



Executive Summary

Turkey is the 17th largest economy in the world, with a GDP of \$820 billion. Turkey has set an ambitious target to become one of the ten largest economies in the world by 2023, the centenary of the foundation of the Turkish Republic. Doing so will require Turkey to triple its economy to more than \$2 trillion, develop a \$500 billion export sector, and make significant upgrades to its energy, information technology, finance, and physical infrastructures. Achieving this goal is unlikely given the recent slowdown in growth. Even if its 2023 growth aspirations are overly optimistic, Turkey needs to undertake significant economic reform to meet even moderate growth targets. The U.S. strongly supports Turkey's economic reform efforts.

In Turkey, the proportion of urban to rural population has changed significantly over the last decade and the now 75-percent urban population supports a strong industrial manufacturing-based economy. Turkey has broadened the base of its economy beyond the traditional industrial centers of Istanbul, Ankara, and Izmir to encompass a number of other Anatolian cities, several of which exported more than \$1 billion to the world economy in 2013. This expansion is particularly notable in cities such as Adana, Denizli, Trabzon, Gaziantep, Hatay, Kayseri, Konya, Manisa, Sakarya, and Şırnak.

Despite this expansion, Turkey's economic growth has recently slowed and in 2014 GDP growth is expected to be between two and three percent. While still above growth rates in Europe, this is a significant slowdown compared to average of the last decade. Turkey's exports were negatively affected by the slowdown in the Turkey's leading export market, the European Union, but have started to recover alongside Europe. Turkey has also been actively seeking new and expanded export markets in the Middle East, Africa, and the United States. Turkish exports are projected to be around \$166.5 billion at the end of 2014, a 10 percent year-on-year increase.

In most world business rankings, Turkey consistently falls in the middle tier. As of June 2013, Turkey ranked 69th out of 189 countries in the World Bank's Ease of Doing Business Index. In Transparency International's 2013 Corruption Perceptions Index the country came in 53rd out of 177 with a score of fifty on a hundred point scale. The 2014 Index of Economic Freedom ranked it 64th in the world at 64.9 percent free. The World Bank's Ease of Doing Business Index (<http://www.doingbusiness.org/reports/global-reports/doing-business-2013>), as well as the Heritage Foundation-Wall Street Journal's Index of Economic Freedom (<http://www.heritage.org/index/country/Turkey>), offer useful summaries of key issues regarding doing business in Turkey.

The ongoing corruption scandal that became public in December 2013 implicated a number of high-level Turkish officials and their family members and led to massive reorganization of the police and the judiciary, which critics stated was a government attempt to stop the corruption investigations. Allegations and counter-allegations have undermined business and investor confidence. In late March 2014, leading up to municipal elections, social media continued to leak corruption allegations until Twitter and YouTube were banned by the Turkish

Telecommunications Authority, inciting international uproar about freedom of speech and rule of law in Turkey. Many investors and businesses are postponing major decisions until the political situation appears more stable.

Relations with the United States

In 2009, President Obama called for the elevation of U.S.-Turkey economic and commercial ties to the same strategic level as security and political ties. In October 2010, the United States and Turkey held the first meeting of the Framework for Strategic Economic and Commercial Cooperation (FSECC), a Cabinet-level dialogue aimed at enhancing economic relations and boosting bilateral trade and investment. The two governments also hold a regular series of working groups chaired by senior government officials, including the Economic Partnership Commission (EPC) and the Trade and Investment Framework Agreement Council (TIFA), aimed at addressing specific trade and investment issues, as well as opening new areas of economic cooperation. Under the State-Department led EPC, the two sides are discussing specific steps to increase bilateral cooperation on finance, energy, innovation, and infrastructure sectors, as well as increasing cooperation in third countries. The two countries held the tenth EPC in May 2013 in Ankara. The United States and Turkey have also established an U.S.-Turkey Business Council, which suggests ways to improve bilateral business ties. The next FSECC meeting, including a High Level Committee (HLC) meeting to update Turkey on our negotiations with the EU on the Transatlantic Trade and Investment Partnership (T-TIP), is scheduled for May 2014.

The United States and Turkey signed a Science and Technology (S&T) agreement in October 2010 that will deepen and diversify relations between the U.S. and Turkey by facilitating more joint research; exchanges of scientists, researchers, and specialists; and establishment of science-based public-private partnerships. In April 2013, the inaugural meeting of the Joint S&T Commission was held in Ankara, comprised of working groups co-chaired by Turkish and American scientists on issues such as biomedical research, engineering for a sustainable future, education and education technologies, material sciences, energy research, innovative technologies in agricultural research, and natural hazards.

The United States and Turkey continue to cooperate on a range of entrepreneurship programs, including the State Department's Global Entrepreneurship Program (GEP) and the private-sector-led Partners for a New Beginning (PNB). Turkey's GEP has been engaged in both initiatives, which are aimed at supporting growth of entrepreneurship and small- and medium-enterprises in Turkey and the region.

While U.S. imports from Turkey continue to show modest growth, the recent slowing of the Turkish economy led to a drop in U.S. exports to Turkey in 2013 for the second year in a row. These numbers still show marked improvement since 2009 (see chart). While Turkey was the United States' 21st largest goods export market and 45th largest import supplier in 2011, the Turkish market still remains an important part of the U.S. National Export Initiative (NEI) due to its potential for growth.

U.S. - Turkey Bilateral Trade

| Year | U.S. Imports from Turkey | U.S. Exports to Turkey |
|-------------|---------------------------------|-------------------------------|
| 2009 | 3,240,597 | 8,575,737 |
| 2010 | 3,762,919 | 12,318,745 |
| 2011 | 4,584,029 | 16,034,121 |
| 2012 | 5,614,819 | 14,131,309 |
| 2013 | 5,636,015 | 12,596,178 |

(in thousands of USD)

Source: Turkish Statistical Institute

1. Openness to, and restrictions upon, foreign investment

In 2011, the ruling Justice and Development Party (AKP) won a third term in office, a victory subsequently reaffirmed by the AKP victory in March 2014 municipal elections. As part of its election campaign, the AKP has heavily promoted its goal to become a top ten economy by 2023 (<http://www.akparti.org.tr/english>). In order to achieve this goal, the Turkish Government has developed specific strategies for 24 industrial sectors, including eight priority sectors. It has also established specific plans for physical infrastructure upgrades, as well as a major expansion of Turkey's health, information technology, and education sectors, all of which are geared to make Turkish companies more competitive. The Turkish Government recognizes that the domestic economy alone will not be sufficient to reach these goals and that Turkey will need to attract significant new foreign direct investment (FDI).

Turkey has one of the most liberal legal regimes for FDI in the OECD. In 2011, Turkey attracted \$15.7 billion in FDI, although a significant portion of this came from portfolio investment. This level, however, is still far below the levels needed, and the Turkish Government is actively seeking greater U.S. FDI. In order to attract U.S. FDI, Turkey needs to increase trade advocacy and export promotion efforts, as well as access to credit, especially for small -and medium- sized businesses involved in high value-added goods and services. Turkey must also better enforce international trade rules, ensure the transparency and timely execution of judicial orders, increase engagement with foreign investors on policy issues, and pursue policies to promote strong, sustainable, and balanced growth.

According to the United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2013 (http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf), growing political uncertainty at the regional level and subdued economic prospects at the global level are holding back foreign investors' interest in Turkey. UNCTAD reports a sharp increase in outward investments with Turkish investment abroad growing by 73% in 2012 to \$4.1 billion.

FDI in region comprising Turkey, Saudi Arabia, the United Arab Emirates, Kuwait, Lebanon, Iraq, Jordan, Bahrain, Yemen, Qatar, and the Palestinian Territory, however, fell for the fourth consecutive year, decreasing by 4 per cent to \$47 billion, half its 2008 level. Turkey's FDI fell by a much larger 23 percent to \$12.4 billion. This declining FDI to Turkey was due in large part to a 70 percent drop in mergers and acquisitions sales. Nevertheless, Turkey became the largest FDI recipient in West Asia in 2013, beating out Saudi Arabia for the first time since 2006. Structural reforms undertaken by the Government of Turkey (GOT) over the last decade, a strong banking sector, tight fiscal controls, efforts to reduce the size of the informal economy, increasing flexibility of the labor market, improving skills of workers, and continuing privatization of state economic enterprises will continue to boost the investment environment in Turkey. The GOT has privatized state economic enterprises through block sales, public offerings, or a combination of both. Transactions completed under the Turkish privatization program generated \$12.5 billion in 2013. The Turkish Government is committed to continuing the privatization process despite the contraction in global capital flows.

With the exception of some sectors (highlighted below), areas open to the Turkish private sector are also generally open to foreign participation and investment. All investors, regardless of nationality, however, face some challenges: excessive bureaucracy, a slow judicial system, high and inconsistently applied taxes, weaknesses in corporate governance, unpredictable decisions made at the local government level, and frequent changes in the legal and regulatory environment. The Parliament amended the Law of Obligations (debt regulations), and a new Commercial Code became effective in July 2012. Structural reforms that will create a more transparent, equal, fair, and modern investment and business environment remain delayed. Venture capital and angel investing are still relatively new in Turkey, but legislation that went into effect in late 2012 will facilitate greater development of these sorts of financing opportunities.

Turkish Industrial Strategy

In January 2011, the Ministry of Science, Industry, and Technology (MSIT) announced Turkey's Industrial Strategy, which identifies key areas to increase Turkey's competitiveness and productivity and targets aimed at transforming Turkey into a technology base for manufacturing of medium- to high-technology products. The document identifies the following areas as major potential drivers of the Turkish economy that can help increase exports and FDI growth and transform Turkey into Eurasia's technology base: innovation-led productivity, increasing production of medium- and high-technology goods, increasing capital for knowledge-intensive sectors, creation of a stronger knowledge-based economy, and a well-educated and highly qualified work force. Specifically, MSIT (<http://www.sanayi.gov.tr/Default.aspx?lng=en>) has identified 24 industrial sectors that will help Turkey achieve its goal of becoming a top ten economy by 2023 and has developed specific strategies and action plans for six priority sectors: iron and steel, automotive, chemicals, machinery, electronic equipment, and ceramics. The GOT also announced in early 2013 that medicines and medical devices are priority sectors for the Turkish Government, and the Ministry of Science, Industry and Technology was working on the pharmaceutical industry sector strategy and action plan slated for release in 2013. While the plan is now expected in May, in the last quarter of 2013 the production per employee index in the "manufacturing of basic pharmaceutical products and other

materials related to pharmaceuticals” actually decreased 12.14 percent – more than any other sector.

Partnerships in Improving the Investment Climate

Since 2001, the Turkish government has pursued a comprehensive investment climate reform program aimed at streamlining investment-related procedures and attracting more FDI. The Coordination Council for the Improvement of Investment Environment (YOIKK), a national platform jointly formed by the public and private sectors, provides technical guidance for issues relating to the investment environment.

In 2004, the Investment Advisory Council of Turkey (IAC) was created to provide an international perspective for Turkey’s reform agenda. IAC members include executives from multinational companies, representatives of international institutions such as the IMF, World Bank and European Investment Bank, and the heads of Turkish NGOs representing the private sector. The Council, chaired by the Prime Minister, convenes yearly to advise the Turkish Government on the direction of its reform program. The Council’s recommendations serve as guidelines for the YOIKK platform, and Council recommendations are published in the Turkish Treasury’s annual IAC Progress Reports.

In addition to structural reforms, Turkey’s Investment Support and Promotion Agency (ISPAT), whose main objective is to support new investors throughout the business establishment process and solve problems that arise after establishment, plays an important role in promoting a business and investment-friendly environment. ISPAT serves as an advocate within the GOT for reforms that promote investment and works to raise both domestic and international awareness of the benefits of investment.

Investment Issues:

Renewable Energy

The Turkish Government continues to promote investment in renewable energy production as well as renewable energy equipment manufacturing. Under the 2010 Renewable Energy Incentives Law, the Turkish Government offers power purchase guarantees and feed-in tariffs for electricity produced from renewable sources, but it does not offer similar power purchase agreements for thermal power plants, which must sell to the spot market or through bilateral contracts. In 2012, the Ministry of Energy and Natural Resources developed implementing regulations for the Renewable Energy Incentives Law that clarified minimum local content thresholds for a product to qualify for additional feed-in tariff bonuses. The Energy Market Regulatory Authority continues to award licenses for new wind and geothermal projects. Turkey’s goal is to develop 20,000 megawatts (MW) of wind power, 600 MW of geothermal power, and up to 9,000 MW of solar power by 2023. Hydropower, however, remains the main contributor to renewable energy in Turkey at 15,831 MW in 2012 (latest data available), representing 86.11 percent of total renewable capacity and 33.79 percent of total installed capacity. The drought this year is expected to negatively impact that hydropower sector.

Health Care, Transportation, and Information Technology

To meet ambitious development goals, the Government of Turkey is planning significant new investments in infrastructure, including in the health care (particularly hospitals) and transportation sectors (ports, airports, rail, light-rail, and road infrastructure). The Ministry of Health announced tenders for 35 public-private partnership health campuses and city hospital projects in 22 Turkish cities.

Turkey plans to make significant additional infrastructure upgrades for ports, airports, road, and rail over the next decade. The Turkish private sector is also spearheading projects with neighboring Central Asian countries aimed at establishing an intermodal transportation network to establish new and revive outdated transportation and energy links as part of a “New Silk Road” effort.

As part of an effort to improve Turkey’s education system, in 2010 Turkey embarked on the multibillion dollar FATİH project to provide Turkish students with tablet computers and schools with smart boards. The initial pilot program delivered smart boards and 8,500 tablet computers to 52 schools in 17 provinces. The expanded pilot raised those numbers to 49,000 tablet computers in all of Turkey’s 81 provinces in early 2014. The project will require expanding broadband internet service throughout Turkey, as well as developing educational content and applications for tablets and smart boards. Turkey is also planning to develop greater cloud computing capacity. All these projects will provide significant opportunities for U.S. information and communication technology (ICT) companies, and the Turkish Government is actively looking for U.S. investors and partners, including for financing. Recent social media blockages and concerns over internet freedom, however, present a great deal of uncertainty to firms looking to enter or expand their share in the market.

Pharmaceuticals

The pharmaceutical sector is an example of when GOT policies complicate Turkey’s ability to fully realize its development potential. Health sector reform in 2006 created a much larger pharmaceutical market, dominated by Turkey’s state health-care system. Coupled with Turkey’s young and growing population, this should have made Turkey an attractive market for pharmaceutical investment. Three significant issues, however, continue to inhibit innovative pharmaceutical firms’ trade and investment in Turkey: a pricing/exchange rate issue, the threat of new civilian offset policies, and delays in obtaining GMP (Good Manufacturing Practices) inspection approvals from the Turkish Ministry of Health (MOH).

The MOH and the Turkish Ministry of Labor and Social Security (MLSS) both play important roles in pharmaceutical pricing. The MOH sets the maximum price that can be charged for medicines, and the MLSS negotiates pharmaceutical bulk prices for products that are distributed through Turkey’s national health care system. In 2009, the MOH negotiated a pharmaceutical budget with industry that provided significant discounts on pharmaceutical purchases of products distributed through Turkey’s national health care system within the context of an overall gradual increase in pharmaceutical spending each year through 2012. In mid-2010 and late-2011, however, MOH and MLSS noted budget shortfalls and requested greater discounts from companies, which they were compelled to grant given the Turkish Government’s dominant role in pharmaceutical spending. New pharmaceutical budget figures for 2013-2015 were also well

below industry's expectations, and the Turkish Government did not propose any relief with regards to discounts or the exchange rate.

In February 2014, Parliament passed legislation requiring MSIT to establish a framework to incorporate civilian offsets into large government procurement contracts, including pharmaceuticals and medical equipment. The MOH established an office to examine how offsets could be incorporated into new contracts. While all the regulations are still pending, the law suggests that for public contracts above \$5 million, companies must invest up to 50 percent of contract value in Turkey and add value to the domestic sector. Such practices would give domestic producers a competitive advantage.

In addition to the pricing/exchange rate issues, innovative pharmaceutical firms complain about the slow pace of MOH GMP inspections. In 2011, the MOH began enforcing an existing law requiring that all companies applying to market pharmaceutical products on the Turkish market have a GMP certificate issued by the MOH. The MOH continues to build inspection capacity, and its inspection rate has improved. The MOH has committed to implementing parallel submissions since 2012, which will allow for simultaneous marketing authorization and GMP inspections, but has not implemented the change to date.

There is increasing awareness among GOT agencies that the pharmaceutical sector should be a strategic sector for Turkey, and the dialogue between industry and government officials has improved significantly over the last three years. The GOT announced in 2013 that medicines and medical devices are now priority sectors. However, despite several new investments and positive policy developments since 2012, innovative pharmaceutical companies still complain about predictability and transparency in regulation making, which continues to inhibit pharmaceutical investment in Turkey.

Business Registration

Recent reforms in Turkey have simplified procedures to establish a company; reduced permit requirements; instituted a single company registration form; and enabled individuals to register their companies through local commercial registry offices of the Union of Chambers and Commodity Exchanges of Turkey (TOBB). At the same time, strict bankruptcy laws that discourage innovation continue to hold entrepreneurs back. According to the International Finance Corporation/World Bank 2013 Doing Business Report for Turkey, Turkey ranked 69 among 185 world economies, only rising three places from its 2012 ranking. According to the report, Turkey did better in dealing with construction permits, registering property, enforcing contracts, and resolving insolvency compared to the previous year. Starting a business in Turkey requires a similar number of procedures as in other OECD countries, but it takes twice the number of days, and it costs almost 140 percent more to start a business in Turkey than in other OECD countries. The Doing Business in Turkey report can be found at: <http://www.doingbusiness.org/data/exploreeconomies/turkey/> .

Judicial Reforms

Many international investors characterize Turkey's judicial system as complex, inefficient, and corrupt to varying degrees. Enforcement of contracts through the courts takes an average of 420

days according to the World Bank's Doing Business Report, costing an average of 24% of the claim. The GOT is trying to implement more judicial reforms aimed at attracting foreign investment to Turkey. For example, the Ministry of Justice is overseeing the National Judiciary Network project on automation and integration to speed up processing of commercial cases by facilitating document sharing and automating court records, as well as allowing for filing suits online. The GOT has also improved foreign investors' access to judiciary recourse, including legal aid and alternative dispute resolution mechanisms supported by the U.S., the EU, and the World Bank. The Competition Authority in Turkey is an autonomous agency that plays an important role in assuring equal, fair, and transparent competition and consumer welfare-oriented market mechanisms, regardless of corporate nationality. See more below under Dispute Settlement.

Taxation

In recent years, Turkish Government policies have made the taxation system more investor-friendly. In 2006, the basic corporate tax rate was reduced from 30 percent to 20 percent. The Turkish Government also cancelled the withholding tax for foreign investors' holdings of bonds, bills, and stocks - while retaining it for bank deposits and repurchase agreements. In addition, the Tax Administration established a separate unit in 2007 to handle tax collection from large corporations. Despite these improvements, the GOT has not yet been able to implement further planned tax reforms, including reducing the employment tax, which is among the highest in the OECD.

In December 2010, the Turkish Finance Ministry announced new tax rates for capital accounts aimed at encouraging the issuance of corporate bonds with longer-term maturity. For non-domestic bonds, the withholding tax on interest is zero percent for five-year-maturity or higher bonds, five percent for bonds with three to five-year maturity, and 10 percent for bonds with maturity less than three years. In addition, banking and insurance transactions tax applied to sale or repo transactions of domestically issued corporate bonds was reduced from five percent to one percent. The GOT also decreased withholding taxes on bank deposits with longer maturity aiming at attracting longer term savings. Withholding tax on Turkish Lira time deposits with maturity longer than one year decreased to 10 percent from 15 percent while rates for deposits up to six months remained at 15 percent. On Foreign Currency (FX) accounts, the withholding tax rate decreased to 13 percent from 15 percent on deposits with a maturity of more than one year and the rate increased to 18 percent for FX deposits up to six months.

Between 30 and 50 percent of the economy is unregistered, which represents a competitive disadvantage for legitimate firms. The Government of Turkey delayed implementing a tax reform scheduled for 2013 that would help reduce the size of the unregistered economy and broaden the tax base while improving Turkey's competitiveness. Several U.S. companies have experienced tax difficulties in recent years and cite vague regulations, requiring additional expense to clear up matters through the courts, as a major concern.

2. Conversion and Transfer Policies

Turkish law guarantees the free transfer of profits, fees, and royalties, and repatriation of capital. This guarantee is reflected in Turkey's 1990 Bilateral Investment Treaty (BIT) with the United

States, which mandates unrestricted and prompt transfer in a freely-usable currency at a legal market-clearing rate for all investment-related funds. There is no difficulty in obtaining foreign exchange, and there are no foreign-exchange restrictions. Foreign petroleum companies operating in Turkey, however, complain that amendments to the Turkish Petroleum law make it difficult for foreign companies to transfer profits. Affected companies have unsuccessfully challenged this in court. Turkey adopted a new petroleum law in May, 2013, which helped alleviate this problem.

3. Expropriation and Compensation

Under the U.S.-Turkey BIT, expropriation can only occur in accordance with due process of law, can only be for a public purpose, and must be non-discriminatory. Compensation must be reasonably prompt, adequate, and effective. The BIT ensures U.S. investors have full access to Turkey's local courts and the ability to take the host government directly to third-party international binding arbitration to settle investment disputes. There is also a provision for state-to-state dispute settlement.

The GOT occasionally expropriates private real property for public works or for state industrial projects. The GOT agency expropriating the property negotiates the purchase price. If owners of the property do not agree with the proposed price, they are able to challenge the expropriation in court and ask for additional compensation. There are no outstanding expropriation or nationalization cases for U.S. firms.

4. Dispute Settlement

Turkey's legal system provides means for enforcing property and contractual rights, and there are written commercial and bankruptcy laws. Turkey's court system, however, is overburdened, which sometimes results in slow decisions and judges lacking sufficient time to grasp complex issues. Judgments of foreign courts, under certain circumstances, need to be upheld by local courts before they are accepted and enforced. Monetary judgments are usually made in local currency, but there are provisions for incorporating exchange rate differentials in claims. The Turkish Government is working on judiciary reform that aims at shortening the duration of judicial proceeding and bringing greater efficiency to the Turkish judiciary system through specialized courts (such as Intellectual Property Rights courts, a number of which already exist in Turkey). Recent developments reinforce the Turkish judicial system's need to undertake significant reforms to adopt fair, democratic and unbiased standards. Poorly implemented rule of law and the GOT's attempts to control court rulings remain the biggest obstacles in investment disputes.

A prime example of these developments is the Spring 2014 ban on Twitter and YouTube. The Turkish Telecommunications Authority used court orders against several pieces of content on the social media platforms to justify blocking the websites altogether. Though subsequent court orders overturned both bans, access to Twitter was not unblocked immediately and YouTube remains blocked as of April 30, exhibiting the GOT's occasional lack of adherence to its own laws. Following the Prime Minister's harsh criticisms of social media, some critics allege that these bans have more to do with the opinion of the ruling party than the rule of law.

Turkey is a member of the International Center for the Settlement of Investment Disputes (ICSID) and is a signatory of the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Turkey ratified the Convention of the Multinational Investment Guarantee Agency (MIGA) in 1987. There are no arbitration cases involving a U.S. company pending before ICSID. The U.S.-Turkey BIT, which entered into force in 1990, affords protection to U.S. investments in Turkey by providing certain mutual guarantees and creating a more stable and predictable legal framework for U.S. investors.

Turkish law accepts binding international arbitration of investment disputes between foreign investors and the state. In practice, however, Turkish courts have on occasion failed to uphold an international arbitration ruling involving private companies and have favored Turkish firms.

5. Performance Requirements and Investment Incentives

Turkey is a party to the WTO Agreement on Trade Related Investment Measures (TRIMS). Turkey's investment incentive system was substantially amended in 2006 and again in 2012 to promote investment and encourage exports. In 2009 the Turkish Parliament passed a state investment incentive decree that provides tax benefits and increased credit opportunities. It is applied in diverse ways according to the location, scale, and subject of the investment and includes exemption from customs duties and fund levies, customs, and value-added (VAT) tax exemptions for locally-purchased or imported machinery and equipment. The Turkish Treasury also covers selected parts of investment credit interest rates for SMEs, research and development projects, environmental projects, and projects in prioritized development provinces that have annual per capita income below \$1,500.

There are no performance requirements imposed as a condition for establishing, maintaining, or expanding investment in Turkey. There are no requirements that investors purchase from local sources or export a certain percentage of output. Investors' access to foreign exchange is not conditioned on exports.

There are no requirements that nationals own shares in foreign investments, that the shares of foreign equity be reduced over time, or that the investor transfer technology on certain terms. There are no government-imposed conditions on permission to invest, including location in specific geographical areas, specific percentage of local content – for goods or services – or local equity, import substitution, export requirements or targets, technology transfer, or local financing.

GOT requirements for disclosure of proprietary information as part of the regulatory approval process are consistent with internationally accepted practices. Enterprises with foreign capital must send their activity report submitted to shareholders, their auditor's report, and their balance sheets to the Turkish Treasury's Foreign Investment Directorate every year by May.

With the exceptions noted above under "Openness to Foreign Investment" and below under "Transparency of the Regulatory System," Turkey grants all rights, incentives, exemptions, and privileges available to national businesses to foreign business on a most-favored-nation (MFN)

basis. U.S. and other foreign firms can participate in government-financed and/or subsidized research and development programs on a national treatment basis.

The Government of Turkey announced incentives in 2012 that give priority to high-tech, high-value-added, globally competitive sectors and put in place new regional incentive programs to reduce regional economic disparities and increase regional competitiveness. The new investment incentives involve a “tiered” system which provides for greater incentives to invest in less developed parts of the country. The map and explanation of the program can be found at: <http://www.invest.gov.tr/en-US/Maps/Pages/InteractiveMap.aspx>.

Turkish law and regulations affecting the investment climate continue to evolve. Potential investors should check with appropriate Turkish government sources for current detailed information. ISPAT’s web site provides the text of regulations governing foreign investment and incentives, as well as other useful background information: www.invest.gov.tr.

Public Sector Performance Requirements/Incentives

Offsets are an important aspect of Turkey’s military procurement, and offset guidelines have been modified to encourage direct investment and technology transfer. In February 2014, Parliament passed legislation requiring MSIT to establish a framework to incorporate civilian offsets into large government procurement contracts. The MOH established an office to examine how offsets could be incorporated into new contracts. While all the regulations are still pending, the law suggests that for public contracts above \$5 million, companies must invest up to 50 percent of contract value in Turkey and add value to the sector.

6. Right to Private Ownership and Establishment

In broadcasting, equity participation of foreign shareholders is restricted to 25 percent. Foreign equity participation in the aviation and maritime transportation sectors is limited to 49 percent. Foreign-owned interests in the petroleum, mining, broadcasting, maritime transportation, and aviation sectors are subject to special regulatory requirements. Recently, U.S. mining companies have experienced difficulties receiving and renewing the necessary permits from the Prime Ministry putting multiple operations in danger of shutting down.

With the exceptions noted above, private entities may freely establish, acquire, and dispose of interests in business enterprises, and foreign participation is permitted up to 100 percent. Turkey has an independent Competition Board. With respect to access to markets, credit, and other business operations, competitive equality is the standard applied to private enterprises that seek to compete with public enterprises. Regulations governing foreign investment in Turkey are, in general, transparent. In most sectors Turkey does not have an investment screening system for foreign investors; only notification is required.

The Ministry of Environment and Urbanization enacted a law on title-deed registration in 2012 removing the previous requirement that foreign purchasers of real estate in Turkey had to be in partnership with a Turkish individual or company that owns at least a 50 percent share in the property, meaning foreigners can now own their own land. The law is also much more flexible in allowing international companies to purchase real property. The new law also increases the

upper limit on real estate purchases by foreign individuals to 30 hectares and allows further increases up to 60 hectares with permission from the Council of Ministers.

7. Protection of Property Rights

Secured interests in property, both movable and real, are recognized and enforced, and there is a reliable system of recording such security interests. For example, there is a land registry office where real estate is registered. Turkey's legal system protects and facilitates acquisition and disposal of property rights, including land, buildings, and mortgages, although some parties have complained that the courts are slow to render decisions and are susceptible to external influence (see "Dispute Settlement").

Turkey is signatory to a number of international conventions, including the Stockholm Act of the Paris Convention, the Patent Cooperation Treaty, and the Strasbourg Agreement. In 2008, Turkey acceded to the WIPO Copyright Treaty and Performances and Phonograms Treaty. Turkey accepts patent applications in compliance with the TRIPS agreement "mailbox" provisions.

In 2008, Turkey was on the U.S. Special 301 Priority Watch List. In 2009 it was upgraded to the U.S. Special 301 Watch List, where it has remained since. Although IPR enforcement actions have increased along with successful public awareness campaigns, piracy and counterfeiting remain serious problems. There is widespread and often sophisticated counterfeiting of trademarked items, especially apparel. Business software and online music piracy are increasing, and book and entertainment software piracy remain areas of concern.

Turkey has not yet completed legislative reforms needed to ensure effective IPR protection and enforcement. Delays in the judicial and legislative processes contribute to deficiencies in the overall IPR protection and enforcement regime. Turkey's copyright law, as amended in 2004, provides deterrent penalties for copyright infringement. The law contains several strong anti-piracy provisions, including a ban on street sales of all copyrighted products and authorization for law enforcement authorities to take action without a complaint by the rights holder. Turkey's patent law has been in force since 1995 and was amended in 2004. Patents are granted for 20 years to any invention in any field of technology which is novel, involves an inventive step, and has industrial applications. In 2012, the Turkish Patent Institute (TPI) completed a new draft patent law, but it has yet to be passed by Parliament.

The United States has a Copyright Working Group and the EU has an IPR Working Group with the Turkish Government to address intellectual property related issues and exchange views on developing more efficient and effective IPR enforcement.

In general, the Turkish Ministry of Health provides protection for confidential test data submitted in support of applications to market pharmaceutical products. Several provisions, however, undermine protection for confidential test data. Due to the relatively short six-year data-exclusivity period and delays by the Turkish MOH in granting Good Manufacturing Practice inspection certificates and marketing approvals, pharmaceutical data protection remains a concern, particularly for innovative products. In addition, Turkey's patent law does not contain

interim protection for pharmaceuticals in the research and development (R&D) pipeline, which discourages domestic R&D research and international investment. Research-based pharmaceutical companies have criticized patent provisions which delay the initiation of infringement suits until after the patent is approved and published, permit use of a patented invention to generate data needed for the marketing approval of generic pharmaceutical products, and give judges wider discretion over penalties in infringement cases.

Trademark holders also note that Turkey provides protection for commercial seed under its Plant Variety Protection (PVP) Law.

Turkish intellectual property (IP) law allows both civil and criminal actions. In general, civil actions include requests for determination of infringement, cessation of acts of infringement, seizure of counterfeit goods, and compensation of damages. Criminal actions include imprisonment, pecuniary punishment, closure of job sites, and prohibition from commerce. Turkey has specialized intellectual property IP courts in Istanbul, Ankara, and Izmir, presided over by judges who have had training in intellectual property law. IP litigation in Turkey generally begins in these courts and moves to the Supreme Court if an appeal is filed. If the alleged offense does not occur in Istanbul, Ankara or Izmir, the case begins in civil courts that act as IP courts.

Further information on the intellectual property situation in Turkey is available in the National Trade Estimate and Special 301 reports, available under the “reports” tab on the U.S. Trade Representative’s website: www.ustr.gov.

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8. Transparency of the Regulatory System

The GOT has adopted policies and laws that, in principle, should foster competition and transparency. Foreign companies in several sectors, however, claim that regulations are sometimes applied in a nontransparent manner.

Turkey is an observer to the WTO Government Procurement Agreement (GPA). Turkish legislation generally requires competitive bidding procedures in the public sector. A Public Procurement board exists to oversee public tenders, and there are minimum bidding thresholds under which foreign companies are prohibited from bidding on public tenders. The law gives preference to domestic bidders, Turkish citizens, and legal entities established by them, as well as to corporate entities established under Turkish law by foreign companies. The public procurement law has been amended eight times since its enactment and has been cited by the EU as not being in conformity with the EU *acquis communautaire*. In February 2014, the government amended the law again to lay out a framework to possibly implement civilian offsets in government procurement contracts, which would be contrary to the WTO GPA. See Public Sector Performance Requirements/Incentives section above for more detail.

In general, labor, health and safety laws and policies do not distort or impede investment, although legal restrictions on discharging employees may provide a disincentive to labor-intensive activity in the formal economy.

9. Efficient Capital Markets and Portfolio Investment

The Turkish Government has taken a number of important steps in recent years to strengthen and better regulate the banking system. A 2005 revision of the Banking Law brought tighter bank regulation, notably by broadening the range of expertise inspectors can draw on when conducting on-site inspections. The Turkish Government adopted a framework Capital Markets Law in 2012, aimed at bringing greater corporate accountability, protection of minority-share holders, and financial statement transparency. Implementing legislation is still in progress.

As of April 2014, there are 26 deposit-taking commercial banks (both with domestic and foreign ownership) and 14 development and investment banks operating in Turkey. Sector assets as of September 2013 totaled approximately \$734 billion according to data from the Banks' Association of Turkey. Total loans for the banking sector totaled \$453 billion for the same period. The independent Banking and Regulation Supervision Agency (BRSA) monitors and supervises Turkey's banks. The BRSA is headed by a board whose seven members are appointed for six-year terms. In addition, bank deposits are protected by an independent deposit insurance agency, the State Deposit Insurance Fund (SDIF).

Because of historically high local borrowing costs and short repayment periods, foreign and local firms have frequently sought credit from international markets to finance their activities

Istanbul's stock exchange, the Borsa Istanbul, was formed in 1985, has become a significant emerging-market stock exchange. The 2012 Capital Markets Law allowed the Borsa to expand to include the Istanbul Gold Exchange and the Derivatives Exchange. As of October 2013, 426 companies were listed on the exchange with total market capitalization of \$415 billion. The Capital Markets Board is responsible for overseeing activities, including activities of listed companies and securities and investment houses. The Turkish private sector continues to be dominated by a number of large holding companies, many of which are family-owned, and most large businesses continue to publicly float only a minority portion of shares in order to limit outside interference in company management. There has been no recent hostile takeover attempt by either international or domestic parties. Capital market instruments are still developing in Turkey. Turkey's first mortgage law was adopted in 2007. Venture capital and hedging instruments are also currently very limited, but a 2012 law should increase financing opportunities through venture capital and angel investing.

Entrepreneurship

Turkey pays close attention to the impact microeconomic factors have on business development and growth and is seeking to foster entrepreneurship and small and medium-sized enterprises (SMEs). Through the Small and Medium Enterprises Development Organization (KOSGEB), the Turkish Government provides various incentives for innovative ideas and cutting edge technologies, in addition to providing SMEs easier access to medium and long-term

funds. There is also a number of technology development zones (TDZs) in Turkey where entrepreneurs are given assistance in commercializing business ideas. The Turkish Government provides support to TDZs, including infrastructure and facilities, exemption from income and corporate taxes for profits derived from software and R&D activities, exemption from all taxes for the wages of researchers, software, and R&D personnel employed within the TDZVAT, and corporate tax exemptions for IT specific sectors, and customs and duties exemptions.

Turkey's Scientific and Technological Research Council (TUBITAK) has special programs for entrepreneurs in the technology sector, and the Turkish Technology Development Foundation (TTGV) has programs that provide capital loans for R&D projects and/or cover R&D-related expenses. Projects eligible for such incentives include concept development, technological research, technical feasibility research, laboratory studies to transform concept into design, design and sketching studies, prototype production, construction of pilot facilities, test production, patent and license studies, and activities related to post-scale problems stemming from product design. TUBITAK is in the process of rolling out its Technology Transfer Office Support Program, which provides one million dollars in grants to establish Technology Transfer Offices (TTOs) in Turkey.

10. Competition from State-Owned Enterprises

The government of Turkey (GOT) continues to make substantial progress on privatization efforts—especially in the last decade. Of 188 companies the state once owned, 50 are fully privatized and 128 are partially privatized. With an increasing trend, shares of state-owned enterprises (SOEs) in the communications, energy, mining, and transportation industries are being sold off. In 2013, Turk Telekom offered an additional 6.68% ownership stake to the public – dropping state control to about 30%. The GOT has listed a record 21 companies, two ports, and 10 roadways it plans to further privatize by the end of 2014. Even bulwarks of state-ownership such as Halkbank and Turkish Airlines are on the list of companies that the Turkish government plans to increase private shares of this year. More information about privatization initiatives can be found at the Prime Ministry's Privatization Administration's website at http://www.oib.gov.tr/index_eng.htm.

Among the SOEs that remain, allegations of unfair practices are minimal, and the Embassy is not aware of any ongoing complaints by U.S. firms. Turkey is a member of the OECD Working Party on State Ownership and Privatization Practices, and OECD's compliance regulations and new laws enacted in 2012 by the Turkish Competitive Authority closely govern SOE operations. As of 2014, the industries most saturated with SOEs are mining, banking, and transportation.

11. Corporate Social Responsibility

In Turkey, corporate social responsibility is gaining traction and more is being expected of companies, particularly in the past few years. Reforms carried out as part of the EU

harmonization process have had a positive effect on laws governing Turkish associations, especially nongovernmental organizations (NGOs). Turkey has not yet established a central coordinating office or information agency to assist companies in their social efforts, and the topic of CSR is handled by the various ministries. U.S. companies, especially in the technology sector, have targeted CSR activities towards improving education in Turkey.

NGOs that are active in the economic sector, such as the Turkish Union of Chambers and Stock Exchanges (TOBB) and the Turkish Industrialists' and Businessmen's Association (TÜSIAD), issue regular reports and studies, and hold events aimed at encouraging Turkish companies to become involved in policy issues. In addition to influencing the political process, these two NGOs also assist their members in their civic engagement. The Business Council for Sustainable Development Turkey (www.tbcsd.org) and the CSR Association in Turkey (www.csrturkey.org), founded in 2005, are two associations devoted exclusively to issues of corporate social responsibility. The Turkish Ethical Values Center Foundation (www.tedmer.org.tr), the Private Sector Volunteers Association (www.osgd.org) and the Third Sector Foundation of Turkey (www.tusev.org.tr) play an important role in promoting CSR in Turkey.

12. Political Violence

There have been violent attacks in Turkey, and the possibility of terrorist attacks against U.S. citizens and interests, from both transnational and indigenous groups, remains high.

The Kurdistan People's Congress (also known as Kongra Gel or KGK, better known as the Kurdistan Workers' Party or PKK) has been the most active terrorist organization in Turkey; however, PKK activity has almost exclusively targeted the Turkish Government.

On February 1, 2013, an indigenous terrorist organization known as the Revolutionary People's Liberation Party/Front (DHKP/C) attacked the U.S. Embassy in Ankara using a suicide bomber; one person was killed (in addition to the suicide bomber) and several others were injured. It also fired rockets at Turkish National Police Headquarters in a separate incident months later. Designated as a terrorist organization by the United States in 1997, the DHKP/C is an indigenous organization to Turkey and has existed since the 1970s with networks throughout Europe. The DHKP/C has stated its intention to commit further attacks against the United States, NATO, and Turkey, though Turkish law enforcement actions have weakened the organization.

In addition to the threat from the PKK, other violent extremists have transited Turkey en route to Syria. The Embassy strongly recommends that U.S. citizens avoid areas in close proximity to the Syrian border.

In addition to terrorist activities, there have been instances of religious violence targeting individuals in Turkey working as religious missionaries or viewed as having proselytized for a non-Islamic religion. Threats and actual instances of crime have targeted Christian and Jewish individuals, groups, and places of worship in Turkey, including several high-profile murders of Christians over the last decade. The level of anti-Israeli sentiment remains significant following Israel's 2008 Gaza offensive. Turkish officials, however, expressly stated they excluded Jewish

people, in Turkey and elsewhere, from their criticism of the Government of Israel in the wake of the intervention by Israeli Defense Forces on the Free Gaza Flotilla in May 2010.

In May, 2013 public demonstrations that began in the Taksim and Besiktas areas of Istanbul soon grew into widespread demonstrations throughout all of Turkey. The demonstrations started at varying times and often with little notice, and lasted throughout May and much of June. Violent altercations between the protestors and Turkish law enforcement occurred in Ankara, Istanbul, Izmir, Adana, Mersin and elsewhere. These altercations resulted in numerous injuries and a few confirmed deaths. Some individuals who were not part of the demonstrations but were caught in the vicinity of violence were injured and detained. Similar protests broke out again in March 2014, following the death of a boy injured in the Taksim protests and leading up to municipal elections.

For the latest security information on Turkey and other countries, see <http://travel.state.gov>, where current Worldwide Caution Public Announcements, Travel Warnings, and Public Announcements can be found.

13. Corruption

Corruption is a growing concern in Turkey. The corruption scandal that became public in December, 2013 implicated a number of high level Turkish officials and their family members. This led to massive reorganization of the police and the judiciary, which critics alleged was a government attempt to stop the corruption investigations. The Prime Ministry is very vocal about its struggle against what it has termed the ‘parallel state,’ an operation by groups affiliated with former Erdogan ally turned opponent Fethullah Gulen, that the Prime Minister says has infiltrated the Turkish government and attempts to control it from the inside. The ensuing government crackdown on its opponents produced several controversial decisions, including a tightening of internet controls that led to the blocking of social media platforms Twitter and YouTube in early 2014. The judicial system is still perceived to be susceptible to external influence and to be biased against outsiders to some degree.

Public procurement reforms were designed in Turkey to make procurement more transparent and less susceptible to political interference, including through the establishment of an independent public procurement board with the power to void contracts. Critics state, however, that there is a bias by government officials to award large contracts to ruling Justice and Development Party (AKP) related firms, which was highlighted during the recent corruption scandal.

Turkish legislation outlaws bribery, and some prosecutions of government officials for corruption have taken place. Enforcement, however, is uneven. Turkey ratified the OECD Convention on Combating Bribery of Public Officials and passed implementing legislation in 2003 to provide that bribes of foreign officials, as well as domestic, are illegal. In 2006, Turkey’s Parliament ratified the UN Convention against Corruption.

Turkey’s Criminal Code makes it unlawful to promise or to give any advantage to foreign government officials in exchange for their assistance in providing improper advantage in the conduct of international business. In the event that such a crime makes an unlawful benefit to a

legal entity, such legal entity shall be subject to certain security measures. The provisions of the Criminal Law regarding bribing of foreign governmental officials are in line with the provisions of the Foreign Corrupt Practices Act of 1977 of the United States (FCPA).

There are, however, a number of differences between Turkish law and the FCPA. For example, there is not an exception under Turkish law for payments to facilitate or expedite performance of a “routine governmental action” in terms of the FCPA. Another difference is that the FCPA does not provide for punishment by imprisonment, while the Turkish law provides for punishment by imprisonment from four to 12 years. The Prime Ministry’s Inspection Board, which advises the Corruption Investigations Committee, is responsible for investigating major corruption cases brought to its attention by the Committee. Nearly every state agency has its own inspector corps responsible for investigating internal corruption. The Parliament can establish investigative commissions to examine corruption allegations concerning cabinet ministers; a majority vote is needed to send these cases to the Supreme Court for further action.

According to Transparency International’s (TI) annual Corruption Perception Index Data, Turkey dropped one spot from 54th to 53rd in TI’s ranking of 177 countries and territories around the world in 2013 (see <http://www.transparency.org/cpi2012/results>). Transparency International has an affiliated NGO in Istanbul.

14. Bilateral Investment Agreements

Since 1962, Turkey has been negotiating and signing agreements for the reciprocal promotion and protection of investments. As of April 2014, Turkey has 82 bilateral investment agreements in force with: Afghanistan, Albania, Argentina, Austria, Australia, Azerbaijan, Bangladesh, Belarus, Belgium, 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, Luxembourg, Macedonia, Malaysia, Malta, Moldova, Mongolia, Morocco, Netherlands, Oman, Saudi Arabia, Pakistan, Philippines, Poland, Portugal, Qatar, Romania, Russian Federation, Serbia, Singapore, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Syria, Tajikistan, Thailand, Tunisia, Turkmenistan, United Arab Emirates, United Kingdom, United States, Ukraine, Uzbekistan, and Yemen.

15. OPIC and Other Investment Insurance Programs

The Overseas Private Investment Corporation (OPIC) offers a full range of programs in Turkey, including political risk insurance for U.S. investors, under its bilateral agreement with Turkey. OPIC is also active in financing private investment projects implemented by U.S. investors in Turkey. OPIC-supported direct equity funds, including the \$200 million Soros Private Equity Fund, can make direct equity investments in private sector projects in Turkey. Currently, OPIC is looking to support increased lending for renewable energy and energy efficiency projects in Turkey. Small- and medium-sized U.S. investors in Turkey are also eligible to utilize the Small Business Center facility at OPIC, offering OPIC finance and insurance support on an expedited basis for loans from \$100,000 to \$10 million. In 1987, Turkey became a member of the Multinational Investment Guarantee Agency (MIGA).

16. Labor

Turkey has a population of 75.6 million, with 30 percent under the age of 14. Over 76 percent of the Turkish population lives in urban areas. The Turkish labor force numbers 26.8 million, of which 24.3 million are employed. Approximately 26.2 percent of the workforce works in agriculture; 19 percent works in industrial sector. The official unemployment rate was 9.1 percent as of September 2012, with 18 percent youth unemployment (15-24 years old). Students are required to complete eight years of schooling and remain in school until they are 14 years old. 98.17 percent of Turkey's population completes primary school; 36 percent of those who complete primary school get vocational or higher education.

Turkey has an abundance of unskilled and semi-skilled labor, and Turkey's labor force has a reputation for being hardworking, productive, and dependable. Vocational training schools exist at the high school level. Some formal apprenticeship programs remain, but informal training in traditional occupations is decreasing rapidly. Although the Ministry of Education launched projects within the framework of EU programs to meet the needs of high-tech industries - which has increased the number of qualified high-tech workers in recent years - there remains a shortage. Individual high-tech firms, both local and foreign-owned, typically conduct their own training programs. The GOT MSIT has launched a program with TOBB to provide skilled laborers to meet manufacturing sector needs. Turkey has also undertaken a significant expansion of university programs, building dozens of new colleges and universities over the last decade to increase the skills and competitiveness of its workforce. The Turkish Government has also initiated the FATİH project that will expand internet coverage to all Turkish schools, equip Turkish classrooms with interactive smartboards, and provide students with tablet PCs.

Labor unions report their relations with management of Turkish companies are often adversarial. Employers are obliged by law to negotiate in good faith with unions that have been certified as bargaining agents. Strikes are usually of short duration and almost always peaceful. The law prohibits discrimination on the basis of union membership. While exact unionization rates are not available, they are low - a percentage probably in the single digits. There is no obligation for a worker to become a member of a union, and there is no obligation to make a collective labor agreement for any sector. However, in order to be covered by a collective labor agreement, a worker must be a member of a union. Turkish labor law mandates that a series of steps be followed - including mediation by an Arbitration Board - before a union may initiate a strike.

In 2012, the Turkish Parliament approved the "Unions and Collective Bargaining Law," which revised regulations on trade union formation and collective bargaining. The law lowers two thresholds for a labor union to be authorized as an agent of collective bargaining. The first relates to any given work place: where previously the union had to represent 50 percent plus one of a firm's employees, the share is now 40 percent. The second measure relates to a nationwide industry branch: where a bona fide union was previously required to have membership of at least 10 percent of workers in its sector, the new rate has been lowered to one percent from January 1, 2013 through June 30, 2016; two percent from July 1, 2016 to June 30, 2018; and three percent after July 1, 2018.

Turkey's Economic and Social Council was established by law in 2001. Its President is the Prime Minister. The Council aims to maintain an effective dialogue between the state and social parties to encourage compromise in industrial relations. It is composed of representatives from governmental bodies, labor and employer confederations, employee associations, and chambers of commerce and industry.

Turkey has signed many International Labor Organization (ILO) conventions protecting workers' rights, including conventions on Freedom of Association and Protection of the Right to Organize; Rights to Organize and to Bargain Collectively; Abolition of Forced Labor; Minimum Wage; Occupational Health and Safety; Termination of Employment; and Elimination of the Worst Forms of Child Labor. Since 1980, Turkey has faced criticism by the ILO, particularly for shortcomings in enforcement of ILO Convention 87 (Convention Concerning Freedom of Association and Protection of the Right to Organize) and Convention 98 (Convention Concerning the Application of the Principles of the Right to Organize and to Bargain Collectively).

The Turkish Government maintains a number of restrictions on the right of association and the right to strike. Civil servants (defined broadly as all employees of central government ministries, including teachers) are allowed to form trade unions and to engage in limited collective negotiations, but are prohibited from striking. Certain vital public employees, such as military and police, cannot form unions. According to the new Unions Law, the list of sectors barred from striking has also been expanded to: life or property rescuing; funeral and mortuary work; production; refining/distillation; distribution of city water; electricity; natural gas and oil; petrochemical works, including with naphtha and natural gas; work places directly run by Defense Ministry, Gendarmerie, and Coast Guard; banking and public notaries; hospitals; firefighting; land, sea, railway service; and all urban public transportation. (Aviation was not included.)

The EU's October 2012 Progress Report underscores that Turkey's 2012 amended legislation on collective bargaining by civil servants "is not fully in line with the EU *acquis* and ILO conventions, especially with regard to the right to strike for public servants, the process of collective bargaining and dispute settlement, as well as restrictions on large categories of public servants to form and join trade unions."

17. Foreign Trade Zones/Free Ports

Firms operating in Turkey's 20 free zones enjoy many advantages. The zones are open to a wide range of activities, including manufacturing, storage, packaging, trading, banking, and insurance. Foreign products enter and leave the free zones without payment of customs or duties if products are exported to third country markets. Income generated in the zones is exempt from corporate and individual income taxation and from the value-added tax, but firms are required to make social security contributions for their employees. Additionally, standardization regulations in Turkey do not apply to the activities in the free zones, unless the products are imported into Turkey. Sales to the Turkish domestic market are allowed, with goods and revenues transported

from the zones into Turkey subject to all relevant import regulations. There are no restrictions on foreign firm operating in the free zones.

Taxpayers who possessed an operating license as of February 6, 2004, do not have to pay income or corporate tax on their earnings in free zones for the duration of their license. Earnings based on the sale of goods manufactured in free zones are exempt from income and corporate tax until the end of the year in which Turkey becomes a member of the European Union. Earnings secured in a free zone under corporate tax immunity and paid as dividends to real person shareholders in Turkey, or to real person or legal-entity shareholders abroad, are subject to 10 percent withholding tax. More information can be found on the Ministry of Economy's website: www.ekonomi.gov.tr.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

According to Central Bank of Turkey data, FDI inflows of \$19.5 billion in 2008 plummeted by 57 percent in 2009 to \$8.4 billion due largely to the negative impact of the global financial crisis on investment flows worldwide. In 2010, FDI inflows began to rebound reaching \$16.04 billion in 2011. In 2013, FDI dropped to \$12.8 billion as international investors pulled back from many emerging markets.

In 2013, EU countries accounted for 52 percent of FDI capital inflow to Turkey, compared to 85.8 percent in 2011. A considerable increase for FDI inflows from Asian and Gulf countries can be seen in 2013 compared to recent years. U.S. companies accounted for 3.4 percent of FDI, compared to 5.5 percent in 2011.

In 2013, according to the Central Bank of Turkey, the breakdown of FDI inflows to Turkey's manufacturing industry was:

Food products, beverages and tobacco 3.35%
 Electrical and optical equipment 5.9%
 Chemical products 2.6%
 Textiles and textile products 0.57%
 Transport equipment 0.73%
 Other 6.4%

There has been a considerable decline in FDI inflows to Turkey, not only in terms of total quantity, but from a sectorial basis with a general decrease of FDI inflows to the manufacturing sector: 19.7 percent in 2013 compared with 40 percent in 2012. The only increase can be noted in the operations of the financial intermediary services (from 19.3 percent in 2012 to 36.6 percent in 2013).

FDI Inflows by Years

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|-----------|--------|-------|-------|--------|--------|--------|
| FDI Total | 19.504 | 8.411 | 9.038 | 16.049 | 13.224 | 12.872 |

| | | | | | | |
|-------------------------|--------|-------|-------|--------|--------|--------|
| (Net) | | | | | | |
| Equity Investment (Net) | 14.712 | 6.170 | 6.258 | 13.712 | 10.588 | 9.823 |
| Inflows | 14.747 | 6.252 | 6.238 | 16.057 | 10.759 | 10.199 |
| Outflows | -35 | -82 | -35 | -1.991 | -633 | -568 |
| Intra Company Loans | 1.855 | 459 | 341 | -30 | 462 | 192 |
| Real Estate (Net) | 2.937 | 1.782 | 2.494 | 2.013 | 2.636 | 3.049 |

Source: Central Bank of Turkey

USD million

FDI Inflows by Country/Region

| Countries | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|--------|-------|-------|--------|-------|-------|
| European Union | 11.076 | 4.928 | 4.719 | 11.462 | 7.303 | 5.278 |
| Germany | 1.237 | 498 | 597 | 665 | 491 | 1.846 |
| Austria | 586 | 1.019 | 1.584 | 2.419 | 1519 | 659 |
| France | 679 | 617 | 623 | 999 | 86 | 222 |
| Netherlands | 1.343 | 718 | 486 | 1.424 | 1381 | 1.013 |
| U.K. | 1.335 | 350 | 245 | 905 | 2044 | 297 |
| Italy | 249 | 314 | 25 | 111 | 154 | 145 |
| Other EU Countries | 5.647 | 1.412 | 1.159 | 4.939 | 1628 | 1.096 |
| Other European Countries (excluding EU) | 291 | 306 | 201 | 1.093 | 622 | 1.121 |
| African Countries | 82 | 2 | 0 | 0 | 0 | 221 |
| U.S.A. | 868 | 260 | 323 | 1.402 | 439 | 344 |
| Canada | 23 | 52 | 55 | 21 | 32 | 16 |
| Central-South America and Caribbean | 60 | 19 | 7 | 61 | 20 | 1 |
| Asia | 2.345 | 673 | 928 | 2.011 | 2.337 | 3.215 |

| | | | | | | |
|---|---------------|--------------|--------------|---------------|---------------|---------------|
| Near and Middle Eastern Countries | 2.184 | 361 | 473 | 1.516 | 1593 | 2.574 |
| Gulf Countries | 1.963 | 209 | 38 | 196 | 940 | 1.194 |
| Other Near and Middle Eastern Countries | 96 | 78 | 45 | 1.316 | 653 | 1.380 |
| Other Asian Countries | 161 | 312 | 455 | 495 | 744 | 641 |
| Other countries | 2 | 12 | 5 | 7 | 6 | 3 |
| TOTAL | 14.747 | 6.252 | 6.238 | 16.057 | 10.759 | 10.199 |

Source: Central Bank of Turkey

USD million

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