SUMMARY

1. The period covered by this Review[1] witnessed important changes in the structure of Türkiye's economy and the role of trade. While the services sector is the main contributor to GDP, with a share of 59.0% in 2021 (61.2% in 2016), during 2016-21, there was a 6 percentage point increase in the share of the manufacturing sector in GDP, reaching 24.8% in 2021.

2. Trade as a share in GDP increased substantially, from 48.0% in 2016 to 69.8% in 2021. The relatively big size of the economy and Türkiye's strategic location with close access to large markets and suppliers have helped firms to participate in global value chains (GVCs) and exploit economies of scale and to export. Exports of goods grew 47.2% in value terms between 2016 and 2021 while imports of goods increased by 31.9% over the same period. In 2021, base metals and articles thereof and textiles and textile articles represented about one third of Türkiye's total merchandise exports while almost 40% of its imports were petroleum and mineral products, and machinery and electrical equipment. The EU-27 remains Türkiye's largest trading partner, accounting for 41.9% and 31.5% of total merchandise exports and imports, respectively. Türkiye remains a net exporter of services, an important source of foreign exchange. As a result of the COVID-19 pandemic, the services surplus declined significantly in 2020 before recovering in 2021. The most important services export sectors are travel and transport, which in 2021 accounted for, respectively, 43.4% and 39.8% of total services exports.

3. Over the review period, Türkiye had positive GDP growth rates despite the pandemic. Indeed, Türkiye was one of the few countries with a positive growth performance in 2020, estimated at 1.9%, mainly due to large interest rate cuts, rapid monetary and credit expansion, and extensive liquidity support. In 2021, Türkiye's real GDP growth was 11.4%, the highest rate among G20 countries, boosted by high consumer spending and strong exports. According to the authorities, monetary policy aims to enable Turkish firms to increase investment, production, and export capacity so as to benefit from recent international trade developments that are favourable to Türkiye. Nonetheless, the loose monetary strategy adopted has also caused deteriorating macro-financial conditions, particularly record depreciation of the lira, and record inflation that reached 85.5% in October 2022. At the same time, exports of goods have grown considerably over the last few years supported by external demand, with Türkiye benefitting from supply chain disruptions elsewhere and its strong export capacity.

4. In March 2021, Türkiye's Economic Reform Package (ERP) 2021-23 was launched to tackle inflation, promote de-dollarization of the economy, and place the country among the world's top 10 economies in 2023 by fostering local and foreign investment, production, employment, exports, and current account surplus. According to the authorities, the ERP is being implemented to ensure macroeconomic stability, increase competition and efficiency in the economy, take advantage of the opportunities that emerged after the pandemic, encourage high value-added production, and promote further integration into GVCs.

5. During the review period, Türkiye took steps to facilitate foreign direct investment (FDI), notably through the Investment Office of the Presidency and its FDI Strategy 2021-23, and the development of public-private partnerships for major infrastructure projects. Türkiye has also been benefitting from its position as a relatively low-cost manufacturing hub close to EU markets. Nonetheless, Türkiye's stock of FDI decreased in 2021, after peaking in 2020, despite the global economic uncertainty caused by the pandemic. According to the OECD, recent unorthodox economic policies have discouraged investors, and Türkiye would also benefit from reinforcing the governance environment as envisaged in the Eleventh Development Plan (2019-23), which requires improvements, *inter alia*, regarding rule of law, judicial credibility, and corruption.

6. Amendments to the Turkish Constitution in 2018 resulted in the introduction of a presidential system of government. Executive power has been concentrated in the Presidency with the abolition of the Council of Ministers and the Office of Prime Minister. The President, *inter alia,* has the authority to make high-level appointments and issue presidential decrees under certain conditions. There have been changes to the legislative and judicial branches of government, as well as to the legislative process and the hierarchy of laws. Trade and investment policies are now largely regulated through presidential decrees and decisions. In 2018, the President created new policy councils and

[1] The review period covers January 2016 to end-October 2022, subject to data availability.

restructured several government ministries and agencies. This included merging of the Ministry of Customs and Trade and the Ministry of Economy to form the Ministry of Trade.

7. Turkish trade policy as set out in its Exports Strategy for 2023 and its Eleventh Development Plan (2019-23) is geared towards an export-oriented transformation of the Turkish economy. It seeks to increase exports of high value-added goods as well as services, improve Türkiye's position in the hierarchy of GVCs, and make the country a regional hub for trade in e-commerce.

8. With respect to its WTO-related activities, Türkiye accepted the 2014 Protocol concerning the Trade Facilitation Agreement (TFA) in 2016. It supports the Buenos Aires Declaration on Women and Trade and actively participates in several Joint Statement Initiatives and in the Trade and Environmental Sustainability Structured Discussions. Over the review period, Türkiye was involved in four new dispute settlement cases as complainant and in three cases as respondent. It maintained a solid record of notifications to the WTO, with some outstanding in the areas of agriculture, intellectual property rights, and regional trade agreements.

9. Türkiye has 26 RTAs in force with 63 trading partners. The Türkiye-EU Customs Union (in force since 1996) constitutes the main legal basis for Türkiye's regional trade agreements (RTAs) and GSP scheme since it has provisions obliging Türkiye to align its commercial policy with the European Union's Common Commercial Policy. This alignment has become more challenging from the Turkish perspective as a consequence of the European Union's conclusion of deep and comprehensive RTAs with third countries. Modernization of the Customs Union agreement has not progressed and Türkiye's accession negotiations to the European Union have been at a standstill since 2018. Nevertheless, legislative alignment with the EU *acquis* continues in areas such as technical regulations and sanitary and phytosanitary measures.

10. Over the review period, new RTAs entered into force with the Republic of Moldova, the Faroe Islands, Singapore, Kosovo[2], the Bolivarian Republic of Venezuela, the United Kingdom, Azerbaijan, the Organisation of Islamic Cooperation Trade Preferential System partners, and the Developing-8 members. Moreover, some existing RTAs were expanded to include services, investment, and/or increased agricultural liberalization. Until 2017, Türkiye's RTAs only covered goods, and a key trend during this review period is the inclusion of services provisions and liberalization commitments. Türkiye's RTA with Jordan was terminated in 2018. While Türkiye applies the same GSP rules as the European Union, it narrowed the scope of beneficiary countries and product groups in 2018, including terminating GSP+ preferences. In 2022, it provided unilateral preferences to 66 economies, compared with 88 in 2015. Overall, preferences granted under RTAs are more extensive than under unilateral preference schemes.

11. There have been no changes to FDI restrictions in Türkiye since its previous Review. The restrictions apply to 12 sectors: TV broadcasting, civil aviation, maritime transport, port services, fishing, accounting, auditing and book-keeping services, financial services, mining, real-estate trading, electricity, and education.

12. Türkiye provides support to business through various schemes or special zones, *inter alia*, to attract investment; promote regional development; encourage domestic manufacturing of specific products; stimulate research and development; support small and medium-sized enterprises (SMEs); and promote exports. In 2016, Türkiye operationalized a project-based investment incentive scheme that supports the production of high value-added or strategic products. Other support schemes have been modified.

13. E-commerce-related developments over the review period included legislative reforms to ensure fair competition in digital markets/e-commerce and to protect data, new fiscal and export incentive measures, the introduction of data localization and product safety requirements, new registration and data collection requirements, and the introduction of a trust stamp system.

14. Over the review period, Türkiye's Single Window System, which allows traders to obtain the required import documents and licences through a single point, was extended to include more documents used in import and export transactions. Pre-arrival processing has been implemented for

[2] References to Kosovo shall be understood to be in the context of UN Security Council Resolution 1244 (1999).

imports of raw and semi-finished goods arriving by air and sea to speed up customs clearance. A Port Single Window System was established in July 2018, and an electronic portal was launched for the submission and issuance of advance rulings on tariff classification. A Coordination Committee on Trade Facilitation was established to enable the implementation of the TFA and other international regulations on simplification of border procedures. Türkiye continues to engage in efforts to facilitate trade with bordering nations, through simplified customs procedures and through cooperation protocols/agreements, and to monitor the import prices of selected goods under its import surveillance mechanism. Surveillance certificates must be obtained for the import of certain products, which involves the provision of additional data and/or information. These data are used to evaluate domestic producers' claims of injury that might lead Türkiye to initiate a safeguard or anti-dumping investigation or to monitor if there is circumvention of trade remedy measures already in place.

15. Türkiye applies three different types of duty on imports only: (i) customs duties; (ii) additional financial liabilities (AFLs); and (iii) additional customs duties (ACDs). The combination of these different types of duty comprises Türkiye's MFN tariff, and marks a significant change from the situation at the time of Türkiye's previous Review when the MFN applied tariff was calculated as being composed of the customs duty and the "Fund as Agricultural Component" as applied to processed agricultural products. Consequently, Türkiye's average applied MFN tariff is considerably higher in 2022 than at the time of its previous Review. Its simple average MFN applied tariff rate, including the customs duty, AFLs, and ACDs, was 19.6% in 2022, compared with 12.8% in 2015. International tariff peaks now affect 36.2% of tariff lines, up from 16.1% in 2015. Applied rates range from 0 to 225%. There has also been a reduction in the number of duty-free lines from 23.5% in 2015 to 18.8% in 2022.

16. While average MFN tariff rates remain high on live animals, vegetable products, and prepared food and beverages, reflecting the situation at the time of Türkiye's previous Review, the inclusion of ACDs in the applied tariff has significantly increased tariff protection in other HS sections, notably hides and skins, pulp and paper, textiles and articles, footwear and headgear, and miscellaneous manufactured products. Türkiye has bound 50.4% of its tariff lines at rates ranging from 0 to 225%. Applied MFN rates exceed bound rates in certain instances.

17. Major changes to other types of internal tax falling on imports (and domestic products) included a substantial increase of the Special Consumption Tax on alcoholic beverages and strip stamp prices for tobacco and alcohol, as well as the introduction of a Digital Services Tax in 2020, which is applied to revenue generated from the sale of specific digital services.

18. Türkiye continues to be a major user of trade remedies. As of July 2022, 131 anti-dumping definitive measures, affecting imports from 23 economies, notably China, were in force. Textile products accounted for most of these measures, followed by mining and metals, and plastic and rubber products. At this time, it continued to enforce one countervailing measure, following a sunset review, and enforced five final safeguard measures.

19. Over the review period, changes to Türkiye's export regime included an increase in the goods subject to export registration; the launch of a paperless customs project and an automation system for certificates of origin and movement certificates; the implementation of export bans, mostly temporary, on some food products to stabilize domestic prices of agricultural products; and the introduction and removal of non-automatic licensing requirements on lemons, onions, and potatoes, and on personal protective and certain medical equipment and devices. Export taxes are applied to hazelnuts, raw hides and skins, and wet-blue products.

20. Türk Eximbank, a state-owned bank, continues to be the sole official provider of export credit. In 2021, it supported 14,092 exporting companies, providing USD 22.5 billion in credit and USD 23.5 billion in insurance/reinsurance. An Export Development Corporation was established in October 2021, which is jointly owned by banks, exporters associations, and Eximbank, to help exporters lacking capital or collateral to access Eximbank's services.

21. With respect to standards and technical regulations, a new Product Safety and Technical Regulations Law entered into force in 2021, which transposes EU rules on harmonized products. A Presidential Decree on the Regime Regarding Technical Regulations was issued in 2022, which replaces previous legislation and contains new provisions on responsibilities of exporters and

importers and fines to be applied. Various new implementing regulations have been issued. Additionally, a new Halal Accreditation Agency was established in 2018 to accredit halal conformity assessment bodies. Specific trade concerns were raised over the review period regarding energy labelling regulations, inspection requirements on toys, and cosmetic product requirements. Türkiye now requires labels and price lists of goods offered for retail sale to include a "domestic production logo" if the goods are produced within Türkiye.

22. Over the review period, Türkiye issued a handful of food-related SPS regulations that impose higher than international standards. It also developed its own SPS measures in areas where no international standards exist or where regulations are not harmonized with the EU *acquis*. The Biosafety Board was abolished in 2018 and responsibility for approving GMOs and GM products now rests with the Ministry of Agriculture and Forestry. As of end-October, there were 45 GM approvals for maize, soybeans, and genetically modified microorganisms. Specific trade concerns were raised in the WTO Committee on Sanitary and Phytosanitary measures about Turkish import restrictions on sheep meat, rough rice, and cows for fattening and slaughter.

23. In 2020, Türkiye's law on the Protection of Competition underwent a major revision introducing, *inter alia,* the concept of the *de minimis* principle and new provisions on settlement and remedies. According to the authorities, the amendments were made with the aim of increasing the effectiveness of competition law instruments and ensuring compliance with EU regulations. Various new implementing regulations were also issued.

24. There were significant changes to the ownership of State-Owned Enterprises (SOEs) over the review period, with five SOEs being transferred from the Ministry of Treasury and Finance portfolio to the Türkiye Wealth Fund (TWF), created in 2016. Major capital injections from the Government were related to increased investments in the railway company and capital transfers to the natural gas importing company to ensure energy supply. Privatization activity has continued, largely focused on energy (mainly hydroelectric power plants), maritime ports and marinas, and sugar factories. The TWF falls under the responsibility of the Presidency; it has expanded and diversified its portfolio to include 26 companies in a variety of sectors.

25. With respect to government procurement procedures, the main developments over the review period were the introduction of e-tendering in 2019, and the requirement to use e-procurement for open and negotiated tendering procedures in 2022. The size of Türkiye's public procurement market, as a percentage of GDP, dropped significantly over the review period. Since 2016, new mandatory national preferences have been introduced. The percentage of international tenders where domestic price advantages are applied increased from 37% in 2017 to 45% in 2021. On average, 98% of annual procurement is from Turkish suppliers. Türkiye is not a party to the Agreement on Government Procurement; it has observer status.

26. While Türkiye is a net importer of intellectual property (IP), it has made concrete progress in developing its capacity for innovation as shown by improved rankings in international indexes. Moreover, the review period saw an overall growth in the use of most forms of IP. A new Industrial Property Code entered into force in 2017, replacing a series of laws, executive decrees, and regulations. It covers all matters related to trademarks, geographical signs, designs, patents, utility models, and traditional product names, harmonizing national legislation with EU standards and introducing various new provisions. The Copyright Law was amended in 2021 to reflect the EU Information Society Directive and cover all works, performances, phonograms, productions, and broadcasts. In 2021, Türkiye ratified the WIPO Marrakesh Treaty to Facilitate Access to Published Works for Persons who are Blind, Visually Impaired or Otherwise Print Disabled.

27. Agriculture continues to play an important role in Türkiye's economy, accounting for 5.5% of GDP. Trade is important to the sector; both imports and exports grew over the period 2016-21, contributing to a growing trade surplus in agricultural products with exports of USD 24.2 billion and imports of USD 20.2 billion in 2021. Türkiye continued to support the agriculture sector, and the value of support programmes doubled during the review period. Export subsidies continued to be granted to reduce exporters' debts (such as taxes, and telecommunications or energy costs) to public corporations. There were no changes to the percentage share of products eligible to receive subsidies, except honey, where the share declined.

28. SMEs continue to play an important role in the manufacturing sector. Slightly more than 12% (12.3%) of all SMEs participated in the sector, accounting for 42% of the production value. Türkiye is a large exporter of manufacturing goods, which accounted for 94.5% of total exports of goods in 2021. Key exports in the sector are machinery and transport equipment, automotive, textiles and clothing, chemicals, iron and steel, electronics, and jewellery. In 2021, 36% of manufacturing exports consisted of medium-tech products and 3% of high-tech products.

29. The value added of financial and insurance services activities more than doubled from 2016 to 2020, and the number of enterprises also increased. Bank assets are now equivalent to 127.8% of GDP and, according to the IMF, growth was mostly driven by state-owned banks. Between 2016 and 2021, foreign presence in the banking subsector increased and, as of October 2022, 3 of the top 10 banks are foreign owned. The banking sector is adequately capitalized with a capital adequacy ratio well above the levels stipulated by international standards. The ratio of non-performing loans to total lending stood at 3.9% in December 2021. As of 2016, Türkiye's risk-based capital regulations and liquidity coverage ratio regulation are considered by the Basel Committee as being fully in line with Basel III standards.

30. The review period witnessed strong growth in the telecommunications market, as reflected in the substantial increases in revenue, number of subscriptions (particularly mobile and fixed broadband), and investments. Fixed-line services continued to be dominated by a single supplier. However, the market has more players in mobile and Internet services. International trade in telecommunications services declined during the review period, with a particularly drastic decrease in imports.

31. During the review period, the transport services sector's contribution to GDP increased slightly. Transport is Türkiye's largest services exports category, and both exports and imports increased during the review period, except in 2020 due to the COVID-19 pandemic. Maritime transport was the main mode of transportation for exports of goods between 2016 and 2021, followed by air and road transportation.

32. The health services sector is a priority in the diversification process of the economy and between 2016 and 2021 the sector continued to grow in terms of health expenditures and number of hospitals. The authorities place priority on universal health coverage and in 2020 98.8% of the population was covered by government health insurance. The Ministry of Health continued to be the main provider of healthcare. Recent regulatory developments include the procedures and principles regarding the provision of remote health services and supervision of health facilities. Health tourism subsector revenues increased during the review period, except in 2020 due to COVID-19 restrictions. Health services commitments under the GATS are only included in hospital services, which have market access restrictions.

33. Tourism is the second-largest category in Türkiye's exports of services and accounts for more than half of its net trade balance in services in 2021. Türkiye ranked 7th among the top 10 European countries for tourism FDI between 2016 and 2020, with 36 FDI projects. The tourism sector expanded significantly from 2016 to 2019; however, it suffered a severe decline in 2020 as a consequence of COVID-19-related travel restrictions, and rebounded in 2021, when its share of GDP reached 3.7%. Travel agencies and tour operator services have certain limitations on market access or national treatment.