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Turkey Business Handbook 2016

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GoG-AMA Centre for International Trade

AHMEDABAD MANAGEMENT ASSOCIATION ®

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- **GDP grows four times in the last decade**
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- **An important energy terminal and corridor in Europe connecting the East and the West**
- **Customs Union with the EU since 1996 and Free Trade Agreements (FTA) with 20 countries**
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- **Half the population under the age of 30.7 (2014, TurkStat)**
- **Easy access to 1.5 billion customers in Europe, Eurasia, the Middle East and North Africa**
- **Access to multiple markets worth US$ 25 trillion of GDP**
- **Corporate Income Tax reduced from 33% to 20%**
- **Currently ranks 17 in size among all economies in the world, is aiming to improve its position to 10 by 2023.**

Introduction

Located at the crossroads of Europe, Asia, Africa and the Middle East, Turkey is a regional commercial hub and an ideal location for promoting economic growth, especially in areas of trade finance and foreign investments. Turkey is one of the largest upper middle-income countries. With a Gross Domestic Product (GDP) of $ 799.54 billion, Turkey is the 17th largest economy in the world. In less than a decade, per capita income in the country has nearly tripled and now exceeds $10, 500. Turkey is a member of the OECD and the G20.

Turkey offers vast opportunities to investors in many sectors with its sizeable domestic market and highly qualified work force. Along with its large and dynamic domestic market, Turkey offers investors a platform with access to emerging opportunities in other countries, particularly in the surrounding regions. Turkey's strategic location allows investors to access a potential market of 1.5 billion people, a combined GDP of US$ 26 trillion and foreign trade of US$ 8 trillion.

For most of the past decade, Turkey's economy has enjoyed remarkable success. Between 2002 and 2006, during the first term of the Justice and Development Party (AKP), growth averaged 7.2% per year, making Turkey a star performer in an otherwise difficult region. This economic growth story significantly benefited the AKP, helping it to win three consecutive parliamentary elections (in 2002, 2007, and 2011) with overwhelming majorities.

While external factors played some role in Turkey's success, one would be remiss not to give due credit to the ruling party. The positive steps the AKP took after winning power — continuing the IMF-led reforms initiated by its predecessors and maintaining a responsible fiscal and monetary policy — helped the country achieve the macroeconomic stability necessary to attract foreign capital. In particular, after a decade marred by a series of failed coalition governments, the new era of political continuity ushered in by the AKP heartened both domestic and foreign investors.

Turkey's rising prosperity has been shared. Between 2002 and 2012, the consumption of the bottom 40% increased at around the same rate as the national average. Over the same period, extreme poverty fell from 13 to 4.5% and moderate poverty fell from 44 to 21%, while access to health, education, and municipal services vastly improved for the less well-off. Since the global financial crisis, Turkey has created some 6.3 million jobs, although increases in the labour force, including through a rise in the participation of women, has kept unemployment at around 10%. According to World Bank, Turkey's achievements and future potential have been a source of inspiration for other emerging markets.

The EU accession process has been a significant anchor for reforms in Turkey, but progress has slowed in recent years. The EU is Turkey's largest economic partner, accounting for around 40% of Turkish trade. Turkey has benefited significantly from deepening integration with the EU through the growing sophistication of both exports and imports and access to financing. Turkey became a candidate for full EU membership at the Helsinki summit in 1999. Accession negotiations began in October 2005, but progress has slowed in recent years in the face of a number of political obstacles (including relations with Cyprus). Both sides are making efforts to regain momentum, with a focus on economic cooperation, in particular the modernization of the Customs Union and energy relations

Since 2012, however, growth has moderated. In 2013-14 and 2015, election-related uncertainties, geopolitical developments, and concerns over the Government's handling of corruption allegations dampened confidence and weakened private demand. After growing 4.2% in 2013, the economy slowed to 2.9% in 2014. Moreover, Turkey has been vulnerable to changes in investor sentiment and, together with other emerging markets, has experienced significant currency and financial market volatility since mid-2013. Moderate growth and a weaker lira narrowed the current account deficit (CAD) to 5.7% of GDP in 2014 from close to 10% in 2011.

LARGE DOMESTIC MARKET

- 39.9 million broadband internet subscribers in 2014, up from 0.1 million in 2002 (ICTA, TurkStat)

- 71.9 million mobile phone subscribers in 2014, up from 23 million in 2002 (TurkStat)
- 57 million credit card users in 2014, up from 16 million in 2002 (The Interbank Card Centre of Turkey)
- 166,5 million airline passengers in 2014, up from 33 million in 2002 (TurkStat)
- 35.9 million international tourist arrivals in 2014, up from 13 million in 2002 (TurkStat)

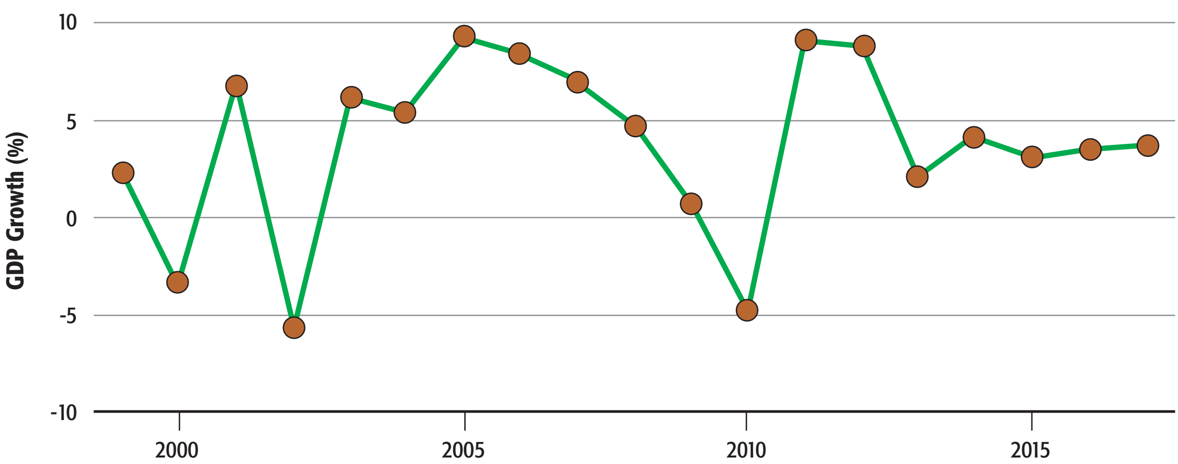
TURKEY KEY FACTSHEET – 2015

Official Name of Country	Republic of Turkey
Capital City	Ankara
Government	Parliamentary Democracy
Population	77.7 million (2014)
Labour Force (Population)	29.2 million (2014)
Median Age	30.7 (2014)
Official Language	Turkish
President	Recep Tayyip Erdogan
Prime Minister	Ahmet Davutoglu
Area	783,562.38 km^2
Coordinates	39º 55′ North, 32º 50′ East
Time Zone	GMT +2
Neighbouring Countries	Bulgaria, Greece, Syria, Iraq, Iran, Azerbaijan, Armenia, Georgia
Major Cities (Population)	Istanbul (14.3 million), Ankara (5.1 million), Izmir (4.1 million), Bursa (2.8 million), Antalya (2.2 million) – (2014)
Climate	Temperate; hot, dry summers with mild, wet winters
GDP	US$ 800 billion (2014-Current Prices)
GDP Per Capita	US$ 10,404 (2014)
Exports Value	US$ 158 billion (2014)
Imports Value	US$ 242 billion (2014)
Tourism Revenue	US$ 34.3 billion (2014)
Tourist Number	41.4 million (2014)
Foreign Direct Investment	US$ 12.5 billion (2014)
Number of Companies with Foreign Capital	41,397 (2014)
Inflation Rate	8.17% (CPI-2014)
Major Exports Markets	Germany (9.6%); Iraq (6.9%); UK (6.3%); Italy (4.5%); France (4.1%); USA (4%); Russia (3.8%); Spain (3%); UAE (3%); Iran (2.5%) – (2014)
Major Import Sources	Russia (10.4%); China (10.3%); Germany (9.2%); USA (5.3%); Italy (5%); Iran (4.1%); France (3.4%); South Korea (3.1%); India (2.8%); Spain (2.5%) – (2014)
Trade Agreements	• Customs Union Agreement with the EU • Free Trade Agreements with Albania, Bosnia Herzegovina, Chile, Croatia, EFTA member countries (Switzerland, Norway, Iceland and Liechtenstein), Egypt, Georgia, Israel, Jordan, South Korea, Macedonia, Mauritius, Montenegro, Morocco, Palestine, Serbia, Tunisia

Economic Highlights and Forecast

The IMF expects Turkish GDP to grow only 3% in 2015 and 2016. The lira has lost over 10% of its value since the beginning of this year. Moreover, the country is falling behind rival emerging markets. In 2014, India and China left Turkey's 2.9% growth rate in the dust with impressive rates of 7.5 and 7.4% respectively.

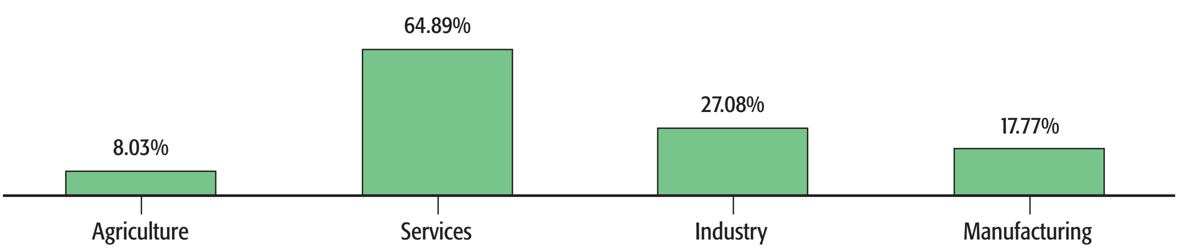
GDP Growth



This is a marked difference from earlier years when growth was consistently above 5% and close to 10%. Experts say the slowdown should not be surprising because of the lack of government reform.

Among the bad news for the economy this year, the Turkish lira fell to a record low against the US dollar last month. On Thursday, the lira was at 2.66 against the dollar, a drop of 11% this year.

GDP Composition %



GDP growth is projected to increase to above 4% in 2017, as political uncertainties are assumed to fade, employment continues to rise, and the exchange rate depreciation and the gradual strengthening of global markets support export growth. Turkey's inflation rate will decline to 7.5% by the end of 2016, from 8.8% in 2015.

Moody's Affirms Turkey's Baa3 Government Credit Rating, Maintains Negative Outlook

London, 4 December 2015

Moody's Investors Service has today affirmed Turkey's Baa3 government debt and issuer ratings and maintained the negative outlook.

Moody's affirmation of Turkey's Baa3 government rating reflects the country's economic resilience and strong fiscal metrics, which have been maintained through the long electoral cycle. In particular, the government's low debt ratio is broadly stable after falling over the past decade, and the debt structure is favourable showing relative resilience to Turkish Lira weakness and forthcoming global interest rate increases.

The key drivers for maintaining the negative outlook are:

- The ongoing risks to the country's external financing capacity as a result of its large external funding needs, exacerbated by the fragility of global capital markets and the elevated geopolitical risks that Turkey is facing.
- The lack of visibility on whether the government will embark decisively on the economic reforms needed to support growth, promote institutional stability and reduce external vulnerability.

Concurrently, Moody's has affirmed the Baa3 bond rating of Hazine Mustesarligi Varlik Kiralama A.S., a special purpose vehicle wholly owned by the Republic of Turkey. The Baa3 rating carries a negative outlook.

Turkey's local-currency bond and deposit ceilings remain at A3, its long-term foreign-currency bond ceiling remains at Baa1, and its short-term foreign-currency debt ceiling is Prime-2. The long-term foreign-currency bank deposit ceiling remains Baa3, and the short-term foreign-currency bank deposit ceiling is Prime-3.

Rationale for Affirming the Baa3 Rating

Moody's decision to affirm the current Baa3 sovereign rating primarily reflects the continuing strength of Turkey's fiscal position and the government's balance sheet. Headline fiscal metrics are still favourable, notwithstanding the fact that the country has only just completed an almost two-year electoral cycle. Since the beginning of 2009, Turkey's debt burden has fallen by more than 10 percentage points to 33.5% of GDP in 2014 and Moody's expects the debt ratio to remain broadly stable at 34% of GDP in 2015.

Turkey's ability to finance its outstanding stock of debt is supported by the relatively low share of foreign-currency-denominated debt (35.3% in October 2015, from 46.3% in 2003) and the favourable maturity profile of the central government's debt stock: The average maturity of the debt stock is now 6.4 years (and the maturity of its foreign debt stock is now almost 10 years). This favourable structure shields the government's balance sheet from further depreciation of the Turkish lira against the US dollar, and from expected rises in global interest rates. In fact, the central government's foreign currency payments due next year are modest at only US$ 8.7 billion (1.2% of forecast 2016 GDP).

Turkey's fiscal metrics compare very strongly to its Baa3 peers, having benefitted over the past four years from high nominal GDP growth and revenue outperformance. Looking ahead, Turkey's policy direction and its ability to maintain fiscal stability in an environment of prolonged lower growth (than previously seen) will be an important driver of sovereign creditworthiness.

Real economic growth performance has also remained relatively resilient to shocks over the past two years, reflecting the strengths of Turkey's large, diversified economy. Although Moody's expects growth to slow to around 2.9% this year (and remain modest next year as well) it still remains higher than other large emerging market sovereigns facing credit challenges. Turkey's wealth, size, demographic dividend and diversification also support the Baa3 rating. Turkey's average income level on a PPP basis of US$ 19,698 is higher than the median for Baa-rated countries and nominal GDP has more than tripled over 2000-2014 to stand at US$ 798 billion in 2014, making it the 18th largest economy in the world.

Rationale for Maintaining the Negative Outlook

Notwithstanding those strengths, Turkey faces a challenging combination of slowing growth and diminishing external confidence that only more political stability and a broad economic reform programme could improve. The ongoing negative outlook reflects the risk associated with delays to the economic programme.

First Driver: Persistent downside risks to the country's external financing position as a result of lower global liquidity and heightened geopolitical risk

In contrast to the Turkish government's strong balance sheet, the Turkish economy, as a whole, has significant external financing requirements estimated at over 27% of GDP, that continues to expose the country to sudden shifts in investor confidence. Investor confidence has already been weak over the course of 2015, as reflected in the significant depreciation of the Turkish Lira (vis-à-vis the US dollar) and substantial portfolio capital outflows. The balance of payments has been under pressure, with net portfolio outflows in the first nine months of the year amounting to US$ 11.6 billion (compared to an inflow of US$ 13.7 billion in the same time span last year). Moreover, gross foreign exchange reserves have experienced downward pressure, falling by around US$ 9 billion in the first 10 months of the year.

Moody's believes that these pressures will likely persist given the combination of external risks facing the country, implying a still low but rising possibility of an escalation in capital outflows, a more rapid fall in reserves and, ultimately, the possibility of a balance of payments crisis.

In particular, the rating agency expects that the normalisation of US monetary policy will likely increase Turkey's external refinancing costs, particularly in the context of rising geopolitical risks. While domestic political uncertainty has reduced somewhat after the completion of the long electoral cycle, the complex conflict in Syria and Iraq and the reversal of the three-year ceasefire with the Kurdistan Workers Party (PKK) have the potential to undermine foreign investor confidence and exacerbate pressures on the balance of payments.

In that context, Moody's notes

1. The need to finance a current account deficit which remains large relative to that of other emerging market sovereigns despite a recent improvement tied to low oil prices; and
2. The approximately US$ 170 billion in external liabilities estimated to be repaid next year by the Turkish corporate, banking and government sectors.

Looking across the economy in aggregate, the coverage of maturing external financing (which includes non-resident deposits and short-term external liabilities) by foreign-exchange reserves positions Turkey unfavourably vis-à-vis the country's peers — as reflected in the country's high External Vulnerability Indicator, which Moody's estimates at 178% in 2015 and which will remain elevated next year.

Mitigating those risks somewhat, Moody's notes that the capacity of Turkey's banks, corporates and public institutions to roll over maturing foreign-exchange debt has historically been high, even at times of elevated financial distress. Moreover, parts of the Turkish private sector have buffers which offset some of the current financing challenges: the banking sector has significant reserves at the central bank which it could use to meet its maturing external debt at a period of shock; and Moody's estimates that a third of the corporate sector's foreign-currency short-term debt is trade finance, which traditionally also benefits from a high roll-over rate.

Nevertheless, Turkey continues to operate in a fragile financial and geopolitical environment, and its high external financing needs expose it to the risk of a shock which could have a significant impact on the economy.

Second Driver: Lack of visibility on economic reforms that could promote institutional stability and reduce external vulnerability

The second driver of the continued negative outlook is Turkey's weakening medium-term growth outlook. Moody's now expects Turkey's real GDP to grow at an average of 3% over the next three years, which follows average growth of 5.4% over 2010-2014. In order to increase growth momentum in the coming years, substantial economic reforms such as an increase in the domestic savings rate, an improving business climate and increasing overall productivity would be needed. Recent qualitative surveys on competitiveness and institutions indicate a gradual erosion of institutional strength which could have an adverse impact on medium-term growth. Although the completion of the long electoral cycle has somewhat reduced domestic political uncertainty, and Moody's acknowledges the appointment of the new cabinet and the government's recent announcement of its program, it is still unclear if there remains any great momentum for implementing reforms.

As an example, uncertainty remains regarding the government's aim of changing the Constitution and whether that could further delay immediate economic policy imperatives. Consequently, there is still the risk that policy momentum could be slow, delaying the evolution of a growth model which can deliver higher, more stable, broad-based growth. A stable growth model will also be important to maintaining robust fiscal policy, as high nominal growth has contributed quite strongly to the government's past strong fiscal performance.

The combination of challenges facing the country today – heightened geopolitical risk, pressures on its external financing and the prospect of weaker growth in the medium term – continue to keep the balance of credit risks to the downside and support the negative outlook on the rating.

Turkey's S&P Credit Rating Stays at BB+

6 Nov 2015

Standard & Poor's holds foreign currency rating, sovereign rating while outlook remains negative.

Credit rating agency Standard & Poor's confirmed Turkey's foreign currency rating at BB+ and the Turkish lira sovereign rating at BBB- on Friday.

A statement from the agency cited Turkey's flexible exchange rate and relatively well-capitalized banking system as being capable of absorbing future external shocks.

However, the US-based agency said the outlook remained negative and outlined a scenario in which "external financing becomes both more expensive and scarcer and institutional checks and balances deteriorate further".

The agency forecast real gross domestic product (GDP) would grow by 3.1% in 2015.

Following Sunday's election victory for the Justice and Development (AK) Party, the agency predicted that "current policy settings will prevail, implying real GDP growth averaging 2.7% in 2016-2018 and unemployment staying at about 10%."

It added: "Although Turkey's economy benefited from stronger-than-anticipated demand in the first half of this year, we think political uncertainty in the run-up to the November elections is likely to have weighed on growth in the second half."

The agency said it expected government debt levels to remain "manageable" and Turkish banks to remain well-regulated and sufficiently capitalized in the absence of "external shocks".

Standard & Poor's said the Turkish authorities had accurately flagged key risks in the past, such as "high and recurrent" external deficits resulting from low domestic savings rate.

It noted that a plan is in place to raise savings, deepen domestic capital markets and cut the cost of imported energy while improving women's participation in the labour market and reducing the informal economy.

However, implementation of the plan was described as "modest" and should accelerate if Turkey is to "shift away from its current economic growth model, which still depends highly on net debt financing from abroad" and on central banks' monetary policy.

The agency added: "The uncertain global economic environment, particularly a possible reversal in historically low U.S. interest rates could, in our opinion, raise real interest rates in Turkey. This could exacerbate any slowdown and in turn reduce the risk appetite of non-resident investors in Turkey's government debt and equity markets."

Further government intervention in the independence of institutions such as the central bank could lead to more sluggish growth and lower ratings, the statement said, while falling oil prices should benefit the economy's net financing position.

Fitch: Turkey Sovereign Risks Remain Broadly Balanced

Fitch Ratings-London-22 October 2015: Turkey's sovereign credit profile continues to mix high exposure to global financial market conditions and other structural weaknesses with strong public finances and a record of resilience to recent external shocks, says Fitch Ratings. This is reflected in the Stable Outlook on Turkey's 'BBB-' rating, which we affirmed last month.

Very large external financing requirements that expose Turkey to shifting investor sentiment remain a potential source of risk. Turkey's external liquidity is weaker than for ratings category peers, with the international liquidity ratio of 70.3% less than half the 'BBB' median of 146.3%. But there has been no "sudden stop" of capital during bouts of market volatility since the 2008 global financial crisis.

Turkey's low government debt/GDP is a key support for the rating. Debt/GDP is forecast at 35.3% in 2015, below the 'BBB' median (42.7%), with the former expected to fall over the next two years while the latter rises.

Commitment to fiscal discipline appears to receive broad political support even at a time of heightened political uncertainty, with this year's second general election due on 1 November and polls pointing to a similarly inconclusive outcome. Pre-election spending commitments by the major parties are modest, although higher than ahead of the June polls; and the interim government's latest Medium-Term Plan, announced last week, sees spending rise slightly but the central government continuing to run primary surpluses.

The external balance sheet has strengthened by some measures. We forecast the current account deficit to narrow to 4.6% of GDP this year from 5.8% in 2014. But this is largely due to lower oil prices, rather than structural gains in competitiveness or domestic savings. There is little indication that Turkey is achieving a better mix of current account financing, for example via higher foreign direct investment. The importance of consumption to GDP growth and persistently weak investment also points to a lack of structural reform.

Lira depreciation may add to the monetary policy challenge presented by above-target inflation. The central bank kept its key rates unchanged on Wednesday. We assume policy rates will be raised after Fed lift-off and that the approach to the planned normalisation of the complex monetary policy framework will become clearer.

Laws and Policies Relating to Foreign Investment

The second biggest reformer among OECD countries in terms of its restrictions on Foreign Direct Investment (FDI) since 1997 (OECD FDI Regulatory Restrictiveness Index 1997-2012).

Business-friendly environment with average of 6 days to set up a company, while the average in OECD members is more than 11 days (World Bank Doing Business Report 2014).

Turkey's investment legislation is simple and complies with international standards, while it offers equal treatment for all investors. The backbone of the investment legislation is made up of the Encouragement of Investments and Employment Law No. 5084, Foreign Direct Investments Law No. 4875, the Regulation on the Implementation of the Foreign Direct Investment Law, multilateral and bilateral investment treaties and various laws and related sub-regulations on the promotion of sectorial investments.

LEGAL FRAMEWORK OF FOREIGN DIRECT INVESTMENT

1. Foreign Direct Investment – Law No. 4875

The aim of the Foreign Direct Investment – Law No. 4875 is:

- to encourage FDI in the country
- to protect the rights of investors
- to align the definitions of an investor and investment with international standards
- to establish a notification-based system rather than an approval-based one for FDI
- to increase the volume of FDI through streamlined policies and procedures

The FDI Law provides a definition of foreign investors and foreign direct investments. In addition, it explains important principles of FDI, such as freedom to invest, national treatment, expropriation and nationalization, freedom of transfer, national and international arbitration and alternative dispute settlement methods, valuation of non-cash capital, employment of foreign personnel, and liaison offices.

The Regulation on the Implementation of the FDI Law consists of specifying the procedures and principles set forth in the FDI Law. The aim of the FDI Law with regard to the work permits for foreigners is:

- to regulate the work carried out by foreigners
- to stipulate the provisions and rules on work permits given to foreigners

2. Bilateral Agreements

a. Bilateral Agreements for the Promotion and Protection of Investments

Bilateral Agreements for the Promotion and Protection of Investments were signed from 1962 onwards with countries that show the potential to improve bilateral investment relations. The basic aim of bilateral investment agreements is to establish a favourable environment for economic cooperation between the contracting parties by defining standards of treatment for investors and their investments within the boundaries of the countries concerned. The aim of these agreements is to increase the flow of capital between the contracting parties, while ensuring a stable investment environment. In addition, by having provisions on international arbitration, they aim to prescribe ways to successfully settle disputes that might occur among investors and the host state. Turkey has signed Bilateral Investment Treaties with 94 countries. However, Turkey is a dualist country, where an international treaty has to be ratified and promulgated in order to become part of the national legal system. Within this regard, 75 Bilateral Investment Treaties out of these 94 have gone into effect so far.

75 Countries: Afghanistan, Albania, Argentina, Australia, Austria, Azerbaijan, Bangladesh, Belarus, Belgium-Luxembourg, Bosnia and Herzegovina, Bulgaria, China, Croatia, Cuba, Czech Republic, Denmark, Egypt, Estonia, Ethiopia, Finland, France, Georgia, Germany, Greece, Hungary, India, Indonesia, Iran, Israel, Italy, Japan, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Latvia, Lebanon, Libya, Lithuania, Macedonia, Malaysia, Malta, Moldova, Mongolia, Morocco, Netherlands, Oman, Pakistan, Philippines, Poland, Portugal, Qatar, Romania, Russian Federation, Saudi Arabia, Senegal, Serbia, Singapore, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Syria, Tajikistan, Thailand, Tunisia, Turkmenistan, Ukraine, United Arab Emirates, United Kingdom, United States of America, Uzbekistan, Yemen

b. Double Taxation Prevention Treaties

Turkey has signed Double Taxation Prevention Treaties with 80 countries. This enables tax paid in one of two countries to be offset against tax payable in the other, thus preventing double taxation.

80 Countries: Albania, Algeria, Australia, Austria, Azerbaijan, Bahrain, Bangladesh, Belarus, Belgium, Bosnia and Herzegovina, Brazil, Bulgaria, Canada, China, Croatia, Czech Republic, Denmark, Egypt, Estonia, Ethiopia, Finland, France, Georgia, Germany, Greece, Hungary, India, Indonesia, Iran, Ireland, Israel, Italy, Japan, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Latvia, Lebanon, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Moldova, Mongolia, Morocco, Netherlands, New Zealand, Norway, Oman, Pakistan, Poland, Portugal, Qatar, Romania, Russian Federation, Saudi Arabia, Serbia and Montenegro, Singapore, Slovakia, Slovenia, South Africa, South Korea, Spain, Sudan, Sweden, Switzerland, Syria, Tajikistan, Thailand, Tunisia, Turkish Republic of Northern Cyprus, Turkmenistan, Ukraine, United Arab Emirates, United Kingdom, United States of America, Uzbekistan, Yemen

Turkey is continuing to expand the area covered by the Double Taxation Prevention Treaty by adding more countries on an ongoing basis.

c. Social Security Agreements

Turkey has signed Social Security Agreements with 26 countries. These agreements make it easier for expatriates to move between countries. The number of these countries will increase in line with the increased sources of FDI.

26 Countries: Albania, Austria, Azerbaijan, Belgium, Bosnia and Herzegovina, Bulgaria, Canada and the Province of Quebec, Croatia, Czech Republic, Denmark, France, Georgia, Germany, Libya, Luxembourg, Macedonia, Netherlands, Norway, Romania, Slovakia, Serbia, South Korea, Sweden, Switzerland, Turkish Republic of Northern Cyprus, United Kingdom

3. Customs Union and Free Trade Agreements (FTA)

A Customs Union Agreement between Turkey and the European Union has been in effect since 1996. The agreement allows trade between Turkey and the EU countries without any customs restrictions. The EU-Turkey Customs Union is one of the steps toward full Turkish membership of the EU itself.

FOREIGN DIRECT INVESTMENT (FDI)

The countries of the European Union, the Gulf states and the United States are among the main investors in Turkey. The business climate deteriorated in 2014 according to the Doing Business report of the World Bank, the country losing 4 places (55th out of 189 countries). However, FDI amounted to US$ 12.5 billion in 2014, an increase on 2013.

Foreign Direct Investment	2012	2013	2014
FDI Inward Flow (million US$)	13,283	12,357	12,146
FDI Stock (million US$)	190,016	149,168	168,645
Number of Greenfield Investments	153	149	108

Source: UNCTAD, 2015

A Magnet for Investment

According to the UNCTAD 2014 World Investment Report, Turkey has become the largest recipient of FDI in West Asia, and is among the fifteen most promising investors for 2014-2016. The country has adopted a series of legislative reforms to facilitate the reception of foreign investment, such as the creation of Investment Support and Promotion Agency of Turkey (ISPAT), a showcase effort undertaken to attract foreign operators. FDI inflows improved in light of the development of public-private partnerships for major infrastructure projects, the measures to streamline administrative procedures and strengthen intellectual property protection, the end of FDI screening and the structural reforms carried out with a view to the future accession into the EU. In 2014, Turkey announced a major national infrastructure development plan that should attract major foreign investment. In 2014, the joint venture of Koc Holding (Turkey) and Fiat (Italy) invested US$ 300 million in developing automobile production. Also, a number of Chinese companies have invested up to US$ 385 million in the electricity distribution company OEDAS. Finally, a Japanese group has invested US$ 500 million in a steelworks plant, in collaboration with a Turkish company.

Productivity and disciplined work ethic are important aspects of the Turkish labour force. The Turkish labour force has been rapidly increasing its productivity according to the prominent studies, such as the IMD Competitiveness Yearbook; therefore it provides investors with a competitive advantage.

Turkey has set specific targets to achieve by 2023, the centennial of the foundation of the Republic, from healthcare to economy, and from defence to education. It targets to become one of the top 10 economies in the world with a GDP of US$ 2 trillion, to increase exports to US$ 500 billion, to upgrade the country's energy, transportation and healthcare infrastructure through the construction of hospital cities, to more than double its electricity generation, and to build new bridges on the Bosphorus and the Dardanelles straits.

Focus Areas for Investment

Turkey has a wealth of natural resources: boron, coal, iron, zinc, chromium, copper, silver. The exploitation of these resources is still under-developed and presents many opportunities. This could also lead to opportunities in heavy industry. Engineering works can also offer a good number of opportunities. The agri-food and textile sectors are also looking for equipment. On the other hand, among the key sectors are automobiles, and especially the market for supplying automobile equipment, and health which is facing certain development.

Agriculture and Food

With its favourable geographical conditions and climate, Turkey is considered to be one of the leading countries in the world in the field of food and agriculture.

Turkey has a large and growing food and agriculture industry that corresponds to 9% of the overall gross value-added (GVA) and a quarter of the employment levels in the country. 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 favourable climate.

Turkey is the world leader in the production of dried figs, hazelnuts, sultanas/raisins and dried apricots. It has the largest milk and dairy production in its region. In addition, Turkey has an estimated total of 11,000 plant species, whereas the total number of species in Europe is 11,500.

While Turkey is becoming one of the largest markets for baked goods with its bread - an important element of the Turkish diet - subsector dairy products including milk, yoghurt, cheese, kefir and ayran (a drink made of yoghurt and water) form an integral part of the traditional Turkish diet. Traditionally, artisan, unpackaged products have dominated the Turkish dairy market, holding back widespread growth but also offering potential to investors.

This potential positions Turkey to be among the top options for being the regional headquarters and supply centre of top global players. In its region, Turkey has a strong dominance in production and exportation of many agricultural products such as hazelnuts, dried apricots, sultanas and dried figs. In addition, Turkey's food industry is much better developed than that of neighbouring countries. Given these factors, the country is one of the largest exporters of agricultural products in the Eastern Europe, Middle East and North Africa (EMEA) region, while its trade balance is significantly positive. With growing exports, the Turkish agro-food industry has recorded US$ 5.6 billion of trade surplus in 2014.

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

As part of its targets set for the agriculture sector, by 2023 Turkey aims to be among the top five producers globally. Turkey's ambitious vision for 2023 envisages other grandiose targets including:

- US$ 150 billion gross agricultural domestic product
- US$ 40 billion agricultural export
- Becoming one of the top five countries in terms of agricultural production
- 8.5 million hectare irrigable area (from 5.4 million)
- Ranking number one in fisheries as compared with the EU

Automotive

Between 2000 and 2014, original equipment manufacturers (OEM) invested more than US$ 12 billion in their operations in Turkey. These investments significantly developed their manufacturing capabilities, which has led to Turkey becoming an important part of the global value chain of international OEMs. Meeting and exceeding international quality and safety standards, today's Turkish automotive industry is highly efficient and competitive thanks to value-added production. Turkey accounts for 25% of the automotive production occurring in Central and Eastern Europe.

The automotive industry is a main driver of the manufacturing sector in Turkey. It is one of the largest employers in the country, creating job opportunities for more than 400,000 people. With three out of the five top exporters hailing from the automotive industry, it is also an export champion with its 16% share in total exports.

In 2011, the Turkish government released an official automotive sector strategy in a bid to shape the future of the industry. This strategy has as its primary objective the “enhancement of sustainable global competitive strength of the automotive sector and its transformation into an industry that utilizes advanced technology and generates high value-added.” The key elements of this official strategy include the production of a locally designed and manufactured car, research into which is already underway. Turkey is set to become one of the few countries with its own automobile brand in the coming years.

To this end, activities aimed at improving the R&D, design and branding capabilities will play a vital role in reaching the higher end of the value chain. As such, Turkey’s automotive industry is increasingly investing in R&D efforts. As of the end of 2014, 50 R&D centres belonging to automotive manufacturers/suppliers are operational in Turkey. This accounts for the largest group of R&D facilities in any industry in the country.

The total amount spent on R&D activities in Turkey has also been increasing steadily, with R&D expenditures reaching TRY 14.8 billion in 2013, up from 2001’s level of TRY 1.29 billion — an impressive compound annual growth rate (CAGR) of 22.5%. The R&D spending in Turkey’s automotive industry rose from TRY 206 million in 2006 to TRY 547 million in 2013. Notable examples of global brands conducting product development, design and engineering in Turkey include Ford, Fiat and Daimler. Ford Otosan’s R&D centre is one of Ford’s three largest global R&D centres, while Fiat’s R&D centre in Bursa is the Italian company’s only centre serving the European market outside its home country. Meanwhile, Daimler’s R&D centre in Istanbul complements the German company’s truck and bus manufacturing operations in Turkey.

Turkey also offers a supportive environment on the supply chain side. There are around 1,100 first-tier companies working directly with OEMs. With the parts going directly to the production lines of vehicle manufacturers, the localization rate of OEMs varies between 50 and 70%. Turkey is also home to many global suppliers. There are more than 250 global suppliers that use Turkey as a production base, with 28 of them ranking among the 50 largest global suppliers.

The product portfolio of automotive manufacturers in Turkey covers a wide range of vehicles from sedans to heavy trucks. Taking advantage of its competitive and highly-skilled workforce, dynamic local market and favourable geographical location, Turkey increased its vehicle production from 374,000 in 2002 to over 1,170,445 units in 2014, representing a CAGR of around 10% during this period.

This growth has led Turkey to become the 17th largest automotive manufacturer in the world. Turkey has already become a centre of excellence, particularly with respect to the production of commercial vehicles. By the end of 2014, Turkey was the largest producer of light commercial vehicles in Europe.

Auto manufacturers increasingly choose Turkey as a production base for their export sales. This is evidenced by the fact that around 75% of production in Turkey is destined for foreign markets. In 2014, close to 900,000 vehicles were exported from Turkey to different markets. While Germany, France, Italy, UK and Spain are currently the major export customers of the Turkish automotive industry, there is a trend of diversification in export destinations with companies looking into nearby emerging countries where there is considerably more demand potential for new auto sales.

Turkey's strength in the auto industry has been built on its robust domestic demand, which has driven investment in the industry by major international auto manufacturers. Backed by the country's strong economic performance, auto sales have shown remarkable growth in recent years. Between 2003 and 2014, the Turkish automotive market saw a CAGR of 9.30%.

In 2013, domestic vehicle sales reached just shy of 800,000 units. Despite strong sales figures, automobile penetration in Turkey — 165 cars per 1,000 people — is still well behind the European average of 500. This indicates ample opportunities for carmakers in the domestic market. Increased purchasing power combined with a low automobile ownership rate should help drive automobile sales in the coming years.

Chemicals

The chemicals industry has a unique position in the manufacturing sector as it not only produces end-products such as plastics, cosmetics, and pharmaceuticals, but also supplies intermediate products for countless other industries.

With robust market growth fuelled by downstream industries, Turkey is an attractive investment location for chemical companies. The sustainability of growth in customer industries in Turkey is unquestionably a source of strength. The following factors also make Turkey an attractive investment destination:

- Advanced transportation infrastructure provides flexibility, convenience and additional cost savings for manufacturers.
- Turkey's plastics sector is the 2nd largest producer in Europe and 7th largest in the world; Turkey aims to become the top producer in Europe by 2016.
- Turkey is the 2nd largest net importer of petrochemicals in the world.
- Turkey is the 17th largest automotive producer in the world.
- In the construction sector, 42 of the top 250 international contractors are Turkish.
- Turkey is the 4th largest paint producer in Europe.
- As a strong manufacturing and conversion hub, Turkey is one of the largest European consumers for textile and construction chemicals.
- Turkey has the 7th largest agricultural production in the world, while its demand for fertilizer is the 10th highest in the world.

Turkey is located close to large and growing trade markets.

Over the coming years, Turkey's chemical industry is poised for extraordinary growth with exports projected to reach US$ 50 billion by 2023.

Turkey has six strategic goals as part of the government's Vision 2023. These include manufacturing high value-added products, transforming facilities to enable high value-added production, structuring R&D policies, educating a high-skilled work force, developing and ensuring an environment of cooperation, and increasing demand for locally manufactured products.

Electronics

The electronics industry in Turkey has been growing steadily over the last few years. In 2013, production in the sector increased by 5.1%, reaching US$ 13.1 billion, while exports hit US$ 6.5 billion. Meanwhile, imports reached US$ 17.3 billion during the same year.

Competitive incentives, along with Turkey's strategic location as a hub connecting Europe and the MENA region, make the country attractive for both production and management operations. Many multinational companies, including Microsoft, Intel and General Electric, have either established their manufacturing bases in or moved their headquarters to Turkey, as the country offers a robust platform for economic expansion on a regional scale.

In the Turkish electronics market, consumer electronics accounted for the largest share in production with 27% in 2013, reaching US$ 3.5 billion, followed by telecommunications equipment with 20%, other professional equipment with 18%, computer equipment with 17%, defence electronics with 12%, and components with 6%.

As the second biggest sub-sector in production, telecommunications equipment grew by 1.3% in 2013, reaching US$ 2.6 billion. Even though telecommunication equipment accounted for the lion's share in overall electronic exports with US$ 2.78 billion, its growth rate corresponded to 5.6%, lagging behind growth in consumer electronics exports.

Turkey attaches great importance to research and development centres, along with clusters. Currently, there are a total of 35 R&D centres related to the electronics sector and 16 clusters, which bring together the industry and academia for innovative technology development projects.

The ongoing growth in the electronics industry allows Turkey to channel strong FDI inflow to the country. Turkey's electronics sector received approximately US$ 3 billion of FDI in past eight years.

Pharmaceuticals

Turkey's pharmaceutical market became the 6th largest in Europe and the 16th largest in the world in terms of sales in 2012. In 2014, pharmaceutical sales saw a 37% increase compared to US$ 6.2 billion in 2012, reaching US$ 8.6 billion.

Domestic and international investors are ramping up their investments in the pharmaceutical sector to take advantage of Turkey's attractive market, where the healthcare and the pharmaceutical sector grew by 5.8% and 8.9% respectively from 2012 to 2013. Expenditures on pharmaceuticals are expected to reach to TRY 20.66 billion in 2015, a 10.3% increase on the TRY 18.72 billion figure of 2014. Expenditures on healthcare, meanwhile, are expected to increase by 10.4% from TRY 96.01 billion in 2014 to TRY 105.98 billion in 2015, while the growth in real GDP is projected to be 3.5% for the same period.

Turkey has one of the largest and youngest labour pools in Europe, with more than 42% of the population aged between 24 and 54, and the strength of Turkey's labour force is reflected in the pharmaceutical sector. In the 2011-2012 academic year, more than 41,000 students graduated from vocational training schools and universities in fields related to the pharmaceutical sector.

Machinery

The machinery industry in Turkey has been growing at a rate of nearly 20% per year since 1990, and 30% per year since 2009. The growth of the Turkish machinery sector is backed by highly competitive and adaptable small and medium-sized businesses (SMEs), which form the bulk of the industrial production in the country and account for 50% of machinery production.

As the drivers of growth in machinery and major contributors to the industrialization of the country, Turkish SMEs distinguish themselves from their peers in other countries by their utilization of the competitive and highly-skilled work force Turkey offers. With domestic inputs accounting for approximately 85% of all inputs at the production stage, and over 450,000 engineering graduates every year, the sector is dynamic and flexible.

The combined advantage of the engineering capability required to compete in the international market with reasonable labour costs enable the Turkish machinery industry to offer a range of products and components that are both high-quality and affordable. This is evident in the fact that R&D spending on machinery manufacturing has increased 33% between 2010-2012, outpacing the R&D spending on manufacturing in general (24%) and on overall activities (19%) in Turkey. R&D spending on machinery manufacturing (instruments and equipment) has reached TRY 1.43 billion in 2013, making up almost 10% of the total R&D expenditure.

The machinery production of Turkey has also started to take up an increasing portion of the country's exports, and accounted for 14.7% of total exports to 200 countries with US$ 23.3 billion in 2014. The major export destinations of Turkish machinery products include Germany, UK, Iraq and France. Meanwhile, Turkey imports machinery products mostly from China, Germany, Italy, South Korea and France. Despite robust domestic production of machinery, the imports of machinery with US$ 46 billion in 2014 are twice that of exports and 19% of overall imports, indicating the increasing domestic demand for machinery.

The Turkish machinery sector therefore presents strong opportunities for investors with competitive input costs in labour, energy and logistics, and strong enablers including R&D readiness, skilled labour, IP protection, targeted incentive programs and an extensive supply basis with several regional clusters.

Turkey's machinery industry has been given ambitious export targets for the country's 100th anniversary in 2023. To reach US$ 100 billion of exports with a share of 2.3% of the global market, the Turkish machinery industry is projected to have a CAGR of 17.8% until 2023. By that time, the sector's share of Turkey's exports is expected to be no less than 18%.

Manufacturing

The manufacturing industry is one of the main drivers of the Turkish economy, accounting for 24.2% of total GDP. The Turkish manufacturing industry has been growing over the past decade and increasing at a CAGR of 11% since 2004. In 2014 it exceeded gross domestic product growth levels and reached approximately US$ 104 billion.

The Turkish manufacturing sector recovered quickly after the 2009 global economic recession and the growth rates exceeded pre-crisis levels with a CAGR of 6.8% between 2009 and 2014. The recovery in the Turkish manufacturing sector is enviable when compared globally; according to the OECD, manufacturing CAGR was 5.7% in Poland; 4.4% in Mexico; 3.5% in India, and 1.2% in Brazil during the same period.

It is not surprising that Turkey has been emerging as a regional manufacturing hub. According to the Deloitte Global Manufacturing Competitiveness Index (GMCI), over the next three years Turkey will move up from 20th place in 2013 to 16th place in terms of current and future manufacturing competitiveness. This means that Turkey will be the 2nd (after Germany) most competitive manufacturing hub in the region covering EMEA (Europe, the Middle East and Africa) as well as Central Asia and the Caucasus.

Located at the crossroads of Europe, Asia and Africa, Turkey has historically always been at the epicentre of world trade routes. As major airway hubs in the region, Istanbul and Ankara airports provide practical travel routes with a maximum direct-flight time of 4 hours to capital cities throughout Europe, Western and Central Asia, the Middle East and Africa. This unique location enables investors to access surrounding markets of 1.5 billion people, a combined GDP of US$ 25 trillion and more than US$ 8 trillion in foreign trade, corresponding to approximately half of total global trade. Moreover, Turkey has a Customs Union with the European Union, which facilitates the free movement of industrial goods as it eliminates customs duties and quantitative restrictions between Europe and Turkey. In addition, Turkey has negotiated free trade agreements with 23 countries or economic groupings (17 in force), and has started negotiations with a further 14 countries or economic blocks.

Thanks to its connectivity and trade partnerships, many multinational companies have either established their manufacturing bases in Turkey or moved their regional headquarters there, as the country offers a robust platform for economic expansion on a regional scale which enables these companies to leverage common qualities and local capabilities in Turkey. The Turkish government strongly supports the move of global company regional headquarters to Turkey. With a recent amendment to FDI legislation, foreign companies can now establish their regional management centres in Turkey under a liaison office structure without paying corporate tax, VAT, personal income tax or stamp duty.

With half of its population under the age of 30, Turkey's young and dynamic population is creating one of the most skilled labour pools in the world. The number of students graduating from manufacturing-related departments in universities exceeded 32,000 in 2012, while there were more than 35,000 graduates from vocational training schools during the same period. Moreover, around 600,000 students graduate from universities in Turkey every year. This labour force, coupled with productivity and a disciplined work ethic, makes Turkey one of the most appealing investment destinations in the world for high value-added, knowledge-based and skills-intensive industries.

Mining

Turkey's mining sector has grown in parallel with the country's robust economy. The sector's total production value soared to US$ 13.2 billion in 2014, up from US$ 2.6 billion in 2003.

With its location in the Tethyan-Eurasian Metallogenic Belt, one specific kind of ophiolite extending from the western Mediterranean via the Alps to south-eastern Europe through Turkey, the Lesser Caucasus, Iran, and the Himalayas to China, Turkey harbours much proven potential for mining investors. As the least explored portion of the belt, Turkey stands out as a very promising region for miners and explorers. In addition, as mining in Turkey has been limited to surface excavations, huge potential with deep drilling is awaiting international investors.

Turkey's young, dynamic and well-educated labour force offers a high-quality labour pool. There are 24 mining engineering departments in 21 cities in Turkey, while five new mining engineering departments have been opened since 2005. The number of mining engineers in Turkey increased by more than 50% since 2005, reaching 20,000.

Turkey's advantages for the players in the mining sector are not limited to a high-quality labour 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, along with the backing of governmental bodies, Turkey attracted US$ 449 million of FDI to its mining industry in 2014, a great leap forward from US$ 242 million of FDI in 2013, while mining exports increased fourfold over the last decade from about US$ 42 million to US$ 260 million.

These figures prove investors' increased interest in Turkey, as today Turkey hosts more than 700 international mining companies, up from only 138 in 2004.

Alternative/Renewable Energy

Over the past decade, demand in the Turkish energy market has been growing in line with its economic developments, driven by industrialization and urbanization. The total amount of investments required to meet the energy demand in Turkey by 2023 is estimated to be around US$ 120 billion (growing by 7% per annum), more than double the total amount invested during 2003-2013. With the on-going liberalization process, the Turkish energy sector is becoming more vibrant and competitive, attracting the attention of more investors for each component of the value chain in all the energy sub-sectors. Turkey's ambitious Vision 2023, envisages targets for the energy sector which include:

- Lifting up installed power to 120,000 MW
- Maximizing the use of hydropower
- Increasing wind power installed capacity to 20,000 MW
- Installing power plants with 600 MW of geothermal and 3,000 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 5 billion m^3
- Commissioning nuclear power plants (two operational nuclear power plants, with a third under construction)
- Building a coal-fired power plant with a capacity of 18,500 MW

The government is exploring alternatives for adding significant amounts of capacity in order to meet the probable shortage of supply in the medium term. According to Turkey's State Planning Organization, a total investment amounting to US$ 20 billion would be required during 2011-2015 and US$ 51 billion during 2016-2020. To meet the shortfall, the government is seeking private investors to build and operate new hydro-electric dams, thermal energy power plants and rehabilitate existing ones.

Infrastructure

In order to reinforce its infrastructure and make Turkey one of the most attractive destinations for investors, the Turkish government has made huge investments in infrastructure. For example, total traffic in ports has more than doubled over the past eight years as a result of the increasing trade and developing infrastructure.

In the railway sector – a sector that is attached a special importance by the Turkish government – provinces are now being connected with high-speed train lines. Turkey aims to have 10,000 kilometres of high-speed train lines in 2023, connecting over 29 provinces in Turkey with each other. What's more, there are ongoing projects that do not only connect provinces with train lines, but also continents.

The Turkish government inaugurated Marmaray in October 2013, at the 90th anniversary of the Republic of Turkey. With the Marmaray project, now you can travel via railway from Asia to Europe through an undersea tunnel. This project also enables Beijing to reach London through railway. The third bridge on the Bosphorus strait, one of Turkey's mega projects, will also provide railway transportation infrastructure.

Two other huge projects in road transportation are currently under construction. The first one is the Eurasia Tunnel. Similar to Marmaray, it will enable connect the Asian and European continents via a highway tunnel going underneath the seabed and enable vehicles to travel between the two continents. The second one is the Gebze - Izmir highway, which also includes Izmit Bay Bridge. This bridge will become one of the biggest suspension bridges in the world. Along with these mega projects, new highway projects are also under way.

TRANSPORT AND LOGISTICS

Turkey has ambitious targets for 2023 for the logistics industry. In order to attract more investors to the logistics industry, Turkey is diversifying its modes of transportation for carrying freight and passengers. Turkey's 2023 foreign trade target of US$ 1.1 trillion, of which US$ 500 billion to be exports, are likely to bring forth the need for development in the transportation and logistics industry and diversify the modes of transportation. The Turkish government has set challenging targets to be achieved by 2023 for improving the logistics infrastructure, which include:

- Building an additional 15,000 km of dual carriageways and highways
- Increasing the shares of railway transportation to 10% and 15% in passenger and freight transportation respectively
- Building an additional 9,000 km of high-speed train lines
- Constructing new airports with a total annual capacity of 400 million passengers including one of the largest airports in the world at Istanbul.
- Increasing the share of sea freight transportation to 10% in total freight transportation and containerization by 15%
- Building three large ports in each seas surrounding Turkey.

The Turkish Industrial Strategy Paper 2011-2014 has outlined a strategic shift in the transportation modal mix, from rail to road. In this regards, projects for expanding the hinterland connections between container seaports and inland rail terminals as well as roadway development have a high priority.

The third airport in Istanbul is projected to cost a huge investment amount, with the winning bid standing at EUR 22 billion. This airport will become one of the biggest in the world and have a capacity to serve 150 million passengers a year.

SPECIAL INVESTMENT ZONES

There are three types of special investment zones in Turkey:

1. Technology Development Zones - Technoparks

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

There are 59 TDZs of which 44 are operational and 15 have been approved and are currently under construction.

Advantages of TDZs

- Revenues derived from software development and R&D 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 systems management, data management, business applications, different business sectors, the Internet, mobile phones and military command control.
- Salaries of R&D and support personnel employed in the zone are exempt from all taxes until December 31, 2023. The number of the support personnel covered by the exemption shall not exceed 10% of the number of the R&D personnel.
- Investments for the production of the technological product obtained as a result of the R&D projects conducted in the zone may be made in the TDZ, if deemed suitable by the operator company and allowed by the Ministry.
- 50% of the employer's share of the social security premium will be paid by the government for 5 years until 31.12.2024.

2. Organized Industrial Zones

Organized Industrial Zones (OIZs*) are designed to allow companies to operate within an investor-friendly environment with ready-to-use infrastructure and social facilities. The existing infrastructure provided in the zones includes roads, water, natural gas, electricity, communications, waste treatment, and other services.

There are 290 OIZs in 80 provinces, 211 of which are currently operational, while the remaining 79 OIZs are being constructed throughout Turkey.

Advantages of OIZs

In addition to the investment incentives scheme in Turkey (general investment incentives, regional investment incentives, large-scale investment incentives, strategic investment incentives, employment incentives, R&D support, etc.), investors operating in the OIZs can benefit from the following advantages:

- No VAT for land acquisitions.
- Exemption from real estate duty for five years starting after the construction of the plant.
- Low water, natural gas, and telecommunication costs.
- For unification and/or separation of plots, no tax to be paid. Exemption from municipality tax for construction and usage of the plant.
- Exemption from the municipality tax on solid waste if the OIZ does not benefit from the municipality service.

3. Free Zones

Free zones are special sites considered to be outside the customs area, although they are within the political borders of the country. These zones are designed to increase the number of export-focused investments. Legal and administrative regulations in the commercial, financial, and economic fields that are applicable within the customs area are either not implemented or partially implemented in the free zones.

There are 20 FZs* in Turkey (19 are operational) located close to the EU and Middle Eastern markets adjacent to major Turkish ports on the Mediterranean, Aegean, and Black Seas, with easy access to international trade routes.

Advantages of FZs

- 100% exemption from customs duties and other assorted duties.
- 100% exemption from corporate income tax for manufacturing companies.
- 100% exemption from value added tax (VAT) and special consumption tax.
- 100% exemption from income tax on employees' salaries (for companies that export at least 85% of the FOB value of the goods they produce in the free zones).
- Goods can remain in free zones for an unlimited period.
- Companies are free to transfer profits from free zones to abroad as well as to Turkey, without restrictions.

International Trade

Turkey has been pursuing an export-led growth since 1980s. Economic reforms implemented in Turkey has resulted in lifting of restrictions on imports, reduced safeguarding practices, and liberalization of foreign exchange transactions. In 2014, Turkey accounted for 0.8% of global exports, and 1.3% of global imports. Underlined by rise in both exports and imports, Turkey's total trade (exports + imports) increased more than two-fold, from US$ 190.3 billion in 2005, to reach US$ 399.9 billion in 2014.

According to the World Trade Organization (WTO), in 2014, Turkey was ranked 32nd in global exports, and 19th in global imports. Turkish exports are well diversified, ranging from natural resources and low value-added products such as metals, precious stones, energy, apparel, and food stuffs, to higher value goods including vehicles and machinery. In 2014, Turkey's export basket comprised motor vehicles, machinery, iron and steel, electrical goods and gold. Developments in recent years point to a substantial increase in production and exports of high technology products, which include electrical and electronic items, machinery and equipment, as well as the automobile industry.

In 2014, Germany was the major export destination, followed by Iraq, UK, Italy, France, and USA. Turkey's import profile reflects a rapidly industrializing country, with intermediate goods representing over two-thirds of total imports. Mineral fuel was the key import of Turkey in 2014, followed by machinery, electrical and electronic equipment, iron and steel and motor vehicles. Although Turkey is an oil producer, its level of production is not large enough to make it self-sufficient, necessitating oil imports and leaving it vulnerable to oil price volatility. Russia, China, Germany, USA, and Italy were the top import sources of Turkey. Since 1962, Turkey has been negotiating and signing agreements for the reciprocal promotion and protection of investments. As of April 2014, Turkey had 82 bilateral investment agreements in force.

Turkey - Exports and Imports Data (US$ billion)

	2010	2011	2012	2013	2014
Exports	121	142	162	162	169
Imports	177	233	229	244	235

Turkey - Export, Import and Trade Balance Rank

Exporter Rank	29/136
Importer Rank	20/136
Trade Balance Rank	131/136

Top 25 Exports of Turkey in 2014 (US$ thousand)

Code	Product	Export Value
'87	Vehicles other than railway, tramway	18065263
'84	Machinery, nuclear reactors, boilers, etc.	13599014
'61	Articles of apparel, accessories, knit or crochet	10034391
'85	Electrical, electronic equipment	9698275
'72	Iron and steel	9260602
'71	Pearls, precious stones, metals, coins, etc.	7716615
'73	Articles of iron or steel	6363861
'62	Articles of apparel, accessories, not knit or crochet	6235161
'27	Mineral fuels, oils, distillation products, etc.	6126953
'39	Plastics and articles thereof	6099728
'08	Edible fruit, nuts, peel of citrus fruit, melons	4330880
'94	Furniture, lighting, signs, prefabricated buildings	2971872
'40	Rubber and articles thereof	2598671
'25	Salt, sulphur, earth, stone, plaster, lime and cement	2552386
'76	Aluminium and articles thereof	2549172
'57	Carpets and other textile floor coverings	2348407
'63	Other made textile articles, sets, worn clothing etc.	2230093
'20	Vegetable, fruit, nut, etc. food preparations	2091313

Code	Product	Export Value
'52	Cotton	1875419
'54	Manmade filaments	1773377
'60	Knitted or crocheted fabric	1694296
'19	Cereal, flour, starch, milk preparations and products	1656878
'55	Manmade staple fibres	1456457
'68	Stone, plaster, cement, asbestos, mica, etc. articles	1430729
'74	Copper and articles thereof	1428084
'26	Ores, slag and ash	1398770

Fastest Growing Turkish Exports

#	Products	Growth from 2010 to 2014
1.	Other manufactured products	Up 812.2% ($1.1 billion)
2.	Railway, tram equipment	Up 792.9% ($150.4 million)
3.	Food waste, animal fodder	Up 488.1% ($162 million)
4.	Plaiting products, basketwork	Up 289.7% ($2.4 million)
5.	Live animals	Up 264.9% ($26.7 million)
6.	Meat	Up 217.1% ($659.7 million)
7.	Arms, ammunition	Up 173.3% ($512.7 million)
8.	Cork	Up 170% ($891000)
9.	Animal/vegetable fats and oils	Up 156.8% ($1.2 billion)
10.	Lead	Up 143.8% ($15.5 million)
11.	Dairy, eggs, honey	Up 141.5% ($732.9 million)

Fastest Growing Turkish Imports (2010 to 2014)

#	Products	Growth from 2010 to 2014
1.	Gems, precious metals, coins	Up 167.4% ($8.1 billion)
2.	Collector items, art, antiques	Up 143.8% ($55 million)
3.	Sugar	Up 143% ($127.5 million)
4.	Meat and seafood preparation	Up 127.2% ($9.7 million)
5.	Cereals	Up 121.3% ($2.3 billion)
6.	Alcoholic beverages	Up 117.5% ($302.4 million)
7.	Animal/vegetable fats and oils	Up 115.5% ($2.1 billion)
8.	Milling products	Up 87.6% ($99 million)
9.	Live trees and plants	Up 86.7% ($92.9 million)
10.	Vegetable products	Up 84.2% ($12.6 million)
11.	Food waste, animal fodder	Up 79.9% ($1.3 billion)

Top 25 Imports into Turkey in 2014 (US$ thousand)

Code	Product label	Imported value in 2014
Total	**All products**	**242223959**
'27	Mineral fuels, oils, distillation products, etc.	54906087
'84	Machinery, nuclear reactors, boilers, etc	28103793
'85	Electrical, electronic equipment	17950245
'72	Iron and steel	17606032
'87	Vehicles other than railway, tramway	15735932
'39	Plastics and articles thereof	14150702
'71	Pearls, precious stones, metals, coins, etc.	8120821
'29	Organic chemicals	5832864
'90	Optical, photo, technical, medical, etc. apparatus	4878468
'30	Pharmaceutical products	4428133
'74	Copper and articles thereof	3570523
'76	Aluminium and articles thereof	3499977
'48	Paper and paperboard, articles of pulp, paper and board	3170705
'88	Aircraft, spacecraft, and parts thereof	3022173
'52	Cotton	3022047
'40	Rubber and articles thereof	2856417
'73	Articles of iron or steel	2617496
'54	Manmade filaments	2361464
'10	Cereals	2338407
'38	Miscellaneous chemical products	2276115
'12	Oil seed, oleagic fruits, grain, seed, fruit, etc., nes	2261845
'55	Manmade staple fibres	2163730
'15	Animal, vegetable fats and oils, cleavage products, etc.	2133548
'32	Tanning, dyeing extracts, tannins, derivs, pigments etc.	2122896
'62	Articles of apparel, accessories, not knit or crochet	1882863

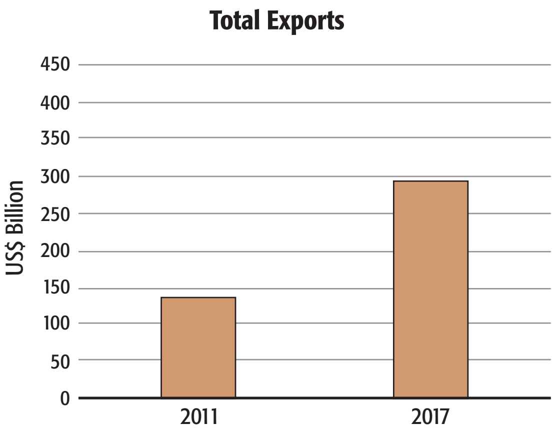
Top Trade Partners

#	Country	Value (US$ Billion)	% of Overall Exports
1.	Germany	15.2	9.6
2.	Iraq	10.9	6.9
3.	United Kingdom	9.9	6.3
4.	Italy	7.1	4.5
5.	France	6.5	4.1
6.	United States of America	6.3	4
7.	Russia	5.9	3.8
8.	Spain	4.8	3
9.	United Arab Emirates	4.7	3
10.	Iran	3.9	2.5

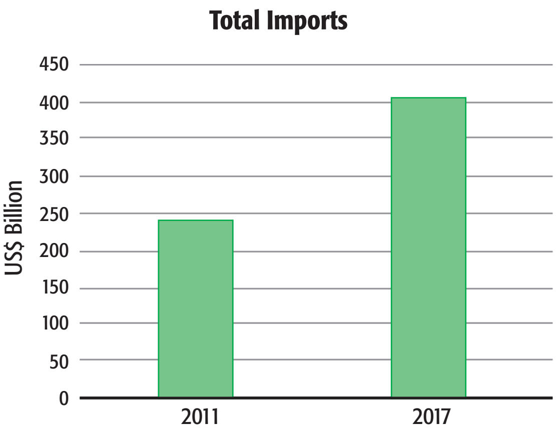
LONG-TERM PROJECTION OF INTERNATIONAL TRADE

Because of its own economic growth and that of its main trading partners, Turkey's exports are expected to grow 13.9% annually to US$ 295 billion in 2017, making Turkey the 29th largest exporter worldwide. Similarly, import demand will grow with an average of 9.1% per year to US$ 406 billion in 2017, meaning that Turkey will take the 21st position on the global list of largest importers. By 2017, Turkey will mainly import fuels, ores and metals and industrial machinery, which together account for 41% of total imports of Turkey. Similarly, Turkey's exports will mainly consist of textiles (including fibres, yarn and products), ores and metals and road vehicles and transport equipment. Together these products will represent 54% of total exports in 2017. By 2017, Turkey will mainly import products from Germany, China and Russia, which together account for 33% of total imports of Turkey. Turkey's main export markets will be Germany, Iraq and Russia. Together these countries will account for 31% of total exports in 2017.

Trade Forecast



Turkey – World Ranking	1995	2011	2017
	37	32	29
CAGR 2012-2017: 13.9%			



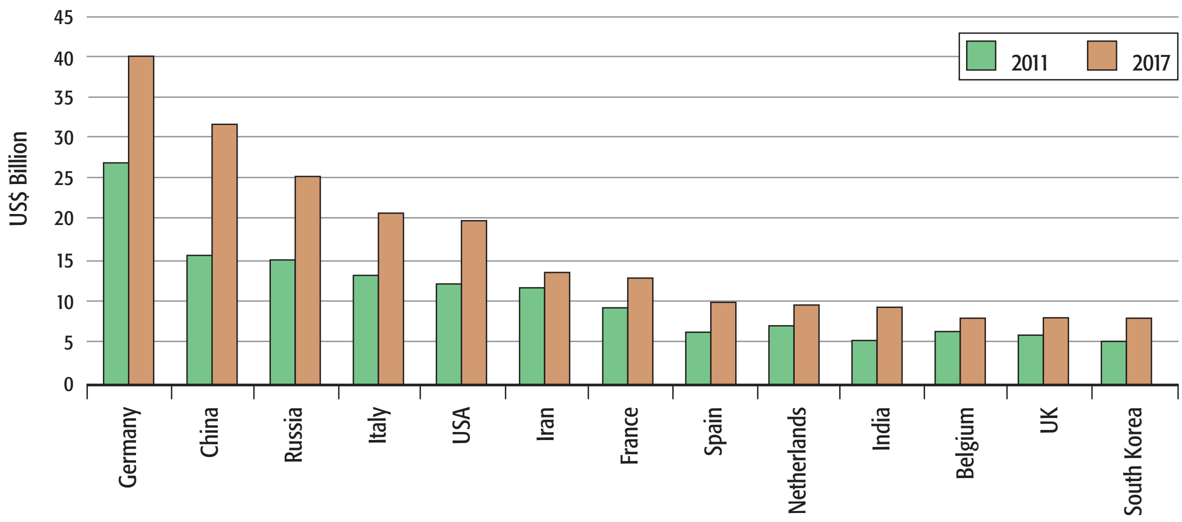
Turkey – World Ranking	1995	2011	2017
	28	20	21
CAGR 2012-2017: 9.1%			

Worldwide, the top three export and import countries in 2017 will be China, United States and Germany. The countries that show the greatest increase in demand for imports of foreign products are Vietnam, Indonesia and Taiwan.

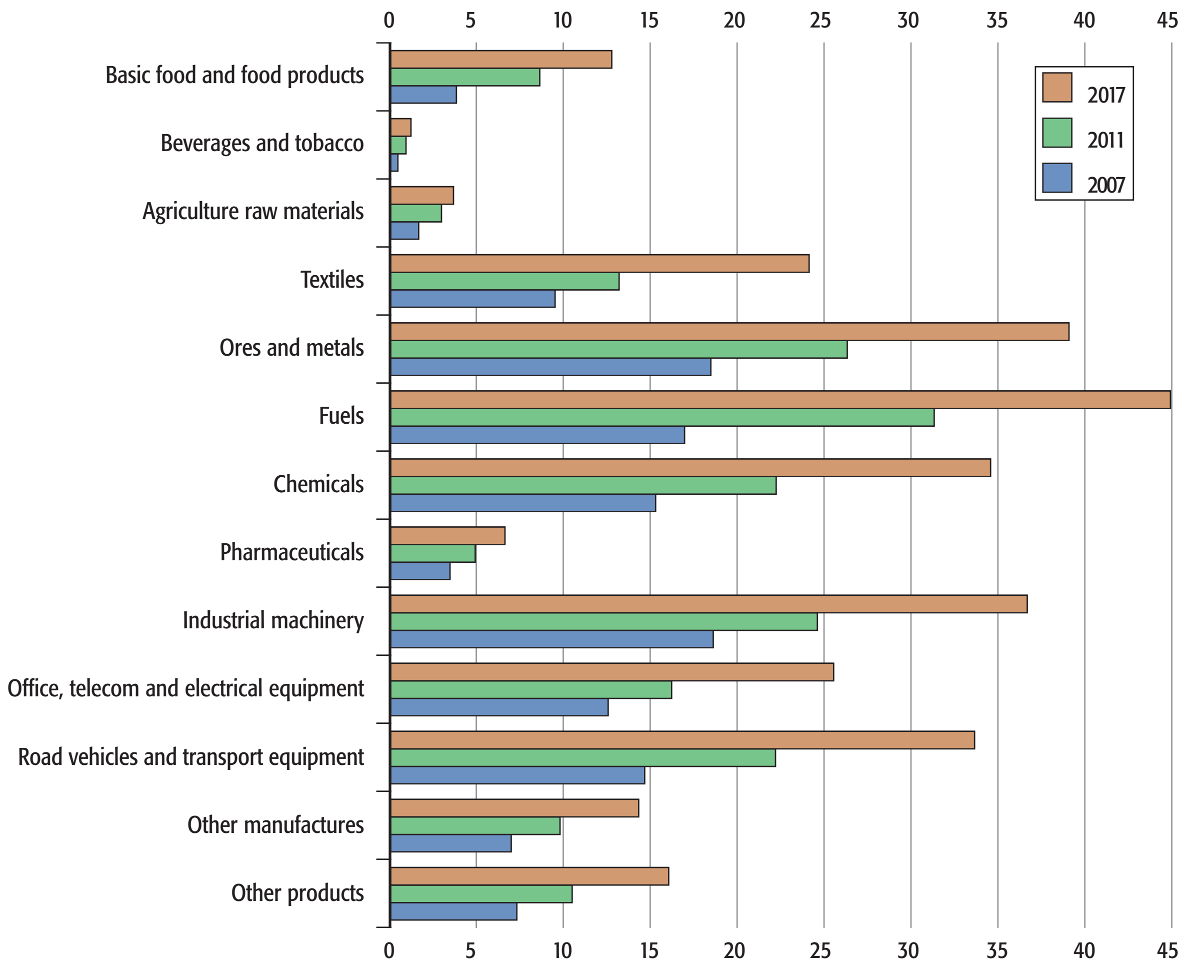
Demand for Products: Origins of Imports

By 2017, Turkey will mainly import products from Germany, China and Russia, which together account for 33% of total imports of Turkey. In volumes, the most important trade flows to Turkey currently include fuels from Iran, fuels from Russia, and road vehicles and transport equipment from Germany. In the coming years, these flows are expected to change with 3%, 8% and 9% per year, respectively.

Main Origins of Imports, 2011 and 2017



Demand for Products: Imports by Product Group (US$ Billion)



By 2017, Turkey will mainly import fuels, ores and metals and industrial machinery, which together account for 41% of total imports of Turkey.

TURKEY'S FREE TRADE AGREEMENTS

Turkey has FTAs with 37 countries, creating a free trade area in which the countries agree to eliminate tariffs, quotas and preferences on most goods and services traded between them. This framework explains why many global companies are now using Turkey as a second supply source and manufacturing base, not only for the EU and rapidly growing Turkish markets, but also for the Middle East, Black Sea and North African markets, with the added advantage of a relatively low-cost but well-educated labour force, coupled with cost-effective transportation.

37 Countries: Albania, Bosnia and Herzegovina, Egypt, Georgia, EFTA, Israel, South Korea, Macedonia, Morocco, Malaysia, Mauritius, Palestine, Jordan, Syria*, Tunisia, Montenegro, Serbia, Chile

Countries that have finalized the negotiation process: Faroe Islands, Ghana, Kosovo, Lebanon, Moldova, Singapore

Countries in the negotiation process: Democratic Republic of the Congo, Cameroon, Colombia, Ecuador, Gulf Cooperation Council, Japan, Libya, Mexico, Mercosur, Peru, Seychelles, Ukraine

*suspended

India's FTA is stuck in negotiations stage since 2009.

Services Industry

FINANCIAL SERVICES

There are 49 banks operating in Turkey, of which 13 are investment banks, 26 are commercial banks, four are participation banks and six are branches of foreign banks. There are also 48 representative offices of foreign banks.

- The country's five largest banks control approximately 58% of the banking sector's total assets.
- Three of Turkey's seven largest banks – TC Ziraat Bankasý, Halkbank and Vakifbank – are state owned. Four investment banks are also state owned. Approximately 30% of the banking sector's total assets are state controlled.
- There are four private participation (Islamic) banks operating over 860 branches in Turkey – Albaraka Turk, Bank Asya, Kuveyt Turk and Turkiye Finans. In October 2014, the state-run TC Ziraat received approval to establish an Islamic unit and just two months later, the state-run Vakifbank and Halkbank both annouced plans to set up Islamic units.

- Foreign banks play an active and prominent role in the country's banking sector. At present, 13 commercial banks and three investment banks in Turkey are foreign owned. In 2013 Commercial Bank of Qatar acquired 71% of Alternatifbank and in April 2014, Industrial and Commercial Bank of China acquired 75% of Tekstilbank.
- In 2012, Lebanon's Bank Audi was granted the first commercial banking licence in more than a decade. Bank Audi trades as Odea Bank in Turkey.
- Foreign banks accounted for approximately 15.3% of the country's total banking assets at the end of June 2014.

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 2000s. In fact, the reforms in the sector boosted investor confidence so much that financial services has become the preferred sector for FDI, attracting over US$ 48 billion during the past 14 years.

Banking dominates the Turkish financial sector, accounting for over 70% of overall financial services, while insurance services and other financial activities also show significant growth potential. Turkey's banking sector is comprised of 34 deposit banks, 13 development and investment banks, and 5 participation banks, with 21 of them holding significant foreign capital.

An expanding loan base and favourable liquidity conditions contribute to the healthy growth of Turkey's financial services. The sector enjoys a leading position in the world with an ever-growing asset size and strong equity structure protecting it against shocks that may arise from loans or turbulent market conditions.

The Turkish insurance market is still underpenetrated (1.4% of GDP) compared to peer countries and will provide significant potential as new insurers set up shop and acquire a share of the relatively untapped Turkish market. Turkey has seen strong economic growth fuelled 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 its robust economy with a bright future. Over the past 13 years, Turkish economy has been growing with an average annual real GDP growth rate of approximately 5% and the growth momentum is expected to continue. Turkey's sizeable and diversified economy has achieved remarkable growth and became 17th largest economy in the world as of 2014. (GDP; PPP) Turkey's economic growth has resulted in income growth and a growing robust middle class with increasing purchasing power.

As Turkish economy has expanded, it has integrated with the global economy with a staggering increase in its volume of international transactions. Such developments have further stimulated economic activity, thus expanded 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 centre. Turkey's large and young population, qualified labour force and rapidly developing markets along with its geo-strategic location makes Istanbul an ideal candidate for an international financial hub. Since, the government launched the project for Istanbul Financial Centre, Istanbul has rapidly made progress and is now considering among emerging financial centres in the world.

BUSINESS SERVICES

Turkey's strategic location at the crossroads of Europe, the CIS, the Middle East, and Asia, has helped propel the country's economy into the upper echelon over the past decade. Turkey's 2014 GDP of approximately US$ 820 billion is good enough to rank the country as the 17th largest economy in the world and the 6th largest economy in Europe. Turkey has easy access to 1.6 billion consumers, a combined GDP of US$ 27 trillion, and a trade volume of US$ 8 trillion within a four-hour flight radius. Turkey is also a major energy corridor, serving as a hub connecting Europe, Central Asia, and the Middle East. This favourable position, along with the country' existing potential, population growth, and increase in income per capita 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 services and contracting, testing and technical analysis, call centres, auditing and accounting, law advisory services, healthcare, transport, retail, as well as consulting and financial services.

As the private sector increasingly focuses on customer services, Turkey's call centre and business process outsourcing (BPO) sector has achieved considerable growth in recent years. In addition to thousands of business centres with services for telecom operators, airlines and financial institutions, the sector is set for further growth owing to demand drivers such as a young and skilled work force, strategic geographic position, and government incentives aiming to increase growth in underdeveloped regions. The list of major companies with BPO units in Turkey includes Vodafone, Lufthansa, ING Bank and DHL.

The call centre sector in Turkey has gained momentum since the inception of the first call centres in the 1990s. Employment in the industry has grown at an annual rate of 20% since 2010, when the sector was comprised of 1,000 companies, 40,000 employees, and had a value of US$ 400 million. According to the Turkish Call Centres Association, the industry was worth US$ 1.6 billion and employed 80,000 people in 2014, up from the 2013 figures of US$ 1.4 billion and 70,200 respectively. The call centre sector has set an ambitious target of having a work force of 350,000 people by 2023.

Meanwhile, legal advisory services, consulting, and financial services also play a crucial role in Turkey's economy. Turkey's vibrant economy and improved business environment have resulted in the growth of consulting services in Turkey. Major global companies in these sectors now have their offices in Turkey. According to Euromonitor International, turnover of the legal advisory services sector will reach US$ 3 billion by 2017, whereas turnover in consulting will reach US$ 19 billion. In addition, as new regulations come into force and Turkey aspires to have compatible standards with the EU, the auditing and accounting sector will continue to grow.

With its existing potential and ambitious targets for 2023, Turkey offers great opportunities for investors. The country's growing commercial and industrial output attracts an increasing number of enterprises, particularly in the business services sector.

HUMAN CAPITAL

The most competitive advantages of Turkey include young and dynamic human capital with rising quality. Half of the country's population is under the age of 30 and every year more than 600,000 students graduate from Turkish universities, with 18% of these (more than 100,000 students) graduating from engineering or manufacturing-related majors. Today, Turkey is training world-class engineers in a number of areas, ranging from mechanical to computer engineering. These favourable demographics, coupled with other advantages such as strategic location, high-end infrastructure as well as political and economic stability, are the absolute richness of Turkey.

R&D

The vision of the Turkish government is to make Turkey a research and development (R&D), design and manufacturing base of Afro-Eurasia in medium and high-tech industries. To this end, ISPAT's (Turkish Investment Agency) promotion strategy is aiming to attract more technology-intensive investments to Turkey in order to ensure the transfer of technology to the country. Moreover, the Turkish government has been implementing a series of incentives schemes in accordance with the requirements of investors. The new incentives system offers investors a wide variety of incentives depending on scale, location and sector, including reductions and exemptions in tax and social security premiums and land allocation, etc.

Aiming to become a high-tech manufacturing and export base by 2023, Turkey strongly supports R&D and innovation-related investments through its comprehensive investment incentives regime. The country will heavily rely on its technology development zones (TDZs), which are increasing in number and populated by the country's visionary entrepreneurs and talented workforce.

TDZs are the areas designed to support software development and R&D activities and attract knowledge-intensive investments. TDZs offer an investor friendly environment with ready-to-use infrastructure and social facilities.

Software development and R&D activities in TDZs are exempt from corporate and income taxes, as well as value-added tax for the sales of software produced exclusively in TDZs. A 50% reduction in the employer's share of social security premium is also available in TDZs. The efforts to upgrade the country's R&D infrastructure and attract high added value investments have already begun to yield results and not only local companies but also international giants have started to invest in Turkey's promising future. For instance, Ericsson, Huawei, 3M and Vodafone have established their regional R&D centres in Turkey.

HEALTHCARE

Turkey's healthcare sector has developed largely due to support provided by government policies that have ensured broader access to the system. Enjoying a surge in interest from hospital chains and investment funds, Turkey's healthcare sector, including subsectors such as dentistry, optometry and other healthcare services, are in high demand for partnerships and acquisitions. Investing in the country's healthcare sector became much easier with the recent passage of laws that emphasizes public-private partnership in providing healthcare services. Turkey is likely to experience a continued economic expansion and rising income which, in turn, is expected to create more demand for health services and products, reflected in healthcare spending projections.

According to Economist Intelligence Unit (EIU) forecasts, the healthcare sector in Turkey is set to boom by a CAGR of 5.6% between 2013 and 2017, while most developed countries will be experiencing relatively lower growth rates. As growth in the healthcare sector is expected to continue and restructuring of the health financing system on the agenda, Turkey will remain an attractive market for investment in equipment and supplies, as well as medical consulting services and knowledge transfers. In addition to its growing internal market, Turkey also offers opportunities for healthcare services and equipment providers as a stepping-stone to the markets in Central Asia and North Africa. Developments in the healthcare policy will have further positive effects on the growth of private healthcare services.

The Turkish healthcare system has undergone the largest transition in its history over the last decade. The successes of health reforms, specifically the Health Transformation Program (HTP), have brought about a marked improvement in the healthcare system and have enhanced access to healthcare facilities.

According to PPP professionals, Turkey is the second most attractive market globally for PPP projects in the medium to long term, and official targets related to the adoption and development of e-health systems present significant investment opportunities for ICT infrastructure companies.

There are plans to increase health tourism revenues to US$ 20 billion by 2023, and as a result, healthcare spending per capita has been targeted to almost triple by 2023, reaching US$ 2,000.

Turkey's newly designed investment incentive program divides Turkey into six separate regions. It supports investors in the industry by providing varying tax reductions of between 15-65% depending on investment region and scale as well as social security support for 2 to 12 years depending on the region the investment is made. The Ministry of Health (MoH) has also launched a strategic action plan for the healthcare industry which details ambitious 2017 and 2023 targets for the industry. Moreover, the Ministry of Science, Technology and Industry also defined six ambitious targets and the related actions to achieve these targets.

Special focus has been given to Free Healthcare Zones that bring numerous advantages to the public and the companies operating in them. There will be 4 free healthcare zones established by 2017 and 10 by 2023, according to the MoH.

TOURISM

Turkey saw a dramatic drop in the number of foreign arrivals from Europe and Russia in the first 11 months of 2015, according to temporary official data. Although the number of total foreign arrivals saw only a slight decline (around 1.36%) in the period compared to the first eleven months of 2014 - due to an increase in arrivals from Gulf countries - tourism revenue is the main indicator that should be considered.

Tourism revenue matters a lot for Turkey, accounting for around 4.5% of its $800-billion economy and playing a crucial role in closing the multibillion-dollar current account gap.

Even before the latest attacks, sector players expected to close 2015 with losses of around $10-11 billion, amid a dramatic drop in Russian tourists and a sharp decline in hotel room prices across the country.

Concerns about the future of the sector have escalated further after an Islamic State of Iraq and the Levant (ISIL)-linked suicide bomber killed at least 10 foreign tourists and left 15 wounded on Jan. 12 in Istanbul, which the annual MasterCard Global Destinations Cities Index said was world's fifth most-visited city in 2015.

With the latest attack, many sector players fear a drop in the number of German tourists. In 2014, Germany was the largest source of tourists for Turkey and more than 5.2 million Germans visited the country.

INFORMATION AND COMMUNICATION TECHNOLOGY

The Information and communication technologies (ICT) sector has become an essential part of the economy, in particular social life, since it is directly or indirectly affecting the ever-changing business world. Turkey is well aware of the fact that this sector will have a much more influential role in the future than it currently has. Searches for solutions brought about by this development and growth, which are appropriate for the requirements of today, and the efforts to enable today's economic and social life to acquire these most up-to-date and fast solutions instantly, together form the basis of information and communication technology, since these solution searches basically require the utmost efficient utilization of both time and physical resources. In this regard, Turkey has increased its interest in the ICT sector further, and 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 the investors.

- As the young population increases and online market expands, the total number of mobile phone subscribers is expected to reach 75 million by 2017.
- IT spending on hardware, software, IT services and telecommunication services in Turkey is expected to increase to US$ 25 billion by 2016.

- 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 with a CAGR of 7.4% during the 2012-2017 period.
- More than half of all households in Turkey have computers with internet access, which is expected to rise to 65.6% over the next five years.
- The percentage of internet users in Turkey is around 42% and this is forecast to rise to above 47% in 2017.

Turkey's ambitious vision of 2023, the centennial foundation of the republic envisages grandiose 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% to 8%
- Becoming one of the top 10 countries in e-transformation
- Having 80% of the population computer literate
- Increasing the number of companies to 5,500; employees to 65,000; and exports to US$ 10 billion in TDZs
- Increasing the ICT sector's size to US$ 160 billion, with a market growth of around 15% each year
- Increasing the R&D expenditure to GDP ratio to 3% from 0.85%

With the strength and capability that India possesses in the realm of Information Technology (IT), Indian IT firms could explore opportunities in Turkey, and focus on investing in subsidiaries and joint ventures in the areas of e-governance, financial services and e-education. Indian companies could also share their expertise in providing software programmes and services for banks and financial institutes in the region.

Designing specialized e-learning courses on the web for providing technological assistance, manufacturing know how, and other technical areas also present opportunities.

Investment Risks, Barriers and Challenges

STRENGTHS

- Public finances under control
- Resilient banking sector
- Demographic vitality and skilled labour force
- Pivotal regional position which increases the attractiveness of the Turkish market

WEAKNESSES

- Insufficient domestic savings, substantial current account deficit and heavy dependence on foreign capital
- Rising corporate foreign debt increases exposure to exchange rate risk
- The Kurdish question remains a source of social and political instability
- Geographic stability tested by the Syrian and Iraqi conflicts

POLITICAL AND SECURITY

The widely touted political stability brought by the AKP's win in recent elections has proved, in the end, illusory. Foreign investors and observers are growing increasingly nervous about the increasingly authoritarian nature of President Erdogan and the AKP government. Since the government crackdown on mass protests in 2013, the country's democratic trajectory has taken a marked turn for the worse. Significant deterioration in crucial indicators such as rule of law, freedom of speech, judicial independence, media freedom, and checks and balances has further shaken the confidence of investors. Turkey's rankings in corruption prevention and perception indices have slumped. Freedom House downgraded Turkey from "Partly Free" to "Not Free" in its 2014 report on press freedom around the world. The rising political risk indicated by these developments does not bode well for Turkey's economic and investment prospects.

But parliamentary elections are coming in June, and their outcome is anything but clear. Over the past decade, the AKP's main political strategy has been based on touting its economic success. As this storyline becomes strained, the political future of the ruling party may depend on its willingness — and ability — to lead Turkey through reforms to sustainable economic development. But Erdogan's 12 years in power so far offer little indication that he and the AKP are willing to do what it takes.

The country's southeast is also ravaged by renewed conflict between the Turkish state and Kurdish separatists, which has killed hundreds of security officials, rebels and civilians since a two-year cease fire collapsed in June.

Meanwhile, across Turkey's southern borders lurks wars in Iraq and Syria, as well as terrorism threats led by Islamic State. Turkey also hosts some 2.5 million Syrian and Iraqi refugees, at a cost of more than $8 billion since 2011.

Europe's tepid economic recovery, as well as its recent spat with Moscow after Turkey downed a Russian military jet for violating its border, are also hampering Ankara's efforts to boost exports.

Terrorism and Russian sanctions have left Turkey's already struggling economy bracing for the worst. Russia's sanctions are largely aimed at Turkey's tourist, agricultural and banking sectors. Turkey will lose $3.1 billion worth of trade in 2016 due to Russian economic sanctions. Russia has banned the import of Turkish fruits and vegetables, poultry and even salt. 60% of fruit and vegetable exports go to Russia. Moscow has also suspended a new pipeline project called "Turkish Stream" that was to deliver natural gas exports to Turkey.

Russia's state nuclear company Rosatom suspended work on a $20 billion nuclear plant in Akkuyu, Turkey. According to one expert, Russian sanctions would cost Turkey more than $12 billion annually – four times Turkish government estimates.

ECONOMY

Turkey has turned from an exemplary emerging market into a country that grabs headlines with stories of economic weakness and financial vulnerability. It witnessed a capital outflow of around $10 billion in 2015 amid domestic, regional and global risks under the shadow of the skyrocketing rise in the dollar's value against almost all local currencies, but 2016 may be worse if the risks persist. The current list of problems is daunting: rising inflation, slowing growth, foreign exchange pressure, rising fiscal expenditures, increased unemployment, overall debt, and loss of export competitiveness.

Turkey's slowdown is mainly caused by longer-term structural factors, pointing to an urgent need for fundamental reform. And this is where the economic track record of President Recep Tayyip Erdogan and the ruling AKP has begun to suffer. Even as the Turkish economy sputters, the AKP government is focusing on unsustainable, and sometimes destructive, short-term measures, such as pressuring the central bank to maintain a loose monetary policy, jeopardizing its independence and legitimacy in the process. Meanwhile, the structural reforms needed to ensure the country's longer-term development are being put off.

Among the most fundamental of Turkey's structural problems is its overreliance on foreign investment. Turkey's excessive dependence on capital inflows from abroad, as well as its persistently high current account deficit (6% of GDP at the end of 2014) has left it deeply vulnerable to external shocks. In fact, Turkey was one of the worst-affected countries during the recent global economic crisis: its economy shrank by a staggering 5% in 2009. This weakness also led Morgan Stanley to list Turkey in 2013 as one of the "Fragile Five" emerging countries most at risk of a downturn. The end of the U.S. Federal Reserve's quantitative easing program – which could come as early as June 2015 – could cause the flow of "hot money" to dry up. Many expect Turkey's current account deficit to remain in the unsustainable 5% territory despite the positive effects of the global drop in oil prices.

Several open conflicts over economic policy have added to the jitters. In the recent Bank Asya incident, Turkey's banking watchdog cited alleged irregularities as the justification for its seizure of shares from an Islamic lender – though most informed observes saw the move as a politically motivated outgrowth of the continuing rift between Erdogan and his bitter rival, the Gulen religious movement. President Erdogan also clashed publicly with Central Bank governor Erdem Basci on monetary policy decisions, pressuring him to cut interest rates. These conflicts have raised significant questions about the quality of Turkey's economic policymaking at a time when the country desperately needs foreign investment to keep flowing.

Turkey ranks 55th in the World Bank's Doing Business Index, lagging behind other developing-market success stories such as Poland (32nd), Chile (41st), and South Korea (7th). Labour costs remain high compared with Turkey's peers, and low productivity caused by inadequate human capital is constraining growth.

Turkey, for example, has one of the most rigid labour markets among OECD members, hampering its economic growth. Addressing this issue will require a transformation of the labour market, inevitably causing job losses that will lead to disgruntled voters.

TURKEY'S ECONOMIC RANKING AMONGST NUMBER OF COUNTRIES

Corruption Perceptions Index	66/168
DHL Global Connectedness Index Score	59/140
E&Y Globalization Index Score	46/60
Ease of Doing Business Rank	55/189
Ease of Paying Taxes Rank	54/186
Global Competitiveness Report	51/140
Global Enabling Trade Report	45/138
Global Manufacturing Competitiveness Index (GMCI)	20/38
Index of Economic Freedom	70/178
International Logistics Performance Index (LPI)	30/160
Inward FDI Potential Index	72/141
KOF Index of Globalization	44/185
Networked Readiness Index (NRI)	46/142

Indo-Turkey Economic Relations

India's economic and commercial co-operation with Turkey has deepened over the years and constitutes an important dimension of the bilateral relationship. India's bilateral trade with Turkey has increased significantly by more than five-fold in the last decade, with a total trade of US$ 7.5 billion in 2014. While India's exports to Turkey amounted to US$ 6.9 billion in 2014, accounting for 2.8% of Turkey's global imports, India's imports from Turkey have also risen, from US$ 219.9 million in 2005 to US$ 586.7 million in 2014, depicting close to a three-fold increase.

India maintains a trade surplus with Turkey, which has risen significantly over the last few years. In 2014, Turkey was India's 32nd largest trading partner. Turkey was the 16th largest global export destination, and 44th largest global source of imports for India. At the same time, India was the 9th largest source of imports for Turkey, and the 47th largest export destination. India's exports to Turkey amounted to US$ 6.9 billion in 2014, accounting for 2.8% of Turkey's global imports. Mineral fuels and products dominate India's exports to Turkey, accounting for 4.8% of Turkey's global imports of the product in 2014. Within the same product, India was the third largest global supplier of petroleum oils, not crude (HS-2710), and the seventeenth largest supplier of petroleum jelly, mineral waxes (HS- 2712) to Turkey. India was also the second largest global source of Turkey's imports of manmade filaments; eighth largest global source of imports of organic chemicals; third largest global source of manmade staple fibres; and the eleventh largest source of imports of vehicles, other than railway, tramway. India's imports from Turkey have also risen, from US$ 219.9 million in 2005 to US$ 586.7 million in 2014, depicting close to a three-fold increase.

Turkey is expecting the bilateral trade volume with India to jump to over $22 billion in the next seven years from $7.49 billion in 2014, given the favourable business climate prevailing in both the nations.

The recently released EXIM Bank study identifies major potential imports of Turkey up to 6-digit HS commodity code, which could be exported from India, keeping in view India's global export capability. The potential items for India's exports to Turkey identified broadly include, inter alia, mineral fuels and distillation products; machinery and instruments; electrical and electronic equipment; iron and steel; vehicles other than railway, tramway; plastics and articles; pearls and precious stones; pharmaceutical products; rubber and articles; cereals.

The study also dwells upon investment opportunities in key sectors in Turkey, and delineates broad strategies to enhance and foster India's commercial relations with Turkey. Identified sectors include agriculture and food processing; alternative/renewable energy; healthcare; transport and logistics; and tourism.

BILATERAL TRADE

Top 10 Turkish Imports from India

India's exports to Turkey amounted to US$ 6.9 billion or 2.8% of its overall imports.

1.	Oil	$2.7 billion
2.	Vehicles	$460.6 million
3.	Machines, engines, pumps	$427.8 million
4.	Manmade filaments	$379.1 million
5.	Plastics	$315.3 million
6.	Organic chemicals	$291.6 million
7.	Electronic equipment	$239.4 million
8.	Manmade staple fibres	$234.7 million
9.	Tanning, dyeing extracts	$228.6 million
10.	Cotton	$191.7 million

Top 10 Turkish Exports to India

Turkey's exports to India amounted to US$ 586.7 million or 0.4% of its overall exports.

1.	Machines, engines, pumps	$83.8 mm.
2.	Salt, sulphur, stone, cement	$75.8 million
3.	Iron and steel	$51 million
4.	Oil seed	$40.8 million
5.	Ores, slag, ash	$37.1 million
6.	Inorganic chemicals	$35.1 million
7.	Gems, precious metals, coins	$24.1 million
8.	Electronic equipment	$17.9 million
9.	Oil	$16.6 million
10.	Vehicles	$16.5 million

Potential Export Hopefuls

- Mineral fuels, oils, distillation products, etc. (HS-27)
- Machinery and instruments (HS-84)
- Electrical and electronic equipment (HS-85)
- Iron and steel (HS-72)
- Vehicles other than railway, tramway (HS-87)

- Plastics and articles (HS-39)
- Pearls and precious stones (HS-71)
- Optical, photo, technical apparatus (HS-90)
- Pharmaceutical products (HS-30)
- Copper and articles (HS-74)
- Aluminium and articles (HS-76)
- Aircraft, spacecraft and parts (HS-88)
- Rubber and articles (HS-40)
- Cereals (HS-10)
- Misc. chemical products (HS-38)
- Vehicle parts and accessories

Turkey's Global Imports and India's Share in Top 25 Productsin 2014

HS Code	Product	Turkey's Imports from World, (US$ million)	Turkey's Imports from India, (US$ million)	India's Share in Turkey's Imports (%)	India's Exports to World, (US$ million)
Total	**All products**	**242,224.0**	**6,898.6**	**2.8**	**317,544.6**
27	Mineral fuels, oils, distillation products	54,906.1	2,662.8	4.8	62,348.5
84	Machinery and instruments	28,103.8	427.8	1.5	13,596.1
85	Electrical and electronic equipment	17,950.2	239.4	1.3	9,002.3
72	Iron and steel	17,606.0	172.8	1.0	9,080.6
87	Vehicles other than railway, tramway	15,735.9	460.6	2.9	14,482.0
39	Plastics and articles	14,150.7	315.3	2.2	5,398.3
71	Pearls and precious stones	8,120.8	32.3	0.4	40,703.5
29	Organic chemicals	5,832.9	291.6	5.0	12,035.1
90	Optical, photo, technical apparatus	4,878.5	49.3	1.0	2,334.6
30	Pharmaceutical products	4,428.1	53.3	1.2	11,663.3
74	Copper and articles	3,570.5	2.7	0.1	3,456.1
76	Aluminium and articles	3,500.0	63.7	1.8	2,582.5
48	Paper and paperboard	3,170.7	7.9	0.2	1,116.0
88	Aircraft, spacecraft and parts	3,022.2	0.001	–	6,721.2
52	Cotton	3,022.0	191.7	6.3	8,883.9
40	Rubber and articles	2,856.4	60.3	2.1	2,763.2
73	Articles of iron or steel	2,617.5	47.5	1.8	7,518.7
54	Manmade filaments	2,361.5	379.1	16.1	2,505.4
10	Cereals	2,338.4	78.6	3.4	10,059.3
38	Miscellaneous chemical products	2,276.1	42.9	1.9	3,164.4
12	Oil seed, eleagic fruits	2,261.8	28.0	1.2	2,151.4
55	Manmade staple fibres	2,163.7	234.7	10.8	2,181.6
32	Tanning, dyeing extracts	2,122.9	228.6	10.8	2,907.1
62	Articles of apparel, accessories, not knit or crochet	1,882.9	71.2	3.8	9,055.7

BILATERAL INVESTMENTS

Not only for domestic market but also neighbouring regions where Turkey has a foothold such as Middle-East, North Africa, EU and Eastern Europe.

Turkey ranks 41st in terms of FDI inflows to India with cumulative direct investment amounting to US$ 127.7 million (April 2000 - June 2015) accounting for 0.1% of India's total FDI inflows. During April 1996 - August 2015, total approved outflows to Turkey amounted to US$ 478.8 million.

Turkish companies having presence in India include Limak Construction, Fernas, Sarar, Soktas, Izopoli-Kingspan, and Hidromas. A consortium formed by the Nas Aviation Services India Ltd and the Turkish airport ground services provider Celebi won a tender to provide ground services for 10 years at Mumbai international airport in India. Celebi has a 51% stake in the venture while the Indian company has a 49% stake. Celebi has also won another tender for modernization of the cargo terminal at Delhi's IGIA and managing it for 25 years. Fernas, a Turkish infrastructure company mainly operating in pipeline sector, has won a contract for laying and commissioning a segment of the GAIL pipeline in Gujarat.

During April 1996 – August 2015, total approved outflows of India's investment to Turkey amounted to US$ 478.8 million. More than 150 Indian companies have registered businesses in Turkey in the form of joint ventures, trade and representative offices, which include M/s Polyplex,GMR Infrastructure, TATA Motors, Mahindra & Mahindra, Reliance, Ispat, Tractors and Farm Equipment Ltd., Jain Irrigation, Wipro and Dabur.

Some of the recent Indian investments in Turkey are:

National Building Construction Corporation (NBCC) provided consultancy services for the Marmara Engineering Emergency Reconstruction Project

- Jain Irrigation Systems has invested around US$ 20 million in two major projects in the southern province of Adana. The manufacturing facility produces irrigation systems
- Arcelor Mittal has acquired significant business interests in two steel plants in Turkey, operated by Erdemir and Borusan respectively.
- C.R.I. Pumps have set up an assembly unit in Izmir
- Dhanus Technologies, a Chennai based IT company had concluded an agreement to acquire Borusan Telekom - Turkey's first alternative telecom operator with "A" type license in January 2008 with an investment of US$ 77 million
- Some of the Indian companies have invested in mining sector in Turkey, including in iron ore, marble and boron.