2001 Country Reports on Economic Policy and Trade Practices
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TURKEY

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1999	2000	2001	1/
Income, Production and Employment:				
Nominal GNP	187.4	201.9	149.8	2/
Real GNP Growth (pct)	-6.4	6.1	8.0	2/
Real GNP growth by Sector (pct): 3/				
Agriculture	-4.6	4.1	-1.6	
Manufacturing	-5.0	5.6	-5.2	
Services (total)	-21.9	5 7.7	36.4	
Government	2.7	1.9	3.7	
Per Capita GNP (US$)	2,878	2,986	2,261	2/
Labor Force (000s)	21,644	20,180	21,127	3/
Unemployment Rate (pct)	7.3	6.3	6.9	3/
Money and Prices (annual percent growth):				
Money Supply Growth (nominal M2)	106.5	42.5	85.6	4/
Consumer Price Inflation (pct)	68.8	39.0	65.0	2/
Exchange Rate (TL/US$ annual average)	417,581	623,704	1,300,000	5/
Balance of Payments and Trade 6/:				
Total Exports FOB	26.6	27.3	35.0	
Exports to United States	2.4	3.1	3.5	
Total Imports CIF	40.7	53.9	45.0	
Imports from United States	3.1	3.9	3.0	
Trade Balance	-14.1	-26.7	-10.0	
Balance with United States	-0.5	0.8	-0.5	
External Debt stock	105	117.8	111.9	7/
Budget Deficit/GNP (pct)	12	–10.5	-16.28	8/
Current Account Balance/GNP (pct)	-0.7	–4.9	1.1	2/
External Debt Service Payments/GNP (pct)	9.9	10.9	11.0	1/
Gold and Foreign Exchange Reserves 7/	35.0	37.4	32.7	9/
Aid from United States	0.018	0.008	.003	10/
Aid from All Other Sources	N/A	N/A	N/A	

1/ Unless otherwise noted, 2001 data are annualized projections based on the first six months of the year.

2/ Official (Turkish Government) estimate.
3/ First half of 2001.
4/ End of August 2001.
5/ Official estimate for average TL/USD exchange rate.
6/ Suitcase Trade Included. Embassy projection based on the January-July 2001 actual trade data.
7/ June 2001 (end-year figure expected to be similar).
8/ Turkish Finance Ministry projection for 2001.
9/ As of September 28, 2001. This figure includes foreign exchange reserves of commercial banks and other financial institutions. Central bank foreign exchange reserves and gold reserves were worth $20.0 billion.
10/ Fiscal 2001 IMET funding was $1.6 million; the USAID Population Program totaled $1.4 million in Fiscal 2001.

Source: Turkish State Institute of Statistics, Turkish Treasury Undersecretariat, Central Bank of Turkey, U.S. Embassy sources. IMF commitments in 2001. Turkey introduced a direct support system for farmers in 2001 under a World Bank

1. General Policy Framework

Since the early 1980s, Turkey's economic policy makers have moved away from the statist principles on which the Republic was founded, reducing protectionist measures and opening the economy to foreign trade and investment. Entry into a customs union with the European Union in January 1996 was a major milestone in terms of market opening.

Although Turkey enjoyed relatively high rates of economic growth in the 1990's, large public sector deficits have contributed to persistently high inflation and periodic economic crises as various governments have been forced to rein in spending. In December 1999, Turkey introduced an IMF-backed three-year disinflation and structural adjustment program to resolve its fundamental fiscal problems. The program rested on fiscal discipline, far-reaching structural reforms and, until February 2001, an exchange-rate regime based on a peg that crawled with targeted inflation. The program brought inflation down to 39 percent in 2000, from 69 percent in the previous year. However, weaknesses in the financial sector, attributable in part to years of politically directed lending at state-owned banks, erupted in a financial crisis in November 2000. The government's assumption of a considerable portion of these institutions' questionable loans dramatically increased the government's internal debt burden. This increase, coupled with the perception that the government was not fully committed to structural reforms, led to a second crisis in February 2001. With overnight interest rates soaring over 1500 percent, Turkey abandoned its fixed (crawling peg) exchange rate and floated the Turkish lira. Since then, Turkey has struggled to reduce high interest rates and inflation, and has faced a sharp decline in output. The downtown in emerging markets following the September 2001 terrorist attacks in the United States has put additional pressure on Turkey's exchange rate and on public finances.

As a result of the 2001 crisis, Turkey revised its economic growth forecast to –8.0 percent for 2001, though many analysts believe the recession will be even deeper. The GOT forecasts a return to growth of about four percent in 2002. Inflation in 2001 is projected to increase to 85 percent, and then to fall to about 35 percent in 2002.

2. Exchange Rate Policy

Until February 22, 2001, the Turkish Lira (TL) was fixed in value to a basket of the U.S. dollar and the euro under a crawling exchange rate policy. On that date, the Turkish authorities allowed the TL to float. Although the TL is fully convertible, it lost nearly 60 percent of its value relative to the U.S. dollar between February and October 2001.

3. Structural Policies

Turkey has made progress in liberalizing its trade, investment, and foreign exchange regimes. Nevertheless, successive governments' failure to complete structural reforms has limited private sector growth, efficient distribution of economic resources, and allowed state-owned enterprises to impose substantial burdens on the state budget. Government control of key retail prices, especially in the energy and utilities sectors, contributes to market distortion, as prices are sometimes manipulated to meet political objectives, held in check before elections and accelerating after. The government actively supports the agricultural sector through both subsidized inputs and high support prices, although these have been limited by fiscal austerity and Turkey's program.

Turkey's IMF program commits the government to implement far-reaching structural reforms in banking, energy, civil aviation, and telecommunications, among other sectors. New banking legislation has improved government supervision to reduce the possibility of future banking crises. The Government of Turkey plans to privatize nearly 100 percent of Turk Telecom, the state monopoly provider of fixed voice services, with up to 45 percent of the company available to a foreign investor. The Turkish government has also committed to liberalizing voice telephony by 2004. A new electricity market law, providing for a market in electric power and an independent regulatory body, was passed in February 2001. Other major state-owned firms, including Turkish airlines and the Turpas oil refiner, are also slated for privatization.

Turkey provides a variety of investment incentives to both domestic and foreign investors. These include exemptions from certain taxes on profits, value-added and customs duties on machinery and equipment imports. Turkey also provides soft loans for research and development as well as special tax holidays and discounted utility charges for investments in the country's eastern and southeastern provinces.

4. Debt Management Policies

As of June 2001, Turkey's gross outstanding external debt was about $111.9 billion (or about 65 percent of GNP), 56.0 percent of which is government debt. Turkey has had no difficulty servicing its foreign debt in the past.

Rates on Turkey's lira-denominated domestic debt decreased significantly in 2000, from an average of 110 percent in 1999, to the 35 to 40 percent level as a result of the disinflation program. However, the banking sector crisis in November 2000 and February 2001 caused Treasury bill rates to rise to over 90 percent. As a result of rising rates on Treasury bills, Turkey may face a serious domestic debt rollover problem in 2002.

5. Significant Barriers to U.S. Exports

The introduction of Turkey's customs union with the EU in 1996 resulted in reduced import duties for U.S. industrial exports. The weighted rate of protection for non-EU/EFTA industrial products dropped from approximately 10 percent to 5 percent. By comparison, the rate of protection for industrial exports from EU and EFTA countries in 1995 had been six percent; nearly all these goods now enter Turkey duty-free. There have been few complaints from U.S. exporters that the realignment of duty rates under the customs union has disrupted their trade with Turkey. A significant number of U.S. companies have reported that the customs union has benefited them by reducing tariffs on goods they already exported to Turkey from European subsidiaries. As part of the customs union agreement, Turkey revised its trade, competition, and incentive policies to meet EU standards.

The customs union excludes nonprocessed agricultural commodities. For many of these, Turkey maintains steep tariffs as well as non-tariff barriers. 300,000 tons of wheat and 28,000 tons of rice are allowed duty free entry from the EU. U.S. exporters, as well as some Turkish importers, have voiced continued frustration over tariff and non-tariff barriers to agricultural trade. Although, the ban on breeding cattle imports was lifted in 1999, permits are limited by Ministry of Agriculture and Rural Affairs (MARA) regulations. Imports of feeder cattle and meat remain prohibited.

Import Licenses: While import licenses generally are not required for industrial products, products which need after-sales service (e.g., photocopiers, ADP equipment, diesel generators) require licenses. Moreover, a number of agricultural commodities and other processed products require licenses. In addition, the government requires laboratory tests and certification that quality standards are met for imports of human and veterinary drugs and foodstuffs. While food import control certificates can be issued in one to two weeks, delays at MARA headquarters are frequent and limited government testing facilities adversely affects imports. Recent changes in procedures and standards for some imported foods products, like corn, rice, and bananas, also discouraged trade. Some U.S. exporters report that a new regulation restricting import of obsolete items has been applied arbitrarily to exclude equipment which has been manufactured more than a few months prior to importation.

Services Barriers: Establishment in financial services, including banking and insurance, and in the petroleum sector requires special permission from the GOT. The equity participation ratio of foreign shareholders is restricted to 20 percent in broadcasting, and 49 percent in aviation, value-added telecommunication services and maritime transportation.

Government Procurement Practices: Turkey is not a signatory of the WTO Government Procurement Agreement. It nominally follows competitive bidding procedures for tenders. U.S. companies sometimes become frustrated over lengthy and often complicated bidding and negotiating processes. Some tenders, especially large projects involving co-production, are frequently opened, closed, revised, and opened again. There are often numerous requests for "best offers." In some cases, years have passed without the selection of a contractor. The government is preparing a new bill on public procurement which, when passed, should improve transparency. The entry into force of a Bilateral Tax Treaty between the United States and Turkey in 1998 eliminated the application of a 15 percent withholding tax on U.S. bidders for Turkish government contracts.

Investment Barriers: Turkey has an open investment regime, but all companies, regardless of nationality, are subject to excessive bureaucracy, political and macroeconomic uncertainties, and a sometimes unclear legal environment. There is a screening process for foreign investments, which the government applies on a MFN basis; once approved, firms with foreign capital are treated as local companies.

The Turkish government accepts binding international arbitration of investment disputes between foreign investors and the state; this principle is enshrined in the U.S.-Turkish Bilateral Investment Treaty (BIT). For many years, there was an exception for “concessions” involving private (primarily foreign) investment in public services. In 1999, the Parliament passed a package of amendments to the constitution allowing foreign companies access to international arbitration for concessionary contracts. In 2000, the Turkish government completed implementing legislation for arbitration. In 2001, the Parliament approved a law further expanding the scope of international arbitration in Turkish contracts. The BIT entered into force in May 1990.

Turkey is a founding member of the World Trade Organization.

6. Export Subsidies Policies

Turkey employs a number of incentives to promote exports, although programs have been scaled back in recent years to comply with EU directives and WTO standards. Historically, wheat and sugar are the main subsidized commodities, and Turkey exceeded its wheat export subsidy limits for grains in 2000. Due to lower production, Turkey is not expected to subsidize wheat exports in 2001. With the assistance of the World Bank, Turkey is shifting from production subsidies to a more efficient direct support payment system for farmers. The Turkish Eximbank provides exporters with credits, guarantees, and insurance programs. Certain tax credits also are available to exporters.

7. Protection of U.S. Intellectual Property

In 1995 as part of Turkey's harmonization with the EU in advance of a customs union, the Turkish Parliament approved new patent, trademark and copyright laws. Turkey also acceded to a number of multilateral intellectual property rights (IPR) conventions. In 2001, the Parliament enacted amendments to the copyright law which provide retroactive protection, expand the list of protected items and increased deterrent penalties against piracy. These amendments brought Turkey into compliance with the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). In recognition of Turkey's progress in the IPR area, USTR removed Turkey from its Special 301 Priority Watch List and placed the country on its Watch List in 2001.

Although intellectual property holders have praised Turkey's new legislation as a significant improvement in the legal regime, at least one company alleges that implementing regulations governing broadcasting do not adequately protect producers of intellectual property. In the software area, the Prime Minister issued a circular in 1998 directing all government agencies to legalize the software used in their offices. A public anti-piracy campaign was begun in 1998 and the government has made efforts to educate businesses, consumers, judges and prosecutors regarding the implications of its laws. Turkey extended patent protection to pharmaceutical products in January 1999 in accordance with Turkey's Customs Union commitments to the EU. However, foreign drug manufacturers contend that data exclusivity infringement and restrictive government price and procurement policies are serious barriers. Trademark holders contend that there is widespread and often sophisticated counterfeiting of their marks in Turkey.

Turkish police and prosecutors are working closely with trademark, patent, and copyright holders to conduct raids against pirates within Turkey. Although several cases have been brought to conclusion successfully, U.S. industry believes continued enforcement efforts are needed.

8. Worker Rights

a. *The Right of Association:* Workers, except police and military personnel, have the right to associate freely and to form representative unions. This right encompasses civil servants, including school teachers. The constitutional right to strike is restricted. For example, the Constitution does not permit strikes among civil servants, workers engaged in the protection of life and property, and those in the mining and petroleum industries, sanitation services, national defense, and education. Turkish law requires collective bargaining before a strike. The law specifies the steps that a union must take before it may strike or before an employer may engage in a lockout. Nonbinding mediation is the last of those steps. Unions are forbidden to engage in secondary (solidarity), political, or general strikes, or in slowdowns. The right to strike is suspended for the first 10 years in free trade zones, although union organizing and collective bargaining are permitted. In sectors in which strikes are prohibited, disputes are resolved through binding arbitration.

b. *The Right to Organize and Bargain Collectively:* All industrial workers have the right to organize and bargain collectively, and most industrial and some public sector agricultural workers are organized. The law requires that, in order to become a bargaining agent, a union must represent not only 50 percent plus 1 of the employees at a given work site, but also 10 percent of all workers in that particular branch of industry nationwide. After the Ministry of Labor certifies the union as the bargaining agent, the employer must enter good faith negotiations with it.

c. *Prohibition of Forced or Compulsory Labor:* The constitution and statutes prohibit compulsory labor, including that performed by children, and the government generally enforces these provisions in practice.

d. *Minimum Age for Employment of Children:* The constitution and labor laws forbid the full-time employment of children younger than age 15, with the exception that those 13 and 14 years of age may engage in light, part-time work if enrolled in school or vocational training. The constitution also states that "no one shall be required to perform work unsuited to his/her age, sex, and capacity." With this article and related laws, the Turkish government guarantees to protect children from engaging in physically demanding jobs such as underground mining and from working at night. The Ministry of Labor enforces these laws effectively only in the organized industrial sector.

In practice, many children work because families need the supplementary income. An informal system provides work for young boys at low wages, for example, in auto repair shops. Girls are rarely seen working in public, but many are kept out of school to work in handicrafts, especially in rural areas. The bulk of child labor occurs in rural areas and is often associated with traditional family economic activity, such as farming or animal husbandry. It is common for entire families to work together to bring in the crop during the harvest. The government has recognized the growing problem of child labor and has been working with the ILO to discover its dimension and to determine solutions. With the passage in 1997 of the eight-year compulsory education program the number of child workers was reduced significantly. Children enter school at age 6 or 7 and are required to attend until age 14 or 15.

e. *Acceptable Conditions of Work:* The Ministry of Labor is legally obliged to set minimum wages at least every two years through a tripartite government-union-industry board. In recent years, it has done so annually. In 2000, there were two adjustments which were cumulatively less than the inflation rate. Public workers who are part of the collective labor agreements also received an inflation-indexed increase and a five percent prosperity rate increase. The Labor Law sets a 45 hour work week, although most unions have bargained for fewer hours. The law also limits the overtime that an employer may request. Most workers in Turkey receive nonwage benefits such as transportation and meal allowances, and some also receive housing or subsidized vacations. In recent years, fringe benefits have accounted for as much as two-thirds of total remuneration in the industrial sector. The law mandates occupational safety and health regulations and procedures, but in practice limited resources and lack of safety awareness often result in inadequate inspection and enforcement programs.

f. *Rights in Sectors with U.S. Investment:* Conditions do not differ in sectors with U.S. investment.

Parliament recently endorsed a package of constitutional amendments which, when implemented, should strengthen worker rights in Turkey.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category		Amount
Petroleum		46
Total Manufacturing		746
Food & Kindred Products	191	
Chemicals & Allied Products	81	
Primary & Fabricated Metals	(D)	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	-12	
Transportation Equipment	228	
Other Manufacturing	(D)	
Wholesale Trade		30
Banking		351
Finance/Insurance/Real Estate		2
Services		53
Other Industries		150
TOTAL ALL INDUSTRIES		1,378

(D) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.