

## FOREIGN TRADE

Turkey's foreign trade volume has gained momentum after the liberalization policies in 1980s. Foreign trade volume has increased from 10 billion USD level at the beginning of 1980s to 35 billion USD level in 1990 and reached 160 billion USD level in 2004. The target level of exports is 75 billion USD for 2005.

### FOREIGN TRADE INDICATORS

YEAR	EXPORT		IMPORT		TRADE BALANCE		EXPORT / IMPORT
	Value	Change	Value	Change	Value	Change	Ratio
	(Billion USD)	(%)	(Billion USD)	(%)	(Billion USD)	(%)	(%)
1980	2.9	-	7.9	-	-5.0	-	36.8
1985	8.0	175.9*	11.3	43.0*	-3.3	-34.0*	70.2
1990	13.0	62.5*	22.3	97.3*	-9.3	181.8*	58.1
1991	13.6	4.6	21.0	-5.8	-7.5	-19.4	64.6
1992	14.7	8.1	22.9	9.0	-8.2	9.3	64.3
1993	15.3	4.1	29.4	28.4	-14.1	72.0	52.1
1994	18.1	18.3	23.3	-20.7	-5.2	-63.1	77.8
1995	21.6	19.3	35.7	53.2	-14.1	171.2	60.6
1996	23.2	7.4	43.6	22.1	-20.4	44.7	53.2
1997	26.3	13.4	48.6	11.5	-22.3	9.3	54.1
1998	27.0	2.7	45.9	-5.6	-18.9	-15.2	58.7
1999	26.6	-1.5	40.7	-11.3	-14.1	-25.4	65.4
2000	27.8	4.5	54.5	33.9	-26.7	89.4	51.0
2001	31.3	12.6	41.4	-24.0	-10.1	-62.2	75.7
2002	35.1	12.1	50.8	22.7	-15.8	56.4	69.0
2003	47.2	34.2	69.3	36.4	-22.1	39.8	68.1
2004	62.8	33.1	97.2	40.3	-34.4	55.7	63.0

Source: State Institute of Statistics

\*5-year changes

Exports have been an important stimulus in economic growth increasing more than 30% annually and more than doubling in the last 3 years.

### Foreign Trade of Turkey (1990-2004)



Having a Customs Union Agreement with the EU since 1996, Turkey's foreign trade is oriented towards the EU which accounted for 54.7% of exports and 46.7% of imports in 2004.

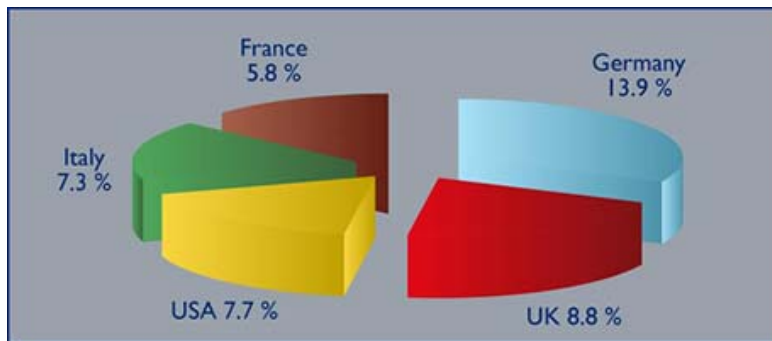
### FOREIGN TRADE BY COUNTRY GROUPS

(Million USD)	2003				2004			
	Export	Share (%)	Import	Share (%)	Export	Share (%)	Import	Share (%)
<b>EU Countries</b>	25,899	54.8	33,495	48.3	34,310	54.7	45,373	46.7
• <b>EU Countries (15)</b>	24,484	51.8	31,696	45.7	32,457	51.7	42,295	43.5
• <b>EU Countries (10)</b>	1,415	3.0	1,799	2.6	1,852	3.0	3,079	3.2
<b>Other European Countries</b>	4,857	10.3	11,987	17.3	6,572	10.5	18,297	18.8
<b>Middle East Countries</b>	5,132	10.9	4,345	6.3	7,238	11.5	5,122	5.3
<b>American Countries</b>	4,269	9.0	4,922	7.1	5,692	9.1	6,535	6.7
<b>African Countries</b>	2,131	4.5	3,338	4.8	2,952	4.7	4,779	4.9
<b>Far Eastern Countries</b>	1,454	3.1	8,039	11.6	1,308	2.1	13,082	13.5
<b>Selected Country Groups:</b>								
<b>OECD</b>	30,422	64.4	43,899	63.3	40,332	64.3	59,492	61.2
<b>EFTA</b>	538	1.1	3,396	4.9	655	1.0	3,889	4.0
<b>NAFTA</b>	4,013	8.5	3,841	5.5	5,319	8.5	5,176	5.3
<b>BSEC</b>	5,044	10.7	9,298	13.4	6,736	10.7	15,263	15.7
<b>CIS</b>	2,963	6.3	7,777	11.2	3,933	6.3	12,848	13.2

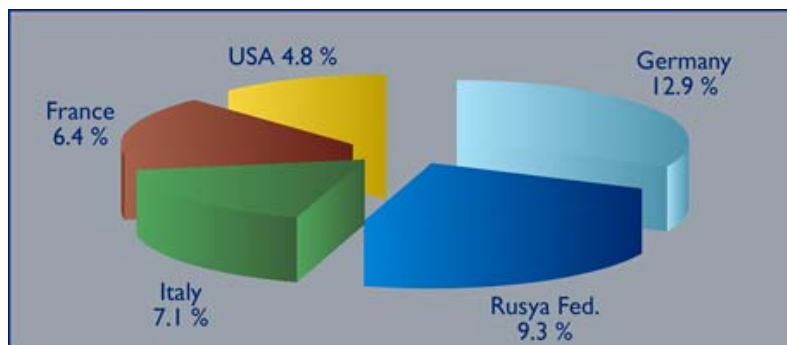
Source: Undersecretariat of Foreign Trade

Turkey's biggest trading partner is Germany, followed by Italy, Russian Federation, France, UK and the USA. These countries accounted for 45% of the total trade volume in 2004.

#### Top 5 Export Destinations (2004) (% Share in Total Exports)



#### Top 5 Import Origins (2004) (% Share in Total Imports)



Motor vehicles constituted 13.2% of total exports in 2004. The total share of textile and apparel products in exports exceeds 20%. Oil imports is the top on the imported items list with a share 14.8% in 2004.

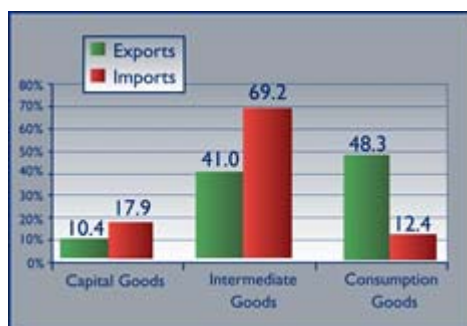
### COMPOSITION OF FOREIGN TRADE (2004)

Main Export Items			Main Import Items		
Item	Value (Mn USD)	Share (%)	Item	Value (Mn USD)	Share (%)
Motor Vehicles	8,284	13.2	Mineral Fuels and Oils	14,354	14.8
Knitted Apparel and Accessories	6,250	10.0	Boilers, Machinery, Mechanical Appliances	13,419	13.8
Iron and Steel	5,274	8.4	Motor Vehicles	10,236	10.5
Electrical Machinery and Equipment	4,779	7.6	Electrical Machinery and Equipment	8,354	8.6
Non-knitted apparel and clothing accessories	4,519	7.2	Iron and Steel	7,973	8.2
Boilers and Machinery	4,114	6.5	Plastics and Products	4,760	4.9
Iron&Steel Products	2,220	3.5	Precious Metals and Stones, Pearls	3,740	3.8
Edible Fruits	1,883	3.0	Organic Chemicals	2,974	3.1
Other made-up textile articles	1,850	2.9	Pharmaceutical Products	2,709	2.8
Mineral Fuels and Oils	1,362	2.2	Cotton, Cotton Fabrics	1,973	2.0
<b>10 Items Total</b>	<b>40,535</b>	<b>64.6</b>	<b>10 Items Total</b>	<b>70,492</b>	<b>72.5</b>
<b>Grand Total</b>	<b>62,774</b>	<b>100</b>	<b>Grand Total</b>	<b>97,161</b>	<b>100</b>

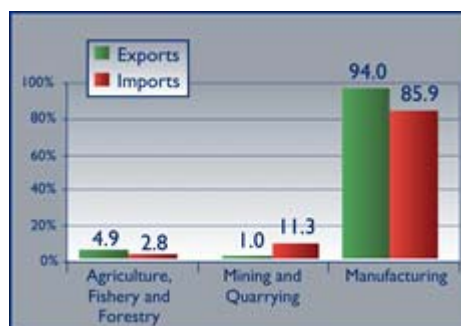
Source: Undersecretariat of Foreign Trade

In 2004, Turkey's exports consisted 94% of manufacturing goods, 4.9% of agricultural products and fisheries and 1% of mineral raw materials. Turkey's imports, on the other hand, consisted 85.9% of manufacturing goods, followed by mineral raw materials at 11.3% and agricultural products 2.8%.

#### Foreign Trade by ISIC Categories (2004)



#### Foreign Trade by BEC Categories (2004)



Source: State Institute of Statistics

In 2004, consumption goods had 48.3% share in Turkey's total exports; while intermediate goods had 41% and capital goods had 10.4% share. Imports, on the other hand, consisted 69.2% of intermediate, 17.9% of capital and 12.4% of consumption goods in 2004.

## TURKISH EXIMBANK

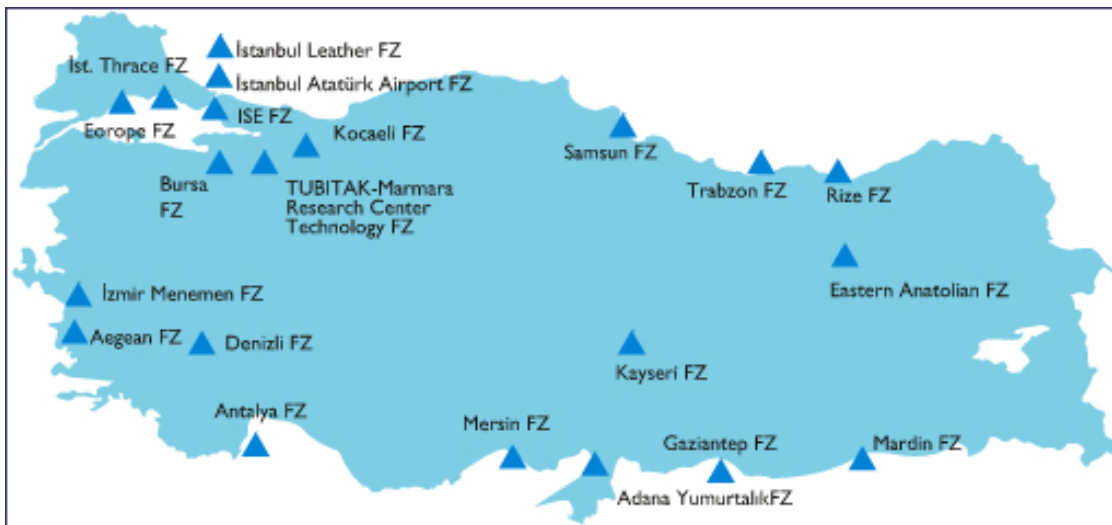
Following Turkey's agreement to eliminate export subsidies in accordance with World Trade Organization (WTO) provisions and the subsequent elimination of all direct incentives to export, export credits together with insurance/guarantee programs extended through Turkish Eximbank have played a crucial role in securing stable export growth. Increasing the competitiveness of Turkish export goods under free market conditions is the Bank's main goal. Some of the programs offered by Turkish Eximbank are: the Pre-shipment Export Credits, Buyers' Credits, Short-Term Insurance and Export Credit Insurance schemes.

In order to jointly guarantee, finance and insure the investment projects as well as exports of the Turkish companies, Turkish Eximbank has signed Cooperation and/or Joint Insurance Agreements with its counterparts in France (COFACE), Belgium (OND), USA (US Eximbank), Germany (HERMES), Israel (IFTRIC), Canada (EDC), Japan (NEXI), China (PRC), Malaysia (MECIB), Slovenia (SEC), Poland (KUKI), Slovak Republic (Eximbank S.R.), Iran (EGFI) and Egypt (ECGE).

In the performance of these duties, Turkish Eximbank also cooperates with international finance institutions such as EBRD, Asian Development Bank, Islamic Bank of Development and MIGA for covering guarantee on goods and services of third countries in Turkey as well as exports and investment projects of Turkish firms in third countries. Besides continuing its relations with the International Union of Credit and Investment Insurers (Berne Union), Turkish Eximbank maintains close relations with the World Bank, JBIC, EDC and Black Sea Trade and Development Bank.

## FREE ZONES

With the objective of increasing export-oriented investment and production in Turkey, accelerating the entry of foreign capital and technology, getting an access to the inputs of the economy in an economic and orderly fashion and increasing the utilization of external finance and trade possibilities, Free Zones legislation was issued in 1985. Since then, 21 Free Zones became operational.



In general, a wide variety of activities can be performed in Turkish Free Zones such as manufacturing, storing, packing, general trading, banking and insurance. Investors are free to construct their own premises, while zones have also available office space, workshops, or warehouses on rental basis with attractive terms. All field of activities open to Turkish private sector are also open to joint-venture of foreign companies. Turkey's geographical location provides significant advantages to the Turkish Free Zones. Generally, these zones are adjacent to major ports on the Mediterranean, Aegean and Black Seas. In addition, they are within easy access from international airports and highways. There are no regulations regarding price, standards, quantity or quality of goods produced or the use of foreign exchange.

As of end of December 2004, 4,069 firms, of which 656 are foreign companies, operate in Turkish free zones. In 2004, the total volume of the Turkish free zones surpassed 22 billion USD by achieving 33.1% increase in comparison with the previous year. The EU countries enjoyed the largest share of 30.5% in the breakdown of the total trade volume.

## INCENTIVES OFFERED IN TURKISH FREE ZONES

- *Exemption from income and corporate taxes generated in Free Zones within the limits of the period specified in operating licenses\**
- *Exemption from the income tax on wages of workers until year 2009\**
- *Exemption from all taxes, levies and duties generated from the activities related to free zones operations until 2009\***Use of all convertible foreign currencies in the Free Zones*
- *Value Added Tax exemption for the Free Zone users who purchase goods and services in Turkey*
- *No limitation on the extent of foreign capital participation in investment within the Free Zones*
- *No limitation for the duration of goods stored in the Free Zones*
- *Free transfer of Free Zone earnings and revenues to any country, including Turkey, freely without any prior permission and without any obligation of taxes, duties and fees*
- *Use of all convertible foreign currencies in the Free Zones*
- *Sales into the domestic market allowed, in contrast to most Free Zones in the world (Sales to the domestic market are subject to a fee of 0.5% of the transaction value.)*
- *Possibility of sending the goods in free circulation to the EU Countries by an A.TR certificate, since Free Zones are part of the Turkey – EU Customs Territory (the goods of third country origin that are not free circulation can only be sent to the EU countries after having paid the rates determined in the Common Customs Tariff)*
- *No procedural restrictions regarding price, standards or quality of goods*
- *Good infrastructure, competitive with international standards*
- *Red tape and bureaucracy minimized, with only one agency in charge*
- *The validity period of an operating license is maximum 10 years for tenant users, and 20 years for users who wish to build their own working spaces in the zone. If the operating license is for production, these terms are 15 and 30 years for tenant users and investors, respectively.*
- *Equal applicability of all incentives and advantages provide in the Free Zones to all firms regardless of their origin.*

*(\*): The real or legal persons that obtained operating licenses before the Law. No. 5084, came into effect on 6.2.2004 are the beneficiaries of this item.*