2008

UNDERSECRETARIAT OF TREASURY
GENERAL DIRECTORATE OF FOREIGN INVESTMENT

FOREIGN DIRECT INVESTMENTS IN TURKEY

REPUBLIC OF TURKEY
PRIME MINISTRY
UNDERSECRETARIAT OF TREASURY

FOREIGN DIRECT INVESTMENTS IN TURKEY 2008

June 2009
GENERAL DIRECTORATE OF FOREIGN INVESTMENT

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A. FOREIGN DIRECT INVESTMENT INDICATORS

1. 2008 OVERVIEW

1.1. World Foreign Direct Investment Flows

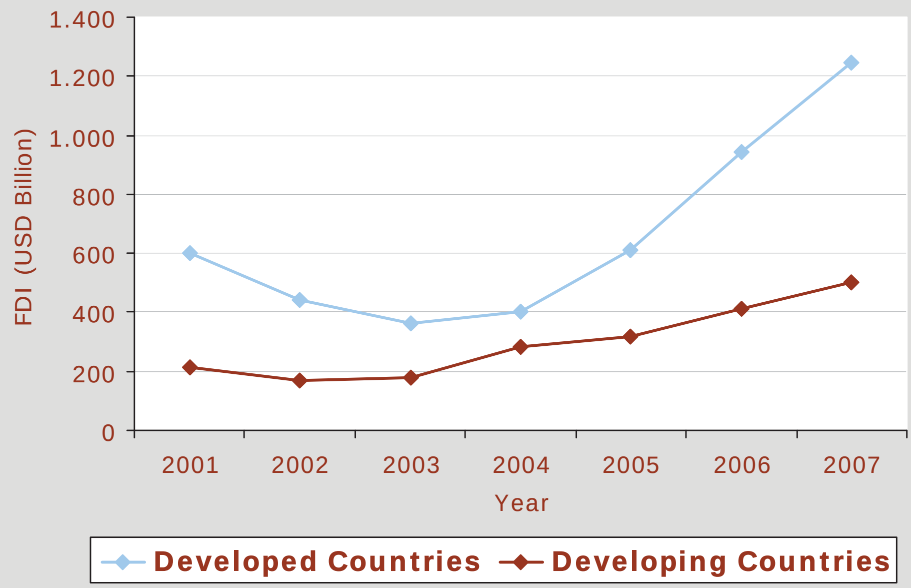
According to the United Nations Conference on Trade and Development (UNCTAD)[1], global foreign direct investment (FDI) inflows, which were at a level of USD 1.41 trillion in 2006, reached USD 1.83 trillion in 2007, representing an increase of 30%. UNCTAD published the World Investment Report 2008 in September 2008. The World Investment Report 2009 is expected to be published on 17 September 2009.

The increase in FDI reflected high economic growth and strong corporate performance. As a result of increased profits of foreign affiliates, especially in developing countries, reinvested earnings reached the 30% of total FDI inflows. The depreciation of the dollar against other currencies was another reason for the record FDI levels.

FDI flows to developed countries increased by 33% to USD 1.3 trillion in 2007 while FDI flows to developing countries increased by 21% and reached a historical record level of USD 500 billion (Chart 1).

1 Word Investment Report (WIR) 2008, UNCTAD

Chart 1: Distribution of Inward FDI According to Country Groups



Source: WIR, 2008

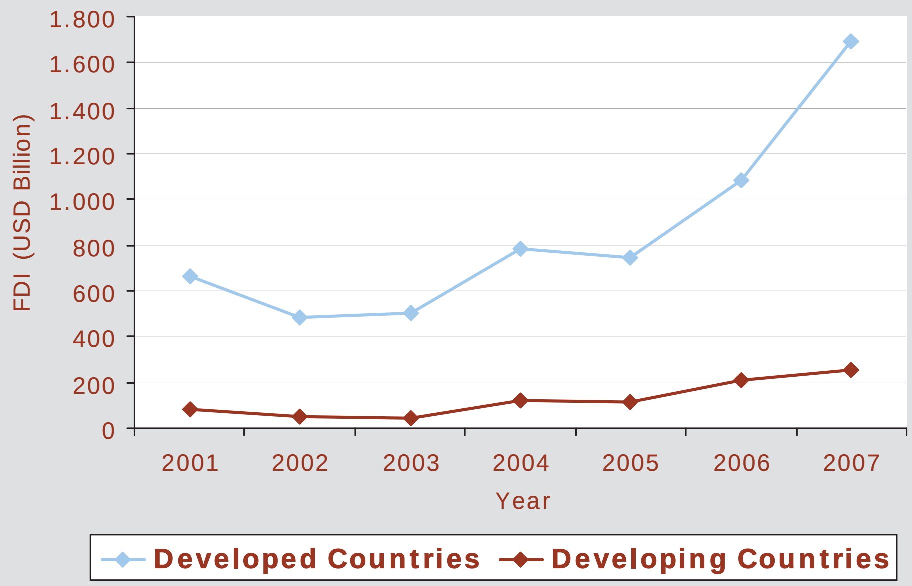
USA maintained its position as the largest recipent country with an FDI inflow of USD 232.8 billion. USA is followed by the UK (USD 224.0 billion), France (USD 158.0 billion), Canada (USD 108.7 billion), and the Netherlands (USD 99.4 billion). In 2007 European Union countries managed to attract almost two thirds of total FDI inflows into developed countries. Among developing and transition economies, the largest recipient countries are China (USD 83.5 billion), Hong Kong (USD 59.9 billion), and Russia (USD 52.5 billion). In the same period, FDI inflows into the least developed countries reached USD 13 billion.

Turkey with an FDI inflow of USD 22 billion in 2007 was ranked the 23rd in the world and the 9th among developing countries (Table 2).

Developed countries were the source for 85% of the total FDI outflows in the world in 2007. FDI outflows from developed countries reached a level of USD 1.7 trillion. Developed countries maintained their position as the largest outward investors (Chart 2).

Among developed countries, USA (USD 313.8 billion), the UK (USD 265.8 billion), France (USD 224.7 billion), Germany (USD 167.4 billion), and Spain (USD 119.6 billion) were the top five countries as the source for 64% of the total FDI outflow of developed countries. Among the developing and transition economies, Hong Kong (USD 53.2 billion), Russia (USD 45.7 billion), and China (USD 22.5 billion) were the most important sources of FDI, totaling USD 253 billion (Chart 2). Turkey became the 50th in the world with an outward FDI amount of USD 2.1 billion.

Chart 2: Distribution of Outward FDI According to Country Groups



Source: WIR, 2008

By the end of 2007, the total FDI stock value in the world reached USD 15.2 trillion. USA (USD 2.1 trillion) and the UK (USD 1.4 trillion) are the economies with the highest amount of FDI stock (Table 1).

Table 1: Top Ten Countries with respect to FDI Stock and Turkey (2007)

Rank	Country	FDI Stock (USD Billion)
1	USA	2,093.1
2	UK	1,347.7
3	Hong Kong (China)	1,184.5
4	France	1,026.1
5	Belgium	748.1
6	Netherlands	673.4
7	Germany	629.7
8	Spain	537.5
9	Canada	520.7
10	Italy	364.8
21	Turkey	145.6

Source: WIR, 2008

31% of the total FDI stock in the world is in developing countries. Hong Kong, Brazil, China, Russia, Mexico and Singapore are the top five developing countries with respect to stock value. Turkey is the 21st in the world with an FDI stock value of USD 145.6 billion.

Mergers and Acquisitions (M&A's)

When compared to the previous record level in 2000, cross-border mergers and acquisitions (M&A) reached USD 1.6 trillion in 2007, representing an increase of 21%.

Expectations for the 2008 FDI Flows

The slowdown in the world economy and the financial crisis has led to a liquidity crisis in money and debt markets in many developed countries. As a result, there was a significant slowdown in M&A transactions. The total deal value of M&A transactions realized in the first half of 2008 showed a decrease of 29% when compared to the same period of 2007. In addition, corporate profits and syndicated bank loans also decreased.

In the light of the available January 2009 data, UNCTAD[2] estimated a decrease of 21% in global foreign direct investment (FDI) flows in 2008[3]. On the other hand, FDI inflows to the developing countries are expected to be less affected. While UNCTAD's World Investment Prospect Survey 2008-2010 predicts a rising trend in terms of FDI in the medium term, investors are less optimistic and more cautious in investment plans than they were in 2007.

2 "Assessing the Impact of the Current Financial and Economic Crisis On Global FDI Flows", UNCTAD. In November 2008 in OECD Investment News this value was expected to perform as USD 1,2 trillion.

3 The global FDI figures have not been finalized yet. Finalized data will be published by UNCTAD in the coming period.

Box 1: Dealwatch M&A Report

Crossborder M&A Transactions in Emerging Markets in 2008…

Dealwatch is a comprehensive data base that offers elaborate information on the type of deal; names, countries and sectors of concerned companies, and deal value with regard to M&A, privatization and public offerings in Emerging Markets.

According to the Dealwatch data, there were 8.011 M&A deals in the Emerging Markets in 2008. Compared to 2007, the number of deals increased by 10%. However, when compared to 2007, the total deal value decrased by 25% and it was EUR 394.2 billion (USD 599.1 billion) in 2008.

As in 2007, China (1,393.deals) and Russia (1,333 deals) were the most popular target countries for M&A deals in 2008. They were followed by Brazil (609 deals), India (540 deals), Ukraine (524 deals) ve Poland (432 deals). Turkey (228 deals) was the 9th in the list of Emerging Markets in 2008.

54% of deals (4,315 deals) concluded in the Emerging Markets were acquisitions of majority stakes and 2,712 deals were acquisitions of minority stakes. Compared to 387 privatizations in 2007, there were 365 privatizations in 2008. On-going financial crisis in the last quarter of 2008 affected the value of stakes negatively. For this reason, state treasuries were very reluctant to sell stakes and a slowdown in privatizations occured.

According to M&A transactions in 2008 by sector, the top sector was manufacturing with 2,346 deals. It was followed by finance and insurance (959 deals), information and IT (886 deals), and real estate and renting services (708 deals).

Box 1 (Cont'd):

Crossborder M&A Transactions in Turkey in 2008...

According to the Dealwatch data, there were 259 deals in Turkish M&A market in 2008 (2007-203 deals). Although the number of deals in 2008 increased, when compared to 2007, the total deal value decrased by 6.6% and it was EUR 20.4 billion (USD 31 billion).

In 2008 the most active sectors were manufacturing (87 deals), transportation (44 deals), real estate (26 deals), finance (22 deals), retail trade (21 deals) and utilities (21 deals). When the total deal size is reviewed, it can be observed that there was a significant increase in retail trade sector, but a significiant decrease in financial service sector. The acquisition of shares of Migros by a UK-based private equity firm, BC Partners, and the buy-out of sports betting firm, İddaa by the joint venture of Çukurova Holding and Intralot (Greece) for a period of 10 years were the biggest deals in 2008.

When the activities of Turkish investors are considered, the first three target countries were Russia (5 deals), Germany (4 deals) and Romania (4 deals). The acquisition of 51% of shares of Indian-based telecommunication firm Datacom Solutions by Turkcell for EUR 881.2 million (USD 1,339 million) was the largest outward deal for Turkish investors in 2008.

Source: Dealwatch Global M&A Report, Issue: March 2009

Table 2: Top Ten FDI Recipient Countries and Turkey 2004-2007 (USD Billion)

2004		
Rank	Country	FDI
1	USA	135.8
2	China	60.6
3	UK	56.0
4	Belgium	43.6
5	Australia	36.1
6	Hong Kong	34.0
7	France	32.6
8	Spain	24.8
9	Mexico	22.9
10	Singapore	19.8
39	Turkey	2.8
	World Total	717.7

2005		
Rank	Country	FDI
1	UK	177.9
2	USA	104.8
3	France	85.0
4	China	72.4
5	Netherlands	47.7
6	Germany	42.0
7	Belgium	34.3
8	Hong Kong	33.6
9	Canada	27.0
10	Spain	25.0
25	Turkey	10.0
	World Total	958.7

2006		
Rank	Country	FDI
1	USA	236.7
2	UK	148.2
3	France	78.2
4	China	72.7
5	Belgium	64.4
6	Canada	62.8
7	Germany	55.2
8	Hong Kong	45.1
9	Italy	39.2
10	Russia	32.4
17	Turkey	20.0
	World Total	1,411.0

2007		
Rank	Country	FDI
1	USA	232.8
2	UK	224.0
3	France	158.0
4	Canada	108.7
5	Netherlands	99.4
6	China	83.5
7	Hong Kong	59.9
8	Spain	53.4
9	Russia	52.5
10	Germany	50.9
23	Turkey	22.0
	World Total	1,833.3

Source: World Investment Report 2008 “Transnational Corporations and the Infrastructure Challenge”, UNCTAD

Box 2: The Impact of the Current Financial and Economic Crisis on Global FDI Flows

The year 2008 will be the end of growth in foreign investment that started in 2004. In 2007, global FDI flows reached the record level of USD 1.8 trillion. Due to the current financial and economic crisis, global FDI flows were expected to fall in 2008 by 21%. In 2008, FDI flows to Turkey fell by 18% to USD 18.2 billion. Beacuse of the decrease in the investment spendings of transnational corporations as they are affected by the crisis, in 2009, a further decrease in FDI flows can be expected.

The decrease in FDI flow in 2008-2009 is based on two fundamental reasons. First, there has been a decline in the investment capacity of firms because of the decline in corporate profits, difficulties in accessing financial resources, and the higher cost of finance. Second, propensity to invest has been affected negatively especially in the developed countries affected by severe recession. Due to any further effects of economic crisis on business environment, companies review the costs and investment programs. Market-seeking, efficiency-seeking and resource-seeking FDI will be affected by these factors on different scales.

The decline in FDI has affected cross border M&A negatively. Compared to the previous year's record, there was a sharp decrease in cross border M&A in 2008. This decline can be expained by restructurings and divestments. International greenfield investment has been less influenced, but could be increasingly affected in 2009 as a result of postponed and cancelled projects.

The impact of financial crisis on FDI varies, depending on the region and the sector. Developed countries were the most affected by the decline in FDI flow in 2008. On the other hand, FDI to developing countries continued to increase in 2008. However, the rate of increase was lower than the previous year. FDI flows to those countries in 2009 is expected to decline. Efficiency and resource seeking FDI planning to export to developed countries will reduce due to the economic recession in those countries. Furthermore, market seeking FDI planning to offer services in local markets will begin to withdraw from the developing countries.

Box 2 (Cont'd):

Financial services, automotive industries, building materials, intermediate goods and some consumption goods have been the most affected sectors in terms of FDI flows. Other sectors ranging from the primary sector to non-financial services have also been affected by the consequences of the crisis.

In the short term, the economic recession may have a negative impact on global FDI prospects. Because of the unexpected magnitude of the crisis and structural changes in the world economy, it is not possible to assess medium term FDI prospects. On the other hand, some factors for FDI growth are still at work and some of these are considered as the consequences of the crisis.

In the medium term The factors such as cheap asset prices, investment opportunities triggered by restructuring industry, the large amount of financial resources available in developing countries, rapid expansion of new activities related to new energy sources and environment, and the propensity of internationalization of companies are expected to trigger FDI flows.

The predicted date of an expected increase in FDI flows will depend on many uncertain factors such as the speed of economic and financial recovery, the efficiency of public policies dealing with reasons behind the global economic crisis, gaining investors' confidence and the ability to prevent protection tendencies. Three different scenarios are presented. First, there will be a quick upturn in FDI flows by 2010. Second, FDI flows will begin to increase at the beginning of 2011. And third, FDI flows will not display a tendency to increase before 2012.

Public policies will play an important role in providing the suitable conditions for recovery in FDI flows. The application of structural reforms aimed to provide stability in the global financial system, maintaining the dependency on open economy, implementation of policies for an increase in investment and innovations are important topics in this respect. In effectively dealing with the consequences of the crisis, making quick solution proposals, taking protective measures, and providing an investment climate are important.

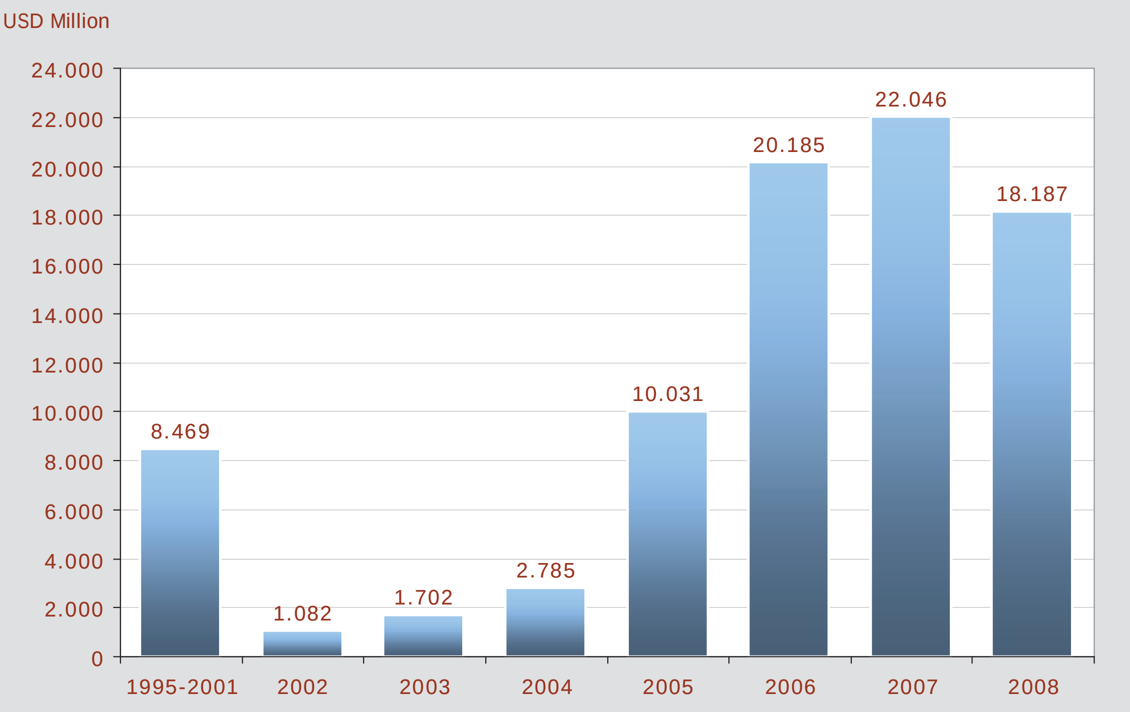
Source: UNCTAD, "Assessing The Impact of The Current Financial and Economic Crisis On Global FDI Flows" January 2009

1.2. Foreign Direct Investment Inflows to Turkey

1.1.1. Components of Foreign Direct Investment Inflows[4]

Turkey has remained retained its position as an attractive investment destination for international investors. The FDI inflow to Turkey, which was at the level of USD 22.0 billion in 2007, was USD 18.2 billion in 2008.

Chart 3: FDI Inflows in Turkey Between 1995 and 2008



Source:CBRT

4 According to Foreign Direct Investment Law no 4875; foreign direct investment inflow is defined as the net amount of cross-border transfers by companies based in Turkey which are classified as equity capital or other capital in Central Bank of The Republic of Turkey's balance of payment statistics and transfers for acquisitions of real estate by foreigners.

Table 3: FDI Inflows and Their Distribution by Components Between 1995-2008 (USD Million)[5]

	1995-2001 (Cumulative)	2002	2003	2004	2005	2006	2007	2008
Cumulative FDI (net)	8.469	1.082	1.702	2.785	10.031	20.185	22.046	18.187
FDI	*8.469*	*1.082*	*704*	*1.442*	*8.190*	*17.263*	*19.120*	*15.250*
Capital (Net)	8.469	566	556	*888*	*8.053*	*16.876*	*18.099*	*14.672*
Inflow	*9.547*	*571*	*564*	*986*	*8.454*	*17.533*	*18.842*	*14.707*
Outflow	*-1.078*	*-5*	*-8*	*-98*	*-401*	*-657*	*-743*	*-35*
Reinvested Earnings [a]	-	-	132	204	81	106	294	204
Other Capital[b]	-	516	16	350	56	281	727	374
Real Estate Purchases (Net)	-	-	*998*	*1.343*	*1.841*	*2.922*	*2.926*	*2.937*

Source:CBRT
a) Estimate
b) Investment credits received by foreign-owned companies from the foreign partner

Out of the USD 18.2 billion of the FDI inflow received in 2008, USD 15.3 billion was the equity component and USD 2.9 billion was from real estate purchases.

The largest FDI inflow in 2008 was USD 1.918 million paid by Moonlight Capital S.A. (Luxembourg), a subsidiary of UK investment fund BC Partners, for the acquisition of 50.8% stake of Migros. The acquisition of shares of Türkiye Finans Katılım Bankası and Ereğli Demir Çelik for approximately USD 1 billion was other largest FDI inflows (Table 4).

5 2008 data which were released in 2009 Balance of Payments Report published by Central Bank of the Republic of Turkey in April 2009 were used in this report. Balance of Payments statistics concerning previous years which are published by the Central Bank of the Republic of Turkey are revised retrospectively upon requirement.

Table 4: Top 5 FDI Inflows in 2008[a]

Acquired Company	Acquiring Company	Home Country of the Acquiring Company	Ratio of Shares Taken Over (%)	Foreign Direct Investment (USD Million)
Migros	Moonlight Capital	Luxembourg	50.8	1,918
Türkiye Finans Katılım Bankası	The National Commercial Bank	Saudi Arabia	60.0	1,080
Ereğli Demir Çelik [b]	Arcelor-Mittal	Luxembourg	11.3	959
Finansbank	National Bank of Greece	Greece	9.7	697
Tekel Sigara [c]	British American Tobacco	UK	100.0	611
Toplam				9,456

Source: Undersecretariat of Treasury, Central Bank of the Republic of Turkey
a) According to the equity FDI inflows in 2008
b) The amount was paid by Arcelor-Mittal for 11.3% of Ereğli Demir Çelik in the stock exchange and transferred by the UK. As a result of this transaction, the shares of Arcelor-Mittal in the Ereğli Demir Çelik increased to 24.9%.
c) Of the USD 1.8 billion of the amount paid by the UK-based British American Tobacco (BAT) for tender of Tekel Sigara Fabrikaları, USD 611 million was indicated as FDI statistics and USD 1.2 billion was indicated as credit in the balance of payments.

1.2.2. Foreign Direct Investments by Sector

In 2008, 65.4% of the FDI inflow was realized in the financial intermediation (39.7%) and manufacturing (25.7%) sectors (Table 5).

Table 5: FDI Inflows by Sector, 2008 (USD Milion)

Rank	Sector	Capital	(%)
1	Financial Intermediation	5,925	39.7
2	Manufacturing	3,828	25.7
3	Wholesale and Retail Trade	2,073	13.9
4	Electricity,Gas and Water Supply	1,053	7.1
5	Construction	736	4.9
6	Real Estate, Renting and Business Activities	673	4.5
7	Mining and Quarrying	173	1.2
8	Transport, Storage and Communication	169	1.1
9	Health and Social Work	150	1.0
10	Other Community, Social and Personal Service Activities	59	0.4
	Other	72	0.5
	Total	14,911	100.0

Source: CBRT

Finance continues to be the most attractive sector for FDI in Turkey and in the world. In fact, according to the sectoral distribution of the world total FDI inflow between 2004 and 2006 announced by UNCTAD, finance (USD 197.9 billion) and business activities[6] (USD 144.1 billion) are the top two sectors in terms of attracting FDI. Mining and quarrying (USD 134.0 billion) follow[7].

6 According to NACE sectoral classifications, business activities sector includes: legal, accounting, book-keeping and auditing activities; tax consultancy; market research and public opinion polling; business and management consultancy; holdings; architectural and engineering activities and related technical consultancy; technical testing and analysis; advertising; labour recruitment and provision of personnel; investigation and security activities; industrial cleaning and miscellaneous business activities n.e.c.

7 UNCTAD, World Investment Report 2008

1.2.3. FDI Flows by Home Country

Table 6: FDI Flows by Home Country 2007-2008 (USD Million)

2007			
Rank	Country	Capital	(%)
1	Netherlands	5,443	28.4
2	USA	4,212	22.0
3	Greece	2,360	12.3
4	Germany	954	5.0
5	UK	702	3.7
6	Portugal	701	3.7
7	Kazakhstan	613	3.2
8	Spain	583	3.0
9	Luxembourg	583	3.0
10	Brazil	467	2.4
	Other	2,518	13.2
	Total	19,136	100.0

2008			
Rank	Country	Capital	(%)
1	UK	2,294	15.4
2	Luxembourg	2,086	14.0
3	Netherlands	1,755	11.8
4	Saudi Arabia	1,244	8.3
5	Germany	1,217	8.2
6	USA	863	5.8
7	Spain	825	5.5
8	Greece	779	5.2
9	France	685	4.6
10	Austria	569	3.8
	Other	2,594	17.4
	Total	14,911	100.0

Source: CBRT

75.8% of the total inflows realized in 2008 (USD 11.3 billion) came from the EU countries and 5.8% (USD 0.9 billion) came from the USA. The corresponding ratios for 2007 were 65.8% (USD 12.6 billion) and 22.0% (USD 4.2 billion), respectively.

The first three countries for 2008 FDI inflows were the UK (15.4%), Luxembourg (14.0%) and the Netherlands (11.8.%). The amount transferred by Arcelor-Mittal for the shares of Ereğli Demir Çelik and the amount transferred by British American Tobacco for the shares of Tekel Sigara made the UK the leading investor in Turkey. The amount paid by Moonlight Capital for the shares of Migros, the capital increases of ING and the amount paid by ING for the shares of Oyak Emeklilik were the determining capital transfers from Luxembourg and the Netherlands, respectively, which enabled their top positions on the list.

1.2.4. FDI in Privatization[8]

British American Tobacco, which was awarded the tender for Tekel Sigara Fabrikaları on 22 February 2008, paid USD 1.8 billion in June. Of the USD 1.8 billion, USD 611 million was indicated as FDI, and USD 1.2 billion was indicated as credit in the balance of payments statistics.

Socar-Turcas Petrokimya established by a Socar-Turcas-Injaz Consortium won the tender for the privatization of 51% of the public shares of Petkim Petrokimya Holding A.Ş. (Petkim). Socar-Turcas Petrokimya paid USD 1.66 billion of the total amount of tender to the Privatization Administration on 29 May 2008 and the remaining amount (USD 380 million) has been subscribed to be paid by equal installments in three years. The amount of USD 1.66 billion was fully paid with credit and was indicated as credit in the balance of payments statistics in May.

As a result of these transactions, total capital transfer of FDI from privatization activities reflected in the balance of payments was USD 611 million in 2008.

Table 7: Privatization and FDI (USD Million)

Year	Privatization Amount	FDI Inflows Through Privatization
2000[a]	3,302	585
2001[a]	2,579	2,369
2002	537	-
2003	187	-
2004	1,283	49
2005	8,222	1,500
2006	8,095	1,768
2007	4,230	-
2008	6,297	611
Total	34,732	6,882

Source: Privatization Administration, CBRT
a) Including GSM operator's license fees

8 Acquisitions of the companies included in the portfolio of Saving Deposit Insurance Fund (SDIF) by foreign-owned companies in 2008 is not included in this section.

1.2.5. Cross-border M&A Activities and FDI

Cross-border M&A activities have been an important part of FDI inflows both in the Turkish economy and in the world recently. In 2007, the total deal value of the cross-border M&A activities in the world was USD 1,637 billion and the total FDI flow value in the world was USD 1,833 billion. Therefore the ratio of the total volume of the cross-border M&A transactions to that of FDI flows was 89.3%[9]. The corresponding ratio in Turkey was 51.8% in 2008.

In 2008, the total value of the M&A transactions reflected as FDI in the balance of payments statistics is about USD 8.8 billion. The payments for the transactions which were not realized in 2008 are expected to take place in 2009 and in the following years.

In Turkey, finance had the largest share (45%) within the large scale M&A transactions reflected as FDI in 2008.

9 WIR 2008, UNCTAD

Box 3: Deloitte 2008 M&A Report

Crossborder M&A Transactions in Turkey in 2008...

2008 was the fourth consecutive year with sizable M&A activity in Turkey. Total deal value reached USD 18.4 billion. As compared to 2007, deal volume in the last quarter of 2008 decreased by 60% with the impact of on-going financial crisis.

172 M&A transactions were realized in 2008, with the deal value announced for 86 of these transactions. The total deal value of those announced transactions is USD 16.3 billion. When the estimates for the transactions whose values were not announced are taken into consideration, the total deal value goes up to USD 18.4 billion (2007-USD 20.5 billion). The total deal value of the M&A transactions undertaken by foreign investors is USD 13.8 billion, which means a foreign share of 75%. The UK is the leading country with USD 4.8 billion followed by Austria (USD 1.2 billion) and Czech Republic (USD 900 million). When the number of transactions is considered, 108 transactions were undertaken by foreign investors and Germany (18), Austria (12) and the USA (10) are the important investor countries.

In 2008, despite the financial crisis, total deal number realized by financial investors was 32 and total deal value of these transactions was approximately USD 6.5 billion. The acquisition of 97.9% of shares of Migros by the UK based partnership of BC Partners-DEA Capital-Turkven in exchange for USD 3.1 billion was the biggest M&A deal undertaken in 2008. British American Tobacco's acquisition of Tekel Sigara, the partnership of Global Yatırım Holding-Energaz-Abn Amro's acquisition of Başkent Doğalgaz and the partnership of Enerjisa-Sabancı Holding-Verbund's acquisition of Başkent Elektrik Dağıtım were other important deals whose volumes were higher than USD 1 billion. Excluding privatizations and top 5 private sector deals, the average deal size in 2008 was approximately USD 40 million. This indicates an increase in M&A activities in small and medium segment.

Box 3 (Cont'd):

Expectations for 2009 M&A...

According to M&A transaction by sector, in terms of the number of deals, services (24), financial services (20) and energy (19), and in terms of deal value, energy (USD 5.8 billion), retail (USD 3.2 billion) and financial services (USD 2.4 billion) were the most important sectors. Privatizations in energy and tobacco sectors and the sale of Migros affected the sectoral distribution.

The year 2009 is not expected to be a profitable year. As on-going financial crisis evolves into a recession in developed countries, strategic investors are very reluctant to invest. Strategic investors' deals are expected to decrease in 2009. As a result of an increase in risk perception, tighter credit conditions restrain investment opportunities. In addition, Turkish shareholders are reluctant to sell companies at falling values of stakes. On the other hand, deferred privatizations will be determinative of foreign investment in 2009. While financial investors' interest is expected to continue in 2009, due to financial diffficulties, this interest may shift to small and medium sized companies. Because of the drop in oil prices, it is expected that Gulf region investors will be more conservative in taking investment decisions. M&A volume in 2009 is predicted to drop by half of the M&A volume in 2008.

Source: Deloitte Annual Turkish M&A Review 2008, January 2009

Box 4: Dealwatch Private Equity Report

Private Equity in Turkey...

In 2008, there were 29 private equity deals in Turkey with a total deal value of EUR 4.8 billion (USD 7.3 billion). In 2007, there were 26 private equity deals with a total deal value of EUR 2.8 billion (USD 4.3 billion). Despite the ongoing financial crisis in 2008, the number of private equity deals and deal volumes increased. Out of 29 private equity deals in 2008, 15 deals with a total deal value of EUR 4.4 billion (USD 6.7 billion) were completed and remaining 14 deals were pending at the end of 2008.

The substantial rise in total private equity transaction value in 2008 was the result of the acquisition of Migros Türk, the biggest private equity deal, by BC Partners – a UK based private equity firm. The sum for the acquisition of shares by BC Partners from Koç Holding and stock exchange was EUR 3.3 billion (USD 5 billion). This amount was roughly 91% of the total private equity transaction value for 2008.

According to private equity transactions by sector, manufacturing (10 deals) and retail trade (5 deals) were the most important sectors followed by other service sectors.

When private equity entry and exit are considered for 2008, there were 27 entries with a total deal value of EUR 4.7 billion (USD 7.1 billion), and 3 exits with a total deal value of EUR 50 million (USD 76 million). This shows that Turkey remains attractive in terms of private equity funds.

Box 4 (Cont'd):

Expectations for 2009...

Ongoing worldwide financial and economic crisis has affected M&A transactions negatively. The majority of respondents participating in a survey conducted by Dealwatch expects an increase in M&A transactions by private equity funds in developing countries beginning from the second half of 2009. Due to the financial crisis, low valuation of assets will have an important share of investors' targets. On the other hand, in Central and Eastern Europe countries, the attraction for private equity funds may be negatively affected by the downturn and possible recession in these countries as the main reason for the region's interest in these funds is huge growth potential.

It is expected that the most attractive sectors for private equity funds will be healthcare and energy in Central and Eastern Europe countries since investors believe that they are less affected by the economic fluctuation.

Source: Dealwatch CEE Private Equity Report, January 2009

1.2.6. FDI Inflows by Recipient Provinces in Turkey

İstanbul was the province that attracted the largest amount of FDI (88.24%) in 2008. Zonguldak followed İstanbul with a share of 6.52%.

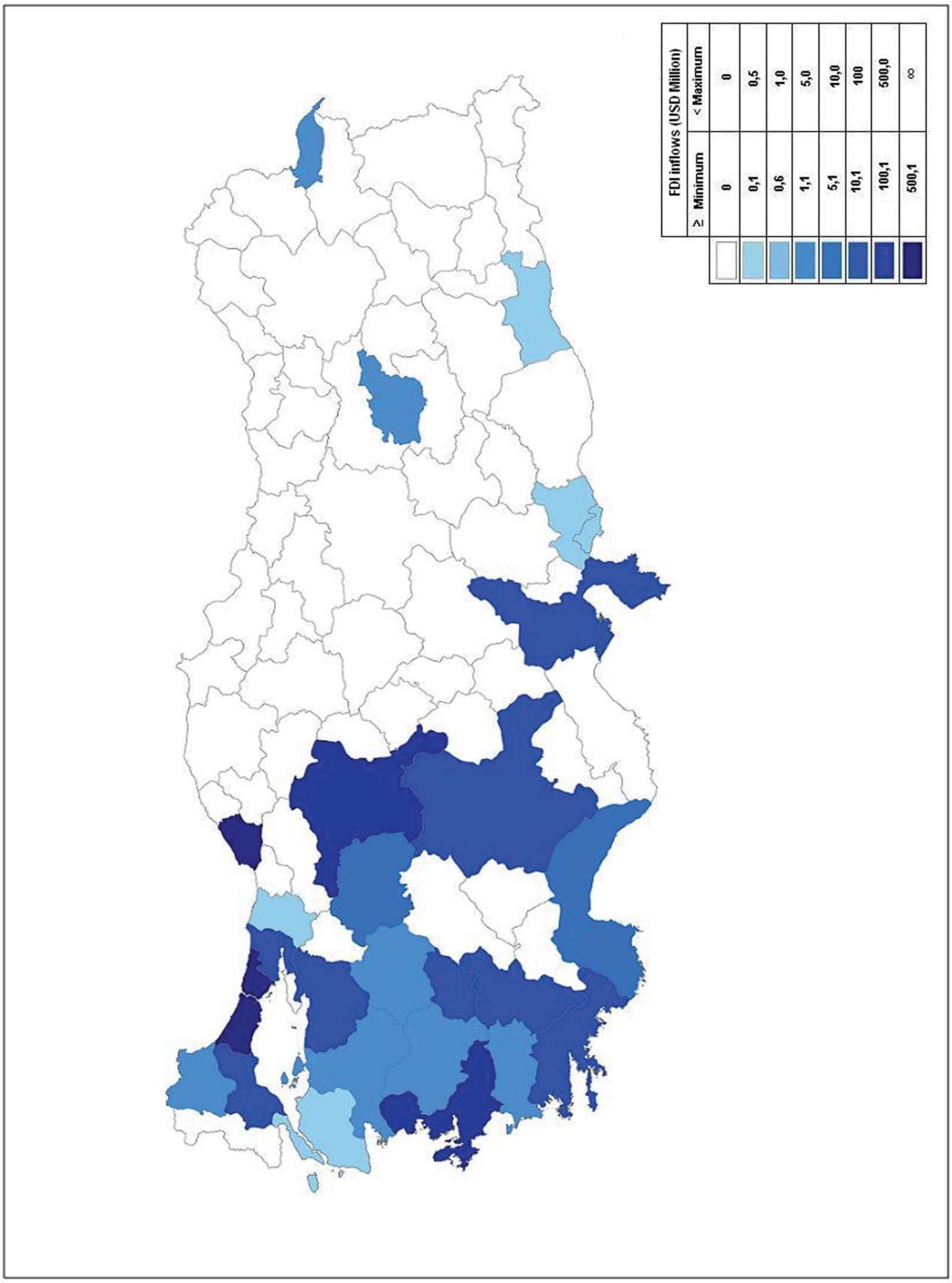
Table 8: FDI Inflows by Provinces in 2008 (USD Million)

Province	FDI Inflow	(%)
İstanbul	12,977.1	88.24
Zonguldak	959.6	6.52
İzmir	226.3	1.54
Ankara	205.7	1.40
Adana	82.4	0.56
Kocaeli	82.3	0.56
Hatay	41.9	0.29
Denizli	22.0	0.15
Bursa	21.9	0.15
Muğla	18.7	0.13
Uşak	11.4	0.08
Tekirdağ	11.4	0.08
Konya	10.6	0.07
Antalya	7.2	0.05
Eskişehir	6.9	0.05
Aydın	4.2	0.03
Kütahya	3.5	0.02
Kırklareli	3.1	0.02
Manisa	3.0	0.02
Şanlıurfa	2.5	0.02
Iğdır	2.4	0.02
Balıkesir	1.4	0.01
Other	1.1	0.01
Toplam	14,707.0[a]	100.00

Source: Undersecretariat of Treasury
a) CBRT's estimation of reinvested earnings is excluded

Other indicators concerning FDI such as the numbers of the FDI projects and foreign-owned companies have a more balanced distribution among provinces compared to the distribution of investment inflows. Due to the registration of Turkish headquarters of multinational companies in major cities, FDI inflows seem to be concentrated mainly in large cities.

Map 1: The Distribution of FDI Inflows by Provinces, 2008



1.3. Number of Companies with Foreign Capital in Turkey

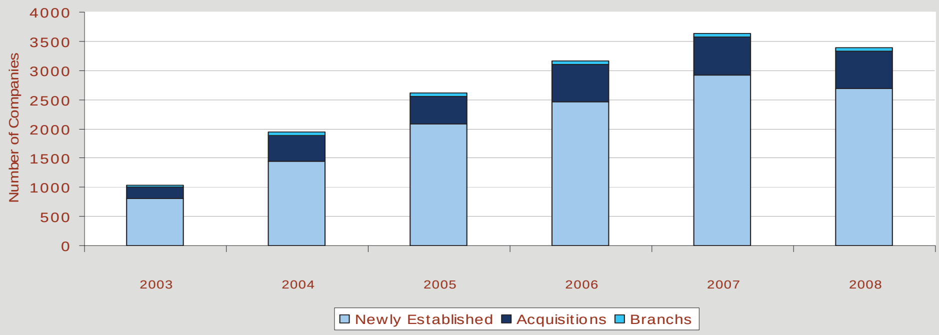
As of the end of 2008, a total of 21,079 companies with foreign capital were in operation in Turkey. 17,160 of these were companies and branch offices with foreign capital, and 3,919 were domestic companies with the participation of foreign capital (Table 9).

Table 9: Number of Companies with Foreign Capital by Year According to Their Mode of Establishment

Year	Company Establishment	Participation	Branch Office	Total
1954-2002 (Cumulative)	4.221	871	202	5.294
2003	800	198	31	1.029
2004	1.440	446	62	1.948
2005	2.081	478	54	2.613
2006	2.473	633	63	3.169
2007	2.913	655	61	3.629
2008	2.695	638	64	3.397
Total	16.623	3.919	537	21.079

Provisional Data, Source: Undersecretariat of Treasury

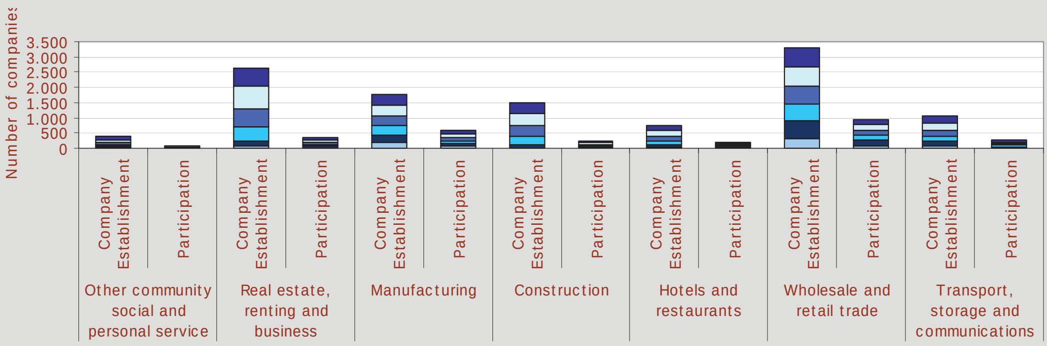
Chart 4: Breakdown of Foreign-Owned Companies by Mode of Establishment (2003-2008)



Provisional Data, Source: Undersecretariat of Treasury

Between 2003 and 2008, the ratio of the total number of company establishments and branch offices within the total companies with foreign capital was approximately 80%.

Chart 5: Breakdown of Foreign-owned Companies by Sector According to Mode of Entry 2003-2008



Provisional Data, Source: Undersecretariat of Treasury

The majority of the companies with foreign capital in Turkey is in the wholesale and retail trade businesses, which are followed by real estate rental, business services and manufacturing sectors.

While the number of companies with foreign capital increased by 31% between 2004 and 2007, there was a decrease of 6.4% in 2008 (Table 10).

Table 10: Foreign Direct Investment Inflow &Number of Companies with Foreign Capital

	Number of Companies with Foreign Capital	Foreign Direct Investment Inflow (Million $)	% Change of The Number of Companies with Foreign Capital	% Change of Foreign Direct Investment Inflow
1954-2002 (Cumulative)	5.294	15.076	--	--
2003	1.029	1.702	--	--
2004	1.948	2.785	89,3	63,6
2005	2.613	10.031	34,1	260,2
2006	3.169	20.185	21,3	101,2
2007	3.629	22.046	14,5	9,2
2008	3.397	18.187	-6,4	-17,5
Total	21.079	90.012	--	--

Provisional Data, Source: Undersecretariat of Treasury, Central Bank of the Republic of Turkey

In 2008, 2,759 companies and branches with foreign capital were established in Turkey and there were 638 participations to existing companies with domestic capital (Table 11). In 2007, the number of companies with foreign capital and branches established was 2,974 and there were 655 participations to existing companies with domestic capital.

Table 11: Breakdown of Companies with Foreign Capital by Mode of Establishment- (2006-2007 Monthly)

	2007				2008				% Change
	Company Establishment	Participation	Branch Office	Total	Company Establishment	Participation	Branch Office	Total	
January	199	40	5	244	240	61	9	310	27,0
February	209	57	11	277	231	53	8	292	5,4
March	261	58	2	321	261	50	5	316	-1,6
April	208	51	6	265	250	56	4	310	17,0
May	306	71	7	384	302	65	4	371	-3,4
June	236	57	4	297	230	65	4	299	0,7
July	271	53	0	324	270	54	6	330	1,9
August	246	52	10	308	231	60	6	297	-3,6
September	273	50	8	331	196	38	2	236	-28,7
October	263	60	3	326	170	46	7	223	-31,6
November	280	72	4	356	173	47	4	224	-37,1
December	161	34	1	196	141	43	5	189	-3,6
Total	2.913	655	61	3.629	2.695	638	64	3.397	-6,4

Provisional Data, Source: Undersecretariat of Treasury

1.3.1. Sectoral Breakdown of Companies with Foreign Capital

As of the end of 2008, of the 21,079 companies with foreign capital, the majority (6,210) operated in the wholesale and retail trade businesses, while 3,757 operated in the manufacturing sector and 2,408 in the real estate leasing business. Among the companies with foreign capital operating in the manufacturing sector, textile manufacturing takes the lead, followed by chemical substance manufacturing, and then by food products and beverage manufacturing sub-sectors (Table 12).

Table 12: Breakdown of Companies with Foreign Capital by Sector

Sectors	1954-2002 (Cumulative)	2003	2004	2005	2006	2007	2008	1954-2008 Total
Agriculture, hunting, fishing and forestry	85	23	30	34	46	51	60	329
Mining and quarrying	93	12	31	51	49	82	93	411
Manufacturing	1.347	249	349	407	448	498	459	3.757
Manufacture of food products and beverages	144	20	51	39	45	37	33	369
Manufacture of textiles	130	58	52	67	51	50	20	428
Manufacture of chemicals and chemical products	168	27	42	36	38	56	47	414
Manufacture of machinery and equipment n.e.c.	105	19	23	27	52	46	44	316
Manufacture of motor vehicles, trailers and semi-trailers	110	15	18	20	16	19	21	219
Other Manufacturing	690	110	163	218	246	290	294	2.011
Electricity, gas and water supply	65	9	15	10	43	77	115	334
Construction	194	29	127	322	418	498	382	1.970
Wholesale and retail trade	1.879	403	797	722	780	827	802	6.210
Hotels and restaurants	574	62	77	167	202	212	226	1.520
Transport, storage and communications	408	83	209	229	269	298	300	1.796
Financial intermediation	105	12	6	19	48	41	44	275
Real estate, renting and business activities	358	87	225	503	683	860	692	3.408
Other community, social and personal service activities	186	60	82	149	183	185	224	1.069
Total	5.294	1.029	1.948	2.613	3.169	3.629	3.397	21.079

Provisional Data, Source: Undersecretariat of Treasury

The worldwide trend of FDI concentration on services sector is also observable in Turkey. In the sectoral breakdown of the companies in operation in the years of 2005, 2006 and 2008 (the number of companies were 2,613, 3,169 and 3,397, respectively), the first three sectors according to the number of companies in operation are wholesale and retail trade, real estate leasing and manufacturing businesses. While, up until 2004, the manufacturing industry sector followed the wholesale and retail trade sector, it fell behind the real estate leasing sector between 2005 and 2008. In 2008, among the companies with foreign capital in operation in the manufacturing industry sector, textile products manufacturing takes the lead, followed by chemical substance and product manufacturing and machinery-equipment manufacturing sectors.

1.3.2. Companies with Foreign Capital by Country of Origin

When the distribution of the total 21,079 companies with foreign capital is concerned according to their country of origin, it is clearly seen that companies with EU origin take the lead with the number of 11,626. Of these EU origin companies, Germany (3,600 firms), the United Kingdom (2,021 firms) and the Netherlands (1,673 firms) are the first three countries with the highest number of companies with foreign capital in Turkey (Table 13).

Of the total 3,397 companies established in 2008, 1,789 were from the EU, 567 were from Near and Middle Eastern countries and 548 were from other countries dispersed globally (Table 13).

Table 13: Breakdown of Companies with Foreign Capital According to their Country of Origin

Countries	1954-2002 (Cumulative)	2003	2004	2005	2006	2007	2008	1954-2008 Total
European Union	2.787	436	1.006	1.545	1.979	2.084	1.789	11.626
Germany	925	137	355	469	556	563	595	3.600
The Netherlands	467	65	138	192	270	255	286	1.673
United Kingdom	351	67	130	308	461	456	248	2.021
Other European Countries	1.044	167	383	576	692	810	660	4.332
Other European Countries (Excluding EU)	585	134	265	320	372	492	548	2.716
African Countries	83	30	37	55	43	47	52	347
North America	349	53	98	111	136	165	149	1.061
U.S.A.	326	44	87	97	113	132	130	929
Canada	23	9	11	14	23	33	19	132
Central-South America And Caribbean	39	5	12	16	10	21	12	115
Near And Middle Eastern Countries	1.060	255	349	380	410	506	567	3.527
Azerbaijan	91	37	51	55	81	120	136	571
Iraq	161	38	46	57	73	112	88	575
Iran	319	102	123	121	109	106	139	1.019
Other	489	78	129	147	147	168	204	1.362
Other Asian Countries	328	102	151	163	165	278	233	1.420
China	98	41	56	32	22	42	46	337
South Korea	47	12	16	18	12	24	13	142
Other	183	49	79	113	131	212	174	941
Other Countries	63	14	30	23	54	36	47	267
Total	5.294	1.029	1.948	2.613	3.169	3.629	3.397	21.079

Provisional Data, Source: Undersecretariat of Treasury

1.3.3. Companies with Foreign Capital by Size of Equity Capital

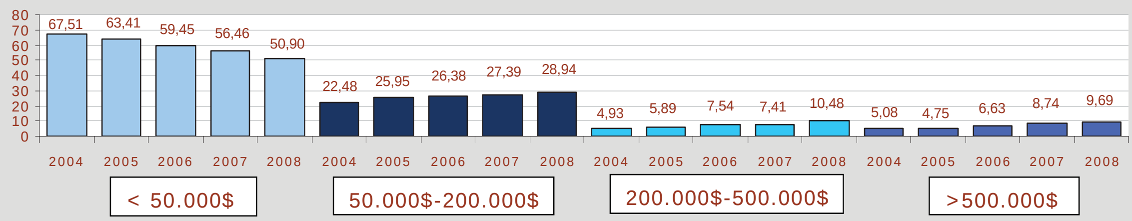
The breakdown of the companies with foreign capital according to their sizes of capital shows that investors entered the Turkish market with higher capitals in 2008 compared to the previous year. While the rate of increase in the overall number of companies was 31% between 2004 and 2007, it decreased by 6,4% in 2008. On the other hand, the number of companies with a capital value of lower than USD 50,000 decreased by 15.6% and those with a capital value of USD 50,000-200,000 decreased by 1.1%. The number of companies with a capital of between USD 200.000 and 500.000 increased by 32.3% and those with a capital value of higher than USD 500,000 showed an increase by 56.7%.

Table 14: Breakdown of Companies with Foreign Capital by Sector According to Size of Equity Capital, (2004- 2008)

	<50.000$	50.000$ - 200.000$	200.000$ - 500.000$	>500.000$	% Change of The Number of Companies with Foreign Capital of lower than $50.000	% Change of The Number of Companies with Foreign Capital of $50.000-200.000	% Change of The Number of Companies with Foreign Capital of $200.000-500.000	% Change of The Number of Companies with Foreign Capital of higher than $500.000	Number of Companies with Foreign Capital (Number)	% Change of The Number of Companies with Foreign Capital
2004	1.315	438	96	99	--	--	--	--	1.948	--
2005	1.657	678	154	124	26,0	54,8	60,4	25,3	2.613	34,1
2006	1.884	836	239	210	13,7	23,3	55,2	69,4	3.169	21,3
2007	2.049	994	269	317	8,8	18,9	12,6	51,0	3.629	14,5
2008	1.729	983	356	329	-15,6	-1,1	32,3	3,8	3.397	-6,4

Provisional Data, Source: Undersecretariat of Treasury

Chart 6: Annual Breakdown of Percentage Shares By Size of Equity Capital



Provisional Data, Source: Undersecretariat of Treasury

When the distribution of the companies with foreign capital according to their values of capital is examined, it is seen that the share of companies with a capital of lower than USD 50,000 showed a decrease between 2004 and 2008:

- In 2004, 67.5%,
- In 2005, 63.4%,
- In 2006, 59.5%,
- In 2007, 56.5%,
- In 2008, 50.9%

of the total number of companies with foreign capital have values of capital lower than USD 50,000.

On the other hand, between 2004 and 2008, there was an increase, in the share of companies with values of capital between USD 50,000-200,000 (the shares are 22.5%, 26%, 26.4%, 27.4% between 2004 and 2008, respectively). Those with a value of capital between USD 200,000-500,000 also show a steady increase in their shares from 2004 to 2008 (4.9%, 5.9%, 7.4%, %7.4, respectively).

The percentage of companies with a capital of higher than USD 500,000 in the total number of foreign companies showed an increase.

- In 2005, 4.7%,
- In 2006, 6.6%,
- In 2007, 8.7%,
- In 2008, 9.7%

of the total number of companies with foreign capital have values of capital higher than USD 500,000.

It is striking that even though economic and financial crisis had an increasing impact in the last quarter of 2008, the share of high capital companies increased among the companies with foreign capital.

Table 15: Breakdown of Companies with Foreign Capital by Sector According to Size of Equity Capital, (2004- 2008)

	2004	The Number of Companies with Foreign Capital (%)	2005	The Number of Companies with Foreign Capital (%)	2006	The Number of Companies with Foreign Capital (%)	2007	The Number of Companies with Foreign Capital (%)	2008	The Number of Companies with Foreign Capital (%)
<50.000$	1.315	67,5	1.657	63,4	1.884	59,5	2.049	56,5	1.729	50,9
50.000$ - 200.000$	438	22,5	678	25,9	836	26,4	994	27,4	983	28,9
200.000$ - 500.000$	96	4,9	154	5,9	239	7,5	269	7,4	356	10,5
>500.000$	99	5,1	124	4,7	210	6,6	317	8,7	329	9,7
Total	1.948	100,0	2.613	100,0	3.169	100,0	3.629	100,0	3.397	100,0

Provisional Data, Source: Undersecretariat of Treasury

In 2008, 329 companies with foreign capital with registered capital value greater than USD 500,000 were established. Among these, 64 companies operate in the manufacturing sector, 59 companies in the wholesale and retail sector, 39 companies in real estate, renting and business activities and 39 companies in the construction sector. The number of such companies that started operation in 2008 and have a registered capital value greater than USD 500,000 showed an increase by 360% compared to the previous year in hotels and restaurants (23 firms) and by 300% in electricity, gas and water supply sector (20 firms) (Table 16).

Table 16: Breakdown of Companies with Foreign Capital by Sector According to Size of Equity Capital- (2007-2008)

Sectors	2007					2008				
	<50.000$	50.000$ - 200.000$	200.000$ - 500.000$	>500.000$	Total	<50.000$	50.000$ - 200.000$	200.000$ - 500.000$	>500.000$	Total
Agriculture, hunting, fishing and forestry	24	17	3	7	51	24	20	9	7	60
Mining and quarrying	38	23	9	12	82	39	31	8	15	93
Manufacturing	236	128	51	83	498	195	135	65	64	459
Manufacture of food products and beverages	21	6	3	7	37	13	13	3	4	33
Manufacture of textiles	22	16	6	6	50	9	6	2	3	20
Manufacture of chemicals and chemical products	24	14	6	12	56	22	11	7	7	47
Manufacture of machinery and equipment n.e.c.	19	15	5	7	46	20	14	4	6	44
Manufacture of motor vehicles, trailers and semi-trailers	7	6	1	5	19	9	4	3	5	21
Other Manufacturing	143	71	30	46	290	122	87	46	39	294
Electricity, gas and water supply	45	23	4	5	77	64	23	8	20	115
Construction	251	157	52	38	498	153	132	61	36	382
Wholesale and retail trade	470	243	55	59	827	407	253	83	59	802
Hotels and restaurants	133	60	14	5	212	131	61	11	23	226
Transport, storage and communications	169	81	22	26	298	159	76	38	27	300
Financial intermediation	10	7	2	22	41	14	5	3	22	44
Real estate, renting and business activities	548	212	48	52	860	404	195	54	39	692
Other community, social and personal service activities	125	43	9	8	185	139	52	16	17	224
Total	2.049	994	269	317	3.629	1.729	983	356	329	3.397

Provisional Data, Source: Undersecretariat of Treasury

As of 2008, 193 of the total 329 companies with foreign capital, which have registered capital values greater than USD 500,000, include shares of EU-based investors.

Table 17: Breakdown of Companies with Foreign Capital by Country of Origin According to Size of Equity Capital - (2007 - 2008)

Countries	2007					2008				
	<50.000$	50.000$ - 200.000$	200.000$- 500.000$	>500.000$	Total	<50.000$	50.000$ - 200.000$	200.000$- 500.000$	>500.000$	Total
European Union	1.225	527	135	197	2.084	952	471	173	193	1.789
Germany	311	167	43	42	563	323	170	50	52	595
The Netherlands	144	55	15	41	255	153	65	28	40	286
United Kingdom	293	111	25	27	456	137	63	23	25	248
Other European Countries	478	194	52	87	811	339	173	72	76	660
Other European Countries (Excluding EU)	265	155	40	32	492	287	159	53	49	548
North Africa	13	13	1	1	28	14	13	8	--	35
Other African Countries	10	6	2	1	19	13	3	1	--	17
North America	108	28	13	16	165	86	38	10	15	149
U.S.A.	87	19	12	14	132	78	31	8	13	130
Canada	21	9	1	2	33	8	7	2	2	19
Central-South America And Caribbean	17	1	1	2	21	6	1	3	2	12
Near And Middle Eastern Countries	249	175	48	34	506	233	219	74	41	567
Azerbeijan	59	39	12	10	120	55	42	24	15	136
Iraq	56	40	11	5	112	31	42	12	3	88
Iran	58	36	8	4	106	58	66	10	5	139
Other	76	60	17	15	168	89	69	28	18	204
Other Asian Countries	140	82	26	30	278	107	74	33	20	234
Other Countries	22	7	3	4	36	31	5	1	9	46
Total	2.049	994	269	317	3.629	1.729	983	356	329	3.397

Provisional Data, Source: Undersecretariat of Treasury

1.3.4. Companies with Foreign Capital by Provinces

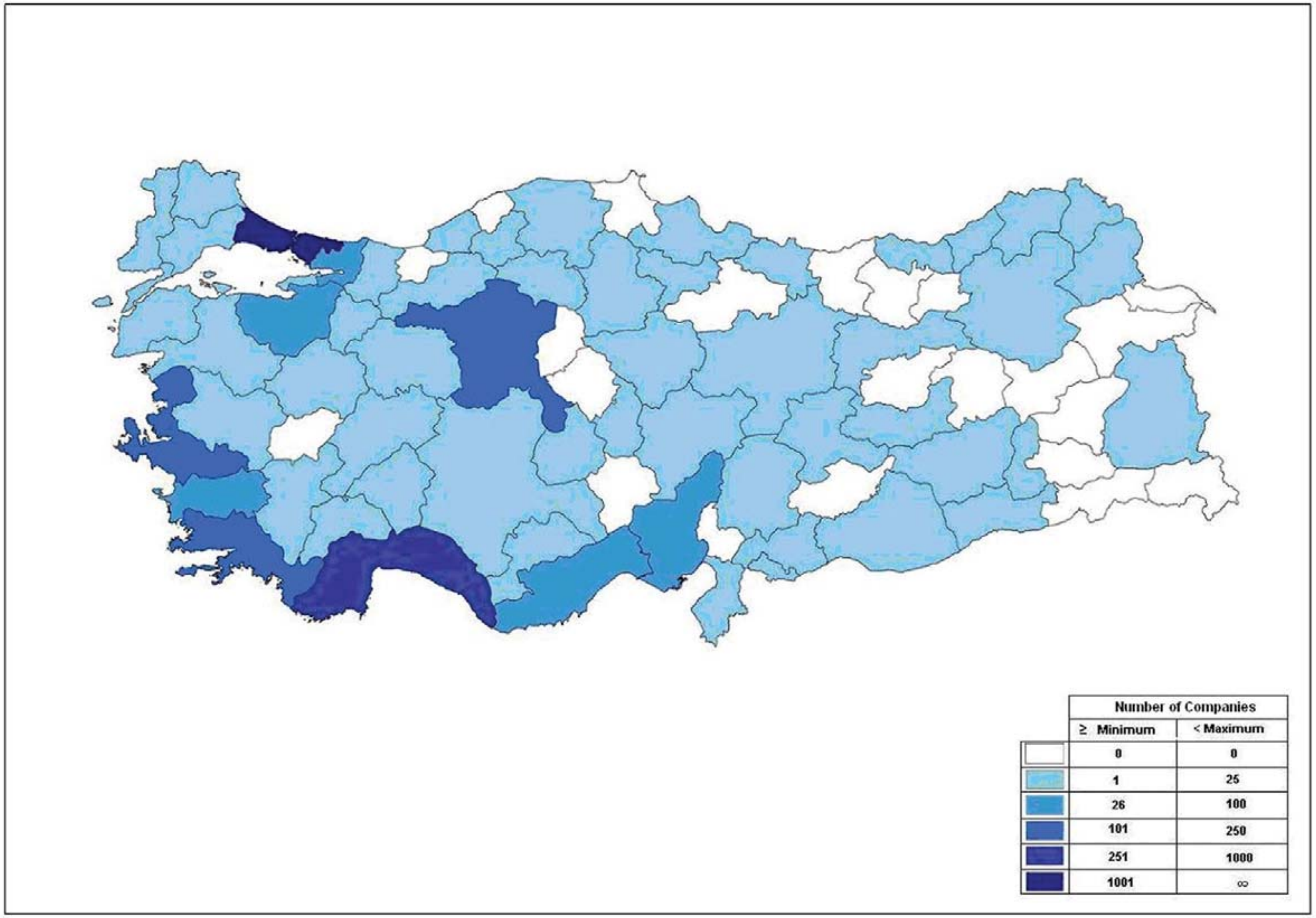
In the breakdown of companies with foreign capital according to their city of investment, Istanbul comes first with 11,533 firms. Other cities following Istanbul are Antalya with 2,725 companies, Ankara with 1,410 companies and Mugla with 1,160 companies.

Table 18: Breakdown of Companies with Foreign Capital by Investment Province (The top ten Province)

City	Number of Companies (1954-2008)	(%)
ISTANBUL	11.533	54,7
ANTALYA	2.725	12,9
ANKARA	1.410	6,7
MUGLA	1.260	6,0
IZMIR	1.256	6,0
BURSA	424	2,0
AYDIN	383	1,8
MERSIN	356	1,7
KOCAELI	257	1,2
ADANA	163	0,8
Other Cities	1.312	6,2
Total	21.079	100

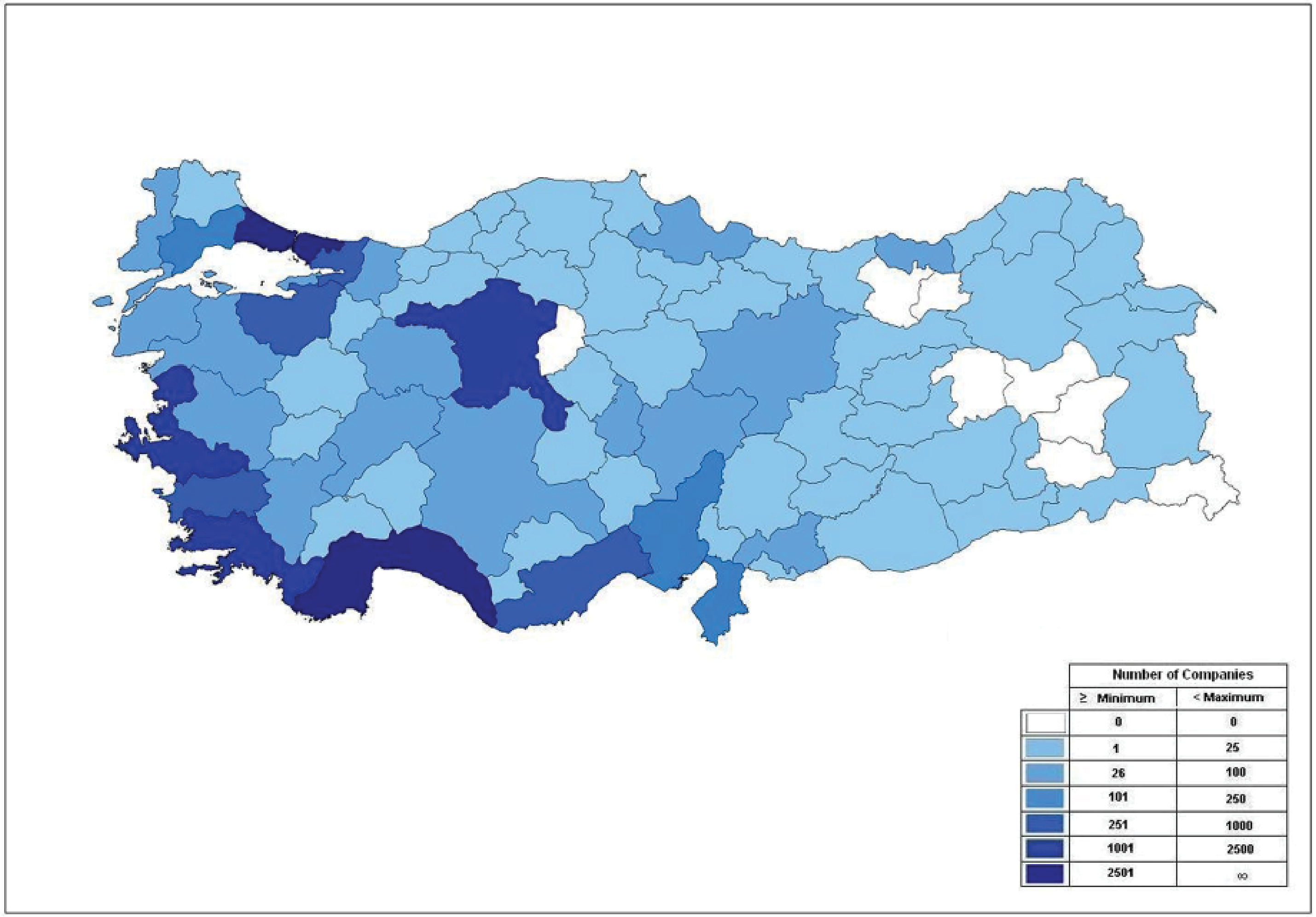
Provisional Data, Source: Undersecretariat of Treasury

Map 2: Breakdown of Companies with Foreign Capital by Investment Province (2008)



Source: Undersecretariat of Treasury

Map 3: Breakdown of Companies with Foreign Capital by Investment Province (1954-2008)



Source: Undersecretariat of Treasury

In Istanbul, where 54.7% of the companies with foreign capital are in operation, the sectors with the highest number of companies with foreign capital are the wholesale and retail trade with 4,092 companies, the manufacturing industry with 2,211 companies and real estate leasing sector with 1,700 companies.

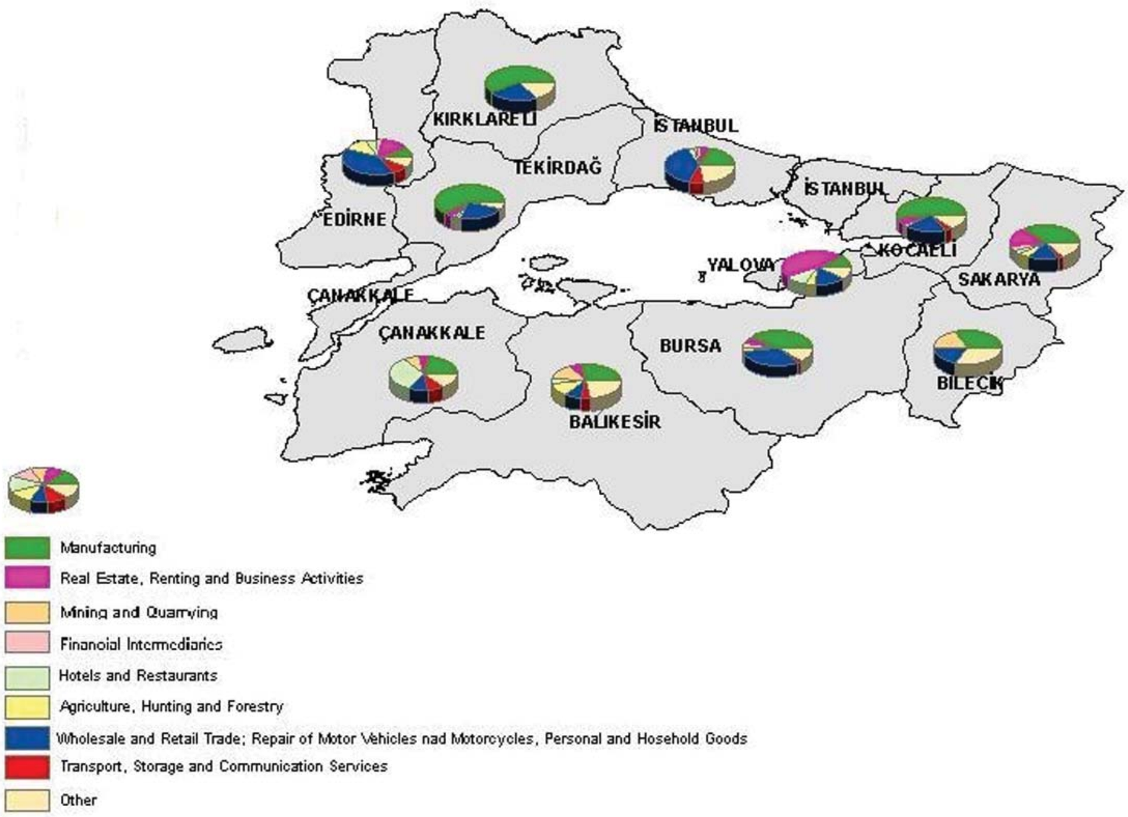
Table 19: Breakdown of Companies with Foreign Capital by Sector According to the Investment Province (1954-2008)

Sectors	Istanbul	Antalya	Ankara	Mugla	Izmir
Agriculture, hunting, fishing and forestry	84	66	22	16	42
Mining and quarrying	144	19	76	7	46
Manufacturing	2.211	161	216	35	328
Manufacture of food products and beverages	175	25	19	5	45
Manufacture of textiles	285	5	9	4	25
Manufacture of chemicals and chemical products	283	16	13	1	32
Manufacture of machinery and equipment n.e.c.	190	2	25	1	32
Manufacture of motor vehicles, trailers and semitrailers	87	--	10	--	13
Other Manufacturing	1.191	113	140	25	181
Electricity, gas and water supply	182	14	87	1	24
Construction	634	574	157	203	96
Wholesale and retail trade	4.092	349	390	86	384
Hotels and restaurants	490	487	69	261	71
Transport, storage and communications	1.089	256	66	140	80
Financial intermediation	236	8	7	7	9
Real estate, renting and business activities	1.700	676	215	463	121
Other community, social and personal service activities	671	115	105	41	55
Total	11.533	2.725	1.410	1.260	1.256

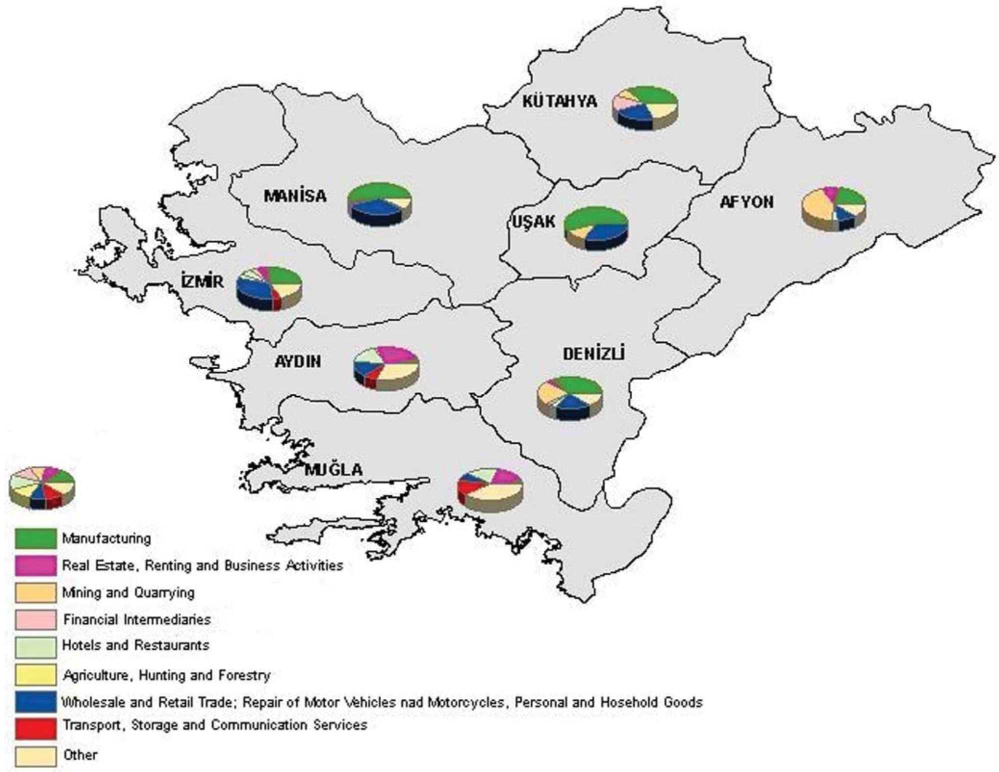
Provisional Data, Source: Undersecretariat of Treasury

Regional Distribution of Foreign-owned Companies by Sector

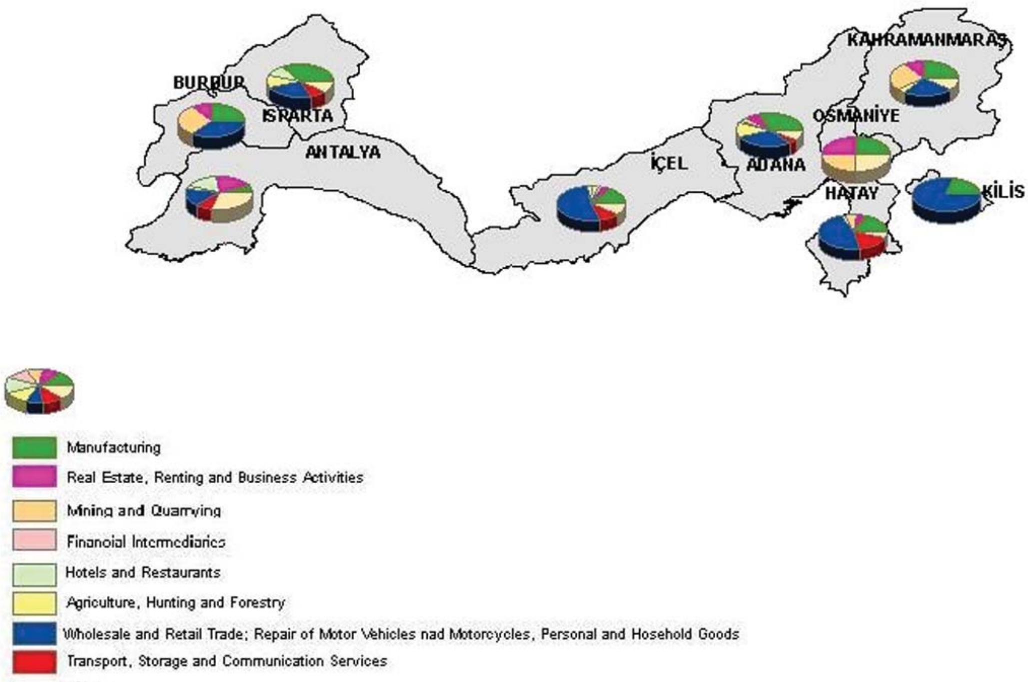
Map 4: Marmara Region



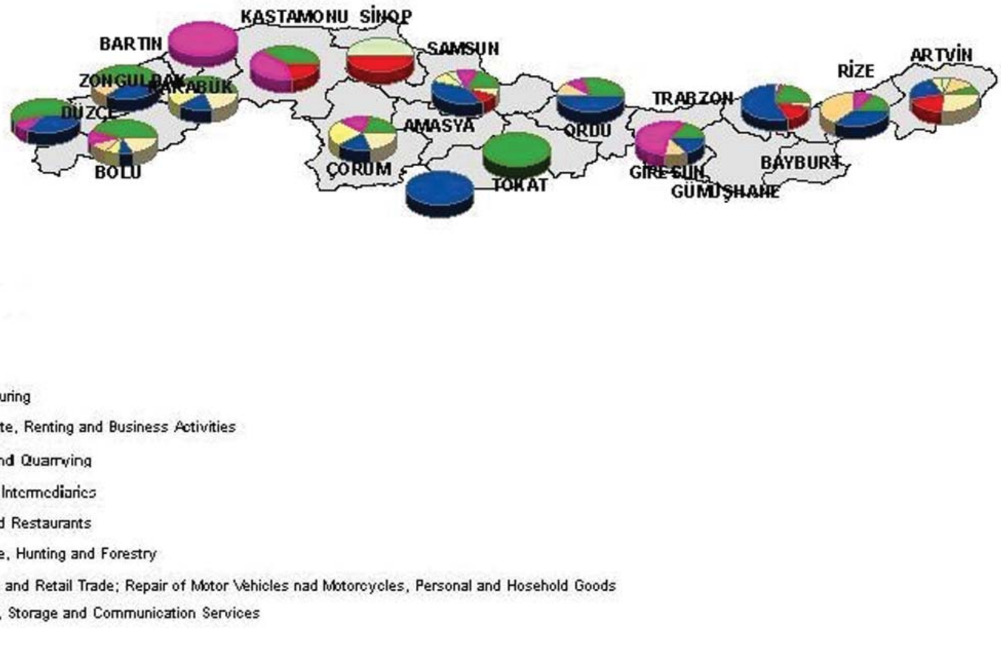
Map 5: Aegean Region



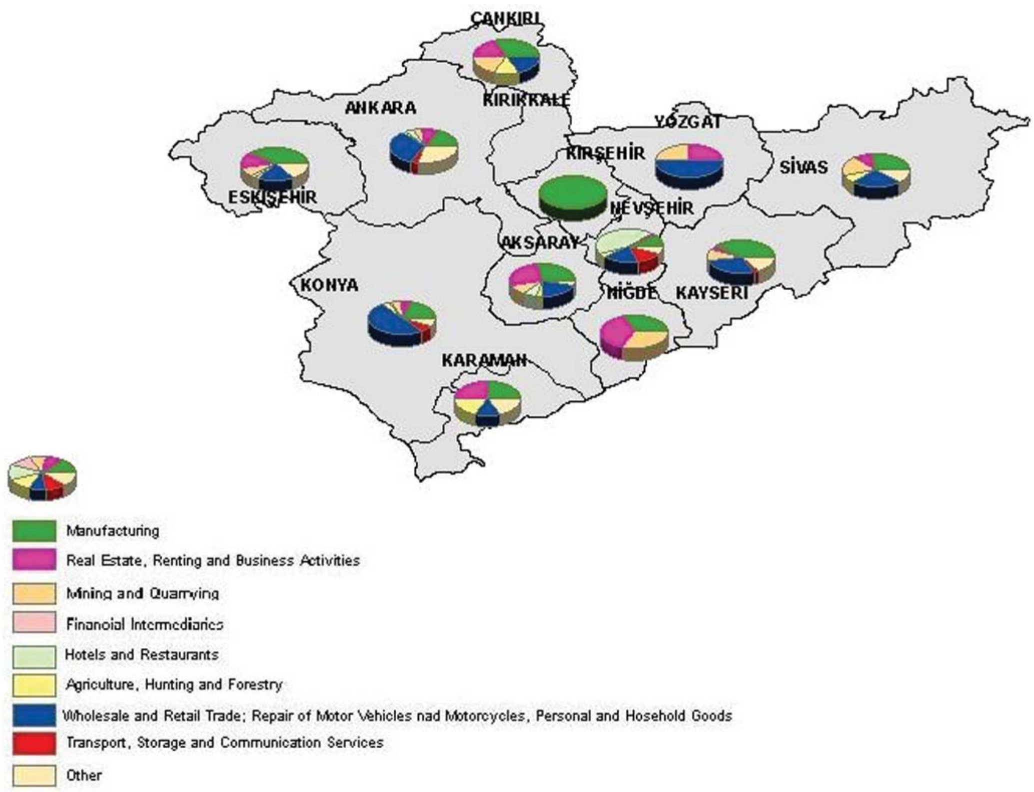
Map 6: Mediterranean Region



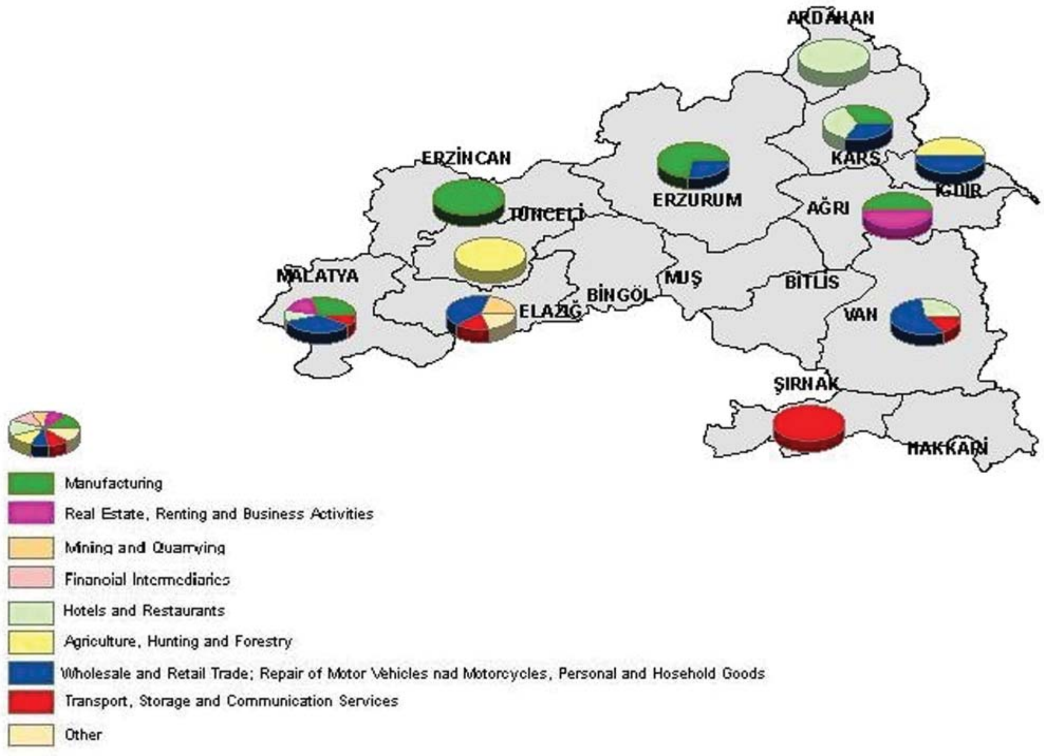
Map 7: Black Sea Region



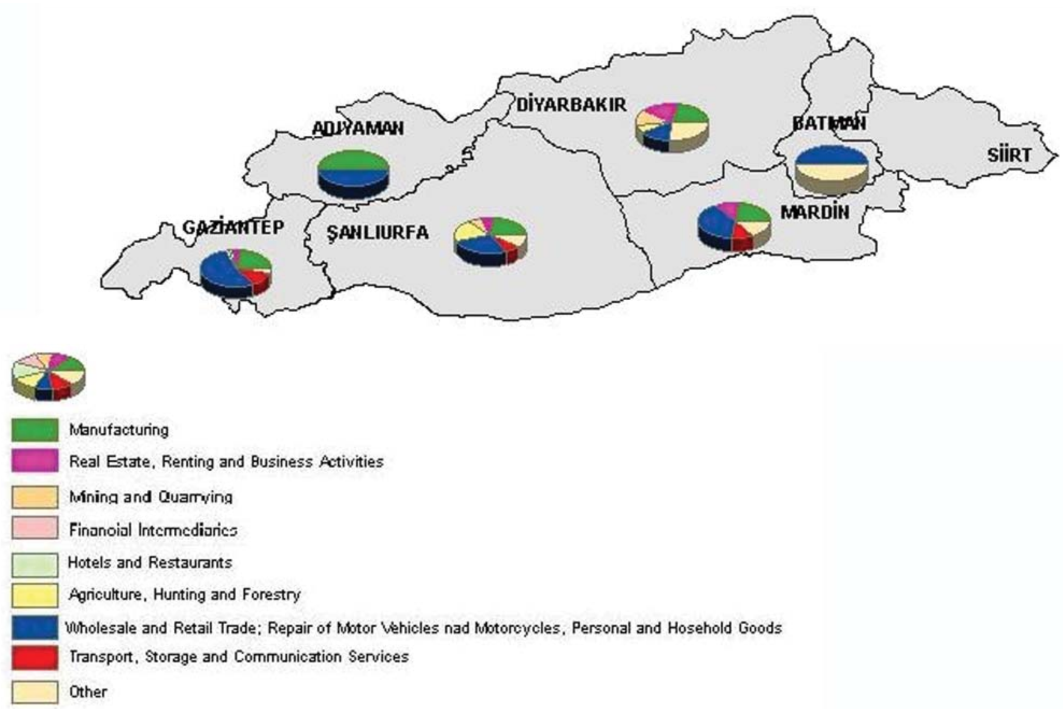
Map 8: Central Anatolia Region



Map 9: Eastern Anatolia Region



Map 10: South Eastern Anatolia Region



1.4. Investment Projects of the Foreign Investors in Turkey

Between the years of 2004-2008, 997 investment projects were initiated by foreign companies and a total amount of 20.7 billion dollars was envisaged to be invested for these projects. In 2008, 211 investment incentive certificates were issued for investment projects planned to be launched by foreign companies. The investment amount envisaged to be realized by these projects is 6.1 billion dollars.

Table 20: Investment Projects of Foreign Investors with Investment Incentive Certificate

	Greenfield Projects for Production or Services		Other Types of Investment[a]		Total	
	Projects (Number)	Investment Amount (USD Million)	Projects (Number)	Investment Amount (USD Million)	Projects (Number)	Investment Amount (USD Million)
2004	88	922	143	2,913	231	3,834
2005	90	1,184	116	2,301	206	3,485
2006	82	558	69	1,245	151	1,803
2007	107	1,906	91	3,498	198	5,404
2008	107	4,189	104	1,973	211	6,162
Total	474	8,759	523	11,930	997	20,688

Source: Undersecretariat of Treasury

a) Quality improvement, modernization, expansion, product diversification, integration, removal of bottle necks, renovation and completion

Projects started for greenfield investments both for production and services accounted for 50.7% of the 211 projects launched in 2008, the remaining 49.3% focused on quality improvement, modernization, expansion, product diversification, integration, removal of bottle necks, renovation and completion. The planned amount of 4.2 billion dollars of investment on 107 projects for greenfield investments consisted 68% of the total investment value of 6.2 billion dollars. The planned amount of investment on 104 projects for quality improvement, modernization, expansion, product diversification, integration, removal of bottle necks, renovation and completion accounted for 32% of the total investment value. In the last five years, 47.5% of the total number of projects and 42.3% of the total investment amount were represented by greenfield projects.

When the projects with incentive certificates are analyzed according to the value of investment in 2008, it is observed that manufacturing sector investments which focus on motor vehicles, trailers and semi-trailers have a large share of 23.2%. In the services sector, investment projects are concentrated in the field of electricity, gas and water production and distribution (35%) (Table 21).

Table 21: Sectoral Distribution of the Investment Projects of Foreign-owned Companies with Investment Incentive Certificates in 2008

SECTORS	Projects Sterted for Greenfield Investments		Other Type of Investment*		Total		Shares of the Sectors(%)	
	Projects (Number)	Investment Amount (USD Million)	Projects (Number)	Investment Amount (USD Million)	Projects (Number)	Investment Amount (USD Million)	Projects (Number)	Investment Amount (USD Million)
AGRİCULTURE, HUNTİNG AND FORESTRY	2	5.9	1	2.1	3	8.0	1.4	0.1
MINING	4	49.1	3	13.5	7	62.5	3.3	1.0
Mining of coal and ignite; extraction of peat	3	5.5	2	3.5	5	9.0	2.4	0.1
Mining of Metal Ors	1	43.5	1	10.0	2	53.5	0.9	0.9
MANUFACTURİNG INDUSTRY	81	1668.1	89	1654.8	170	3322.9	80.6	53.9
Manufacture of food products and beverages	10	164.9	10	68.2	20	233.2	9.5	3.8
Manufacture of textiles	3	9.2	5	11.4	8	20.7	3.8	0.3
Manufacture of chemicals and chemical products	7	110.7	3	23.3	10	134.0	4.7	2.2
Manufacture of machinery and equipment	4	10.2	12	36.0	16	46.2	7.6	0.7
Manufacture of electrical machinery and apparatus	1	39.6	3	10.9	4	50.5	1.9	0.8
Manufacture of motor vehicles, trailers and semi trailers	13	271.5	23	1160.2	36	1431.7	17.1	23.2
Manufacture of fabricated metal products	6	146.7	2	3.6	8	150.3	3.8	2.4
Manufacture of basic metals	2	4.5	10	35.5	12	40.0	5.7	0.6
Manufacture of paper and paper products	1	11.7	4	82.9	5	94.7	2.4	1.5
Manufacture of rubber and plastic products	6	14.2	7	35.3	13	49.6	6.2	0.8
Manufacture of other non-metallic mineral products	7	347.9	2	92.6	9	440.5	4.3	7.1
Recycling	0	0.0	1	0.2	1	0.2	0.5	0.0
Manufacture of other transport equipment (Vessel)	17	522.7	2	60.5	19	583.3	9.0	9.5
Other	4	14.1	5	34.0	9	48.1	4.3	0.8
ELECTRİCİTY PRODUCTION	8	2012.6	5	142.1	13	2154.7	6.2	35.0
HOTELS & RESTAURANTS	3	50.3	1	15.2	4	65.5	1.9	1.1
TRANSPORT, STORAGE AND COMMUNİCATIONS	4	364.6	2	127.9	6	492.5	2.8	8.0
Supporting and auxilary transport activities	1	8.3	2	127.9	3	136.2	1.4	2.2
Storage	1	342.0	0	0.0	1	342.0	0.5	5.5
Telecommunications	2	14.3	0	0.0	2	14.3	0.9	0.2
FINANCIAL INTERMEDIARIES	0	0.0	1	3.6	1	3.6	0.5	0.1
HEALTH SERVICES	1	9.4	0	0.0	1	9.4	0.5	0.2
OTHER SERVICES	4	29.3	2	13.8	6	43.1	2.9	0.7
TOTAL	107	4189.3	104	1973.0	211	6162.3	100.0	100.0

Source: Undersecretariat of Treasury

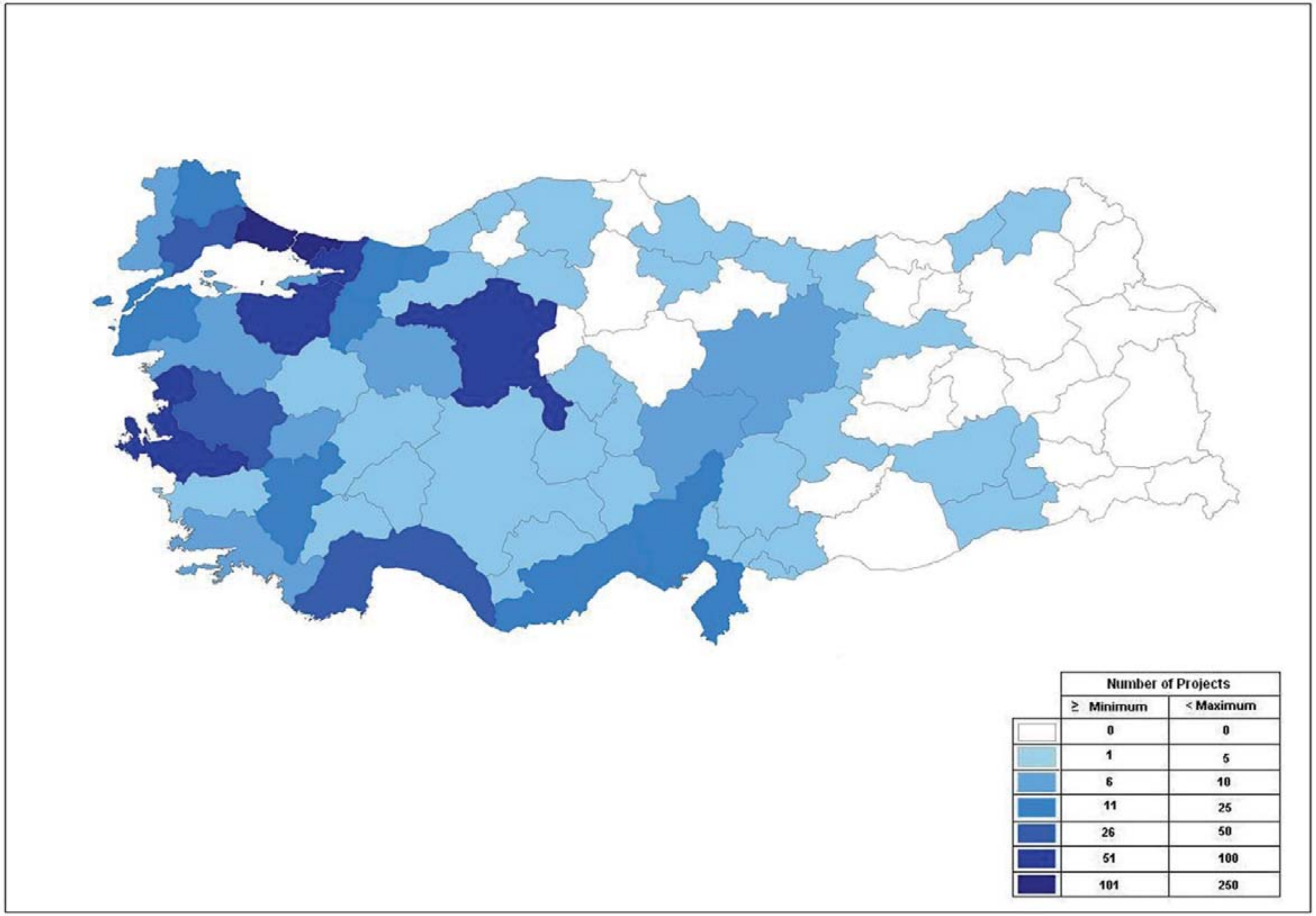
In terms of investment amount, in 2004, projects in transportation, storage and communication; in 2005, projects in manufacturing, during 2006-2007 projects in manufacturing, transportation, storage and communication, and in 2008, projects in manufacturing, electricity, gas and water production and distribution had a performance well above the average sectoral trends observed over the last five years (Table 22).

Table 22: Sectoral Distribution of the Investment Projects of Foreign-owned Companies with Investment Incentive Certificates between 2004-2008

SECTORS	2004		2005		2006		2007		2008	
	Projects (Number)	Investment Amount (USD Million)	Projects (Number)	Investment Amount (USD Million)	Projects (Number)	Investment Amount (USD Million)	Projects (Number)	Investment Amount (USD Million)	Projects (Number)	Investment Amount (USD Million)
AGRİCULTURE, HUNTİNG AND FORESTRY	7	17.1	2	1.9	3	6.7	4	8.1	3	8.0
FISHING	1	2.1	0	0	0	0	0	0	0	0
MİNİNG AND QUARRYİNG	6	64.2	8	107.2	5	9.7	3	171.3	7	62.5
MANUFACTURİNG INDUSTRY	173	1,155.7	166	2,354.2	118	978.6	167	3762.3	170	3322.9
ELECTRİCİTY PRODUCTION	2	17.4	9	117.6	5	72.2	4	157.6	13	2154.7
CONSTRUCTION	1	12.5	1	247.4	0	0	1	10.7	0	0
HOTELS & RESTAURANTS	17	145.7	6	202.1	4	25.7	2	12.8	4	65.5
TRANSPORT, STORAGE AND COMMUNİCATIONS	20	2,407.2	9	436.9	12	674.3	10	1,043.6	6	492.5
WHOLESALE AND RETAİL TRADE	0	0	0	0	0	0	1	11.5	0	0
FINANCIAL INTERMEDIARIES	0	0	0	0	0	0	0	0.0	1	3.6
REAL ESTATE, RENTİNG AND BUSİNESS ACTİVİTİES	0	0	3	2.5	0	0	3	199.5	0	0
R&D SERVICES	0	0	0	0	1	0.7	0	0	0	0
HEALTH	3	9.3	0	0	2	34.1	0	0	1	9.4
OTHER SERVICES	1	3.0	2	14.9	1	0.8	3	27.0	6	43.1
TOTAL	231	3,834.2	206	3,484.7	151	1,802.8	198	5,404.4	211	6,162.3

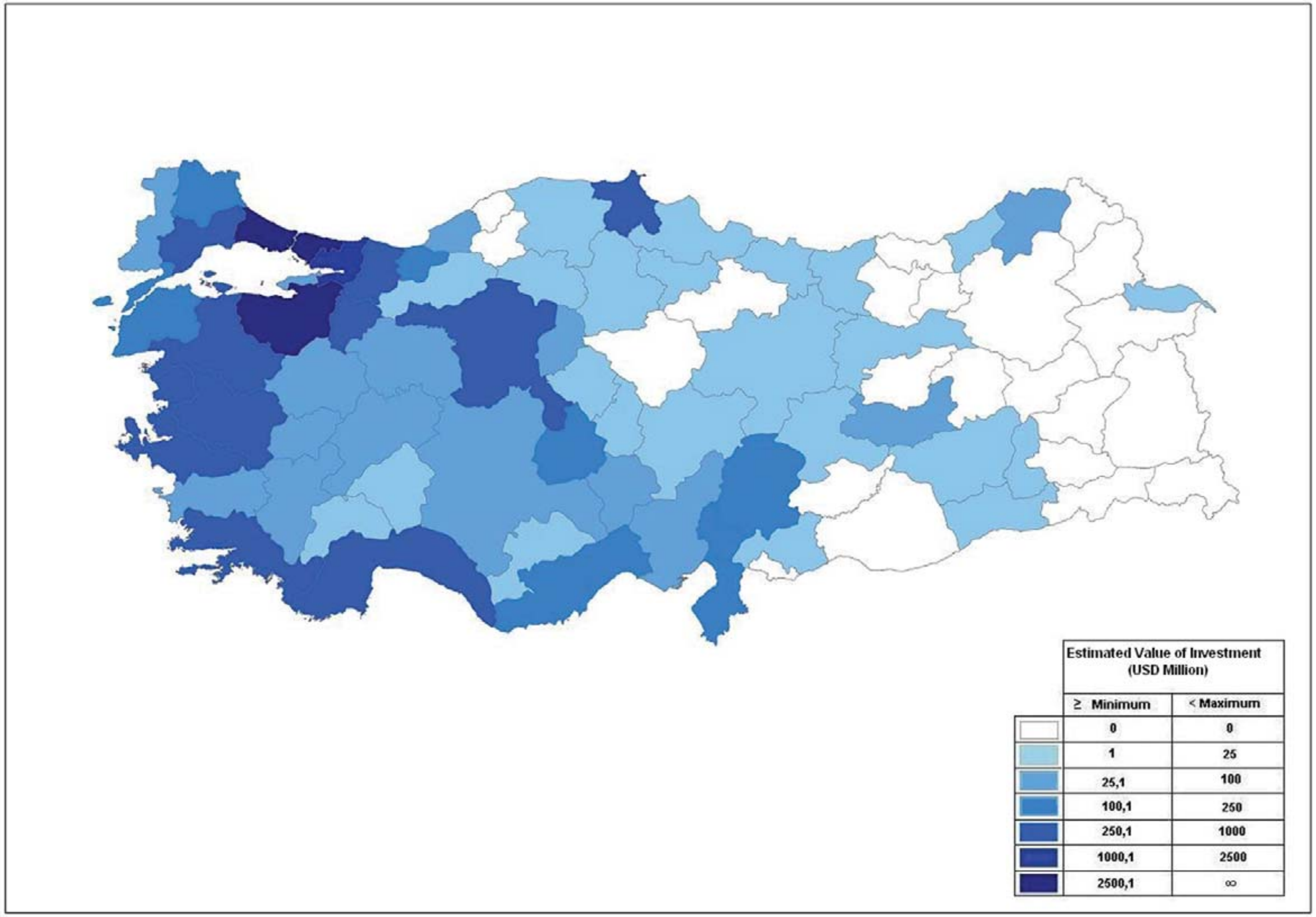
Source: Undersecretariat of Treasury

Map 11: The Distribution of Investment Projects with Incentive Certificate by Provinces (2004-2008)



Source: Undersecretariat of Treasury

Map 12: The Distribution of Investment Amount of Investment Projects with Incentive Certificate by Provinces (2004-2008)



Source: Undersecretariat of Treasury

The provincial distribution of 211 incentive projects which were issued in 2008 for foreign owned companies reveals that Istanbul takes the first place, and Bursa, where the motor vehicles, trailers and semi trailers industry isconcentrated, takes the second place. With regard to total investment amount the share of Istanbul is 20,2% and Bursa is 13,6% (Table 23). Between 2004-2008, Bursa took the first place with regard to total investment amount.

Table 23: Distribution of Investment Projects of the Foreign-owned Companies with Investment Incentive Certificates by Provinces between 2004-2008 (USD Million)

Provinces	2004	2005	2006	2007	2008	2004-2008
BURSA	185.2	936.8	96.0	1,756.4	835.4	3,809.8
İSTANBUL	365.9	405.8	294.1	1,244.7	1,247.8	3,558.3
KOCAELİ	111.3	287.2	95.6	323.7	540.3	1,358.1
ANKARA	117.2	525.6	56.0	91.5	166.8	957.0
BALIKESİR	2.3	4.6	0.0	1.9	910.3	919.1
SİNOP	0	0	0	0	883.9	883.9
İZMİR	180.6	46.1	110.4	204.5	134.3	675.9
MANİSA	183.5	112.2	120.6	205.1	30.1	651.5
SAKARYA	18.8	41.7	18.1	496.0	34.7	609.4
ANTALYA	172.3	129.9	32.0	4.0	140.6	478.8
TEKİRDAĞ	43.3	128.4	61.5	34.5	133.6	401.4
MUĞLA	143.1	0.0	3.8	0.3	249.8	397.1
BİLECİK	14.9	32.7	0.0	282.4	8.0	338.0
KIRKLARELİ	68.8	11.5	58.0	1.5	107.2	247.0
AKSARAY	0.0	176.3	3.9	10.7	10.4	201.3
ÇANAKKALE	28.7	13.6	110.9	16.5	22.2	192.0
HATAY	0.9	2.0	36.4	71.9	72.4	183.6
OSMANİYE	0.0	0.0	4.0	165.7	0.0	169.7
DÜZCE	0.0	2.4	14.0	120.6	15.0	152.1
KAHRAMANMARAŞ	0.0	0.0	0.4	0.0	113.2	113.6

Source: Undersecretariat of Treasury

Table 24: Distribution of Investment Projects of the Foreign-owned Companies with Investment Incentive Certificates by provinces between 2004-2008 (Number)

Provinces	2004	2005	2006	2007	2008	2004-2008
İSTANBUL	54	41	39	43	40	231
BURSA	24	22	12	23	22	103
KOCAELİ	13	22	15	29	30	99
İZMİR	22	16	10	17	10	88
ANKARA	16	11	6	7	13	51
MANİSA	12	12	8	11	6	50
TEKİRDAĞ	13	11	10	7	6	49
ANTALYA	14	6	6	3	7	41
SAKARYA	3	6	6	5	6	23
MERSİN	4	3	3	3	4	21
ÇANAKKALE	4	4	4	4	1	19
BİLECİK	5	3	0	4	3	18
KIRKLARELİ	5	1	6	1	2	16
DENİZLİ	1	4	4	4	3	14
ADANA	3	3	0	3	2	13
HATAY	2	2	1	7	2	12
DÜZCE	0	2	4	5	4	12
ESKİŞEHİR	3	4	1	0	3	10
MUĞLA	3	0	2	2	4	9
BALIKESİR	2	4	0	1	2	7

Source: Undersecretariat of Treasury

2. INVESTOR COUNTRIES IN TURKEY

So far direct investors from 152 countries have invested in Turkey. Table 25 and Table 26 demonstrate top investor countries in 2008 and during the period between 2002 and 2008, respectively[10].

Table 25: FDI in Turkey in 2008 (USD Million)

Rank	Sector	Capital	(%)
1	UK	2,294	15.4
2	Luxembourg	2,086	14.0
3	Netherlands	1,755	11.8
4	Saudi Arabia	1,244	8.3
5	Germany	1,217	8.2
6	USA	863	5.8
7	Spain	825	5.5
8	Greece	779	5.2
9	France	685	4.6
10	Austria	569	3.8
	Other	2,594	17.4
	Total	14,911	100.0

Source: CBRT

Table 26: FDI in Turkey, 2002-2008 (USD Million)

Rank	Sector	Capital	(%)
1	Netherlands	13,341	21.3
2	USA	6,101	9.7
3	Greece	6,003	9.6
4	Belgium	5,505	8.8
5	UK	4,065	6.5
6	France	3,776	6.0
7	UAE	3,522	5.6
8	Germany	3,220	5.1
9	Luxembourg	2,959	4.7
10	Austria	2,057	3.3
	Other	12,129	19.4
	Total	62,678	100.0

Source: CBRT

The tables presented above reveal that the Netherlands, Germany, the United Kingdom, Luxembourg, the United States, France, Greece, Belgium, Spain and Saudi Arabia are the countries which undertook a substantial amount of FDI in Turkey in the last 7-year period.

10 Ranking is based on the "capital" component of FDI inflows to Turkey.

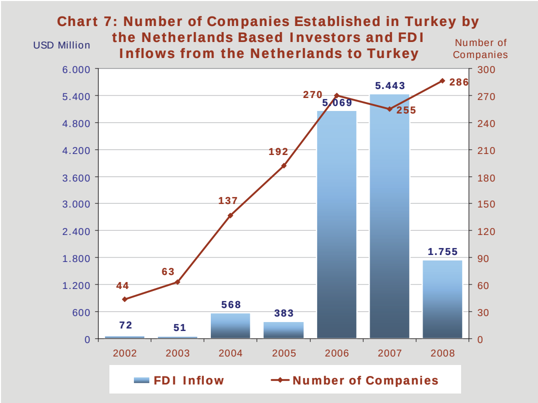


Chart 7: Number of Companies Established in Turkey by the Netherlands Based Investors and FDI Inflows from the Netherlands to Turkey

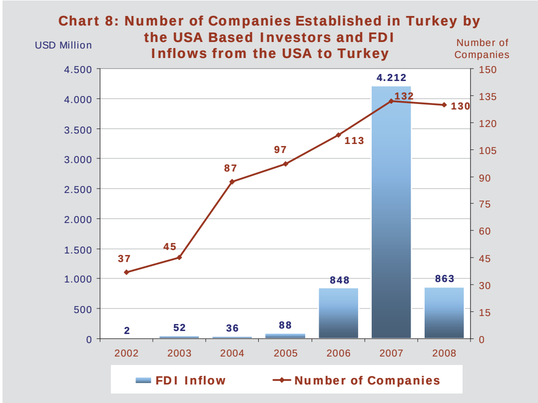


Chart 8: Number of Companies Established in Turkey by the USA Based Investors and FDI Inflows from the USA to Turkey

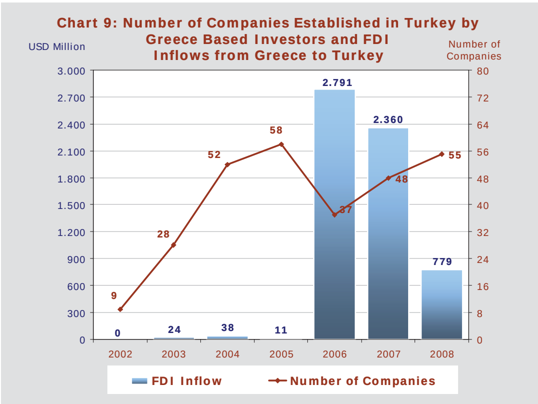


Chart 9: Number of Companies Established in Turkey by Greece Based Investors and FDI Inflows from Greece to Turkey

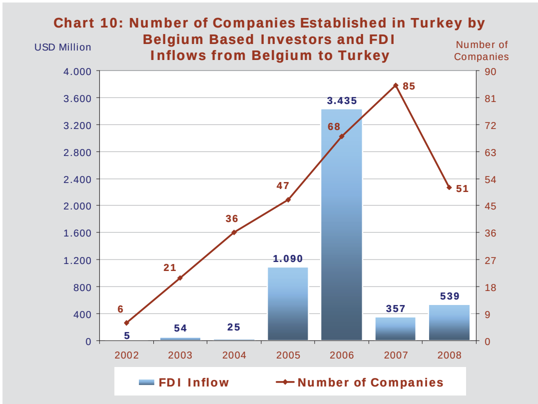


Chart 10: Number of Companies Established in Turkey by Belgium Based Investors and FDI Inflows from Belgium to Turkey

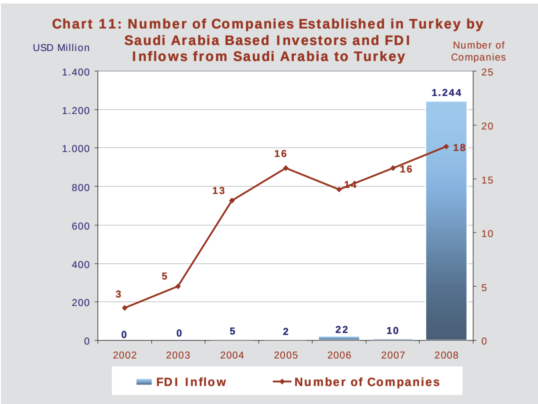


Chart 11: Number of Companies Established in Turkey by Saudi Arabia Based Investors and FDI Inflows from Saudi Arabia to Turkey

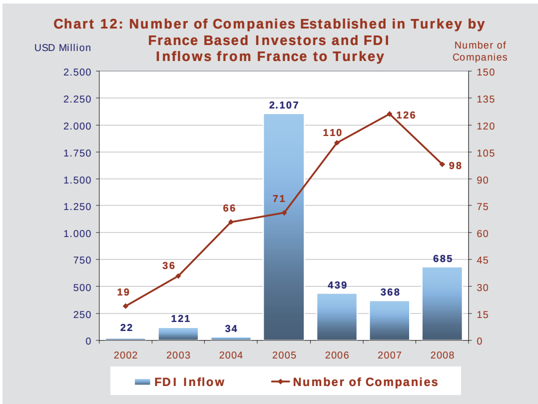


Chart 12: Number of Companies Established in Turkey by France Based Investors and FDI Inflows from France to Turkey

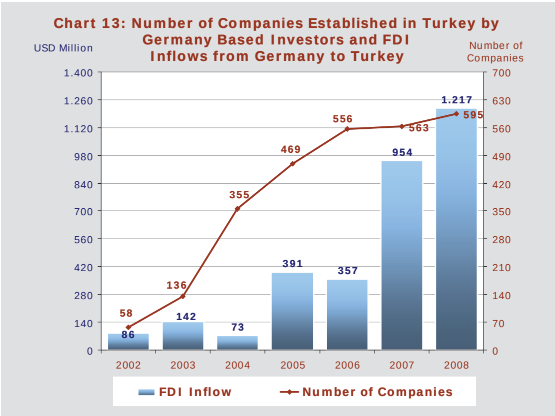


Chart 13: Number of Companies Established in Turkey by Germany Based Investors and FDI Inflows from Germany to Turkey

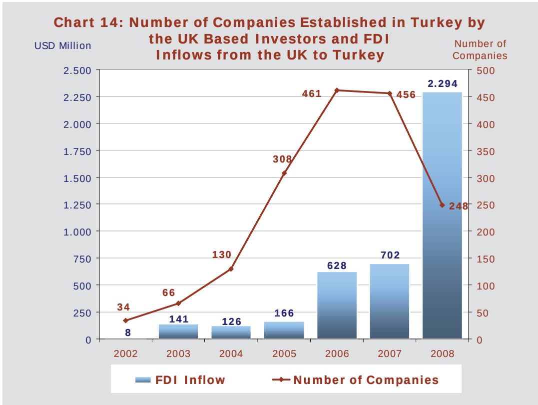


Chart 14: Number of Companies Established in Turkey by the UK Based Investors and FDI Inflows from the UK to Turkey

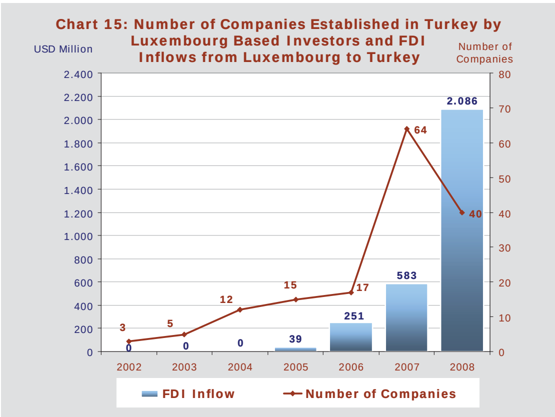


Chart 15: Number of Companies Established in Turkey by Luxembourg Based Investors and FDI Inflows from Luxembourg to Turkey

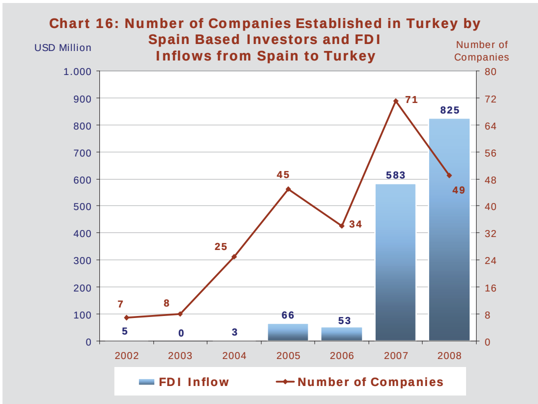


Chart 16: Number of Companies Established in Turkey by Spain Based Investors and FDI Inflows from Spain to Turkey

Source: Undersecretariat of Treasury and CBRT

FDI inflows from the Netherlands to Turkey amounted to USD 1.8 billion in 2008 while the FDI inflows from the same country were over USD 5 billion in 2006 and 2007. Real estate companies with Dutch origin such as Multi Turkmall and Redevco transferred approximately USD 600 million in order to finance their investment projects in the construction sector. The remaining part of the FDI inflows from the Netherlands includes the capital increase of Oyak Bank which was financed by its Dutch stakeholder, ING.

The acquisitions of the complete shares of Oyak Emeklilik by ING for USD 139 million, and 51.2% share of Pilsa Plastik by Wawin B.V. for an amount of USD 82 million were the most important M&A deals which involved investors with Dutch origin in 2008. Another insurance company headquartered in the Netherlands, AEGON, acquired 100% shares of Ankara Emeklilik. However AEGON transferred the money through the United Kingdom, and therefore, this transaction is not recorded under the FDI inflows from the Netherlands by the Central Bank of the Republic of Turkey. On the other hand the amount of USD 133 million paid by Greece based Titan Cement in exchange for 50% of Adocim was transferred to Turkey from the Netherlands and it was reflected as an investment flow from the Netherlands in the balance of payments in 2008.

FDI inflows from the United States to Turkey amounted to around USD 900 million in 2008. The major part of this amount stem from the new M&A deals made between Germany based EWE and two local natural gas transmission companies, namely Bursagaz and Kayserigaz. EWE bought an additional 40% stake of these companies for a total amount of approximately USD 400 million and completed the transaction by transferring the money through the United States.

FDI inflows from Greece totaled USD 779 million 2008 and 89% of this amount was transferred to Turkey by means of the acquisition of the additional 9.2% shares of Finansbank by the National Bank of Greece. This transaction made Finansbank a wholly owned subsidiary of the National Bank of Greece.

USD 345.3 million was transferred from Belgium to Turkey in order to finance the capital increase of Denizbank by Belgium-based partner Dexia in 2008. This transaction constitutes the largest part of the FDI inflows from Belgium last year. Redevco, a company dealing with real estate and construction businesses, also transferred a significant amount of capital to Turkey through Belgium.

According to the breakdown of FDI inflows to Turkey in 2008, the United Kingdom took the first place as a home country with an amount of USD 2.3 billion. This is mostly due to the acquisition of an additional 11.3% share of Ereğli Demir Çelik (Erdemir) by Arcelor-Mittal in Istanbul Stock Exchange for around USD 1 billion. As British American Tobacco (BAT) won the privatization bid for the cigarette factories of TEKEL (Turkish State Tobacco Company) for USD 1.8 billion, BAT transferred around one-third (USD 611 million) of this amount from the

United Kingdom as direct investment in 2008. Furthermore, BAT transferred more money to finance the capital expansion. Thus, BAT's direct investment in Turkey reached approximately USD 700 million in 2008. Intergum, a subsidiary of British multinational Cadbury, increased its paid-up capital and Cadbury transferred USD 241.4 million to participate in capital expansion. A domestic construction company, Taşyapı İnşaat, and UK-based Cogentrix established a joint venture, Eti Elektrik A.Ş., for an investment project in constructing power plants in Turkey. As a result of this initiative, Cogentrix transferred USD 140.9 million to Turkey.

According to the sectoral breakdown of FDI undertaken by French multinationals, investments in the insurance sector in 2008 attracts attention. Groupama, the French multinational that won the privatization bid for Başak Sigorta & Emeklilik and entered Turkey in 2006, decided to expand its activities in Turkey and bought all the shares of another domestic insurance company, Güven Sigorta, for around USD 300 million in 2008. Zurich Financial Services acquired 100% of the stakes of TEB Sigorta, a domestic insurance company, and transferred approximately USD 300 million through France. In addition, another French insurance giant AXA acquired 50% of the shares of Oyak Sigorta, another domestic insurance company, for USD 525 million and transferred the capital through Spain. Therefore this transaction was recorded as FDI from Spain in the balance of payments statistics.

In 2008, German multinational Allianz SE acquired Koç Holding's shares in their two joint ventures, Koç Allianz Sigorta A.Ş. and Koç Allianz Hayat ve Emeklilik A.Ş. This deal cost Allianz SE approximately USD 600 million and constituted the largest German FDI last year. Another substantial direct investment in the insurance sector was the acquisition of 25% of the stakes of İsviçre Sigorta by Germany-based Ergo International AG. Following the completion of the above-mentioned deal, İsviçre Sigorta became a wholly-owned subsidiary of Ergo. As already mentioned in the previous part of this section, EWE, an energy company headquartered in Germany, bought an additional 40% of Bursagaz and Kayserigaz in 2008 and transferred approximately USD 400 million through the United States. The remaining part of the deal, around USD 100 million, was transferred from Germany.

Moonlight Capital S.A., a Luxembourg-based company which is controlled by a British venture capital company (BC Partners), acquired 50.8% of a large retailer, Migros, and paid USD 1.9 billion for the deal. On the other hand, Luxembourg-based multinationals got more interested in real estate projects in Turkey in 2008.

The FDI inflows from Spain to Turkey exceeded USD 800 million in 2008. However, this relative increase in direct investment flows from Spain was mostly due to M&A deals of the multinationals headquartered in other countries. For instance, French AXA transferred approximately USD 525 million in order to buy 50% of the stakes of Oyak Sigorta, and, Italian multinational Recordati transferred approximately USD 100 million for the acquisition of the complete shares of Yeni İlaç through Spain.

The figure for FDI inflows from Saudi Arabia demonstrated a sudden jump to USD 1.2 billion in 2008 by means of the acquisition of 60% of the shares of Türkiye Finans Katılım Bankası by The National Commercial Bank for USD 1.1 billion.

3. SECTORS WITH THE HIGHEST LEVEL OF FDI IN TURKEY IN 2008

The most up-to-date data on sectoral breakdown of global FDI inflows refer to 2007. The global FDI in 2007 rose by 30% compared to the previous year and reached USD 1.83 trillion. Hitherto, this is the highest value ever recorded. In 2007, global FDI inflows in manufacturing sector grew faster than primary and service sectors[11].

In line with the world trends, FDI in the manufacturing sector in Turkey ranked in top 5 sectors in 2008. Of the top 5 M&A deals made in 2008, two deals were in financial intermediation activities, one was in retail and wholesale trade, one was in manufacture of basic metals and one was in manufacture of tobacco products.

Table 27: Sectoral Distribution of FDI Inflows, 2008 (USD Million)

Rank	Sectors	Capital	(%)
1	Financial Intermediation	5,925	39.7
2	Manufacturing	3,828	25.7
3	Wholesale and Retail Trade	2,073	13.9
4	Electricity,Gas and Water Supply	1,053	7.1
5	Construction	736	4.9
6	Real Estate, Renting and Business Activities	673	4.5
7	Mining and Quarrying	173	1.2
8	Transport, Storage and Communication	169	1.1
9	Health and Social Work	150	1.0
10	Other Community, Social and Personal Service Activities	59	0.4
	Other	72	0.5
	Total	14,911	100.0

Source: CBRT

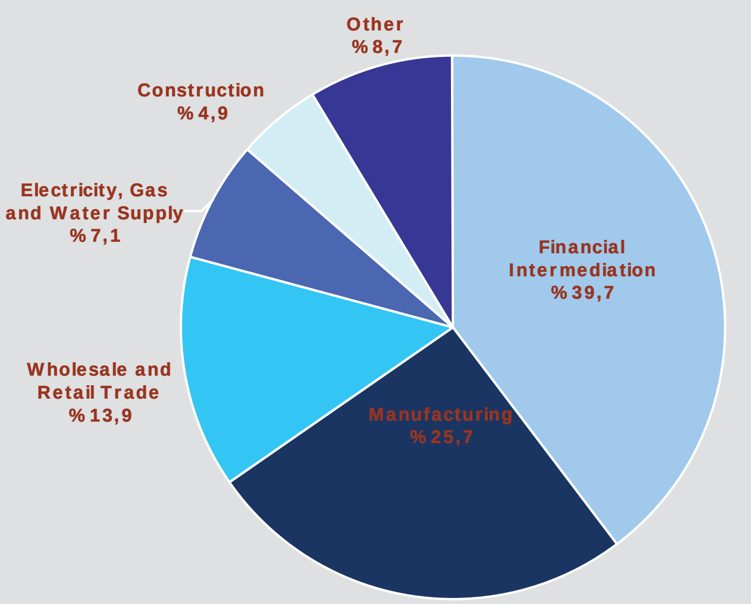
11 UNCTAD, World Investment Report, 2007

Table 28: FDI Inflows in the Top 5 Sectors, 2002-2008 (USD Million)

Sectors	2002	2003	2004	2005	2006	2007	2008
Financial Intermediation	246	51	69	4,018	6,957	11,662	5,925
Transport, Storage and Communication	1	1	639	3,285	6,696	1,116	169
Wholesale and Retail Trade	75	58	72	68	1,166	169	2,073
Manufacture of food products, beverages and tobacco	14	249	78	68	608	766	1,279
Manufacture of basic metals and fabricated metal products	18	1	6	139	158	515	1,124
Electricity,Gas and Water Supply	68	86	66	4	112	567	1,053
Real Estate, Renting and Business Activities	0	3	3	29	99	560	673
Construction	0	8	3	80	222	285	736
Other	149	239	254	844	1,621	3,496	1,879
TOTAL	571	696	1,190	8,535	17,639	19,136	14,911

Source: CBRT

Chart 17: FDI Inflow Sectoral Distribution 2008



Source: CBRT

In terms of FDI inflows, the most attractive sectors in Turkey are given as follows: financial intermediation, some other services (retail and wholesale trade, real estate, renting and business activities, and construction), manufacture of food products, beverages and tobacco, manufacture of basic metals and fabricated metal products, transport, storage and communication, and, electricity, gas and water supply.

3.1. Financial Intermediation

Unlike the previous years, due to ongoing financial crisis conditions, governments played an important role in M&A activities in 2008. Some major M&A deals that took place in financial intermediation sector are listed below:

- Bank of America bought Merrill Lynch for USD 50 billion.

- Spanish Santander reached an agreement to acquire British bank Alliance&Leicester (A&L) for USD 2.5 billion.

- The United Kingdom's largest banking and insurance group, Halifax&Bank of Scotland (HBOS), was sold to one of the largest British banks, Lloyds TSB, for USD 21 billion, which equals to GBP 12 billion.

- Another British giant bank Barclays announced that it would buy the North America investment banking and capital market management divisions of Lehman Brothers for USD 1.75 billion.

- The Government of the United States seized one of the largest banks of the US, Wachovia. Then the bank made a merger deal with Wells Fargo for USD 15 billion.

- The US Government took over the sixth largest American bank, Washington Mutual. Then, it sold all the assets of the bank to JP Morgan Chase for USD 1.9 billion. By taking the Government's support, JP Morgan Chase acquired Bear Stearns, a bank that went bankrupt in May 2008.

The financial sector, characterized as "Activities of Financial Intermediary Institutions" in statistical classifications, became the sector providing the highest foreign direct investment inflow with 5.5 billion dollars in 2008, similar to previous years. Last year, 38% of foreign direct investments was realized in finance sector. USD 2 billion part of the FDI inflows in financial intermediation was undertaken because of the M&A deals completed in insurance sector.

The highest foreign direct investment inflow in financial intermediation sector in 2008 was the amount of 1,080 million dollars transferred for the acquisition of 60% of the shares of Türkiye Finans Katılım Bankası by The National Commercial Bank located in Saudi Arabia. Although the deal was announced in 2007, it was completed in 2008 with the transfer of the capital. Transfer of USD 697 million for the acquisition of an additional 9.7% of the shares of Finansbank by The National Bank of Greece ranked as the second.

Other noteworthy FDI transactions in the banking sector include the acquisition of Turkish Bank's 40% of shares by National Bank of Kuwait for USD 160 million, and, 7.5% of shares of Bank Pozitif by Israeli Bank Hapoalim for USD 64 million.

Another remarkable development in financial intermediation in 2008 was that the insurance sector emerged as one of the leading sectors both in terms of FDI inflows, and the number of M&A deals. FDI inflows to insurance sector in 2008 accounted for approximately USD 2 billion. The M&A deal with the highest deal value in the sector was the acquisition of 49% of the stakes of Allianz Hayat ve Emeklilik by German-based Allianz SE for USD 590.8 million. 525 million dollars transferred for the acquisition of 50% of the shares of AXA Oyak Holding by France based AXA Group, transfer of 345 million dollars for the acquisition of TEB Sigorta, transfer of 285 million dollars for the acquisition of Güven Sigorta by French Groupama, 139 million dollars for the acquisition of Oyak Sigorta by the Netherlands based ING Group, and 51 million dollars for the acquisition of İsviçre Sigorta by the UK-based Aegon may be listed as the outstanding FDI inflow transactions into the insurance sector in 2008.

3.2. Other Service Sectors

Real estate and construction businesses gained dynamism in many parts of the World such as the US, the UK, China, India, Russia and the new members of the EU located in the Eastern Europe, since the beginning of the 2000s. As the credit crunch in the US turned into a global financial crisis in the summer of 2007, yields on real estate businesses fell sharply. Under these circumstances, the investors in the sector re-directed their investments to the BRIC (namely, Brasil, Russia, India and China) countries.

In the decade ahead, it is estimated that 70% of the global infrastructure investment projects is going to be realized in China and India. These two countries are not only the fastest growing economies in the world, but they also own enormous sizes of land and they are willing to undertake large infrastructure investment plans in order to endow the land with more facilities. Brasil follows the two leaders and takes the third place with regard to infrastructure investments. Turkey is considered a dynamic market for investors in construction sector since it aims at strengthening its infrastructure continuously by building airports, expanding the road network, improving electricity transmission and communication structure[12].

FDI inflows to Turkey in construction and real estate, renting and business activities sectors have exhibited an upward trend in recent years. In 2008, inflows in construction took 4.9% and, real estate, renting and business activities 4.5% of the shares from total FDI inflows to Turkey.

Following 2002, real estate, construction and retail trade businesses in Turkey started to grow fast. The growth rate of population, immigration from rural to urban areas, the need for more earthquake resistant buildings particularly in the areas close to the fault lines and urban regeneration were the main determinants that stimulated investments in real estate and construction sectors.

12 European Powers of Construction 2008, Deloitte, January 2009

The fall of inflation and interest rates after 2001, and increasing liquidity led to the rise of investments in real estate and construction activities. Yet, by 2007, the tendency to invest in these sectors had disappeared, and, in 2008, construction sector shrank because of the financial crisis.

Fixed investments to construct malls gained pace in Turkey recently. The new malls contributed to the development of a modern and organized retail trade sector in Turkey. The modern retail trade, in turn, contributed to Turkey's economy by creating jobs, paying taxes to the government, supplying services and marketing agricultural products.

According to the Association of Malls and Retailers' data aggregate annual sales of retail trade businesses were around USD 160 billion in 2008. Estimates suggest that 65% of this figure stemmed from the activities of traditional retailers and the remaining part belonged to the modern retailers. Considering the growth rate of the population in metropolitan areas, the potential of the modern retail trade to make profit encouraged many domestic and foreign investors to undertake a number of investment projects. There are currently 206 malls being run across Turkey, and 82 malls are still under construction[13].

The highest foreign direct investment inflow in retail and wholesale trade in 2008 was an amount of 1,917 million dollars transferred for the acquisiton of Migros by BC Partners-Dea Capital-Turkven joint venture. The value of this deal made the retail and wholesale trade activities the third most attractive sector, with 14% of shares in total FDI inflows, for foreign investors in 2008.

In wholesale and retail trade services, Germany-based Media-Saturn Holding established a joint venture called MS İstanbul İç ve Dış Ticaret and launched "Media-Markt" as the trademark of its ICT products stores. The German multinational transferred USD 31 million for this project.

13 Association of Malls and Retailers (AMPD) web page: http: www.ampd.org

When outstanding investments in real estate and construction among inflow figures realized in 2008 are examined, it can be observed that Dutch Multi company takes the first place with a transfer of 443 million dollars. Again Dutch Redevco company transferred USD 189 million for the finance of the capital increase of its subsidiary in Turkey. Outstanding FDI inflow transactions into the real estate and construction sectors in 2008 are the transfer of USD 49 million by Dutch Corio, transfers of USD 33 and USD 25 million by UAE-based Deyaar Development and Emaar Properties, and the transfer of 23 million for the acquisition of 21% of the stakes of STFA Holding by Asian Debt Management (ADM), a Hong-Kong-based private equity fund.

In addition to the transactions mentioned above, it was announced that Palmali (Azerbaijan) and SOCAR (State Oil Company of Azerbaijan Republic) joint venture made a deal to buy 50% of the stakes of one of Turkey's largest construction companies, Tekfen İnşaat, for USD 520 million; however, the deal was not completed in 2008. Hence, the amount regarding this deal was not transferred to Turkey.

3.3. Manufacture of Food Products, Beverages and Tobacco[14]

Food industry, which supplies the primary demands of people in daily life, obtains inputs from the agricultural sector, and by processing these inputs, it converts agricultural products into sub-products and final products. Due to its field of activity, the sector is not only affected by the developments in the agricultural sector, but also has to adapt to the changing socio-economic conditions shaping the consumer demand.

Food industry, with the annual sales in excess of 2 trillion dollars, is one of the most important branches of the world manufacturing business. However, the

14 Turkish Food and Beverages Associations Federation (2008), Turkish Food and Beverages Sector 2008 Inventory
KOBİ FİNANS, The State of Food Sector in the World
Food Technology, Food Sector From 2008 to 2009
Deloitte, Annual Turkish M&A Review 2008

industry has recently undergone a so called food crisis in 2007, in which processed food and oil prices mounted to peak levels throughout the world. The causes of the rise in processed food prices include the rapid growth of the world population, increase in demands by developing countries, insufficient supply due to global warming, the use of some agricultural products as bio-fuel, and speculative transactions of investment funds in the Wall Street.

The differences in nutrition habits, difficulties in trade, and different domestic needs have forced the food industry to adopt multi-country strategies. Due to several reasons such as natural characteristics of products, difficulties in long-distance transportation and its high costs, differences in taste and preferences, and difficulties in controlling local distribution channels, companies with EU, the USA and Japan origin have followed a spread strategy through M&A transactions.

In 2008, Belgian InBev and American Anheuser-Busch realized a USD 52 billion takeover deal, creating the world's largest beer maker. The new company, called Anheuser-Busch InBev, is expected to produce 300 different brands of beer and to enjoy a net annual sale of about USD 36 billion. Being the world's largest takeover deal in the alcoholic beverages sector, the new company will produce approximately one fourth of the world's beer production.

Because of the young population's aptitude to innovations, the food sector in Turkey has the advantage of easily utilizing the opportunities available. Another advantage of the sector is the opportunity of selling products to the EU countries and nearby markets.

Production capacity of the food sector reached 186,4 million tons in 2008, a 47.1% increase, as compared to 2007. The highest capacity increase in 2008 was in meat and meat products and processed flour products. Processed fruit and vegetables and other food products also showed high capacity increases in 2008. Contrary to the food industry, there was a 1% decrease in the production capacity of beverage industry. Production capacity of the beverage industry was 13.3 billion liters in 2007, as compared to 13.2 billion liters in 2008, which is a 1% decrease.

As of 2008, food and beverage industries employ about 471,000 people. As in the previous year, fruit and vegetables sub-sector has the highest sub-sector employment in 2008.

According to the Deloitte Annual Turkish M&A Review-2008, the largest M&A transaction in the food and beverage industry in 2008 was the acquisition of Tekel by the UK-based BAT (USD 1,720 million). Other largest M&A transactions are the acquisition of the 95.7% of the shares of Turk Tuborg by the Israel-based Central Bottling Company (USD 44.5 million), the acquisition of Exotic Meyve Suları by the UK-based Ashmore (share and deal value not announced), and the acquisition of the 39% of the shares of Ana Gıda by the USA-based Bedminster Capital (deal value not announced).

Being among the most dynamic sectors in Turkey, food sector attracts foreign investor's attention. There is an inflow of foreign direct investment to the sector and large investments have been made. The sector also hosts many foreign companies. Approximately 10% of companies with foreign capital in the manufacturing industry and 2% of the total number of companies with foreign capital in Turkey operate in the food and beverages industry. The share of direct investment inflow in food and beverages within the manufacturing industry increased from 18.2% (USD 766 million) in 2007 to 34.2 % (USD 1.3 billion) in 2008.

As of the end of 2008, 3.757 companies with foreign capital in the manufacturing sector operate in Turkey. Among these, 369 companies are in the food and beverage products sector. Of these 369 companies, 99 have capital values higher than USD 500.000.

Food and beverages sector exports reached USD 6.5 billion in 2008, which was USD 5.1 billion in 2007. Among the total, processed fruit and vegetables have the highest sub-sector exports, followed by ground grain crops and then by vegetable-animal oils and fats sub-sectors. When the distribution of the food and beverage exports in 2008 is considered according to country, the first three countries are Iraq (15.4%), Germany (10.7%) and the Netherlands (4.3%).

Food and beverages sector imports increased to USD 3.7 billion in 2008 from USD 2.6 billion in 2007. Among the total imports, vegetable and animal oils and fats sub-sector has the highest share (USD 1.6 billion) followed by other food products and meat and meat products sub-sectors. When the distribution of the sector imports in 2008 according to country is considered, the first three countries are Malaysia (12.3%), the USA (10.9%) and Ukraine (10.8%).

3.4. Manufacture of Basic Metals and Fabricated Metal Products

Iron and steel industries took the fourth place in terms of FDI inflows to Turkey with USD 1,009 million in 2008. The highest FDI inflow in the industry was generated by the acquisition of additional shares of Ereğli Demir Çelik Fab. T.A.Ş. by Arcelor Mittal NV for USD 959.1 million. MMK Magnitogorsk Iron&Steel Works Joint Stock Company participated in the capital increase of its subsidiary in Turkey, MMK Atakaş Metalurji T.A.Ş., and transferred USD 41.4 million. Pirelli Tyre Holding NV bought a part of Çelikord A.Ş. shares for USD 24.1 million.

The companies operating in iron and steel industries have been seeking for consolidation by making M&A deals in the sector in the last few years. In doing so, they gained control over the iron ore supply and consequently, bolstered the prices. In 2008, 29 mega-deals, M&A deals with values over USD 1 billion, took place in the industry. Table 29 demonstrates the top 5 deals.

Table 29: M&A Transactions in Iron and Steel Sector

Target Company	Home Country of the Target Company	Acquirer Company	Home Country of the Acquirer Company	Deal Value (USD Billion)
IPSCO Inc. Canadian Tubular Operations	Canada	Evraz Group SA	Russia	4.02
Ironx Mineracao SA	Brazil	Anglo Amerikan PLC	UK	3.49
Boehler- Uddeholm AG	Austria	Voestalpine AG	Austria	3.48
Nacionale Minerios SA	Brazil	Investor Group	Japan	3.12
Sukhaya Balka GOK	Ukraine	Evraz Group SA	Russia	2.18

Source: Forging Ahead 2008 Annual Review M&A Activity in the Metal Industry (www.pwc.com)

3.5. Transport, Storage and Communication

In 2008 an acquisition deal with a huge value was negotiated between France Telecom and Telia Sonera; however, the parties of the negotiation could not reach an agreement on the terms. The French company announced that it was planning to buy Swedish telecom giant Telia Sonera valued at EUR 23-34 billion (equivalent to USD 25-52 billion) in April 2008; however, it withdrew its offer in June 2008.

Among the completed deals in communication services in 2008, the most important deal was the one between Google and Youtube. Google, the most popular internet search engine, took over Youtube for USD 1.65 billion. On the other hand, Microsoft offered USD 4.6 billion to acquire Yahoo, but the negotiations have not been concluded.

Nokia adopted a strategy on expanding its location-based services in 2008, and acquired American Navteq, a leading company in mapping and navigation technologies, for USD 8.1 billion. Furthermore, Nokia bought Norway-based software company Trolltech for USD 153 million.

According to Deloitte Turkey's "M&A Report, 2008" there were only 5 M&A deals made in the Turkish ICT (i.e. Information and Communication Technologies) sector. The total value of the deals mentioned above was relatively low as well.

The bid to obtain the licenses for 3G–third generation mobile communication application (IMT-2000/UMTS) was held on November 28, 2008 by Information and Communication Technologies Authority and the technology is expected to have a great impact on communication. Three mobile phone operators, Vodafone İletişim Hizmetleri A.Ş., Turkcell İletişim Hizmetleri A.Ş. and Avea İletişim Hizmetleri A.Ş. participated in the bid.

- Turkcell İletişim Hizm.A.Ş. obtained A-type license for EUR 358 million (equivalent to USD 544 million) + VAT,
- Vodafone İletişim Hizm.A.Ş. obtained B-type license for EUR 250 million (equivalent to USD 380 million) + VAT,
- Avea İletişim Hizm.A.Ş. obtained C-type license for EUR 214 million (equivalent to USD 325 million) + VAT.

Of USD 169 million FDI undertaken in "Transport, storage and communication" sector, a total of USD 46.3 million was invested in telecommunication sector.

3.6. Electricity, Gas and Water Supply

Similar to the previous years, electricity production sector was perceived as an emerging and strategic activity in 2008 as well. Analyses of international organizations support this view.

A study of International Energy Agency suggests that (IEA 2003), the cost of infrastructure investments will be around USD 16 trillion during the period 2001-2030. It implies that approximately USD 550 billion will be invested each year in energy projects. It is also estimated that the cost of the investments in electricity production will constitute 60% (around USD 10 trillion) of the total infrastructure investments during the same period. When supplementary investments that are going to be made in order to supply oil, gas and coal to electricity production plants are taken into account, the share of electricity production goes up to 70%.

According to "Public Private Partnership Database for Infrastructure Projects" (World Bank 2009), although many developing or transition countries took steps on liberalizing their electricity production sectors in the last 20 years, 58% of the investments in electricity production were realized in only 5 countries, namely, Brasil, China, India, Argentina and Philippines during this period. Latin America, East Asia and Pacific regions attracted almost 75% of the investments whereas the other regions managed to attract the infrastructure investments only at a limited level.

According to Deloitte Turkey's "M&A Report, 2008", energy sector was ranked the third in terms of the number of M&A deals (19), following services (24 deals) and financial intermediation (20 deals). What is more striking is that the total value of the deals made in energy sector, USD 5,751 million, exceeded the total value in financial intermediation, USD 2,410 million, for the first time and was ranked the first in the report.

"Energy Deals 2008 Annual Review" of Price Waterhouse Coopers, a study which analyses the M&A deals made in the Turkish energy sector in 2008, revealed that electricity production and transmission took 68% of the shares in total in terms of the number of deals while transmission of natural gas took 32%. However, the breakdown by deal values seems more balanced due to the privatization of Başkentgaz and İzgaz.

In July 2008 Verbund AG (Austria) – Enerjisa (Turkey) joint venture took over Başkent Elektrik Dağıtım, a state electricity transmission company operating in Ankara, for USD 1,225 million. Another state electricity transmission company which operates in Marmara region, Sakarya Elektrik Dağıtım, was acquired by CEZ (Czech Republic) - Ak Enerji (Turkey) joint venture for USD 600 million.

In electricity production, Austrian OMV Power Int. GmbH bought 60% of Borasco Elektrik Üretim San. ve Tic. A.Ş., a domestic energy company, and made the most important deal in 2008.

The aggregate FDI inflows in "Electricity, Gas and Water Supply" sector accounted for USD 1,050 million in 2008.

B. ACTIVITIES TO INCREASE THE FOREIGN DIRECT INVESTMENTS

1. IMPROVING THE INVESTMENT ENVIRONMENT

1.1. Efforts in the International Area to Improve the Investment Environment

Investment has become a significant tool for countries to achieve higher growth rates, decrease the unemployment level, and increase the efficiency, prosperity and global competitiveness since the 1990s, the years of acceleration of globalization. Particularly, the less developed and developing countries, for whom the economic development is a considerable policy target, need larger investments to achieve higher growth rates, diminish the unemployment level and raise technological development[15].

Thus, the countries have recently started to develop strategies to increase both national and foreign investment flows. One of the most common strategies is removing administrative and bureaucratic barriers and designing a more competitive investment climate by decreasing the time and cost of doing business. Indeed, the quality of the investment environment, which depends on many components such as the political and economic stability, legal and regulatory framework, and infrastructure of the countries, has become a significant factor affecting the investment decisions[16].

15 Busse, Matthias and Groizard, José Luis. (2006). Foreign Direct Investments, Regulations and Growth. World Bank Policy Research Working Paper, no. 3882.

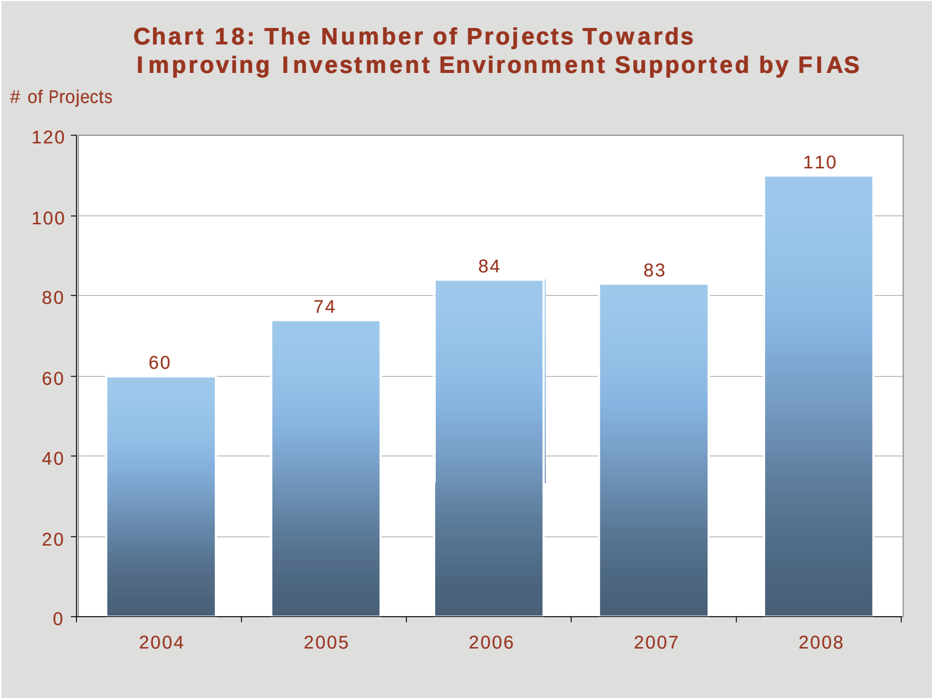
16 Qimiao, Fan. (2006, May). Importance of the Investment Climate for FDI and Domestic Investment. The Workshop on the Investment Climate and Foreign Direct Investment in CLMV Countries, Hanoi, Vietnam.

Improving investment environment can be an independent reform program aiming at streamlining the regulatory framework, decreasing the administrative and bureaucratic procedures and increasing both national and international investments, as well as being a part of a more comprehensive reform program. However, traditional way of improving the investment environment has mostly been a part of reform programs designed to increase the competitiveness in many countries since the improvements in areas such as economy, politics, public administration, institutionalization and privatization are directly related to the improvement of investment environment.

Improving the investment environment involves many factors such as rationalizing the procedures in the business start-up and operation periods in addition to continuing the macroeconomic and political stability, enhancing the financial markets, improving corporate governance, ensuring the proper functioning of the judicial processes and developing the infrastructure, labor force and education level.

As a result of the increasing importance and the widening scope of the investment environment, this concept has started to take more place on the agenda of the international institutions. Moreover, the international institutions have started to diversify their programs towards directing the reform studies of countries and increased their technical and financial subsidies for this area.

The Foreign Investment Advisory Service (FIAS), which is a subsidiary of World Bank and International Finance Corporation, supports the projects of developing countries on topics such as improving the investment environment, investment policy and promotion, administrative simplification and sectoral investment environment. The increase in the number of the projects supported by FIAS can be regarded as a proof of the increasing interest of countries in the investment environment. The number of projects supported by FIAS has reached to 108 in 2008, from 60 in 2004.



Source: FIAS Annual Reports

Additionally, the increasing number of reforms carried out by countries in the Doing Business Reports, a World Bank publication assessing countries in terms of ease of doing business since 2004, shows explicitly the trend in the worldwide investment environment activities. The Doing Business Reports indicate that 213 reforms towards improving the investment environment were implemented between 2005 and 2006 in 112 countries, 200 reforms were carried out by 98 countries between 2006-2007 and 239 reforms were put into force in 113 countries between 2007-2008.

The Doing Business Reports provide comparative information about the quality of investment environment of countries, by assessing the timing and cost of institutional, legal and administrative activities faced by investors in a country. The Ease of Doing Business Rank acts as an important tool affecting the investment decisions and provides benchmark in terms of the administrative, legal and institutional development and effectiveness.

In line with the global financial and economic crisis, which started because of the fluctuations in the financial markets caused by the difficulties in the repayment in the USA mortgage credits at the beginning of 2007, and which affected the real markets after September 2008, a significant decrease in the worldwide foreign direct investment flows was observed. UNCTAD predicts a 21% decrease in the foreign direct investment flows in 2008 compared to 2007. The downward trend in the global investments as a result of diminishing financial sources and decreasing investment capacities has increased the importance of the investment environment reforms among the investment policies. Indeed, decreasing bureaucratic costs has gained even more importance in terms of supporting investments. The regulatory reform program implemented by South Korea in order to enhance its economy against the negative effects of Asian crisis is a significant example of promoting the investments by improving investment environment in crisis periods[17]. Furthermore, supporting foreign investment has been one of the G-20 suggestions declared on April 2, 2009, which is a clear evidence of the worldwide importance of investment environment studies.

1.2. Improving the Investment Environment in Turkey

1.2.1. Activities of the Coordination Council for the Improvement of Investment Environment (YOIKK) in 2008

The activities towards improving the investment environment, which were started in 2001 in line with the international practices, were continued in 2008.

- Technical Committee on Research and Development was established under the chairmanship of TUBITAK in order to determine and implement policies towards increasing the R&D investments in Turkey. The Technical Committee started its studies to have a more attractive investment environment in terms of R&D activities.

17 Lee, Myung-Kyu. (2007, June). Experience of Regulatory Reform in Korea. http://info.worldbank.org/etools/docs/library/240922/LeePresentation%5B1%5D.pdf

- YOIKK Technical Committee Action Plans were initially prepared in 2007 in order to enable the monitoring and evaluation of studies managed by the YOIKK Technical Committees. The Action Plans were revised within the framework of the bottlenecks faced by the investors at the 12th YOIKK Meeting which was held on January 30, 2008 and the Technical Committees continued their activities in 2008 within the context of the revised Action Plans. Major improvements achieved as a result of the activities conducted by the related institutions in the context of the YOIKK Technical Committees Action Plans are as follows:
    - Law on Enhancing Research and Development Activities, which involves important incentive tools towards accelerating research and development activities and innovation, was published in the Official Gazette on March 12, 2008 and came into force in April[18].
    - Prime Ministry Circular on the establishment of Coordination Council for Intellectual and Industrial Property Rights was enacted on May 21, 2008[19].
    - The Employment Package aiming to decrease the bureaucratic and financial burden on labor force and increase the flexibility of the labor market was enacted on May 26, 2008[20].
    - The Labor Market Survey was formed to enhance the education-employment relation and amend the labor qualifications to meet the labor market needs. The final report of this survey was announced to the public.
    - Law on Amending the Decree on Protecting the Geographical Indications was enacted on October 23, 2008[21].
    - The Regulation on the Ex-post Inspection and the Control of Risky

18 Law no 5746 on Enhancing Research and Development Activities (Official Gazette 02.28.2008/26814).

19 Prime Ministry Circular No 2008/7 on the establishment of Coordination Council for Intellectual and Industrial Property Rights (Official Gazette 05.21.2008/26882).

20 Law no.5763 on the Amendment of the Labor Law and some other Laws (Official Gazette 05.26.2008/26887).

21 Law no 5805 on Amending the Decree on Protecting the Geographical Indications (Official Gazette 10.23.2008/27033).

Operations aiming at accelerating the work flow via the ex-post inspection of the customs operations was enacted on October 27, 2008[22].

- o The medium term strategic targets of the Investment Support and Promotion Agency of Turkey were determined on November 28, 2008 at the Advisory Board Meeting.

- "Experience Sharing Program" was initiated in order to share the experience and knowledge on improving the investment environment by the countries working on this issue. Two programs were implemented for the Iraq and Kirghiz delegations, on November 5, 2008 and November 6-7, 2008, respectively.
- The YOIKK Portal (www.yoikk.gov.tr), aiming to create an effective communication platform between YOIKK members, was launched on April 17, 2009. Introductory information about the studies in YOIKK Technical Committees, Steering Committee and Investment Advisory Council as well as explanations about the main investment procedures are provided on YOIKK Portal.

22 The Regulation on the Ex-post Inspection and the Control of Risky Operations (Official Gazette 10.27.2008/27037).

Box 5: The ranking of Turkey in the Investment Indices

The investment indices of several international institutions act as benchmarking tools for improving the investment environment studies and direct the investment decisions since they provide the opportunity to compare countries. The international institutions use different methods and criteria when comparing the quality of countries' investment environments through the investment indices. The studies in this area usually assess the existent capacity factors such as legal framework, infrastructure and institutional development.

The recent improvement of Turkey's ranking in the international investment indices explicitly shows that Turkey is becoming a more attractive destination for investments and both the legal framework and institutional capacity of Turkey are developing. The ranking of Turkey at some of the international indices is provided below:

- Turkey has been the 59th in the Doing Business 2009 Report of World Bank among 181 countries. By the YOIKK Corporate Governance Technical Committee studies a Communiqué was enacted, as a result of which Turkey has moved up 13 steps to the 53rd in the "Protecting Investors" ranking of World Bank Doing Business 2009 Report. By this Communiqué, an independent advisor review was made compulsory when corporations the shares of which are admitted to trading on a stock exchange enter into a transaction exceeding a certain amount with an individual or a company who has directly or indirectly a relation of capital, management or inspection.
- According to UNCTAD World Investment Report, Turkey has been the 23rd in the global ranking and the 9th among developing countries in terms of attracting FDI, with the USD 22 billion foreign investment inflows in 2007. Also, according to World Investment Prospects declared in the same report, Turkey has been selected as the 15th attractive country for the investments in 2008-2010.

Box 5 (Cont'd)

- Turkey has remained in the same ranking at the "Best countries for business Index", published by Forbes in March 2009 and it has been the 41st among 127 countries likewise in the previous year.
- Economic Freedom Index published annually by the Heritage Foundation and The Wall Street Journal aims to analyze the economic freedom level of the countries through 10 different criteria. Turkey has taken 61.6 points out of 100 in the Economic Freedom Index 2009, 1.6 points more than the previous year's level, and has been the 75th among 185 countries.
- Turkey has been the 47th in the World Competitiveness Yearbook 2009 published by the International Management Development Association, which analyses the competitive power of 57 countries through 329 criteria.

1.2.2. 5th Meeting of the Investment Advisory Council (IAC) for Turkey

The fifth meeting of the IAC, established in 2004 in order to provide an international perspective to the studies conducted to improve the investment climate of the country and which meets annually under the chairmanship of HE President Recep Tayyip Erdoğan, was held on June 18, 2008 in Istanbul. The IMF First Deputy Managing Director Mr. John Lipsky, the World Bank Vice President Mr. Graeme Wheeler and top level executives of 19 multinational companies representing 12 different countries and 14 different sectors attended the last meeting.

In the fifth meeting, Council members highlighted the success in the amount of FDI inflows to Turkey and expressed their impression on the decisive measures taken on supporting research and development activities, developing the area of insurance and labor market flexibility. In this context,

- Passage of the new R&D law, which provides a major stimulus for R&D and the development of Turkey as an export and knowledge based economy,
- Adoption of the social security and universal health law,
- Passage of the insurance law, which represents a significant step towards adopting the best international practices and realizing the sector's potential fully,
- Adoption of the employment package, opening the way for further improvements in labor market flexibility and enhancing competitiveness of companies operating in Turkey,

were highlighted as important accomplishments for the improvement of the investment climate.

Council members stated the significance of the continuation of the successful strategy to maintain macroeconomic discipline and micro economic reforms in this line to increase growth rate. The significance of vigilant monetary policy, maintenance of budgetary discipline and adoption of fiscal rule were also emphasized in the declaration of outcomes which was announced to the public at the end of the meeting. In addition, emphasizing the priority of policies on improving labor market flexibility and quality of the education, Council members grouped their recommendations for the improvement of the investment climate under 12 main titles:

1. Improve education and training, particularly foreign language skills and technical education based on public-private cooperation, geared to private sector needs.
2. Enhance dialogue between industry and universities to promote entrepreneurship, leadership and management skills.
3. Accelerate energy sector reforms, including automatic cost recovery pricing, diversification, deregulation and privatization.
4. Move forward with labor market reforms that further enhance flexibility while protecting workers.
5. Improve infrastructure, particularly transportation and information/communication technology as well as appropriate contractual and legal framework for PPP/BOT.
6. Further strengthen the implementation of legislation on intellectual property rights in accordance with international standards.
7. Reduce barriers to further use of broadband internet and PC.
8. Improve customs procedures.
9. Improve public administration practices by enhancing transparency, predictability and efficiency.
10. Strengthen measures to reduce informality, including fighting against tax evasion.
11. Encourage the growth of SMEs to drive employment and expand their role in formal economy.
12. Enact and implement the new commercial code to improve corporate governance and accounting standards.

Recommendations of the Council members, which are brought forward during IAC meetings, are announced to the public at the end of each meeting via declaration of outcomes. These recommendations are assessed by YOIKK Technical Committees and relevant institutions via YOIKK action plans measured annually. Results and achievements recorded during the year are presented in the IAC progress reports[23]

23 IAC progress reports are available at www.treasury.gov.tr.

Box 6: Global Trends in Improvement of the Investment Climate[24]

Improvement of the investment climate has begun to be an important agenda item for governments and international institutions as the quality of the investment climate and ease of doing business have become a crucial factor in investment site selection by firms in the era of globalization. Governments aim to enhance employment, productivity, prosperity and global competitiveness by creating more competitive investment climates in terms of cost and duration of doing business.

Studies to improve the investment climate which are initiated with similar impetus are shaped in line with the sui generis needs and priorities of each country. Yet, when studies conducted by countries from different geographic locations with different development levels to improve the investment climate are analyzed in terms of methodology and process, some common trends are observed in diagnostics, process design, implementation, and monitoring and evaluation. Thus, it can be concluded that improvement of the investment climate is a valid policy for all countries regardless of their level of development and regional location.

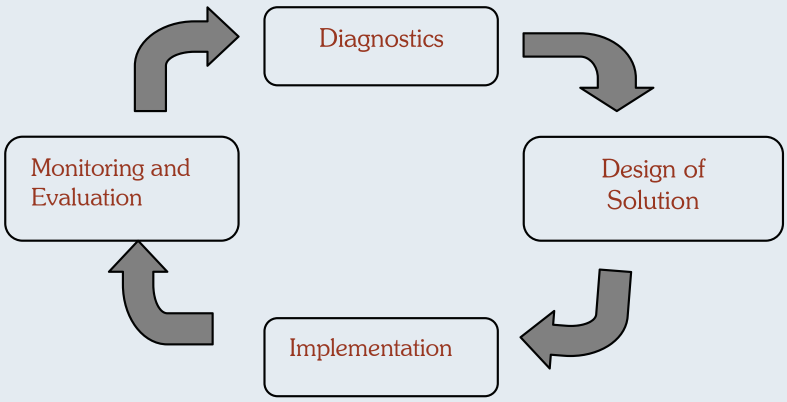
The following common points regarding approach, structure and working of investment climate improvement studies have been ascertained by assessing studies conducted by 6 East Europe and Central Asia, 7 OECD, 2 Sub Saharan Africa, 2 East Asia and Pacific, 1 Caribbean and Latin America, 1 Middle East and North Africa countries to improve the investment climate in methodological terms:

- Studies to improve the investment climate have been handled through an institutionalized structure and public private partnership approach in all countries.
- Process of improvement of investment climate moves along 4 basic steps:
  1. Diagnostics,
  2. Design of solution,
  3. Implementation,
  4. Monitoring and evaluation.

24 Compiled from the professional dissertation of Ass. Treasury Expert Gamze Özdurgutlu which analyses investment climate improvement studies of 20 countries.

Box 6 (Cont'd):

Chart 19: Steps of Process of Improvement of Investment Climate



- All countries conduct a diagnostics study prior to initiation of studies to improve the investment climate with the aim to determine the barriers in doing business and clarify areas for improvements. Despite the fact that instruments and methods of diagnosing the current status of the investment climate vary, the most common methods used in diagnostic studies refer to the evaluation of assessments conducted by international institutions such as FIAS, World Bank. Additionally, investor surveys and field research studies contribute to the measurement of administrative burdens to determine the steps to be taken to improve the investment climate.

- There are 2 conventional approaches in terms of structure and working of the investment climate improvement programs of the countries. Investment climate reforms, which incorporate a variety of institutions naturally, are coordinated by a new mechanism in some of the countries while one of the existing institutions is assigned with the coordination task in some others. What is common in all countries is that coordination units are located in existing economy or finance ministries.

Box 6 (Cont'd):

- Studies to improve the investment climate are conducted by sectoral, regional or policy based working groups which are designed to conduct technical works in line with the needs and resources of the countries under the administration of a coordination unit in most of the countries. Secretariat body is also established to provide infrastructural and communication services between technical working groups.
- Countries have developed a variety of approaches regarding monitoring and evaluation of the progress achieved, which is a significant component of the studies on improving the investment climate. Creation of independent units -apart from the coordination unit- assigned with the task of monitoring and evaluation has been one way preferred by some countries. Assigning the coordination unit or the secretariat with the task of monitoring and evaluation is another common trend in this regard.

There are also some differences in terms of policy approaches to investment climate improvement studies of the countries. Investment climate is considered as a specific policy area in some countries whereas in some others, it is taken as a component of more comprehensive policies. It is observed that OECD countries put more emphasis on regulatory simplification studies with the aim to decrease the administrative burdens brought on firms by regulations while less developed countries focus on improvement of all of the basic components of the investment climate such as employment, taxation, company registration or on a specific policy area such as sectoral licenses. Evaluating all these similar and diverging approaches, it is possible to predict that some trends will stand out in the following term in the area of improving investment climate. These can be summarized as follows:

- It is a prevalent approach to consider investment climate as a dimension of competitiveness. In addition, it has become widespread to conduct studies to improve the investment climate within the framework of an institutionalized mechanism, through public private partnership understanding. Adoption of 239 reforms in 113 countries in 2007-2008 is a concrete indicator of the competition among countries regarding investment climate reforms.

Box 6 (Cont'd):

- Within the national level, improvement of investment climate has also gained significance in regional terms. In this regard, EU approach will certainly impress other regional organizations. EU aims to enhance the competitiveness at the firm level by reducing the administrative burdens brought on enterprises via administrative regulations within the context of the Lisbon Strategy which determines the framework of the competitiveness policies of the Union. Commission, within the context of the Strategy, initiated "Action Program for Reduction of Administrative Burdens in EU" on November 12, 2006 with the aim to reduce administrative burdens stemming from Union level regulations. As part of the program, it was agreed to reduce administrative burdens by 25% until 2012 in the Spring Summit of the Council in 2007. This significant target encompasses measures to be adopted at both Union and national level. As a result of the achievement of this measure, 1.4% increase is foreseen in GDP of the EU corresponding to Euro 150 billion (USD 228 billion).
- Reduction of administrative burdens on enterprises has become an important component among the policy areas that are subject to improvement. Germany, Austria, Australia, Belgium, S. Korea, the Netherlands, Hong Kong, Croatia, the United Kingdom, Mexico and Poland are among the countries that conduct studies to reduce administrative burdens as part of the investment climate reforms.
- Methods and instruments applied by countries during the implementation of investment climate reforms also differ:

O More emphasis has begun to be placed on linking reform studies to concrete and quantitative targets. Diagnosing the barriers in doing business by using the Standard Cost Model or investment climate assessment (ICA) reports of the World Bank has become widespread. ICA reports analyze the barriers in the investment environment of countries and take the stock of administrative burdens. The number of ICA reports, which are firm level data analysis conducted by the World Bank to analyze the current status of the investment

Box 6 (Cont'd):

climates of the countries, increased to 110. Likewise, the number of countries which benefited from the Standard Cost Model network increased to 24. This model was formed in 2003 as an informal communication network among the countries using the model as a means to measure and reduce administrative burdens. These indicators are basic evidence proving the trend in conducting the investment climate reform studies based on concrete data.

- Implementation of regulatory impact analysis (RIA) to the new regulations along with the regulatory simplification during the studies conducted to reduce the administrative burdens on firms has also become a common approach. RIA is executed to make an analytical analysis of the necessity of the proposal, alternative means to reach the target, cost and benefit analysis and implementation methods. Nearly all EU member states have started to implement RIA within the context of the institutional efforts regarding strengthening and supporting regulatory reform.

- Administrative and regulatory burdens create negative effects mostly on SMEs and correspondently diminish the competitiveness of SMEs. This fact has begun to draw the attention of the countries. Thus, strategies such as "Think small first" have been widely adopted with the aim to compose regulations that do not bring additional burdens on SMEs. Increasing number of countries have begun to apply SME impact analysis in the regulatory process. European Commission has also adopted Small Business Act for Europe on June 25, 2008 within the context of Renewed Lisbon Strategy for Growth and Jobs□. The Act, which aims to reduce administrative burdens on small enterprises and prevent additional burdens to be brought through new regulations, requires the Commission and member states to develop policies in line with this aim within the framework of 10 main principles. The United Kingdom and Poland are among the countries that have already been constructing policies in this regard.

Box 6 (Cont'd):

- O Use of information and communication technologies and e-government applications throughout the transactions of business community and citizens with government have become widespread. Performing regulatory transactions such as registering a company and filling tax declarations to start a business by firms, initiating and conducting operations electronically can be shown as examples for e-government applications which can shortly be defined as offering public services by using information and communication technologies. E-government applications which increase the competitiveness in terms of decreasing cost and time are widely used all over the world.

- Together with the implementation of improvement studies for investment climate; monitoring and evaluation of their effects have also attracted the interest of the countries. Monitoring of the improvement process from the beginning to the end by establishing independent mechanisms apart from the institutional mechanism responsible for the implementation of the studies and evaluating the progress achieved have gained significance. Germany, Australia, the Netherlands, Hong Kong, Latvia, Poland and Uganda are among the countries that have formed independent structures assigned with monitoring and evaluation task. In addition to structuring, methods used in monitoring the effects created by improvement studies vary in practice. Widening use of investment climate indices, which compare investment climate of countries in terms of doing business, as reference points for benchmarking in recent years and even development of various programs by international organizations to improve the ranking of the countries in these indices can be considered as an indicator of the increasing importance given to monitoring the results of the studies conducted to improve the investment climate.

2. INTERNATIONAL AGREEMENTS FOR THE PROMOTION OF FOREIGN DIRECT INVESTMENTS

2.1. Avoidance of Double Taxation Treaties

Basically, Avoidance of Double Taxation Treaties are signed in order to prevent taxation of returns separately both in the country where they are earned and in the country where the owner of the return is resident. Another purpose of these treaties is to prevent foreigners to be taxed more heavily in the territory of the Contracting Parties compared to their own nationals. In other words, the purpose of Avoidance of Double Taxation Treaties is to prevent the possible inequality between the domestic and foreign tax payers by binding the taxation of foreign investors to certain principles, and eliminating the negative aspects of any change in the domestic tax legislation for long term planning.

In this context, Turkey has signed Avoidance of Double Taxation Treaties with 74 countries. Of these 74 Treaties, 70 Treaties have entered into force.

Table 30: List of Avoidance Double Taxation Treaties Signed by Turkey and Entered into Force*

	Country	Date of Signature	Date of Entry into Force	
1	Austria	03.11.1970	24.09.1973	
2	Norway	16.12.1971	30.01.1976	
3	South Korea	24.12.1983	25.03.1986	
4	Jordan	06.06.1985	03.12.1986	
5	Saudi Arabia	11.01.1989	09.08.1990	(1)
6	Tunisia	02.10.1986	28.12.1987	
7	Romania	01.07.1986	15.09.1988	
8	The Netherlands	27.03.1986	30.09.1988	
9	Pakistan	14.11.1985	08.08.1988	
10	UK	19.02.1986	26.10.1988	
11	Finland	09.05.1986	30.12.1988	
12	TRNC	22.12.1987	30.12.1988	(2)
13	France	18.02.1987	01.07.1989	
14	Germany	16.04.1985	31.12.1989	(3)
15	Sweden	21.01.1988	18.11.1990	
16	Belgium	02.06.1987	08.10.1991	(4)
17	Denmark	30.05.1991	20.06.1993	
18	Italy	27.07.1990	01.12.1993	
19	Japan	08.03.1993	28.12.1994	
20	UAE	29.01.1993	26.12.1994	(5)
21	Hungary	10.03.1993	09.11.1995	
22	Kazakhstan	15.08.1995	18.11.1996	
23	Macedonia	16.06.1995	28.11.1996	
24	Albania	04.04.1994	26.12.1996	
25	Algeria	02.08.1994	30.12.1996	
26	Mongolia	12.09.1995	30.12.1996	
27	India	31.01.1995	30.12.1996	
28	Malaysia	27.09.1994	31.12.1996	
29	Egypt	25.12.1993	31.12.1996	
30	People's Republic of China	23.05.1995	20.01.1997	
31	Poland	03.11.1993	01.04.1997	
32	Turkmenistan	17.08.1995	24.06.1997	(6)
33	Azerbaijan	09.02.1994	01.09.1997	
34	Bulgaria	07.07.1994	17.09.1997	
35	Uzbekistan	08.05.1996	30.09.1997	
36	USA	26.03.1996	19.12.1997	
37	Belarus	24.07.1996	29.04.1998	
38	Ukraine	27.11.1996	29.04.1998	
39	Israel	14.03.1996	27.05.1998	
40	Slovakia	02.04.1997	02.12.1999	
41	Kuwait	06.10.1997	13.12.1999	

	Country	Date of Signature	Date of Entry into Force	
42	Russia	15.12.1997	31.12.1999	
43	Indonesia	25.02.1997	06.03.2000	
44	Lithuania	24.11.1998	17.05.2000	
45	Croatia	22.09.1997	18.05.2000	
46	Moldova	25.06.1998	28.07.2000	
47	Singapore	09.07.1999	27.08.2001	
48	Kyrgyzstan	01.07.1999	20.12.2001	
49	Tajikistan	06.05.1996	26.12.2001	
50	Sudan	26.08.2001	31.01.2005	
51	The Czech Republic	12.11.1999	16.12.2003	
52	Spain	05.07.2002	18.12.2003	
53	Bangladesh	31.10.1999	23.12.2003	
54	Latvia	03.06.1999	23.12.2003	
55	Slovenia	19.04.2001	23.12.2003	
56	Greece	02.12.2003	05.03.2004	
57	Syria	06.01.2004	21.08.2004	
58	Thailand	11.04.2002	13.01.2005	
59	Luxembourg	09.06.2003	18.01.2005	
60	Estonia	25.08.2003	21.02.2005	
61	Iran	17.06.2002	27.02.2005	
62	Morocco	07.04.2004	18.07.2006	
63	Lebanon	12.05.2004	21.08.2006	
64	The Republic of South Africa	03.03.2005	06.12.2006	
65	Portugal	11.05.2005	18.12.2006	
66	Serbia-Montenegro	12.10.2005	10.08.2007	
67	Bahrain	14.11.2005	02.09.2007	
68	Ethiopia	02.03.2005	14.08.2007	
69	Qatar	25/12/2001	11/02/2008	
70	Bosnia Herzegovina	16/02/2005	18.09.2008	

* The date of enforcement of Double Taxation Treaties in terms of taxes is the first day of the year following the date of entry into force.

Source: The Ministry of Finance

(1) The Treaty will be implemented only for the taxes collected for the aviation services of the Contracting States.

(2) The Treaty entered into force for the taxation periods, starting from January 1, 1987 about the returns which would not be taxed according to Article 5 para. 2-(h)-2,and Article 11, para. 3-c and Article 14 para. 2.

(3) The provisions of the Treaty as regards maritime and aviation transportation have started to be implemented since January 1, 1983.

(4) The Treaty is to be implemented to the taxes collected from the returns accruing from the operation of airplanes in the international traffic, starting from January 1, 1987.

(5) The Treaty is to be implemented for the returns accruing from the aviation services and the returns of interest accruing from the accounts for the aviation returns, starting from January 1, 1988.

(6) The provisions of the Treaty is to be implemented starting from August 17, 1995 for the construction services and starting from January 1, 1998 for the other provisions.

2.2. Bilateral Investment Treaties (BIT)

The main purposes of Turkey's BITs are to increase the bilateral flows of capital and technology, and protect investments of foreign investors in the framework of the legal system of the host contracting state. In line with these principals, BITs are signed with countries with strong investment relations with Turkey or carrying a potential in this direction or with which the development of bilateral economic relations are considered promising.

BITs, which have been signed by Turkey with 80 countries so far, are fundamental agreements including key provisions for foreign investors, such as application of national treatment and most favoured nation treatment to foreign investors by the host state, guarantee of free transfer of profits, clarification of the terms and conditions of expropriations that may be practiced by the host state, and resort to international arbitration in case of a dispute between the investor and the host state.

BITs negotiations are projected to be carried on in 2009 and 2010. In this context, it is expected that the planned negotiations will mainly focus on the renewal of outdated BITs and conclusion of new BITs with developing countries to protect the rights of Turkish investors investing in these countries. In terms of the renewal of outdated agreements, negotiations with the new members of European Union in Eastern European have priority. From these countries, negotiations have been launched with Bulgaria, Croatia, the Czech Republic, Slovakia and Romania and, except for Bulgaria, negotiations with all the above mentioned countries have been concluded. In this context, in 2008-2009, new BITs have been signed with the Czech Republic, Croatia and Romania and the text of the Agreement with Slovakia has been initialed. Additionally, Turkey is planning to renegotiate its BITs with the countries in the Balkans, Caucasia, Central Asia, and the Middle East to address the current needs and priorities of the Turkish investors. To this end, the required diplomatic initiatives have been started in 2009.

The dates of the signature and entry into force of 65 BITs signed and ratified by Turkey are given in the following table.

Table 31: Bilateral Investment Treaties Signed by Turkey and Entered into Force

	Country	Date of Entry into Force		Country	Date of Entry into Force
1	Afghanistan	19.07.2005	34	Kuwait	25.04.1992
2	Albania	26.12.1996	35	Kyrgyzstan	31.10.1996
3	Argentina	01.05.1995	36	Latvia	03.03.1999
4	Austria	01.01.1992	37	Lebanon	04.01.2006
5	Azerbaijan	08.09.1997	38	Lithuania	07.07.1997
6	Bangladesh	21.06.1990	39	Macedonia	27.10.1997
7	Belarus	20.02.1997	40	Malaysia	09.09.2000
8	Belgium-Luxembourg	04.05.1990	41	Malta	14.07.2004
9	Bosnia Herzegovina	29.01.2002	42	Moldova	16.05.1997
10	Bulgaria	22.09.1997	43	Mongolia	22.05.2000
11	People's Republic of China	20.08.1994	44	Morocco	31.05.2004
12	Croatia	21.04.1998	45	Pakistan	03.09.1997
13	Cuba	23.10.1999	46	Poland	19.08.1994
14	The Czech Republic	01.08.1997	47	Portugal	19.01.2004
15	Denmark	01.08.1992	48	Qatar	12.02.2008
16	Egypt	31.07.2002	49	Romania	07.04.1996
17	The United Kingdom	22.10.1996	50	Slovakia	23.12.2003
18	Estonia	29.04.1999	51	Slovenia	19.06.2006
19	Ethiopia	10.03.2005	52	South Korea	04.06.1994
20	Serbia	10.11.2003	53	Spain	03.03.1998
21	Finland	23.04.1995	54	Sweden	08.10.1998
22	Georgia	28.07.1995	55	Switzerland	21.02.1990
23	Germany	05.12.1965	56	Syria	03.01.2006
24	Greece	24.11.2001	57	Tajikistan	24.07.1998
25	Hungary	22.02.1995	58	The Netherlands	14.11.1989
26	India	18.10.2007	59	The Philippines	18.03.2009
27	Indonesia	28.09.1998	60	The Russian Federation	17.05.2000
28	Iran	13.04.2005	61	Tunisia	28.04.1994
29	Israel	27.08.1998	62	Turkmenistan	13.03.1997
30	Italy	02.03.2004	63	Ukraine	21.05.1998
31	Japan	12.03.1993	64	The United States	18.05.1990
32	Jordan	23.01.2006	65	Uzbekistan	18.05.1995
33	Kazakhstan	10.08.1995			

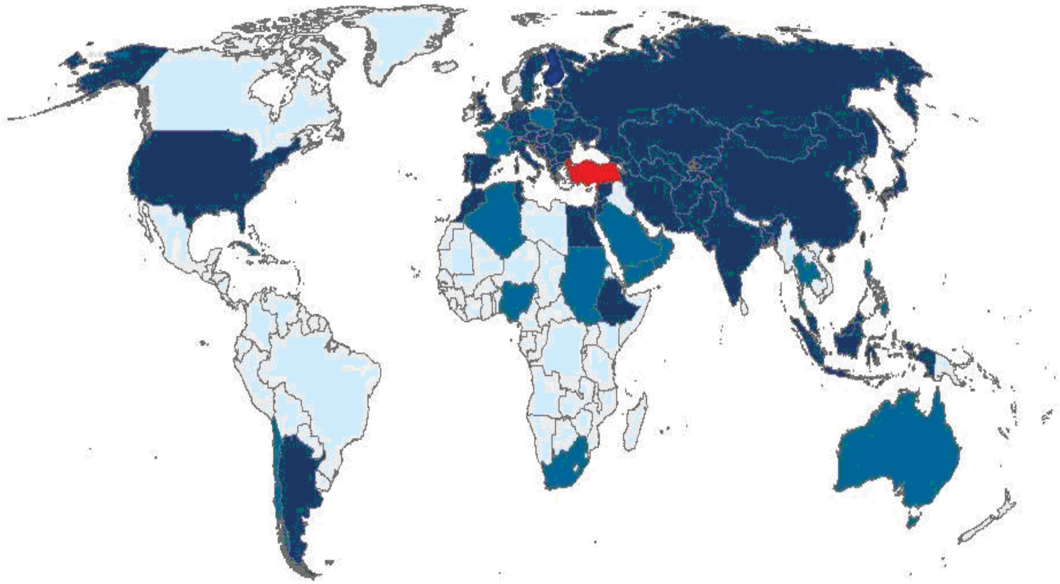
Source: Undersecretariat of Treasury

Table 32: Bilateral Investment Treaties Signed by Turkey and in the Process of Ratification

	Countries	Date of Signature
1	Algeria	03.06.1998
2	Australia	16.06.2005
3	Bahrain	15.02.2006
4	Chile	21.08.1998
5	France	15.06.2006
6	Kosovo	07.04.2006
7	Nigeria	08.10.1996
8	Singapore	19.02.2008
9	Sudan	19.12.1999
10	Thailand	24.06.2005
11	The Kingdom of Saudi Arabia	08.08.2006
12	The Republic of South Africa	23.06.2000
13	The Sultanate of Oman	04.02.2007
14	The United Arab Emirates	28.09.2005
15	Yemen	07.09.2000

Source: Undersecretariat of Treasury

Map 13: The Distribution of Bilateral Agreements for the Promotion and Protection of Investments by Countries



	Bilateral Agreements for the Promotion and Protection of Investments
	The countries that no Bilateral Agreements for the Promotion and Protection of Investments is signed
	The countries that signed Bilateral Agreements for the Promotion and Protection of Investments with Turkey but the Agreements have not entered into force
	The countries that signed Bilateral Agreements for the Promotion and Protection of Investments with Turkey and the Agreements entered into force