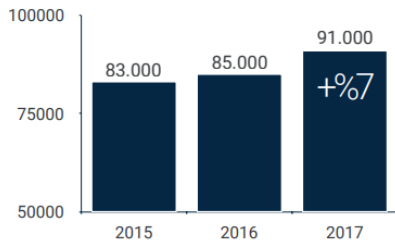
### 2.8.2 Business Services

Turkey's strategic location at the crossroads of Europe, the CIS, the Middle East, and North Africa, along with the country's existing potential, increase in per capita income, and large, young and growing population have positively impacted the development of the business services sector in Turkey. Turkey has significant experience in a wide range of business service lines, such as engineering and architectural consulting, technical testing, and call centers. The country also boasts expertise in knowledge-based services, such as auditing and accounting, legal advisory, and consulting.

#### 2.8.2.1 Call Centers, Business Process Outsourcing Firms (BPOs)

- The call center sector in Turkey has gained momentum since the inception of the country's first call centers in the 1990s.
- According to the Turkish Call Centers Association, the industry had a value of TRY 5.1 billion and employed 91,000 people in all the call centers throughout the country in 2017, up from the 2013 figures of TRY 2.9 billion and 70,200 employees.
- The call center sector has set an ambitious target of having a work force of 300,000 people by 2023.

### NUMBER OF CALL CENTER REPRESENTATIVES IN TURKEY



### SECTORS PROVIDED SERVICE BY CALL CENTERS IN 2017

Sectors	%
1 Telecommunications	23
2 Finance	17
3 Consumer Goods	13
4 Media & Entertainment	12
5 Retail	7
6 Tourism & Accommodation	6
7 Transportations & Logistics	6
8 Energy & Infrastructure	4
9 Public services	4
10 E-trade	2
11 IT	1
12 Healthcare	1
- Others	4

### FOREIGN LANGUAGES CALL CENTERS PROVIDE SERVICE IN OTHER THAN TURKISH (2017)

Languages	%
1 German	53
2 English	31
3 French	11
4 Arabic	3
- Other languages	2

### GEOGRAPHICAL DISTRIBUTION OF THE CALL CENTER REPRESENTATIVES (2017)

Cities in Turkey	%
1 Istanbul	39
2 Ankara	12
3 Izmir	5
4 Other cities	44

#### 2.8.2.2 Engineering and Architectural Consulting

- Engineering and architectural consulting companies in Turkey provide services related to engineering, architectural design, technical drawing, urban planning, and scientific and environmental services.
- A skilled workforce, cost-effective service compared to international standards, and expertise in diverse markets and project types help move the sector forward in Turkey.
- During the 2015-2016 academic year in Turkey, a total of 33,785 students graduated from the fields of engineering and engineering trades in universities, while 14,585 students received their degree in the fields of architecture and construction.

#### 2.8.2.3 Technology Development Zones - Technoparks

Technology Development Zones (TDZ\*) are areas designed to support R&D activities and attract investments in high-technology fields.

There are 69 TDZs, of which 56 are operational and 13 have been approved and are currently under construction.

#### Advantages of TDZs



- Profits derived from software development, R&D, and design activities are exempt from income and corporate taxes until December 31, 2023.
- Sales of application software produced exclusively in TDZs are exempt from VAT until December 31, 2023. Examples include software for system management, data management, business applications, different business domains, the internet, mobile phones and military command and control systems.
- Remuneration for R&D, design and support personnel employed in the zone is exempt from all taxes until December 31, 2023. The number of support personnel covered by the exemption may not exceed 10 percent of the total number of those involved in R&D, though.
- Investments for the production of technological products developed based on the outcome of R&D projects conducted in the TDZ may be made in the TDZ if deemed suitable by the operator company and allowed by the Ministry of Science, Industry and Technology (MoSIT).
- 50 percent of the employer's share of the social security premium will be paid by the government until December 31, 2023.
- Custom duty exemption for imported products and stamp duty exemption for applicable documents within the scope of R&D, design, and software development projects.

#### *2.8.2.4 Technical Testing*

- The technical testing market offers a wide variety of business lines, such as composition and purity testing, technical inspection, and road transport.
- The total annual turnover in these services has been showing an upward trend in the last decade, and as industries such as manufacturing, automotive, chemicals, and ICT continue to grow in Turkey the need for technical testing will increase accordingly.

#### *2.8.2.5 Knowledge-based Services*

- Knowledge-based services such as auditing and accounting, legal advisory, and consulting also play a crucial role in Turkey's economy.
- Turkey's vibrant economy and improved business environment have paved the way for a dramatic increase in the number of foreign companies in Turkey.

- The number of companies in Turkey with foreign capital quintupled in the last decade to reach 58,422 in 2017. This increase, together with the improved business environment, has resulted in the growth of knowledge-based services in Turkey.
- As new regulations come into force and Turkey aspires to have compatible standards with the EU, the sector is set for significant growth.

#### *2.8.2.6 Engineering and Architectural Consulting*

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- Turkey's vibrant economy and improved business environment have paved the way for a dramatic increase in the number of foreign companies in Turkey.
- The number of companies in Turkey with foreign capital quadrupled in the last decade to reach 52,700 in 2016. This increase, together with the improved business environment, has resulted in the growth of knowledge-based services in Turkey.
- As new regulations come into force and Turkey aspires to have compatible standards with the EU, the sector is set to for significant growth.

### 2.8.3 Chemicals

Global sales of chemicals more than doubled over the past decade, driven in large part by emerging economies that accounted for around 80 percent of new chemical production capacity.

Over the past decade, chemical sales in Turkey have closely followed the global trend. Turkey is an attractive investment location for chemical companies with its robust market growth fueled by end-user markets and its competitive production costs. Turkey is also a regional production, management, and export hub for leading brands in the chemicals industry. Chemical giants such as BASF, Henkel, Bayer, Evonik, Linde, P&G, PPG, and Dow have been producing in Turkey for decades and have continued to grow over the years.

The sustained growth in customer industries in Turkey is also a source of strength. Turkey is the largest commercial vehicle producer in Europe, the 17th largest automotive manufacturer in the world, the 7th largest agricultural producer in the world, and the largest textile producer in Europe, accounting for 3 percent of global exports.

As part of the urban transformation project in Turkey, it is estimated that around 6.5 million residential units nationwide will be demolished and rebuilt over the next 20 years. Thus, Turkey's construction industry, which is valued at USD 60 billion, is one of the fastest growing end-user markets for the chemicals industry in Turkey.

Another promising area in Turkey's chemicals industry is the plastics sector, which accounts for almost 3 percent of global plastics production. This makes Turkey the 2nd largest producer of plastics in Europe and 7th largest producer globally. The paint industry also offers opportunities for investors as Turkey ranks as the 5th largest paint producer in Europe.

Turkey is the 2nd largest net importer of petrochemicals in the world after China. The significant gap between the capacity and the consumption of petrochemical products

offers ample opportunities for local and foreign investors. There are also lucrative opportunities in Turkey's surroundings that investors can tap into by utilizing the country's strategic location and top-notch infrastructure. Petrochemical consumption in surrounding markets, such as Europe and MENA, accounts for one-fourth of the global total.

The combination of a growing economy, a large domestic market, advanced infrastructure, a skilled and competitive workforce, and investor-friendly legislation ensures that manufacturers in Turkey's chemicals sector stand to reap long-term returns from investing in one of the most promising emerging nations in the world.

#### *2.8.3.1 Production*

Turkey has been manufacturing chemicals for very long time, being a producer of many basic and intermediate chemicals and petrochemicals. Turkish chemical production includes petrochemicals, inorganic and organic chemicals, fertilizers, paints, pharmaceuticals, soaps and detergents, synthetic fibers, essential oils, cosmetics and personal care products. The majority of chemicals production is done by the private sector.

In chemical industry, 30 % of the production has been directly used by the consumers whereas 70 % of production has been benefited in other sectors as intermediate goods and raw materials. Turkish Chemical industry has been seen as a sector dependent on imports as regards to raw materials and technology. However, Turkey is among one of the leading countries in the world that has boron, chrome, soda ash and trona reserves.

The chemical industry, together with the sub-industries such as plastics and rubber, employs nearly 200.000 people and has about 6,2 thousand companies manufacturing various chemicals. Very small percentages of the existing companies have more than 150 employees. Most of the companies in the chemical industry, especially private sector companies, are located in Istanbul, Izmir, Kocaeli, Sakarya, Adana, Gaziantep and Ankara.

Turkish chemical industry has developed significantly in terms of quality, productivity and protection of the environment, and is in the process of adopting the EU's Technical Standards. In addition, the responsible care, the chemical industry's trademarked non-compulsory initiative on environmental, health and safety issues, has been successfully implemented since 1992.

Turkish petrochemical industry has shown considerable growth since 1970. As an upstream producer, TÜPRAŞ (Turkish Petroleum Refineries Corporation) operates as the only integrated Refinery in Turkey with its 4 refineries in Izmit, Izmir, Kirikkale and Batman. On the other hand, as a downstream producer, the unique company in the Turkish petrochemical industry is PETKİM Petrokimya Holding A.Ş. which is the only integrated petrochemical complex in Turkey that operates in Petkim-Aliğa complex in Izmir. In PETKİM's Aliğa complex, a wide range of petrochemicals, all common plastics (HDPE, LDPE, PS, PVC, and PP), aromatics, ethylene glycol, phthalic anhydride, terephthalic acid, carbon black, synthetic rubber, acrylonitril and caustic

soda are produced. The total production of these petrochemicals meets about 30 % of domestic demand.

Pharmaceuticals, plastics, soap and detergents, soda, chromium chemicals, boron chemicals, paints, sodium sulphate, fatty acids and rose oil are the other main areas of production of the chemical industry.

Turkey has the largest soda factory in the Middle East with a total capacity of 750.000 tons/year. In addition to light and dense soda ash, refined sodium bicarbonate and sodium silicate are produced at the Mersin plant. An extremely rich trona (natural soda ash) deposit was found near Ankara, at Beypazari and at present Turkey has substantial export potential for soda ash. Eti Soda A.Ş. has started operation in 2009 and 1 million tons/year soda ash will be produced.

Being among the top five countries supplying chrome ore to world markets, Turkey produces and exports some of the most important chrome chemicals and derivatives such as sodium bichromate, basic chrome sulfate, chromic acid and chrome oxide.

Turkey also enjoys a comparative advantage in boron chemicals (borax decahydrate, borax pentahydrate, boric acid and sodium perborate) due to the size of her reserves, the quality of minerals and proximity to consumer markets. Eti Maden İşletmeleri Genel Müdürlüğü is the dominant producer of boron minerals and boron chemicals and the sole-exclusive exporter of boron chemicals.

Turkey has developed a substantial capacity and production of sodium sulphate. In sodium sulphate production, Turkey comes in top ranks in the world.

Owing to Turkey's climatic and ecological conditions, many medicinal and aromatic plants are cultivated or gathered from nature. Turkey is one of the most important rose oil exporters in the world market. The majority of these exports originate from the Isparta region. Laurel oil, thymus oil, lavender oil and origanium oil are also produced in Turkey.

In conjunction with recent industrial growth in Turkey, the consumption and production of many other chemicals are growing rapidly and the number of chemicals produced is increasing every year. The recent developments in textile and leather chemicals are also worth mentioning and many small and medium size companies have recently started to operate in these two sectors.

#### *2.8.3.2 Exports*

In 2017 the chemical industry was one of the most important sectors among total industrial exports. The value of chemical exports was about US \$ 16,8 billion in 2017, or about 10,7 % of total Turkish exports.

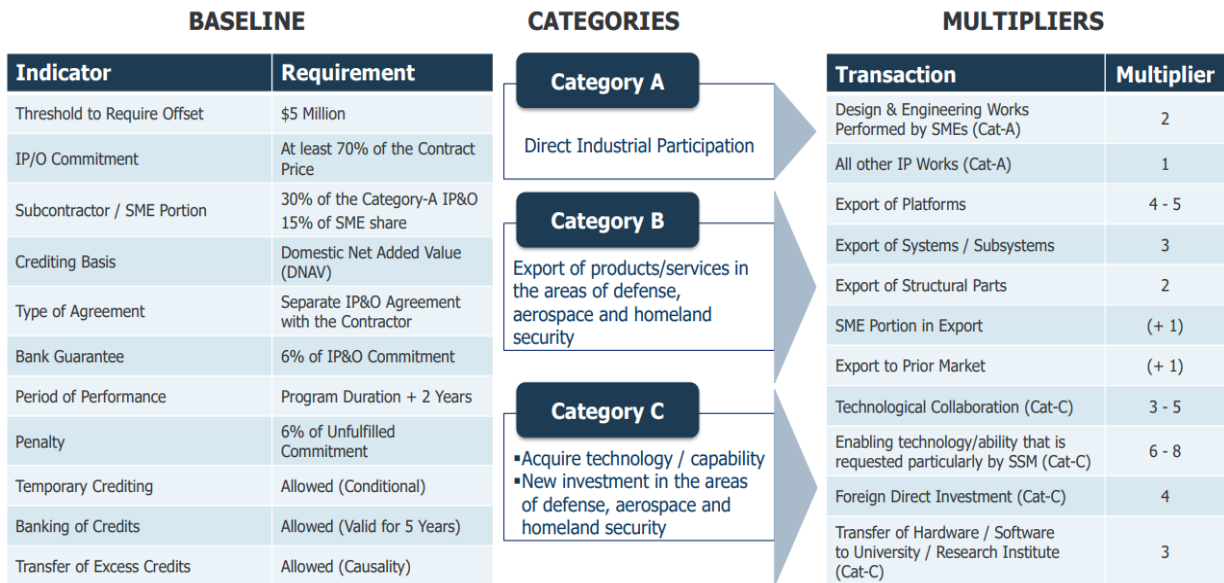
**Table 1: Export Product Groups of Chemical Industry (Value: US\$ 1,000)**

HS Code	Product label	2015	2016	2017	16/17 Change (%)	2017 Share (%)
27	Mineral fuels, oils, distillation products	4.210.067	3.001.319	3.961.267	32,0	23,5
28	Inorganic chemicals, precious metal compound, isotopes	1.248.929	1.085.811	1.318.097	21,4	7,8
29	Organic chemicals	473.884	472.804	657.067	39,0	3,9
30	Pharmaceutical products	878.098	826.774	875.480	5,9	5,2
31	Fertilizers	134.435	146.239	163.173	11,6	1,0
32	Tanning, dyeing extracts, tannins, derivs, pigments etc.	680.823	640.883	689.455	7,6	4,1
33	Essential oils, perfumes, cosmetics, toiletries	695.234	696.371	762.627	9,5	4,5
34	Soaps, lubricants, waxes, candles, modelling pastes	868.102	758.972	780.074	2,8	4,6
35	Albuminoids, modified starches, glues, enzymes	175.529	182.440	196.511	7,7	1,2
36	Explosives, pyrotechnics, matches, pyrophorics, etc.	30.264	27.074	24.543	-9,4	0,1
37	Photographic or cinematographic goods	12.523	11.471	13.682	19,3	0,1
38	Miscellaneous chemical products	546.391	562.646	576.576	2,5	3,4
39	Plastics and articles thereof	5.358.066	5.025.870	5.476.514	9,0	32,5
40	Rubber and articles thereof	1.177.957	1.201.645	1.332.476	10,9	7,9
	<b>Chemicals and Related Products Total</b>	<b>16.490.305</b>	<b>14.640.322</b>	<b>16.827.541</b>	<b>14,9</b>	<b>100,0</b>

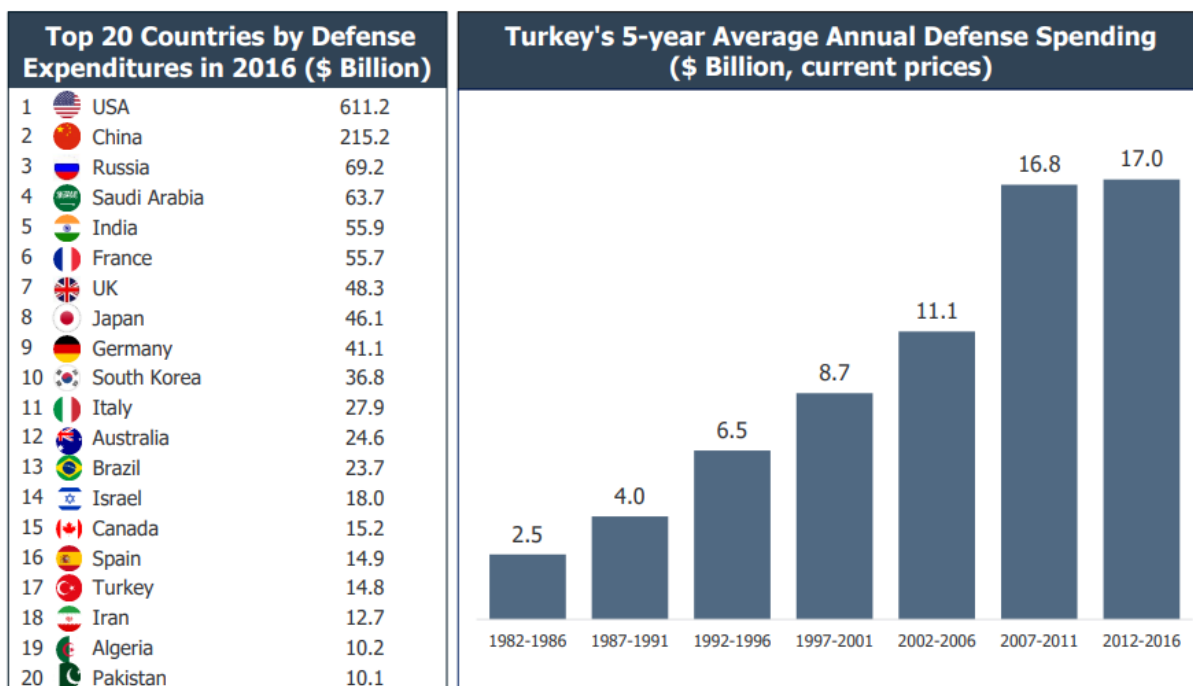
Source: Turkish Statistical Institute

#### 2.8.4 Defense and Aerospace

The Turkish defense and aerospace industry has been undergoing a profound transformation over the past decades. Having achieved unparalleled success in the industry in recent years, today Turkey has one of the fastest developing defense and aerospace sectors in the world. The experience and emphasis on quality is evident among Turkish defense and aerospace companies as they undertake numerous endeavors, create products that are competitive worldwide, and assume important roles in international projects. With their qualified human resources and state-of-the-art technology infrastructure, Turkish companies bring global solutions to satisfy many countries' local requirements. These Turkish companies conduct activities in many critical areas of the defense and aerospace sector, from original design development to domestic production, from modernization to modification, and from R&D to international projects.

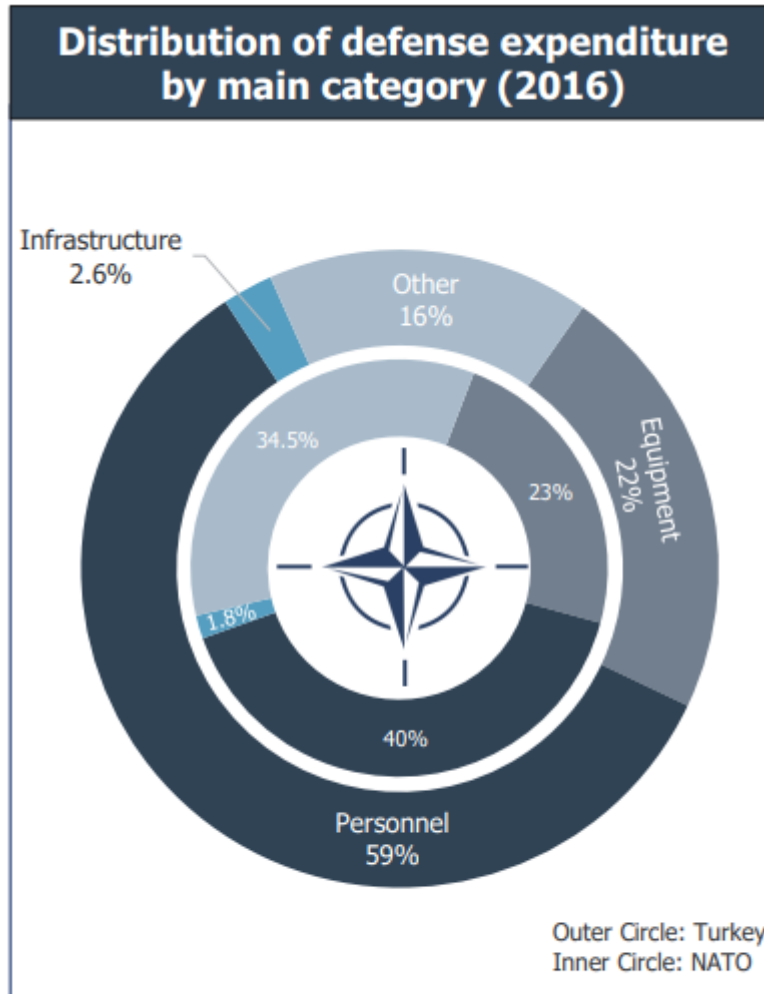


During the establishment of the domestic defense industry infrastructure, the preference was to cooperate and co-produce with leading countries and associated companies. This enabled many defense projects like the MİLGEM battleship, the ALTAY Main Battle Tank, attack helicopters, and unmanned aerial vehicles (UAV) to be successfully developed by the national defense industry. Building upon this early experience, Turkey ventured forth with further indigenous projects, including the ANKA UAV, the HÜRKUŞ ground attack aircraft, the GÖKTÜRK satellite, a light utility helicopter, as well as a jet fighter aircraft. In addition, some important sub-systems and technology development projects have been initiated to support such programs. Today, thanks in part to many of the indigenous projects it has developed, the Turkish defense industry is quite mature in terms of its capabilities, quality, and proficiency. The Turkish defense industry both meets the needs of the Turkish Armed Forces and is a known player in the fiercely competitive international defense market. In the coming years, the industry's share in domestic and overseas markets is set to increase as important national defense projects are completed.



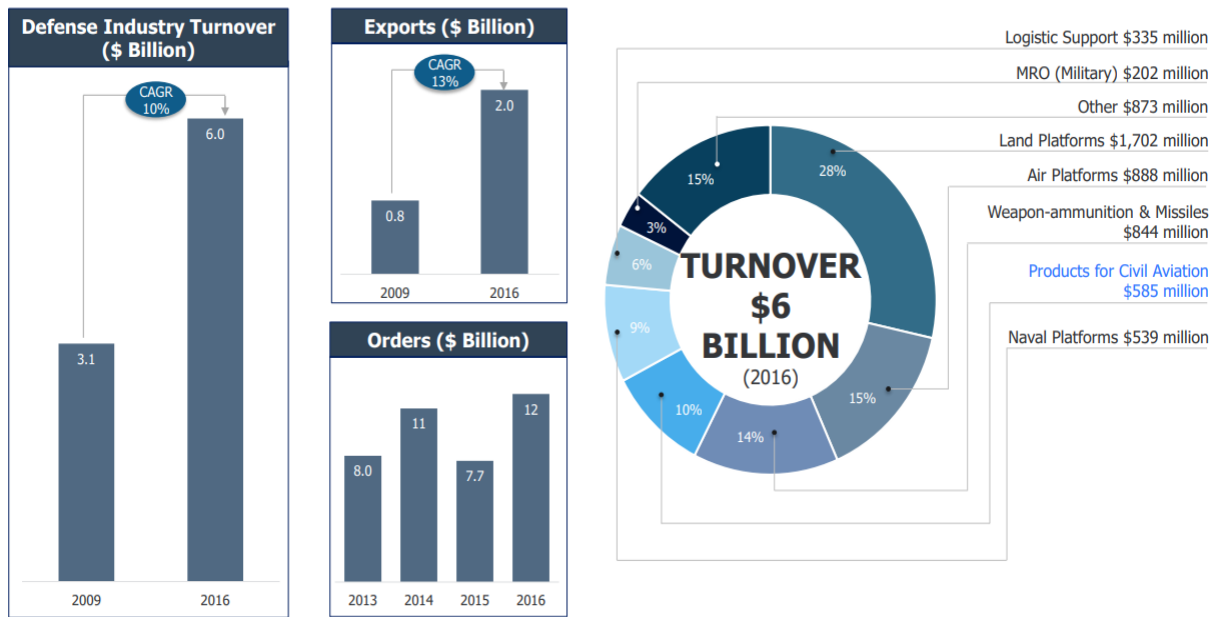
Turkey is one of the largest defense spenders in the world. Turkey's USD 15 billion defense expenditure in 2016 ranked as the 17th largest defense budget in the world. Turnover in the defense industry doubled over the past decade and reached USD 6 billion by the end of 2016. In parallel with the development of the Turkish aerospace and defense sector's capability in the past decade, the exports and international cooperation opportunities for Turkish companies have increased. The industry's exports increased from USD 600 million in 2007 to USD 2 billion in 2016. With a developed and skilled production capacity, the orders received by the industry amounted to USD 12 billion in 2016.





**Equipment** expenditure includes major equipment expenditure and R&D devoted to major equipment. **Personnel** expenditure includes military and civilian expenditure and pensions. **Infrastructure** expenditure includes NATO common infrastructure and national military construction. **Other** expenditure includes operations and maintenance expenditure, other R&D

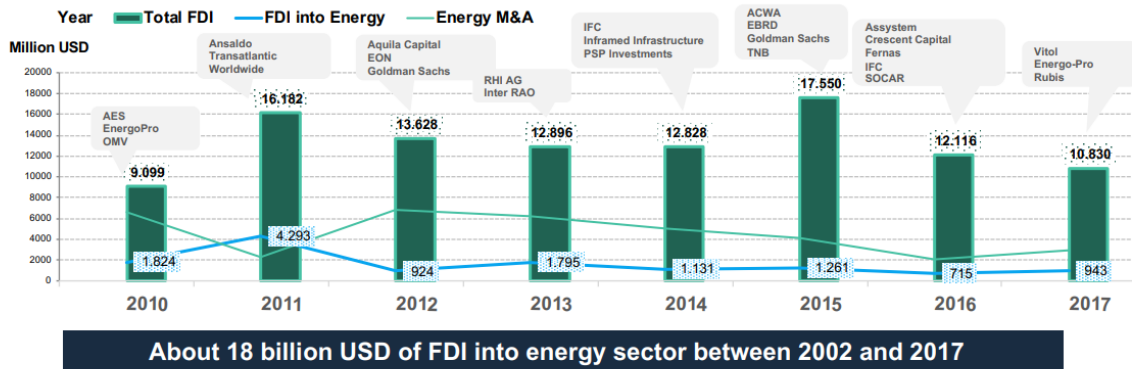
Over the years, Turkey has also emerged as an ideal place for civil aviation business. The number of airline passengers increased to 193 million in 2017, up from 34 million in 2004. The number of civilian aircraft increased from 626 to 1,417 between 2003 and 2016, with airline fleet size increasing to 540, up from 162. In the same period, the turnover in civil aviation reached USD 20 billion, up from USD 2.2 billion. Turkey is determined to position itself as a hub for civil aviation. A new airport is being constructed in Istanbul, and once completed it will be the largest airport in the world, with a capacity of 200 million passengers per year and flights to nearly 350 destinations.



Source: Defense and Aerospace Industry Manufacturer Association of Turkey (SASAD)

### 2.8.5 Energy and Renewables

Turkey has become one of the fastest growing energy markets in the world, paralleling its economic growth over the last 15 years. The success of a privatization program that has been ongoing since 2002 has resulted in power distribution now completely in private sector hands, while the privatization of power generation assets is set to be completed within the next few years. This privatization program has given the country’s energy sector a highly competitive structure and new horizons for growth.



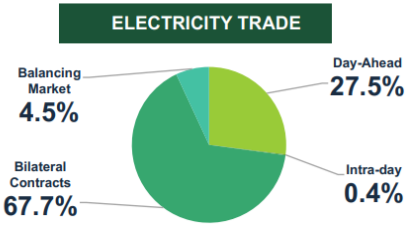
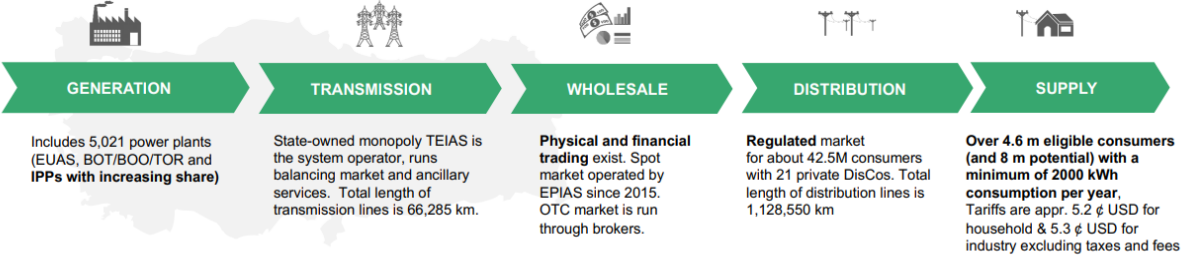
About 18 billion USD of FDI into energy sector between 2002 and 2017

The prominent economic performance allows for attraction of around 193 bn USD of FDI between 2002 and 2016 and Turkish economy is expected to attract 70 bn USD of FDI within the next 4 years.

Energy, manufacturing, financial&insurance services and logistics sectors account for 46.2% of the total FDI inflow. And European countries have the biggest share comprising 67% in total FDI.

Economic expansion, rising per capita income, positive demographic trends, and the rapid pace of urbanization have been the main drivers of energy demand, which is estimated to increase by around 6 percent per annum through 2023. In order to satisfy the increasing demand in the country, the current 80-GW installed electricity capacity is expected to reach 120 GW by 2023 through further investments to be commissioned by the private sector. As part of its efforts to provide sustainable and reliable energy to

consumers, Turkey offers investors favorable incentives, such as feed-in-tariffs, purchase guarantees, connection priorities, license exemptions, etc., depending on the type and capacity of the energy generation facility.



Source: EPIAS Electricity Market Report, 2018

In the last 15 years, the Turkish government has made significant reforms in the provision of energy. Turkey has moved forward the participation of private entities, and thus created a more competitive energy market. The privatization of energy generation assets, coupled with a strategy to clear the way for more private investments, has resulted in an increased share of private entities in the electricity generation sector, from 32 percent in 2002 to 75 percent in 2017. Another step taken by the Turkish government towards a more competitive energy sector is the establishment of an energy stock company, EXIST, which is responsible for managing and operating energy markets, including power and gas commodities.

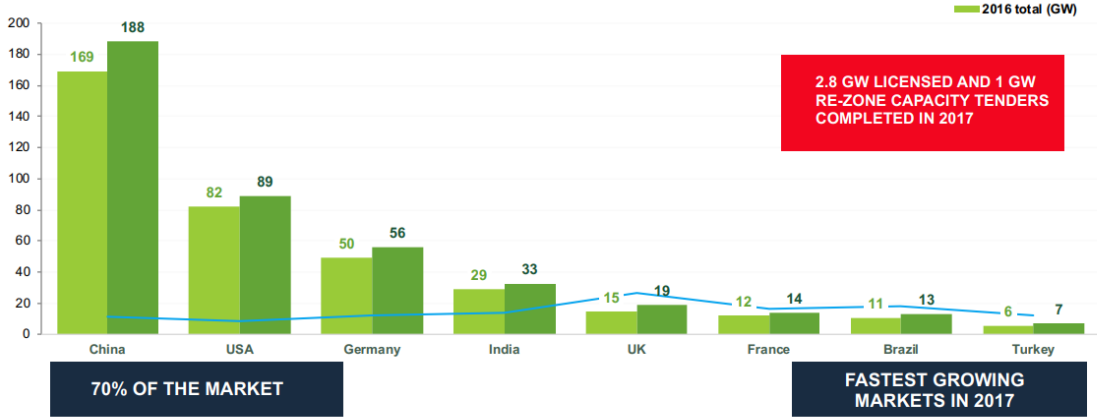
In addition to having a huge domestic market, Turkey occupies a strategic location between a number of major energy consumers and suppliers, and thus serves as a regional energy hub. The existing and planned oil/gas pipelines, the critical Turkish straits, and promising finds of hydrocarbon reserves within the country itself give Turkey increased leverage over energy prices and reinforce its gateway status.

Opportunities for renewable forms of energy production – hydro, wind, solar, and geothermal – are abundant in Turkey, and encouraging policies backed by favorable feed-in tariffs are expected to increase their share in the national grid in the coming years. The Turkish government has made it a priority to increase the share of renewable sources in the country’s total installed power to a remarkable 30 percent by 2023. This will run in parallel to the government’s commitment to energy efficiency, whereby it is enacting laws that set principles for saving energy, at both individual and corporate levels, as well as providing incentives to energy efficiency investments. For example, the Turkish government introduced the new Renewable Energy Resource Zone (YEKA) model in 2016 in order to commission large-scale renewable energy projects through utilization of locally-manufactured components in the renewable

power plants. Under the model, the largest-ever solar power auction in Turkey's history took place on March 20, 2017, while a similar tender for 1-GW wind power plants took place in August 2017 with local manufacturing and R&D requirements.

**WIND REACHED 539 GW**  
**WITH 52 GW INSTALLATIONS IN 2017**  
**GLOBAL INVESTMENT 107 BN USD**

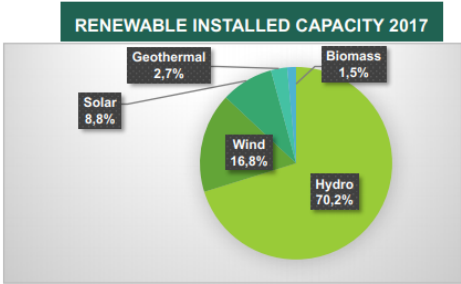
**TURKEY**  
**2017 Capacity Increase: 766.05 MW- 12.5% growth**



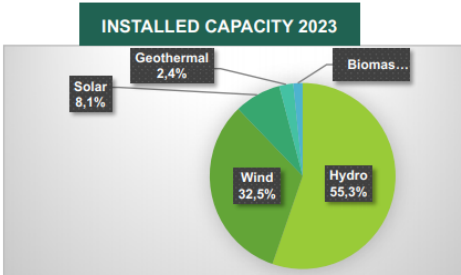
Source: REN21 Global Status Report 2017

As important as the renewables are for Turkey's energy strategy in the coming years, technologies in such fields as waste processing and greenhouse gas reduction are also often cited together with this new form of power generation as critically important supplementary practices. Sustaining the environment by resorting to renewable resources is accompanied by a number of measures and regulations that are either currently in effect, or will soon be in effect. Some of these regulations deal with lowering carbon emissions, increasing generation/transmission efficiency, and promoting the use of waste management technologies.

INSTALLED CAPACITY OF RENEWABLES (END-2017)			
Source	Installed Capacity (MW)	Number of Plants	Ratio to Total Renewable Capacity (%)
Hydraulic	27,273	618	33,9
Wind	6,516	161	7,3
Solar	3,421	3,619	1
Geothermal	1,064	40	1
Biomass	575	98	0,6



TARGETS FOR RENEWABLE INSTALLED CAPACITY (MW)		
Source	2019	2023
Hydraulic	32,000	34,000
Wind	10,000	20,000
Solar	3,000	10,000
Geothermal	700	1,500
Biomass	700	1,000



The sum of these factors has had a profound effect on Turkey’s energy sector, turning it into one of the most attractive investment destinations in the world. In line with the implementation of investor-friendly regulations and the high increase in demand, the Turkish energy sector is becoming more vibrant and competitive, attracting the attention of more investors for each component of the value chain in various energy sub-sectors.

The total investments required to meet Turkey’s expected energy demand in 2023 is estimated to be around USD 110 billion, more than double the total amount invested over the last decade.

Support		Regions: 1, 2, 3, 4, 5	Within OIZ in Region 5	In Region 6	Within OIZ in Region 6
		✓	✓	✓	✓
Customs Duty Exemption		✓	✓	✓	✓
Tax Deduction	Tax Reduction Rate (%)	80	90	90	90
	Reduced Tax Rate (%)	4.4	2.2	2.2	2.2
	Rate of Contribution (%)	40	50	50	55
Social Security Premium (SSP) Support for Employer’s Share	Years of Support	7	10	10	12
	Cap for Support (% of Investment)	35	No limit	No limit	No limit
Land Allocation		✓	-	✓	-
Interest Rate Support	TL Denominated Loans (points)	5	5	7	7
	FX Loan (points)	2	2	2	2
	Maximum Support (TL)	0-0-500K-600K-700K	700K	900K	900K
SSP Support for employee share (years)		-	-	10	10
Income Tax Withholding Support (years)		-	-	10	10

Turkey’s vision for 2023, the centennial foundation of the Republic, envisages targets for the energy sector in Turkey that include:

- Raising the total installed power capacity to 120 GW
- Increasing the share of renewables to 30 percent
- Maximizing the use of hydropower
- Increasing the installed capacity based on wind power to 20,000 MW
- Installing power plants that will provide 1,000 MW of geothermal and 5,000 MW of solar energy
- Extending the length of transmission lines to 60,717 km
- Reaching a power distribution unit capacity of 158,460 MVA
- Extending the use of smart grids
- Raising the natural gas storage capacity to more than 11 billion m<sup>3</sup>
- Commissioning nuclear power plants (two operational nuclear power plants, with a third under construction)

- Increasing the coal-fired installed capacity from the current level of 17.3 GW to 30 GW

#### 2.8.6 Finance

The Turkish financial sector proved resilient during the global financial turmoil in 2009 as well as the ensuing economic crisis thanks to the regulatory reforms and structural overhaul that the government implemented in the wake of the country's own financial meltdown in the early 2000's. In fact, the reforms in the sector boosted investor confidence so much that the industry has attracted USD 51 billion over the past 15 years.

Banking dominates the Turkish financial sector, accounting for more than 70 percent of overall financial services, while insurance services and other financial activities also show significant growth potential. There are 51 banks in Turkey (33 deposit banks, 13 development and investment banks, and 5 participation banks). Out of the 51 banks, 21 hold significant foreign capital (30 percent of total assets are held by foreign investors).

The Turkish insurance market is still underpenetrated (1.5 percent of GDP) compared to peer countries. It is set to capitalize on its significant potential as new insurers set up shop and acquire a share of the relatively untapped Turkish market. Turkey has seen strong economic growth fueled in part by a young and dynamic population that is increasingly in need of financial products and services.

A key driver of the Turkish financial sector has been the country's robust economy. Over the past 15 years, the Turkish economy has been growing at an average annual real GDP growth rate of 5.7 percent, and the growth momentum is expected to continue.

Turkey's economic expansion has resulted in income growth and a burgeoning middle-class with increasing purchasing power.

As the Turkish economy developed, it integrated with the global economy and saw a staggering increase in its volume of international transactions. Such developments have further stimulated economic activity, thus expanding financial activities.

Turkey has also set specific economic targets to achieve by 2023, the centennial of the Republic. One of these targets is to transform Istanbul into a prominent financial center. Turkey's large and young population, qualified labor force, and rapidly developing markets along with its geo-strategic location, all make Istanbul an ideal candidate for an international financial hub. Since the government launched the project for the Istanbul Financial Center, Istanbul has rapidly made progress and is now considered to be one of the emerging financial centers of the world.

### 2.8.7 information and communication technologies ICT

Turkey's information and communication technologies (ICT) sector has become an essential part of the economy since it is directly or indirectly affecting both the ever-changing business world and the social sphere. Turkey is well aware of the fact that this sector will have a much more influential role in the future than it currently occupies.

The basis of ICT lies in enabling today's economic and social life to acquire the most up-to-date and efficient solutions, advancing technology at every turn. In this regard, Turkey has increased its interest in the ICT sector further and has started the necessary studies so as to have a voice in the sector in the future.

The greatest indicators of these efforts are the new initiatives and R&D Law issued for investors.

As the young population increased and the online market expanded, the total number of mobile subscribers reached 75 million in 2016.

IT spending on hardware, software, IT services, and telecommunication services in Turkey is expected to increase to USD 35 billion by 2018.

ICT spending in Turkey is expected to grow faster than the world average. With regard to its large domestic market with sizeable potential in the ICT sector, sector growth is expected to grow at a CAGR of 7.4 percent during the 2012-2017 period.

76.3 percent of all households in Turkey have internet access.

The percentage of internet users in Turkey is around 61.2 percent, and this is forecast to rise above 65 percent in 2018.

Turkey's ambitious vision of 2023, the centennial foundation of the republic, envisages bold targets for the ICT sector in Turkey. These targets include:

- Reaching 30 million broadband subscribers
- Providing internet connection for 14 million houses at a speed of 1,000 Mbps
- Increasing the sector's share in GDP from 2.9 percent to 8 percent
- Becoming one of the top 10 countries in e-transformation
- Having 80 percent of the population computer literate
- Increasing the number of companies in Technology Development Zones (TDZs) to 5,500; employees to 65,000; and exports to USD 10 billion
- Increasing the ICT sector's size to USD 160 billion, with a market growth of around 15 percent each year
- Increasing the R&D expenditure to GDP ratio to 3 percent from 1 percent

### 2.8.8 Life Sciences

The healthcare sector and its related industries are considered to be of strategic importance in Turkey. This is especially true when taking into consideration these industries' social and economic impacts. Turkey affirmed its commitment to healthcare reforms with the implementation of the "Healthcare Transformation Program" introduced in 2004 by the Ministry of Health. These reforms marked a significant improvement in Turkey's healthcare system, and they have been backed by investments in R&D and innovation in the healthcare sector.

#### **Some key facts and figures in the Turkish pharmaceuticals sector:**

- The Turkish market for pharmaceuticals reached a size of TRY 20.7 billion in 2016, growing by 16.5 percent over 2015. Unit sales rose by 4.7 percent over the same period, reaching 2.23 billion units.
- According to the IMS and Technavio reports, Turkey is one of the top 20 "pharmerging" countries.
- The Turkish pharmaceuticals market is expected to grow by 11 percent in TRY terms annually between 2016-2025, with an increase in per capita pharmaceutical sales from USD 97 in 2015 to USD 128 by 2025.
- There are approximately 300 pharmaceutical entities operating in the sector. Among the 67 manufacturing facilities that meet international standards, 12 are owned by multinational companies.
- There are 12 pharmaceutical raw material producing facilities in Turkey, three of which are owned by multinational companies.
- Approximately 31,000 people are employed in the pharmaceuticals sector, and more than 11,500 products are produced.
- Pharmaceutical exports, which stood at USD 610 million in 2011, have grown by 41.4 percent over the past five years to reach USD 863 million in 2016.
- Turkish pharmaceutical manufacturers are exporting to more than 170 countries, with the bulk of that trade occurring with the EU, MENA, and CIS countries.
- Regulations in the sector are in line with EU directives.

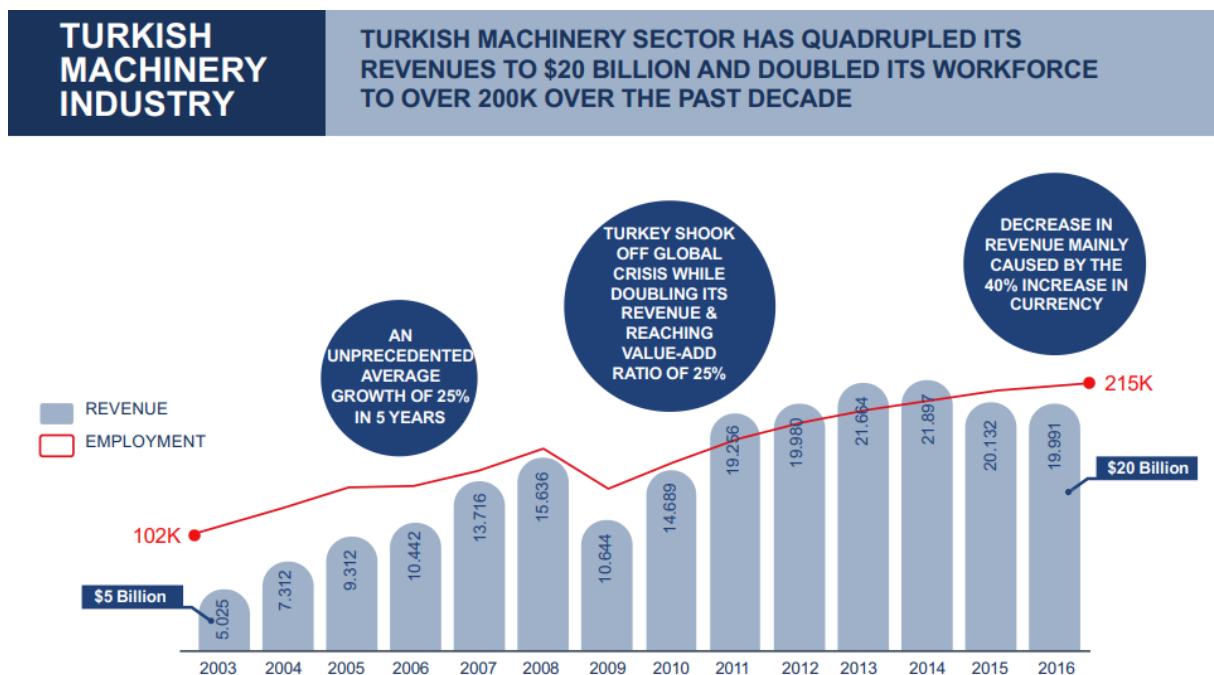
#### **Some key facts and figures in the Turkish medical devices sector include:**



- Turkish medical devices market surpassed USD 2.3 billion in 2016.
- There are approximately 1,000 medical device manufacturers in Turkey. There are also medical device clusters in Istanbul, Ankara, and Samsun provinces.
- The market is expected to grow by 6.7 percent in TRY terms annually between 2016-2020
- 29 new healthcare campus projects with a total bed capacity of 41,000 will cater to increasing demand in the sector over the next several years.
- The growing medical tourism sector, in which the number of tourists rose from 74,000 in 2008 to almost 1 million in 2016, is expected to further stimulate demand for medical devices.
- Medical device regulations are in line with EU directives.

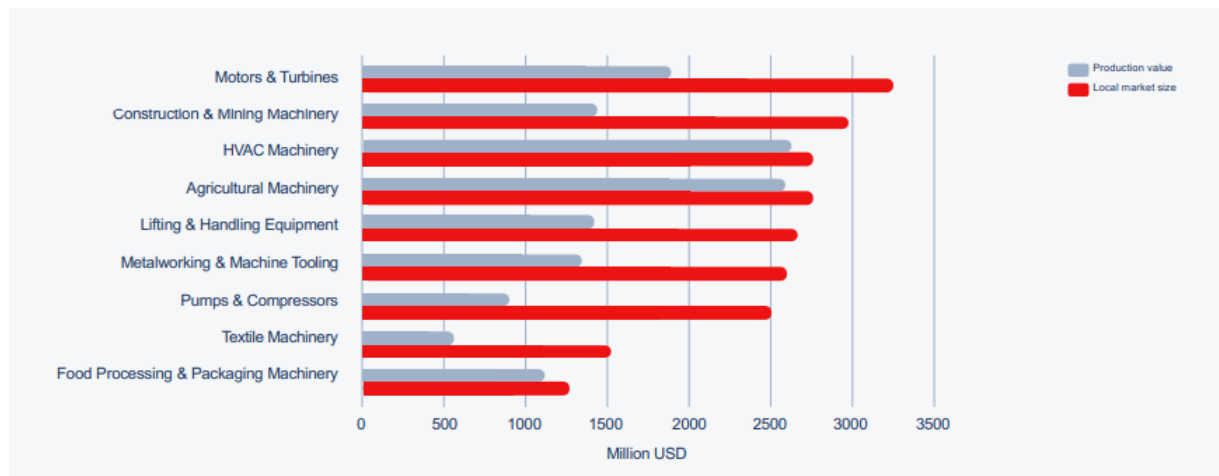
### 2.8.9 Machinery

Machinery manufacturing continues to be one of the key growth drivers of the Turkish economy. This sector plays a crucial role in the development of Turkey's greater manufacturing industry due in no small part to its capability to produce intermediate goods and to provide inputs to key sectors such as construction, energy, textiles, agriculture, and mining. The machinery manufacturing sector in Turkey is known for being R&D intensive -- Turkey graduates over 450,000 engineers every year -- and for creating high value. The export/import ratio of the industry has reached 52 percent, and local sourcing accounts for approximately 85 percent of all inputs at the production level.



Source: Turkish Statistical Institute Industry & Services Statistics NACE Rev2 Division 28, Central Bank of Republic of Turkey

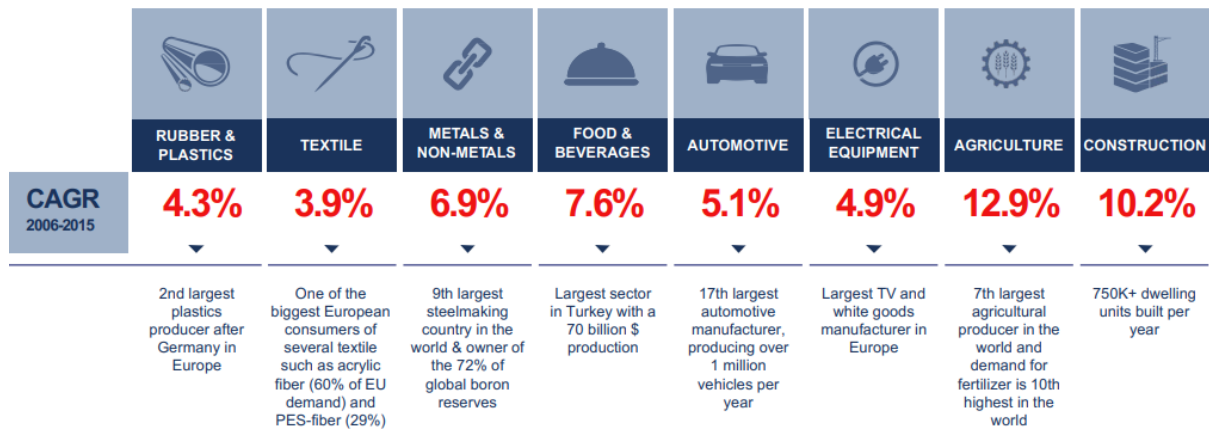
- Total export value of the machinery industry reached USD 13.4 billion in 2016, up from USD 5.2 billion in 2005.



- Annual growth rate of machinery exports between 2005 and 2016 was 9 percent – better than Turkey’s overall export growth rate during the same period.
- As the 4th largest export industry of Turkey, accounting for a 9 percent share in Turkey’s total exports, machinery products are shipped to more than 200 countries. 60 percent of total machinery product exports are shipped to the EU countries and the USA.
- Total imports of the machinery sector surpassed USD 26 billion in 2016 while posting an average annual growth of 10.3 percent over the past decade, evidencing the strong demand from the domestic market.
- FDI inflow in machinery manufacturing represents a significant source for Turkey’s overall FDI amount, making up around 20 percent of total manufacturing FDI between 2005 and 2015.
- R&D expenditures on machinery manufacturing reached USD 600 million in 2014, accounting for almost 10 percent of the total R&D expenditure of Turkey.

## END-USE INDUSTRIES

SUSTAINABILITY OF GROWTH IN CUSTOMER INDUSTRIES  
DRIVING TURKEY'S MACHINERY INDUSTRY...



Turkey's competitiveness in the machinery sector is driven by favorable input costs and strong enablers. Input costs include competitive labor cost, an affordable and reliable energy supply, and logistical advantages based on the geostrategic location of Turkey, while enablers include a skilled workforce, generous investment incentives, an innovation-oriented infrastructure, and a strong supply base and domestic clusters.

### 2.8.10 Mining and Metals

Turkey's mining and metals sector has grown in parallel with the country's robust economy. Harboring a large expanse of the western portion of the Tethyan-Eurasian Metallogenic Belt, which is an ophiolite extending from the Alps to southeastern Europe through Turkey, the Lesser Caucasus, Iran, and the Himalayas on to China, Turkey offers proven potential for mining investors. As the least exploited portion of the belt, Turkey stands out as a very promising region for companies engaged in mineral extraction. Mining in Turkey has mainly been limited to surface excavations, meaning huge potential with deep drilling is awaiting international investors.

Here are some essential facts and figures about the Turkish mining and metals sector:

- The sector's total production value soared to TRY 24.5 billion in 2015.
- Turkey's young, dynamic, and well-educated labor force offers a high-quality labor pool.
- There are 53 mining engineering departments in 38 cities in Turkey. The number of mining engineers in Turkey has increased by more than 50 percent since 2005, now reaching almost 35,000. In 2016, around 1,200 new mining engineers were added to the talent pool.

- Turkey’s advantages for companies in the mining sector are not limited to a high-quality labor pool, but also include relatively low logistics and drilling costs, proximity to major markets, lucrative government incentives, and highly competitive taxes.
- As a result of its remarkable economic growth, years of political stability, structural reforms, and the backing of governmental bodies, Turkey attracted USD 149 million of FDI to its mining industry in 2015. Meanwhile, mining exports in the sector totaled USD 3.5 billion in 2016.
- These figures prove investors’ increased interest in Turkey. As of today Turkey hosts 790 international mining companies, up from only 138 in 2004.

Turkey’s regional investment incentive system is based on a descending pattern where regions vary in a range of 1 to 6 based on their level of development, with a rating of 6 being given to the least developed regions. With this system, the most advantageous incentives are offered to the lesser-developed regions. Mining is one exception to this scheme, as most investments in the mining sector are supported with incentives extended to Region 5, regardless of the investment’s location.

#### 2.8.11 Real Estate

Turkey is one of the most promising real estate markets in Europe, and the mantra “location, location, location” rings especially true for this country. Strategically situated at the crossroads of Europe, the Middle East, and Central Asia, and home to almost 81 million people, Turkey offers great opportunities for real estate developers and investors by combining a large construction sector with growing commercial and industrial output.

Some key facts and figures in the Turkish real estate sector include:

- The real estate sector accounted for approximately 8.4 percent of GDP in the last decade. On the investment side, FDI inflows stood at USD 10.8 billion, with real estate and construction garnering USD 4.6 billion (42.9 percent) of total FDI in 2017.
- Urban renewal and mega projects dominate the agenda for the foreseeable future, particularly in Istanbul. Some projects in the city include Marmaray, Canal Istanbul, Yavuz Sultan Selim Bridge, Eurasia Tunnel, 3-Storey Grand Istanbul Tunnel, and Istanbul’s 3rd airport.
- The Urban Renewal and Development initiative will encompass 7.5 million housing units. The initiative has a budget of USD 400 billion, with a large contribution coming from the private sector.

- According to the Knight Frank Global House Price Index, Turkey ranked 6th in the 56-location index in Q3 of 2017 in terms of the annual price growth index. Turkey saw a year-on-year increase of 11.1 percent, and thus emerged as one of the top-performing housing markets in the world, ahead of Australia, Latvia, and India.
- The total number of houses sold in the Turkish property market reached 1.4 million units in 2017; likewise, sales of real estate to foreigners began to increase following the abolishment of the reciprocity law in 2012. In 2017, 22,234 houses were sold to foreigners in Turkey, marking a year-on-year increase of 22.2 percent. Regarding house sales to foreigners, Istanbul was the top-performing province with 8,182 sales in 2017, followed by Antalya with 4,707 sales, Bursa with 1,474 sales, and Yalova with 1,079 sales.
- As of 2017 year-end, the existing Grade A office stock in Istanbul surpassed 5.3 million square meters across 249 office buildings. Annual gross leasable area growth in the office market was around 12 percent on average between 2010 and 2017. There is more than 1.2 million square meters of office supply under construction, and it is expected that the total grade A office supply will reach almost 7.1 million square meters gross leasable area by the end of 2020.
- 401 shopping centers are operational in Turkey with a total gross leasable area of 12.2 million square meters. 114 shopping centers in Istanbul with a total gross leasable area of 4.2 million square meters represent 34 percent of the total leasable shopping center area in Turkey.
- According to JLL's Cross Border Retailer Attractiveness Index 2016, Istanbul is the 6th most attractive market in Europe after London, Paris, Moscow, Milan, and Madrid.
- In spite of the growth in recent years, Turkey is still below the average of total leasable area per person compared to the European average. This indicates potential for further retail growth in Turkey.
- According to the Ministry of Culture and Tourism Directorate, Turkey has 3,641 graded hotels with a total of 426,981 rooms as of 2016 year-end. 5-star hotels account for 42.7 percent of hotel stock, while 4-star hotels secure a 24.8 percent share, and the 3-star segment makes up 12.6 percent of the market share.

### 2.8.12 Tourism

As the 10th most popular tourist destination in the world and attracting more than 38.6 million tourists in 2017, Turkey continues to present vast investment opportunities in both the established and newly-developing subsectors of the tourism industry.

With its favorable location, existing potential, mega projects, and ambitious targets set for 2023, the tourism sector continues to grow at a rate that outstrips its bed capacity. Even though there has been a surge of investments in the last several years, there is still ample room for new ventures. Eastern and Southeastern Anatolia both have untapped potential for culture tourism as well as the increasingly popular boutique hotel concept, which blends well with the characteristic nature, history, and culture of the regions.

Here are some essential facts and figures about the Turkish tourism sector:

- In 2016, Turkey was the 10th most popular tourist destination in the world according to UNWTO.
- According to the Ministry of Culture and Tourism, the number of foreign travelers arriving in Turkey in 2017 was 38.6 million, while total turnover of the tourism industry that same year was USD 26 billion.
- Growth in the Turkish tourism industry has been above the global average in recent years, and the direct contribution of the industry to the current account deficit in 2017 was 36 percent.
- By the end of 2017, there were 12,856 registered accommodation facilities. 9,186 of these facilities were licensed by their respective municipalities, while the remaining 3,670 held tourism operation licenses. The combined total bed capacity of these facilities exceeds 1,482,492.
- There are currently 281 projects in the pipeline that would add 74,130 much-needed beds to Turkey's short supply.
- With regard to religious tourism, Turkey is among the few countries in the world that is home to sites from a number of major religions. Of a total of 316 relics, 167 of them belong to Islam, 129 to Christianity, and 20 to Judaism.
- Antalya is the most preferred city in Turkey based on the number of incoming foreign visitors. Visited by 25 percent of the foreign tourists in 2017, Antalya has over 500 4-star and 5-star hotels in its center and surrounding towns such as Kemer, Belek, and Kaş.
- The number of hotel chains and groups in Turkey has doubled since 2001, hitting 165 today. The number of hotels in these 165 chains Turkey totals 824.

In addition, 82 percent of chain and group hotels are domestically owned, 15 percent of these are foreign owned, while 3 percent of these have domestic and foreign partners.

- Turkey has 7,200 km of coastline and ranks 2nd among 38 countries with its 454 blue-flag beaches; only Spain has more blue-flag beaches than Turkey with 579. There are also 22 blue-flag marinas in Turkey.
- In terms of geothermal tourism potential, Turkey is among the top seven countries in the world and ranks 1st in Europe with its 1,500 thermal springs. Bed capacity in the various thermal spa resorts has reached a combined 55,140.
- The Belek region stands out as the most significant golf destination in Turkey, ranking among the world's most popular tourism centers with 15 golf courses, a 50,000-bed capacity, and 2 million tourist arrivals. Moreover, Belek was named the Best Golf Destination in Europe by the International Association of Golf Tour Operators (IAGTO) in 2008.
- Based on 2017 tourism figures, Forbes Travel has ranked the world's top 10 most-visited cities, with Istanbul coming in at 6th place.
- The tourism sector has set annual targets of 50 million tourist arrivals and revenues of USD 50 billion by 2023.
- The Turkish government offers incentives such as reduced utility prices and reduced tax rates, while pursuing policies aimed at eliminating any bureaucratic barriers that may hinder growth in the tourism sector.

### 3 Foreign Trade

Due to the implementation of the liberalization process since the 1980s, the Turkish economy has experienced a period of substantial growth. As one of the most crucial milestones in this process, Turkey became a member of the World Trade Organization (WTO) in 1995. Following this move, it finalized an agreement with the European Union, enabling it to join the Customs Union on January 1, 1996. As the consequence of these developments, foreign trade in respect to both exports and imports has grown rapidly. Remarkable changes in the structure of exports have been observed, which led industrial products to gain prominence over agricultural products.

USD billion								
	2010	2011	2012	2013	2014	2015	2016	2017
Exports (FOB)	113.883	134.907	152.462	151.803	157.610	143.839	142.530	156.993
Imports (CIF)	185.544	240.842	236.545	251.661	242.177	207.234	198.618	233.800
Trade Volume	299.427	375.749	389.007	403.464	399.787	351.073	341.148	390.793
Trade Balance	-71.661	105.935	-84.083	-99.859	-84.567	-63.395	-56.089	-76.807

Source: TurkStat

#### 3.1 Foreign Trade Expectation Survey of 4th Quarter, 2018

08 October, 2018 - Foreign Trade Expectation Survey (FTES) reflects assessments of Turkish foreign trade depending on recent and current situations along with future expectations of leading firms. Particularly, it helps to produce indices which can be stated as leading indicators.

08 October, 2018 - Foreign Trade Expectation Survey (FTES) reflects assessments of Turkish foreign trade depending on recent and current situations along with future expectations of leading firms. Particularly, it helps to produce indices which can be stated as leading indicators.

Export Expectation Index decreased by 6.4 points to 111.6 in the 4th quarter of 2018 from 118 in the 3rd quarter of 2018. Diffusion indices of Survey questions composing the Export Expectation Index show that, in the 4th quarter of 2018, in comparison to the 3rd quarter of 2018, expectations regarding the level of export for the next 3 months, export orders belonging to the last 3 months and expectations for the export orders of the next 3 months have increasing effects over the Index while current level of export orders has decreasing effect over the Index.

Import Expectation Index decreased by 13 points to 100.1 in the 4th quarter of 2018 from 113.1 in the 3rd quarter of 2018. In the 4th quarter of 2018, in comparison to the



3rd quarter of 2018, among the survey questions identifying the Import Expectation Index, the expectations regarding the level of import for the next 3 months, current level of import orders and level of import orders of the last 3 months have decreasing effects over Index while unit import price for the next 3 months has increasing effect over Index.

## 3.2 Import

### 3.2.1 The Turkish Import Regime of 2018

Any natural and legal persons that are issued tax numbers in accordance with the Tax Procedural Law and the people partnerships who are granted the authority to make legal savings pursuant to the current provisions can undertake import transactions can import goods.

#### 3.2.1.1 Free Circulation Regime

Answer: Release of the goods arriving the Customs Territory of Turkey into free circulation is possible through the implementation of trade policy measures, fulfilment of other formalities laid down for the importation of goods and the charging of the legally due taxes.

#### 3.2.1.2 Import procedure in general

Except for the goods carried by vehicles passing through the inland waters or airspace of the Customs Territory of Turkey without stopping, a summary declaration is submitted for the goods brought into the Customs Territory of Turkey. Summary declaration is submitted before the goods arrive the Customs Territory of Turkey. Goods arriving the Customs Territory of Turkey are presented to the customs by the bearer person or, in different circumstances, by the person who assumes responsibility for the carriage following the arrival of the goods. The person presenting the goods to the customs shall associate these goods to the summary declaration or customs declaration that are submitted previously.

Goods that are presented to the customs administrations are assigned a customs-approved treatment or use.

After setting a customs-approved treatment or use to the goods covered by the summary declaration, transactions related to them are completed; within 45 days from the submission date of the summary declaration for the goods arriving by sea, within 20 days from the submission date of the summary declaration for the goods coming through other ways.

Goods have the status of temporarily stored goods until they are made subject to customs-approved treatment or use following their submission to the customs, and are identified in this context. Temporarily stored goods can just be stored in the places approved by the customs authorities through complying with the conditions determined by these authorities.

Assignment of a customs-approved treatment or use to goods refer to one of these transactions, such as subjection to a customs regime, entry into a free zone, re-exportation outside the Customs Territory of Turkey, destruction, or abandonment to the customs.

Goods that are intended to be made subject to a customs regime shall be declared to the competent customs authorities in accordance with this regime. Customs declaration can be made in written form, through computer data processing technique, orally or by any other act that expresses the willingness of the owner of these goods to make subject them to a customs regime.

In normal procedure, written statement is made by a customs declaration. Declaration of release for free circulation refers to the declaration presented by the person who is intended to conduct the import of the commercial goods. That said, the declaration is required to be made through computer data processing technique.

Customs duties born from the importation of goods shall be notified to the declarant via the declaration of release for free circulation, and the permit and conformity certificates that are required in accordance with other foreign trade legislation in the context of the due commercial policy measures need to be added to the declaration of release for free circulation.

### *3.2.1.3 Due taxes on the goods to be imported*

First of all, in order to start the procedures for the goods that would be imported (i.e. to learn the due taxes or the documents that would be submitted to the customs administrations), customs tariff statistics position of the issued goods, which are classified in the annually enacted Turkish Customs Tariff Schedule, has to be known. The taxes on the imported goods that are stated below do not exist in any legislation all together.

### **Customs duty**

Customs duty is determined by the Import Regime, which is published by the Ministry of Economy in the Turkish Official Gazette on the 31st of December and enters into force on the 1st of January of the subsequent year. The following lists of the Import Regime cover the related goods that are stated below:

- List No. I; agricultural products.
- List No. II; industrial products.
- List No. III; processed agricultural products.
- List No. IV; fish and other fisheries.
- List No. V; some industrial raw materials or intermediate goods (some chemicals, micro-electronics, etc.) that are not produced in the EU, within the scope of the Suspension List which is in effect in the EU.

- List No. VI: From the goods that are located in this list, only to the items identified in the column of items name, customs duty is applied as 0% provided that they would be utilized in civil aircraft, and in this case the provisions of the customs legislation for the eventual use are applied.

### **Value Added Tax:**

The goods that are covered;

In the List No.1 are applied 1%,

In the List No. 2 are applied 8% of VAT.

Goods that are not included in these lists are generally subject to 18% of VAT.

### **Excise Tax:**

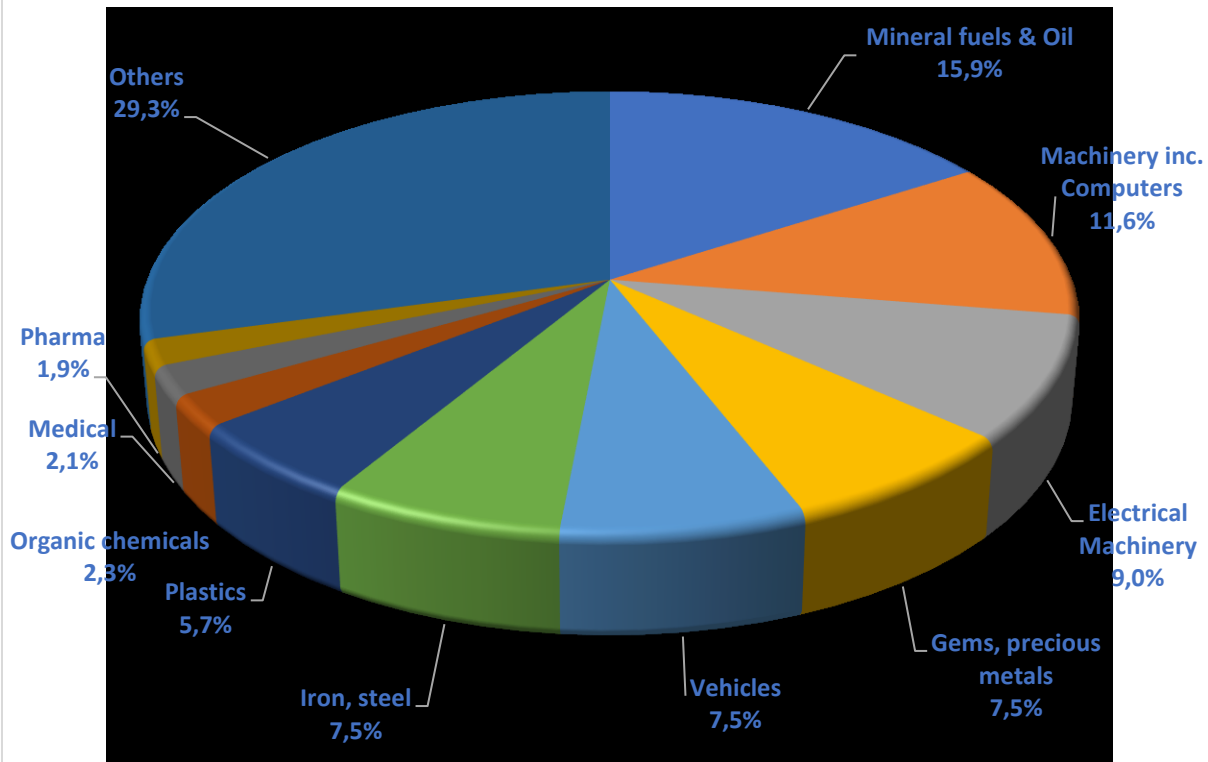
The excise tax that would paid during the import process is determined by the additional lists of the Excise Tax Law, which are mentioned below.

- List No. I covers fuels and oils,
- List No. II covers vehicles,
- List No. III covers alcoholic drinks and tobacco products,
- List No. IV covers electronic goods, cosmetics and various products.

Resource Utilization Support Fund: 6% of the funds is derived from the import with acceptance credit, deferred letter of credit, and cash on delivery.

Since none of the taxes levied on imports is determined by the Ministry of Customs and Trade, the questions about customs duty, housing development fund, anti-dumping tax, subsidies and additional financial liability have to be directed towards the Ministry of Economy; the questions about VAT and Excise Tax have to directed towards the Turkish Revenue Administration; the questions about the cuts of literary and artistic works have to be directed towards the Ministry of Culture and Tourism, and the questions related to the TRT Bandrole have to be directed towards TRT.

## MAIN PRODUCT GROUPS OF IMPORTS 2017



### 3.2.1.4 Legislation of the goods to be imported

Answer: Legislation of the goods subject to the import process varies according to the features of these items. Having said that, as a general framework, it is possible reach general information related to import of the goods from the legislation website of the Ministry of Economy.

### 3.2.1.5 Documents that are required

**Documents that are required to be submitted to the customs authorities in relation to the goods that would be imported.**

In order to have a knowledge over the documents that are needed to be submitted to the customs administration during the import of goods, the customs tariff statistics position of the issued goods has to be learned as in the phase of learning the due taxes. Before embarking on the import process, it is necessary to make an investigation over the required standards and different restrictions put on the entry of the imported goods to the Customs Territory of Turkey such as prohibition, permits, quotas, specialized customs applications, and over whether the goods-related documents such as inspection certificate, control certificate, health certificate, analysis report, and CE certificate shall be demanded by the customs administration, and, if any, to make a preliminary preparation in this regard.

#### *3.2.1.6 Imported restrictions*

All goods except the ones whose import is prohibited or subject to the permission, can be imported to Turkey.

The authority of determination for the goods whose importation is prohibited primarily belongs to the Ministry of Economy. In this respect, import of specific wastes, chemicals and scraps are prohibited regarding the protection of the environment. On the other hand, import of certain goods which are not directly subject to the import prohibition can be imported with permission on account of the protection of the humans, animals and environmental health.

Furthermore, certain goods can only be imported by certain institutions. The permissions from the related Institutions and the procedure of import regime are regulated by "Import Communiqué" and "Product Safety and Inspection Communiqués" which are under jurisdiction of the Ministry of Economy.

#### *3.2.1.7 Used goods*

According to Article 7 of the Decree of Turkish Import Regime, import of the old, used, renovated, faulty goods requires the permission of the Ministry of Economy. According to Second Section of First Part of Import Communiqué numbered 2016/1, imports of the goods whose CIF value not specified or having more CIF value on the appendix 1 of the Communiqué does not require the permission of the Ministry of Economy.

#### *3.2.1.8 Grey market*

A Grey Market is the trade of a commodity through distribution channels which are legal but are unofficial, unauthorized, or unintended by the original manufacturer. Grey Market is allowed only if the good is original. In the case that the goods are not genuine, the process of the Article 57 of Customs Law is implemented.

#### *3.2.1.9 Guarantee Certificate on importation*

Published on Official Gazette dated 18 June 2014 and numbered 29034, Communication on Abolition of Communication on Products Which Can Only Be Imported With a Guarantee Certificate entered into force on 28 May 2014. Within the context of aforementioned Communiqué, the approval of Ministry of Customs and Trade on the importation of goods subject to Guarantee Certificate listed in the Communiqué numbered 2014/6 is terminated.

#### *3.2.1.10 Implementation of suspension of Customs Duty*

European Union, aimed at decreasing industrialists' manufacturing costs within the framework of Suspension Regime, suspends the customs taxes of certain intermediate

products and non-produced raw material and collects taxes the rates of which are below the "Common Customs Tariff" for importation of goods from third countries. Lists about those goods are represented to our national legislation with adding of the list numbered V to Import Regime Decision.

Even though goods taking place on this list are classified on the same tariffs with goods taking place on the added list (numbered II) to Regime Decision, goods of the list numbered V are different from that of the list numbered II in respect of intended purpose of utilization and additional technical features.

Purpose of utilization and features of goods taking place on the list numbered V are defined broadly. If goods take place on both lists numbered II and V, lower customs tax rate is implemented.

#### *3.2.1.11 Proceeding in case of not getting required permission for importation*

In accordance with 181st article of Customs Regulation, during inspection process or post clearance controls, declarant is directed to authorized institutions to ensure that the goods undergo essential controls if the goods were declared as though they were not subject to controls of related institutions.

In case of adverse control results or uncontrolled goods as if they were controlled (in consequence of directing and informing to relevant institution), the penalty would be applied in accordance with the 235th article of Customs Law. That is to say, goods are passed into public's property and two times of the bonded value of the goods is going to be due.

#### *3.2.1.12 Returning to Country of Origin*

Redelivery to the exporter means returning goods to country of origin. Proceedings of returning goods to country of origin are carried out in the framework of Customs General Communications (serial no 2-3-4).

Demands about returning to country of origin should be done to competent Customs Administrations.

#### *3.2.1.13 Information regarding vehicle importation*

Old/used vehicle importation: According to Article 7 of the Decree of Turkish Import Regime, import of the old, used, renovated, faulty goods requires the permission of the Ministry of Economy.

The permission should be taken for used vehicle importation as well. Questions and applications about this matter should be directed to Ministry of Economy.

### **Taxes about vehicles:**

First of all, in order to start the procedures for the goods that would be imported (i.e. to learn the due taxes or the documents that would be submitted to the customs administrations), customs tariff statistics position of the issued goods, which are classified in the annually enacted Turkish Customs Tariff Schedule, has to be known. Passenger vehicles take place on 87.03 Tariff Position and commercial (Merchant) vehicles are on 87.04. Lower expansions should be known for determining taxes. The questions about VAT and Excise Tax have to be directed towards the Turkish Revenue Administration;

### **Importation controls**

Regarding vehicle importation, Letter of Conformity regulated in regard to controls of Ministry of Science, Industry and Technology or the institution authorized by the Ministry has to be submitted to the competent customs authority during registration of customs declaration.

#### *3.2.1.14 Importation of used construction vehicle*

Importation of used construction vehicle is subject to the permission of Ministry of Economy as all kinds of used vehicle.

However, According to First Section to the Second Part of Import Communiqué numbered 2015/1, import of the goods on the appendices of the Communiqué does not to require the permission of the Ministry of Economy.

#### *3.2.1.15 Import goods through post*

All post bags and parcels taken to Custom territory of Turkey are dispatched to postal authorities under supervision of the customs administration and are subject to the customs control.

Goods, taken to the Customs Territory of Turkey through post or cargo transportation and do not exceed 75 euro are defined as “noncommercial” and are granted exemption. Passengers are free to bring items not exceeding 430 Euros in total real value, the limitation of which is not valid for goods brought through post or cargo transportation.

While dispatching goods do not exceed 1500-euro, fixed tax is applied depend upon where it is exported from:

- For goods from EU: %18
- For goods from other countries: %20

Shipping cost is not included in taxing of goods taken by postal service or cargo transportation.

#### *3.2.1.16 Procedure for animal product and plant import*

Agricultural products to be imported are supervised by Ministry of Food, Agriculture

and Livestock from human health and security, animal and plant existence and health aspect. Within this scope some of the animals and animal products are subject to veterinary inspections at the border checkpoints.

In accordance with Communication of Product Safety and Inspection (No: 2016/5) Certificate of Conformity, which has to be submitted to the customs along with customs declaration, is arranged for products in Appendices by Ministry of Food, Agriculture and Livestock.

Animals are taken to Turkey as a part of a competition or exhibition, gifted to administrative chief or military personnel, to be exhibited in zoos, granted to our state, to be used in scientific researches in universities and research institutions are not subject to inspection certificate, provided that Certificate of Conformity to these goods is issued by Ministry of Food, Agriculture and Livestock.

#### *3.2.1.17 Implementation for Import of Scrap and waste products*

Scraps subject to permission and prohibition are covered by Communication of Product Safety and Inspection (No: 2016/23) whereas waste products are covered by Communication of Product Safety and Inspection (No: 2016/3).

#### *3.2.1.18 Implementation for Import of precious metal, gems and valuable items*

Precious metal, gems and valuable items are defined in the Article 2 of Protection of Value of Turkish Currency Law and transactions for release for free circulation of these items are enacted by direction of this law.

Precious metal, gems and valuable items are permitted to be imported to Turkey under the rules of foreign trade regime. However, to import standard and out of standard raw precious metals, customs declaration is a must. Standard raw metal can be imported just by Central Bank and members of Borsa Istanbul. If the importer is a member of Borsa Istanbul, the importer is responsible for delivering the precious metals to Istanbul Borsa within 3 workdays. At the same time they are obliged to submit expertise report which proves value of the precious metal.

To import raw diamond, it is a must to get a Kimberly Process Certificate which is formed by exporter country. It must be dispatched in a durable package and the package should not be opened during dispatching. Certificate must include precise information. Diamonds are supervised by Istanbul Borsa and if it is necessary Istanbul Borsa may request a report on carat and value of diamond. According to 7. Article of 32 Numbered Decision passengers can bring their own under 15.000 USD precious metals to Turkey without commercial aim. If it exceeds, it requires custom announcements or must be bought in Turkey.

#### *3.2.1.19 Procedures when a passenger's belonging is regarded as commercial*

Passengers are permitted to bring along with non-commercial effects, souvenirs or belongings of total value not exceeding 1500 Euro, provided all the relevant taxes are paid.

However, in case a passenger brings along with goods whose value exceed 1500



Euro, these goods, be it household, souvenirs or for personal use, shall be subject to import duties and commercial policy measures before being released into free circulation. In other words, if an item is valued over 1500 Euro, regardless of its commercial or non-commercial status, it must be declared to the customs. In addition, in following cases a passenger is charged double the amount of the custom duty in effect.

- If a passenger possess a good that has no souvenir or personal purpose according to the Customs Legislation but, contrary to what he/she initially declared, is later found on his/her luggage, vehicle etc.
- In case a passenger pretends to be an owner of a good which in fact belongs to someone else

#### *3.2.1.20 Procedure in Cell Phone Importation*

Importation of unused mobile phone in commercial quantity into Turkey is permitted in line with the Foreign Trade Regime. For imported mobile phones to be released into free circulation, their tariff status must be determined based on Turkey's customs tariff schedule and then the import duties and commercial policy measures in force shall apply. However, importation of used, deformed, worn-out, refurbished mobile phones shall be subject to permission of Ministry of Economy.

Importers are also obliged to declare imported mobile phones to Information and Communication Technologies Authority.

Lastly, importation of both dutiable and nondutiable mobile phones into Turkey through post / cargo is forbidden.

#### *3.2.2 Trade Defense Policy*

One of the essential roles/missions/duties of the General Directorate of Imports is to defend domestic producers' interests against imports which cause (serious) injury to the domestic industry. In this respect, General Directorate of Imports applies trade defence instruments (anti-dumping, anti-subsidy, anti-circumvention and safeguard) in compliance with WTO rules and national legislation, and follows up the enforcement of those measures.

##### *3.2.2.1 Dumping and Subsidy:*

A product is to be considered as being dumped, if its export price is less than the home consumption price in the exporting country (in other words less than the price at which a like product is sold for consumption in the exporting country).

Subsidy shall be deemed to exist if there is a direct or indirect financial contribution by the country of origin or export which confers a benefit or there is any form of income or price support.

Domestic producers or any natural or legal person or association acting on behalf of domestic industry, claiming that they are materially injured or that treat of material injury exists by reason of dumped or subsidized imports or that the establishment of an industry is materially retarded due to such imports, may take a written application to the Directorate General of Imports. The complaint shall include evidence of dumping or subsidy, injury and the casual link between dumped or subsidized imports and the alleged injury. Simple assertion, unsustained by relevant evidence shall not be considered a complaint.

#### *3.2.2.2 Safeguard measures:*

In case of imports of a specific product in such increasing quantities and in a way to cause a serious injury or threat of a serious injury on the domestic industry that produces a like or directly competitive product, a safeguard measure, which is restricted to eliminate this injury or threat of injury, is applicable. For this purpose, the safeguard measure can be applied in the form of increase in customs duty rates of the product concerned, or a kind of quantity restriction as well as the combination of these two measures.

#### *3.2.2.3 Safeguard Measures in Force*

### **Anti-Circumvention and Monitoring:**

Within the framework of legislations regarding the “Prevention of Unfair Competition in Imports” and “Safeguard Measures in Imports”, the product under investigation is subject to “monitoring” beginning from the date the Communiqué about the initiation of the investigation entered into force.

Through the course of monitoring, if there is an evidence that a change in the pattern of trade between a third country and Turkey or the country subject to measures and Turkey or individual companies in the country subject to measures and Turkey, stemming from a practice, process or work for which there is insufficient due cause or economic justification, and that the remedial effects of the duty are being undermined or nullified via the recorded circumstances which are mentioned in Clause 3, Article 6 of the decision regarding the “Safeguard Measures in Imports” or by the initiation of an investigation within the framework of legislation regarding the “Prevention of Unfair Competition in Imports; exists, then the measure initiated might be collected retrospectively, beginning from the date of entry into force of the original measure.

### **3.3 Export**

The Export Regime regulates general rules and principle of merchandise export, inward and outward processing activities, strategies for the export supports, export development and promotion activities, transit trade.

The Export Regime Decree is prepared by taking into account of Turkey's rights and obligations stemming from WTO as well as the Turkey's commitments in the framework of Customs Union between EU and Turkey.

Turkey has been implementing an export-oriented strategy since 1980. The basic objective of this strategy is to constitute an outward oriented economic structure in the framework of free market economy and to be integrated with world markets.

With this new strategy, export intensive measures consisting of various supportive components, arrangements directed to the foreign trade liberalization.

In addition to liberal arrangements made to improve exports, some support programs came into effect. The main facilities provided for the exporters were as follows: corporate tax exemption, tax refund, premium to the Resource Utilization and Support Fund, subsidies obtained from the Support and Price Stabilization Fund. However, the above-mentioned supports have been gradually eliminated in accordance with our international commitments since the second half of 1980s.

On the other hand, with the establishment of the Turk Eximbank in 1987, supporting exports gained a new dimension. In this respect, in order to increase the competitive strength of the Turkish exporters in foreign markets, some credits and guarantee programs under the international commitments began to be applied to the sectors with high export potentials.

Related to particularly support of exports, policies of the foreign trade strategy that was set up under the conditions of 1980s have been reviewed and modified in view of the developments taken place in the world and Turkey in the 1990s. In this respect, State Aids prepared in compliance chiefly with the World Trade Organization and our international commitments were put into practice as of 01.06.1995.

The most significant phenomenon in Turkey's foreign trade policy is the Customs Union established between the EU and Turkey as of 01.01.1996. This development initiated the duration needed for the legal infrastructural consistency of foreign trade strategy with the EU's norms, and thus both import and export regimes have been made consistent with the regulations of the EU. Within the framework of the modifications made in the laws, the Export Support Regime applied until 1.1.1996 was modified in compliance with the Customs Code of the Community.

In place of the Export Support Regime applied in the framework of the Export Support Decision No. 94/5782 based on obtaining raw materials at world market prices, the Inward Processing Regime numbered 95/7615, published in the Official Gazette 31.12.1995, the newly Inward Processing Regime numbered 2005/8391 published in the Official Gazette 27/1/2005 and prepared as being parallel to the provisions of the Community Customs Code, entered into force as of 1.1.1996.

According to the modifications in the Export Regime, (article 4(e) of the Export Regulation published in the Official Gazette on 6 June 2006/26190), "an exporter" is defined as a person who is a member of the related Exporters' Association,

- a natural or legal person having a single tax number,
- joint- venture,
- consortium.

Export is the exportation of goods, in compliance with the current Export Regulations, Customs Regulations, out of Turkey's custom area or to the free trade zones or other ways of leaving country which can be accepted as an export by the Undersecretariat for Foreign Trade.

Types of exports are as follows:

- Registered Export
- Pre-licensed Export
- Exports by means of consignment
- Barter trade
- Exports without returns
- Exports through leasing (Subject to Customs Legislation)

All goods, other than those whose exportation is prohibited by laws, decrees and international agreements, can be freely exported within the framework of the Export Regime Decree.

However, within the framework of WTO rules, restrictions and prohibitions on exports may be imposed in case of market turmoil, scarcity of exported goods, in order to protect public safety, morals, health; flora and fauna, environment, as well as, articles bearing artistic, historical and archeological value.

The goods whose exportation is prohibited and subject to permit are listed in the Communique numbered 96/31.

Turkey's export incentive system, which was abolished and replaced by Inward Processing Regime (IPR) via Decree No. 95/7615, put into force on January 1st, 1996, has been implemented via Decree No. 2005/8391 that was put into force on January 27 th, 2005.

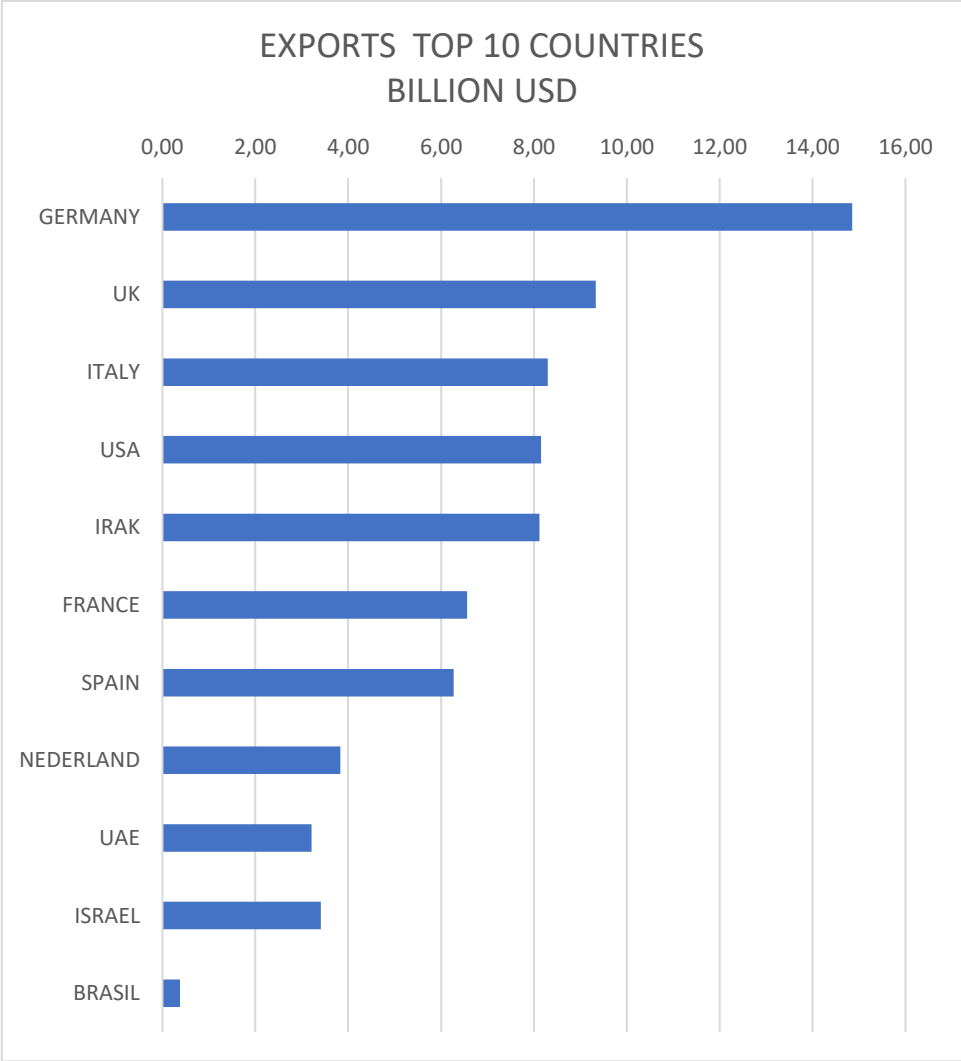
IPR is a system allowing Turkish manufacturers/exporters to obtain raw materials, intermediate unfinished goods that are used in the production of the exported goods without paying customs duty and being subject to commercial policy measures. Having granting IPR authorization, the owner of the IPR authorization is obliged to import goods stated on authorization and export them after processing the imported goods. The basic endeavor of the IPR is to maintain materials at the world market prices and enhance the competitiveness of Turkish exporters.

There are various state assistances and reliefs in exports in compliance with EU and GATT regulations, regarding areas such as R&D projects, environmental costs, market

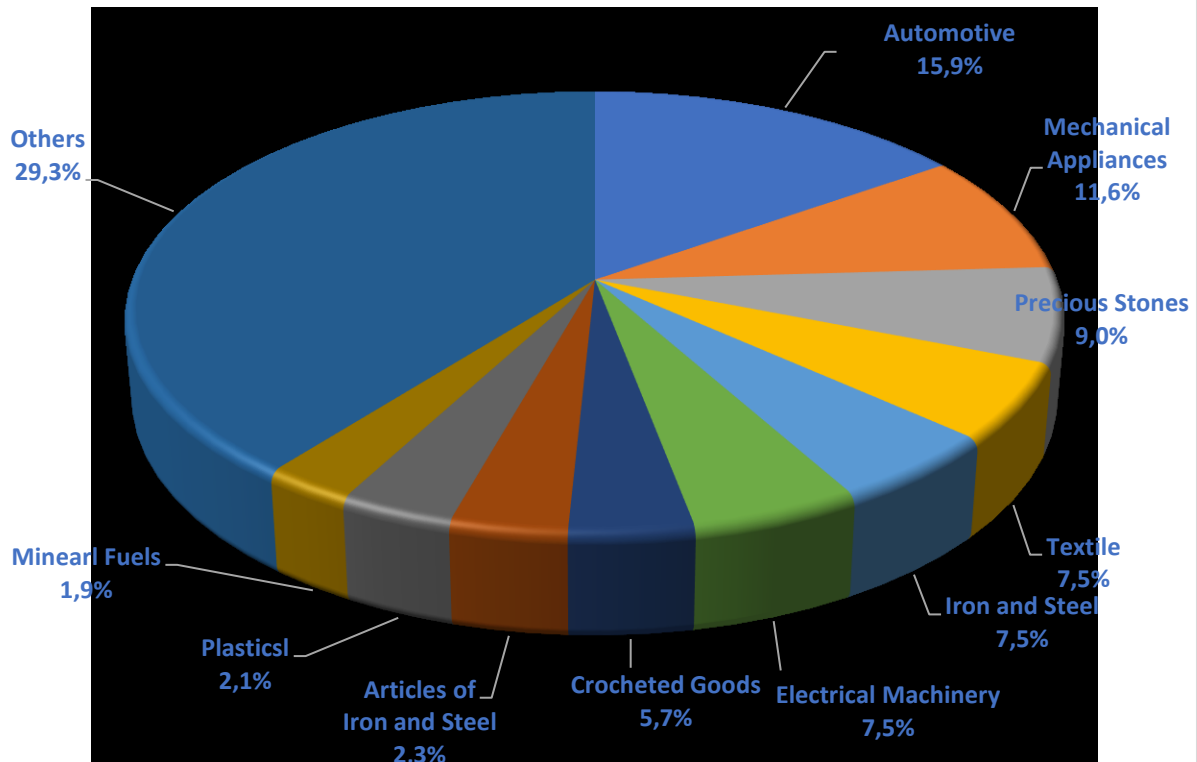
research and marketing, branches/showrooms in foreign countries, participation in national/international fairs, education, employment and brand image (TURQUALITY).

**EXPORTS TOP 10 COUNTRIES  
BILLION USD**

	<b>COUNTRY</b>	<b>2017</b>	<b>Part % of Total</b>
<b>1</b>	<b>GERMANY</b>	<b>14,85</b>	<b>10,10%</b>
<b>2</b>	<b>UK</b>	<b>9,33</b>	<b>6,35%</b>
<b>3</b>	<b>ITALY</b>	<b>8,30</b>	<b>5,65%</b>
<b>4</b>	<b>USA</b>	<b>8,15</b>	<b>5,54%</b>
<b>5</b>	<b>IRAK</b>	<b>8,12</b>	<b>5,52%</b>
<b>6</b>	<b>FRANCE</b>	<b>6,56</b>	<b>4,46%</b>
<b>7</b>	<b>SPAIN</b>	<b>6,27</b>	<b>4,27%</b>
<b>8</b>	<b>NEDERLAND</b>	<b>3,83</b>	<b>2,61%</b>
<b>9</b>	<b>UAE</b>	<b>3,21</b>	<b>2,18%</b>
<b>10</b>	<b>ISRAEL</b>	<b>3,41</b>	<b>2,32%</b>
	<b>BRASIL</b>	<b>0,38</b>	<b>0,26%</b>
	<b>SUB TOTAL</b>	<b>72,41</b>	<b>49,26%</b>
	<b>OTHERS</b>	<b>74,59</b>	<b>50,74%</b>
	<b>TOTAL</b>	<b>147,00</b>	<b>100,00%</b>



## MAIN PRODUCT GROUPS OF EXPORTS 2017



### 3.3.1 Inward Processing Regime

The aim of Inward Processing Regime is to enable exporters to supply inputs at the world market prices for the production of their exports without being subject to customs duties, including Value Added Tax as well as trade policy measures.

There are two kinds of inward processing regime: conditional immunity and payback.

### 3.3.2 Outward Processing Regime

Outward Processing Regime allows goods in free circulation to be exported temporarily from the Customs Territory of Turkey in order to undergo processing operations as repairing, renewing and the products resulting from those operations to be released for free circulation with total or partial relief from import duties.

## 3.4 Foreign Direct Investment

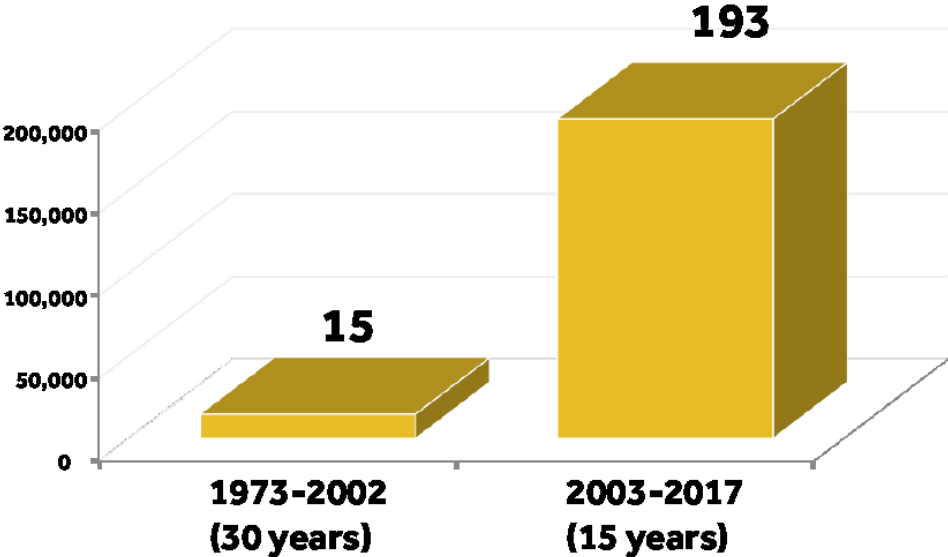
Turkey's impressive growth performance and structural reforms implemented over the past decade have landed it on the radar of many international investors.

According to EY Attractiveness Survey Europe, Turkey became the 7th most popular FDI destination in Europe in 2017, up 3 places from 2016. The country was home to

229 projects, up 66 percent year-on-year, and enjoyed a 3 percent share in all FDI projects across Europe.

3.4.1 FDI Inflows to Turkey (Cumulative - USD billion)

Up until 2002, total FDI into Turkey stood only at USD 15 billion, while the country has since attracted around USD 193 billion of FDI during the 2003-2017 period.

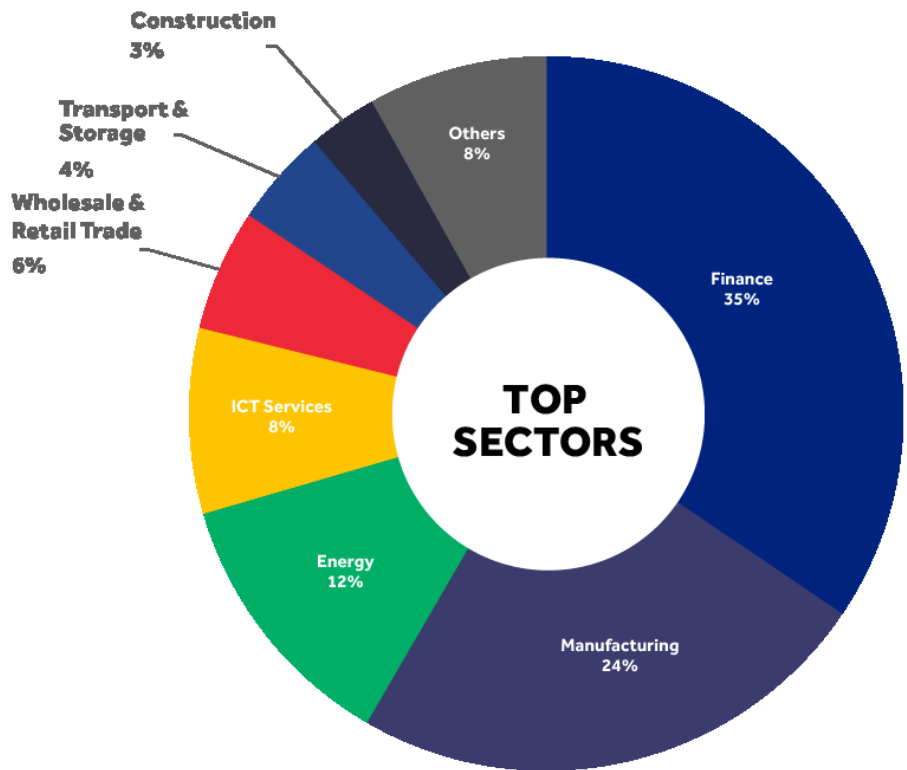


Source: Central Bank of the Republic of Turkey

3.4.2 FDI Inflows to Turkey by Sector

During the past 15 years, the finance and manufacturing sectors have attracted the highest amount of FDI in Turkey, with sectors of interest becoming significantly diversified in line with Turkey’s 2023 vision of having a higher position in the global value chain.

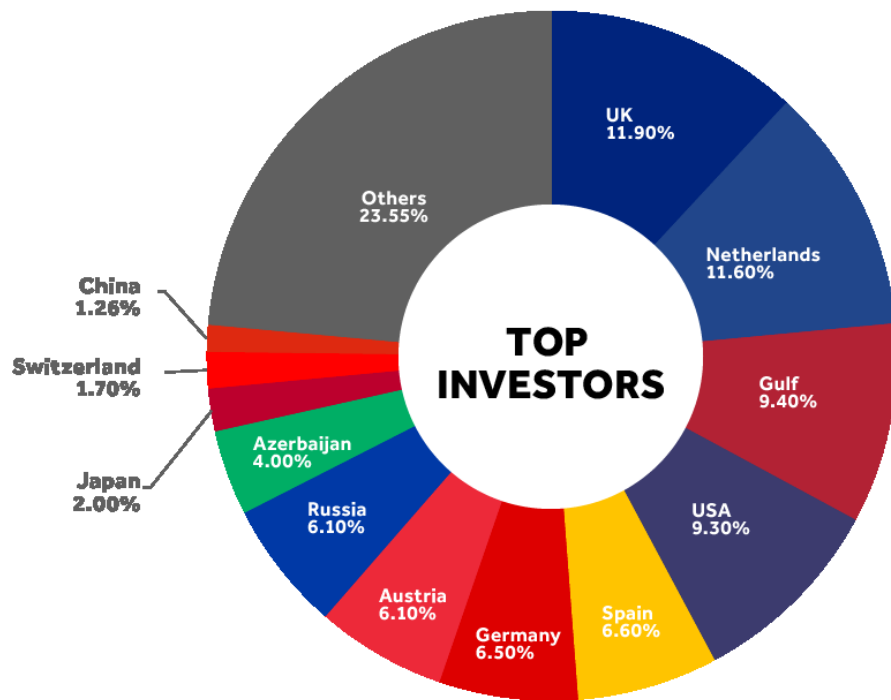




Source: Central Bank of the Republic of Turkey

### 3.4.3 FDI Inflows to Turkey by Country

The majority of FDI inflows to Turkey have originated from Europe, North America, and the Gulf countries during the past 15 years, while the share of Asia has been noticeably on the rise.

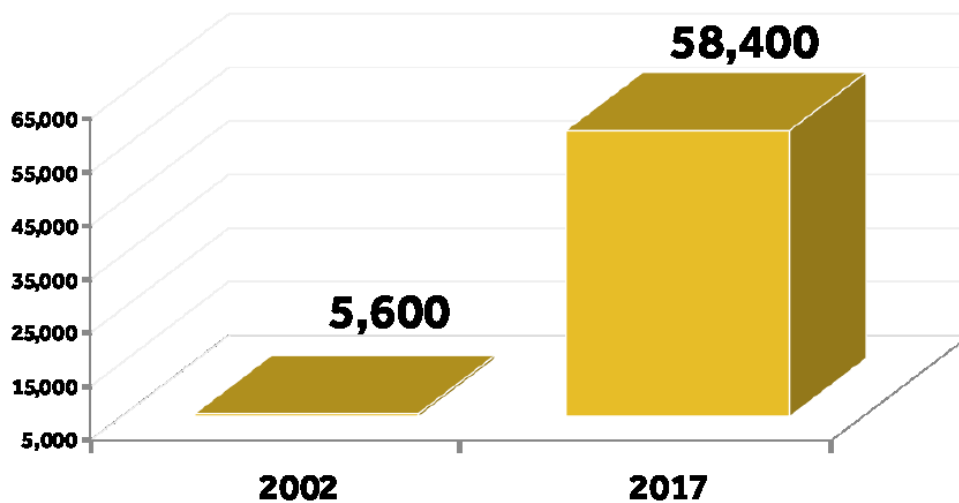


Source: Central Bank of the Republic of Turkey

#### 3.4.4 Companies with International Capital

As of end-2017, the number of companies with foreign capital in Turkey hit 58,400, up from 5,600 in 2002.

Number of Companies with International Capital (in thousands)



Source: Ministry of Trade

#### 3.4.5 Turkey's Membership in International Trade Organizations

Turkey has been a member of the World Trade Organization (WTO) since 1995. The country's commitment to integrating regional and international trade norms can be seen in its participation in and membership of various organizations, including the Economic Cooperation Organization (ECO), the United Nations Conference on Trade and Development (UNCTAD), the Organization of the Black Sea Economic Cooperation (BSEC), the World Customs Organization (WCO), the International Chamber of Commerce (ICC), D-8, and various other organizations.

In addition to the Customs Union with the EU, Turkey has signed Free Trade Agreements (FTA) with Albania, Bosnia-Herzegovina, Chile, Egypt, Faroe Islands\*, Georgia, Ghana\*, Iceland, Israel, Jordan, Kosovo\*, Lebanon\*, Macedonia, Malaysia, Mauritius, Montenegro, Moldova\*, Morocco, Norway, Palestine, Serbia, Singapore\*, South Korea, Switzerland and Lichtenstein, Syria (pending), Tunisia. (\*to be ratified).

#### 3.5 Free zones

Free Zones are defined as fenced-in areas in which special regulatory treatment exists for the operating users in order to promote exports of goods and services. Free zones offer more convenient and flexible business climate in order to increase trade volume and export for some industrial and commercial activities as compared to the other parts of country.

- Promoting export oriented investment and production.

- Accelerating foreign direct investment and technology access.
- Directing enterprises towards export.
- Developing international trade.

### Activities

In general, all kind of activities can be performed in Turkish Free Zones such as:

- Research and Development (R&D),
- Manufacturing,
- Software,
- General trading,
- Storing,
- Packing,
- Banking and insurance.

Investors are free to construct their own premises, while zones have also available office spaces or warehouses on rental basis with attractive terms. All field of activities open to Turkish companies are also open to joint-venture of foreign companies.

FREE ZONES IN TURKEY		DATE OF EST.
1	MERSIN FREE ZONE	1985
2	ANTALYA FREE ZONE	1985
3	AEGEAN FREE ZONE	1987
4	ISTANBUL ATATURK AIRPORT FREE ZONE	1990
5	TRABZON FREE ZONE	1990
6	ISTANBUL THRACE FREE ZONE	1990
7	ADANA YUMURTALIK FREE ZONE	1992
8	ISTANBUL INDUSTRY & TRADE FREE ZONE	1992
9	MARDIN FREE ZONE	1994
10	SAMSUN FREE ZONE	1995
11	EUROPE FREE ZONE	1996
12	RIZE FREE ZONE	1997
13	KAYSERI FREE ZONE	1997
14	IZMIR FREE ZONE	1997

15	GAZIANTEP FREE ZONE	1998
16	TUBITAK-MRC FREE ZONE	1999
17	DENIZLI FREE ZONE	2000
18	BURSA FREE ZONE	2000
19	KOCAELI FREE ZONE	2000



### 3.5.1 Advantages of the Turkish Free Zones

#### 1. Opportunity to Benefit from Tax Advantages for Manufacturer Users

Until the end of the taxation year including the date Turkey becomes a full member of the European Union, the earnings of the manufacturer users, generated through the sales of the goods they produced in the free zones, are exempted from the income or corporate taxes.

The wages of the workers employed by the users that export at least 85 percent of the FOB value of the goods they produce in the free zones are exempted from income tax. The Council of Ministers can reduce this rate to 50 percent.

The transactions and arranged documents related to the activities carried out in the zones by the manufacturer users are exempt from stamp duties and fees.

The free zone users that obtained "operating license" other than "production" before 06/02/2004, the income or corporate tax exemption continues during the validity period of the Operating License.

The free zone users that obtained operating license other than production after 06/02/2004 do not enjoy income or corporate tax exemption.

#### 2. Opportunity of Medium and Long Term Planning

The validity period of an operating license:

- 15 years for tenant users.
- 20 years for manufacturer tenant users.
- 30 years for users who build their own working premises (investor users).
- 45 years for manufacturer-investor users.

Building plots and buildings on Treasury owned land can be leased or granted easement until 49 years for the investor users.

### **3. Opportunity to Transfer Profits**

The revenue and earnings from free zone activities can be freely transferred to Turkey or abroad without any permission.

### **4. Facilitation of Foreign Trade**

Since the goods sold from Turkey to free zones are subject to export regime, free zone users can buy goods and services from Turkey without paying value added tax. On the other hand, trade between free zones and third countries is not subject to foreign trade regime.

Moreover, upon request, goods of Turkish origin in value less than 5000 US \$ or its equivalent in Turkish Lira can be exempted from export procedures.

### **5. Trade Facility Free from Customs Duty Procedure**

The goods in free circulation can be sent to Turkey or to the EU countries from the free zones without any customs duty payment. Moreover, no customs duty is applied on the goods of third country origin at the entrance into the free zones and exit to the third countries.

### **6. Easy Access to EU Countries**

Since free zones are part of the Turkey-EU Customs Territory, the goods in free circulation can be sent to the EU Countries by an A.TR certificate. Customs duties for the goods of third country origin are also not paid at the entry into the free zones. However, the goods of third country origin that are not in free circulation can be sent to the EU countries by an A.TR certificate, only after the customs duties are paid over the rates determined in the Common Customs Tariff.

### **7. Equal Treatment**

The incentives and advantages provided in the free zones are available to all firms regardless of their origin.

### **8. No Time Limitation**

The goods can remain in the zones without any time limit.

## **9. Managing Trade Activities According to Market Demands and Conditions**

In the Turkish Free Zones, unless the manufacturers demand, any authority regarding prices, quality and standards granted to public institutions and agencies by laws or by other legislation is not valid. Also legislative provisions pertaining to customs and foreign exchange obligations are not applicable in the zones.

## **10. Inflation Accounting Opportunity**

Every payment in the Turkish Free Zones is done with Convertible Currencies.

## **11. Access to Domestic and Foreign Markets**

In contrast to most of the free zones in the world, sales to the domestic market with the exception of consumer and risky products are allowed.

## **12. Reduced Bureaucratic Procedures and Dynamic Management**

During application and operation process bureaucracy is minimized. Professional private sector companies manage free zones.

## **13. Strategic Location**

Turkish Free Zones are close to the EU and Middle East Markets, adjacent to the major Turkish Ports on the Mediterranean, Aegean and Black Sea and have easy access to international airports and highways.

## **14. Competitive Infrastructure Standards**

Infrastructure of the Turkish Free Zones is competitive with international standards.

## **15. Supply Chain Management**

Turkish Free Zones, particularly for the companies which manufacture for export, offer supply chain management opportunities in providing intermediate and raw materials.

## 4 ECONOMIC RELATIONS BETWEEN BRAZIL AND TURKEY

### 4.1 BILATERAL RELATIONS BETWEEN BRASIL AND TURKEY

While the world is watching the “emerging” periphery countries, the most fragile ones are Russia, Brazil and Turkey. South Africa is sometimes considered as well.

Russia is a country unique to itself. Even though it is an energy exporter, because of the drop in energy prices as well as the Ukraine and Crimea issues that strained its relations with the West, it was subject to embargoes. Its currency, the ruble, lost enormous value against the dollar; its growth went all the way down to 0.6 percent in 2014. Its estimated growth is no more than 0.7 percent for 2015.

On the other hand, Brazil and Turkey, among the fragile periphery countries, are two that seem more likely to be compared with each other; they are two countries that have similarity and parallelism in their experiences. So much so that, recently, efforts are being made to predict the trends in Turkey by monitoring what is going on in Brazil. For instance, the foreign exchange rate. There is a huge similarity when the Brazilian real and the Turkish Lira are compared at the IMF database as of September 2010.

Brazil and Turkey have a lot in common – emerging powers with an ambition to project influence in their respective regions, they both desire to modify current structures of global governance. Even their historic trajectory is comparable – both were ruled by system-shaping strongmen in the early 20th century (Ataturk in the 1920s, Getulio Vargas in the 1930s), both suffered military coups in the 1960s, financial crises towards the end of the Cold War, and turned into emerging powers in the early 21st century. Their ambivalent identity vis-à-vis the West remains an important issue as both nations seek to define their place in the global system.

Although Turkish-Brazil diplomatic ties have 150 years of history, their relationship has gained great momentum recently. Due to the geographic distance and different priorities of the two countries, bilateral relations could not reach a desired level. The change in Turkey’s policy towards South America and Brazil’s policy during the Lula Government to play a more global role and to establish in this framework reliable partnerships in critical regions, have contributed to a significant development of bilateral relations since 2004.

Between 2009 and 2011, the quantity of contacts and activities accelerated, thanks to the active diplomacy of the JDP and the expansion of foreign policies priorities of the LAC countries, generating a series of visits at the highest level. Turkish Prime Minister Erdoğan visited Mexico in 2009 and Brazil and Chile in May 2010. Argentinean President Cristina Fernandez de Kirchner visited Turkey in January 2011 during her visit to the Middle East, which included Kuwait and Qatar, while Lula da Silva (president of Brazil between 2003 and 2011) visited Turkey in 2009 and Dilma Rousseff, current president of Brazil, in October 2011. Moreover, the visits of President of Costa Rica Oscar Arias in November 2009 and President of Colombia Juan Manuel Santos in November 2011 were also important.



Brazil is Turkey's most important partner in Latin America. Prime Minister Erdoğan attended the third Forum of the Alliance of Civilizations in May 2010, around the time when the tripartite agreement between Iran-Brazil- Turkey on nuclear swap was signed.

During that visit, the heads of governments signed the "Action Plan for Strategic Association" based on eight cooperation points: bilateral and multilateral political dialogue, commerce and investment, energy, biodiversity and environment, defence, security, science and technology and lastly education and culture. The links between Brazil and Turkey were secured with a series of meetings that began with the visit of Celso Amorim, Brazil's foreign minister since 2004.

During his visit in May 2009, President Lula da Silva attended multiple events, including the "Turkish Brazilian Economic Forum" and the opening of the "Centre of Latin American Studies" at Ankara University. Improved bilateral relations led to the establishment of a high- level cooperation committee between Turkey and Brazil in 2006, a mechanism Turkey uses with other important actors, such as Russia, Greece and Spain, among others, for diplomacy. Finally, there was the visit of President Dilma Rousseff in October 2011, when she signed with President Gül the "Strategic Perspective of a Dynamic Association Turkey- Brazil" joint declaration and bilateral cooperation agreements on matters of higher education and justice.

Another framework of political cooperation and dialogue has been the formation of parliamentary friendship groups with Turkey in Argentina, Brazil, Venezuela, Chile, Mexico, Cuba, Costa Rica, Uruguay, Jamaica, Colombia and Panama. In the case of Mexico, on 6 April 2010, the Friendship Group Mexico- Turkey was created to improve bilateral ties from a parliamentary scope and to make it into a vehicle of permanent dialogue on subjects common to both nations.

Turkey also has a special interest in multilateral cooperation, particularly in the United Nations, G20 and different international organizations within Latin America. In the first case, the region is an important asset given the weight, together with African countries, in the UN General Assembly. Even though Turkey does not take part in the G77 plus China or the Movement of the Non-Aligned Countries, and it forms part of the "Western European and Others Group" (WEOG) within the United Nations, the support of Latin American countries has been important, for example in its election as a non-permanent member of the UN Security Council for the period 2009-2010.

In the case of the G20,<sup>24</sup> Argentina, Brazil and Mexico are members of its emerging countries group together with Turkey. The G20 is of critical importance, for it symbolizes the change in international economic power from developed countries towards the emerging ones, which have been the protagonists of economic growth in the last decade. Neither Latin American countries nor Turkey are unaware of this reality. Issues ranging from international financial regulation proposals to the solution of the Greek debt problem, and the criticisms of protectionism, have all been included in their bilateral and multilateral talks.

Turkey has also been interested in the regional organisations in LAC and has become observers in the Organisation of American States (OAS),<sup>25</sup> the Association of Caribbean States (ACE), the MERCOSUR, the Rio Group and the Caribbean Community (CARICOM). Regarding the MERCOSUR, aside from its observer status, in 2008 Turkey also signed the “Framework Agreement to Establish a Free Commerce Area Between the MERCOSUR and the Republic of Turkey”. In December 2010, the “Memorandum for the Establishment of a Dialogue of Political Meeting and Cooperation” between the MERCOSUR parties and Turkey was signed.

Finally, Turkey participates in several common platforms alongside Latin American countries. First, it forms part of the G33, whose aim is to try to get developing countries to have a limited opening of their agricultural markets.<sup>26</sup> Likewise, it is part of a group of Friends of the Anti-dumping Negotiations (ANA/FAN5) together with Brazil, Chile, Colombia, Costa Rica and Mexico, which tries to improve the use of the anti-dumping measures.<sup>27</sup> Turkey is also among the sponsors of the document “W 52” on intellectual property (ADPIC), together with Brazil, Colombia and Peru, among others.

In the political arena, it is safe to say that a foundation has been established that can generate sustainable policies in the long term. However, the problem is that there is much less interest in Latin America towards Turkey. Multiple barriers at the geographical and cultural levels have created important setbacks. Until recently, examples of change in cultural and academic areas were scarce, making rapprochement beyond political matters rather difficult. Strategies to generate cultural bridges in the field of languages, art or history could construct greater interdependence.

The momentum acquired in Turkish-Brazilian relations in 2009 was kept in 2010. Official visits of Their Excellencies the Prime Minister, the Minister of Foreign Affairs, the Minister of Industry and Trade, the Minister of Culture and Tourism, the Minister for European Union Affairs and Chief Negotiator and the Undersecretary of the Ministry of Foreign Affairs of the Republic of Turkey contributed to preserve the current momentum in bilateral relations and provided a systematic framework for them. Turkey-Brazil Action Plan for Strategic Partnership signed on 27 May 2010 during the official visit of H.E. the Prime Minister of the Republic of Turkey to Brazil, constitutes a milestone in the bilateral relations. Furthermore, six agreements that strengthened the legal framework of our relations were signed during the said visit.

There is a mutual understanding at the highest level that close relations, consultation and cooperation between the two countries which have become regional powers in political and economic terms and have assumed global roles, will provide a positive value at national, regional and global scales.

Although Turkish-Brazilian relations in the economic field have recently gained momentum, they are far from reflecting the current potential. The trade balance was in favor of Brazil with a 717 million USD Turkish deficit, and the total trade volume was 1.5 billion USD in 2009. In 2010, our exports to Brazil increased by 58% and reached

the level of 614 million USD; our imports from Brazil also increased by 22% and reached 1.348 billion USD. The total trade volume was almost 2 billion USD in 2010.

In line with the mutual will which aims at launching a new era in political and economic fields, the two countries intend to strengthen their cooperation in the field of defense industry. In this regard, the Office of the Turkish Military Attaché started to function in August 2010. Furthermore, during the first Military Dialogue meeting which was held in Brasilia in June 2011, the two sides discussed the opportunities for cooperation in the defense industry field.

Brazil is Turkey's first strategic partner in South America and its biggest trade partner in the region. In addition to the Turkish Embassy in Brasilia, Turkey has a Consulate General in Sao Paulo.

Eight political consultation meetings were held to this day and a High Level Consultation Mechanism (HLCM) at the level of Foreign Ministers was established in 2006. The fourth round of the HLCM meetings is anticipated to take place in 2016. The HLCM is composed of the Joint Economic Commission, the Energy Subcommittee and the Joint Cultural Commission.

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.

In 2015, Turkey-Brazil bilateral trade volume was about 2.25 billion US Dollars, which amounts to a 10% decline compared to the previous year.

In order to complete the legal framework of bilateral commercial and economic relations, Turkey and Brazil have signed a number of agreements, including Trade, Economic and Industrial Cooperation Agreement (1995) and Double Taxation Prevention Treatment (2010).

Within the framework of the Trade, Economic and Industrial Cooperation Agreement, a Turkish-Brazilian Joint Economic Commission on the official level was established in order to evaluate and enhance bilateral economic, commercial and industrial relations between Turkey and Brazil. The Joint Economic Commission shall meet up alternately in Ankara and Brasilia. The Second Session of the Turkey-Brazil Joint Commission on Trade, Economic and Industrial Cooperation was held in Ankara, in 2010 and Agreed Minutes of the Second Session of the Turkey-Brazil Joint Commission on Trade, Economic and Industrial Cooperation was signed on January 4, 2010 in Ankara.

Turkish-Brazilian Business Council was founded in 2006 in order to develop and enhance bilateral economic and commercial cooperation between both countries' business circles. The Turkish side of this Business Council was represented by Foreign Economic relations Board (DEIK) businessmen members the Brazilian side was represented by FIESP businessmen members.

4.2 Exports

The biggest country by population and land area for both South America and Latin America, Brazil shipped an estimated US\$217.7 billion worth of goods around the globe in 2017.

That dollar amount reflects a 17.5% gain year over year since 2016, however is still - 10% less than the \$242 billion in Brazilian exports five years earlier during 2013.

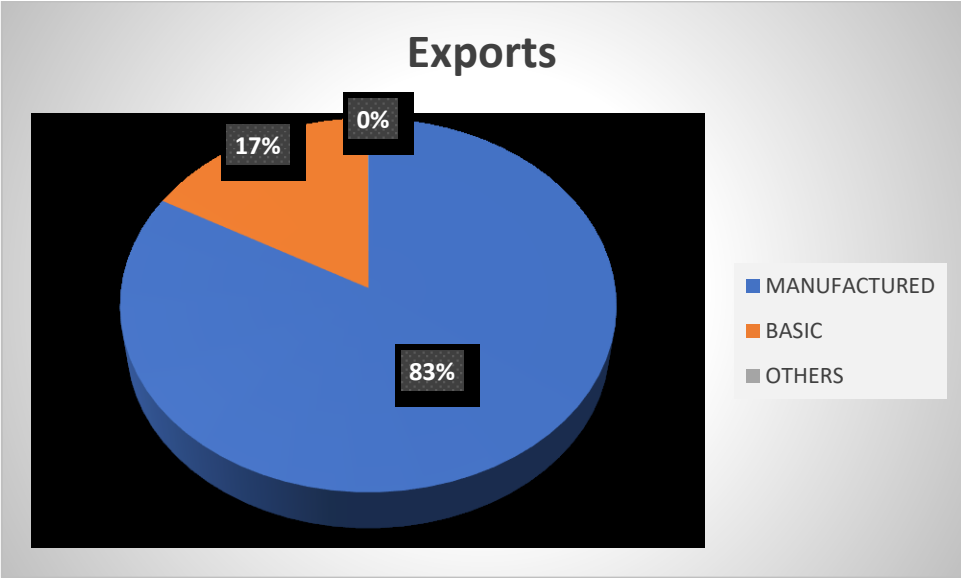
From a continental perspective, some 40% of Brazilian exports by value is delivered to Asian countries while about 21% is sold to European importers. Brazil ships another 18% worth of goods to Latin America (excluding Mexico) plus Caribbean nations. Brazilian exports to North American clients totaled 16% with roughly 4% delivered in Africa.

Given Brazil's population of 207.4 million people, its total \$217.7 billion during 2017 exports translates to roughly \$1,050 for every resident in South America's largest country.

Brazil's top 10 exports accounted for about two-thirds (66%) of the overall value of its global shipments. Mineral fuels including oil was the fastest-growing export category via a 61.7% increase over 2016, followed by ores, slag and ash's 41.6% gain.

In third place were Brazilian exports of oil seeds which posted a 36.4% boost in value year over year. Close behind were Brazilian shipments of iron and steel (up 36.4%) and vehicles (up 34.2%).

There was one decline among Brazil's top 10 export categories, specifically a -2.6% drop for food industry waste and animal fodder.



4.3 Imports

Brazil imported US\$150.7 billion worth of goods sourced from around the globe in 2017, down by -37.1% since 2013 but up by 9.6% from 2016 to 2017.

Brazilian imports represent 0.9% of total global imports totaling an estimated \$16.054 trillion for 2016.

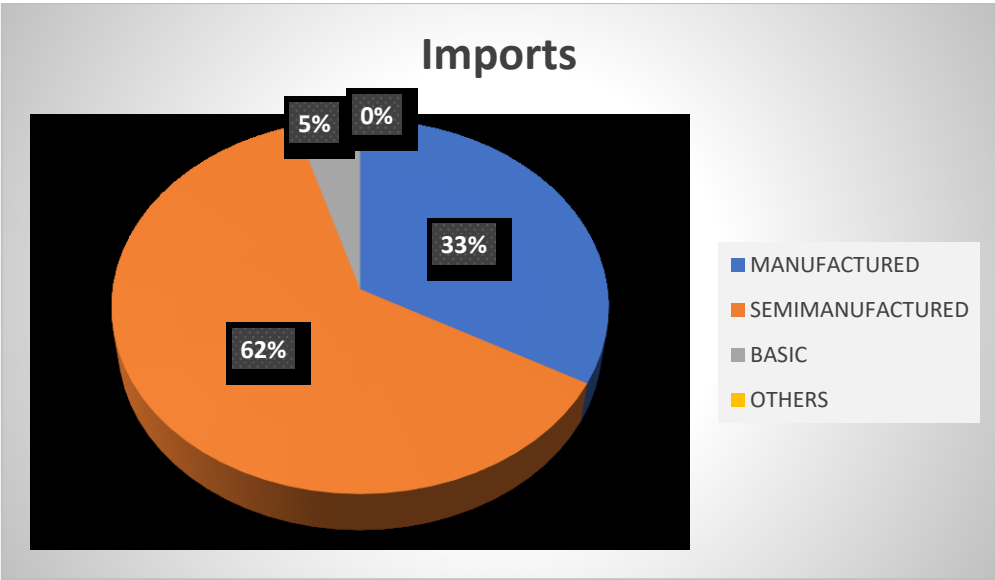
From a continental perspective, 35.9% of Brazil’s total imports by value in 2017 were purchased from Asian countries. European trade partners accounted for 25.1% of import sales to Brazil while 20.6% worth of goods originated from North American exporters. Smaller percentages came from Latin America plus the Caribbean but excluding Mexico (14%) and just 3.7% sold by sources in Africa.

Given Brazil’s population of 207.4 million people, its total \$150.7 billion in 2017 imports translates to roughly \$730 in yearly product demand from every person in the country.

Brazil’s top 10 imports accounted for almost three-quarters (72.1%) of the overall value of its product purchases from other countries.

Mineral fuels including oil was the fastest-growing import product category, increasing in value by 42.3% from 2016 to 2017. Imported electrical machinery and equipment placed second via a 22.3% gain followed by fertilizers which rose 22.1% year over year.

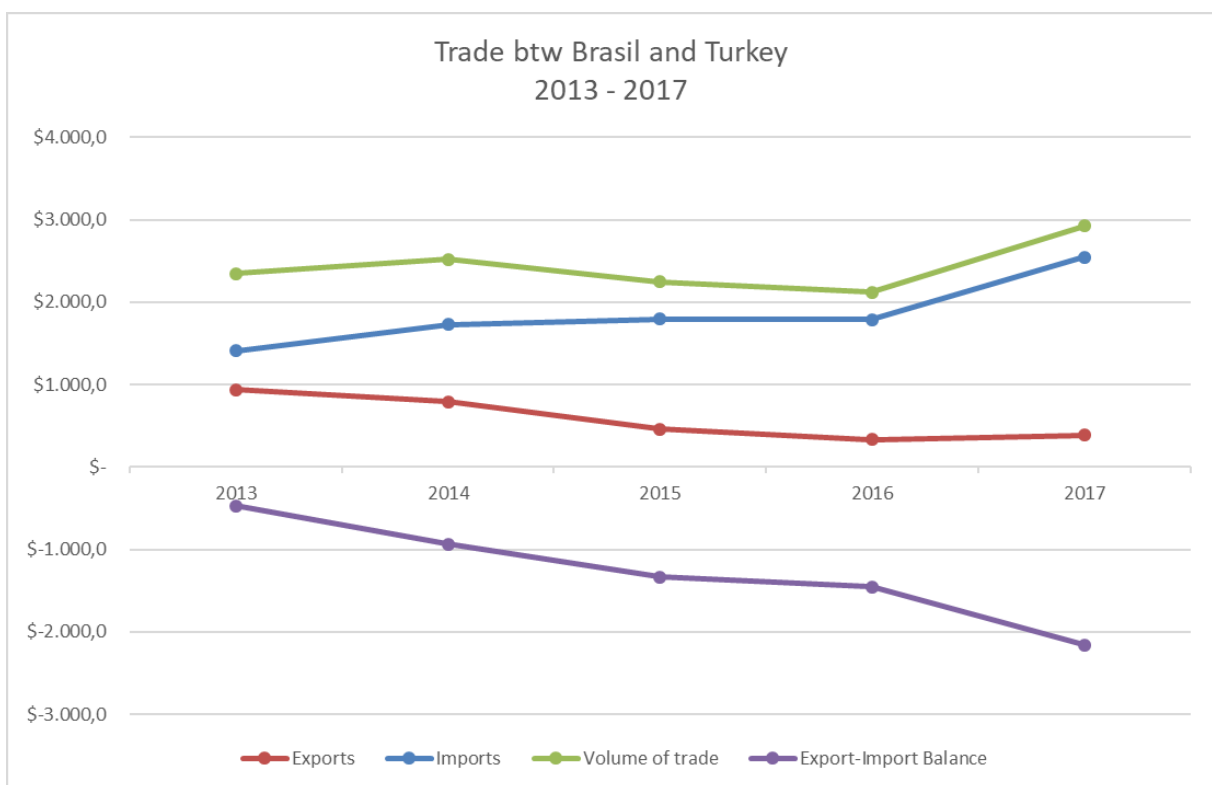
Machinery including computers is the sole category among Brazil’s most valuable imported goods to drop in value, down by -17.6% since 2016.



4.4 Trade Balance

The trade deficit of goods with Turkey was 767 million \$ in 2012, a 36% decrease (1.2 billion \$) over 2011.

Year	Exports (FOB)		Imports (CIF)		Balance		Volume of trade
	Value	Change (%)	Value	Change (%)	Value	Change (%)	Value
2013	\$ 936,0	-0,4	\$ 1.408,0	6,4	\$ -472,0	34%	\$ 2.344,0
2014	\$ 794,0	3,8	\$ 1.728,0	-3,8	\$ -934,0	54%	\$ 2.522,0
2015	\$ 458,0	-8,7	\$ 1.792,0	-14,4	\$ -1.334,0	74%	\$ 2.250,0
2016	\$ 333,0	-0,9	\$ 1.788,0	-4,2	\$ -1.455,0	81%	\$ 2.121,0
2017	\$ 384,0	10,2	\$ 2.544,0	17,7	\$ -2.160,0	85%	\$ 2.928,0



#### 4.5 Contracting and Consultancy Services

Brazil's a significant market for Turkish contractors. Turkish firms held and are holding one project in Brazil with a total value of 7,2 million dollars up until now.

#### 4.6 Investment

Turkish foreign direct investment (FDI) stock in Brazil was 30 million \$ between 2002-2012(January-April) period. By the end of June 2013, 8 Turkish companies have operations in Brazil.

FDI of Brazil in Turkey (stock) was 543 million \$ between 2002-2012(January-April) period. By the end of June 2013, 16 Brazilian companies have operations in Turkey, in energy, real estate, manufacturing, service, retail and wholesale trade sectors.

Both members of the United Nations Security Council and G20, Turkey and Brazil have in the past few years intensified their quest to improve relations and contribute to global

peace with enhanced political cooperation. The most recent example to this was a nuclear fuel swap deal signed between Iran, Turkey and Brazil. Economic relations between the world's 10th and 17th largest economies also benefited from such cooperation; Brazil's Petrobras has been carrying out joint oil research activities with the Turkish Petroleum Corporation (TPAO) in the Black Sea since 2013.

In early October 2011, the Turkish and Brazilian government signed a joint declaration entitled "Turkey-Brazil: A Strategic Perspective for a Dynamic Partnership", as well as agreements on education, transportation and criminal matters, in an event that joined Dilma Rousseff and Turkish President Abdullah Gül. The meeting was part of the Turkey-Brazil Business Forum organized by the Turkish Confederation of Businessmen and Industrialists (TUSKON) in Ankara. The presence of these two important political positions demonstrates the countries' strong will in straightening economic and political ties. Rousseff visited Turkey in her first year of government, following the lead of her predecessor, Lula da Silva, whose visit to Turkey in 2009 boosted the bilateral connection. It seems that, as President Gül mentioned that "distance has no meaning" in Turkish-Brazilian relations.

In economic terms, the commercial ties between the two countries have increased significantly - the bilateral trade was about \$665 million in 2005 and reached \$1.8 billion last year. President Gül sustained that this amount should soon increase to \$10 billion. Indeed, some consider that the commercial bonds between the two countries are still insufficient taking into account its potential.

The countries' regions are referred as a key incentive for the economic cooperation. Brazil is often seen as an important country for Turkish investments in South America, and Turkey is portrayed as the gateway to the Middle East countries. In this sense, Turkey has established an agreement on political dialogue and cooperation with Mercosur (Southern Common Market), a crucial organization for Brazil's economic ties with its neighbors. Also, the oil and coal sector have been mentioned by Brazilian companies as important economic assets in Turkey, and the meeting underlined the importance of the increasing Turkish-Brazilian cooperation in civilian aircraft, science, technology and education. In fact, just last year, Turkey has proposed joint aircraft manufacturing to a Brazilian company, Embraer. In January this year, the same Brazilian company was pointed out by Turkish officials as a potential partner for building up Turkey's first fighter jet.

Politically, the most significant matter in which the two countries have been involved has been the joint position that both assumed regarding Iran's nuclear power. Turkey, Brazil and Iran have drafted an agreement on Iran's nuclear power designed to lessen the UN's concern about Iran's ambition in the nuclear sector. It was a diplomatic move, focusing on dialogue and not coercion, by two countries that are not part of the UN's Security Council to avoid the UN's sanctions on Iran.

#### 4.7 Brazil's Foreign Policy: a Two-Way Path

In the Brazilian case, this new diplomatic approach is part of recent developments in its foreign policy. Brazilian IR specialist Cristina Pecequilo explains that in the last decade, Brazilian foreign policy divides itself in two directions: horizontal and vertically. Vertically, Brazil has maintained its traditional commercial bonds with the US, EU and Japan. Specially, the asymmetrical relationship with the US has not considerably changed. However, even in this type of foreign policy, Brazil has changed its strategy. Brazil has gone from the actor rewarded by “good behavior,” based on the country’s political credibility, to one that has the ability to “bargain” in the international scene. This ability comes from Brazil’s political and economic successes, such as poverty reduction and achievements in the energy sector, among others.

Horizontally, it has pursued a greater proximity with the emerging powers, or as Pecequilo puts it, “great peripheral States,” such as India, China, Russia (the BRIC states) and South Africa. Such a strategy is well represented by the fact that China has become Brazil’s number one economic partner. Turkey can also be considered part of this policy.

Thus, Brazil is pursuing South-South cooperation, that is, with countries that are traditionally considered to be part of the Global South, a concept that refers to the North/South divide mentioned in the Willy Brandt commission report of 1980. In this concept, the world is divided between the more economically developed North countries, and the generally underdeveloped South countries. This division is parallel to the one of center-periphery, referred by American social scientist Immanuel Wallerstein in 1970s, that split the world economy into two interdependent regions: one developed region (the core) and the underdeveloped (the periphery).

Through this South-South cooperation, the peripheral countries demand a greater voice in the international scene, which has developed from bipolar to multipolar since the end of the Cold War. This surely is the main ‘gold’ of the demands that these countries have put forward regarding the reform of international organizations. Brazil, for instance, is known to pursue for the reform of the Security Council of the UN, being one of the candidates for a new membership.

As part of this policy, during her visit to Turkey, President Dilma Rousseff has pointed out the importance of the two countries’ positions as exhibited in the G20 meeting on the November 3-4th in Cannes, France. The Brazilian president insisted that Brazil and Turkey should contribute in the G20 summit to pressure the leading states, and more specifically the EU, in finding solutions to the current economic crisis, overcoming their “political immobility.” Brazil and Turkey’s voices would be part of the “new geopolitics” where leading states would have to share the decision-making process with the emerging powers since, as Dilma Rousseff underlines, their nations are also affected.



Source: <http://www.bilgesam.org/>

#### 4.8 Bilateral Balance of Payment

Non registered information available on the subject in Central Bank, Ministry of Finance or Treasury of Turkey.

#### 4.9 More Informations about Economic Relations

- Large scale Turkish company operating in Brazil is Kordsa-Dupont (Sabancı Holding)
- Aktaş Group invested 3,5 million dollars in partnership with Brazilian firm Marajo for the production of suspension parts.
- Yılmaz Machinery group in Sao Paulo is in the operation since 2009, in machinery sector.
- Petrobras and TPAO has signed an agreement for research in petroleum fields.
- Turkish Airlines has been licensed to fly to Sao Paulo regularly.
- Turkish-Brazilian Business Council is trying to help both sides to invest in each others' country in various fields including energy, wholesale and retail trade , real-estate and manufacturing.

#### 4.10 Current info about turkey's investment abroad

Turkey's Direct Investment Abroad expanded by 234.0 USD mn in Aug 2018, compared with a growth of 292.0 USD mn in the previous month. Turkey's Direct Investment Abroad: USD mn data is updated monthly. It is available from Jan 1992 to Aug 2018 and averaged 60.0 USD mn throughout the period. The data reached an all-time high of 2.0 USD bn in Mar 2012 and a record low of -275.0 USD mn in Jan 2006. The Central Bank of the Republic of Turkey provides monthly Direct Investment Abroad in USD.

In the latest reports of Turkey, Current Account recorded a surplus of 2.6 USD bn in Aug 2018. Foreign Direct Investment (FDI) increased by 971.0 USD mn in Aug 2018. Its Foreign Portfolio Investment fell by 2.7 USD bn in Jun 2018. The country's Nominal GDP was reported at 202.3 USD bn in Jun 2018.

The capital that Turkey transfers abroad for direct investment came close to half of the one that comes from abroad. While net 7.9 million dollars comes to Turkey in 10 months, abroad investments of Turkish business men reached 3.3 billion dollars.

In 2012, which is the slowdown year in economy, the capital export to abroad that Turks transferred for direct investment got accelerated. During the first 10 months of the year, the direct investment of Turks in abroad came close to the foreign capital that comes to Turkey for direct investment.

According to the calculation that was made from Turkish Central Bank's balance of payments, the foreigners brought 8 billion 324 million dollars of capital to Turkey for their direct investments during January-October period. According to the equal period of the year before, the amount coming decreased 31.6%. During the same period, foreign capital direct investments also increased 350 million dollars. Thus, net foreign capital input on this quality became 7 billion 947 million dollars by 22.1% decrease. In this period, real estate purchase of foreigners also increased to 2 billion 145 million dollars by 23.3% increase; while the credit amount that foreign capital firms used from their external partners reached 465 million dollars by 454% increase. When all these are included, the total net input in the 10 months in the direct foreign capital was realized as 10 billion 584 million dollars by 12.2% decrease.

In January-October period, Turkish investors transferred 3 billion 583 million dollars for their investments in various countries. The mentioned amount increased 84.4% compared to the same period of the year before. Within the scope of the direct investments, capital export to abroad surpassed the total amount throughout the previous year in Turkey. In the same period, there was also a feedback of an amount of 219 million dollars to Turkey from the direct investments abroad. Therefore, the net direct capital export during the 10 months of the year of Turkish entrepreneurs became 3 billion 364 million dollars by 90.1% increase compared to the year before.

According to this, the net direct investment realized abroad by Turkish investors during the 10 months of 2012 reached 42.2% of the direct foreign capital amount of 7 billion 974 million dollars.

Turkish entrepreneurs in this period realized 32.8% of direct investment abroad of the total direct investment that foreigners realized in Turkey including real estate purchases and credit utilization of the firms. The amount that the Turks transferred abroad for direct investment is defined as 7 billion 220 million dollars as net actual input when it declines from the total capital that foreigners brought for direct investment. The subject amount was 10 billion 282 million dollars during the same period of 2011. According to this, the 10 months' net capital input on the side of direct investments decreased 29.8% compared to the year before

The general datas showed that Turkish firms did not only invest in countries like EU members, Russia, the US and China, but also in less-developed countries such as Afghanistan, Angola, Ethiopia, Ghana and Colombia. This situation was also an outcome of the government's new foreign trade strategy, which aims to diversify the country's trade partner

The energy sector receiving the greatest investments from Turkish firms was the energy industry, according to the Treasury data. In the past 10 years, \$3.96 billion of Turkey's total FDI was in the energy sector. This was followed by the financial sector, with \$2.84 billion. The manufacturing and communications industries also received \$2 billion and \$1.55 billion in FDI by Turkish firms, respectively.

#### 4.11 World foreign direct investment flows

Global foreign direct investment (FDI) flows fell by 23 per cent to \$1.43 trillion. This is in stark contrast to the accelerated growth in GDP and trade. The fall was caused in part by a 22 per cent decrease in the value of cross border mergers and acquisitions (M&As). But even discounting the large one-off deals and corporate restructurings that inflated FDI numbers in 2016, the 2017 decline remained significant. The value of announced greenfield investment – an indicator of future trends – also decreased by 14 per cent.

FDI flows to developing economies remained stable at \$671 billion, seeing no recovery following the 10 per cent drop in 2016. • FDI flows to Africa continued to slide, reaching \$42 billion, down 21 per cent from 2016. The decline was concentrated in the larger commodity exporters.

Flows to developing Asia remained stable, at \$476 billion. The region regained its position as the largest FDI recipient in the world.

FDI to Latin America and the Caribbean rose 8 per cent to reach \$151 billion, lifted by that region's economic recovery. This was the first rise in six years, but inflows remain well below the 2011 peak during the commodities boom.

FDI in structurally weak and vulnerable economies remained fragile. Flows to the least developed countries fell by 17 per cent, to \$26 billion. Those to landlocked developing countries increased moderately, by 3 per cent, to \$23 billion. Small island developing States saw their inflows increase by 4 per cent, to \$4.1 billion

Inward FDI flows to developed economies fell sharply, by 37 per cent, to \$712 billion. Cross-border M&As registered a 29 per cent decrease, with fewer of the megadeals and corporate restructurings that shaped global investment FDI downward trend

Category	2005–2017
Developed	\$712 bn
Developing	\$671 bn
Transition	\$47 bn

Restriction/Regulation Liberalization/Promotion National investment policy measures - 84% 16%  
\$1.43 trillion 23% Global FDI 2017 90of %Global GDP Formal industrial development strategies: 101 countries Strategiesand measures Industrial policy packages Top 100 lead the way Gender balanced leadershipSpecial economic zones Facilitation & IPAs Screening procedures Investment Policy Tools Investment incentives Modern industrial & synergy Coherence policies Growth in GVCs has stagnated + viii World Investment Report 2018 Investment and New Industrial Policies patterns in 2016. The strong decrease in inflows was in large part the effect of a return to prior levels in the United Kingdom and the United States, after spikes in 2016.

FDI flows to transition economies declined by 27 per cent, to \$47 billion, the second lowest level since 2005. The decline reflects geopolitical uncertainties and sluggish investment in natural resources.

Projections for global FDI in 2018 show fragile growth. Global flows are forecast to increase marginally, by up to 10 per cent, but remain below the average over the past 10 years. Higher economic growth projections, trade volumes and commodity prices

would normally point to a larger potential increase in global FDI in 2018. However, risks are significant, and policy uncertainty abounds. Escalation and broadening of trade tensions could negatively affect investment in global value chains (GVCs). In addition, tax reforms in the United States and greater tax competition are likely to significantly affect global investment patterns.

(USD Billion)

2014			2015			2016		
Rank	Country	FDI	Rank	Country	FDI	Rank	Country	FDI
1	United States	171,6	1	United States	348,4	1	United States	391,1
2	China	128,5	2	Ireland	188,3	2	United Kingdom	253,8
3	Hong Kong	113,0	3	Hong Kong	174,4	3	China	133,7
4	Singapore	74,0	4	China	135,6	4	Hong Kong	108,1
5	Brazil	73,1	5	Singapore	70,6	5	Netherlands	92,0
6	Canada	59,1	6	Switzerland	70,4	6	Singapore	61,6
7	Netherlands	53,3	7	Netherlands	68,8	7	Brazil	58,7
8	United Kingdom	44,8	8	Brazil	64,3	8	Australia	48,2
9	Australia	40,3	9	France	47,0	9	India	44,5
10	Ireland	37,4	10	India	44,1	10	Russia	37,7
25	Turkey	12,5	22	Turkey	17,3	20	Turkey	12,0
<b>World Total</b>		<b>1.323,9</b>	<b>World Total</b>		<b>1.774,0</b>	<b>World Total</b>		<b>1.746,4</b>

Source: World Investment Report (WIR) 2017, UNCTAD

A decrease in rates of return is a contributor to the investment downturn. The global average return on foreign investment is now at 6.7 per cent, down from 8.1 per cent in 2012. Return on investment is in decline across all regions, with the sharpest drops in Africa and in Latin America and the Caribbean. The lower returns on foreign assets may affect longer-term FDI prospects.

FDI activity was lower across all sectors. M&A values were down in the primary, manufacturing and services sectors. The fall in greenfield announcements in 2017 was concentrated in services. However, over the past five years, the level of greenfield projects in manufacturing has been consistently lower than in the preceding five-year period across all developing regions. This has important implications for industrial development. The sharp fall in global FDI contrasted with the trend in other cross-border capital flows. Total capital flows increased from 5.6 to 6.9 per cent of GDP, as bank lending and portfolio investment compensated for the FDI slump. Capital flows to developing countries increased modestly, from 4.0 to 4.8 per cent of GDP.

FDI remains the largest external source of finance for developing economies. It makes up 39 per cent of total incoming finance in developing economies as a group, but less than a quarter in the LDCs, with a declining trend since 2012.

The rate of expansion of international production is slowing down. The modalities of international production and of cross-border exchanges of factors of production are gradually shifting from tangible to intangible forms. Sales of foreign affiliates continue to grow but assets and employees are increasing at a slower rate. This could negatively

affect the prospects for developing countries to attract investment in productive capacity.

Growth in GVCs has stagnated. Foreign value added in global trade (i.e., the imported goods and services incorporated in countries' exports) peaked in 2010–2012 after two decades of continuous increases. UNCTAD's GVC data shows foreign value added down 1 percentage point to 30 per cent of trade in 2017. Growth in GVC participation decreased significantly this decade compared with the last, across all regions, developed and developing. The GVC slowdown shows a clear correlation with the FDI trend and confirms the impact of the FDI trend on global trade patterns.

MNEs in the global Top 100 and the developing-economy Top 100 are leading the way towards more gender-balanced boardrooms, although they have a distance to go. On average 22 per cent of board members of the Top 100s are women, better than both the S&P average and national averages.

#### 4.12 BRAZILIAN INVESTMENT IN TURKEY

Companies with Brazilian Shares in Turkey (2018)

COMPANY	SUBJECT
BANVİT BANDIRMA VİTAMİNLİ YEM SAN.A.Ş.	Agriculture, hunting and related service activities
DOĞANCIOĞLU MÜH.SAN. VE TİC.LTD.ŞTİ.	Other business activities
DORUK GIDA MEŞRUBAT DAĞITIM PAZAR.VE TURİZM SAN.TİC.LTD.ŞTİ.	Wholesale trade and commission trade, except of motor vehicles and motorcycles
ELBA GREEN GIDA İNŞAAT SANAYİ VE TİCARET LİMİTED ŞİRKETİ	Wholesale trade and commission trade, except of motor vehicles and motorcycles
ELBA HAZIR GİYİM BİJUTERİ HEDİYELİK EŞYA MOBİLYA VE DEKORASYON İTH.İHR.SAN.VE TİC.LTD.ŞTİ.	Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods
İŞIK PRODÜKSİYON REKLAM VE ORG.TİC.LTD.ŞTİ.	Other business activities

JİS TRANS MAR GIDA İTH.İHR.VE DIŞ TİC.LTD.ŞTİ.	Wholesale trade and commission trade, except of motor vehicles and motorcycles
KH MAKİNA SANAYİ VE TİCARET LİMİTED ŞİRKETİ	Wholesale trade and commission trade, except of motor vehicles and motorcycles
KİLİKYA TARIM VE GIDA ÜRN.İNŞ.TUR.SAN.VE TİC.LTD.ŞTİ.	Agriculture, hunting and related service activities
KLİMASAN DIŞ TİC. A.Ş.	Electricity, gas, steam and hot water supply
LAMELİF İNŞ.TUR.OTO.NAK. İÇ VE DIŞ TİC.LTD.ŞTİ.	Construction
METALFRIO SOLUTIONS SOĞUTMA SAN. VE TİC. A.Ş.	Manufacture of fabricated metal products, except machinery and equipment
MULTİMARKA DIŞ TİC.LTD.ŞTİ.	Wholesale trade and commission trade, except of motor vehicles and motorcycles
PETEK KONTRPLAK SANAYİ VE TİCARET A.Ş.	Forestry, logging and related service activities
PLASTICA INTERNATIONAL TRADING LLC LTD.ŞTİ.	Manufacture of other non-metallic mineral products
SAHNELER EĞİTİM YÖNETİM VE DANIŞMANLIK HİZMETLERİ TİC.LTD.ŞTİ.	Education
SOLİBRA GRANİT MERMER SAN. İÇ VE DIŞ TİC.LTD.ŞTİ.	Wholesale trade and commission trade, except of motor vehicles and motorcycles

ŞENOCAK SOĞUTMA SİSTEMLERİ TİC.VE SAN.A.Ş.	Electricity, gas, steam and hot water supply
TRACIA TARIMSAL ÜRÜNLER İÇ VE DIŞ TİCARET LTD.ŞTİ.	Wholesale trade and commission trade, except of motor vehicles and motorcycles
TROPICAL TURKEY GAYRİMENKUL DANIŞMANLIĞI KUYUMCULUK SANAYİ VE TİCARET LİMİTED ŞİRKET	Wholesale trade and commission trade, except of motor vehicles and motorcycles
TROPİKAL GÖSTERİ SANATLAR REKLAM VE ORG.TİC.LTD.ŞTİ.	Other business activities
TRRİO ORGANİZASYON TURİZM TEKSTİL TİC.LTD.ŞTİ.	Recreational, cultural and sporting activities
WEST FOOD GID.HAYV.NAK.İNŞ.MAD.TİC. VE SAN.LTD.ŞTİ.	Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods

Source : TUIK 2018

#### 4.13 [Current info about the Brazil investment in turkey](#)

FDI of Brazil in Turkey (stock) was 543 million \$ between 2002-2012(January-April) period. By the end of June 2013, 16 Brazilian companies have operations in Turkey, in energy, real estate, manufacturing, service, retail and wholesale trade sectors.

#### 4.14 [Credit Lines by Brazilian Banks](#)

According to the sources of the Turkish Treasury ( sole authority in foreign capital registration) and Banking authorities there are no registered credit lines by Brazilian Banks extended to Turkey.

#### 4.15 [Main Economic Agreements Involving Brazil](#)

Key Documents Between Turkey and Brazil.

- Friendship Treaty (1927)
- Air Transport Agreement (1950)
- Commercial , Economic and Industrial Cooperation Agreement (1995)
- Agreement on Cooperation in the Field of Culture and Education (1995)
- Agreement on Cooperation in the Field of Tourism (1995)

- Agreement on Visa Exemption for Official Passports (1995)
- Memorandum of Understanding on the Establishment of Political Consultation Mechanism custom (1995)
- Agreement on Visa Exemption for Ordinary Passports (2001)
- Agreement on Cooperation in Defence Matters (2003)
- Agreement on Cooperation Mmorandum of Understanding(2005)
- Foreign Ministers' Memorandum of Understanding on the establishment of the High Level Comomission for Cooperation (2006)
- Acedemy of Diplomacy beyween the Foreign Ministries of Turkey and Brazil Memorandum of Understanding envigases cooperation (2006)
- Strategic Partnership Action Plan (2010)
- Customs Matters Agreement on Mutual Administrative Asistance (2010)
- MMemorandum of Understanding on Cooperationin the Field of Agriculture (2010)
- The Ministries of Foreign Affairs of Turkey-Brazil Agreement on Exchange of Civil Servants (2010)
- The Turkish Standards Institue (TSE) AND THE Brazilian Technical Standars Association (ABNT) Memorandum of Understanding Between (2010)
- Agreement on Cooperation between Petrobras and TPAO (2010)

In order to complete the legal framework of bilateral commercial and economic relations, Turkey and Brazil have signed a number of agreements, including Trade, Economic and Industrial Cooperation Agreement (1995) and Double Taxation Prevention Treatment (2010)

#### 4.16 [List of main Agreements in force with effective interest for businesses:](#)

**TITLE:** AGREEMENT ON TRADE, ECONOMIC AND INDUSTRIAL COOPERATION BETWEEN THE GOVERNMENT OF THE REPUBLIC OF TURKEY AND THE GOVERNMENT OF THE FEDERAL REPUBLIC OF BRAZIL.

- Date of Ratification by Turkey: 28.04.1995
- Date of Publication in Official Gazette of Turkey: 28.05.1995
- The main articles of the Agreement:

#### **ARTICLE I:**



The Contracting Parties should take all appropriate measures within the framework of their respective laws and regulations to enhance and diversify their trade relations and to promote the economic and industrial cooperation between the two countries.

#### **ARTICLE II:**

Economic cooperation between the two countries shall, in general, cover trade, banking and finance, industry, transport and communication, agriculture and energy as well as any other fields agreed upon between the Contracting Parties.

#### **ARTICLE III:**

All payments and charges with respect to goods and services to be exchanged between the two countries shall be carried out in accordance with their foreign exchange legislations.

#### **ARTICLE IV:**

The Contracting Parties shall exempt or suspend in accordance with their respective laws and regulations in force in either country the following goods from customs duties, taxes and other dues upon their import and export of samples and advertising materials of no commercial value and the temporary import of:

tools and articles brought in for assembly or repair purposes;

products for test or demonstration purposes;

goods for permanent and temporary fairs and exhibitions;

specialized containers and packages of the type used in international trade;

specialized tools and equipment, which are not readily available locally, for use in the construction of plants and other industrial structures imported by the undertaker of such construction.

The relevant customs duties, taxes and other dues should be paid if those goods will be subject to a commercial transaction.

#### **ARTICLE V:**

The Contracting Parties shall encourage their firms and organizations to participate in international trade fairs, exhibitions, and other activities taking place in their respective countries and shall endeavor to promote the exchange of trade delegations and business representatives.

#### **ARTICLE VI:**

The Contracting Parties decided to establish a Turkish - Brazilian Joint Commission on the official level for promoting and facilitating trade, economic and industrial cooperation between the two countries.

The Joint Commission shall adopt necessary measures for the successful implementation of the present Agreement and shall identify new areas of economic and industrial cooperation.

The Joint Commission may, if deemed necessary, establish sub - committees and call upon experts and advisors to attend the meetings of the Commission.

The Joint Commission shall meet upon the request of either contracting party, alternately in Turkey and in Brazil.

## **ARTICLE VII**

Cooperation between the contracting parties within the framework of the present agreement shall be realized in accordance with the laws, rules and regulations in force in their respective countries and shall be compatible with their international obligations.

There are no agreements between Turkey and Brazil on " Protection and Promotion of Investments" and " Avoidance of Double Taxation." Or free Trade Agreement also negotiations continue on the Agreement in the field of Custom.

Turkish Industrial circles claim that there are many areas of cooperation between the two countries, including automotive industry, mining, oil and construction and lifting of Double Taxation, The Free Trade Agreement, and custom conveniences will push trade volume up to 10 billion dollars.

## 5 MARKET ACCESS

### **Possible implications of the Custom Union between Turkey and the EU on Brazil**

The Customs Union Agreement between Turkey and the European Union will have both positive and negative implications for Brazilian exporters.

As positive implications we can mention the following:

- Turkey and the European Union will apply same the import duties to imports from Brazil.
- Turkey can be a stepping stone to launch products into the European market.

#### **As negative implications we can mention the following points:**

- Brazilian exporters have to compete with Turkey in the European market.
- Turkey and the European Union will apply the same rules and regulations towards Brazil.

In the long-term Brazilian exporters will benefit from the Customs Union since the duties will be lowered and the same rules and regulations (on trade) will be applied by all the members of the European Union countries and Turkey. This standard procedure will help Brazilian exporters.

### 5.1 General Customs Procedures and Necessary Documents

When a customs declaration is submitted by a declarant or his representative, it is obligatory to produce the original invoice and the value declaration form of the import goods before the printed-out customs declaration has been given to the customs administration. In addition to these, facultative or depending on the situation, a freight invoice and/or insurance policy in accordance with the terms of payment, a Bill of Lading or Bill of Carriage, a packing list, or in the case the application of the provisions of release for free circulation procedure is subject to preliminary authorization or where the declarant wants to take advantage of the preferential tariff, a control document or a certificate of origin, or other documents required under special provisions such as the declaration form for processed agricultural products, should accompany the declaration to be produced to the Customs Administration.

The documents to be attached to the declaration and/or produced before the submission of goods or, in some cases, before the day on which customs liabilities occur are dependent on and/or subject to the nature of the goods, the country or country group the goods are exported to, bilateral or multilateral Agreements, terms of delivery, terms of payment, origin, and the measures laid down by special provisions pertaining to trade, i.e. liabilities arising from international agreements on trade of goods, or special arrangements designed by relevant agencies in accordance with laws, decrees, regulations and similar legislation.

Additionally, certain specialised customs offices have been established to realize more effective customs control in terms of valuation, tariff and standardization. Some goods must be imported only from these specialized customs offices.

Goods may be unloaded from means of transport at places designated or approved by Customs, and under authorization given by the customs office concerned.

No goods may be unloaded without producing a summary declaration or another commercial or official document used as summary declaration. However, in the case of an unavoidable danger where the goods have to be fully or partially unloaded in urgency, an authorization may not be required. Such cases must be reported without delay to the nearest customs office.

### **Keeping Legal Documents**

All the documents and information must be kept for a period of 5 years for the purposes of control by the customs authorities.

#### **5.2 Customs Tariff and Tariff Classification of Goods**

Harmonized Commodity Description and Coding System, which is ratified on 10.11.1988 published in Official Gazette and entered into force on 01.01.1989, is a legal basis of Turkish Customs Tariff. Turkish Tariff Nomenclature (TTN) is published by Undersecretariat for Customs every year as a Decree and enters

into force as of 1st of January. TTN has four columns including tariff codes, description of the goods, supplementary units and conventional duty rates.

As a result of Customs Union between Turkey and EC; Turkey eliminated all customs duties applied to imports of industrial products from the EC and started to apply Community's Common Customs Tariff for imports from the third countries

##### **5.2.1 Legislation applied for Tariff Classification of Goods are listed below;**

- HS Nomenclature and Legal Notes
- HS Explanatory Notes
- HS Alphabetical Index
- HS Committee Decisions
- HS Classification Opinions
- Turkish Tariff Nomenclature
- Combined Nomenclature
- EC Classification Decisions (27 Regulations) and references used in tariff classification of goods are
- CN Explanatory Notes
- EC Classification Decisions

- WCO Commodity Database
- EU Database (EBTI, TARIC, ECICS)

#### 5.2.2 Binding Tariff Information (BTI)

Binding Tariff Information are issued by Directorate General of Customs, it is binding in Turkey and valid for 6 years.

#### 5.2.3 Origins of Goods

Customs Law refers to two different kinds of rules of origin; Non-Preferential Rules of Origin

Preferential Rules of Origin. According to Article 19 of CL; goods whose production involved more than one country is deemed to originate in the country where; a new product was manufactured, or the goods underwent their last, substantial, economically justified processing and the important stage of manufacture was done.

#### 5.2.4 Origin Rule for Textile Products

If the products are not wholly obtained; the rule “working or processing” is applied for textile products mentioned in Annex 4 of the Implemented Regulation of Customs Law (IRCL). “Working and processing” is described in column 3 of Annex 4. For the textile products that are not mentioned in Annex 4 of IRCL, the rule “Change of Tariff Heading (CTH)” is applied.

#### 5.2.5 Origin Rule for Other Goods

If the products are not wholly obtained; the rule “working or processing” is applied for products mentioned in Annex 5 of IRCL and the rule “last substantial processing or working” is applied for products which are not mentioned in Annex 5 of IRCL.

#### 5.2.6 Preferential Rules of Origin

Preferential rules of origin lay down the conditions governing acquisition of origin which goods must fulfill in order to benefit from the preferential regime (either reciprocal or autonomous) of Turkey.

According to Article 22 of CL, rules of origins; for goods that will be benefited from the preferential regimes are determined in accordance with agreements, for goods benefited from preferential tariff measures covered by the autonomous trade arrangements determined in accordance with the Council of Ministers Decrees (Decree).

### 5.3 Preferential Trade Scheme of Turkey

Bilateral Trade Arrangements;

- Free Trade Agreements with third countries
- Free Trade Agreement with the EC for the ECSC (European Coal & Steel Community) products

- Decision No. 1/98 of the EC-Turkey Association Council for agricultural products Autonomous Trade Arrangement;
- Generalized System of Preferences (GSP)

### 5.3.1 Trade with Third Parties

Article 16 of EC-Turkey Association Council (Customs Union Decision) states that “Turkey shall align itself progressively with the preferential customs regime of the Community within five years as from the date of entry into force of the Decision”.

This alignment concerns both the autonomous regimes and preferential agreements with third countries. Within the context of Article 16, Turkey has concluded free trade agreements with countries/groups of countries and autonomously granted preferences for the developing and the least developed countries in the framework of GSP. Origin protocols of Free Trade Agreements are based on; Bilateral Cumulation, Pan-European Cumulation (Diagonal)

Pan-Euro-Med Cumulation (Diagonal & Full)

#### 5.3.1.1 Proofs of Origin

##### **Certificate of Origin**

Certificate of origin corresponding with the model of Annex 6 of IRCL is used both for import and export of the product.

##### **EUR.1 and EUR-MED Movement Certificates**

Issued by the Chambers of Commerce and Industry and endorsed by the Customs Authorities on application by the exporter EUR.1 Movement Certificates for fishery products exported to the EC are issued and endorsed by the Customs Authorities.

##### **Invoice Declaration and Invoice Declaration EUR-MED**

Invoice declaration can be made out by any exporter for consignments of a value less than € 6.000 or can be made out by only “approved exporter” for consignment of a value higher than € 6.000.4.6.7.4.Certificates of Origin Form A.

Form A is used by the beneficiary countries for preferences granted under the scheme of GSP.

##### **Supplier's Declarations and INF 4 Certificates**

Supplier's declaration is used to establish the preferential origin of the goods which are in free circulation in the Customs Union area between Turkey and the EC. INF 4 certificate is used for the verification of supplier's declaration.

##### **Binding Origin Information**

Binding Origin Information is issued by Directorate General of Customs. It is issued on request of the applicant and both for export and import. It valid for 3 year and can be revoked by customs authority.

### **Goods Which Shows or Rises A Suspicion That They Are Products of A Country Other Than Their Producer Countries**

It is not permitted the importation of Goods having a name or sign, either on themselves or their inner or outer coverings, which shows or rises a suspicion that they are products of a country other than their producer countries. All kinds of blank envelopes, tapes, labels, stamps and likewise goods with prints or writings in foreign languages on them which shows or rises a suspicion that they are products of a foreign country into Turkey in order to be used for goods of Turkish origin and, with the exception of the proforma invoices

of foreign firms not established in Turkey, the importation of blank invoices to Turkey, either signed or not, which may make documents issued in Turkey seem as issued in other countries.

Such goods of the firms established in Turkey and of the foreign firms which have signed agreements of license, royalty or patent, are not subjected to above mentioned provisions.

#### **5.4 Customs Valuation**

Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade that replaced the GATT Valuation Code and which aims to provide a single and common system for the valuation of imported goods for customs purposes was accepted in 1988 by Turkey and it began to be implemented as of 12.2.1994.

Turkey harmonized customs valuation provisions with that of the EC in line with the provisions of Article 28 of the EC Turkey Association Council Decision No. 1/95. Therefore, provisions related to customs valuation in CL are in accordance with the relevant provisions of the Council Regulation No. 2913/92.

##### **5.4.1 Customs Valuation Methods**

Customs valuation of the imported goods is determined according to the following methods and these methods are applied in order of their hierarchical sequence;

1. Transaction value method
2. Transaction value of the identical goods method
3. Transaction value of the similar goods method
4. Deductive method
5. Computed value method
6. Fallback method

#### 5.4.2 Simplified Procedures in Customs Valuation

According to the provision of article 31/2 of CL; customs value of perishable goods, may be determined under simplified procedures at the request of the declarant.

Article 45 of IRCL regulates the implementation of simplified procedures on customs valuation. According to Article 45, for the perishable goods, it is possible to declare the items which are to be added to the price actually paid or payable for the determination of the customs value after importation to Turkey.

#### **Summary Declaration and Unloading of Goods Presented to Customs**

According to the provisions of CL, goods presented to customs should be covered by a summary declaration and the summary declaration must be lodged to the concerned customs administration within working hours of the first working day following the date on which the goods are presented to customs. Where goods are covered by a summary declaration, the formalities necessary for them to be assigned a customs-approved treatment or use must be carried out within:45 days from the date on which the summary declaration is lodged in the case of goods carried by sea;20 days from the date on which the summary declaration is lodged in the case of goods carried otherwise than by sea.

#### 5.4.3 Temporary Storage of Goods

Until the goods are assigned a customs-approved treatment or use, they have the status of goods in temporary storage. Goods in temporary storage can be stored only in places approved by the customs administrations. Customs administrations may require the person holding the goods in temporary storage to provide security with a view to ensuring payment of any customs debt which may arise. Goods in temporary storage can be subject only to such forms of handling as are designed to ensure their preservation in an unaltered state without modifying their appearance or technical characteristics.

#### 5.4.4 Protection of Intellectual and Industrial Property Rights at Customs

Under the legislation of protection of intellectual and industrial property rights, regarding the rights of trademarks, geographical indications and industrial designs and the rights covered by the Law of Intellectual and Artistic Work; at the request of the right holder or his representative or by their own initiative and where solid evidence is available that goods in question complies with the description of the counterfeit trademark or pirated copyright goods, customs administrations may suspend the customs procedures of the goods infringing the rights of the persons concerned. If a suspension decision is adopted, the importer or the right holder or his representative is noticed by custom authority.

If the customs administration has not been informed that legal proceedings leading to a decision on the merits of the case have been initiated or that the duly empowered judicial authority has taken provisional measures within a period of 10 days following



the notification to the right holder, customs procedures are carried out in accordance with the request of the declarant.

#### 5.4.5 Placing of Goods Under a Customs Procedure

All goods intended to be placed under a customs procedure should be covered by a declaration for that customs procedure. The customs declaration can be made: in writing; or using a data-processing technique; orally; or by means of any other act whereby the holder of the goods expresses his wish to place them under a customs procedure.

A declaration that is registered by the customs administration binds the declarant as a commitment, with regard to the duties and fines to which it refers and it is the base to assess the customs duties.

#### 5.4.6 Simplified Procedures

Simplified procedures system facilitates customs formalities for the firms certified as Customs Approved Persons (CAP) by the customs authority. It is a layered system and CAPs are classified according to their export or export-import performance, number of employees they employ etc. in three groups as;

A Class Customs Approved Person,

B Class Customs Approved Person,

C Class Customs Approved Person

#### 5.4.7 Release For Free Circulation Regime

According to the article 74 of the CL, goods that came to the Customs Territory of Turkey can be released for free circulation, as long as the commercial policy measures are applied, the other formalities laid down in respect of the importation of goods are completed and any duties legally due are charged.

#### 5.4.8 Transit Regime

Transit regime is defined in CL as movement of goods in the Customs Territory of Turkey from; A foreign country to a foreign country

- A foreign country to Turkey
- Turkey to a foreign country

An inland customs office to another inland customs office

Transit goods can be moved in Customs Territory of Turkey with the documents listed below;

- Transit declaration
- TIR carnet
- ATA carnet
- NATO form 302

- Post

Summary declaration for goods carried out by sea or air from a Turkish port to another Turkish port or to a port outside the Customs Territory of Turkey

### **Security in Transit Regime**

According to the CL, security for transit should cover the full amount of customs debt (duties and other charges). There are 3 different types of securities; Security for single transit operation Turkish Lira in Cash. Letter of guarantee issued by a bank or private financial institutions. Treasury bills or bonds. Foreign currencies . Comprehensive security that covers number of transit operation. Global security that covers number of transit operation.

### **Bonded Warehouse Regime**

According to the CL, it is possible to store goods not in free circulation in bonded warehouses without being subject to import duties or commercial policy measures. There is no limit to the length of time for remaining of goods in bonded warehouses. CL defines two types of bonded warehouse as; public bonded warehouse and private bonded warehouse; public bonded warehouses are available for use by any person and public bonded warehouses are reserved

for only the storage of goods by the warehousekeepers. The fairs and exhibitions where goods not in free circulation are exhibited are deemed as private warehouses.

Import goods may undergo the usual forms of handling for preserving them, improving their appearance or marketable quality or preparing them for distribution or resale.

The cost of warehousing and of preserving goods while they remain in the warehouse, needs not be included in the customs value if they are shown separately from the price actually paid or payable for the goods, however these costs must be added to the tax base of VAT.

### **Inward Processing Regime**

IPR is a system allowing Turkish manufacturers/exporters to obtain raw materials, intermediate unfinished goods that are used in the production of the exported goods without paying customs duty and being subject to commercial policy measures. Having granting IPR authorization, the owner of the IPR authorization is obliged to import goods stated on authorization and export them after processing the imported goods. The basic endeavor of the IPR is to maintain materials at the world market prices and enhance the competitiveness of Turkish exporters. IPR can be implemented in two different ways. Suspension System: In suspension system; goods not in free circulation, which is intended for re-export

from Turkey in the form of compensating products, can be imported temporarily after having them covered under a security. When the goods are exported in the form of compensating products, the security is returned. Drawback System: In the case goods

released for free circulation are exported from Turkey in the form of compensating products, the import duties collected while they were released for free circulation are returned. Authorization certificate can only be granted to the firms which apply for via internet and can submit necessary documents to Undersecretariat for Foreign Trade (UFT) via General Secretaries of Exporters Associations. Necessary documents are inward processing project form, table of raw materials, list of authorized signatures, petition, trade registration journal, capacity report and other technical documents in some special cases.

The firms which have granted an authorization certificate should have to import and export goods without paying any kind of custom duties and fees within the period stated on the authorization certificate. This period of discharge cannot be longer than 12 months. However, for some special production facilities the time can be given up to 24 months. The period of discharge can be extended maximum half of the period stated on the authorization certificate due to the force major situations.

### **Processing Under Customs Control Regime**

The procedure for processing under customs control allows goods not in free circulation to be used in the Customs Territory of Turkey in operations which alter their nature or state, and without their being subject to import duties or commercial policy measures, and allows the products resulting from such operations to be released for free circulation at the rate of import duty appropriate to them. Authorization for processing under customs control is granted by the customs administrations at the request of the person who carries out the processing or arranges for it to be carried out.

### **Temporary Importation Regime**

The temporary importation regime is defined in the CL as follows: "The temporary importation procedure shall allow use in the customs territory of Turkey, with total or partial relief from import duties and without their being subject to commercial policy measures, of goods not in free circulation intended for re-export without having undergone any change except normal depreciation due to the use made of them". In accordance with the provisions of the CL governing the temporary importation procedures, the use of the temporary importation procedure with partial relief from import duties is granted in respect of goods

which, while remaining the property of a person established outside the customs territory of Turkey, are not covered by the provisions of Council of Minister's Decree No. 2000/69 or which are covered by such provisions but do not fulfill the conditions provided for therein for the grant of temporary importation with total relief provided that the amount of import duties payable in respect of goods placed under the temporary importation procedures is set at 3% for every month and the remaining amount is secured. Authorization for the temporary importation of the property of a person established outside the customs

territory of Turkey, and the goods which are covered under special conditions laid down in the provisions of Council of Minister's Decree No. 2000/69 which defines "Special Conditions for the Temporary.

Importation Procedures with Total Relief from import duties" and not covered by the provisions of the said Decree or covered by the provisions of the said Decree but do not fulfill the conditions provided for therein for the grant of temporary importation with total relief or required to use the temporary importation procedures with partial relief, is granted by the relevant customs office at the request of the person who uses the goods or enables for them to be used.

### **The Outward Processing Regime**

The outward processing procedure allows goods in free circulation to be exported temporarily from Turkey in order to undergo processing operations and the products resulting from those operations to be released for free circulation with total or partial relief from import duties.

The authorization specifies the period within which the compensating products must be reimported into Turkey. They may extend that period on submission of a duly substantiated request by the holder of the authorization. The import duties is effected by deducting from the amount of the import duties applicable to the compensating products the amount of the import duties that would be applicable on the same date to the temporary export goods if they were imported from the country in which they underwent the last processing operation.

The amount to be deducted is calculated on the basis of the quantity and nature of the goods in question on the date of acceptance of the declaration placing them under the outward processing procedure and on the basis of the other elements of charge applicable to them on the date of registration of the declaration relating to the release for free circulation of the compensating products. Where the purpose of the processing operation is the repair of the temporary export goods, they are released for free circulation with total relief from import duties where it is demonstrated that the goods were repaired free of charge, either because of a contractual or statutory obligation arising from a guarantee or because of a manufacturing defect. However, this provision does not apply where account was taken of the defect at the time when the goods in question were first released for free circulation.

### **Outward Processing with Use of the Standard Exchange System**

The standard exchange system permits an imported product (replacement product) to replace a compensating product. The customs administrations allow the standard exchange system to be used where the processing operation involves the repair of goods in free circulation other than those subject to the agricultural policy or to the specific arrangements applicable to certain goods resulting from the processing of agricultural products.

If a security is provided to cover the amount of import duties, replacement products may be permitted to be imported before the temporary export goods are exported.

Replacement products must have the same tariff classification, be of the same commercial quality and possess the same technical characteristics as the temporary export goods had the latter undergone the repair in question. Where the temporary export goods have been used before export, the replacement products must also have been used products. However derogation may be granted if the replacement product has been supplied free of charge either because of a contractual or statutory obligation arising from a guarantee or because of a manufacturing defect.

## 5.5 Export Procedure

According to the CL, export goods is deemed they were actually exported on condition that they were removed from the customs control and leave the Customs Territory of Turkey in the same state when the export declaration was registered. In this case the customs control on the export goods ceases.

### 5.5.1 Re-exportation, Destruction and Abandonment

Related provisions of CL allow to goods not in free circulation re-exported from the Customs Territory of Turkey. CL is also allows destruction or abandonment of goods not in free circulation, however only under the supervision of the customs administrations and with no expense for the Exchequer.

### 5.5.2 Returned Goods

Goods in free circulation which, having been exported from Turkey are returned to Turkey and released for free circulation within a period of three years is, at the request of the person concerned, granted relief from imported duties. However, above mentioned relief from import duties is not granted for goods which have benefited from the foreign trade measure in its exportation.

## Security

If the customs administrations require security to be provided in order to ensure payment of a customs debt, such security can be provided by the person who is liable or who may become liable for that debt. Customs administrations may also allow security to be provided by a person other than the person from whom it is required. The security is not released until the customs debt is extinguished. Once the customs debt has been extinguished in part, part of the security can be released at the request of the person concerned.

## Repayment and Remission of Duties

Customs duties are repaid in so far as it is established that when they were paid the amount of such duties was not legally owed. Customs duties shall be remitted in so far as it is established that when they were illegally assessed. However; no repayment or remission is granted when the facts which led to the payment or entry in the accounts of an amount which was not legally owed are the result of deliberate action by the

person concerned. Customs duties shall be repaid or remitted on submission of an application to the appropriate customs office within a period of three years from the date on which the amount of those duties was communicated to the debtor. Customs duties paid on the basis of a declaration are repaid on request of the person concerned by invalidating the customs declaration. As of the registration date of the declaration, import duties is repaid or remitted insofar as it is established that

the amount of such duties entered in the accounts relates to goods placed rejected by the importer because they are defective or do not comply with the terms of the contract on the basis of which they were imported. Goods damaged before their release are also accepted as defective. Repayment or remission of import duties is granted on condition that the goods have not been used, except for such initial use as may have been necessary to establish that they were defective or did not comply with the terms of the contract; the goods are exported from the Turkey. The customs administrations may permit the goods to be destroyed or to be placed, for the purposes of their re-exportation, under the transit procedure or

the customs warehousing procedure or in a free zone, instead of being exported.

For the purposes of being assigned one of the customs-approved treatments or uses provided for in the preceding subparagraph, the goods shall be deemed to be the goods not in free circulation. Customs duties may be repaid or remitted in situations other than those referred above under conditions to be laid down by the Council of Ministers within the framework of the provisions of international agreements to which Turkey is a party.

## 5.6 Penalties

There are 2 types of penalties have been defined in CL;

Penalties to be charged on operations that result in tax loss. Fines relating to irregularities

It is not important for the application of fine whether the act which entails a fine is deliberate or not.

### 5.6.1 Penalties To Be Charged On Operations That Result In Tax Loss

As a result of any declaration, examination and control or release relating to goods subject to free circulation procedure or temporary relief arrangement;

(a) Apart from the existing duties, a threefold of these duties and shall be charged as fine in the case that any discrepancy occurs in the nature and characteristics of goods affecting the tariff treatment or in such measurements of goods as number and weight which are subject to taxation; and provided that the difference between the duties calculated pursuant to declaration, and the duties to be charged in accordance with the examination results, exceeds 5%.

(b) Apart from the customs duties regarding the deficit, a threefold of these duties shall be charged as fine in the case that the examinations and controls have demonstrated

that the declared value of the goods subject to ad-valorem duties is deficient when compared with the value determined according to related provisions of CL. In case of a difference less than 5% and in the deficient value declarations incurred from a formal account error, the customs duty regarding these differences as well as a fine at an amount of one fold of this duty, shall be charged. Although guarantee has been provided, if the goods wholly or partly removed from warehouses or designated places by the customs administration, without commencing the customs formalities or without the authorization of the customs administration after completing them, threefold of these duties shall be charged as fine as well as export or import duties of the removed goods. Violation from the provisions regarding the Inward Processing Procedure and the Temporary Importation Procedure; requires the collection of the duties relating to goods. In addition, a fine at the rate of two fold of this duty is charged.

### 5.6.2 Fines Relating to Irregularities

Without prejudice to the circumstances for which a separate penalty has been assigned, an irregularity fine (172 YTL for 2006) is charged on those who have violated the formats and procedures laid down by the by-laws, regulations, notifications and instructions issued on the basis of CL and the authorities granted therein.

For Example;

Irregularity fine is applied two fold if declarants fails to present, within the prescribed time, the summary declaration or the commercial or official document used as summary declaration. Irregularity fine is applied four fold if the goods in warehouses are underwent handling without authorization of the customs administrations.

### **Appeals**

Within 15 days from the notification of the customs duties, the debtors may apply to the customs administration with a petition concerning the correction.

The relevant customs administration decides on the request for the correction within 30 days, and notifies the debtor hereof. It is possible to appeal against the decisions regarding the requests for correction, administrative decisions, customs duties and penalties within 7 days to the Regional Directorate for Customs to which the decision making customs administration is affiliated. Where the first decision has been taken in the regional directorate of customs, it can be appealed against that decision to the Undersecretariat for Customs within 15 days.

Any person has the right to appeal judiciary bodies where the Directorate for Customs or Regional Directorate for Customs are located in which the formalities relating to the decisions of the Regional Directorates for Customs and Undersecretariat for Customs are carried out.

Source: Deloitte

NOTE: Detailed Informations about 'General Scheme of Preferences' are available in Annex 3 and 3(2). Detailed informations about 'Customs Classification and Tariffs' are available in Annex 3(3)

### **What are trade defence instruments?**

One of the essential roles/missions/duties of the General Directorate of Imports is to defend domestic producers' interests against imports which cause (serious) injury to the domestic industry. In this respect, General Directorate of Imports applies trade defence instruments (anti-dumping, anti-subsidy, anti-circumvention and safeguard) in compliance with WTO rules and national legislation, and follows up the enforcement of those measures.

### **Dumping and Subsidy:**

A product is to be considered as being dumped, if its export price is less than the home consumption price in the exporting country (in other words less than the price at which a like product is sold for consumption in the exporting country).

Subsidy shall be deemed to exist if there is a direct or indirect financial contribution by the country of origin or export which confers a benefit or there is any form of income or price support.

Domestic producers or any natural or legal person or association acting on behalf of domestic industry, claiming that they are materially injured or that threat of material injury exists by reason of dumped or subsidized imports or that the establishment of an industry is materially retarded due to such imports, may take a written application to the Directorate General of Imports. The complaint shall include evidence of dumping or subsidy, injury and the casual link between dumped or subsidized imports and the alleged injury. Simple assertion, unsubstantiated by relevant evidence shall not be considered a complaint.

### **List of Definitive Anti-Dumping Measures Safeguard measures:**

In case of imports of a specific product in such increasing quantities and in a way to cause a serious injury or threat of a serious injury on the domestic industry that produces a like or directly competitive product, a safeguard measure, which is restricted to eliminate this injury or threat of injury, is applicable. For this purpose, the safeguard measure can be applied in the form of increase in customs duty rates of the product concerned, or a kind of quantity restriction as well as the combination of these two measures.

### **Web page of Safeguard Measures (Turkish):**

<http://www.tpsa.gov.tr/index.cfm?sayfa=77C5CD43-D8D3-8566-45207C1F2F2CFA49>



## **Anti Circumvention and Monitoring:**

Within the framework of legislations regarding the “Prevention of Unfair Competition in Imports” and “Safeguard Measures in Imports”, the product under investigation is subject to “monitoring” beginning from the date the Communiqué about the initiation of the investigation entered into force.

Through the course of monitoring, if there is an evidence that a change in the pattern of trade between a third country and Turkey or the country subject to measures and Turkey or individual companies in the country subject to measures and Turkey, stemming from a practice, process or work for which there is insufficient due cause or economic justification, and that the remedial effects of the duty are being undermined or nullified via the recorded circumstances which are mentioned in Clause 3, Article 6 of the decision regarding the “Safeguard Measures in Imports” or by the initiation of an investigation within the framework of legislation regarding the “Prevention of Unfair Competition in Imports; exists, then the measure initiated might be collected retrospectively, beginning from the date of entry into force of the original measure.

## **5.7 ADDITIONAL INFORMATIONS ABOUT MARKET ACCESS TO TURKEY**

### **5.7.1 Import regulations and customs duties**

#### **Regulations**

Since January 1990, all imports have been free except for purposes of public order protection, health, hygiene or national security. Administrative procedures of import have been considerably simplified since 1st January 1996 and since the application of the European Union's common customs tariff: the EU's Common External Tariff (TARIC).

The Common Trade Policy has particularly established certain import quotas for products such as textiles having their origin in third countries (multi-fibre agreements). The import of pharmaceutical products and of some cosmetic products is subject to registration in the Ministry of Health. Moreover, import of certain food products must be accompanied by a certificate of laboratory analysis. One has to produce a phytosanitary certificate for the import of living animals and products of animal and vegetable origin. The Ministry of Trade and Industry must give its consent for the import of all electrical products and automobiles.

Alcohol, wine and tobacco meant for restaurants are allowed to be imported exclusively through the public sector company called TEKEL. Import of metals and precious stones is only undertaken through banks under the authorisation of the Central Bank (Merkez Bankasi, decree No. 93/4143, March 21, 1993).

4 types of documents of transport are required by exporters :

- A trade invoice in triplicate certified by the Embassy or Consulate with a full description of the merchandise. At least one copy must remain in the possession of the importer or the bank and another should accompany the goods shipment.
- An English certificate of origin in duplicate and drafted by the local Chamber of Commerce. This document must be certified by the Embassy or the Consulate and one copy must be handed over to the Customs authorities of the country.
- A Bill of Lading.
- A proforma invoice valid for 6 months after its date of issue: on which shipping, incoterm selected and the name of the importer shall be mentioned. Turkey has nine free trade zones, regulated by the law 3218 of June 1985, in Mersin, Istanbul, Izmir, Antalya, Trabzon, Adana, Samsun, Mardin and Erzurum.

### **Customs duties**

The Turkish Customs system applies the harmonised customs system. The customs duties are calculated on an ad valorem basis in relation to the CIF value of the goods.

#### **5.7.2 Distribution**

##### **The Business to Consumer (B to C) market**

The consumption habits are very different between the rural and the urban society. The growing urbanisation of this country, its opening to the rest of the world and the fact that 50% of the population is less than 25 years old have favoured a strong trend towards westernization and consumption. The Standard of living has improved, thereby consolidating an urban middle class, which increases the demand for durable consumer goods even if the domestic consumption gives highest importance to the basic necessities of life. The distribution sector is characterised by its extreme fragmentation and by its low diversification. At present, a deep changing process is under way especially with the appearance in Istanbul of large distributors (supermarket chains such as Migros, Tansas and a few hypermarkets such as Carrefour) then large commercial centres such as (Akmerkez, Gallery, Profilo, Capitol in Istanbul) and the development of new structures integrated at the national level. All these entities have been achieved within the framework of greater competition stimulated by the Customs Union with the European Union. In spite of these changes, the system of distribution remains very complex with a large number of intermediaries. Retail sale of daily consumption products (food, hygiene, personal goods, cleaning accessories) remain essentially concentrated in the hands of nearly 170,000 small family sale structures. The sale outlet areas of more than 100 m<sup>2</sup> alone carry out 20% of the total sales. The great importance of small retail sale companies is explained by the vast area of the country and the inaccessibility of certain zones, a small fleet of motor cars and the application of a confidence credit system with local traders.

##### **The Business to Business (B to B) market**

The sale of foreign products in Turkey is generally undertaken by the intermediary of agents and importers. Articles 116 to 134 of the Code of Trade (Law no. 6.762) regulate the contraction of commission agents. Usually, commercial margins for consumer goods are below the EU average. Despite the privatisation process undertaken by the government, numerous companies remain State-owned and directly depend on Ankara for their purchase decisions. Public purchases are also decided in the Capital. To negotiate with the Turkish administration, it is necessary to have a representative in Ankara having relevant contacts at his disposal. Concerning private trade, more concentrated on Istanbul, an agent with good relations is necessary.

Numerous professional exhibitions are organised in Turkey. In order to obtain the list : [TUYAP](#)

### 5.7.3 Transportation of goods

#### 5.7.3.1 By road

The Turkish road network extends over 60,000 km of roads and highways, of which more than 80% are asphalted and 1,530 km are national highways. According to the estimates made by the Ministry of transport of Turkey, 76% of goods transport is carried out by roads. In recent years, the government launched massive investment programmes aimed at improving the road network. The creation of several trunk roads is in operation: Ankara-Pozanti, Pozanti-Tarsus, Gaziantep-Sanlıurfa and Bursa-Izmir, with the help of the World Bank. The principal highway of the country links Ankara to Istanbul, it then extends up to Edirne, on the Greek-turc frontier. Nearly 90% of the goods traffic and 95% of passenger traffic takes place on the roads. Since 1993, Turkey has been applying the CMR convention.

#### 5.7.3.2 By rail

Turkey's railway network extends over 10,508 km, of which 8,607 km are the principal railway lines and 1,901 km are auxiliary railway lines. Only, 2,065 km of railway lines are electrified, which represents 19.6% of the total railway network. The principal railway lines are Ankara-Istanbul, Istanbul-Kapikule (Greece) and Divrigi-Iskenderun. The D.H.L (General management for air, sea and rail infrastructures) has been attached by the Ministry of Transport. This General D.H.L management looks after all investments. Another General management called T.C.D.D (General Management for the Turkish railway Administration), is a public undertaking and is responsible for the exploitation of the country's railway infrastructures. The main investments are meant for the construction of one railway line between Georgia and Turkey. There were projects of electrification and construction of a metropolitan railway in Istanbul for the year 2002.

#### 5.7.3.3 *By sea*

Turkey has 8,333 km of coasts on the Black Sea, Aegean and the Mediterranean as well as the Marmara Sea. Since the country does not have a maritime tradition, Turkey does not have any seaports with sufficient infrastructures. The principal ports of the country are Istanbul, Izmir and Mersin. Turkey stands at the 17th world rank concerning commercial fleet with 150 trade ports and a transport capacity of 120 million tons of freight per year. In 1998, 11,350 millions tons of freight traffic passed through the port of Istanbul. The ports of this country are exploited by the State and managed by the state companies called T.D.I (Turkiye Denizcilik Isletmeleri) and T.C.D.D (Turkiye Cumhuriyeti Devlet Demir Yollari).

#### 5.7.3.4 *By air*

Turkey has 6 international airports : the principal airports are Ataturk (Istanbul), Esenboga (Ankara) and Adnan Menderes (Izmir). The public sector company is Turk Hava Yollari (THY), which has the monopoly of international linkages. 10 private companies, among others, Turkisk Airlines and Istanbul Airlines offer local flights, both regular and chartered.

The infrastructures are supplied by the National airports Administration (DHMI). The part of air freight traffic is not more than 6 to 7% of the whole goods transport due to an insufficient infrastructure. But the sector has been experiencing a progression for a few years. In 1999, 182,466 tons of freight transited in Istanbul airport. This traffic represents 20.4% more than in 1998.

#### 5.7.4 *Standards*

The competent institution in matters of standardisation is the Turkish Standards Institution(TSE). The TSE develops standards in all fields : materials, equipment goods, machinery, durable consumer goods, food products, electrical machinery and equipment, tools, processes and services. In order to make them compulsory, the standards must be ratified by the corresponding Ministry. Since April 1995, there has been a list of products the import of which must be certified in conformity with the Turkish standards. It is sent by TSE. The TSE has also a number of abilities for quality certification according to the ISO, series 9000. Generally, imported industrial products have to respect ISO norms standards (International Organisation of Standardisation) or CEN (European Committee of Standardisation) and for electrical products, CENELEC standards (European Committee of Electrical Standards). But a TSE certificate in conformity with this extreme must also be obtained.

#### 5.7.5 *Patents and brands*

Turkey is currently adapting itself to the legal framework of industrial property according to the directions given by the European Union. The principal advances made in this field are the creation of the Turkish Patent Institute (TPI), introduction of a

system of penal sanctions and updating of the law of trademarks by means of a series of decrees.

Turkey is a signatory member of the Convention which created the World Intellectual Property Organization (WIPO) and of the Paris Convention relative to Industrial Property Protection. In specific matters of patents, the country signed the Patent Cooperation Treaty (PCT) and the Strasbourg Agreement concerning International Patent Classification.

Letters patents must be registered with the TPI and are protected for a 20-year period, although the law allows registration of the models of invention, with protection limited to 10 years. The registered trademarks are protected for 10 years and are extendable for identical periods.

#### 5.7.6 Import licensing

According to the Decree Concerning the Execution of Import Surveillance and the Regulation Concerning the Implementation of Import Surveillance, when the import of a particular product causes or threatens to cause an injury to domestic producers of the same or competing products, the Directorate General of Imports of the Undersecretariat of the Prime Ministry for Foreign Trade(UFT) can impose surveillance over the product upon application or by its own judgment. The imported product under surveillance must be accompanied with an import license for the said product issued by the Directorate General of Imports of UFT in addition to other documents as required by the customs laws and regulations.

Turkey bans the imports of narcotics, products that bear a brand name or a commercial title against related international conventions on industrial property rights, silkworm eggs, natural manure used for agricultural aims, computer game machines, etc.

According to the Communiqué of Standardization for Foreign Trade(2006), Turkey places the import of the following products under licensing: certain communication appliances, some products requiring after sales service certificates, maps, products for civil aviation, and banknotes and commercial notes.

### 5.8 Anti-Dumping Practices in Turkey

#### 5.8.1 History and Legal Background

Following the adoption of the import liberalisation policies after 1980, the need to protect domestic industries from unfair trade practices arose. Consequently, Turkey enacted her first anti-dumping code in 1989, namely, the Legislation on Prevention of Unfair Competition in Importation, comprising of the Law No: 3577 which is amended by the Law No:4412, the Ministerial Decree No: 99/13482 and the Regulation, which covers the provisions on the protection from dumped imports. It has been formulated in accordance with the provisions of the Tokyo Round Anti-Dumping Code of GATT which has regulated the technical and official procedures.

Accordingly, Turkey signed the Final Act of the Uruguay Round and the Marrakech Agreement Establishing the World Trade Organisation. The mentioned Agreement has been ratified by the Grand National Assembly with the Law dated 26/1/1995 and numbered 4067. In that respect, the WTO Anti-Dumping (A-D) Agreement has the force of law in Turkey by virtue of the Turkish Constitution and Turkey adheres to the provisions of this Agreement.

To this end, the WTO Anti-Dumping Agreement is the main reference for the Turkish anti-dumping authority. In practice, said Agreement is fully observed by Turkey. Moreover, in cases of conflict the Agreement has precedence over domestic legislation.

The authority is the Directorate General for Imports of the Prime Ministry's Undersecretariat for Foreign Trade.

#### 5.8.2 Export administration

Exporters in Turkey are required to register with the Exporters Union and their local business associations.

Turkey prohibits the export of the following products: cultural historical works and wild animals, India hemp, tobacco, tree species of walnut, mulberry etc., products subject to the Vienna Convention for the Conservation of the Ozone Layer, and certain chemicals. Export of products such as natural gas, some electronic devices, and unprocessed olive oil needs to be registered.

In addition, in order to encourage export and pursuant to the decision of the Special Consumption Tax Code No. 5493, deliveries of gasoline in some customs areas started to enjoy exemption from Special Consumption Tax and Value Added Tax granted by the Council of Ministers as of January 1, 2006.

#### 5.8.3 Investment administration and its development

The major legislations in Turkey governing foreign investment are the Foreign Direct Investment Law, the Decree on Foreign Investment Framework and the Circular of the Decree on Foreign Investment Framework. Other legislation regulating foreign investment includes the Land Registry Act, the Free Zones Law, and the Corporate Tax Law, etc.

The General Directorate of Foreign Investments(GDFI) is the leading government body in the administration of foreign investment in Turkey. The Investment Advisory Council(IAC) and the Coordination Council for Improving the Investment Climate(CCIIC) are in charge of providing advice on the Government's measures to improve Turkey's investment climate. The Turkish Investment Support and

Promotion Agency(TISPA), newly established in 2007, will fully take in charge of foreign investment promotion affairs according to the Law about the Establishment of Investment Support and Promotion Agency of Turkey approved by the congress.

#### 5.8.4 Investment incentives

Foreign invested enterprises in Turkey enjoy the same preferential policies available for domestic enterprises, and are also under the protection of Law No.6224 of Turkey and the Agreement on the Reciprocal Promotion and Protection of Investments.

Foreign investors are required to obtain a preferential certificate of investment from the Undersecretariat of Treasury in order to enjoy the preferential policies.

The Turkish Investment Encouragement System can be divided into three categories, the General Investment Encouragement Program(GIEP), Aids Granted to Small and Medium Sized Enterprises (SMEs) Investments and preferential policies granted to investments in priority development regions. GIEP includes exemption from customs duty and value added tax for machinery and equipment meeting requirements, or access to investment credits and operating credits in different ratio. Aids Granted to SME Investments refer to preferential treatments such as customs duty exemption, value added tax exemption for machinery and equipment and special investment credits granted to companies holding assets not exceeding 950 billion Turkish Liras(TL)(US \$ 639.8 billion) with less than 250 employees and operating in the manufacturing, agro industry, tourism, education and health, mining, and software industries. Moreover, in order to promote balanced regional development and increase employment opportunities in underdeveloped regions, Turkey provides energy support and land use support for investments in underdeveloped areas.

#### 5.8.5 Restricted sectors for investment

Establishment in banking and in the petroleum sector in Turkey requires special permission from the local government. In most commercial fields, there is no restriction on the proportion of foreign capital, but the equity participation ratio of foreign shareholders is restricted to 25 percent in broadcasting and 49 percent in aviation and maritime transportation.

In order to speed up the accession process, Turkey has intensified efforts in recent years to privatize some state owned monopoly enterprises and allow foreign enterprises to take part in bidding. According to the pre accession economic program of Turkey, the Turkish government will complete the privatization of power distribution network, some ports and monopoly enterprise producing tobacco and alcohol by 2008. In April 2006, to support its EU accession negotiations, Turkey decided to abolish investment encouragement subsidies. Subsidies granted in the past will be invalidated by the end of 2008.

#### 5.8.6 Relevant organizations

According to the Official Gazette dated at February 8, 2006 and No.26074, Turkey has established the Investment Support and. Promotion Agency, subordinate to the Development Agency, to help investors acquire necessary license and provide assistance concerning legal procedures.

At the sixth meeting of the Investment Advisory Council for Turkey(IAC) in June 2006, the IAC suggested to set up a Steering Committee to improve the work efficiency of the Coordination Council for the Improvement of the Investment Environment(CCIIE) established in 2001. The Steering Committee consists of six Ministries from government and four leading business associations.

#### 5.8.7 Avoidance of Double Taxation and the Prevention of Fiscal Evasion

According to the Agreement between the People's Republic of China and the Republic of Turkey for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect of Taxes on Income signed in May 1995, on November 18, 2005, the two countries began to grant exemption from income tax, value added tax, sales tax or any other similar taxes levied on enterprises from the other country engaged in international air transport.

### 5.9 Trade and investment related administration system and its development

#### 5.9.1 Land purchase

On January 7, 2006, Turkey amended Article 35 of the Land Registry Act. The amended article has cancelled restrictions on land purchase by businesses established under the Foreign Direct Investment Law and operating within Turkish territory, but land purchases in Turkey by businesses founded in foreign countries shall continue to be regulated by the Petroleum Law, the Industrial Zones Law and the Tourism Promotion Law. It has also stipulated that foreigners can only own up to a maximum of 2.5 hectares of land and property in Turkey for residential or commercial use. This threshold may increase to a maximum of 30 hectares if authorized by the Council of Ministers.

#### 5.9.2 Taxation system

In June 2006, the Turkish Parliament approved the new Corporate Income Tax Law. The new law has reduced corporate income tax rate from 30% to 20%, which in turn has reduced the total tax burden on foreign invested companies from 37% to 28%.

The new law has also re-defined Transfer Pricing and Thin Capitalisation, proposed new rules to address tax haven, and decided to levy a 15% withholding tax on incomes from financial investment.

In March 2006, the government of Turkey promulgated Official Gazette No. 26102 in which the Council of Ministers decided to reduce the Value Added Taxes on some textile products from 18% to 8%, including fiber products such as cotton, wool, silk,



and clothing articles made of materials listed above or made of fur, leather, and shoes, bags, suitcases, carpets and etc.

### 5.9.3 Concerning the government budget

According to the draft fiscal budget for 2007 released by the Ministry of Finance in October 2006, Turkey will make an increase of 15% in 2007 tax revenues. The major source of increased tax revenue is from indirect taxes. For example, the special consumption tax levied on alcoholic beverages and tobacco will increase by 20%.

Taxes for land registration certificates, passports and other official documents will also increase by 20%. Meanwhile, the government also hopes to increase revenues of direct taxes such as income tax and corporate tax through effective supervision measures. The draft budget comes into effect on January 1, 2007.

## Investigation Procedures

### Safeguard measures

In 2006, the Undersecretariat of the Prime Ministry for Foreign Trade(UFT) adopted 5 general safeguard measures, involving motorcycle, shoes, electric iron, vacuum cleaner and salt. These safeguard measures mainly adopted the form of tariff quotas for three years. In August 2006, Turkey, under the pretext of injury to its domestic industries, announced to adopt safeguard measure investigations against imported motorcycles, and meanwhile implemented provisional safeguard measures to levy deposits ranging from US \$ 200 to US \$ 300 on imported motorcycles.

As stipulated in Article 6 of WTO's Agreement on Safeguard Measures, provisional safeguard measures only can be taken in the form of increase in tariff rates. However, Turkey's adoption of deposit money levied on imports of motorcycle has expanded the form of trade remedies in provisional safeguard measures, and has violated relevant regulations. Imports of motorcycle and rubber boots from China take up more than 90% in the imports of these products in Turkey, thus the provisional safeguard measure and general safeguard measures adopted this time are clearly against Chinese products, and have affected greatly relevant Chinese exports to Turkey. China is concerned over such issues as frequent use of safeguard measures and expanded scope of safeguard measures, and hopes that Turkey can strictly abide by the stipulations in relevant WTO agreements and use safeguard measures in a reasonable manner

### Application

In order to apply for a anti-dumping investigation, the party alleging to have been injured by the dumped imports must fill out the questionnaire annexed to the Regulation. In cases where the application is found to be properly documented so as to include evidence of dumping, injury and a causal link between the allegedly dumped imports and the alleged injury, the authority examines that application. In such a case,

the government of the exporting country concerned is notified before proceeding an investigation is initiated.

### **Preliminary Analysis**

A complaint has to be made by or on behalf of the domestic sector which represents at least 25% of the total production of a similar product in Turkey and more than 50% of the production realised by those producers that either support or oppose the complaint.

In the course of the preliminary analysis, it should be determined that the application contains sufficient evidence regarding the existence of dumped imports, injury caused by dumped imports and the causal link between them.

### **Dumping Margin**

During the course of the investigation, export price, actual or payable, and normal value are determined by using the methods described in the domestic regulation .

### **Injury Determination**

The term injury covers three modalities, which are material injury, threat of material injury and material retardation of the establishment of a domestic industry.

### **Provisional Measure**

Provisional measures may be applied after the first 60 days of the investigation only if a preliminary affirmative determination has been made of dumping and consequent injury to a domestic sector, and if such measures are necessary to prevent the injury being caused during the investigation. Interested parties are informed of the decision of a provisional measure via a communiqué published in the Official Gazette.

### **Price Undertaking**

The exporters, or the authority, during the course of the investigation can offer price undertakings. If such undertakings are accepted, the investigation may be suspended or terminated without any further measures being adopted.

### **Definitive Measure**

The amount of anti-dumping duty to be imposed can be the full dumping margin or less. If a duty less than the dumping margin is adequate to remove the injury on the domestic industry, such lesser amount can be imposed. Turkey systematically applies this lesser duty rule since 1989.

## 5.10 DOCUMENTS AND FORMAL PROCEDURES FOR IMPORT AND EXPORT IN TURKEY

### 5.10.1 Turkey Import Clearance Process

#### Clearance Information

- Shipment that fit the criteria stated below are subject to duty, expect delays.
- a. Shipments valued over 75 EUR,
  - b. Shipments weighing over 30 kg,
  - c. Shipments valued less than 75 EUR and weighing less than 30 kg, consigned to an individual more than 5 times a year.
- Shipments that have been selected for return are subject to additional charges.
  - All temporary imports must be cleared from customs on BSO charges status.
  - Shipments from Europe require ATR-1
  - In transit shipments coming to Seaports are subject to duty/tax and customs clearance can only be done from consignee or from a selected broker To exempt the duty/tax, shipments can be inbond transferred to the nearest bonded airport area. If bonded transfer performed to the nearest bonded airport return of the shipment will not be possible.
  - Any shipment valued more than 75 EUR require formal entry with custom Consignee must appoint a broker (external or FedEx/GSP) for clearance by providing authorization letter/power of attorney, additional charges apply (ordino fee, brokerage fee, storage fee, stamp fee, D&T) and expect clearance delays. Shipments that fall under the 75 EUR limitations will be randomly inspected through customs officer and based on the commodity shipment can be selected dutiable.
  - A Certificate of Origin is required for all shipments originating in Tunisia, Jordan, Australia, United Arab Emirates, Egypt, Hong Kong and China.
  - Acceptable shipments for resale or those requiring a CI should be addressed to a company and not an individual.
  - Any shipment that has not cleared after 20 days will be confiscated by local customs. It is important for the consignee to assist if needed to avoid loss of goods. Shipments that passed the 20 days regulations can be cleared additional 30 days period with paying 1% penalty of the customs value of the shipment.
  - All commercial non-doc shipments will incur a customs surcharge of 165 USD per shipment as well as a 100 USD ordino fee (clearance document which every shipment requiring formal customs clearance must have).
  - Proforma Invoices are not accepted.
  - Dutiable shipments require original invoice signed and numbered.

- Shipments requiring clearance at points other than Istanbul or where inbound transfer is required are subject to additional charges except for the cities Ankara and Izmir.

#### 5.11 DETAILED INFO ABOUT FOREIGN TRADE REGIME IN TURKEY

Undersecretariat for Foreign Trade is assigned to regulate all aspects of foreign trade and Undersecretariat for Customs is tasked with implementation of these regulations at the borders. In addition to these two administrations, Ministry of Finance as a regulatory authority of tax issues and Undersecretariat for Treasury as a regulatory authority of exchange regime are the other institutions that have influence on the foreign trade regime of Turkey.

Main legal documents that constitute the Turkish Foreign Trade and Customs legislation are;

- Customs Law Nr. 4458
- Import Regime Decree
- Export Regime Decree
- Decree on the Regime of Technical Regulations and Standardization
- Law On The Protection Of the Value of Turkish Currency
- Free Trade Zone Law Nr. 3218
- Combating with Smuggling Law Nr. 4926
- Value Added Tax Law Nr. 3065
- Special Consumption Law Nr. 4760

In terms of country, types of trade or nature of goods, some kinds of documents such as control certificate or export/import permissions may be required for importation into or exportation from Turkey.

These documents are issued by below mentioned administrations in line with the nature of goods;

- Ministry of Environment and Forestry
- Ministry of Agriculture and Rural Affairs
- Ministry of Health
- Ministry of National Defense
- Ministry of Industry and Commerce
- Ministry of Interior
- Undersecretariat for Foreign Trade
- Energy Market Regulatory Authority

- Turkish Standardization Institute
- Turkish Atomic Energy Authority
- Telecommunications Authority
- Exporter Associations

## 5.12 MORE INFO ON IMPORT REGIME IN TURKEY

### Import Regime:

Turkey maintains a transparent and open trade regime regulated by Undersecretariat for Foreign Trade (UFT). Import Regime Decree is prepared every year by UFT, published in the Official Journal, dated 31 December, and came into force as of 1 January.

#### 5.12.1 Importers

Every natural or legal person that owns tax ID number can be an importer. However according to customs legislation, importers must submit an information file that includes, registration certificate for council of commerce or industry, copy of Trade Registry Gazette, list of authorized signatures and power of attorney to the related customs administration .

#### 5.12.2 Import Regime Decree

The Import Regime reflects both Turkey's international rights, obligations and the country's economic needs, it has been prepared by taking into account the agreement establishing the World Trade Organization (WTO), the Customs Union Agreement between Turkey and the European Union, the free trade agreements signed with various countries, the preferential treatments granted by Turkey to the least developed countries and some developing countries within the framework of generalized system of preferences and also the specific needs and requirements of the agricultural and industrial sectors. There are 5 lists that are annexed to the Import Regime Decree; goods are classified in the list I, II, III and IV according to their features and list V contains goods that are suspended. In these lists (I, II, III, IV), rates of

the customs duties for countries and country groups are indicated separately in different columns.

- List I Agricultural products
- List II Industrial products,
- List III Processed agricultural products,
- List IV Fish and fishery products,
- List V Suspension products.

If the goods are listed in both list II and V, lower duty rate is applied.

The customs duty rates applied on the industrial components of the processed agricultural products which are indicated in List III are aligned to the EU's common customs tariff rates.

Regarding the provisions of the Decision No:1/95 on the EU-Turkey Customs Union, Turkey has to apply simultaneously the EU common external tariff (CET) for most imports of industrial products and for the industrial component of processed agricultural products imported from the third countries. In this context, tariff reductions of the EU's towards the third countries are reflected by Turkey to the products covered in List: II of the Import Regime Decree

#### 5.12.3 GSP of Turkey

According to the provisions of the Customs Union Agreement, Turkey had to align its preferences with the EU's preferences under the Generalized System of Preferences (GSP) which regulates autonomous customs duty preferences in favor of the least developed countries and some developing countries. The EU's such tariff preferences to these countries are reflected in list II of the Import Regime Decree.

Turkey enacted a Decree on August 25, 2004 and with this Decree all industrial products covered by the EU's GSP Regime are included into Turkey's GSP. As a result, Turkey has fully completed the adoption of the EU's GSP Regime in terms of countries and products.

#### 5.12.4 Suspension List

The "suspension list" has been rearranged in cooperation with the EU and those goods are indicated in List-V. This List shows either reduced or mostly suspended customs duties applied to imports of certain products predominately used as raw material or intermediate inputs in chemical and electronic industries.

#### 5.12.5 End Use Products

End use products of the European Union, has been indicated in Lists I, II and V with the symbol (a) added to the end of the item description.

#### 5.12.6 Import Licenses

As a general rule, import licenses or permits are not required for imported goods. Yet, public authorities have the power to regulate and monitor the imports of certain goods on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants or the protection of industrial and commercial property. These kinds of issues are arranged by several communiqués which are also published in Official Gazette.

Import licenses or permits required under the Import Regime Decree and Communiqués are as follows.

### 5.12.7 Marking and Labeling of Imported Goods

There is a national mandatory standard “TS 4331 on The Marking and Labelling of Packages” which is still in force. However, this standard does not differentiate between domestic and imported products.

### 5.12.8 Other Legislation Related to Import

In addition to the above mentioned, there are legislations (they are also decrees and supplementary legislations) related to safeguards, protection of Turkey's commercial rights and prevention of unfair competition that takes root from import.

## 5.13 MORE INFO ABOUT EXPORT REGIME IN TURKEY

### 5.13.1 Export Regime

Turkey has been implementing an export-oriented strategy since 1980s, therefore many liberal arrangements have been made and some support programs have come into effect in order to improve export of Turkey.

Related to particularly support of exports, policies of the foreign trade strategy that was set up under the conditions of 1980s have been reviewed and modified in view of the developments taken place in the world and Turkey in the 1990s.

In this respect, State Aids prepared in compliance chiefly with the World Trade Organization and our international commitments were put into practice as of 01.06.1995. Contemporary Export Regime is regulated by; Export Regime Decree dated 06.01.1996, Decree on State Aids for Export dated 11.01.1995, Inward Processing Regime Decree dated 27.01.2005, export related provisions of Decree on Regime of Technical Regulations and Standardization for Foreign Trade dated 01.02.1996, and their supplementary legislations.

All goods, other than those whose exportation is prohibited by international agreements, laws, and, decrees, can be freely exported within the framework of the Export Regime Decree. However within the framework of the World Trade Organisation rules and Turkey EC Association Council Decision No. 1/95 (Article 7), restrictions and prohibitions on exports may be imposed in the cases of market turmoil, scarcity of goods, and on the grounds of public morality, public policy, public security, protection of the health and life of humans, animals and plants, protection of artistic, historic or archaeological assets.

Exports of some items are prohibited like indian hemp, cultural and natural assets, etc. and permission is required for the exports of some items like war weapons, opium, addictive and psychotropic substances, etc.

Moreover, some exports are subject to registration under UN Resolutions, Vienna Convention on Protection of Ozone Layer, etc

### 5.13.2 Types of Exportations

Types of exportations that are defined in the Export Regulation are;

- Exports having no special nature
- Exports on registration
- Exports on credit
- Exports by means of consignment
- Exportation of imported goods
- Exportation to free zones
- Exportation made through counter purchase or barter trade
- Exports through leasing
- Transit trade
- Exports without return

### 5.13.3 Technical Regulations and Standardization for Export

According to the Decree on the Regime of Technical Regulations and Standardization, agricultural products such as fresh fruits and vegetables, dry and dried fruits, legumes, edible vegetable oils, and cotton within the scope of approximately 70 standards are subject to standardization and commercial quality controls in exports.

These controls are carried out by the inspection units called as “Inspectorates of Standardization for Foreign Trade”, within the 8 Regional Directorates (Marmara, Western Anatolia, South Anatolia, Eastern Black Sea, Western Black Sea, South Eastern Anatolia, Central Anatolia and Eastern Anatolia) working under the UFT.

The standards that are mandatory in exports are parallel to the UN/ECE standards and the inspections are performed according to the OECD Scheme. Following the inspection carried out by the inspectors, a “Control Certificate” is given to the exporter if the product is found to be in conformity with the relevant standard.

The exporter cannot export the product without a Control Certificate.

The products may be exempted from inspection if the exporter owns the Certificate of Competence on Commercial Quality Inspection.

Certificate of Competence on Commercial Quality Inspection is a certificate issued by the UFT for the producers who are found to be competent to carry out the inspections by themselves.

These firms are subject to periodic and random controls by the Inspectorates



## 6 TRADE STRUCTURE

### 6.1 Distribution Channels

#### 6.1.1 Market Overview

At the crossroads of Europe and the Middle East, Turkey presents promising immediate and long-term opportunities for American firms. Turkey's growing economy, advantageous geographical position, expanding middle class, youthful population (median age of 30), and dynamic entrepreneurial class have made this country a growing market for exporters. Currently, the 17th largest economy, Turkey has grand ambitions to become a top ten economy by 2023, the 100th anniversary of the republic. However, like many middle income developing markets, Turkey presents a range of challenges to doing business, including complex and at times turbulent politics, bouts of instability domestically and regionally, a complex and opaque bureaucracy, onerous terms and conditions in government procurements, including increasing localization requirements, an unpredictable judicial system, weakening rule of law, a recent spate of terrorist attacks, purges in the public and private sector following the July 2016 attempted coup, and market access barriers across a range of sectors. As of July 2018, the country remains under an official State of Emergency, which suspends the country's normal legal framework and adds greater uncertainty for investors. American firms are encouraged to work closely with the U.S. Commercial Service in Turkey (CS Turkey) to conduct due diligence, find qualified partners, and vet potential projects.

A NATO member since 1952, Turkey has supported missions around the world, including Afghanistan, Iraq, the Balkans, and other areas. Turkey is an ally in the fight against the Islamic State (ISIS). Notably, Turkey provides significant assistance with the related humanitarian crisis and hosts over 3,000,000 refugees from Syria, Iraq and other countries.

In 2017, Turkey's economy reported 7.4% growth, with GDP per capita at approximately \$11,000. This rapid economic growth is being driven in part by massive public investment in infrastructure projects, including in bridges, airports, highways, and railways. Turkey's geographic position makes it an important energy and logistics corridor, linking Europe with the Middle East, the Caucasus and Central Asia. Turkey's growth has caused a subsequent increase in energy demand. Turkey's status as a net importer of energy is a factor in the country's persistent and large current account deficit, presenting a structural impediment to long-term growth. To address the increasing energy demands, Turkey is enhancing capacity by making strategic energy investments. Beginning in 2014, Turkish economic growth has slowed from previous levels; current forecasts indicate that the economy will continue to grow at approximately 4-4.5% in the coming year. Unemployment, especially in eastern Turkey, remains stubbornly high. Domestic and international economic conditions have placed downward pressure on the Turkish Lira, which has lost approximately 20% in relation to the U.S. dollar since the start of 2018. The lower value of the Turkish Lira

affects demand for exports and presents a challenge for the many Turkish firms and individuals with dollar-denominated debt.

U.S.-Turkish trade peaked at nearly \$20 billion in 2011, but decreased in subsequent years, falling to \$17.4 billion in 2016. In 2017, however, total bilateral trade climbed again to \$19.2 billion, with U.S. exports accounting for \$9.7 billion, more than a 4% increase over 2016, but still well below the \$14.7 billion in 2011. The U.S. trade surplus in 2017 stood at roughly \$300 million, falling in part due to market access barriers, such as tariff increases and localization requirements. Political uncertainty and security risks are also detractors. In 2017, U.S. goods represented 5% of total Turkish imports, behind the European Union (EU), which accounted for 36% (of which Germany had 9%), China (10%), and Russia (8%).

## 6.2 Industry Commentary

Estimated to enjoy a size of TRY 663 billion as of 2015 year end, the retail industry has preserved its stable growth trend with only occasional fluctuations. Changing dynamics in both Turkey and the world, population growth, urbanisation, and other similar factors have helped to sustain this growth. Population growth and rapid urbanisation, higher household expenditures resulting from stronger purchasing power, and a young population more eager to spend all provide significant opportunities for progress in the retail industry. Ranking among Europe's top 10 in consumption expenditures and in the top five in food expenditures, the Turkish retail industry is expected to sustain its five-year turnover performance, boasting an average growth rate of 9% per year in the medium term. Despite being on a slow-burner while shifting from traditional retail--which still enjoys a particularly high share compared to that of European countries--to organised retail, mergers and acquisitions primarily in food retail have injected momentum into the industry. Consequently, small and medium-sized retailers tend to merge. On the other hand, online retail has seen frequent 'in' and 'outs' in the market, where the number of acquisitions has risen remarkably.

The industry is anticipated to continue growing in the upcoming period, even though some occasional fluctuations may loom, triggered by a combination of events in the near future. 2015 and 2016 growth rate forecasts indicate relatively slower economic activity, with higher inflation estimated to adversely affect household expenditures. In parallel, growth in the Turkish retail industry may slow somewhat in this period, but organised retail, with a push from day-to-day operations, will still contribute positively to further developing the Turkish economy. Spanning a variety of relevant issues, Retail Industry of Turkey: Growing while Transforming reveals the economic and social contributions of the retail industry that, in essence, interacts with each and every aspect of daily life. Maintaining the upward trend in turnover of previous years, retail is expected to record approximately TRY 880 billion by 2018. As a result of exchange rate fluctuations and a somewhat stumbling consumer confidence index, retailers are currently seeking sales and long-term investments rather than high profitability. The service industry and wholesale and retail sales account for 57.7% and 12% of the gross

domestic product, respectively. Service industry and wholesale and retail commerce shares in GDP make the steady contribution of the retail industry obvious. Although organised retail has been grabbing a bigger share of the overall retail industry pie, its percentage of the overall market in Turkey still seems to be significantly lower than that in developed

countries. A look into organised retail's share in developed economies makes it clear that the industry in Turkey has some way to go and more potential to capitalise on, regardless of how solid its foundations are. The local retail market mainly consists of traditional players, despite steady growth of local and international chain stores and recent acquisitions and mergers. In addition, industry sprawl has pushed organised retailers located in big cities into every corner of the country. This expansion of organised retail has helped improve supply and distribution capacity in small and medium-sized cities, paving the way for development, growth, and institutionalisation. The food retail industry, of which traditional retailers have approximately 70%, accounts for 62% of overall retail sales. Turkey's extremely low rank among European economies for organised food retail sales per capita, shows the industry obviously has room for improvement in this particular field.

#### 6.2.1 Market Shares in the Industry

According to current turnover data provided by the Turkish Statistical Institute and AC Nielsen, traditional and organised retail segments account for 67% and 33% of the Turkish retail industry, respectively. These figures, and the fact that shopping centers have now reached approximately 7.3 million square metres of sales per month, are convincing evidence of the potential for organised retail to play a significant role in the years to come.

Organised retail's share of the total retail industry has expanded tremendously due to the flood of investments in new shopping centers and thanks to the growing number of chain stores, while at the same time competition has intensified. On the other hand, although awareness of quality and hygiene has risen, Turkish consumers stick to their traditional shopping habits. Low-priced, open-air neighbourhood markets are widely visited for a large range of consumer products, such as fresh fruit and vegetables. A study by Euromonitor shows that food sales by store-based retailers showed a compound annual rate of growth of 9% between 2009 and 2014. In the same five-year period, the organised retail market saw rapid development (particularly in hypermarkets and discount stores), along with a striking increase in food sales.

#### 6.2.2 Formal Economy and Tax Revenues

In the third quarter of 2015, the current shopping center supply reached 10.5 million square metres, with Istanbul representing the largest portion at 38%. Moreover, today, 55 shopping centres have around 2.5 million square metres of leasable area under construction. Measured as covering only 129 square metres of leasable area per 1,000 people at 2014 year end, Turkish retail concentration increased to 135 square metres in 2015.

### 6.2.3 E-Commerce

For commercial transactions performed on the internet, e-commerce in retail in particular has grown significantly, enjoying strong national and international potential. E-commerce is becoming more attractive because it eliminates the hassle of spending time at, and going to, a particular location to shop, while offering the added benefit of shopping swiftly

In developing countries a fast-growing middle class is emerging, and the resulting increase in the desire and means to spend, coupled with younger populations, supports the development of e-commerce industry. Other supporting factors include the proliferation of high-speed internet infrastructures and the increasing numbers of internet users. E-commerce has benefited from rapidly spreading use of mobile phones in line with the introduction of 4.5G infrastructure. Although online shopping may be considered a threat for physical store sales at first glance, the total disappearance of physical stores is not an expected outcome. On the contrary, e-commerce has been observed to contribute positively to physical store sales in developed markets. A great number of companies tend toward online sales as they are more cost-effective than traditional methods when it comes to leases and workforce, while at the same time they offer the chance to reach out to wider groups of shoppers. Both at national and international levels, advances in e-commerce are mainly promoted by the increased use of the internet, mobile devices, and credit cards by young and dynamic populations. Demographic analysis of online sales shows a remarkable hike in the number of young female users. In Turkey, the number of online users and e-commerce is constantly rising. In 2014, volume of e-commerce grew by 35% and reached TRY 19 billion (IT Industrialists' Association). With a market size of TRY 7.3 billion in 2013, retail e-commerce saw a 37% increase in volume, reaching TRY 10 billion in 2014.

## 6.3 Category Commentary

### 6.3.1 Food and Beverage

As touched on above, food and drink production is an industry worth roughly \$141 billion. Agriculture is a cornerstone of Turkey's economy, and its output easily makes it the Middle East's largest producer of fruits, nuts, and vegetables. In fact, it's the 7th largest agricultural producer in the world.

Turkey specialises in a number of in-demand products. It leads the world in production and processing of hazelnuts, apricots, figs, cherries, quinces, and raisins, for instances. Tomatoes are also a key commodity – especially on the Russian market.

But, of course, food manufacturing is more than just growing and harvesting crops. It's about creating everything from ice cream through to oils and beyond; it's investing in the meat industry; it's boosting aquaculture nationwide. Turkey is in the midst of all this. It's not like Turkish brands are restricted to just the domestic market, either. Turkish food has a regional – and, indeed, a global – presence. Ülker, for example, is one of Earth's giants of biscuits, cakes and confectionery. Yildiz Holdings owns many

foreign brands, such as the UK's McVitie's biscuits, and elsewhere Beta tea has transformed itself from Turkey's first tea importer to a major international player.

Turkey boasts over 41,000 registered producers – but shakeups in the country's demographics, and rising domestic production costs is opening the door wider for foreign goods.

Turkey imports \$5 billion of food & drink annually

Turkey used to be a net exporter of food. Thanks to an increasing population made up of young, busy professionals, alongside the aforementioned production cost increases, has essentially given the green-light for imports to really hit the market.

In fact, in July 2017, import duties were dropped on ingredients crucial to Turkey's food processing industry. Ingredients like cereals and pulses had their import tariffs dropped, as did red meat and live animals for slaughter.

For the last few years, import values have been rising steadily, to the point where they're now worth around \$5 billion a year.

### **Fish & seafood is Turkey's top import category**

- Fish & seafood - \$172m – Rising in popularity as Turks turn towards the sea for a healthier alternative protein source to source.
- Processed fruits & vegetables – \$134.5m – Despite being a major agricultural nation, Turkey isn't self-sufficient in its output, hence imports of these categories.
- Snack foods - \$134 .4m – The median age of the average Turk is 30.2 years, whose busy, on-the-go lifestyles is creating a big demand for snack foods.

#### **6.3.2 Apparel and Footwear Retailing**

Being the most attractive segment to investors, apparel and footwear retailing is estimated to have reached US\$26 billion market size in 2012. The segment is expected to grow with a CAGR of 10% in the next five years.

#### **6.3.3 Technical Goods**

The technical goods market, which comprises consumer electronics, cameras, major & small domestic appliances, IT equipment, telecommunication devices and office equipment and & consumables, reached US\$14.2 billion in 2012, indicating 12% year-over-year growth.

#### **6.3.4 Home Retail**

The home retailing market in Turkey is expected to expand with a CAGR of 8.5% in the next five years. (According to 2013 datas). It is also expected that it will reach 72 billion US dollars in 2017 from 48 billion dollars in 2012. In addition to strong housing demand backed by the large population of marriageable age, the renewal of existing

buildings, rapid urbanization and a government-backed nationwide urban transformation project are expected to create a demand for 7.6 billion additional apartment between 2012-2023.

### 6.3.5 E-commerce

With internet-related infrastructure developments, Turkey is pretty interesting for companies who are interested in crossborder sales. Turkey's potential for digital sales can increase its numbers three times in four years.

The Ecommerce Foundation report, published in December 2017, described that although 49 million people (48% of the population) represents internet consumers, only 29% of them made digital shopping in 2016. Report also states that B2C digital transactions grew 30.5%, that accounts for US\$ 5,852 million making it a target for international companies.

- Accept payments in local currency Turkish Lira (TRY);
- Accept 18 different local payment methods;
- Accept local credit cards and mobile payments;
- Sell in Turkey without having a local bank account or company registration, and get paid anywhere in the world.

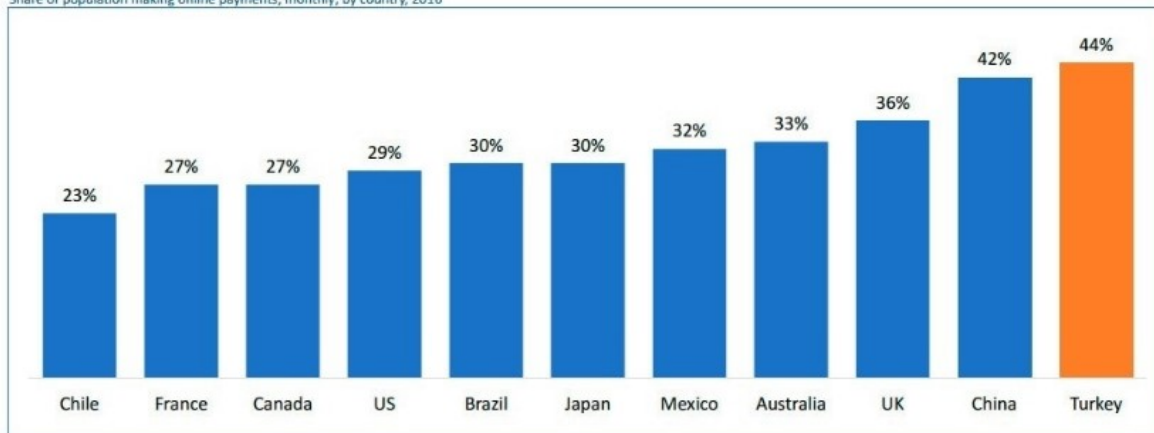
#### **Facts about the Turkish market.**

- 66,8% of the Turkish population is connected to the Internet, approximately 53 million people;
- 87% of internet users access internet every day;
- Internet users spend approximately 6 hours and 46 minutes online daily;
- The most popular online purchase category is clothing and sports followed by travel and household goods;
- Industry executives estimate online shopping revenues of US\$ 7.7 billion a year;
- Local credit cards, bank transfers, mobile payments and E-wallet are among the most popular local payment methods.

#### **About online shoppers in Turkey**

Young aged consumers (from 15 - 25 years old) are boosting sales that focus discounts, not only convenience. According to Ecommerce Foundation report, social media has a strong influence on sales and facebook is by far the most popular channel among the young consumers.

MONTHLY ONLINE PAYMENTS<sup>1</sup>  
Share of population making online payments, monthly; by country, 2016



<sup>1</sup>Monthly Online Payments. Source: IAB, A Global Perspective of Mobile Commerce, 2016.

### 6.3.6 Food Retailing in Turkey

The food retailing market in Turkey is composed of multi-format retailers, regional supermarkets, discount retailers and convenience stores. As a consequence of the high degree of disorganization, the market is very fragmented and the total market share of the four largest players does not exceed one fifth of the total revenues. As finding available land and strategic locations is an issue, small-scale (mostly undisclosed) acquisitions and asset purchases are very common among local players. The disposal of underperforming stores at the expense of market share (vice-versa also applies) stimulates activity in the market. Developing corporate governance among food retailers would be a catalyst for foreign investor interest as well. Currently there are eight food retailers traded on Borsa Istanbul, of which six went public after 2005.

## 6.4 Segment Commentary

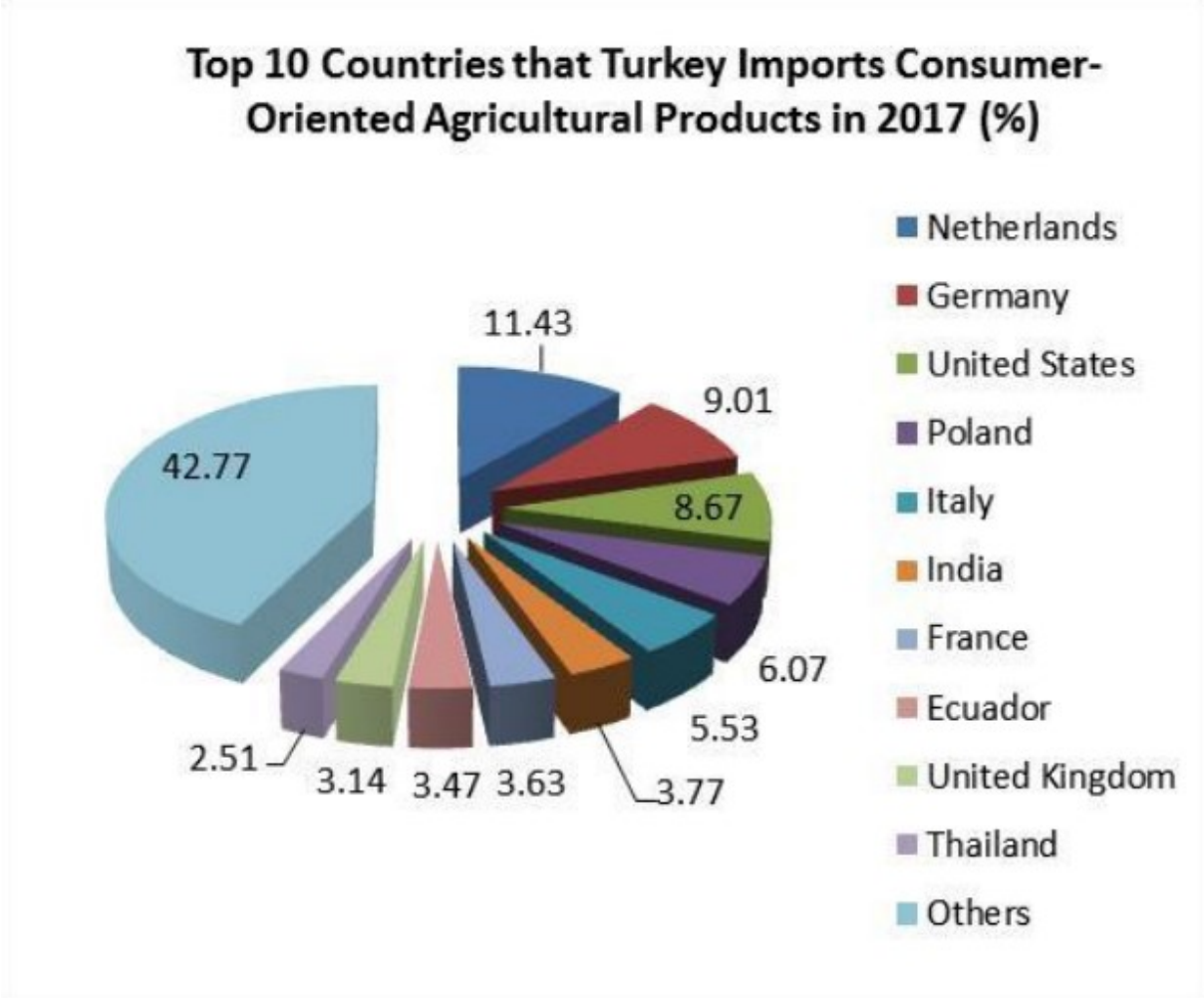
### 6.4.1 Food Retail Industry (Source , MARKET FACT SHEET: TURKEY)

The Republic of Turkey has a young population of 80 million people fueling consumption. The country is in a Customs Union with the EU and is the 17th largest economy in the world. An annual average GDP growth of 4.8 percent is forecasted by Fitch between 2017 and 2022. There was a 14 percent increase in total imports of consumer-oriented agricultural products in 2017 compared to 2016. U.S. food exporters should utilize importers in Turkey to penetrate the market in most cases. There is still a gap in the market to fill. The food retail sales index is in an upward trend in real terms.

#### 6.4.1.1 Imports of Consumer-Oriented Agricultural Products

EU countries are the major suppliers to Turkey in terms of Consumer-Oriented Agricultural Products. They have the advantage of proximity and the Customs Union. Once declared self-sufficient in most agricultural commodities for consumer use,

Turkey now imports some consumer-oriented agricultural commodities such as rice, dried beans, walnuts, almonds, bananas, coffee, cocoa, meat, fish and different kinds of processed/packaged food items.



**6.4.1.2 Food Processing Industry**

There are 42,030 food processing and 499 beverage producing enterprises in Turkey as of 2015, according to the latest statistics published by TurkStat. Turkey has a modern and developed food processing industry supplying the domestic population and exporting. The food processing industry constitutes 12.53 percent and the beverage industry constitutes 0.15 percent of all manufacturing industries in Turkey. As of the end of 2016 there were 577 foreign direct investments in food and beverage production of which 100 were German, 44 Dutch, 33 French and 31 U.S. Of these 577, 12 were started in 2016.

**6.4.1.3 Food Retail Industry**

Grocery Sales were US\$ 84 billion as of the end of 2017 and the inflation/seasonally adjusted Real Retail Sales Index has been increasing during the last 5 years. Despite the political and economic challenges that Turkey is facing in recent years, due to a young, dynamic population with 75 percent urbanization rates and a growing middle class, the food retail industry has been growing. Several foreign players in grocery



retailing have left the country in the last few years but the domestic industry is coming on strong and investments continue to be fast-paced especially in the hard discount segment. Organized/modern retailers continue to grow as traditional/unorganized retailers slowly leave the stage.

#### 6.4.1.4 MARKET SUMMARY

The Republic of Turkey, located in the south east of Europe and the north west of the Middle East, bordering the Black Sea in the north and the Mediterranean Sea in south, has a young population of 80.1 million<sup>1</sup> fueling consumption. The median age is 30.5 and 43 percent of the population is between the ages 25 to 54. The urbanization rate reached 75%, with rapid urbanization since 2000. The young population, high urbanization rate and increasing household income nurture the retail industry. The country is an Associate Member of the European Union (EU) and is in a customs union with the EU. Turkey is the 17th largest economy in the world according to the World Bank. The average Gross Domestic Product (GDP) growth between 2012 and 2016 was 5.5 percent and annual average projected GDP growth is 4.8 percent according to Fitch between 2017 and 2022. Although the Turkish economy's recent and projected growth is good, Turkey's macroeconomic achievements are being challenged. Domestic challenges and a deteriorating geopolitical environment have negatively impacted exports, investment, and growth. The strong recovery in 2017 mostly depended on a short-term fiscal stimulus. Political developments in 2015 and 2016 presented challenges. Elections in June and November 2015, a cabinet reshuffle in May 2016, an attempted coup in July 2016, and the consequent dismissals of public officials have all affected the Government's reform momentum. At the same time, a series of terrorist attacks weakened tourist arrivals and foreign investment. Private investments were delayed, leading to slower economic growth. Retail industry sales (excl. Sales Tax) were \$152.8 billion U.S. Dollars (USD) according to Euromonitor in 2017. Grocery retail sales were \$83.8 billion USD, which constituted 55% of all retail sales through approximately 360,000 organized and unorganized grocery retailers. The chart shows the declining trend of retail sales and grocery sales in USD terms. One of the main causes of this deterioration is rapid depreciation of the Turkish Lira (TRL) against USD. At the end of 2015, \$1 USD bought 2.92 TRL, 3.52 TRL by the end of 2016, and 3.77 at the end of 2017. In terms of current value of the Turkish Lira though, the sales increased every year. The real retail sales index chart (2010=0) shows the actual trend in food retail sales, which is steadily increasing. The index is seasonally adjusted with constant prices, adjusted for inflation. The share of household expenditure allocated to food, beverages, and tobacco will remain high by western standards. It was 23.5 percent of household spending in 2017, but is expected to decline to 22.6 percent in 2022, According to Economist Intelligence Unit (EIU). This share reflects Turkey's relatively low average income levels and food price inflation that often exceeds overall inflation rate. Food price inflation was a major concern for the Turkish economy in 2017, and led to policies to decrease import taxes for some food items. In the next five years, EIU forecasts that food retail sales (in USD terms) will increase again after the 2017 decline due to recovery in consumer sentiment and

a more stable TRY against USD. Based on Post analysis of the market, it is expected that demand for imported higher-value processed food products will increase in the coming years in Turkey's urban western centers where consumers are relatively wealthier. With a growing middle class who travels more than their parents, taste for international flavors will increase. Turkey's geographical position facilitates food imports (and exports) as well. Imported high value food items are mostly sold in hypermarket settings which are located in wealthier urban areas. These include Migros, CarrefourSA, Metro Grossmarkets and premium grocery chains such as Macrocenter, as well as more regional gourmet chains like Gourmet Garage. Standalone gourmet/premium food stores that are located in major city centers like Istanbul, Izmir, Ankara, Bodrum, Antalya also sell imported goods. Imported specialty or high value food items are generally not sold in discount grocery chains or in regional grocery chains, though imported commodities such as rice, walnuts, almonds and few imported fresh fruits like bananas and avocados may be available there. Turkish customers increasingly prefer to shop in areas where their homes or workplaces are located, especially in traffic-clogged metropolitan areas like Istanbul, Ankara, and Izmir. Turkey is also a very price sensitive market. Consumers have started to prefer hard discounters or discounters offering private label products, which are on average 30 percent cheaper than the name brand. Discount Grocery Retailers such as BIM and A101, are transforming the market and are opening up compact stores everywhere (usually sized around 100 to 400 square meters) in neighborhoods and side streets. An increasing number of bakkals (traditional stand-alone small grocery shops), are either closing due to competition, or transforming into smaller size outlets of organized grocery chains such as convenience stores or discounters. Grocery supermarket retailers such as Migros and CarrefourSA are opening smaller convenience stores like M-Jet and CarrefourSA Express to compete. As a result of low presence of organized or modern retailers in smaller cities and villages, traditional grocery retailers such as bakkals (traditional small grocery shops) and pazars (street produce markets), are still the main way of grocery shopping. Euromonitor International forecasts that the market share of traditional grocery retailers in Turkey will go down from 50 percent today to 43 percent by 2021, giving the reins to modern organized grocery retailers. The discounter model operated by BIM and then followed by A101 and Şok has shown a particular ability to meet Turkish consumers' preference for proximity shopping and lower prices, while international retailers' focus on larger supermarket formats may be reaching its limits. As the food retail market is very price-sensitive and the profit margins are low, Post forecasts that domestic grocery store chains will continue to dominate the Turkish market at least for the near term. During the last five years there has been a trend for international retailers to either leave the market or sell to local partners. Industry specialists speculate that beyond price sensitivity, it has been hard for foreign grocery retailers to understand and manage the Turkish market and consumer. Between 2012 and 2017 Tesco (UK), Real (Germany), and Dia (Spain) have left Turkey, and Carrefour sold the majority of its shares to its local partner Sabanci Holding. There are a few companies using online grocery retailing as a sales

channel in Turkey. Migros has been the market leader. Online grocery retailing is active only in major cities.

#### *6.4.1.5 Road map for market entry*

### **ENTRY STRATEGY**

Normally a good way of bringing in retail food to Turkey is using a local agent in the country. This agent is sometimes an importer, distributor, wholesaler, a commission-based trader or some combination thereof. Local representatives will have experience in market development and contact information of potential buyers, such as the organized grocery retailers. A good representative can guide you in the market, including on import rules and regulations, which ports to utilize, local business practices, conducting market intelligence formally or informally, starting sales calls, etc. Turkey straddles southern European and Middle Eastern cultures, and relationships are very important for business. This makes already existing relations and connections in the country especially important. In very rare cases, some organized retailers may import food items directly, such as an important, high turnover product. But in general, retailers will buy from a Turkish company who is importing the product. Turkey's import processes and regulations can be difficult to navigate, so local agents are vital. For details on the requirements, please refer to FAS Turkey reports on Food and Agricultural Import Regulations and Standards and Required Certificates. Turkey's "All Foods Foreign Trade Association" (TUGIDER) may be contacted to get information on potential representatives in Turkey. Contact: +90 212 347 2560, [tugider@tugider.org.tr](mailto:tugider@tugider.org.tr). TUGIDER members represent the major food importers in Turkey. Food trade shows in Turkey can be helpful to visit, such as Anfas Food Product, World Food Istanbul, and Food Ingredients Fi Istanbul, to meet importers and get a feeling of the market before trying to enter.

### **MARKET STRUCTURE**

Grocery retailers are classified in two major groups in Turkey: Organized/Modern Grocery Retailers and Unorganized/Traditional Grocery Retailers. Organized Grocery Retailers are multi-format retail chains, discount grocery chains, regional grocery chains and gas station convenience stores. The largest chunk of the unorganized grocery retailers are traditional standalone grocery stores which are called *bakkal* in Turkish, are up to 500 square feet in size and selling high turnover grocery products. The other one is traditional open-air bazaars (*pazar* in Turkish) where fresh produce, nuts, fish and even some textiles are sold by producers and traders. These are weekly farmers markets and are held on streets in different neighborhoods. Another useful classification of grocery retail stores in Turkey is Regional Grocery Chains, National Grocery Chains and International Grocery Chains. Regional grocery chains have stores in one or few cities in Turkey; they are all domestic-owned companies. They rarely carry any imported food except agricultural commodities such as rice, popcorn, bananas, lentils and dried beans. They are a large and important part of the retail

picture in general, but not for imported processed goods. National grocery chains are supermarket chains with stores across Turkey, with stores in most cities, if not all. They can be discount, regular or premium stores. International grocery chains are companies with international ownership and international presence of stores. They have stores around Turkey, but usually not east of Ankara. In total there are 211 grocery chains in Turkey with more than 5 stores.

## Top food retailers in turkey & company profiles

### Top 10 Grocery Store Chains by Number of Stores

	Grocery Chain	Chain Type	Number of Stores	Number of Stores	New Stores
			Dec. 31, 2017	Dec. 31, 2016	in 2017
1	A 101	National Discount	7,084	6,400	684
2	BIM	National Discount	6,065	5,601	464
3	Sok	National Discount	5,080	4,000	1,080
4	Ekomini	National Discount	1,804	1,610	194
5	Migros	National	1,647	1,528	119
6	Hakmar Ekspres	Discount - Istanbul	473	382	91
7	UCZ	Discount - Istanbul	390	390	0
8	CarrefourSA Super	National (Int. owned)	382	390	-8
9	UCZ Sistem -Sec	National Discount	303	303	0
10	CarrefourSA Mini	National (Int. owned)	200	212	-12
<b>Total of Top 10</b>			23,428	20,816	2,612

Source: [www.ortakalan.com.tr](http://www.ortakalan.com.tr)

### Market Shares of Organized Grocery Retailing in Turkey: Top 10

	Grocery Chain	Chain Type	Market Share (%)	Sales (mill. USD)
			Dec. 31, 2017	Dec. 31, 2017
1	BIM	National Discount	7.5	6,274.00
2	A 101	National Discount	4.4	3,714.10
3	Migros *	National	4.1	3,414.40
4	Sok	National Discount	3.4	2,844.00
5	CarrefourSA Super	National (Int. Owned)	1.3	1,125.20
6	M-Jet	National Convenience	0.7	570.00
7	Ekomini	National Discount	0.5	419.30
8	Hakmar	Discount - Istanbul	0.4	326.90
9	Onur	Regional - Istanbul	0.3	247.60
10	Yunus	National	0.2	189.70
<b>Total of Top 10**</b>			<b>22.80</b>	<b>19,125.20</b>

Source: Euromonitor International; \*M, MM, MMM, 5M Stores of Migros are displayed together. M-Jet, the convenience store of Migros, is not included. When M-Jet is combined with Migros, actually Migros would be ranked number 2. \*\* The market shares are in the organized grocery retail category, traditional grocers are not included.

**BIM** is the hard discounter of Turkey who sells 80 percent of products as private label. It is present in all cities in Turkey and in most of town centers. Stores are generally 3000 – 6000 square feet. Seventy one percent of BIM shares are publically traded. They are in neighborhoods and side streets as well as some main roads. BIM does not sell imported food except commodity agricultural products such as rice, walnuts, almonds, corn for popcorn and bananas. BIM does not sell alcohol of any kind or tobacco products.

**A 101** is a hard discount market chain with the most number of stores in Turkey and is a major competitor of BIM with similar type of stores in similar locations. Similar to BIM, they only sell some imported commodities, not imported packaged or processed foods. Private label products constitute 50 percent of all products. A 101 exists in all 81 cities in Turkey and also in 900 town centers in Turkey. Majority shares are owned by Turgut Aydin Holding. A 101 does not sell alcohol of any kind or tobacco products.

**Migros** is a multi-format super market chain. It was the first grocery chain established in Turkey in 1954 by the City of Istanbul and Swiss Migros. It was then nationalized as Koc Group acquired majority shares in 1975. After several changes in ownership, the majority of shares are now owned by Anadolu Group of Turkey and the company is 100 percent Turkish. Migros has stores in many different sizes. The smallest format is a convenience store designed to compete with discounters and bakkals called M-Jet. The small supermarket format is called M Migros, the larger supermarket format is called MM Migros and hypermarket formats are called MMM Migros and 5M Migros. Their MacroCenter brand stores are gourmet stores where a premium shopping experience is promised. The chain covers 73 out of 81 cities in Turkey, and 22 percent of the offered products are private label. Migros sells imported food, also processed and packed imported food at the larger format stores and especially in MacroCenter stores. Migros stores sell all kinds of alcoholic beverages including imported wines and spirits, as well as tobacco products. Migros' online sales platform began in 1997 and now is serving in 24 cities around Turkey delivering groceries to home in the requested time slot.

**Şok** is also a discount market chain. Şok is owned by Yildiz Holding, which is the most prominent packaged food and packaged confectionery producer of Turkey, under the famous brand Ülker. Yildiz Holding has declared that they are planning on an initial public offering of Şok in 2018. 35 percent of all the products in Şok are private label and the rest are typically Yildiz Holding's own well-known brands. In 2017, Şok also launched its mobile application which features click and collect services, the first discounter to do so.

**CarrefourSA** is a joint venture of Carrefour of France and Sabanci Holding of Turkey. 51 percent is owned by Sabanci, which may be the reason for this international chain to survive in Turkey unlike many other foreign chains that left the market. A small part of the shares are open to the public. CarrefourSA is the most important competitor for Migros. Like Migros, CarrefourSA operates multi-size super/hypermarkets. Carrefour has CarefourSA Express (their convenience store size) and CarrefourSA Super in different sizes, and also CarefourSA hypermarkets. CarrefourSA Gurme is their premium market which carries a lot of imported packaged and processed goods as CarrefourSA super and hyper markets do. The chain is present in 58 of 81 major cities in Turkey. The chain has an online sales platform currently serving nine cities. CarrefourSA carries all kinds of alcoholic drinks including imported ones, and tobacco products.

#### 6.4.1.6 Competition

According to Post's market observations, local products are the main competitor for U.S. processed food products that would go into food retail. Turkey has a well-developed food processing sector that is producing good quality food items for the Turkish market and to export overseas.

In addition to local production, products from European countries are also important. EU has a customs union with Turkey where many European processed food items have low or no customs tariffs to Turkey. Furthermore, proximity is a major benefit for lower freight and shorter deliver times from Europe. Trucks are often used for transportation between Europe and Turkey. European Free Trade Association (EFTA) countries which are Switzerland, Norway, Iceland, and Liechtenstein also have a joint FTA with Turkey, giving them preferential customs advantages as well. In addition, Turkey has FTAs with 19 other countries with many including preferential tariff rates on food and agriculture products.

#### Top Countries supplying Turkey's Imported Consumer-Oriented Agricultural Products:(2015-2017)

Thousands of USD		Imports	Imports	Imports	% Share
	Product	2015	2016	2017	2017
1	Netherlands	255,516	239,552	292,796	11.43
2	Germany	246,240	241,575	230,708	9.01
3	United States	198,269	225,982	222,025	8.67
4	Poland	119,127	83,528	155,423	6.07
5	Italy	134,218	132,254	141,727	5.53
6	India	62,306	57,831	96,611	3.77
7	France	83,002	72,543	92,867	3.63
8	Ecuador	73,730	86,572	88,901	3.47
9	United Kingdom	61,277	60,321	80,369	3.14
10	Thailand	34,259	32,169	64,220	2.51
Consumer-Oriented Agricultural Total from All the World		2,330,237	2,237,980	2,561,686	100.00

Source: Global Trade Atlas

#### 6.4.1.7 Best product prospect categories

Turkey is a highly competitive and very price sensitive market for many items. Prospective exporters should look at Turkey as a long term market and be persistent. A recognized brand has an advantage in the market, with Oreo Cookies being an example. Although similar and good quality cheaper substitutes are available in the market, Oreo has maintained its presence on store shelves. Exporters should be sensitive in brand positioning and be prepared for sufficient marketing activities and advertising.

#### *6.4.1.8 Products present in the market which have good potential*

**1. Walnuts and Almonds:** Turkey is traditionally a nuts, dried fruits, and dried vegetables consuming culture. Some limited local production exists, but imports are required to meet the growing demand. Walnuts and almonds from California are very dominant in the Turkish market, sold packaged or unpacked by local importers. There has been a recent import tax cut on both walnuts and almonds from 43 percent to 15 percent in January 2018, which may bring down prices and increase demand. Please refer to Report on Custom Tariffs of Almonds and Walnuts for details on the tariff cuts. Also for further information see the Turkey Tree Nuts Annual Report 2017.

**2. Sunflower Seeds for Confectionery:** There are prospects for sunflower seeds for confectionary, especially “Dakota” sunflower seeds which are recognized by Turkish importers and wholesalers as a high quality product. In-shell sunflower seeds are a hugely popular snack item. There is competition with local production and imports from China and Bulgaria, according to importers/processors, which are price competitive. There is interest in Dakota sunflower seeds by importers in Turkey.

**3. Dates:** Dates are culturally important in Turkey, and often as part of religious rituals during Ramadan. Turkey doesn't grow any dates but imports mainly from Israel, Saudi Arabia, and Tunisia, according to contacts in the sector. There have been date imports from the United States in the past but not very recently. Positioning in the market, a focus on quality, and brand recognition work would be important. California dates are in the watch list of potential importers.

**4. Cranberries and Dried Fruits:** There is also some potential for other dried berries which do not grow in Turkey such as blueberries or cranberries. They also can also be imported in frozen forms. Dried cranberries have entered the market in recent years, and there is growth potential for expanding the uses.

**5. Spices:** Turkey is traditionally a spice consuming country and produces many kinds of spices and herbs, but does rely on some imports as well. In recent years, high quality US-branded spices have gained the attention of well-traveled higher income consumers in Turkey. For example, cayenne pepper, crushed red chili peppers, black pepper, and some other niche spices have a potential in Turkey with high-end customers in premium outlets and specialty/gourmet stores.

**6. Functional foods:** Functional food consumption is increasing. There is a healthy eating trend among high end and even middle-class consumers. Gluten-free and diabetic products are available but much more variety is needed to fill the gap in the market. Diet products are also increasing with health consciousness. Baby foods and kid-focused foods that are ‘enriched’ are in the market in limited varieties and have potential to grow. See FAS reports for requirements limiting what claims can be made on labels.

**7. Gourmet/Ethnic Food Ingredients:** With increasing disposable income, new generation Turks in upper-middle and upper classes, tend to be more open to international food as they engage with more international leisure and business travel.

Tex-Mex, Chinese, Japanese, Indian, Thai, Italian, Lebanese, and Syrian restaurants are in the market. Gourmet and ethnic food ingredients have potential for home consumption as well as hotels and restaurants.

**8. Wine:** Although there are a variety of local and imported wines in the market, there is a potential for wine imports from the United States for wine enthusiasts that are keen to taste different wines. There is market potential for high end consumers who are not price sensitive. There are opportunities for beer as well, but it is more price sensitive. To note, Turkey has high consumption taxes and import tariffs for alcoholic beverages and there are also marketing restrictions to be aware of. See our reports for details.

**9. Non-alcoholic beverages:** There is a growing market for other beverages, such as teas or juices, with a focus on natural, plant based, organic beverages according to Post’s retail market observations. There is an increasing demand for healthier beverages. They are sold in cafés and restaurants in addition to supermarkets.

*6.4.1.9 Top consumer-oriented products imported from the world*

Consumer-Oriented Agricultural Products Imported from the World to Turkey: Top 10 (2015-17)

Thousands of USD		Imports	Imports	Imports	Change
	Product	2015	2016	2016	2015-2017 (%)
1	Food Preparations Nesoi	417,840	401,579	455,401	8.99
2	Cocoa Butter, Preparations, Paste, Powder	232,587	215,701	274,679	18.10
3	Walnuts, Fresh Or Dried, In Shell	115,274	139,541	117,958	2.33
4	Coffee Extracts, Essences Etc. & Prep Therefrom	101,610	89,849	112,726	10.94
5	Food Preparations For Infants, Retail Sale Nesoi	103,502	100,287	103,338	-0.16
6	Bananas, Fresh Or Dried, Nesoi	108,017	102,941	102,659	-4.96
7	Almonds, Fresh Or Dried, Shelled	53,796	61,595	72,834	35.39
8	Live Plants, Cuttings & Slips, Nesoi; Mushroom Spawn	58,315	66,740	67,610	15.94
9	Almonds, Fresh Or Dried, In Shell	18,404	45,331	59,380	222.64
10	Black Tea Fermdt & Other Partly Fermdt Tea Nesoi	15,944	39,712	57,768	262.31
<b>Consumer-Oriented Agricultural Total from All the World</b>		<b>2,330,237</b>	<b>2,237,980</b>	<b>2,561,686</b>	<b>9.93</b>

Source: Global Trade Atlas, Nesoi: Not elsewhere specified or included.  
 Note: Cocoa products are combined in one line and are assumed to be used in food processing, i.e. chocolate and variations production.

*6.4.1.10 Products not present in significant quantities but which have good sales potential*

**1. Nutrition bars:** Nutrition bars promoting a healthy lifestyle are trendy in Turkey. There are some locally produced ones, but it is limited. Imported products with specific attributes like a vitamin, protein, etc. have potential in the market. These products are again for the high end consumers and should be promoted as such, including the choice of the stores to be sold.

**2. Pecans:** Pecans have made some progress in Turkey in last few years, but because they are perceived as substitutes to walnuts and have a higher tariff, the high price



limits consumption. There are targeted opportunities for growth, including high-end consumer confectionary and specialty baked goods.

**3. Ready-made meals:** Ready to eat and ready to cook meals have an increasing sales potential in Turkey as the structure of households evolves. Dual-income households and urban single person households are on the rise.

**4. Processed organic food:** There is an increasing demand for organic food as household incomes increase in Turkey and health consciousness rises. The market for organic packaged food in Turkey reached \$90 million in 2015 and is expected to reach \$170 million by 2020. Organic dairy, baby food, and snack items are the most consumed organic retail products in Turkey. Please take look at the report prepared by our office.

#### *6.4.1.11 Products not present because they face significant barriers*

**1. Food Items from Genetic Engineered Crops:** Any food item that is genetically engineered or contains any trace amounts of genetically engineered content is not currently allowed for import to Turkey for human consumption. No genetically engineered/GMO products have been approved for food use in Turkey. This barrier impacts all food categories and import processes and testing is rigorous and complex. Please see Turkey Agricultural Biotechnology Annual Report 2017 for more information on the situation.

**2. High Quality Beef Products:** There is a potential demand for high quality and variety of beef products, especially for the luxury market. Beef/Steak restaurants are trendy in the last few years; there are several local chains and many standalone beef/steak restaurants. They are likely candidates for using high quality imported beef products. Beef can also be marketed at high quality gourmet stores and premium super markets. Although the market is price sensitive for general consumption, there is potential for high quality niche beef products. Import permission and the control document procedure from the Turkish Government to import beef impede the import process however.

**3. Organic Sugar:** The industry specialists indicate that there is a demand for organic sugar, but there are regulatory barriers to import it into Turkey.

#### **6.5 M&A Activity in the Turkish Retail Sector**

Foreign strategic players and private equity firms have been showing profound interest in well-established and fast growing Turkish retail brands. There were 13 transactions in the retail sector in 2012, with an estimated deal value of 580 million US dollars. 2012 was also a fruitful year for internet retailing as 12 deals materialized.

In 2012, the Turkish retail sector experienced the highest number of private equity transactions of all time, which revealed financial investors' strong appetite towards this promising market.

In the first four months of 2013, 5 retail transactions occurred.

#### 6.5.1 Highlighted Transactions

April, 2013 – Landmark Group, one of the largest retail organizations with more 1,300 outlets in the Middle East and India, acquired 87.5% of Park Bravo Dış Ticaret A.Ş., master franchisee owner of Nine West, Anne Klein and Enzo Angiolini in Turkey. Park Bravo currently runs Nine West operations in Turkey with 42 stores and 45 corners. September, 2012 – The Carlyle Group acquired a significant minority stake in Penti which manufactures hosiery and retails women’s hosiery, lingerie and swimwear.

July, 2012 – Bahrain-based investment firm Investcorp acquired 30% of Turkey’s leading menswear retailer Orka Group for an undisclosed sum. Orka Groups offers menswear under the Damat, ADV and Tween brands and operates with 63 stores (32 outside of Turkey).

June, 2012 – Turkven, one of the largest local private equity firms in Turkey, acquired 50% of apparel retailer Koton for an undisclosed sum. Koton operates with nearly 300 stores in 24 countries.

January, 2012 – Actera Group, one of the most active local private equity firms in Turkey, invested in Joker, the leading retailer of baby and maternity products for an undisclosed sum. Joker operates Joker and Maxi Toys stores in more than 15 cities, and owns a chain of kids’ entertainment centers in Turkey.

#### 6.5.2 M&A Activity in the Turkish Food Retail Sector

Besides a number of undisclosed acquisitions and asset sales, there were 15 announced M&A transactions in the last five years. While foreigners are reluctant to enter the Turkish market due to its intense competition, local players are constantly seeking growth opportunities either through capturing market share with aggressive store openings or acquisitions.

Having started with Yıldız Holding’s acquisition of DiaSA and Sabancı Holding’s acquisition of more CarrefourSA shares, 2013 is expected to be a fruitful year in terms of M&A activity as some other big-ticket transactions (including the awaited exit of Migros’s financial investors) are expected.

#### 6.5.3 Highlighted Transactions

April 2013 – After a long-lasting discussion among the shareholders, Sabancı Holding signed a share purchase agreement for 12% stake of Carrefour in CarrefourSA for a consideration of US\$79 million. Following the transaction, Sabancı Holding will be the majority shareholder in CarrefourSA with a total stake of 51%. April 2013 – Yıldız Holding, the leading Turkish conglomerate engaged in food & beverage, packaging, personal care, real estate, financial services and wholesaling businesses acquired the discount retailer DiaSA from Spanish Dia and Sabancı Holding in consideration of US\$179 million. Through acquiring Turkey’s 4th largest discount chain which operates

over 900 stores, Yıldız Holding made a major move to promote its competitive stance in the Turkish food retailing market.

November 2012 – Ankara-based supermarket chain Makro Market acquired 47% of Uyum Gıda, the Istanbul-based supermarket chain for a consideration of US\$45 million.

June 2011 – With its investment arm Gözde Girişim Sermayesi, Yıldız Holding entered the food retailing market by acquiring the discount retailer Şok Ucuzluk Marketleri from Migros Türk in consideration of US\$380 million. February 2008 – A consortium created by private equity firms BC Partners, Turkven and DeA Capital put their signature on the largest retail transaction in Turkey's M&A history by acquiring 98% of Migros for a consideration of US\$3.1 billion.

Source: Deloitte

#### 6.5.4 NEW SHOPPING CENTERS

29 new shopping centers Overall in 2011, 29 new shopping centers opened adding over 1 million m<sup>2</sup> to the market. Of note are the 156,000 m<sup>2</sup> Marmara Forum in Istanbul and Nata Vega in Ankara (87,000 m<sup>2</sup>). However, despite rapid and sustained development over the past decade, provision of retail space remains low by European standards. Indeed, on January 1, 2012 shopping center density in Turkey was 84.4 m<sup>2</sup> GLA per 1,000 inhabitants, compared to the EU-27 average of 246.6 m<sup>2</sup> GLA per 1,000 inhabitants. Currently 22 schemes are under construction and due to complete in 2012/2013 which, if completed on time, will add a further 18% to the stock. The largest projects currently underway are the Marmara Park Shopping Center (100,000 m<sup>2</sup>, scheduled for 2012), the 135,000 m<sup>2</sup> Mall of Istanbul and the 95,000 m<sup>2</sup> Emaar Shopping Center, both due in 2013. Istanbul accounts for approximately 60% of the 1.26 million m<sup>2</sup> pipeline, followed by Ankara.

#### 6.5.5 MARKET SUMMARY

##### **The Retail Sector Profile :**

The retail sector is classified into two major groups, organized and unorganized retailers. Organized retailers are mostly chain stores that have a corporate entity and are fully registered. Unorganized retailers, also called the traditional market, constitute smaller, single stores and bazaars. A further classification of food retail outlets in this report is given in the table below:

A more important classification that helps to explain the Turkish retail sector is local versus national & international supermarket chains. There are 168 local chains with a total of 3303 stores, whereas there are 21 national & international chains with a total of 8735 stores. Even though these figures seem to show that the national chains rule the market, after you remove the top 3 national discount chains (BİM with 3263 stores, Şok with 1256 stores and A 101 with 1210 stores which account for 47.59% of the total number), the remaining figure shows that the number of local chain market stores is more than that of national and international chains.

### 6.5.6 Main Government Agencies Involved in Procurement

- PETROLIUM PIPELINE CORPORATION (BOTAŞ)  
Transportation of crude oil and natural gas by pipelines.
- STATE SUPPLY OFFICE (DMO)  
Supplies the needs of Government Departments for office equipment, cleaning materials, furniture, lighting and heating equipment.
- MACHINES AND CHEMICALS INDUSTRIES CORPORATION (MKEK)  
Manufacturer of defense industry products.
- PETROCHEMICAL HOLDING INC. (PETKİM)  
Engaged in the production of a variety of petrochemicals.
- TURKISH GRAIN BOARD (TMO)  
Established for the purpose of supporting grain producers and regulating the market by buying and selling products.
- TURKISH IRON AND STEEL WORKS (TDÇİ)  
Comprised of three establishments, it is one of the largest state-owned enterprises.
- TURKISH ELECTRICITY DISTRIBUTION INC. (TEDAŞ)  
Operates the national electricity distribution network.
- TURKISH FERTILIZER INC. (TGS)  
Provides the types of fertilizer required by the agricultural sector.
- TURKISH COAL WORKS (TKİ)  
Searches for coal reserves, operates mines to produce coal and trades in coal.
- NATIONAL OIL AND NATURAL GAS COM. (TPAO)  
Production of oil and natural gas.
- TURKISH SUGAR FACTORIES ( TÜRKİYE ŞEKER FABRİKALARI)  
Supports sugar beet producers, buying and selling sugar.
- STATE AIRPORTS OPERATION CO. (DHİMİ)  
Provides all ground and air traffic control services.
- STATE RAILWAYS OPERATION CO. (DDY)  
Operates the national railway network.
- TURKISH AIRLINES (THY)  
Air transportation services.
- TURKISH TELECOMMUNICATION INC.  
Provides all kinds of telecommunications services.
- SOCIAL INSURANCE (SECURITY) EST. (SSK)

Constitutes the main social security system for workers. Provides social security benefits and health services.

- **GENERAL DIRECTORATE OF HIGHWAYS**  
Plans the network of motorways, state highways and provincial roads and the modifications to this network; constructs, improves and repairs the roads and bridges on the road network and provide continuous maintenance to ensure their safety; and provides the necessary training on these subjects.
- **TURKISH RADIO AND TELEVISION EST. (TRT)**  
This is the main broadcasting entity of Turkey.
- **GENERAL DIRECTORATE OF STATE HYDRAULIC WORKS (DSI)**

The General Directorate of State Hydraulic Works (DSI) is the primary executive state water agency which has been charged by law to develop all of water resources in the country. DSI puts into effect surface and ground water projects technically and economically feasible for utility.

The main objectives of the agency are to prepare feasibility studies, do final designs for water-related projects, construct and operate or transfer them for the nation's socio-economic progress and welfare, enhance production, eliminate or mitigate the adverse effect of climatic conditions, provide reliable hydroelectric energy and supply water by environmentally friendly means.

Note: Addresses of the potential public agencies for the procurement are given in Appendix-5.

## **6.6 THE CHANGING STRUCTURE OF TURKEY'S TRADE AND INDUSTRIAL COMPETITIVENESS:IMPLICATIONS FOR THE EU**

### **6.6.1 2013 Report**

In the last three decades, Turkey has undergone major changes in many areas. Despite a number of economic crises and political instability, it has managed to grow over the years and is now often cited as one of the best-performing emerging economies in the world. To commemorate the centennial of the founding of the Republic, the current government set the goal of being among the 10 largest economies of the world by 2023. Indeed this ambitious goal implies that Turkey needs to outperform countries like the Netherlands, South Korea, Russia, Indonesia and Canada. Therefore, its trade and industrial structures need to evolve in order to resemble those of richer countries , both in terms of technological composition and value added.On the other hand, Turkey needs to able to accommodate competitive pressures brought on by the Customs Union with the EU and free trade agreements (FTAs) the EU has with third countries.

However, the growth has become unbalanced with the boom in domestic demand in recent years. With domestic demand remaining strong imports have outpaced exports – reaching \$240 billion in 2011, compared to exports of \$134 billion. This trend did not change in the first six months of 2012.

The official Turkish Exports Strategy for 2023 aims to reverse this trend and envisages an export volume of \$500 billion, roughly quadrupling the 2011 volume, in the next 10 years (Turkish Ministry of Economy 2012). Achieving this goal would require a growth rate of 8% per annum (Lehmann 2011), much higher than the average achieved over the last decade.

Looking at the evolution of the share of exports in GDP from another perspective, it would be fair to say that over the years Turkey has managed to maintain and stabilise the openness of its economy, despite the global crises. However, this stabilisation has occurred at a relatively low level in comparison with some emerging and developed economies, as represented by Germany where 50% of its GDP is accounted for by exports, 31% for China, 29% for Italy and 52% for South Korea in 2011. The ratio of exports to GDP for Turkey is around 25% lower than for all these countries, which are all much larger than Turkey.

Assessing competitiveness by the performance of exports, it would be fair to say that Turkish exports have performed well on average over the last decade. However, the dynamism seems to have fallen. According to OECD projections (OECD 2012), Turkey's export growth rate for goods and services trails behind other emerging economies such as Brazil, Korea, China and Russia in 2012 and 2013.

#### 6.6.2 Change in competitiveness of Turkish exports

As the Turkish economy became more integrated with the EU and with the rest of the world, Turkey's share in global exports first increased rapidly, but more recently it has declined.

It is apparent that Turkey's RCA became more similar to strong manufacturing countries like Germany and the United States. However, it has grown less similar to countries such as China, the European Union as a whole, India and Thailand. Finally, the revealed comparative advantage of Turkey continues to resemble that of southern European countries like Greece, Italy, Spain and to a lesser extent Portugal. This should be a cause for concern given that recent research suggests (see Chen, Milesi-Feretti and Tressel 2012) that part of the problem of these countries stems from a loss of market shares due to the increased competition from China and other emerging markets.

Has the structure of Turkish trade evolved in a similar direction as these and other countries? In order to present a more systematic picture, we also present the correlation coefficient of the changes in the RCA for each product group between 1999 and 2011. Figure 4 in the Annex illustrates the scatter plot of the correlation coefficient between the changes in RCA (vertical axis) and the respective country's GDP per capita in 2011 (horizontal axis). The change vector of Turkey's RCA between 1999 and

2011 is more positively correlated with low and medium GDP per capita countries, whereas it is more negatively correlated with very high GDP per capita countries. The revealed competitive advantage of Turkey in various products has thus evolved to resemble lower-income countries.

## 7 Recommendations to Brazilian companies

### 7.1 Import Tariffs

Turkey has been a WTO member since 1995 and a GATT member since 1951. The EU and Turkey have been linked by a Customs Union agreement since 1995. Turkey has been a candidate country to join the EU since 1999, and is a member of the Euro-Mediterranean Partnership.

Turkey applies the Customs Union Common External Tariff (CET) to industrial goods, and its Most-Favored Nation (MFN) tariffs for non-agricultural products are low, on average 5%. However, this relative openness is not reflected in Turkey's WTO commitments as it has left 66% of its non-agricultural tariff lines unbound. Tariff protection is high for agricultural products. The Customs Union with the EU and free-trade agreements provide duty-free access for many of Turkey's most important trading partners. In addition, Turkey has the possibility to open tariff-rate quotas for non-agricultural goods, its investment encouragement programs provide for duty and tax concessions on imports, exporters benefit from an inward-processing scheme, and a "suspension list" enables manufacturers to import certain raw materials and intermediary inputs at low or duty-exempt rates.

On June 21, 2018, Turkey implemented \$266.5 million in tariffs against a range of U.S. goods imports in retaliation for U.S. steel and aluminum tariffs. These increased tariffs range from 4-70% in addition to the MFN tariffs. Trade remedies continue to be an important policy tool for Turkey, as it is one of the WTO's main users of safeguard and antidumping measures.

Customs surcharges include a value-added tax (VAT) levied on most imported, as well as domestic, goods and services. The importer is responsible for paying the VAT. The VAT is calculated on a Cost Insurance Freight (CIF) basis plus duty rate and any other applicable charges levied before the goods clear customs. The VAT for most agricultural products (basic food) ranges from 1% to 8% and can reach up to 18% for some processed products. Capital goods, some raw materials, imports by government agencies and state-owned enterprises, and products for investments with incentive certificates are exempt from import fees.

Turkey relies on internal taxes on goods and services to raise government revenue, rather than trade taxes such as customs duties. Turkey's VAT and the Special Consumption Tax (SCT) make no distinction between imported and domestically produced goods, in principle. However, the SCT on alcoholic beverages varies considerably depending on the type of product. The tax system has the potential to favor the consumption of some products relative to others. Other products impacted by the SCT include petroleum products, motor vehicles, aircraft, vessels, and durable consumer goods. VAT is imposed at the general rate of 18%, but reduced rates (8% and 1%) are applied on some goods and services, and certain types of transactions are tax exempt. Together, VAT and SCT provide over half of the government's revenue.



Both imports and exports are subject to a number of border measures in Turkey, including outright prohibitions, licensing, controls, and restrictions. Eleven categories of goods are subject to import license and 26 require export license. On the export side, Turkey adheres to international agreements for the prohibition or control of strategic goods and has provisions for export quality control checks of certain agricultural products.

## 7.2 The Generalized System of Preferences (GSP) scheme

The Generalized System of Preferences (GSP) scheme aims to contribute to the economic development of developing countries. It provides benefits to developing countries by enabling qualified products to enter the markets of preference-giving countries at changing rates, from duty free to reductions in the most-favoured nation rate.

Turkey applied for associate membership of the European Economic Community in 1959, one year after the enforcement of the Treaty of Rome. The Ankara Association Agreement in 1963 and the Additional Protocol in 1970 were two important documents that identified modalities and calendars.

The customs union covering industrial products and processed agricultural products, which came into force on 1 January 1996 with Decision No. 1/95 of the European Community-Turkey Association Council of 22 December 1995 on implementing the final phase of the Customs Union, was an outcome of these calendars. Article 16 of Decision No. 1/95 states that “with a view to harmonizing its commercial policy with that of the Community, Turkey shall align itself progressively with the preferential customs regime of the Community within five years as from the date of entry into force of this Decision. This alignment will concern both the autonomous regimes and preferential agreements with third countries”.

Within this context, Turkey initiated a GSP scheme by harmonizing with the GSP scheme of the European Union on 1 January 2002 and extended the system with the aim of fully aligning with the GSP scheme of the European Union in succeeding years. An import regime decree published by the Ministry of Economy entered into force at the beginning of 2006, whereby full alignment with the GSP scheme of the European Union was achieved.

Turkey renewed its rules of origin under its GSP scheme on 1 January 2015, according to the reform of the rules of origin under the GSP scheme of the European Union, which had entered into force on 1 January 2011, and introduced three major changes in the rules for determining origin, as follows:

- Previously, the same rules of origin had applied to developing countries and the least developed countries (LDCs). The new rules frequently include separate provisions for LDCs, to address concerns about their capacity constraints. The

origin-determining requirements for developing countries have also been modified.

- The list of products and the working or processing operations that confer originating status have been simplified to some degree, and the product-specific origin requirements contained in the current list differ from those in the previous list.
- Important changes have been made to the cumulation provisions that expanded the possibility of cumulation.

#### 7.2.1 Eligible and beneficiary countries or territories

Turkey grants preferential treatment to selected countries and territories that are classified as developing countries and LDCs by the World Bank, in accordance with the European Union. The list of eligible countries deemed beneficiaries of the GSP scheme of Turkey is published by the Ministry of Customs and Trade. A copy of the list as of 1 January 2015 is provided in appendix I of this handbook.

Eligible countries that may benefit from the GSP scheme of Turkey are announced annually in annex 3 of the import regime decree published by the Ministry of Economy.

In order to be deemed a beneficiary of the GSP scheme of Turkey, an eligible country must undertake to comply or ensure compliance with the rules of origin under the GSP scheme of Turkey and to provide the administrative cooperation necessary to ensure their correct implementation with regard to Turkey. Such undertakings must be notified to the Ministry of Customs and Trade.

### 7.3 Product coverage

Preferences are granted for all industrial products and certain agricultural products covered by the GSP scheme of the European Union.

LDCs have duty-free and quota-free access to Turkish markets for all industrial products under chapters 25 to 97 (except chapter 93) of the Harmonized System, and for some agricultural products covered by the customs union between Turkey and the European Union.

While all customs duties on products covered by the GSP scheme of Turkey have been suspended for the countries benefiting from special incentive arrangements in accordance with the GSP scheme of the European Union, customs duties have been suspended or reduced in accordance with the sensitivities of the products covered by GSP schemes for developing countries.

Turkey has reserved the right to suspend preferential treatment for GSP products under certain circumstances.

### 7.3.1 Depth of tariff cuts for Generalized System of Preferences products

Preferences are differentiated according to the sensitivity of the products, in full harmony with the European Union. It is sufficient to differentiate between two product categories, namely non-sensitive and sensitive products. Tariff duties on non-sensitive products have been entirely suspended, while duties on sensitive products are subject to tariff reductions. Finally, Turkey has adopted the same tariff duties (neither higher nor lower) as the European Union for GSP products.

Turkey has reserved the right to suspend preferential treatment for GSP products under certain circumstances.

Graduation mechanism (country or sector) Turkey applies the graduation mechanism for the list concerned in accordance with the European Union application

## 7.4 Rules of origin under the generalized system of preferences scheme of turkey

### 7.4.1 Explanatory notes

In the context of its GSP scheme, Turkey has granted tariff preferences to beneficiary countries as of 1 January 2002, as a result of the customs union between Turkey and the European Community based on Decision No. 1/95. The rules of origin are regulated by Ministerial Decision No. 2014/7064 on the Determination of the Origin of Goods Benefiting from a Preferential Regime for the Purposes of the Generalized System of Preferences, published in Official Gazette No. 29222 on 31 December 2014, amending Ministerial Decision No. 2001/3485 and its annexes. Decision No. 2014/7064 regulates the procedures and principles for determining the origin of goods benefiting from a preferential regime for trade with Turkey for the purposes of the GSP. Its provisions are in accordance with those in Commission Regulation No. 1063/2010 of 18 November 2010 amending Regulation No. 2454/93 laying down provisions for the implementation of Council Regulation No. 2913/92 of 12 October 1992 establishing the Community Customs Code. For goods to benefit from preferential treatment under the GSP scheme of Turkey, the following three main requirements must be fulfilled: the exporting country must be designated as the beneficiary country; the product must be eligible for GSP treatment; and the product must meet the origin criteria. With regard to origin criteria, goods exported from a beneficiary country to Turkey must comply with the requirements of rules of origin if they are to benefit from preferential tariff treatment, provided that they are under the GSP scheme. Goods not complying with the rules of origin requirements are denied preferential treatment and the normal duty rate applies to such goods. Rules of origin under the GSP scheme of Turkey comprise the following elements: origin criteria; consignment of the products; and documentary evidence. They are detailed in the following sections.

### 7.4.2 Origin criteria

Origin criteria are fundamental to rules of origin. They determine how and when a product may be considered as originating in a GSP beneficiary country. Similar to the previous rules, a product is considered as originating in a beneficiary country if it has

been wholly obtained or sufficiently worked or processed with wholly or partly imported materials (see article 5 of Decision No. 2014/7064).

**i. Wholly obtained products**

Article 6 lists the products that are considered to be wholly obtained in a country. Products are included in this category by virtue of the complete absence of imported input used in their production. The definitions are the same as under the previous rules of origin, except for fisheries products obtained from the sea outside territorial waters, that is, outside a 12-mile zone. With regard to such products, the conditions for fishing vessels have been simplified. Previously, some requirements were in place concerning the nationalities of masters, officers and crews; these conditions have been eliminated. In addition, requirements for the ownership of fishing vessels have been simplified and, as explained below, the cumulation of conditions for fishing vessels is permitted. Under the current rules of origin, the following are considered wholly obtained in a beneficiary country:

- a) Mineral products extracted from its soil or from its seabed
- b) Plants and vegetable products grown or harvested there
- c) Live animals born and raised there
- d) Products from live animals raised there
- e) Products from slaughtered animals born and raised there
- f) Products obtained by hunting or fishing conducted there
- g) Products of aquaculture, where the fish, crustaceans and molluscs are born and raised there
- h) Products of sea fishing and other products taken from the sea outside any territorial sea by its vessels
- i) Products made on board its factory ships exclusively from the products referred to in (h)
- j) Used articles collected there fit only for the recovery of raw materials
- k) Waste and scrap resulting from manufacturing operations conducted there
- l) Products extracted from a seabed or below a seabed that is situated outside any territorial sea, yet where it has exclusive exploitation rights
- m) Goods produced there exclusively from products specified in (a) to (l)

The terms “its vessels” and “its factory ships” in (h) and (i) apply only to vessels and factory ships that meet the requirements (a), (b) and either (c) or (d) in the following list:

- a) They are registered in the beneficiary country or in Turkey
- b) They sail under the flag of the beneficiary country or of Turkey
- c) They are at least 50 per cent owned by nationals of the beneficiary country or of Turkey
- d) They are owned by companies that have their head offices and main places of business in the beneficiary country or in Turkey and which are at least 50 per

cent owned by the beneficiary country or Turkey or public entities or nationals of the beneficiary country or Turkey

Regional cumulation is allowed for fulfilling vessel conditions and they may each be fulfilled in Turkey or in different beneficiary countries insofar as all the beneficiary countries benefit from origin cumulation.

**ii. Products sufficiently worked or processed with wholly or partly imported materials**

If imported inputs are used to manufacture a finished product, the rules of origin require such non-originating materials to be sufficiently worked or processed in order to be considered as originating in a beneficiary country. Sufficient working or processing is defined as follows in article 7: “Without prejudice to paragraphs 3, 4 and 5 of this article and article 9, products that are not wholly obtained in the beneficiary country within the meaning of article 6 shall be considered to originate there provided that the conditions laid down in annex 2 for the goods concerned are fulfilled.” The list in annex 2 of Decision No. 2014/7064 is entitled List of Products and Working or Processing Operations Which Confer Originating Status.<sup>2</sup> While the previous list prescribed origin-determining requirements for around 500 products and was approximately 80 pages in length, the current rules of origin have unified these requirements to some degree, and the list has been reduced to half its former length. This simplification is beneficial for both producers and customs officers in the management of rules of origin. In order to identify the origin requirements for a specific product, an exporter must establish the tariff classification of the product under the Harmonized System and verify the conditions for the product in the list. In addition, the exporter must fulfil the horizontal requirements that are applied to all products with imported non-originated materials. The following sections outline the basic provisions for determining the origin of products with imported materials, highlighting the points in which they differ from the previous rules of origin.

• **Allowance for use of non-originating inputs for products originating in the least developed countries**

The current rules of origin contain origin requirements specific to LDCs in an effort to address the problem of capacity constraints in LDCs. Two major improvements in this regard are as follows:

- a) The possibility of using non-originating materials has been increased for many manufactured products originating in LDCs
- b) Use of imported fabric is allowed for apparel products to be considered as originating, that is, there is a single transformation requirement

Previously, the value added criteria often required 60 per cent or higher domestic content for LDCs; under the current rules of origin this requirement has been reduced to 30 per cent. In order to obtain originating status, apparel products had to be assembled with fabrics that had been woven or knitted domestically, that is, there was

a double transformation requirement. The change from a double to single transformation requirement is a significant improvement for LDCs, as these countries may not possess the capacity to meet the double transformation requirement for apparel products. The rules of origin for agricultural products are the same for developing countries and LDCs.

- **Allowance for use of non-originating inputs for products originating in developing countries**

While the increase is smaller than that for LDC beneficiaries, the allowance for the use of non-originating materials has also been increased for developing countries for many products classified under chapters 34, 39, 40, 66, 71 and 84 to 94 of the Harmonized System.

- **Tolerance level**

The term “tolerance level” signifies the allowance for the use of non-originating materials in the manufacture of a given product, which is not permitted by the rules in the list of products and working or processing operations which confer originating status. Under the previous rules of origin, the tolerance level was up to 10 per cent of the ex-works price of a product. Tolerance levels under the current rules have been modified as follows

- a) Agricultural products (except those under chapters 1 and 3 of the Harmonized System and processed fisheries products under chapter 16): tolerance levels have been increased to 15 per cent of the weight of a product
- b) Manufactured products (except those under chapters 50 to 63 (textile and textile articles) of the Harmonized System): tolerance levels have been increased to 15 per cent of the ex-works price of a product

With regard to textile and clothing products, see the instructions in notes 6 and 7 of the introductory notes for the list of products and working or processing operations which confer originating status, in annex 1 of Decision No. 2014/7064.3

- **Use of reference periods in calculation of non-originating materials**

The current rules of origin allow for the use of reference periods to smooth out fluctuations in prices and exchange rates. The values of non-originating materials may be the average of the previous fiscal year or, if that is not available, of a shorter length of time, though not less than three months.

#### 7.4.3 Other important provisions for origin criteria

##### 7.4.3.1 *Insufficient working or processing*

The rules of origin under the GSP scheme of Turkey include a list of what is considered insufficient working or processing. Such operations can never confer origin status. The previous list has been slightly amended, and the current list is as follows (see article 9 of Decision No. 2014/7064):

- (a) Preserving operations to ensure that products remain in good condition during transport and storage
- (b) Breaking up and assembly of packages
- (c) Washing, cleaning, removal of dust, oxide, oil, paint or other coverings
- (d) Ironing or pressing of textiles and textile articles
- (e) Simple painting and polishing operations
- (f) Husking and partial or total milling of rice, polishing and glazing of cereals and rice
- (g) Operations to color or flavor sugar or form sugar lumps, partial or total milling of crystal sugar
- (h) Peeling, stoning and shelling of fruits, nuts and vegetables
- (i) Sharpening, simple grinding, simple cutting
- (j) Sifting, screening, sorting, classifying, grading, matching (including making up of sets of articles)
- (k) Simple placing in bottles, cans, flasks, bags, cases, boxes, fixing on cards or boards and all other simple packaging operations
- (l) Affixing or printing marks, labels, logos and other like distinguishing signs on products or their packaging
- (m) Simple mixing of products, whether or not of different kinds, mixing of sugar with any material
- (n) Simple addition of water or dilution or dehydration or denaturation of products
- (o) Simple assembly of parts of articles to constitute a complete article or disassembly of products into parts
- (p) A combination of two or more of the operations specified in (a) to (o)
- (q) Slaughter of animals

The main purpose of this list is to ensure that working or processing that takes place in a beneficiary country is an activity that brings real economic benefit to the country. It is also used in connection with the rules on cumulation of origin detailed in section 3.3 of this handbook. It is important to note that if an operation is not listed as insufficient, this does not necessarily mean that it is sufficient. An exporter must also consult the list of products and working or processing operations which confer originating status, which indicates what may be considered sufficient working and processing for a specific product if non-originating materials are used in its manufacture.

#### *7.4.3.2 Territorial requirements and the non-manipulation principle*

Working or processing outside the territory of a beneficiary country without prejudice to cumulation is not permitted. The rules of origin stipulate that originating products lose their originating status if they are exported from a beneficiary country to another country and returned, unless it may be demonstrated that first, the products returned are the same as those that were exported and second, they have not undergone any operations beyond those necessary to preserve them in good condition while in that country or while being exported.

#### *7.4.3.3 Cumulation*

The GSP rules of origin are, in principle, based on the concept of single-country origin, that is, the origin requirements must be fully met within one exporting beneficiary country, which must also be the country in which the finished products are manufactured. Cumulation, however, permits beneficiary countries to consider inputs from other countries as originating content and the rules of origin under the GSP scheme of Turkey allow for several possibilities for cumulation. It should be noted that the cumulation opportunities detailed in this section (apart from bilateral cumulation between Turkey and beneficiary countries) are not currently in force.

#### *7.4.3.4 Cumulation between Norway, Switzerland, Turkey and the European Union*

Cumulation is allowed for products originating in Turkey (see article 4 of Decision No. 2014/7064), as well as for products originating in Norway, Switzerland and the European Union.

Turkey was not previously included in the cumulation system established between Norway, Switzerland and the European Union. It should be noted, however, that cumulation between the three partners is allowed by reciprocity when the three partners provide the possibility for cumulation for Turkish originating inputs under their respective GSP schemes. For example, the rules of origin under the GSP scheme of Turkey permit a vehicle exporter in Indonesia to cumulate inputs originating in Norway into its products only if the rules of origin under the GSP scheme of Norway permit the exporter to cumulate the same inputs originating in Turkey into its products. In most situations, cumulation is allowed reciprocally. Nevertheless, exporters should verify whether this is permitted for the products concerned.

Agricultural products under chapters 1 to 24 of the Harmonized System are excluded from cumulation between the three partners.

### **7.5 Regional cumulation**

The provisions for regional cumulation permit beneficiary countries in a regional group to consider inputs from other beneficiary countries within the same group as originating content (see article 16 of Decision No.2014/7064). The underlying objectives of regional cumulation are to promote regional development and to ease origin requirements. Under the previous rules of origin, three regional groups – Group I (Association of South-East Asian Nations), Group II (Andean Community, Central American Common Market and Panama) and Group III (South Asian Association for



Regional Cooperation) – were able to apply the provisions of regional cumulation. Under the current rules of origin, in addition to these groups, Mercosur has been included in the regional cumulation provisions. Consequently, the following States, under four regional economic groups, may utilize the regional cumulation system:

**Group I:**

Brunei Darussalam, Cambodia, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, the Philippines, Thailand and Vietnam

**Group II:**

Bolivia (Plurinational State of), Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Peru and Venezuela (Bolivarian Republic of)

**Group III:**

Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka

**Group IV:**

Argentina, Brazil, Paraguay and Uruguay

The following secretariats of the regional groups are responsible for transmitting information on the undertakings of member States to ensure compliance with cumulation requirements and verification of proof of origin to the Ministry of Customs and Trade of Turkey via diplomatic channels:

**Group I:**

General secretariat of the Association of South-East Asian Nations

**Group II:**

Permanent Joint Committee on Origin of the Andean Community, Central American Common Market and Panama

**Group III:**

Secretariat of the South Asian Association for Regional Cooperation

**Group IV:**

Secretariat of Mercosur

In order to benefit from regional cumulation, the countries of the regional groups must ensure compliance with the rules of origin and provide the administrative cooperation necessary to ensure their correct implementation.

The secretariat of the regional group concerned or another competent joint body representing all the members of the group concerned must notify the Ministry of Customs and Trade of these undertakings.

The following conditions apply to the use of regional cumulation. If the qualifying operation specified in the list of products and working or processing operations which confer originating status is not the same for all countries involved in cumulation, that is, LDC and non-LDC beneficiaries, the origin of products exported from one country to another in a regional group for the purposes of regional cumulation is determined on the basis of the rule that would apply if the products were being exported to Turkey (see article 16(4(a)) of Decision No. 2014/7064).

The materials listed in annex 3 of Decision No. 2014/7064 (some agricultural and processed agricultural products) are excluded from regional cumulation in the following two situations (see article 16(3) of Decision No. 2014/7064):

- a) If the tariff preference applicable in Turkey is not the same for all countries involved in cumulation (for example, tariff preferences for LDCs, non-LDCs and beneficiaries of special initiative arrangements)
- b) If the materials concerned would benefit, through cumulation, from a tariff treatment more favorable than the one they would benefit from if exported directly to Turkey

In order to benefit from regional cumulation provisions, the country concerned must carry out operations that go beyond the ones specified in article 9 and, with regard to textile products, those specified in annex 6 of Decision No. 2014/7064.<sup>13</sup> If this is not applicable, the product concerned has as country of origin the country of the regional group that accounts for the highest share of the customs value of the materials used that originate in other countries in the regional group (see article 16(4(b)) of Decision No. 2014/7064).

A vehicle manufactured in Indonesia, for example, may incorporate the inputs shown in table 4. According to the regional cumulation provision in Decision No. 2014/7064, the materials imported from Cambodia, Thailand and Viet Nam are not taken into account in calculating the percentage of imported inputs, as the materials already originate in the respective countries. Therefore, only the components imported from elsewhere (in this example Japan, which is not a member of the Association of South-East Asian Nations) are considered non-originating inputs. As the amount of the inputs from Japan is \$4,500, or 45 per cent of the export price, and this is under the 50 per cent limit, the vehicle is considered as originating in Indonesia and is entitled to preferential treatment under the arrangements of the GSP scheme.

#### 7.5.1 Cumulation between Groups I and III

The rules of origin under the current GSP scheme of Turkey have made cumulation between countries from Groups I and III possible. To make such an interregional cumulation operational, the authorities of a beneficiary country from Group I or Group III must make a request to the Ministry of Customs and Trade. The countries concerned must ensure compliance with the rules of origin, including administrative cooperation to ensure the correct implementation of the rules, and must jointly notify the Ministry of these undertakings. The request for interregional cumulation addressed to the Ministry

must be supported by evidence that the requirements to benefit from cumulation have been met. The Ministry decides on the request and publishes in the Official Gazette the date on which cumulation between the countries from Groups I and III takes effect, together with the countries involved and, where appropriate, the list of materials to which cumulation applies.

The minimum operation requirements applied for regional cumulation also apply to cumulation between countries from Groups I and III (see article 16(5) and (6) of Decision No. 2014/7064).

#### 7.5.2 Extended cumulation

The current rules of origin provide for the possibility of beneficiary countries to cumulate with countries with which Turkey has concluded free trade agreements in accordance with article XXIV of the General Agreement on Tariffs and Trade (such as Chile and Tunisia), provided that each of the following conditions is met:

(a) The countries involved in cumulation have undertaken to comply or ensure compliance with the rules of origin under the GSP scheme of Turkey and to provide the administrative cooperation necessary to ensure their correct implementation with regard to Turkey and also between themselves

(b) The undertaking referred to in (a) has been notified to the Ministry of Customs and Trade by the beneficiary country concerned (see article 16(7), (8) and (9) of Decision No. 2014/7064)

Materials originating in a country with which Turkey has concluded a free trade agreement are considered to originate in a beneficiary country if more than minimal operations are performed there, that is, operations that go beyond those specified in article 9 of Decision No. 2014/7064 and, with regard to textile products, those specified in annex 6. For extended cumulation, the rules in the relevant free trade agreement determine the origin of the materials used and the documentary proof of origin required. On the other hand, for the origin of products to be exported to Turkey, the rules under the GSP scheme of Turkey apply.

The authority of a beneficiary country must request authorization to use extended cumulation from the Ministry of Customs and Trade. Requests must include a list of the materials concerned by cumulation and need to be supported by evidence that the conditions in (a) and (b) above have been met. The Ministry decides on the materials that may be subject to extended cumulation. If the materials concerned change, another request must be submitted.

The Ministry publishes in the Official Gazette the date on which the extended cumulation takes effect, together with the countries involved and the list of materials to which cumulation applies.

Agricultural products under chapters 1 to 24 of the Harmonized System are excluded from extended cumulation.

### 7.5.3 Derogation

Under the previous rules of origin, the provisions on derogation were applicable only to LDCs; the current rules of origin extend the possibility of derogation to developing countries. In addition, the circumstances and conditions in which derogation may be granted have been redefined, and state that in response to a request from a beneficiary country, that country may be granted temporary derogation from the rules of origin under the GSP scheme of Turkey if internal or external factors temporarily deprive the country of the ability to comply with origin requirements with which it could previously comply, or the country requires time to prepare itself to comply with rules of origin requirements.

A request for derogation must be made in writing to the Ministry of Customs and Trade stating the reasons why it is required, with appropriate supporting documents (see article 19 of Decision No. 2014/7064).

Derogation is limited to the duration of the effects of the internal or external factors giving rise to it or the length of time needed for a beneficiary country to achieve compliance with the rules.

### 7.6 Consignment of products

Previously, these requirements were enforced by the direct transport rule, which obliged exporters to submit to customs authorities in Turkey the documents issued by the customs authorities of third countries certifying that the products concerned were unaltered. The current rules of origin have abolished this requirement, which has been replaced with a more flexible non-manipulation principle (see article 21 of Decision No. 2014/7064).

Consequently, compliance with territorial requirements and the non-manipulation principle is considered as satisfied unless customs authorities have reason to believe the contrary. If there is any doubt, customs authorities may request the declarer to provide evidence of compliance, which may be given by any means, including contractual transport documents such as bills of lading. Furthermore, the storage of products or consignments and splitting of consignments may take place if carried out under the responsibility of an exporter or a subsequent holder of the goods. The products must remain under customs supervision in the country(ies) of transit (see article 21 of Decision No. 2014/7064).

### 7.7 Documentary evidence

Documentary evidence for originated products imported to Turkey from beneficiary countries;

#### 7.7.1 Certificate of origin (form A)

Originating products within the meaning of Decision No. 2014/7064 are eligible, upon import to Turkey, to benefit from the preferential regime upon submission of a certificate of origin (form A)<sup>14</sup> issued by the customs authorities or by other competent

government authorities of a beneficiary country (see article 23 of Decision No. 2014/7064).

#### *7.7.1.1 Certificate of origin (form A) issued retroactively and duplicated*

A certificate of origin (form A) may be exceptionally issued after the export of products in the following situations (see article 23(2) of Decision No. 2014/7064):

(a) It was not issued at the time of export because of errors and involuntary omissions or special circumstances

(b) It is demonstrated to the satisfaction of the competent government authorities that a certificate of origin (form A) was issued but not accepted upon import for technical reasons.

In the event of the theft, loss or destruction of a certificate of origin (form A), an exporter may apply to the government authorities that issued it for a duplicate to be made out on the basis of the export documents in their possession (see article 23(4) of Decision No. 2014/7064).

#### *7.7.1.2 Invoice declaration*

An invoice declaration may be completed if the products concerned may be considered as originating in Turkey or in a beneficiary country and fulfil the other requirements of Decision No. 2014/7064.<sup>15</sup> The invoice declaration may be either completed by an approved exporter of Turkey or by any exporter for any consignment consisting of one or more packages containing originating products whose total value does not exceed €6,000.

#### *7.7.2 Documentary evidence for products exported from Turkey to beneficiary countries for purposes of bilateral cumulation*

The procedures and principles of the use of EUR1 Movement Certificates<sup>16</sup> and Invoice Declarations are stated in the Regulation on the EUR1 Movement Certificates and Invoice Declarations to be issued for exports under the GSP Scheme of Turkey, published in Official Gazette No. 29361 on 20 May 2015.

#### *7.7.3 Non-commercial products (products exempt from submission of proof of origin)*

Products sent as small packages from a private person to private persons or forming part of a traveler's personal baggage are admitted as originating without requiring the submission of proof of origin, provided that such products are not imported by way of trade and have been declared as meeting the conditions required for the application of Decision No. 2014/7064 and where there is no doubt as to the veracity of such a declaration.

The total value of the products deemed non-commercial products must not exceed €500 for small packages or €1,200 for products forming part of a traveler's personal baggage (see article 29 of Decision No. 2014/7064).

#### 7.7.4 Validity of proof of origin

A proof of origin is valid for 10 months from the date of issue in an exporting country and must be submitted within this period to the customs authorities of the importing country (see articles 3(1(p)), 4(6) and 22 of Decision No. 2014/7064).

#### 7.7.5 Subsequent verification

The information provided on a certificate of origin (form A) and invoice declaration may be verified at random or whenever the customs authorities of Turkey have reasonable doubt as to the authenticity of a document or the accuracy of information regarding the origin of goods. If an application for subsequent verification has been made, such verification must be carried out and its results communicated to Turkey within a maximum of six months. If in a case of reasonable doubt there is no reply within six months or if the reply does not contain sufficient information to determine the authenticity of the document in question or the real origin of the products, a second communication must be sent to the competent authorities. Following a second communication, if the results of the verification are not communicated to the requesting authorities within four months, or if the results do not permit the authenticity of the document in question or the real origin of the products to be determined, the requesting authorities will, except in exceptional circumstances, refuse entitlement to the preferential regime.

#### 7.8 Administrative cooperation

According to the provisions of articles 4 and 31 of Decision No. 2014/7064, eligible countries announced in an import regime decree must advise the names and addresses of the government authorities situated in their territories that are empowered to issue a certificate of origin (form A), together with specimen impressions of the stamps used by these authorities and the names and addresses of the relevant government authorities responsible for the control of a certificate of origin (form A) and invoice declaration, to the Ministry of Customs and Trade, in order to become beneficiary countries. Eligible countries that have already provided information with regard to administrative cooperation are deemed to have also accepted the conditions in article 4 of Decision No. 2014/7064.

The Ministry of Customs and Trade publishes in the Official Gazette the list of eligible countries specified in annex 3 of the import regime decree that have provided information with regard to administrative cooperation. The date on which a beneficiary country has advised the Ministry is also included. The Ministry reserves the right to request that beneficiary countries update the information provided and the specimen impressions of the stamps used by responsible authorities, at any time. Accordingly, beneficiary countries must inform the Ministry as soon as possible if any changes or updates have been made to the information provided, in order to continue to benefit from the GSP scheme of Turkey. The Ministry reserves the right to suspend the preferential treatment applied to the goods of beneficiary countries due to a systematic failure in administrative cooperation provided by the relevant authority of a beneficiary country.

Beneficiary countries are responsible for the control of a certificate of origin (form A) and invoice declaration in due time (see article 32 of Decision No. 2014/7064 and appendix I of this handbook for the list of beneficiary countries).

### 7.9 Other provisions: Validity

Decision No. 2014/7064 has been implemented as of 1 January 2015.

### 7.10 Import Requirements and Documentation

#### 7.10.1 Import Licenses

The 1996 Turkish import regime abolished the requirement that every importer needs an import license and that the importer must obtain an import authorization from a bank. An importer only needs a tax number to import all but restricted items, including firearms, hazardous materials, and other products that can be imported by authorized establishments only or for which approval from the Directorate General of Security is required. Before December 2011, the majority of food and non-food imports required a "Control Certificate," which is an import license indicating whether or not the product is eligible for import. In accordance with the import regime enacted in December 2011, Control Certificates are required only for animals, animal products, and certain plants such as seeds, seedlings, saplings and flower bulbs.

#### 7.10.2 Import Documentation

Turkish documentation procedures require that a commercial invoice and bill of lading or airway bill accompany all commercial shipments. Depending on the type of product, importers may be required to submit a Certificate of Origin. Import licenses and phytosanitary certificates are necessary for food and agricultural commodity imports. Conformity Compliance (CE Mark)

Companies selling to the Turkish market must submit evidence of conformity compliance (CE Mark) either by providing a conformity certificate from a notified body or a manufacturer-issued declaration of conformity, which declares compliance with all relevant standards and directive annexes. The declaration of conformity must mention the applicable directive(s), the name of the manufacturer or its authorized representative, the name of the notified body (if involved), product information and reference to harmonized standards. If the notified body is also involved in the process, the type examination certificate should also be submitted.

The technical file is a dossier, which includes a user manual, product specifications, technical drawings and standards applied per the appropriate directives and corresponding annexes. Although it may not be enforced by the Government of Turkey for every imported product with the CE marking, manufacturers are assumed to have prepared the technical file. It has been reported to CS Turkey that several American companies had difficulties when asked to submit a technical file after their products were shipped to Turkey. Certain companies had intellectual property rights (IPR)-related concerns and were reluctant to provide drawings or in-depth information about the technical specifications of the product. In order to avoid customs delays, the

importer should be knowledgeable about the relevant procedures and the required documentation.

#### 7.10.3 Commercial Invoice

The commercial invoice must be submitted in triplicate, including the original copy and must contain a complete description, quantity, unit cost, HS code, delivery method of the goods, and country of origin, along with all required payment terms and letter of credit number if transaction was actualized through this payment method.

#### 7.10.4 Certificate of Origin

It is required by certain foreign countries for tariff purposes, certifying the country of origin of specified goods. The certificate of origin is to be prepared in duplicate. No corrections are permitted on this document, and it should be in English. A Certificate of Origin is usually prepared by the exporter or the freight forwarder and notarized and attested to by a local Chamber of Commerce or a World Trade Center. The Turkish Embassy or Consulate in the United States must certify the Certificate of Origin. One copy of the document must be surrendered to customs authorities at the time of importation.

#### 7.10.5 Bill of Lading/Airway Bill

Details in the bill of lading should correspond exactly to those given in other shipping documents. The original bill of lading should be submitted along with three copies.

#### 7.10.6 Proforma Invoices

The proforma invoice must not be more than six months old at the time of application. The word “proforma” must be included in the document. It must contain an unexpired option (if appropriate), indicate freight and insurance charges separately, and bear the importer's name, description, unit price, quantity, delivery/payment method of specified goods. Products falling under the EU New Approach Directives must be accompanied by either a self-declaration of conformity or a notified body's issued certificate of conformity to be allowed entry into the Turkish market. See the Standards and CE mark section below.

#### 7.10.7 Health Certification

Special health certificates are required for imports of plants, seeds, live animals, and animal products. Plants, including fruits and vegetables, must be substantially free from pests and diseases and must have been grown in an area substantially free from prohibited pests and diseases. Additional information may be obtained from the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS). APHIS inspects and certifies that plants, plant products and live animals and animal products conform to health and sanitary/ phytosanitary requirements as required by the Turkish regulations. U.S. exporters are encouraged to obtain information from the importer prior to shipment because of the complexity of sanitary and phytosanitary regulations.



#### 7.10.8 Special Import Requirements

Alcohol can be imported by the private sector by obtaining license and permission from the Tobacco, Tobacco Products and Alcoholic Drinks Market Regulatory Authority (TAPDK), an independent regulatory body. Inspection of imported products is regulated by the Communiqué on Import Inspection of Tobacco, Tobacco Products, Alcohol and Alcoholic Beverages (Product Safety and Inspection: 2018/19). Nevertheless, non-tariff barriers, arduous documentation requirements, and high duty rates continue to limit trade in alcoholic beverages. Cigarettes can only be imported by cigarette producers, which are permitted by the government under a special decree (such as Philip Morris, RJ Reynolds, British Tobacco, etc.).

#### 7.10.9 Importation of Precious Metals/Stones

Precious metals (e.g., gold and platinum) may only be imported by members of Borsa Istanbul (the Istanbul Exchange). The Istanbul Exchange consists of domestic or foreign banks, precious metals companies, currency offices, precious metals producing and marketing companies and precious metals refineries. Turkey officially became a member in 2007 of the Kimberley Process Certification Scheme, which is a joint government, international diamond industry and civil society initiative to stem the flow of conflict diamonds. See information on regulations pertaining precious metals and stones importation at [www.borsaistanbul.com/en/products-and-markets/markets/precious-metals-and-diamond-markets](http://www.borsaistanbul.com/en/products-and-markets/markets/precious-metals-and-diamond-markets).

Importing products such as pharmaceuticals; organic chemicals, especially those used to produce medicines and medical products; vaccines for both humans and animals; cosmetic products; chemicals used in cleaning and the food industry; live animals and plants; grains and plant seeds; and hormones require control certificates from the Ministry of Health and Ministry of Agriculture. Upon entry of specific food and agricultural products, the importer should be prepared to present the approved Control Certificate (if required) together with originals of invoice, ingredient list, Certificate of Origin, veterinary health certificate or plant health certificate, etc., as well as other import documentation such as the bill of lading. Imports of food products into Turkey are allowed only if they conform to regulations related to import controls and Turkish Food Codex ([www.tarim.gov.tr/GKGM/Menu/81/Turkish-Food-Codex-Legislation](http://www.tarim.gov.tr/GKGM/Menu/81/Turkish-Food-Codex-Legislation)). Turkey is harmonizing its food import regulations and Turkish Food Codex Regulation with those of the EU. If the product in question is not covered by the Turkish Food Codex, officials can refer to international regulations such as International Organization for Standardization (ISO), Codex Alimentarius or relevant EU Directives if it is not harmonized yet, on a case-by-case basis.

All documents must be obtained from and/or approved by the relevant authorities in the country of origin. Documents must be submitted in the original language with a translation into Turkish. Control certificates must be presented to customs authorities upon import.

Products requiring after-sales service such as motor vehicles, household electrical goods, office equipment and computers, cash registers, TV and video equipment, heaters, gas-fired burners, industrial machinery, automobiles, and wireless equipment require an import permit from the Ministry of Commerce. To obtain such a permit, importers must guarantee that they will provide service and spare parts either by establishing offices or by signing agreements with existing service/parts firms. The penetration of maintenance facilities throughout the country depends on the type of product. Particular product groups require a widespread network of maintenance facilities in each of Turkey's seven geographic regions. Vehicles fall into this category. The existing import regime instructs an importer to provide services and also to maintain necessary parts for at least 10 years, following the importation of the last vehicle.

Type-approval is no longer needed for imported telecommunications equipment. Under the framework of the EU Customs Union, telecommunications equipment that meets certain conditions such as harmonized frequencies in Turkey can be imported without the approval of the Telecommunications Regulatory Authority. There is a national frequency plan if the equipment's frequency is not harmonized (however, typically it is) then it is necessary to apply the Authority for the approval.

Importers are required to obtain a control certificate from the Ministry of Environment for materials considered detrimental to the environment. Such materials include hard coal, lignite, Petro coke, petroleum, arsenic, mercury, lead sulfides and carbonates, fluorocarbons, other chemicals and scrap metals.

#### 7.10.10 Labeling and Marking Requirements

All packages, cases, and bales must bear shipping marks, numbers, dimensions, and the gross weight of the merchandise.

Packages along with accompanying bills of lading for goods to be shipped through Turkey must be marked "In Transit." All goods entering Istanbul or any other entry port in Turkey (Ankara, Iskenderun, Izmir, Antalya, Mersin, Sinop, Samsun, and Trabzon) will be cleared through customs, and full payment of duty will be required unless the packages and bills of lading are marked "In Transit." Goods marked "In Transit" may be cleared for entry and reshipment.

For certain goods, specific labels might be needed, i.e., some products might need to be cleared by the Ministry of Agriculture and Forestry, and some by the Turkish Standards Institute (TSE). Information that needs to be posted on the labels are announced on websites of the relevant institutions.

#### 7.10.11 Temporary Entry

Goods may be temporarily imported into Turkey without payment of duties and tax, if they are to be used in the production of a product that is to be exported. The necessary

permits for goods that are subject to temporary entry can be received from customs offices. The Customs Regime with Economic Impact Application Forms should be submitted along with one or two of the following documents:

Proforma invoice and two copies of translated invoice, catalog and/or technical documents describing technical features of goods - if needed, contract between sender and receiver firms regarding the purpose of shipment and length of stay of the goods – if available, value of the shipment and translation of the contract.

Upon exportation of the finished product, the guarantee is remitted. Temporary admission of goods intended for re-export in their original form is permissible, free of import duties and taxes with the approval of the Undersecretariat for Foreign Trade. Turkey is a signatory to the International Convention to Facilitate the Importation of Commercial Samples and Advertising Material. Samples of no commercial value are admitted duty-free. Other samples are assessed duties and taxes at the time of import, but these are refunded if the samples are re-exported within six months from the date of import. A letter of guarantee will be provided to Turkish Customs for a temporary import, with the guarantee being returned at the time of re-export. Samples should be listed on an invoice. Books, newspapers, magazines, catalogs, pamphlets, brochures, and similar advertising materials are exempt from Customs duty. Goods that shall not be availed of temporary entry:

1. Prohibited Products
2. Consumable Products,
3. Goods that cannot be subjected to a sameness detection,
4. Goods that can create economic impediments

There may also consider a more simplified procedure in the form of an "ATA Carnet." Carnets are international customs documents permitting the holder to temporarily import products as samples without paying customs duties or posting bonds. Virtually all goods, personal and professional, including commercial samples, professional equipment, goods intended for use at trade shows and exhibitions, computers, tools, cameras and video equipment, industrial machinery, automobiles, apparel, and jewelry are covered under a carnet.

With the carnet, goods may be imported without payment of duties and taxes. Carnets are valid for one year.

#### 7.10.12 Prohibited and Restricted Imports

The Ministry of Commerce holds the authority to issue the list of prohibited and restricted imports into Turkey. This list is regulated by the Imports Communiqué issued on December 31, 2016.

There are two product groups whose import into Turkey is prohibited:

- Certain waste (including metal scrubs) pertaining to protection of the environment
- Certain chemicals.

Importation of some other products are not prohibited, but restricted if they do not meet the requirements set to protect humans, animals and the environment. For example, importation of electronic devices is not prohibited; however, if these devices are not compliant with the technical standards established by Turkish Standards Institute they may not be imported.

Similarly, food products that are not compliant with the requirements set by the Ministry of Food, Agriculture and Livestock, cannot be imported into Turkey.

There is also a different group of products, including unprocessed precious metals, metal scrubs, gasoline, etc., which, due to their nature, can only be imported by certain organizations and designated individuals.

## 8 FINAL RECOMMENDATIONS TO BRAZILIAN FIRMS

### 8.1 List of Recommendations

- Quote your best prices.
- Convince the importers of the availability of spare parts and maintenance.
- Select the right distributor or agent to give after-sales services for the products.
- Give technical training to local people if necessary.
- Select the right distributor or agent to give after-sales services for the products.
- Developing good and close relations with public and private organizations and customers are extremely important.
- Specialists from the mother company or local agents should make periodic and frequent calls on present and potential customers and organizations.
- The local representative should receive from the exporter the information and documentation needed for the implementation of his activities. This includes catalogues, samples, technical descriptions, information about new developments etc. Documentation in English and Turkish will be preferable.
- Seminars, presentations, displays, participation in trade fairs are good marketing tactics to reach a higher degree of visibility and market penetration.
- Go into partnership in selected sectors with local companies to reach other markets.
- Production by joint ventures in Turkey will increase the competitiveness in European markets because Turkish origin industrial products will be exempt from duties. Due to the proximity and linguistic and ethnic ties, the Turkish Government and businesses have continued to develop links to many of the Central Asian and Caucasian republics of the former Soviet Union as well as Middle East Countries. The Turkish Government is eager to see the establishment of joint-ventures between Turkish and foreign firms to further tap the potential of the emerging Central Asian markets. Turkey can be used as stepping-stone to those markets.
- Brazilian firms should not limit their interest only to foreign trade when they are dealing with Turkish firms. There are many other possibilities in the fields of manufacturing, transport, construction and finance.
- As we have mentioned earlier, Turkey among top FDI attracting countries and expected to be among top FDI attracting countries in coming years thanks to

macroeconomic stability, implications of EU membership process and efforts for the improvement of the investment environment.

## 8.2 Advantage of geographical position

- A huge and growing local market Possibility of reaching European , Russian , Middle East , Caucasian and North African markets.
- Free trade in both exports and imports
- Abundant trained labour force
- Competitive manufacturing industry due to availability of raw materials, technological developments.
- Possessing rich mineral resources.
- Technologically improved banking and telecommunication system and developed infrastructure.

Because of the improving economic ties between Brazil and Turkey, the investors will probably show great interest in investing Turkey.

## 8.3 Incentives for Foreign Investors in Turkey

The Turkish government provides investment incentives – so-called State Aid – in order to liminate inter-regional economic imbalances, to facilitate a larger capital ontribution by the public and foreign investors to the capital build-up of the country and also to support activities that have a positive effect on employment. The investment incentives scheme is continuously being amended to encourage investments in manufacturing and services, the energy sector and exports. Local and foreign investors have equal access to investment incentives. Generally speaking, state aid can be classified as either a tax or a non-tax incentive. The principal prerequisite for benefiting from state aids is to obtain an Investment Incentive Certificate (IIC) which is granted to investors for their investments by the Ministry of Economy.

## 8.4 Turkish investment incentive legislation

Turkey's new investment incentive system, launched in April, 2012, became effective by the "Council of Minister's Decree No. 2012/3305 on Government Subsidies for Investments" of June 15, 2012. The Regulation No. 2012/1 defines procedures and principles for the implementation of the Decree.

The new Investment Incentive Program that is vital for Turkey's 2023 vision as well as for the production and export-oriented growth strategy aims to:

- steer savings into high value added investments,
- boost production and employment,

- encourage large scale and strategic investments with high R&D content for increased international competitiveness,
- increase foreign direct investments,
- reduce regional development disparities,
- promote investments for clustering and environment protection,

in line with the objectives set in development plans and annual programs.

Supports provided by this new Investment Incentive Program will be available for all investments with an incentive certificate granted after January 1, 2012.

In order to further accelerate investment decisions, the new Investment Incentive Program grants more advantageous supports for investments to be initiated by the end of 2015. Spending at least 10% of the investment amount (minimum 5 million TL for the investments over 50 million TL) will suffice for the investment to be considered as started.

### 8.5 Incentive Instruments

Investments are supported through 4 different incentive schemes and 9 different incentive instruments designed within the scope of the new program. Contributions provided to investors through incentive instruments depend on the characteristics of the investment and applicable schemes. This chapter elaborates on the scope of incentive instruments in order to clarify the details of such contributions. There are concrete examples, presented below, for providing investors with more information on the incentive instruments:

Schemes/Supports	General Investment Incentive Scheme	Regional Investment Incentive Scheme	Large Scale Investment Incentive Scheme	Strategic Investment Incentive Scheme
VAT Exemption	✓	✓	✓	✓
Customs Duty Exemption	✓	✓	✓	✓
Tax Deduction		✓	✓	✓
SSP* Support (Employer's share)		✓	✓	✓
Income Tax Withholding Support**	✓	✓	✓	✓
SSP Support** (Employee's Share)		✓	✓	✓
Interest Rate Support***		✓		✓

Land Allocation		✓	✓	✓
VAT Refund****				✓

\* SSP: Social Security Premium

\*\* Provided that the investment is made in Region 6.

\*\*\* Provided that the investment is made in Regions 3, 4, 5 or 6 within the frame of the Regional Investment Incentive Scheme

\*\*\*\* For strategic investments with a minimum fixed investment amount of 500 Million TL.

## 8.6 Who can benefit from investment incentives?

- Real persons, ordinary partnerships, stock corporations, cooperatives, joint ventures;
- Public institutions and agencies,
- Public professional organizations,
- Associations and foundations,
- Turkish branches of foreign based companies

can benefit from supports extended under the Investment Incentives Program of Turkey provided that they satisfy all criteria set for each scheme.

As per Law No. 4875 on Foreign Direct Investments, companies established in Turkey by real persons of foreign nationality and/or by legal persons according to the laws of foreign countries are eligible for benefiting from all supports within the scope of the Investment Incentives Schemes under equal conditions with domestic investors, as they are also classified as Turkish companies. Thus these companies are considered as stock corporations and supported by the Investment Incentives Program. "Branches", without company status, founded in Turkey in accordance with the Turkish Commercial Law by foreign companies based in other countries can also benefit from these supports.

Incentive schemes granted by the new program can be applied by a real person of foreign nationality through a joint-stock or limited liability company, and by a foreign company based in foreign countries through a joint-stock, limited liability company or a branch established in Turkey

## 8.7 Application Process

Investors must apply officially to receive the supports provided within the scope of the Investment Incentives Program. Before applying officially, in line with certain principles and procedures, they can consult the Ministry of Economy, Directorate of Incentive Implementation and Foreign Investment to seek information on the scheme their



projects fit in or investors can determine their scheme by studying the incentives communiqué. Investors should be well informed about their projects in terms of the following aspects in order to run through the process efficiently:

- Place of investment designated for the project or alternative investment places,
- Industry of the investment project,
- Subject, capacity and approximate investment amount of the project,
- For the strategic investments, domestic production capacity and import data of the product to be produced.

Before applying, investors should also check investment subjects not supported or conditionally supported.

### 8.8 Where to Apply?

Investors must apply to the Ministry of Economy, Directorate of Incentive Implementation and Foreign Investment to benefit from the Investment Incentives Program. They can apply to the Ministry of Economy personally or via mail. Applications to be made via mail should be delivered to the following address:

T.C. Ekonomi Bakanlığı  
Teşvik Uygulama ve Yabancı Sermaye Genel Müdürlüğü  
İnönü Bulvarı No:36 06510 Emek / ANKARA

Investment projects within the scope of the General Incentives Scheme, with a fixed investment amount that does not exceed 10 million TL and which are designed for the following investment subjects can apply to the Ministry of Economy or to the Development Agencies or Chambers of Industry (12 local units) located in the province of the investment.

## 9 THE EUROPEAN UNION AND FOREIGN ECONOMIC RELATIONS

### 9.1 Introduction

Turkey is the only pluralist secular democracy in the Moslem world and has always attached great importance to developing its relations with other European countries. Historically, Turkish culture has had a profound impact over much of Eastern and Southern Europe.

Turkey began "westernising" its economic, political and social structures in the 19th century. Following the First World War and the proclamation of the Republic in 1923, it chose Western Europe as the model for its new secular structure.

Turkey has ever since closely aligned itself with the West and has become a founding member of the United Nations, a member of NATO, the Council of Europe, the OECD and an associate member of the Western European Union. During the Cold War Turkey was part of the Western alliance, defending freedom, democracy and human rights. In this respect, Turkey has played and continues to play a vital role in the defense of the European continent and the principal elements of its foreign policy have converged with those of its European partners.

Having thus entered into very close cooperation with Western Europe in the political field, it was therefore only natural for Turkey to complete this in the economic area. Thus, Turkey chose to begin close cooperation with the fledgling EEC in 1959.

### 9.2 The Ankara Agreement

In July 1959, shortly after the creation of the European Economic Community in 1958, Turkey made its first application to join. The EEC's response to Turkey's application in 1959 was to suggest the establishment of an association until Turkey's circumstances permitted its accession. The ensuing negotiations resulted in the signature of the Agreement Creating An Association Between The Republic of Turkey and the European Economic Community (the "Ankara Agreement") on 12 September 1963. This agreement, which entered into force on 1 December 1964, aimed at securing Turkey's full membership in the EEC through the establishment in three phases of a customs union which would serve as an instrument to bring about integration between the EEC and Turkey.

The Ankara Agreement envisaged the progressive establishment of a Customs Union which would bring the Parties closer together in economic and trade matters. In the meantime, the EEC would offer financial assistance to Turkey. Under the First Financial Protocol which covered the period 1963-1970, the EEC provided Turkey with loans worth 175 million ECU. The trade concessions which the EEC granted to Turkey under the form of tariff quotas proved, however, not to be as effective as expected. Yet, the EEC's share in Turkish imports rose from 29% in 1963 to 42% in 1972.

Although the Ankara Agreement envisaged the free circulation not only of goods, but of natural persons, services and capital between the Parties, it excluded Turkey from

the EEC decision-making mechanisms and precluded Turkey from recourse to the ECJ for dispute settlement.

The Customs Union that was to be established between the Parties went much further than the abolition of tariff and quantitative barriers to trade between the Parties and the application of a Common External Tariff to imports from third countries, and envisaged harmonization with EEC policies in virtually every field relating to the internal market.

The Ankara Agreement still constitutes the legal basis of the Association between Turkey and the EU.

#### 9.2.1 The Additional Protocol

The Additional Protocol of 13 November 1970 set out in a detailed fashion how the Customs Union would be established. It provided that the EEC would abolish tariff and quantitative barriers to its imports from Turkey (with some exceptions including fabrics) upon the entry into force of the Protocol, whereas Turkey would do the same in accordance with a timetable containing two calendars set for 12 and 22 years, and called for the harmonization of Turkish legislation with that of the EU in economic matters. Furthermore, the Additional Protocol envisaged the free circulation of natural persons between the Parties in the next 12 to 22 years.

The Additional Protocol brought significant advantages for Turkey's agricultural exports to the EEC. 92% of our agricultural exports in 1971 benefited from this regime. Despite other agricultural producers such as Greece, Portugal and Spain later becoming member states, and the EEC's conclusion of preferential trade agreements with certain Mediterranean countries, Turkey preserves even today its position as one of the EEC's most privileged trading partners.

Had the Additional Protocol been implemented in full, the free circulation of goods and services and the harmonization of Turkish legislation with that of the EEC in a multitude of areas would have been achieved at the end of the 22 year timetable.

#### 9.2.2 Turkey's Application for Full Membership in 1987

On 24 January 1980 Turkey shifted its economic policy from an autarchic import-substitution model and opened its economy to the operation of market forces. Following this development in the economic area and the multiparty elections in 1983, the relations between Turkey and the Community, which had come to a virtual freeze following the military intervention of 12 September 1980 in Turkey, began returning to normality. In the light of these positive developments, Turkey applied for full membership in 1987, on the basis of the EEC Treaty's article 237 which gave any European country the right to do so. Turkey's request for accession, filed not under the relevant provisions of the Ankara Agreement, but those of the Treaty of Rome, underwent the normal procedures. The Council forwarded Turkey's application to the Commission for the preparation of an Opinion. This has reconfirmed Turkey's eligibility, given that a similar application by Morocco was turned down by the Council on the grounds that Morocco is not a European country. The Commission's Opinion was

completed on 18 December 1989 and endorsed by the Council on 5 February 1990. It basically underlined Turkey's eligibility for membership, yet deferred the in-depth analysis of Turkey's application until the emergence of a more favorable environment. It also mentioned that Turkey's accession was prevented equally by the EC's own situation on the eve of the Single Market's completion which prevented the consideration of further enlargement. It went on to underpin the need for a comprehensive cooperation program aiming at facilitating the integration of the two sides and added that the Customs Union should be completed in 1995 as envisaged.

Although it did not attain its basic objective, Turkey's application revived Turkey-EC relations: efforts to develop relations intensified on both sides, the Association's political and technical mechanisms started meeting again and measures to complete the Customs Union in time were resumed. Meanwhile, the Commission's promised cooperation package, known as the "Matutes Package", was unveiled in 1990, but could not be adopted by the Council due to Greece's objection.

### 9.3 The Customs Union

#### 9.3.1 The Technical Aspects of the Customs Union

Under these circumstances, Turkey chose to complete the envisaged Customs Union with the Community. Talks began in 1994 and were finalized on 6 March 1995 at the Turkey-EU Association Council. The Association Council is the highest-ranking organ of the association and is composed of the Foreign Ministers of Turkey and the 15 EU Member States. On that day the Association Council adopted its decision 1/95 on the completion of the Customs Union between Turkey and the EU in industrial and processed agricultural goods by 31 December 1995. At the same meeting, another Resolution on accompanying measures was adopted and the EU made a declaration on financial cooperation with Turkey as part of the customs union "package".

With the entry into force of the Customs Union, Turkey abolished all duties and equivalent charges on imports of industrial goods from the EU. Furthermore, Turkey has been harmonizing its tariffs and equivalent charges on the importation of industrial goods from third countries with the EU's Common External Tariff and progressively adapting itself to the EU's commercial policy and preferential trade arrangements with specific third countries. This process is to be completed in 5 years.

As a result of these measures, Turkey's weighted rates of protection for imports of industrial products originating in EU and EFTA member states have fallen from 5.9% to 0%, and from 10.8% to 6% for similar goods originating in third countries. The latter rates will further drop to 3.5% when the EU fulfills its obligations under the WTO negotiations.

Although basic agricultural products have been excluded from the initial package, a preferential trade regime for these products has been adopted on 1 January 1998. Further efforts are expected to be made in the same direction. Moreover, Turkey is progressively adopting many aspects of the Common Agricultural Policy. On the other

hand, under the Customs Union Decision, the EU is expected to take as much account as possible of Turkey's agricultural interests when developing its agricultural policy.

Turkey's efforts towards harmonizing its legislation with that of the EU are under way. These efforts include, in commercial matters, monitoring and safeguarding measures on imports from both the EU and third countries, the management of quantitative restrictions and tariff quotas and the prevention of dumped and subsidized imports. As to competition rules, subsidies through State resources in any form whatsoever which distort or threaten to distort competition will be banned. A special Competition Authority has been set up for this purpose. Assistance to promote economic development in Turkey's less developed regions and assistance intended to promote cultural heritage conservation and which does not adversely affect competition will however be allowed. Furthermore, Turkey is progressively adjusting its legislation regarding state monopolies of a commercial nature so as to ensure that no discrimination exists in the conditions under which goods are produced and marketed between nationals of Turkey and EU Member States. Turkey is also in the process of harmonizing its laws with EU legislation eliminating technical barriers to trade during a transitional period which is expected to last five years, as foreseen in the Customs Union Decision. Effective cooperation between Turkey and the EU in the fields of standardization, calibration, quality, accreditation, testing and certification will be achieved as part of this process. Harmonization of Turkish legislation to that of the EU on intellectual, industrial and commercial property has been realized and laws for consumer protection are now being put in place. It is also noteworthy that both Parties are banned from using internal taxes as indirect protection mechanisms and from using tax rebates as export subsidies.

### 9.3.2 The Resolution on Accompanying Measures

Apart from these rather technical provisions related to the establishment and the proper functioning of the Customs Union, the package also comprised an Association Council Resolution providing for the intensification of cooperation between Turkey and the EU in such areas not covered by the Customs Union as industrial cooperation, Trans-European networks, energy, transport, telecommunications, agriculture, environment, science, statistics, as well as matters relating to justice and home affairs, consumer protection, cultural cooperation, information etc. These provisions also aimed at ensuring that the higher degree of integration achieved between Turkey and the EU through the Customs Union was not limited solely to economic/trade matters and that the Customs Union did serve its purpose under the Ankara Agreement: constituting an important cornerstone towards Turkey's accession to the EU.

### 9.3.3 Financial Cooperation

The third element of the Customs Union package was the statement on financial cooperation which the EU delivered at the Association Council meeting where Decision 1/95 was adopted. This financial cooperation, which amounted to 2.22 billion ECU over a five-year period, aimed at alleviating the burden which the opening up of the economy to EU competition would bring to Turkish economic operators on the one hand, and

improving Turkey's infrastructure and reducing the economic disparities between the parties on the other hand. Yet, the transfers envisaged within this framework have so far failed to materialise due to the lack of political will on the part of the EU.

#### 9.3.4 The First Results of the Customs Union

Trade figures after the completion of the Customs Union reveal that, in 1996, our imports from the EU rose by 34.7% compared to 1995 and reached 22.7 billion dollars, while our exports, amounting to 11.477 billion dollars, rose by only 3.6%. The EU preserved its place as our biggest trading partner with a 52.9% share in our imports and 49.5% in our exports. This trend continued in 1997 and 1998. Turkey's exports to the EU rose from 12.2 billion dollars in 1997 to 13.4 billion dollars in 1998 and imports from the EU increased from 24 billion dollars in 1997 to 24.8 billion dollars in 1998. In 1997, the share of Turkish imports from EU in total imports increased further reaching 51.1% and in 1998 52.5%, also the share of EU exports in total exports increased from 46.6% in 1997 to 50% in 1998. According to 1997 figures, Turkey's share in total EU exports is 3.1% representing the significance of Turkey's potential as a growing market for the EU while Turkey's share in total EU imports is 1.8%.

Since the EU had already abolished its tariffs for imports from Turkey before the Customs Union, the only trade barriers being quotas for textiles that could not be filled by Turkey, the Customs Union did not bring about a significant liberalisation for our exports to the EU. Since 66% of our exports to the EU consist of consumer goods, they are sensitive to changes in European demand. The slow growth rate recorded in Germany, our biggest trading partner within the EU, impeded the growth of our exports to that country in 1996. Our exports to the EU are expected to rise with a return to higher growth rates in the Union. Our industry has also adapted itself very well to the new competitive environment, and not a single sector suffered from important problems.

Turkey's efforts to align itself to the EU's commercial policy towards third countries produced the Free Trade Agreements with EFTA, Israel, Romania, the Czech and Slovak Republics, Hungary, Slovenia, Estonia, Lithuania, Latvia and Bulgaria. Negotiations with Poland have been successfully completed and the agreement will be signed in the near future. The Agreement with Macedonia has been initialled, and the negotiation processes have been launched with Tunisia, Morocco, Egypt and the Palestinian National Authority. Preparations for alignment to the EU's GSP are also underway. Agreement has been reached with the EU to further liberalise trade in agricultural products and a Free Trade Agreement with the ECSC (European Coal and Steel Community) entered into force on 1 August 1996. The Customs Union constitutes a very important step towards Turkey's full integration with the EU. It has also demonstrated that, despite predictions to the contrary, the Turkish economy was able to withstand EU competition.

#### 9.4 The European Union's Enlargement Process and Turkey

Turkey attached particular importance to the EU's current enlargement process for two main reasons. Firstly, having played an active role in the demise of the Soviet bloc, it was only natural for Turkey to aspire for inclusion in the new European architecture which it helped to build. Second, the Association between Turkey and the EU aims at Turkey's full membership in the EU, as underlined once again with the Customs Union whose dynamics aim at bringing about further integration between the two Parties. This is why Turkey kept the question of inclusion in the EU's enlargement process on the agenda of Turkey-EU relations. At the last Association Council of 29 April 1997, the EU reconfirmed Turkey's eligibility for membership and asked the Commission to prepare recommendations to deepen Turkey-EU relations, while claiming that the development of this relationship depended on a number of factors relating to Greece, Cyprus and human rights.

The Commission, however, excluded Turkey from the enlargement process in its report entitled "Agenda 2000" which it disclosed on 16 July 1997. While the report conceded that the Customs Union was functioning satisfactorily and that it had demonstrated Turkey's ability to adapt to the EU norms in many areas, it repeated the same political and economic arguments against Turkey and made no reference to Turkey's full membership objective. The Commission unveiled on the same day as "Agenda 2000", the "Communication" to enhance relations with Turkey, where it reconfirmed Turkey's eligibility and brought a number of recommendations ranging from liberalisation of trade in services to consumer protection, that aim at taking Turkey-EU relations beyond the Customs Union, but cited a number of political issues as pre-conditions for moving our relations forward.

The fact that the EU confirmed Turkey's eligibility for membership but excluded it from the enlargement process has been seen as a contradiction. The Commission opted to propose measures that would reinforce the relationship within their current framework and complemented these measures with the idea of inviting Turkey to the European Conference. In the light of the EU's claims that all candidates would be judged according to the same objective criteria and that there would be no prejudice in their evaluation, Turkey found the Commission's approach unjust and discriminatory.

As a result, even though the Commission argued that the same criteria were applied to Turkey and the other candidates, they produced logically diverging conclusions.

#### 9.5 The Luxembourg European Council and the Following Period

Although the decisions of the Luxembourg Summit reflected by and large the contents of the Commission's "Agenda 2000", the following points related to Turkey need to be highlighted:

- Turkey's eligibility was reconfirmed.
- The EU decided to set up a strategy to prepare Turkey for accession and to create a special procedure to review the developments to be made.

- Turkey was invited to the European Conference, but a number of unacceptable pre-conditions were put forward.
- The development of Turkey-EU relations was made conditional on certain economic, political and foreign policy questions.
- The Commission was asked to submit suitable proposals to enhance Turkey-EU relations.

In a statement issued the day after the Summit, the Turkish Government criticised the EU's attitude, stated that Turkey's goal of full membership and Association would nevertheless be maintained, but that the development of bilateral relations depended on the EU's honouring its commitments, and that it would not discuss with the EU issues remaining outside the contractual context of the bilateral relations as long as the EU did not change its attitude. In line with this statement Turkey did not participate in the inaugural meeting of the European Conference held in London on 12 March 1998. Turkey has thus made it clear that the way out of this difficult situation in the bilateral relations depended on the political will to be displayed by the EU.

The Commission published its recommendations for a "European Strategy" on 4 March 1998. Its contents were more-or-less similar to former packages which the EU promised but failed to deliver in the past. Moreover, the ambiguity over how this package would be financed prevented Turkey from being optimistic about its chances of being put into effect soon. The Commission itself conceded that the implementation of this package would require considerable financial resources.

The summit meeting held in Cardiff on 15-16 June 1998 offered a good opportunity to rectify the unwarranted difficult period which Turkey-EU relations entered into following the Luxembourg Summit. Although certain positive developments were achieved with regard to the language used for Turkey in the Presidency Conclusions of the Summit, they were not sufficient for Turkey to modify its policy outlined after the Luxembourg Summit. An important result of the Cardiff Summit for Turkey-EU relations was the EU leaders' endorsement of the Commission's "European Strategy" for Turkey and the request made to the Commission to find solutions with a view to making available the financial resources required for the implementation of the "European Strategy".

In the Statement issued by the Ministry of Foreign Affairs following the Cardiff Summit, the positive developments mentioned above were noted and the EU's quest for finding the financial resources required by the "European Strategy" was interpreted as an indication of the EU's awareness of the need for fulfilling its obligations towards Turkey with due emphasis on the importance of concrete steps in this area. The Statement nevertheless underlined the contrast between the pre-accession strategy devised for the other candidates and the "European Strategy" for Turkey, which consisted simply of a set of ideas whose financing remained uncertain. It also stressed the fact that Turkey would not accept the subjection of its candidacy to additional political pre-conditions, that the parameters put forward in the Government Statement of 14



December 1997 remained valid, and that Greece's persistent obstructions would continue to have negative effects on Turkish-Greek relations.

In fact, the Strategy does not contain new elements. Most of the proposals made in it reiterate commitments contained in earlier agreements which have not been fulfilled over the years. Although four rounds of talks were completed, there has not been sufficient progress in the implementation of the Strategy which was proposed by the EU as a basis for the development of Turkey's relations with the EU. The lack of financial resources and a proper perspective for Turkey's accession are, in fact, the main obstacles which impede the proper implementation of the Strategy. Consequently, the Strategy has been insufficient in bringing Turkey's relations to the desired level.

At the Cologne European Council held on 3-4 June 1999, the initiative was taken by the German Presidency with a view to ensuring the recognition of Turkey's candidate status on an equal footing with the others. Compared to the previous Government in Germany, the new Coalition Government which came to power in October 1998 seemed to have taken a more positive line regarding Turkey's quest for EU membership. However, the objections of some EU Member States prevented this initiative from being realised. As a consequence, the EU refrained from taking a decision to include Turkey in the accession process. This constituted yet another failure of the EU to recognise Turkey's candidate status clearly and unambiguously. Therefore, in the statement made by the Deputy-Spokesman of the Ministry of Foreign Affairs on 4 June 1999, Turkey's appreciation of the initiative taken by the German Presidency was expressed, but it was also declared that since the discriminatory approach towards Turkey remained unchanged at the Cologne Summit concerning the recognition of its candidate status, the decision adopted by the Turkish Government on 14 December 1997 following the Luxembourg Summit, pertaining to the conduct of its relations with the EU would remain valid.

The EU Foreign Ministers, at their Gymnich-type meeting on 4 and 5 September in Saariselka, in Finland, had discussions on aid to Turkey following the earthquake in northwestern part of Turkey in August 1999 and on future relations between Turkey and the Union.

However, no agreement was reached at the meeting on Turkey's candidate status.

On the other hand, EU Council President, Finnish Foreign Minister Tarja Halonen invited Turkish Foreign Minister İsmail Cem to attend a working lunch after the General Affairs Council meeting 13 September 1999 in Brussels. This provided an opportunity to express the Turkish views concerning the need for reconstruction after the earthquake, as well as the current Turkish-EU relations.

In addition to the two emergency humanitarian aid packages of 2 million euros each granted to Turkey in the week preceding the earthquake, the consensus has been reached at the meeting for another humanitarian aid package of 30 million Euros for the reconstruction.

It was understood that 150 million Euros foreseen for the 3-year period may now be released. In fact, this amount which is divided into 15 and 135 million Euros, has already been foreseen within the framework of the "European Strategy for Turkey". "Unanimity rule" is required only for the 15 million Euro part, whereas the other part of the said amount is subject to consensus.

The European Investment Bank has decided to launch a loan of 500-600 million Euro to help Turkey tackle the consequences of the earthquake. The allocation to Turkey of a "substantial part" of the resources of the MEDA II programme for 2000-2007 period has also been foreseen.

However, Greece has not lifted its veto on the 375 million Euro from budgetary resource or from the 750 million Euro of the European Investment Bank for Turkey as envisaged in 1995 when the Customs Union between Turkey and EU was realised.

In preparation for the European Council to be held in Helsinki in 10-11 December 1999, the Commission issued its second regular Report on the progress which Turkey makes towards accession on 13 October 1999. In the Composite Paper which was also presented together with the Progress Report, the Commission took important steps by proposing that Turkey be considered as a candidate and backed this with concrete actions similar to those provided for the other candidates. Turkey welcomed these proposals that would prepare her for full membership to the EU. In the Statement made by the Foreign Ministry of Turkey, it was stated that the endorsement of all these EU Commission proposals at the Helsinki European Council, in other words, Turkey's recognition as an official candidate with all its inherent modalities, would initiate a new phase in Turkey-EU relations.

After the OSCE Summit held in İstanbul, Foreign Minister Cem gave a lunch to his EU counterparts. At this meeting, Turkish candidacy at the European Council in Helsinki was discussed at length and Turkey was able to present the latest developments.

The Helsinki European Council held on 10-11 December 1999 produced a breakthrough in Turkey-EU relations. At Helsinki, Turkey was officially recognised without any precondition as a candidate state on an equal footing with the other candidate states. While recognizing Turkey's candidate status, the Presidency Conclusions of the Helsinki European Council endorsed the proposals of the Commission made on 13 October 1999. Thus, Turkey, like other candidate states, will reap the benefits from a pre-accession strategy to stimulate and support its reforms. This will also include an Accession Partnership, which will be drawn up accordingly, combined with a National Program for the adoption of the *acquis*. Turkey will participate in Community programs open to other candidate countries and agencies. Turkey will be invited to the meetings between candidate states and the Union in the context of the accession process. A single framework for coordinating all sources of EU financial assistance for pre-accession will also be created.

## 9.6 TURKEY-EU RELATIONS

### 9.6.1 Post-Helsinki Phase

The recognition of Turkey as a candidate for accession at the Helsinki European Council in December 1999 ushered a new era in the relations between Turkey and the EU. For both parties, Helsinki marks a qualitatively new beginning and a process of strategic mutual transformation.

### 9.6.2 Accession partnership, the national program and recent progress towards accession

As foreseen in the Helsinki European Council conclusions, the EU Commission started to prepare an Accession Partnership for Turkey, which was declared on March 8th, 2001. On the other hand, the framework regulation designed to furnish the legal basis for the Accession Partnership was adopted by the General Affairs Council on February 26th, 2001. The regulation aims at combining all EU financial assistance under a single program. The Accession Partnership was formally approved by the Council on February 26th, 2001. With the adoption of these two documents, an important legal procedure concerning Turkey's accession strategy was finalized.

After the approval of the Accession Partnership by the Council and the adoption of the Framework Regulation, the Turkish Government announced its own National Program for the Adoption of the EU acquis on March 19th, 2001. The National Program was submitted to the EU Commission on March 26th, 2001. The National Program has been produced with a careful appreciation of the short and medium term priorities as spelled out in the Accession Partnership.

Following these important developments, the 40th Turkey-EU Association Council meeting was held in Luxembourg on June 26th, 2001. In this second Association Council meeting after Helsinki, progress achieved within the framework of Turkey's pre-accession strategy was evaluated and a number of decisions were taken, concerning Turkey's participation in Community programs, providing Turkey with full access to TAIEX offices and the establishment of joint consultation mechanisms that will convene regularly in order to discuss trade matters related to the Customs Union. The next meeting is envisaged for 16 April 2002.

Progress towards accession continues along the path set by the National Program. The most pressing aim here is the opening of accession negotiations, which depends on the fulfillment of the Copenhagen political criteria. Within the last year, Turkey took a number of important steps towards this end. The most important among these is the major review of the Constitution. Thirty-four Articles of the Turkish Constitution have recently been amended and many of these amendments (22) actually coincide with the provisions of our National Program. The package of constitutional amendments covers a wide range of issues, such as improving human rights, strengthening the rule of law and restructuring of democratic institutions. These form only a part of the deep political reform process that Turkey has initiated. They are being followed by

complementary legislative and administrative measures to ensure their implementation.

On the economic front, in line with the National Program and in response to the serious economic crisis that Turkey has been going through, numerous reform measures have been adopted. Therefore, considerable progress has been made in meeting the priorities envisaged in our National Program. Work on the harmonization of Turkish legislation with the *acquis* also continues unabated.

During the whole year, the EU on its side, worked to finalize its internal procedures on Turkey's participation to the Community programs and the adoption of the single framework for financial assistance to Turkey. The related decisions were finally adopted by the Council on 17 December 2001. With the single framework, from now on PHARE procedures will be applied in EU-Turkey financial cooperation. As far as Community programs is concerned, Turkey will be able to participate in them as of 2002, with the completion of the Framework Agreement.

### 9.6.3 Laeken european council

The Laeken European Council of 14-15 December 2001 had important implications for EU-Turkey relations in general and the accession process in particular. Foremost among these is the possibility of opening accession negotiations with Turkey, which for the first time has been explicitly mentioned at the highest levels. Turkey's recent concrete steps as regards European Security and Defense Policy, together with the recent developments in Cyprus also had a positive impact on this conclusion. Another important decision taken at Laeken is that Turkey will be taking part in the Convention on the future of Europe on an equal basis with the other candidates. This can be considered as a progressive step, in the sense that the EU considers Turkey to be part of a common future. Thus, a clear membership perspective along the lines of the other candidates has been given to Turkey.

### 9.6.4 Convention on the future of europe

Having established the institutional framework necessary for an enlarged EU, the Nice European Council of December 2000 also called for a deeper and wider debate about the future development of the EU. To this end, a declaration on the "Future of the Union" was annexed to the Nice Treaty and the debate was formally launched in 2001. In 2004, an Intergovernmental Conference will be convened to finalize the debate.

In order to structuralize this debate and prepare the groundwork for the forthcoming IGC, a "Convention" was set up at the Ghent Informal European Council meeting of 19 October 2001 and its rules of procedure were agreed upon. The Convention will consist of government representatives, members of national parliaments, members of the European Parliament, Commissioners and NGOs. Candidate countries will also be represented in the Convention on an equal footing with member states. In its preparatory work, the Convention will mainly focus on four themes: the status of the Fundamental Rights Charter, the role of national parliaments within the European

architecture, sharing of responsibilities between the Union and member countries, the simplification of EU's founding Treaties.

The status of the Convention was stipulated by a specific declaration adopted at the Laeken European Council. According to this declaration, the Convention will hold its first meeting in 1 March 2002 and at the end of its preparatory work, will submit a report to the Council as a recommendation. Candidate countries will take part in the Convention on equal basis as the member states; nevertheless they will not have the right to prevent a consensus.

In accordance with the Laeken European Council Conclusions, Turkey will participate in the Convention on an equal status with the other candidate countries and will join the Convention's work with two parliamentarians and a government representative.

### SCREENING PROCESS

At the Association Council meeting of April 11th, 2000, 8 sub-committees were set up with the task of monitoring the process of analytical examination of the acquis. The sub-committees completed their second round meetings within July 2001.

Substantial progress has been made during these meetings. The acquis has become more tangible and meaningful for the Turkish bureaucracy. Yet in this process, the need for a more detailed evaluation of the acquis became apparent. Therefore, Turkey suggested initiating a formal screening exercise. The request was especially pronounced during meetings with the Commission officials, before the announcement of this year's Progress Report.

The fact that the Progress Report for 2001 did not propose the initiation of a screening process for Turkey is its most negative aspect. Initiating the screening process with Turkey would have been important in two aspects. Firstly, it would indeed provide a further technical capacity of developing the integration process. Secondly, beginning the screening process would give added impetus to the implementation of the reform measures undertaken by the government in the political and economic spheres.

It is an unfortunate development that a number of EU Member States have made the initiation of the screening process a political issue and identified it with accession negotiations. The fact that there is a linkage between screening and membership negotiations is not challenged. However, there are no conditions to start a screening process, while to begin accession negotiations, political criteria must be fulfilled. Moreover, as the experiences of other candidate countries reveal, there are no uniform procedures for the initiation of the screening process. As the Helsinki European Council Conclusions pointed out, there should be no discrimination between the candidate countries and future steps for Turkey should also be similar to those of the other candidates.

Nevertheless, in the Progress Report, the Commission recommended starting a new phase in the pre-accession strategy by involving a detailed scrutiny of Turkey's legislation and its timetable for alignment with the acquis. While unsatisfactory in

responding to her requests, Turkey will assess the Commission's proposal positively. The sub-committees will continue to monitor the progress. We envisage that the 3rd round will complete its work during the Spanish Presidency.

#### 9.6.5 2001 regular report and strategy paper

This year the European Commission prepared its fourth annual Progress Report for candidate countries. As all other reports, 2001 Progress Report for Turkey was announced on 13 November 2001. On the same day, the Commission also declared its Strategy Paper, introducing proposals on methods to be applied in the future, within the framework of the enlargement process.

Progress Reports evaluate the candidate states' progress towards membership only for that specific year. Compared to previous ones, there is a notable difference in this year's Report for Turkey. It was drawn up in a more careful manner in view of the momentum created by the recent constitutional amendments. Those matters that were found wanting were also enumerated in the same way.

It is evident that some of the weaknesses pointed out in the Report concerning fundamental rights and freedoms will disappear as our National Programme comes to life with all its aspects. In fact, this assumption finds its place in the Report, which states that as the constitutional changes are reflected into the secondary legislation, these weaknesses will gradually disappear.

On the other hand, the steps taken in Turkey concerning improvements in the economic, social and cultural rights areas, training carried out in the human rights field and the modernization in the prison system were found to be positive by the EU Commission. This assessment is constructive and an encouragement for Turkey's ongoing reform process carried out in these fields. Turkey has lately made some real progress deserving attention and it is believed that individual cases ought not shadow these developments.

#### 9.6.6 Accession negotiations

As agreed at the European Council in December 2004, accession negotiations have been launched on October 3, 2005 with the adoption of the Negotiation Framework by the Council of the European Union. "Negotiation Framework Document" takes account of the experience of fifth enlargement process and of the evolving acquis. The framework includes the principles governing the negotiations, the substance of negotiations, negotiating procedures and list of negotiation chapter headings.

Until today, In Turkey's EU accession negotiations, 16 chapters are opened whereas only one chapter is temporarily closed.

Source: DIRECTORATE FOR EU AFFAIRS

## 9.7 TURKEY-EUROPEAN UNION RELATIONS

### 9.7.1 The future of Turkey-EU relations in a time of global uncertainty

Processes of global transformation has given rise to new geopolitical realities, which have significantly challenged the West's central position as the leader of the world. The axis of power that was the fundamental determinant in international relationships is shifting from the West to the East—from the Atlantic alliance led by the US and EU to a Pacific axis consisting of countries like Russia, China, and India.

European integration has not been immune to the shifting tides in the international system. Some of the major challenges facing the EU are the rise of the radical right in elections over the last few years, the US's changing international role, a trend towards isolationism, the refugee problem, and in particular the deepening divisions within the EU over this issue. The US' waning commitment to multilateralism and the resulting breakdown in transatlantic relations has forced the EU to reconsider its role in the international system and how it should shape its future by using its own resources, especially when it comes to security.

In truth, Turkey's EU membership is more important than ever given the new dynamics and changes in the world order. The international system needs Turkey-EU cooperation in order to solve a number of global problems, ranging from the economy and energy to foreign policy, as well as discrimination and terrorism—within the context of our common values. Therefore, it is essential that Turkey-EU relations reach a certain level of strength and the EU develop a fair and principled approach towards Turkey.

Today, it is unclear what the EU wants or what its goals are in its relations with Turkey. After all, Turkey has still not been able to achieve the progress it deserves and wants from the accession negotiations despite them beginning more than a decade ago. The EU's approach to relations with Turkey in the last few years cannot be considered separately from the internal crises in the Union and changes in the international system. The issue is the EU's failure to properly interpret developments both within the Union and outside of it on a global level. However, there are numerous EU leaders who recognize the key role that Turkey will play in overcoming the existential crises that the EU is facing. One example of this is the Turkey-EU Summit that our President had with EU Council President Donald Tusk, European Commission President Jean-Claude Juncker, and Bulgarian Prime Minister Boyko Borisov in Varna on 26 March 2018.

The Varna Summit was beneficial in that it renewed trust in Turkey-EU relations, which is currently going through a difficult phase. The leaders' affirmation of the importance of Turkey-EU cooperation and the emphasis on Turkey's candidacy at the highest levels, especially as the EU has once again put expansion back on the agenda, is another positive sign that the prospect of membership still valid.

For Turkey, the most important priority is opening the way to accession negotiations. However, the EU has not fulfilled its commitment to complete preparations for beginning negotiations on the chapters blocked by Cyprus. The accession negotiations are the backbone of Turkey-EU relations. It is impossible to realize the full potential of the relationship until there is progress in this area. A definitive membership plan with a timeline must be provided for our country as was outlined in the Western Balkan Strategy. The other two fundamental issues required to maintain the constructive atmosphere established at the Varna Summit is completing the visa liberalization talks, granting Turkish citizens visa exemption, and updating the Customs Union.

The most important thing about the Varna Summit will be turning the positive atmosphere into concrete policies and practices. Overcoming the problems in the Turkey-EU relationship will have significant benefits not only for Turkey and the EU but also for our region, the international system, and global peace.

Turkey has been pursuing EU membership for more than half a century, and this pursuit reflects the history of how Europe became the “Europe” of today. Turkey will continue to be a “key country” for the stability and prosperity of Europe and the world in the future.

Source: Turkish Daily News

### 9.7.2 EU, Turkey and USA

The spat between Turkey and the US can bring a new momentum to Turkey-EU relations, which have significantly deteriorated in recent years

The Turkey-US trade spat has led to EU leaders backing Turkey against the US administration's policies.

This not only shows the extent of economic interdependence between Europe and Turkey, but also signals the development of a common stance in the face of a bullying trade partner.

When US president Donald Trump took to Twitter to celebrate the downward trajectory of the Turkish lira against the US dollar, Europe was concerned about the potential spillover of rapidly growing economic turmoil in Turkey.

In particular, Germany, Turkey's biggest trading partner, came to Turkey's defense.

At a news conference in Berlin, German chancellor Angela Merkel made it clear that "Germany would like to see an economically prosperous Turkey" and emphasized that "No one has an interest in the economic destabilization of Turkey."

Shortly afterwards, there was a national debate in Germany on whether to provide financial assistance to Turkey to mitigate the effects of the crisis on German businesses.



In Italy, decision makers were equally concerned about contagion from Turkish markets as the shares of European banks with the highest exposure to Turkey fell at an alarming rate.

Meanwhile, the European Parliament declared the tariffs as illegitimate and urged the US to solve its problems with Turkey with "constructive diplomatic engagement".

French economy minister Bruno Le Maire vowed to "strengthen economic ties between France and Turkey" signaling that France and Turkey would work together to take a stance against the US.

### 9.7.3 Transatlantic polarization

There are an increasing polarization in the transatlantic alliance. In the past 12 months alone, the tension between Europe and the US escalated like never before.

No US president had ever called the EU a "foe" or openly threatened to inflict economic pain.

From the Middle East peace process to the Iran nuclear deal, the US and Europe have found themselves on the opposing sides of global conflicts and major foreign policy issues.

It is clear that the EU does not intend to bow to pressure easily; for example, it has reaffirmed its commitment to the Iran nuclear deal and threatened to sanction European firms doing business with Iran if they ever abide by US sanctions.

With European interests at stake, the row between Turkey and the US can even be considered as another episode in the global standoff between Europe and the US.

What is particularly important is that this came at a time when the EU needs Turkey the most to curb irregular migration into Europe, which is top of the European agenda.

In recent years, cooperation with Turkey has proved very effective in reducing the number of illegal crossings into the EU and, for this reason, EU leaders have agreed to provide further funding to Turkey.

Drawing on the success of cooperation with Turkey at a recent EU summit, they have also agreed to work closely with other third countries bordering the EU with the aim of establishing "regional disembarkation platforms" for processing asylum applications outside the EU.

Certainly, chaos in Turkey is undesirable also because irregular migration has become a pressing issue for national governments across the EU and due to Turkey's role in ensuring European security.

European leaders speak up not only because of the implications of a potential spillover but also because they feel the need to react to the Trump administration's hostile attitude towards allies.

In June, the EU introduced retaliatory tariffs on US goods and opened a World Trade Organisation case to challenge what it called Trump's "illegal" and "purely protectionist" decision to impose trade tariffs on steel and aluminum.

There is a growing sense in Europe that collective action is needed for dealing with the US administration.

Indeed, a rupture in the transatlantic community is not good news for the future of Nato and could hurt Western military cooperation against potential aggressors.

Statements by EU leaders saying Europe can no longer rely on the US for protection show the gravity of the situation.

#### 9.7.4 New Turkey-EU momentum

The silver lining here, perhaps, is that the spat between Turkey and the US can bring a new momentum to Turkey-EU relations, which have significantly deteriorated in recent years.

Of course, this is not to say that they can go back to their "honeymoon" period in the early 2000s and, indeed, there are numerous outstanding issues to be resolved.

However, the realisation of the political and economic interconnectedness of Turkey and the EU has reinforced the notion that they are in the same boat and faced with common challenges.

Ultimately, the Trump administration's take on American exceptionalism may lead to a reconfiguration of alliances in the years to come.

A foreign policy based on "America first" is likely to result in further isolation for the US to the extent that it undermines the US' major allies across the world.

Source: euobserver, Bugra Susler