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BUSINESS BRIEFING
Trade Policy

WTO Trade Policy Review: Turkey*

Note: This text provides brief description of the conditions foreign business will encounter in trade with Turkey. It is based on a WTO Trade Policy Review for Turkey, mid March 2016. Readers wishing for deeper analysis should turn to the original Trade Policy Review available on the WTO website. (https://www.wto.org/english/tratop_e/tpr_e/tp431_e.htm).

Trade Policy Reviews are an exercise, mandated in the WTO agreements, in which member countries' trade and related policies are examined and evaluated at regular intervals.

Turkey is an upper-middle-income country and the 17th largest economy in the world; with a GDP of US$799 billion, or US$10,390 per capita, in 2014. Since 2001, the economy grew every year except in 2009. However, since 2009, growth has fluctuated from 9.2% in 2010 to 2.1% in 2012. While real GDP growth was 4.2% in 2013, the economy slowed again to 2.9% in 2014, reflecting Turkey's vulnerability to capital inflows and contraction in agricultural output due to adverse weather conditions. Furthermore, a high current account deficit, although declining, has left the country exposed to external shocks in an environment of increased currency and financial market volatility coupled with high inflation since mid-2013. The recent geopolitical crisis in the region and the associated influx of refugees also pose challenges to sustained economic growth.

In expenditure terms, the main drivers of growth during the review period have been domestic consumption and exports; while in sectoral terms, manufacturing and financial services contributed most strongly. In the first half of 2015, industrial production, primarily in the automobile sector, consumption, and private investment were the main contributors to growth, while exports contributed negatively.

Trade is an important part of the economy: total trade in goods and services grew from the equivalent of 48% of GDP in 2010 to 60% in 2014; and, since 2010, exports increased by 38% to US$157.7 billion in 2014 (current prices). The majority of Turkey's exports are manufactured goods, in particular textiles and clothing (18.5%), automotive products (11.1%), chemicals (5.8%) and iron and steel (6.8%). Exports of agricultural products accounted for 11.7% of total exports in 2014. Turkey's merchandise imports reached US$242 billion in 2014; a 30% increase since 2010. The majority of Turkey's imports comprise raw materials and intermediate goods which feed into the production of higher value-added finished goods for export; the principal items being machinery and equipment (27%), mining (15%), chemicals (13.5%), and a broad range of consumer goods. Turkey continues to be a net exporter of services due to its significant surplus in travel services.

Turkey's trade policy in terms of preferential trade continues to be influenced by the EU and the provisions of its customs union with the EU, as Turkey negotiates and concludes FTAs in parallel with the EU. It is noted that many of Turkey's FTA partners are relatively small trade partners of Turkey. New FTAs concluded and entered into force during the review period were with Chile, Jordan, the Republic of Korea, Malaysia, and Mauritius. To date, Turkey's FTAs notified to the WTO only cover trade in goods, and not services or investment. However, the FTA with the Republic of Korea is broader in scope, as it includes commitments on investment and services, and Turkey has started to include deeper commitments and disciplines on TBT, SPS, intellectual property, competition, dispute settlement, and trade remedies as part of its FTA negotiations. Turkey has aligned its unilateral preference regime with that of the EU as well, and with few exceptions, offers GSP, GSP+, and Everything-But-Arms (EBA) arrangements to certain developing and least developed countries.

Turkey continues to recognize the importance of attracting foreign direct investment through its many programmes of incentives, schemes, and free zones. The main framework law for investment, the 2003 Foreign Direct Investment Law, continues to provide the main elements for investment such as national treatment, transfer of proceeds, etc., and has not undergone significant revision. However, there have not been any major changes to investment restrictions either and Turkey continues to impose restrictions in the broadcasting, aviation, maritime transport, port services, fishing, accounting, financial, mining, real-estate, electricity, and education sectors. Although the legal framework has not changed, investment schemes have been extended, deepened, and broadened over the period in order to encourage and target certain types of FDI in Turkey. They offer nine different types of incentive instruments, often depending on the amount of the investment and the investment region. In addition, Turkey's investment zones (Technology Development Zones, Organized Industrial Zones, and Free Zones) are designed to provide investor-friendly environments with attractive infrastructures for businesses.

In terms of tariff protection, Turkey's overall applied tariff

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average increased slightly during the period to 12.8% due to tariff increases in response to requests by domestic producers. Furthermore, Turkey has the scope to increase tariffs further because 50% of its tariff schedule is unbound (tariffs are bound for 100% of agricultural tariff lines and 34% of industrial tariff lines), and in many cases there is a significant gap between bound and applied rates. Also, there are significant differences in the rates of agricultural versus industrial products, as average rates for agriculture are 49% and only 5.5% for industrial goods. Tariff protection remains particularly high, averaging over 80%, on meat, dairy, sugar and confectionary, and agricultural products.

Developments in the area of customs since the last review include: a new summary pre-arrival declaration form; development of a Single Window application (which currently includes 13 institutions); the launch of a "one-stop-shop" pilot project for terrestrial border posts; and the implementation of the Authorized Economic Operator (AEO) programme as a trade facilitating programme for AEO certified companies. As concerns trade facilitation, Turkey notified its Category A commitments under the Agreement on Trade Facilitation, designating all of Section I, Category A for full implementation upon entry into force, except for Article 7.9 relating to perishable goods.

Trade remedies continue to be an important policy tool for Turkey, as it is one of the WTO's main users of safeguard and anti-dumping measures. Since 2012, Turkey initiated four safeguard investigations and extended safeguard measures eight times. As for anti-dumping measures, Turkey ranks among the WTO's top ten users of these measures and activity has been high since 2012 with 25 investigations initiated and 14 measures imposed. There have been some amendments to Turkey's safeguard legislation during the review period impacting the investigation period.

Turkey continues to apply a number of taxes or other charges on imported and domestic products that affect consumption. These taxes include VAT, a strip-stamp tax, and a special consumption tax (SCT). Tobacco products and alcoholic beverages are particularly affected, being subject to both the strip-stamp tax and special consumption taxes; with raw tobacco also being subject to the Tobacco Fund levy. Other products impacted by the special consumption tax include petroleum products, motor vehicles, aircraft, vessels, and durable consumer goods. Together, VAT and SCT provide over half of government revenue.

During the review period, Turkey has continued its efforts to achieve harmonization with the EU in respect of aligning its technical legislation and SPS measures with its largest trading partner. Following the 2010 adoption of the main framework law on SPS (the Law on Veterinary Services, Plant Health, Food and Feed), Turkey has adopted and implemented many of the implementing regulations during the review period, thus, approximately 100 regulations have been put in place as secondary legislation. Regarding TBT matters, Turkey revised its regulations in 2012 to conform to the EU in the areas of CE marking, conformity assessment bodies, and notified bodies.

Both imports and exports are subject to a number of border measures in Turkey, including outright prohibitions, licensing, controls, and restrictions. Eleven categories of goods are subject to import licences and 26 require export licences. On the export side, Turkey adheres to international agreements for the prohibition or control of strategic goods and has provisions for export quality control checks of certain agricultural products.

State-owned enterprises (SOEs) continue to be involved in a number of important sectors of the Turkish economy including manufacturing, mining, oil and gas, agriculture, transport, and banking. The number of SOEs (36) has not changed significantly since the last review although there have been improvements made in terms of transparency and accountability. New provisions were put in place during the review period to require them to establish an internal control system and internal audit, and subject them to independent external audit. While Turkey continues with its privatization policy, there was an initial slowdown in privatizations during 2011-12, which increased to 15 companies privatized in 2013-14, mostly in the electricity distribution and power generation industries.

Turkey's Public Procurement Law (PPL) was amended several times during the review period, in particular to increase flexibility of decision-making when evaluating abnormally low tenders. Steps were also taken to move Turkey's public procurement to a fully electronic system. Turkey continues to allow the application of national preferences in procurement whereby a price advantage of 15% is offered to domestic suppliers, but a 2014 amendment made it compulsory for the procurement of medium- and high-technology industrial products. In 2014, public procurement in Turkey accounted for approximately 7% of GDP. Turkey has been an observer to the WTO Committee on Government Procurement since June 1996.

There have been some minor changes to the main IP laws and regulations in Turkey since its last review, with changes to the copyright law in respect of expropriation of works and fines. Turkey's statistics on the use of intellectual property indicates growth in the use of most forms of IP protection during the initial phase of the review period, but many have levelled off or even slightly declined at a later stage. In terms of enforcement, the number of applications for customs action increased significantly during 2011-14; and for IP judicial processes, the average length of court cases diminished over the same period.

Agriculture remains an important part of the Turkish economy, and Turkey is a major world producer of agricultural products, ranking 7th in the world. Turkey maintained a trade surplus in agricultural products of approximately US$3 billion in 2014. Turkey has not notified its domestic support or export subsidy programmes to the WTO Committee on Agriculture during the review period, but based on other sources of information Turkey has introduced changes leading to the maintenance of relatively high supports, at least in comparison to other OECD countries, and payments based on agricultural output have increased, thus leading to distortions. Turkey maintains government enterprises or marketing boards for grains, sugar, meat, and alcohol and tobacco products which, depending on the product and board, play a role in Turkey's trade, production, or pricing of these products.

Over the past three decades, much of Turkey's economic development has been based on the country's large and diverse manufacturing base. Turkey's relatively low labour costs, well-trained workforce, and strategic location have helped build a strong manufacturing sector focused on medium- and high-value-added goods. In 2014, the industrial sector accounted for 17.8% of GDP, 76.7% of total goods exports and 20.5% of employment. Turkey's key industrial export sectors are automotives, textiles and clothing, chemicals, machinery, iron and steel, electronics, and jewellery. Small and medium-sized enterprises (SMEs) constitute a key part of the industrial sector in Turkey. Under the Tenth Development Plan, the Input Supply Strategy, and Turkey Vision 2023 the Government has set out multiple objectives for manufacturing, including increasing production of intermediate and finished goods in order to, inter alia, reduce the trade deficit.

While agriculture and manufacturing remain important parts of the Turkish economy, services continues to be the dominant and growing contributor to GDP, amounting to 65% of 2014 GDP. Well developed and important services sectors in Turkey include financial services, tourism, and telecommunications. The tourism sector was particularly important in terms of trade, contributing to the positive services trade balance, in particular due to significant surpluses in travel and transport services. The growth of Turkey's tourism sector has outpaced global tourism growth and Turkey ranked 6th in the world in terms of international tourist arrivals and 12th in terms of tourism receipts in 2014.

The contribution of financial and insurance activities to GDP has increased steadily since 2010 (in nominal terms) but it has actually declined as a percentage of GDP, from 4.5% of GDP in 2009, to 3.0% in 2014. In 2012, a new Capital Markets Law entered into force which transformed the legal and institutional framework of Turkey's capital markets. In 2013, Borsa Istanbul was established as a joint-stock company and merged the three existing exchanges, the Istanbul Stock Exchange, Istanbul Gold Exchange and Futures and Options Exchange. In the area of banking, on 1 January 2014 new regulations came into force applying the Basel III accord.

Turkey's healthcare system has undergone many changes in recent years which has improved its healthcare system, developed a private insurance market, and led to a growing health tourism sector. Turkey's healthcare expenditures reached TL 94.8 billion in 2014, or approximately 5.4% of GDP. Turkey's health tourism sector had significant growth during the period 2011-14, as the total number of foreign patients increased by over 200% while the number of patients in private healthcare establishments more than tripled. A number of incentives are offered to the health tourism sector to encourage its growth such as tax deductions, and reimbursement of costs related to marketing and advertising, and participation in fairs and conferences. Turkey has made amendments to some laws during the review period, in particular to the Healthcare Public-Private Partnerships (PPP) legislation to encourage investment in private healthcare and provide an alternative to public services usually provided by the State.

Distribution services are important to the Turkish economy with wholesale and retail trade contributing 12% to GDP in 2014. Retail sales volume growth was highest in 2011 at 8.3% but slowed in subsequent years, reaching 1.3% in 2014; nevertheless total retail sales recorded US$282 billion the same year. Turkey is considered the 7th largest retail market in Europe. Turkey has not undertaken any GATS commitments in distribution services. Foreign distributors are present but the supermarket segment is largely dominated by local shops, or bakkals (small shops of less than 50 m2).

Despite a difficult external environment with low growth in the EU and conflict in the Middle East region, Turkey's economy and trade continued to grow over the 2011-2015 period. Growth has been based on relatively low labour costs, good infrastructure, and proximity to the EU, its main trading partner. However, continued growth faces several challenges including the continuing conflict in Syria which may affect tourism and erosion of preferential margins into the EU, as well as the persistent current account deficit and relatively high inflation. Further growth depends on investment and Turkey has a comprehensive system of incentives, but their complexity, along with restrictions in some sectors, may reduce their effectiveness. Furthermore, government programmes in some sectors – particularly agriculture – distort trade and production while the low level of tariff bindings for non-agricultural goods and high applied tariffs for agricultural goods create uncertainty for those trading partners not covered by trade agreements.