## SUMMARY

1. Like so many other countries across the world, Turkey felt the impact of the global financial crisis in 2008 and 2009, with a precipitous decline in exports accompanied by a loss of domestic demand. However, Turkey was able to capitalize on structural reforms undertaken in the aftermath of severe domestic economic crises in 1999 and 2001. The reforms included market liberalization to promote private sector growth, privatization, agricultural reform, banking system strengthening, fiscal discipline, tight monetary policy with inflation targeting, and a floating exchange rate regime. Thus, in responding to the recent crisis, a robust banking sector and a good fiscal position allowed the Government to provide fiscal stimulus to restore growth. The economic decline proved short-lived and the subsequent rebound has been strong.

2. Turkey's real GDP grew by 9% in 2010, and a further 7.5% increase has been projected for 2011. Unemployment, which rose from just over 10% in 2006 and 2007 to 14% in 2010, has been returning towards pre-crisis levels at a relatively rapid pace. Annual inflation, which ran at close to 70% in the late 1990s and in 2001, has been brought down to 10% or less since 2004. Turkey's current account deficit, which widened to the equivalent of 6.5% of GDP in 2010, appears to pose the main challenge to continued rapid economic expansion. Although the financing of the deficit has not been a major issue so far, the recent crisis has highlighted the effects of rapid changes in business and investor sentiment.

3. The European Union remains Turkey's most important trading partner and investor. The EU accounted for nearly 70% of total FDI inflows into Turkey during 2005-10. Nearly 40% of its imports come from the EU, and just over 50% of exports go to the EU. However, the dominance of the EU in Turkey's foreign trade has declined markedly over the last five years, reflecting a notable shift in Turkish exports towards growth markets in its neighbourhood, in North Africa, certain CIS countries, and in Asia.

4. Turkey's overall framework for the formulation and implementation of trade policy has remained broadly unchanged since its last Trade Policy Review. However, following a reorganization of ministries and certain public institutions in 2011, key functions in relation to Turkey's foreign trade policies now rest with the Ministry of Economy (formerly the Undersecretariat of the Prime Ministry for Foreign Trade), in cooperation and coordination with other ministries and authorities. The Ministry of Economy regularly seeks inputs from the private sector and NGOs in the formulation and review of Turkey's trade policies. A WTO-DDA Coordination Committee has been established for follow-up on DDA-related issues and to determine Turkey's strategy in multilateral negotiations. Turkey attaches great importance to the successful conclusion of the DDA, and has taken major initiatives to support LDCs in their efforts to eradicate poverty.

5. The Customs Union between Turkey and the EU, which entered into force on 1 January 1996, and the negotiations for accession to the EU, which began in October 2005, have remained cornerstones for Turkey's trade policies as Turkey's commitments give rise to on-going work to align its legislation with the EU *acquis*, as well as efforts to harmonize trade preferences exchanged with other trading partners. Turkey has a free-trade agreement with EFTA, and is part of the Euro-Mediterranean Partnership. At present, Turkey has 16 bilateral FTAs in force, having concluded 7 bilateral FTA negotiations since its last Trade Policy Review. Moreover, Turkey is currently engaged in negotiations with 13 partners, and has initiated the launch of negotiations with an additional 10 trading partners. Turkey also participates in the Economic Cooperation Organization (ECO), Developing-8 (D-8), the Organization of Islamic Cooperation (OIC), and the Black Sea Economic Cooperation (BSEC). As noted in previous TPRs, Turkey's participation in regional and bilateral trade agreements has contributed to improving competition in the economy, but has added

complexity to its trade regime and potentially detracted efforts away from multilateral efforts to open its economy further.

6. Turkey relies on internal taxes on goods and services to raise government revenue, rather than trade taxes such as customs duties. In 2010, internal taxes – principally VAT levied on imports and exports, and the Special Consumption Tax – accounted for almost 58% of the Turkish Government's tax revenue, or over 44% of total government revenues. By contrast, customs duties represented no more than 1% of total government revenue in 2010.

7. Turkey's VAT and the Special Consumption Tax make no distinction between imported and domestically produced goods, in principle. However, as the Special Consumption Tax on alcoholic beverages varies considerably depending on the type of product, the tax system has the potential to favour the consumption of some products relative to others. The VAT is imposed at the general rate of 18%, but reduced rates (8% and 1%) are applied on some goods and services, and certain types of transactions are tax exempt.

8. Turkey applies the Customs Union common external tariff (CET) to industrial goods, and its applied MFN tariffs for non-agricultural products are low, on average 5%. However, this relative openness is not reflected in Turkey's WTO commitments as it has left 66.5% of its non-agricultural tariff lines unbound, and the simple average on the tariff lines where Turkey has binding commitments is 17.4%. The import regime for industrial goods is *de facto* even more open than the CET indicates, as the Customs Union and free-trade agreements provide duty-free access for many of Turkey's most important trading partners. In addition, Turkey has the possibility to open tariff-rate quotas for non-agricultural goods, the Investment Encouragement Programme provides for duty and tax concessions on imports, exporters benefit from an inward-processing scheme, and a "suspension list" enables manufacturers to import certain raw materials and intermediary inputs at low or duty-exempt rates.

9. Although legal provisions allow the Turkish Government to increase applied MFN rates when these are deemed insufficient to provide "adequate" protection to domestic industries, Turkey's MFN import tariffs have not changed significantly overall since 2007. However, Turkey is an important user of anti-dumping measures, with 118 duty measures in force as of August 2011, compared to 93 at the end of 2007, and 27 at the end of 2002. Turkey imposed its first countervailing duty measure in 2009, and has initiated investigations and extended safeguard measures pursuant to the Agreement on Safeguards on a number of products since 2007. Furthermore, following an investigation launched in January 2011, Turkey has raised its MFN tariffs on a wide range of textiles and clothing goods.

10. Turkey prohibits or restricts imports of various goods to protect health and safety, ensure compliance with domestic legislation or international obligations, for reasons of national security, environmental protection, etc. Textiles and clothing products became subject to registration to monitor their importation on 1 January 2010. More generally, Turkey has implemented an import surveillance system since 2004. The system is price-based for some products.

11. Turkey has modified its Investment Encouragement Programme since the last TPR. The programme now follows a three-pillar approach based on regional and sectoral implementation, large-scale investments contributing to international competitiveness, and a general investment encouragement mechanism. A new Law on Monitoring and Supervision of State Aids entered into force in October 2010. Although state ownership remains important, notably in certain banks, transport companies, public utilities, energy and mining enterprises, and agricultural marketing boards, Turkey has continued its privatization programme launched in 1984. Over the last four years, the sale of electricity distribution companies, port operation rights, petrochemical, and tobacco

enterprises, and a further stake in Türk Telekom, has raised significant revenue, and further privatization plans are advancing for sugar processors, roads, and bridges. Turkey has made some progress in the fight against abuse of intellectual property rights during the last four years. The agriculture sector accounted for 8.4% of Turkey's GDP in 2010. Turkey ranks among the largest agricultural producers in the world. Its main traditional exports include hazelnuts, fruit and vegetables, and oriental tobacco. Except for the industrial component of processed agricultural products, trade in agricultural commodities is not subject to the Customs Union CET. Turkey has occasionally adjusted tariffs on selected agricultural products to respond to domestic supply and demand conditions. It has some latitude in this regard, given the considerable gap between applied and bound MFN tariffs (on average 48% versus 72%). The average applied import duty is effectively lower, as Turkey maintains numerous tariff-rate quotas under preferential agreements, and may open tariff-rate quotas unilaterally from time to time to facilitate imports.

12. Turkey has not provided agriculture support notifications to the WTO since 2002. Based on the available information, the value of support to agricultural producers in Turkey appears to have been increasing recently. The market-oriented Agricultural Reform Implementation Project was phased out in 2008. Moreover, with the termination of a direct income support scheme in 2009, an increasing portion of the support is now extended in the form of deficiency payments and other instruments, such as area-based payments. Turkey's market price support has increased in recent years, due mainly to higher domestic prices rather than lower world market prices. The resulting losses for state-owned enterprises trading in commodities such as grains and sugar have been offset by transfers from the Turkish Treasury. Sixteen product groups are eligible to receive export subsidies.

13. Although agriculture and manufacturing remain important, the Turkish economy is now dominated by services. The tourism industry is a major earner of foreign exchange, and the Government provides incentives and other types of assistance to develop the sector further. Other important sectors in terms of output, employment, and foreign trade are financial services, transportation, telecommunications, wholesale and retail trade, and an outward-oriented construction industry. With rapidly rising energy consumption, Turkey commenced reforms in the energy sector in 2001. The process, including privatizations, has advanced considerably in electricity distribution, where the current strategy foresees that all consumers, including households, should be able to choose their suppliers by 2015. The reform efforts have been less successful in natural gas, where the state-owned enterprise BOTAŞ continues to dominate imports and the wholesale of natural gas. Turkey is targeting an increasing share of renewable energy sources to meet its growing demand for energy.

14. The recent economic crisis has highlighted the benefits of the economic reforms undertaken by Turkey since 2001 and the value in maintaining and continuing these reforms. On the trade side, Turkey's partners would benefit from increased transparency and predictability in their access to the Turkish market through the conclusion of multilateral trade negotiations leading to more extensive tariff binding commitments for industrial goods, lower bound rates on agricultural and manufactured products, simplification and rationalization of the tariff regime, and further services commitments. At the same time, Turkey's trading partners can foster a positive trade climate by ensuring that their markets remain open to Turkey.