



Overseas Market Information

Country Profile - Turkey

Synopsis of the Country

- Capital : Ankara
- Currency : Turkish Lira (TRL)
- Official Language : Turkish
- Business Languages : English is very commonly used in business.
- Other Languages : Kurdish, Arabic, Armenian, Greek
- Population : 77804122 (July 2010 est.)
- Total Area : 783562 sq. kms
- GDP : \$863.3 billion (2009 est.)
- GDP Growth Rate : 0.3% (2009 est.)
- GDP Per Capita : \$11,200 (2009 est.)
- Major Exports : Apparel, foodstuffs, textiles, metal manufactures, transport equipment
- Exports Value : \$14.43 billion (2009 est.)
- Major Countries of Export : Germany, France, UK, Italy, Iraq
- Major Imports : Machinery, chemicals, semi-finished goods, fuels, transport equipment
- Imports Value : \$140.8 billion (2009 est.)
- Major Countries of Import : Russia, Germany, China, US, Italy, France

Turkey is a secular state at the crossroads of Europe and the Middle East. With a constitution adopted in 1982 after a military coup, it is now a successful multi-party democracy. Prime Minister Recep Tayyip Erdogan has held office since 2003. The European Union agreed to accession talks in October 2005, but strong opposition from France, Germany, and Austria make Turkey's accession problematic. Turkey hopes to complete its implementation of the EU's body of law by 2014. Principal exports include foodstuffs, textiles, clothing, iron, and steel. Significant reforms are still needed to diversify and expand the economy, which is hampered by a high minimum wage. A two-decade conflict with a large Kurdish minority has cost an estimated 35,000 lives.

Trade Policy

Turkey's weighted average tariff rate was 1.8 percent in 2008. Some prohibitive tariffs for agriculture, import taxes, services market access barriers, restrictive import certification requirements for food and agriculture products, import licensing requirements, non-transparent and arbitrary standards and regulations, export-promotion programs, weak enforcement of intellectual property rights, and corruption add to the cost of trade. Ten points were deducted from Turkey's trade freedom score to account for non-tariff barriers.

Fiscal Burden

Turkey has a relatively high income tax rate and a relatively low corporate tax rate. The top income tax rate is 35 percent, and the top corporate tax rate is 20 percent. Manufacturing companies are exempt from corporate taxes. Other taxes include a value-added tax (VAT), a property tax, an environmental tax, and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 23.7 percent.

Government Intervention

In the most recent year, Turkey's central government spending equaled 23.9 percent of GDP. Deregulation and privatization have somewhat increased the role of the private sector, but the energy and transportation sectors remain state-dominated. What remains of the public sector is bloated and inefficient.

Foreign Investment

Foreign and domestic capital receives equal treatment under the law, but foreign investment is restricted in a number of sectors. Foreign investment is not screened. All investors face excessive bureaucracy, weaknesses in corporate governance, and frequent changes in the legal and regulatory environment. The judicial system is undergoing reforms, but procedures can still be time-consuming. Residents and non-residents may hold foreign exchange accounts. There are few restrictions on payments and transfers. Restrictions on purchases of real estate by foreigners are based on reciprocity and acreage.

Regulation

Turkey's regulatory environment has improved somewhat in recent years. Starting a business takes an average of six days, compared to the world average of 35 days. Obtaining a business license requires more than the global average of 18 procedures but less than the world average of 218 days, and costs are relatively low. Bankruptcy proceedings can be burdensome and lengthy.

Foreign trade in figures

Foreign trade indicators	2005	2006	2007	2008	2009
Imports of goods (millions USD)	116,774	139,576	170,063	201,964	140,921
Exports of goods (millions USD)	73,476	85,535	107,272	132,027	102,129
Imports of services (millions USD)	10,311	10,739	14,547	16,637	15,607
Exports of services (millions USD)	26,450	25,269	28,624	34,536	32,759

(Source: WTO - World Trade Organization)



Economic Indicators

Turkey, a country of 74 million inhabitants, has an economy in transition, a relatively high degree of dependence on agriculture and heavy industry, and a tertiary sector in full expansion. After going through a serious economic and political crisis in 2001, Turkey has made a spectacular recovery thanks to a more favorable political climate but also to monetary, fiscal and structural reforms inspired by the World Bank and the IMF. Thus Turkey adopted a floating currency regime and has given total independence to the Central Bank. The GDP growth rate was high in recent years. In 2009, GDP growth was negative because of the international financial crisis impact, but should start up again from 2010.

The government is following a budgetary strictness and inflation control policy. However, the current environment makes this orientation more and more difficult to justify to the population. The Turkish economy is also vulnerable because of its great dependence on exports and foreign investments. At the end of 2007, foreign investors held 73% of the Istanbul market float, a fact which makes a massive withdrawal by investors and a deterioration of the Turkish lira fearful. The unemployment rate exploded due to the current economic crisis, to settle at 15%. Turkey is affected by the support of a significant informal sector.

Main indicators	2008	2009	2010	2011	2012
GDP (billions USD)	730.32	614.47	729.05e	789.60e	845.82e
GDP (constant prices, annual % change)	0.7	-4.0	7.8e	3.6e	3.7e
GDP per capita (USD)	10,484	8,711e	10,207	10,917	11,548
Inflation rate (%)	10.4	6.3	8.7	5.7e	6.0
Unemployment rate (% of the labour force)	10.9	14.0	11.0e	10.7	-
Current Account (billions USD)	-41.29	-13.85e	-28.35	-32.53	-33.46
Current Account (in % of GDP)	-5.7	-2.3	-4.0e	-4.4	-4.3

(Source : IMF - World Economic Outlook Database)

Note: (e) Estimated data

Main Sectors of Industry

Agriculture in Turkey, which contributes nearly 10% of the GDP and employs practically a third of the population, still suffers from low productivity because of its management system (small farms). Wheat is the main crop. The country is the third biggest exporter of tobacco in the world, the leading producer of hazelnuts (70% of world production). Mineral resources are abundant but under-exploited.

The manufacturing industry makes up nearly 30% of the GDP, the textile and automobile sectors being the main activities. The Turkish government gives special priority to large infrastructure projects, particularly in the transport sector, which mostly function under the BOT model (build, operate, transfer).

The tertiary sector contributes slightly less than two-thirds to the GDP. Tourism represents 4% of the GDP with about 13 million tourists a year.

Breakdown of economic Agriculture Industry Services activity by sector

Employment by sector (in % of total employment)	26.2	25.7	48.1
Value added (in % of GDP)	9.0	28.0	63.1
Value added (annual % change)	3.6	-8.6	-3.2

(Source : World Bank - last available data)

Monetary indicators	2004	2005	2006	2007	2008
Turkish New Lira (TRY)- average annual exchange rate for 1 USD	1.43	1.34	1.43	1.30	1.30

(Source: World Bank)

Foreign Trade in Figures

The spearheads of Turkish foreign trade are the automobile and textile industries, followed by the food industry (raw and processed products), machinery and equipment and electronic equipment sectors respectively. The European Union is by far Turkey's leading customer (56.4% of Turkish exports). Yet the country shows a high trade deficit level because of its high energy dependence on Russia and its Middle Eastern neighbors. In addition, like the household appliance sector, which paradoxically is a high export industry, many components (about 80%) are imported to subsequently be assembled in Turkey. Despite government efforts to promote innovation (namely with the development of competitiveness centers and the establishment of tax credits in favor of Research and Development), Turkish exports have relatively low added value. Similarly, Turkish exports are still not very present on markets with high development potential (China or Eastern Europe) and suffer from being compared to German ones.

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Exports of services (millions USD)	26,450	25,269	28,624	34,536	32,759
Imports of goods and services (annual % change)	12.2	6.9	10.7	-4.1	-14.4
Exports of goods and services (annual % change)	7.9	6.6	7.3	2.7	-5.4



Foreign trade indicators	2005	2006	2007	2008	2009
Imports of goods and services (in % of GDP)	25.4	27.6	27.5	28.3	24.3
Exports of goods and services (in % of GDP)	21.9	22.7	22.3	23.9	23.2
Trade balance (millions USD)	33,077	41,059	46,795	53,021	24,894
Trade balance (including service) (millions USD)	17,716	27,110	32,790	35,331	-
Foreign trade (in % of GDP)	47.2	50.3	49.8	52.2	47.5

(Source : WTO - World Trade Organization, World Bank)

Main Partner Countries

Main customers (% of exports)	2009
Germany	9.6%
France	6.1%
United Kingdom	5.8%
Italy	5.8%
Iraq	5.0%
Switzerland	3.9%
United States	3.2%
Russia	3.1%
United Arab Emirates	2.8%
Spain	2.8%
Egypt	2.6%
Romania	2.2%
Netherlands	2.1%
Iran	2.0%

Main customers (% of exports)	2009
Libya	1.8%
Belgium	1.8%
Algeria	1.7%
Saudi Arabia	1.7%
Greece	1.6%
China	1.6%

(Source : Comtrade)

Main suppliers (% of imports)	2009
Russia	14.0%
Germany	10.0%
China	9.0%
United States	6.1%
Italy	5.4%
France	5.0%
Spain	2.7%
United Kingdom	2.5%
Iran	2.4%
Ukraine	2.2%
South Korea	2.2%
Japan	2.0%
Netherlands	1.8%
Belgium	1.7%
Romania	1.6%
Algeria	1.4%
Switzerland	1.4%
India	1.3%
Sweden	1.3%
Poland	1.3%

(Source : Comtrade)

Main Products

Main exports (% of exports)	2009
Motor cars and other motor vehicles principally designed for the transport of persons, incl. station wagons and racing cars (excl. motor vehicles of heading 8702)	6.0%
Gold, incl. gold plated with platinum, unwrought or not further worked than semi-manufactured or in powder form	4.5%
Bars and rods, of iron or non-alloy steel, not...Bars and rods, of iron or non-alloy steel, not further worked than forged, hot-rolled, hot-drawn or hot-extruded, but incl. those twisted after rolling (excl. in irregularly wound coils)	3.8%
Petroleum oils and oils obtained from bituminous minerals (excl. crude); preparations containing >= 70% by weight of petroleum oils or of oils obtained from bituminous minerals, these oils being the basic constituents of the preparations, n.e.s.; waste oils containing mainly petroleum or bituminous minerals	3.4%
T-shirts, singlets and other vests, knitted or crocheted	2.3%
Motor vehicles for the transport of goods, incl. chassis with engine and cab	2.3%
Parts and accessories for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles principally designed for the transport of persons, motor vehicles for the transport of goods and special purpose motor vehicles of heading 8701 to 8705, n.e.s.	2.0%



Main products

Main exports (% of exports)	2009
Television receivers, whether or not incorporating radio-broadcast receivers or sound or video recording or reproducing apparatus; video monitors and video projectors	1.7%
Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (excl. knitted or crocheted, wind-jackets and similar articles, slips, petticoats and panties, track suits, ski suits and swimwear)	1.7%
Insulated "incl. enamelled or anodised" wire, cable "incl. coaxial cable" and other insulated electric conductors, whether or not fitted with connectors; optical fibre cables, made-up of individually sheathed fibres, whether or not assembled with electric conductors or fitted with connectors	1.4%
Refrigerators, freezers and other refrigerating or freezing equipment, electric or other; heat pumps; parts thereof (excl. air conditioning machines of heading 8415)	1.3%
Cruise ships, excursion boats, ferry-boats, cargo ships, barges and similar vessels for the transport of persons or goods	1.3%
Cement, incl. cement clinkers, whether or not coloured	1.2%
Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (excl. knitted or crocheted, wind-jackets and similar articles, separate waistcoats, track suits, ski suits and swimwear)	1.2%
Articles of jewellery and parts thereof, of precious metal or of metal clad with precious metal (excl. articles > 100 years old)	1.1%
Jerseys, pullovers, cardigans, waistcoats and similar articles, knitted or crocheted (excl. wadded waistcoats)	1.1%
Motor vehicles for the transport of >= 10 persons, incl. driver	1.0%
Tubes, pipes and hollow profiles "e.g., open seam or welded, riveted or similarly closed", of iron or steel (excl. of cast iron, seamless tubes and pipes and tubes and pipes having internal and external circular cross-sections and an external diameter of > 406,4 mm)	1.0%
Structures and parts of structures "e.g., bridges and bridge-sections, lock-gates, towers, lattice masts, roofs, roofing frameworks, doors and windows and their frames and thresholds for doors, shutters, balustrades, pillars and columns", of iron or steel; plates, rods, angles, shapes, sections, tubes and the like, prepared for use in structures, of iron or steel (excl. prefabricated buildings of heading 9406)	1.0%
Bed-linen, table linen, toilet linen and kitchen linen of all types of textile materials (excl. floor-cloths, polishing-cloths, dish-cloths and dusters)	1.0%

Source: Comtrade

Main imports (% of imports)	2009
Petroleum oils and oils obtained from bituminous minerals (excl. crude); preparations containing >= 70% by weight of petroleum oils or of oils obtained from bituminous minerals, these oils being the basic constituents of the preparations, n.e.s.; waste oils containing mainly petroleum or bituminous minerals	6.0%
Petroleum oils and oils obtained from bituminous minerals, crude	4.6%
Motor cars and other motor vehicles principally designed for the transport of persons, incl. station wagons and racing cars (excl. motor vehicles of heading 8702)	3.0%
Ferrous waste and scrap; remelting scrap ingots of iron or steel (excl. slag, scale and other waste from the production of iron or steel; radioactive waste and scrap; fragments of pigs, blocks or other primary forms of pig iron or spiegeleisen)	3.0%
Parts and accessories for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles principally designed for the transport of persons, motor vehicles for the transport of goods and special purpose motor vehicles of heading 8701 to 8705, n.e.s.	2.4%



Main imports (% of imports)	2009
Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic uses, put up in measured doses "incl. those in the form of transdermal administration" or in forms or packings for retail sale (excl. goods of heading 3002, 3005 or 3006)	2.2%
Coal; briquettes, ovoids and similar solid fuels manufactured from coal	2.2%
Flat-rolled products of iron or non-alloy steel, of a width \geq 600 mm, hot-rolled, not clad, plated or coated	1.4%
Automatic data processing machines and units thereof; magnetic or optical readers, machines for transcribing data onto data media in coded form and machines for processing such data, n.e.s.	1.4%
Petroleum gas and other gaseous hydrocarbons	1.2%
Gold, incl. gold plated with platinum, unwrought or not further worked than semi-manufactured or in powder form	1.2%
Compression-ignition internal combustion piston engine "diesel or semi-diesel engines"	1.1%
Copper, refined, and copper alloys, unwrought (excl. copper alloys of heading 7405)	1.1%
Semi-finished products of iron or non-alloy steel	1.0%
Transmission apparatus for radio-telephony, radio-telegraphy, radio-broadcasting or television, whether or not incorporating reception apparatus or sound recording or reproducing apparatus; television cameras; still image video cameras and other video camera recorders; digital cameras	1.0%
Polymers of propylene or of other olefins, in primary forms	1.0%
Electric sound or visual signalling apparatus, e.g. bells, sirens, indicator panels, burglar or fire alarms (excl. those for cycles, motor vehicles and traffic signalling); parts thereof	1.0%
Polymers of ethylene, in primary forms	0.8%
Unwrought aluminium	0.8%
Electrical apparatus for line telephony or line telegraphy, incl. line telephone sets with cordless handsets and telecommunication apparatus for carrier-current line systems or for digital line systems; videophones; parts thereof	0.8%

(Source : Comtrade)

Tax Rates

Consumption taxes

Nature of the tax

KDV : Katki Deger Vergisi (= Value added tax)

Tax rate

Standard rate of 18%

Reduced tax rate

There are reduced rates of 8% which is applicable to basic foodstuff, pharmaceutical products and other items; and 1% for journals, newspapers, certain farm products. Also, certain supplies are VAT exempt in Turkey.

Other consumption taxes

OTV (Özel Tüketim Vergisi = Special consumption tax) concerns petroleum products, vehicles, tobacco, alcohol, sodas and luxury products.

Corporate taxes

Company tax

20%

Capital gains taxation

Turkish companies are taxed on their global income, while companies whose headquarters and "effective management" are abroad are only taxed on their income in Turkey.

Main allowable deductions and tax credit

40% of expenses for research and development inside a company are deductible from the tax base.


India's Total Trade with Turkey
Trade with Turkey
(Value in Rs Lacs)

	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
EXPORT	447197.82	598311.5	704338.5	637029.2	727779.9
IMPORT	85800.78	150630.5	680149	664242.2	765933.9
TOTAL TRADE	532998.59	748942	1384488	1301271	1493714

Trade with Turkey
(Values in US\$ Millions)

	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
EXPORT	1010.08	1327.3	1752.61	1416.75	1539.2
IMPORT	193.8	335.92	1687.59	1504.3	1603.64
TOTAL TRADE	1203.88	1663.21	3440.2	2921.04	3142.84

India's Engineering Exports to Turkey
(Value in US\$ Million)

Exporting Country	Importing Country	Commodity Name	2007-08	2008-09	2009-10
India	Turkey	Aluminium other than products	1.16	0.02	0.05
India	Turkey	Ferro alloys	13.65	26.01	11.21
India	Turkey	Iron & steel bar/rods	50.56	39.97	30.13
India	Turkey	Machine tools	2.23	3.35	1.23
India	Turkey	Machinery & instruments	140.39	149.19	84.87
India	Turkey	Manufactures of metals	34.85	32.91	32.56
India	Turkey	Mica	0.03	0.03	0.08
India	Turkey	Non-ferrous metals	44.48	12.88	14.37
India	Turkey	Primary & semi-finished iron & steel	32.96	67.89	20.19
India	Turkey	Residual engineering items	0.42	0.72	0.93
India	Turkey	Transport equipment	83.45	75.23	113.54
		Total	404.18	408.21	309.15

India's Engineering Imports from Turkey
(Value in US\$ Million)

Exporting Country	Importing Country	Commodity Name	2007-08	2008-09	2009-10
Turkey	India	Electrical machinery	9.08	30.41	17.55
Turkey	India	Iron & steel	42.83	113.38	57.57
Turkey	India	Machine tools	2.41	5.29	5.17
Turkey	India	Non-electrical machinery	69.84	51.62	57.91
Turkey	India	Manufactures of metals	12.6	16.25	6.77
Turkey	India	Non-ferrous metals	6.36	3.72	7.57
Turkey	India	Primary steel pig iron based items	0.02	0.30	1.70
Turkey	India	Professional inst, optical goods etc.	1.76	2.11	1.69
Turkey	India	Transport equipment	6.17	35.00	20.97
		Total	151.07	258.07	176.91



Investing in Turkey

FDI in figures

Following the economic and political crisis in 2001, which led to the collapse of its banking system, Turkey concluded a significant macro-economic stabilization plan with the IMF, in 2002. From that date, FDI influx to the country has been enormous. However, FDI flow decreased in 2008 and is expected to follow this trend until 2010. This drop is linked to the global economic crisis and caused the Turkish economy recession.

Turkey is an emerging country on the global economy arena and with significant demographical growth. It has a cheap labour force and a strategic location between Europe, the Middle-East and the Caucasus. Lastly, it is a key country in the transportation of Caspian and Middle-Eastern oil to the markets.

Country Comparison for the Protection of Investors

	Turkey	Eastern Europe & Central Asia	United States	Germany
Index of Transaction Transparency*	9.0	5.9	7.0	5.0
Index of Manager's Responsibility**	4.0	4.2	9.0	5.0
Index of Shareholders' Power***	4.0	6.2	9.0	5.0
Number of Payments of Taxes per Year	5.7	5.5	8.3	5.0

(Source : Doing Business 2008, World Bank)

Foreign Direct Investment	2007	2008	2009
FDI Inward Flow (million USD)	22,023	18,148	7,611
FDI Stock (million USD)	153,124	70,118	77,729
Performance Index*, Ranking on 141 Economies	91	95	109
Potential Index**, Ranking on 141 Economies	73	76	-
Number of Greenfield Investments***	97	170	153
FDI Inwards (in % of GFCF****)	15.9	12.5	13.5
FDI Stock (in % of GDP)	23.7	9.6	12.6

(Source : UNCTAD)

Note : * The UNCTAD Inward FDI Performance Index is Based on a Ratio of the Country's Share in Global FDI Inflows and its Share in Global GDP. ** The UNCTAD Inward FDI Potential Index is Based on 12 Economic and Structural Variables Such as GDP, Foreign Trade, FDI, Infrastructures, Energy Use, R&D, Education, Country Risk. *** Green Field Investments Are a Form of Foreign Direct Investment Where a Parent Company Starts a New Venture in a Foreign Country By Constructing New Operational Facilities From the Ground Up. **** Gross Fixed Capital Formation (GFCF) Measures the Value of Additions to Fixed Assets Purchased By Business, Government and Households Less Disposals of Fixed Assets Sold Off or Scrapped.

Why you should choose to invest in Turkey

Strong points

- A geographical strategic location;
- A well developed industrial basin;
- A country whose calling is to join the EU club by 2015-2020;
- A rapidly developing consumer middle class;
- A Flexible labor law, which favors investment and low labor costs;
- A sustained growth influenced by a modern and dynamic private sector;
- A strong increase in productivity in recent years;
- A legal framework close to European standards and favourable to investment.

Weak points

- The slowing down of economic and political reforms observed since the end of 2005;
- A strong dependence on hydrocarbon imports and on exports;
- An uncertainty regarding the exchange rate;
- A disturbing deficit of the balance of current payments;
- Insufficient and sometimes obsolete, infrastructures;
- An informal sector difficult to reduce.

(Source : EEPC INDIA Website, Statistics Department – EEPC INDIA, www.fita.org)

(To be continued at next issue)