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TURKEY

Key Economic Indicators

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

	1998	1999	2000	
Income, Production and Employment:				
Nominal GNP	204.6	187.4	83.5	1/
Real GNP Growth (pct)	3.8	-6.4	4.4	1/
Real GNP growth by Sector (pct):				1/
Agriculture	7.6	-4.6	1.7	
Manufacturing	1.8	-5.0	3.5	
Services (total)	19.4	-21.9	23.9	
Government	0.6	2.7	2.2	
Per Capita GNP (US$)	3,224	2,878	3,339	2/
Labor Force (000s)	23,415	21,644	19,600	3/
Unemployment Rate (pct)	6.2	7.3	8.3	3/
Money and Prices (annual percent growth):				
Money Supply Growth (nominal M2)	106.2	105.3	76.7	8/
Consumer Price Inflation (pct, year-to-date)	69.7	68.8	26.9	4/
Exchange Rate (TL/US$ annual average)	260,040	417,581	591,315	5/
Balance of Payments and Trade (Suitcase Trade Included):				
Total Exports FOB	31.1	26.6	13.4	6/
Exports to U.S.	2.2	2.4	1.5	6/
Total Imports CIF	45.5	40.7	25.0	6/
Imports from U.S.	4.1	3.1	1.9	6/
Trade Balance	-14.4	-14.1	-11.7	6/
Balance with U.S.	-1.8	-0.5	-0.4	6/
External Debt stock	102.0	105	120	1/
Budget Deficit/GNP (pct)	-7.4	12	N/A	1/
Current Account Balance/GNP (pct)	0.9	-0.7	-6.7	1/
External Debt Service Payments/GNP (pct)	8.0	9.9	12.0	1/
Gold and Foreign Exchange Reserves 7/	31.6	35.0	25.3	7/
Aid from U.S.	0.006	0.018	0.008	
Aid from Other Sources	N/A	N/A	N/A	

1/ First half of 2000.

2/ Turkish Treasury annual per capita income projection based on the GOT's economic targets.
3/ 1999 figures are as of October; 2000 figure is as of first quarter.
4/.As of end of September 2000.
5/ January – July 2000 average.
6/ The 2000 trade figures are as of June.
7/ As of September 22, 2000 and including reserves held by central bank and commercial banks.
8/ As of September 22, 2000.

Source: Turkish State Institute of Statistics, Turkish Treasury Undersecretariat, Central Bank of Turkey.

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, abandoning protectionist policies and opening the economy to foreign trade and investment. These reforms unleashed the country's private sector and have brought impressive benefits. Turkey's efforts reached a new stage in January 1996 in terms of market opening, with the inauguration of a customs union with the European Union. Turkey has met most of its trade and industrial policy obligations under the customs union and has begun to reap the benefits of this harmonization, particularly in terms of improved economic efficiency. Although the Asian and Russian financial crises did not seriously affect Turkey's economy, a slowdown in the EU or U.S. economies (which take a 65 percent share of Turkey's exports) would restrict Turkey's ability to attract foreign capital and expand its exports.

Turkey has begun to tackle long-standing macroeconomic imbalances: large public sector deficits and resulting high inflation. The pace of reform picked up in the late summer of 1999, and in January 2000 Turkey introduced an IMF-backed three-year disinflation program to resolve its fundamental fiscal problems. This program has three pillars. First is fiscal discipline and fiscal structural adjustment under a consolidated government sector accounting system. Second is a monetary policy and exchange-rate regime based on a peg that crawls with targeted inflation, with a pre-announced exit strategy to a widening band in July 2001 and, as of 2003, a free float. Third is continued structural reform. The early stages of the program are promising: inflation is decreasing and the 4.2 percent first quarter GNP growth rate exceeded expectations. Steps taken to date include the first stage of reform of the deficit-ridden social security system, banking regulatory reform, initial measures to improve efficiency of tax administration, a revival of large-scale privatizations, and a move to market-based reform of the energy and telecommunications sectors. Much more remains to be done, e.g., thorough reform of the agricultural sector, consolidation of the banking sector, and rationalization of the state sector, which continues to represent almost a quarter of GDP. The impulse to reform shown by the current government, however, marks a potential turning point in improvement of export and investment conditions.

2. Exchange Rate Policy

The Turkish Lira (TL) depreciation against a dollar/euro basket is the nominal anchor to

Turkey’s disinflation program. The TL is fully convertible and the central bank follows a crawling peg exchange rate policy under the stand-by agreement signed by the IMF. The system was adopted on January 1, 2000, with a pre-announced rate of crawl over the course of the year. The central bank has also committed to various monetary targets to support this new exchange rate mechanism. A controlled exchange rate policy with a pre-announced exit strategy is one of the main tools of the disinflation program.

3. Structural Policies

Turkey has made substantial progress in liberalizing its trade, investment, and foreign exchange regimes. The resulting rapid economic growth and high rate of private business creation during the 1980s and 1990s generated tremendous demand for imported goods, particularly capital and intermediate goods and raw materials, which together account for over 85 percent of total imports.

Nevertheless, successive governments’ failure to complete the structural reform measures needed to transform Turkey’s economy into a liberal, market-directed economy has limited private sector growth and prevented the economy from functioning at full efficiency. State-owned enterprises still account for some 35 percent of manufacturing value added. Although some of these firms are profitable, transfers to state firms constitute a substantial drain on the budget. Government control of key retail prices (especially in the energy and utilities sectors) also contributes to market distortion, as prices are sometimes manipulated to meet political objectives (held in check before elections, accelerating after). The government actively supports the agricultural sector through both subsidized inputs and high support prices, although producer price increases for many crops were comparatively lower this year in line with Turkey’s IMF commitments.

Turkey and the European Union entered into a customs union on January 1, 1996. Nearly all industrial goods from EU and EFTA countries now enter Turkey duty-free. Special tariffs and duty free concessions were also provided for imports of specific agricultural items. Turkey has adopted the EU's common external tariff for third countries, which has resulted in significantly lower tariffs for U.S. products. The government also has abolished various import surcharges. As part of the customs union agreement, Turkey revised its trade, competition, and incentive policies to meet EU standards. While these EU-related reforms in general help U.S. exporters, agricultural goods continue to face prohibitive tariffs.

4. Debt Management Policies

As of June 2000, Turkey's gross outstanding external debt was about $120 billion (or about 60 percent of GNP), 50.8 percent of which is government debt. Debt service payments in the first half of 2000 amounted to 12 percent of GNP (and 40 percent of current account receipts). Turkey has had no difficulty servicing its foreign debt in recent years.

In 2000 Turkey issued $4.5 billion in sovereign debt in the first half of the year, nearly meeting its 2000 target of $6 billion. Interest 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, thus contributing to a decrease in the domestic debt stock.

5. Aid

In 1998 the United States ended its Economic Support Fund and Foreign Military Financing (market-rate loans) support for Turkey. In 2000 the United States provided Turkey $2.1 million in assistance under an USAID-funded family planning program, $1.5 million in International Military Education and Training funding, and $500,000 in counter-narcotics assistance. The United States also provided $3.8 million in emergency and relief assistance to the victims of the November 12 Duzce earthquake during fiscal year 2000. Significant grant and loan aid from the European Union had been on hold for several years as the result of political disputes with Greece. However, the EU began to disburse aid to Turkey following the December 1999 decision to confirm Turkey's status as an EU candidate state.

6. 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 11 percent to 6 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. The customs union does not cover agricultural trade or services; e.g., 200,000 tons of wheat and 19,000 tons of rice are allowed duty free entry from the EU. U.S. exporters have voiced increasing 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 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) and agricultural commodities 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 and limited government testing facilities adversely affects imports. Recent changes in procedures and standards for some imported foods products, like corn and bananas, also discouraged trade.

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 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, however all companies, regardless of nationality are subject to excessive bureaucracy, political uncertainties, and a sometimes unclear legal environment. Consequently, aggregate foreign direct investment in Turkey from 1980-99 totaled only slightly more than $12 billion. 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. In most cases, 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). The exceptions are in “concessions” involving private (primarily foreign) investment in public services. Although most of the focus was on energy contracts, these amendments will allow arbitration in all public service contracts, including telecom. In August 1999 the Parliament passed a package of amendments to the constitution allowing foreign companies access to international arbitration for concessionary contracts. By January the Turkish government completed implementing legislation for arbitration. In April the government set out a procedure which permits companies to decide whether to add arbitration clauses in existing energy contracts or to officially designate them as commercial contracts not governed by concessions. The BIT entered into force in May 1990.

7. 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. Barley, wheat, tobacco and sugar exports are subsidized heavily. The Turkish Eximbank provides exporters with credits, guarantees, and insurance programs. Certain tax credits also are available to exporters.

8. 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. Although the new laws provide an improved legal framework for protecting IPR, they require further amendments to be consistent with the standards contained in the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). Turkey, a developing nation, was to have brought its IPR regime into compliance with the WTO TRIPS agreement by January 1, 2000, a deadline Turkey failed to meet. The government has declared that it intends to have a TRIPS-compatible IPR regime in place as soon as possible, and has volunteered for a WTO TRIPS review in late

2000. Amendments to the Copyright Law awaited final parliamentary approval as of October 2000.

Turkey has been on the Special 301 Priority Watch List since 1992. In the 1997 Special 301 review, USTR provided Turkey with a set of benchmarks necessary in order to improve its status in the 301 process. In April 1998 the United States announced that it would not consider requests to augment Turkey's benefits under the U.S. generalized system of preferences until further progress was made on the benchmarks. Out of the six benchmarks, Turkey has made significant progress on four and is in the process of addressing the problems identified in the fifth and sixth benchmarks (through legislation currently awaiting Parliamentary approval).

Taxes on the showing of foreign and domestic films were equalized in 1998. 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. Turkey currently is in the process of amending its copyright legislation. In August 1999 fines were increased by 800 percent and indexed to inflation. Turkish police and prosecutors are working closely with trademark, patent and copyright holders to conduct raids against pirates within Turkey. Although many seizures have been made (including by Turkish Customs officials at ports of entry), and several cases have been brought to conclusion successfully, U.S. industry remains concerned that fines and penalties levied by the courts are insufficient to serve as a significant deterrent.

9. 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. However, during the year there were two adjustments: the nominal minimum wage was increased in January by 15 percent and again in July by 10 percent, compared to an annual inflation rate of nearly 34 percent. 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.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		79
Total Manufacturing		736
Food & Kindred Products	186	
Chemicals & Allied Products	88	
Primary & Fabricated Metals	173	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	-10	
Transportation Equipment	173	
Other Manufacturing	125	
Wholesale Trade		-27
Banking		292
Finance/Insurance/Real Estate		7
Services		67
Other Industries		146
TOTAL ALL INDUSTRIES		1,299

Source: U.S. Department of Commerce, Bureau of Economic Analysis.