

2021-2023



FOREIGN DIRECT INVESTMENT (FDI) STRATEGY OF TURKEY





Turkey is a prominent center of attraction for international investors with broad production potentials, qualified manpower, strategic location, modern logistics infrastructure and incentive packages that cater to any needs. Turkey has the required means to access a giant market of 1.3 billion people and US\$26 trillion worth of trade volume with a four-hour flight radius. In addition to these advantages for trade, Turkey is among the most reliable routes of transporting energy sources on the east-west axis.

Turkey's rapid economic growth has led to the emergence of a thriving middle class with increased purchasing power over the last 19 years. More than 24 cities with over 1 million population each support a developing domestic market in Turkey. We are providing a growing local demand for multinational companies with our young and dynamic population, with an age average of 32.7. Compared to other EU member states, Turkey has the youngest population; and is also ranked among the top echelon of nations worldwide in terms of the number of qualified engineers.

We have further reinforced this competitive position of our country with the reform process which we have conducted uninterruptedly for the last 19 years. We have created an investor-friendly environment which facilitates and enables the development of a dynamic private sector. In 2003, we introduced a special FDI law which provides assurance for international investors. We have valid agreements with many countries to protect bilateral investments and prevent double taxation.

Turkey has managed to attract more than US\$225 billion FDI since 2003. Companies that have preferred Turkey have also ramped up their investments over time, positioning our country as a center for production, export and management. In the future, we are determined to continue improving Turkey's economic development and investment environment with both existing and new investors.

To this end, we have developed Turkey's FDI strategy in cooperation with all public and private industry organizations under the coordination of the Presidency Investment Office. "Turkey's Foreign Direct Investment (FDI) Strategy" will be a roadmap to bring in value-added investments in the areas needed in our economy. The main objective of this strategy document is to increase our share in global FDI inflows to 1.5% in 2023 in accordance with the 11th Development Plan.

With this strategy document in place, we intend to increase our country's share in knowledge-intensive and high-value-added investments which also create high-quality jobs by maintaining Turkey's central and competitive position in its region. Accordingly, we have designed 11 strategies and 72 actions. In the course of developing this strategy document, we have also considered the changing economic conditions with the COVID-19 pandemic and the related opportunities for our country.

I hope this document will be of great benefit for our country and will serve as a useful guide for international entrepreneurs who plan to invest in Turkey. Also, I appreciate those who have put great efforts into the preparation of this strategy document.

Recep Tayyip ERDOĞAN
The President of the Republic of Turkey

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Abbreviations

| | |
|-----------------|--|
| BRI | Belt & Road Initiative |
| DEIK | Foreign Economic Relations Board |
| EU | The European Union |
| Fin-Tech | Financial Technologies |
| FDI | Foreign Direct Investment |
| FTA | Free Trade Agreement |
| GDP | Gross Domestic Product |
| GDPR | General Data Protection Regulation |
| USA | USA |
| R&D | Research - Development |
| ICT | Information and Communications Technology |
| UN | United Nations |
| GIS | Geographic Information System |
| GVCs | Global Value Chains |
| IMF | International Monetary Fund |
| İŞKUR | Turkish Employment Agency |
| KVKK | Personal Data Protection Law |
| OECD | Organization for Economic Cooperation and Development |
| OIZ | Organized Industrial Zone |
| PPP | Public Private Partnership |
| SDGs | Sustainable Development Goals |
| SME | Small and Medium Enterprise |
| TUBITAK | The Scientific and Technological Research Council of Turkey |
| UNCTAD | United Nations Conference on Trade and Development |
| YASED | International Investors Association |
| YOIKK | The Coordination Council for the Improvement of the Investment Climate |
| WIR | World Investment Report |

FOREIGN DIRECT INVESTMENT (FDI)
STRATEGY OF TURKEY (2021-2023)

Introduction

Foreign Direct Investment (FDI) is among the most important complementary elements of industrial, trade and fiscal policies and has been addressed as a separate policy document under the FDI Strategy of Turkey (2021-2023). The competition for attracting FDI among countries has been increasing in the recent period of transformation and uncertainty of the world economy. A target-oriented FDI Strategy for providing our country with the value-added, knowledge-intensive investments, which create high-quality employment needed by our country in this period, would make significant contributions to our country's achievement of its targets for 2023.

Turkey's FDI Strategy (2021-2023) is in line with the 11th Development Plan of Turkey (2019-2023), New Economic Program of Turkey (2020-2022), Turkey's 2023 Industry and Technology Strategy, and Turkish Exports Strategy for 2023 in terms of its nature, goals and strategies developed to attain these goals, and complements these key policy documents.

Turkey's FDI Strategy (2021-2023) offers a road map to Turkey for FDI, in a period marked by the restructuring of the global economy and investment mobility, in addition to reduced predictability. It aims to increase Turkey's FDI performance both in terms of quantity (share received from the global FDI market) and quality (added value of the investments) in this period. In this respect, the strategy has been developed based on 3 key principles.



INVESTOR ORIENTED

Turkey's FDI Strategy (2021-2023) has been designed by analyzing the recent changing needs and expectations of the investors.



SPECIALIZED FOR QUALITY FDI

The «quality FDI» fields, which will make significant contributions to Turkey's goals for 2023 and which will be targeted with a proactive approach by our country in this process, have been defined in detail.



COMMON MIND THAT EMERGES WITH COOPERATION AND COORDINATION

The strategy has been designed with the participation of all stakeholders including relevant public institutions, professional business organizations and investors.

The strategy preparation process consisted of 3 main stages:

1. Analyzing the Key Trends and Expectations Regarding the Global and Regional FDI Market and Future of the Market.
2. Analyzing Turkey's FDI Performance and Comparative Analysis of Turkey's Investment Climate with Selected Countries and
3. Definition of Quality FDI for Turkey; Targets, Strategies and Actions.

In the first stage, the current situation of the global and regional FDI market, as well as the impacts of the key trends and expectations affecting the global FDI market on the global investment transactions and investor decisions were analyzed.

In the second stage, Turkey's position in the global FDI market was demonstrated through meetings and surveys conducted with international investors resident in Turkey and other stakeholders from the public and private sectors. The investment climate in Turkey was analyzed comparatively with countries competing with Turkey in the field of FDI, specifically for different sectors and activities. In this process, particularly the comprehensive surveys conducted with professional business organizations and public institutions operating in the field of FDI and 169 international investor companies which made 45% of the FDIs directed to Turkey in the 2010-2019 period, as well as the thematic focus group meetings and one-on-one interviews held with the executives and specialists from the relevant institutions made significant contributions to the strategy preparation process.

• The key findings driving the strategy, which were reached as a result of the relevant studies, are presented below:

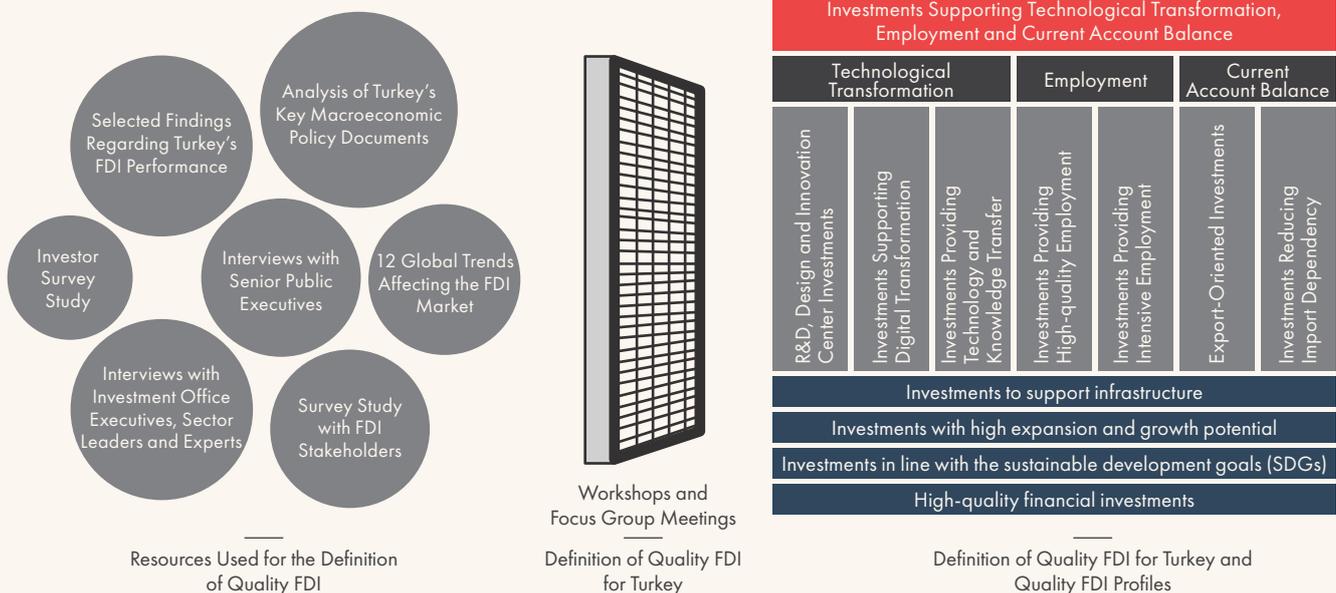
The global and regional market trends indicate a market structure that is more competitive than ever for the medium term future of FDI. In the shrinking FDI market, Turkey competes not only with Central and Eastern European countries, but also with countries not previously considered as Turkey's competitors, such as Germany, USA, China, United Kingdom and Italy.

- Global trends have changed the investment decision criteria of international companies and the relative weights of such criteria. The dynamic monitoring of the needs of investors and changing investment decision criteria on the global scale and implementation of the required arrangements will be the determining factors for Turkey's FDI performance.

- Turkey is a significant investment destination in high-tech service and manufacturing investments. 2 key elements are considered to be of critical importance for Turkey to increase its market share in knowledge-intensive investments with high added value, while preserving its current performance.
 1. Shaping support mechanisms with investor feedback
 2. Improving the investment climate to ensure facilitation of investment decisions
- In order for Turkey to maintain and enhance its competitiveness in production and export-oriented FDI, it is critically important to align its business environment, regulatory framework and supplier base infrastructure with the Sustainable Development Goals (particularly with the green economy and sustainable development context).
- Shortening trends and regionalization scenarios expected in the Global Value Chains (GVCs) create windows of opportunity for Turkey for the medium and long term. Turkey is anticipated to have a stronger role as the production and distribution base of its region in the new era of FDI. Turkey offers investors a safe harbor enabling the establishment and growth of their value chains, thanks to its geostrategic location, international companies’ installed production capacities in our country and its robust human resources and supplier base.
- There are 3 key windows of opportunity to enhance Turkey’s role as the production and distribution base of its region, which is promised to Turkey by the transformation in FDI. (1) Investments made in Turkey by international investors in the manufacturing sector which do not currently have manufacturing activities in Turkey, (2) existing investors’ growth of their operations through expansion investments and diversification of the said operations by focusing on activities with higher added value and (3) Investments made in Turkey by companies which are international supplier bases of current investors.
- Turkey is the highest performing country in terms of expansion investments made in the region. The positive perception of Turkey by the current investors establishes an advantageous position for Turkey in the region. Expansion of their investments in our country by the existing investors through approaches focused on investor satisfaction and supporting their orientation towards areas with higher added value are of critical importance for Turkey’s FDI performance.
- Increased competitiveness in the global and regional FDI market intensifies the need for a targeted approach and prioritization in the field of FDI. There is need for a setup of investment promotion and facilitation services specialized for ‘quality FDI’, which will contribute to Turkey’s achievement of its macroeconomic goals of 2023, which is in line with the definition of quality FDI for Turkey and which prioritizes quality FDI.
- (1) A defined institutional framework for FDI (2) structured cooperation mechanisms between relevant institutions through coordination of the Investment Office (3) a structured approach for monitoring and evaluation of the strategy will be necessary to ensure the success of the strategy in the implementation stage. These mechanisms in the implementation stage will provide the strategy with the flexibility and agility needed to respond to changing conditions and investors’ needs.

In the third stage, Quality FDI for Turkey is defined as «Investments Supporting Technological Transformation, Employment and Current Account Balance», considering the key findings that drive strategy.

Definition Framework of Quality FDI for Turkey



7 quality FDI profiles and 4 horizontal axes that match the definition of quality FDI of Turkey have been determined.

1. All R&D, design and innovation center investments regardless of sector
2. Investments which develop/expand technologies ensuring the digital transformation of industries and services
3. Technology intensive production investments with high added value which develop supplier bases and have strong backward or forward linkages
4. Value-added, high-tech service sector and business services investments
5. Investments whose selected location is in priority development regions and which provide high employment, regardless of sector
6. Export-oriented production investments
7. Investments reducing import dependency in sector/product groups with high imports of intermediate goods

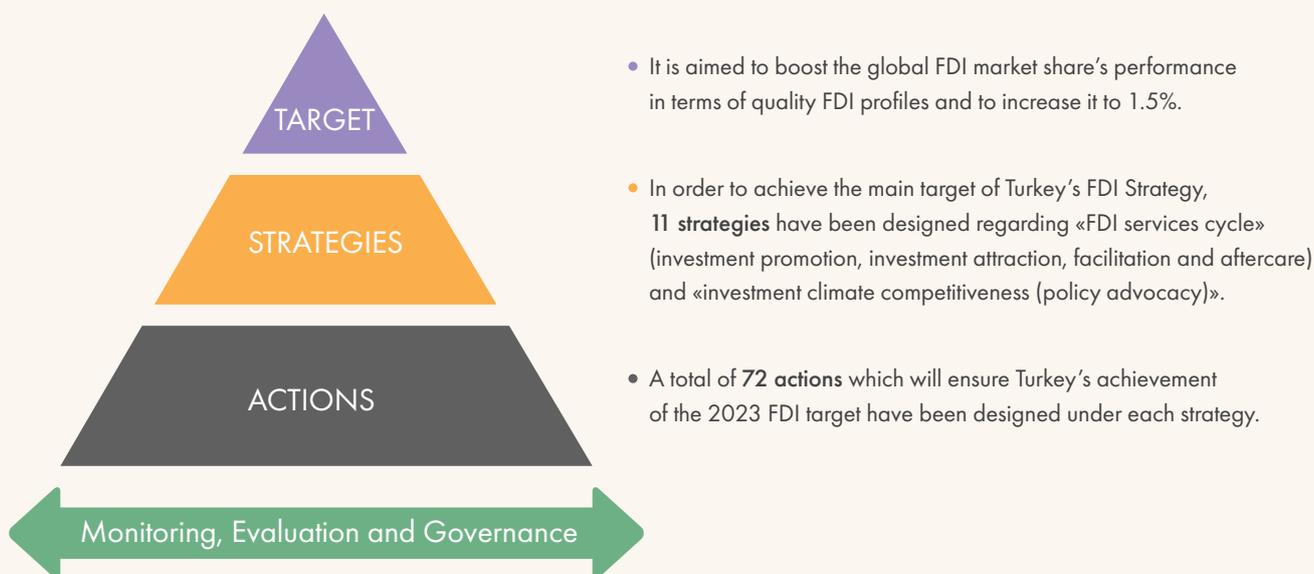
Issues within the framework of the expected shrinkage in the global FDI market in 2021-2023 period, the transformation pressure in GVCs and concerns about climate and sustainability have been gathered under 4 horizontal axes. Investments that are deemed to be in line with these 4 horizontal axes are considered quality FDI.

- A. Investments to support infrastructure (Information and Communication Technology - ICT, Energy, Transportation and Logistics Infrastructure)
- B. Investments with high expansion and growth potential
- C. Investments in line with UN's Sustainable Development Goals (SDGs)
- D. High-quality financial investments

Turkey's FDI Strategy (2021-2023) is built upon a target whereby Turkey will adopt a proactive approach to attracting investments in line with the quality FDI profiles. **The strategy is built so that it prioritizes investments in line with quality FDI profiles, without excluding other investments.**

The main target of Turkey's FDI Strategy is determined as "increasing the share received by Turkey from the global FDI market to 1.5% as of 2023, by increasing its performance in terms of the quality FDI profiles". 11 strategies that will ensure Turkey's achievement of this target, as well as 72 actions under these strategies, have been designed together with the relevant public institutions and representatives from the private sector.

STRUCTURE OF TURKEY'S FDI STRATEGY (2021-2023)



In order to achieve the main target set within the scope of the strategy document, 11 key strategies have been built in terms of (A) FDI services cycle, (B) investment climate and competitiveness (C) cooperation, coordination and governance between institutions.

A. FDI Services Cycle

Services provided to investors and activities carried out in the fields of Investment Promotion, Investment Attraction, Facilitation and Aftercare.

1. Planning and implementing a central and holistic investment promotion campaign that focuses on quality FDI
2. Performing investment attraction studies specifically for quality FDI profiles
3. Enhancing the facilitating role of public institutions in facilitation processes
4. Improving the supply of industrial land needed by investors and access to information about land that is suitable for investment
5. Improving the supplier base in Turkey in accordance with the backward linkage requirements of quality FDI profiles

B. Investment Climate and Competitiveness

Decision criteria used by investors while evaluating potential investment destinations

6. Enhancing the policy and support mechanisms for the improvement of the investment climate, in line with investor feedback
7. Developing the transportation, logistics, digital and ICT infrastructure needed to attract quality FDI to Turkey
8. Developing the regulatory framework and the support and incentive mechanisms to enable Turkey to achieve its potential in the FDI market, which transforms according to global tendencies
9. Enhancing the skill sets of the human resources needed to attract quality FDI to Turkey
10. Conducting the studies which will boost the compliance of the business climate and the regulatory framework with UN's Sustainable Development Goals (SDGs) and the European Green Deal.

C. Cooperation, Coordination and Governance Among Institutions

Institutional and functional framework for FDI among the public institutions and professional business organizations which carry out activities in the field of FDI

11. Enhancing the information exchange and cooperation mechanisms among FDI stakeholders

A total of 72 actions under the liability and responsibility of the relevant institutions and organizations have been designed under each strategy. The actions will be implemented under the responsibility of 22 different institutions and organizations. These actions will be implemented by the relevant institutions in a manner that serves the main strategy and the process of monitoring and evaluating the strategy will be carried out under the coordination of the Presidency of the Republic of Turkey Investment Office.

A 3-tier approach has been developed for the method of monitoring and evaluating Turkey's FDI Strategy.

- **FDI e-Coordination Team** | A communication network with representatives from the institutions responsible for the actions will be established. It will be ensured that the progress of the actions is closely monitored through this network.
- **FDI Strategy Implementation Groups** | 4 implementation groups which will bring together the organizations responsible for the respective actions will be established under the strategies developed in terms of FDI services and investment climate and competitiveness.
 - Investment Promotion and Investment Attraction Implementation Group
 - Facilitation Implementation Group
 - Aftercare Implementation Group
 - Investment Climate and Competitiveness Implementation Group

The implementation groups will convene once in every 6 months and monitor the progress achieved in terms of the strategy and actions, as well as the input provided by the FDI e-Coordination team.

- **FDI Strategy Monitoring Board** | The developments occurring and progress achieved in terms of the strategy's main targets will be monitored and evaluated once in every 6 months, within YOIKK which convenes under the chairmanship of the Vice President.

1

FOREIGN DIRECT INVESTMENT (FDI)
STRATEGY OF TURKEY (2021-2023)

Background

National FDI Strategy Background and Strategy Development Process
Basic Principles of Strategy

Investments to be contributed to our country through quality FDI profiles demonstrated under the components of technological transformation, current account balance and employment will play a key role in Turkey's achievement of macroeconomic targets for 2023. This strategy document will be a roadmap which will follow FDI on the national level in 2021-2023 period, when competitiveness on the global market increases, and will define an institutional framework and governance structure that will implement this roadmap.



Need for a Policy Document in the Field of FDI on the National Level

Until now, there have not been any example to create a policy document on the national level for FDI, which constitutes the key horizontal component of industrial, trade and fiscal policies. With this strategy document, FDI will be treated as a specific policy area. Although FDI was addressed as a complementary element of the respective policies in the 11th Development Plan of Turkey (2019-2023), New Economic Program of Turkey (2020-2022), Turkey's 2023 Industry and Technology Strategy and Turkish Exports Strategy for 2023 documents, this strategy document will make important contributions to achievement of the targets set out in the other policy documents in question.



Need for a Defined Institutional Framework in the Field of FDI

This strategy document, which provides a defined institutional framework for the public institutions and professional organizations operating in the field of FDI, will prevent overlapping tasks and bring a more target-oriented approach by increasing the cooperation between institutions. Thus, (1) possible repeated activities of public institutions in investment services will be prevented, which will ensure more effective use of public resources and (2) services offered to investors will be more efficient.



Turkey's Need for a New Roadmap in the Field of FDI in Line with Changing Global Trends

In the 10 years following the global financial crisis of 2007-2008, the global FDI flows decreased relatively; the competition among countries in the attraction of investments increased, while the composition and destination of the investments realized in digital sectors changed. The pandemic process which intensified in the first quarter of 2020 further reinforced these tendencies. In this new era, Turkey's FDI Strategy (2021-2023) will provide a defined roadmap for Turkey.



In line with these goals, the Presidency of the Republic of Turkey Investment Office assembled all relevant stakeholders from the public and private sectors, primarily international investors, coordinating the studies for Turkey's first FDI strategy, and finally, Turkey's FDI Strategy (2021-2023) has been developed with the contributions of all stakeholders.

- The strategy development process was carried out under the ownership of the Investment Office and all stakeholder institutions, primarily the Ministry of Industry and Technology, made significant contributions to the process from start to finish.
- In-depth interviews were held with 32 Investment Office executives, FDI sector experts and country advisors.
- A comprehensive survey was conducted with 169 international investor companies which made 45% of the FDI directed to Turkey in 2010-2019 period and in-depth interviews were held with many investors.
- Surveys, one-to-one interviews, study sessions specific to certain themes, focus group meetings and in-depth interviews were conducted with the executives of 56 public institutions and professional business organizations carrying out activities in the field of FDI.

The key principles determined for Turkey's FDI Strategy are «Investor Oriented», «Specialized for Quality FDI», «Common mind developed by effective governance, cooperation and coordination». The strategy efforts have been shaped in line with these principles.



Investor Oriented | Turkey's FDI Strategy (2021-2023) has been designed by analyzing the recent changing needs and expectations of investors.

- A comprehensive survey was conducted with the senior executives of 169 investor companies that made 45% of the FDI directed to Turkey in 2010-2019 period.
- One-to-one interviews and study sessions were held with the professional business organizations acting as international investors' representatives in Turkey and the investment climate in Turkey was discussed from investors' perspective.
- The strategies and actions have been designed in line with investors' needs and expectations.



Specialized for Quality FDI | The «quality FDI» areas, which will make significant contributions to Turkey's goals for 2023 and which will be targeted with a proactive approach by our country in this process, have been defined in detail.

- Quality FDI necessary for Turkey is defined as «Investments Supporting Technological Transformation, Employment and Current Account Balance», in line with the key policy documents.
- In this respect, 7 FDI profiles and 4 horizontal axes that match the definition of quality FDI of Turkey have been determined. Defining criteria for each profile (sector, activity, size, etc.) were determined and the global market, investment decision criteria and the current situation of the Turkish investment climate were analyzed in depth specifically for each profile.
- The actions and services provided to investors within the scope of the strategy aim to prioritize quality FDI profiles, thus ensure more efficient use of resources for contributing these investments to Turkey.



Common Mind Developed by Effective Governance, Cooperation and Coordination | In the design of the strategy, a working method that highlights participation in the calibration of the actions designed and findings was adopted.

- Within this framework, an FDI Advisory Board, which brings executives from the relevant public institutions and professional organizations together, was formed. The Board convened and provided input and opinions in the critical decisive points of the strategy. Thus, the strategy was created as the product of a common mindset that assembles different perspectives.
- The current institutional structure and the related institutions' roles and responsibilities were mapped in order to increase the effectiveness of the services provided to investors, as well as the efficiency of the public resources allocated for these services. To this end, social network analysis were carried out for the existing and target structure.
- Institutions' areas of duty were clarified by clearly defining the institutional FDI framework and an institutional framework whereby FDI activities would be addressed with great coordination and their effectiveness would be increased was targeted.

2

FOREIGN DIRECT INVESTMENT (FDI)
STRATEGY OF TURKEY (2021-2023)

Global Outlook and Turkey

- 2.1 Global and Regional FDI Market
- 2.2 Turkey within the Regional Market and the FDI Performance of Turkey
- 2.3 Future of FDI and Key Trends Characterizing the Market

2.1

FOREIGN DIRECT INVESTMENT (FDI)
STRATEGY OF TURKEY (2021-2023)

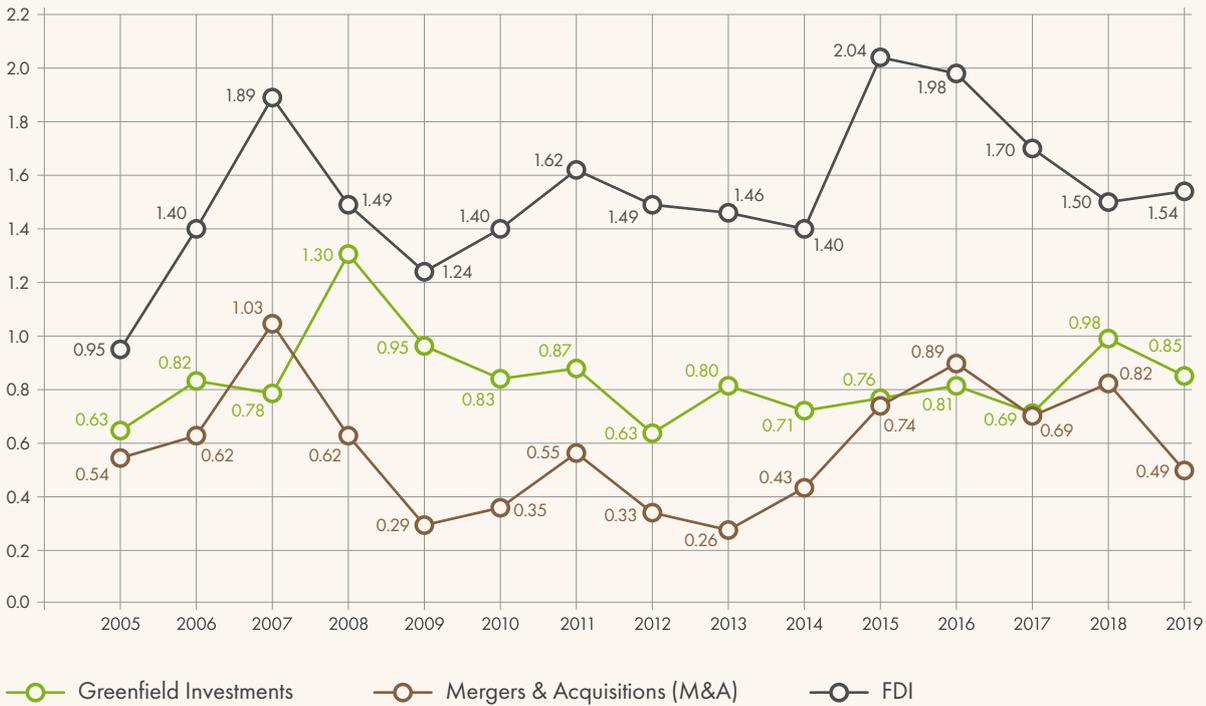
Global Outlook and Turkey

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It is observed that the global FDI market could not gain the expected momentum in 10 years following the global financial crisis of 2007-2008. The global value of greenfield projects similarly followed a horizontal course.

After the financial crisis of 2007-2008, the global FDI market started to shrink; it was observed that the growth achieved due to mergers & acquisitions (M&A) in 2015 could not be sustained in the following years.

Global FDI, Mergers & Acquisitions (M&A) and Greenfield Investment Amounts * (2005-2019, Trillion USD)

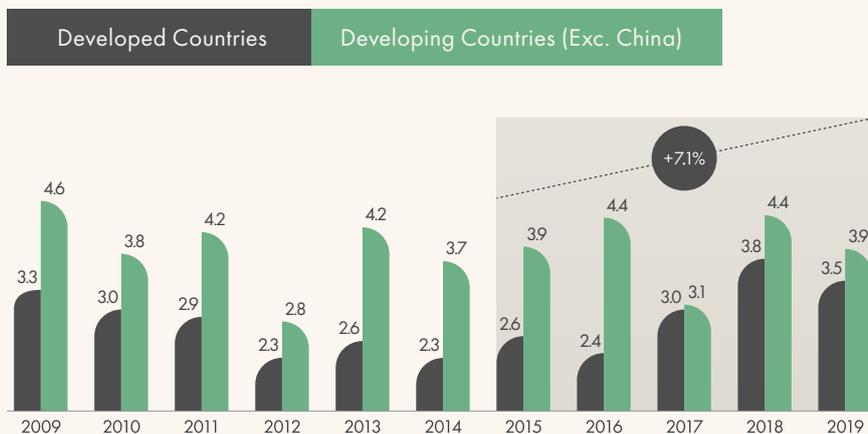


* The Global FDI figures indicate the global investment flows compiled by UNCTAD.

The mergers & acquisitions (M&A) and greenfield investment amounts are comprised of the investment amounts disclosed to the public in that year.

The adverse impact of the global financial crisis on the FDI market affected both developed and developing countries for the next 5 years. In the 2015-2019 period, investments directed to developed countries increased by 7.1%, while developing countries preserved their current performance, albeit with a relatively volatile outlook.

Global Greenfield FDI Amounts for Developed and Developing Countries (2009-2019, Hundred Billion USD)



Source: UNCTAD, 2020

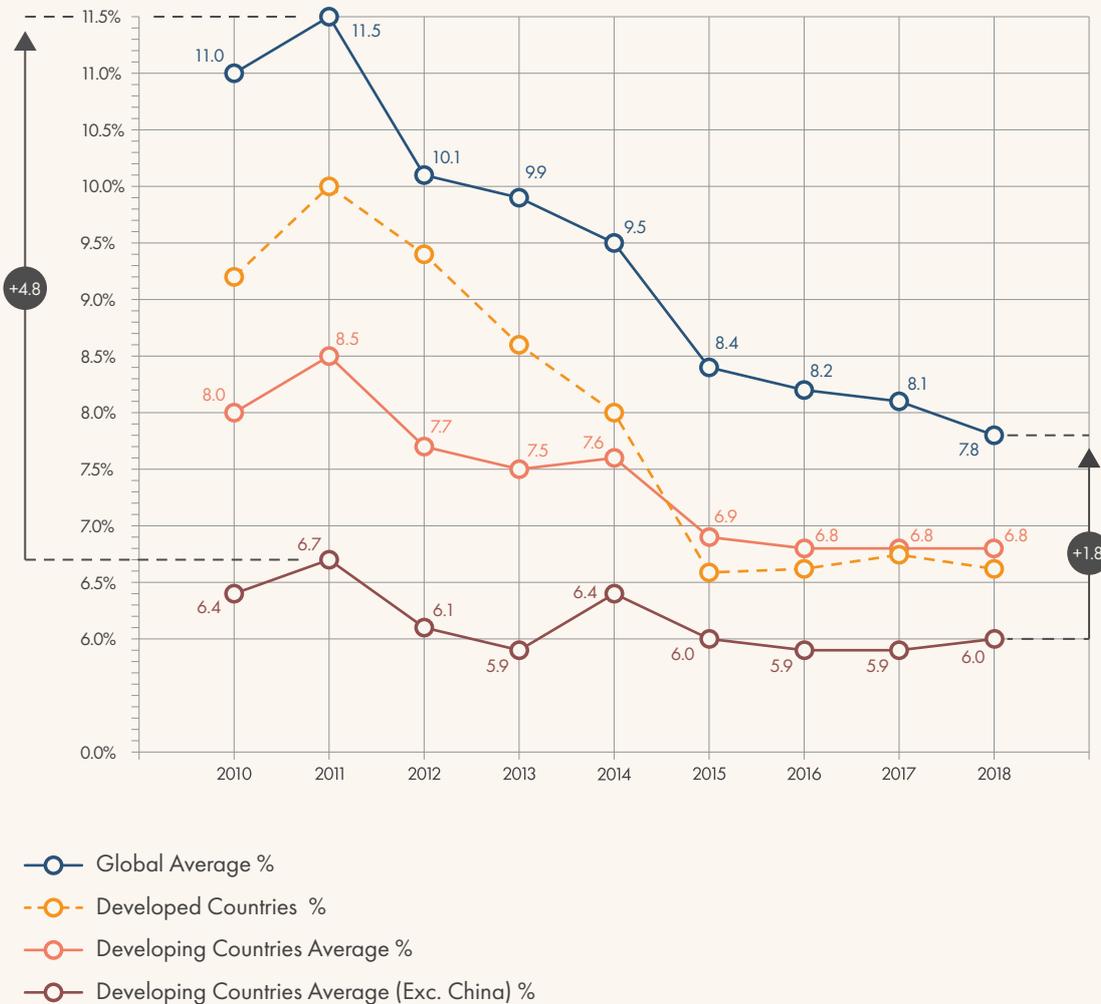
The difference in the rates of return on FDI between developed countries and developing countries is diminishing. In other words, investing in developing countries is not as profitable as before. In this new era of FDI, developed countries will be greater competitors for developing countries in the competition for investment attraction on the global scale.

In 2011, the rate of return on FDI of developing countries was 4.8 points higher than the average of developed countries, while it is observed that this difference was reduced to 1.8 points in 2018.

In terms of rate of return on FDI, developing countries remain profitable investment destinations. However, it is observed that the reduced difference between the rates of return negatively affects the investment attraction of developing countries with respect to greenfield investments.

Except China, which has become a center for FDI, developing countries' rates of return on FDI remain below the global average. In this respect, it is understood that the competitiveness of developing countries compared to developed countries has declined substantially in 2014 and afterwards.

Rates of Return on FDI by Country Groups (2010-2018, %)



Source: UNCTAD, 2020

The geographical distribution of FDI flow is changing as well. It is observed that the share received by Europe from the global FDI market is declining, while Asia’s market share is tending to increase.

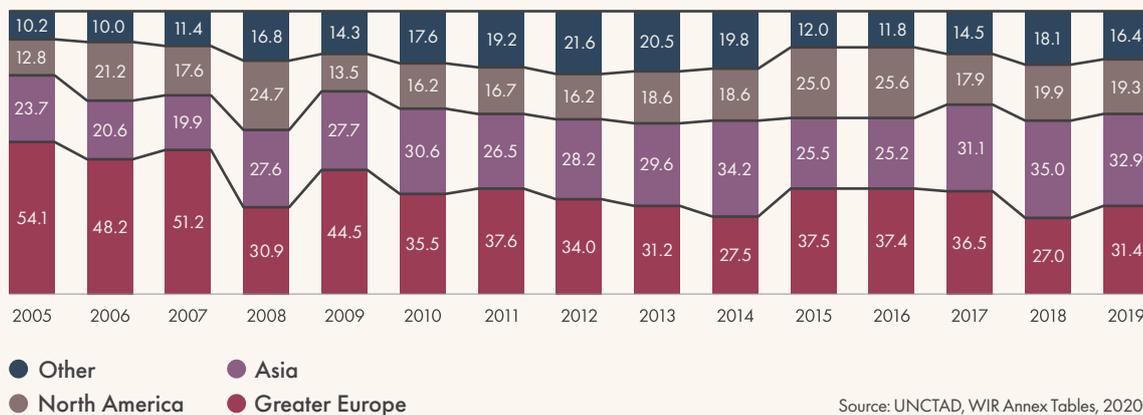
Global Classification of Regions, Western and Central & Eastern European Countries in the Greater Europe



Europe’s share from the global FDI market declined from 54.1% to 31.4% between 2005 and 2019. Asia, which increased its global FDI market share from 23.7% to 32.9% in the period under review, is the best performing region.

41% of the investments in Asia were directed to China and Hong Kong in 2015-2019 period. Highlighted by their high rates of return on FDI, these countries have played a critical role in increasing Asia’s share in the global market.

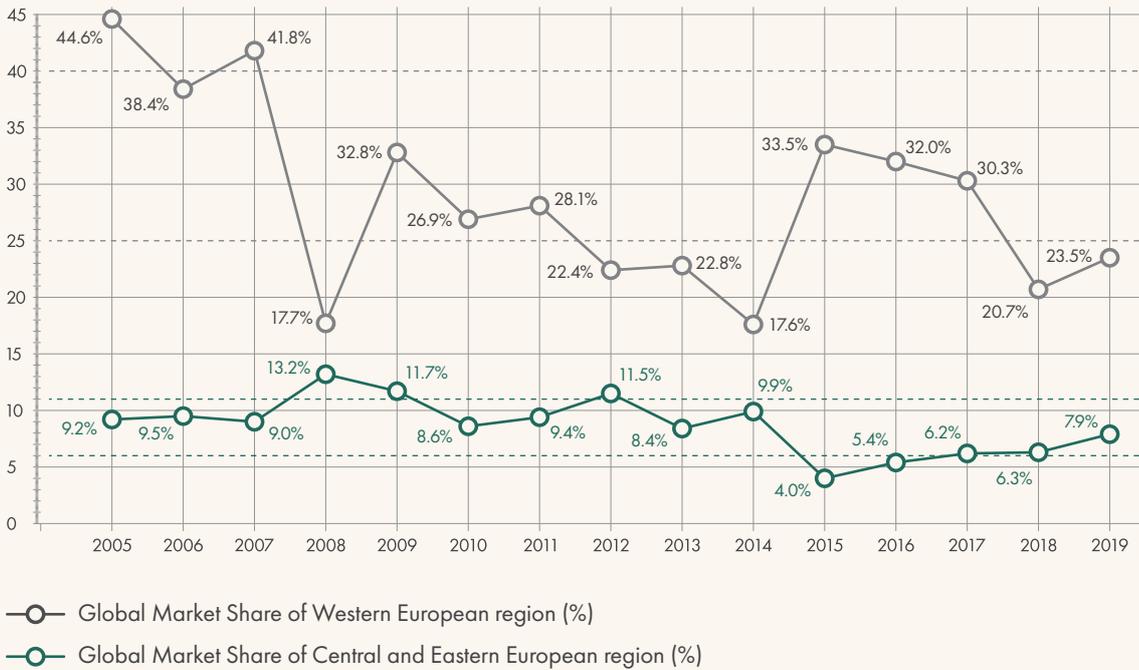
Global FDI Distribution by Region (2005-2019, %)



Source: UNCTAD, WIR Annex Tables, 2020

The global financial crisis of 2007-2008 directly affected the investment mobility towards Europe. The shrinkage and the loss in the global market share was deeper for Western European Countries. The market share, which was between 40-45% before the crisis, ranged between 20% and 35% in the period following the crisis. Despite the visible recovery as of 2015, pre-crisis levels could not be reached. The share received from the global FDI by the Central and Eastern European region, which experienced a sharp decline in 2015, began to recover, but has failed to reach the levels in the years 2005-2014.

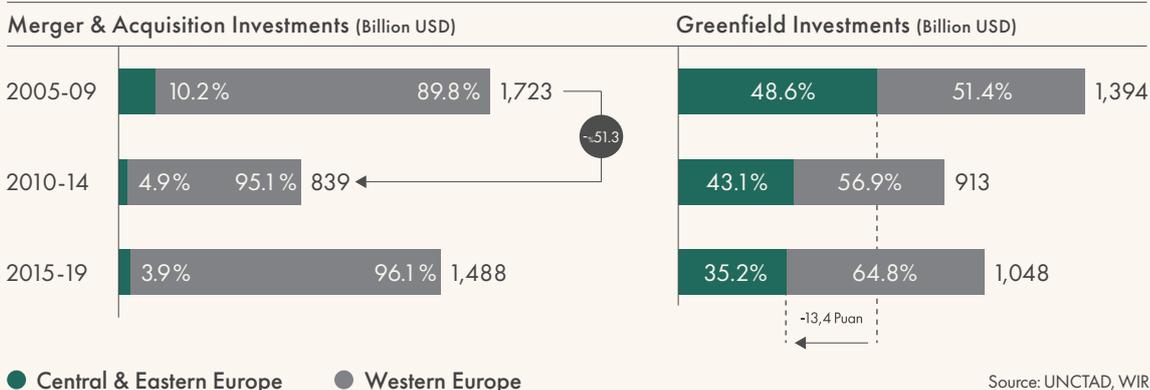
Share of Western Europe and Central & Eastern European Regions in the Global FDI



An evaluation of the investments directed to the Greater Europe region in terms of mergers & acquisitions (M&A) and greenfield investments indicates that merger & acquisition investments were most affected by the financial crisis, which was the most effective factor behind Europe’s market share loss. The aforementioned investments directed to the Greater Europe region in the 2010-2014 period declined by 51.3% compared to the previous 5 years.

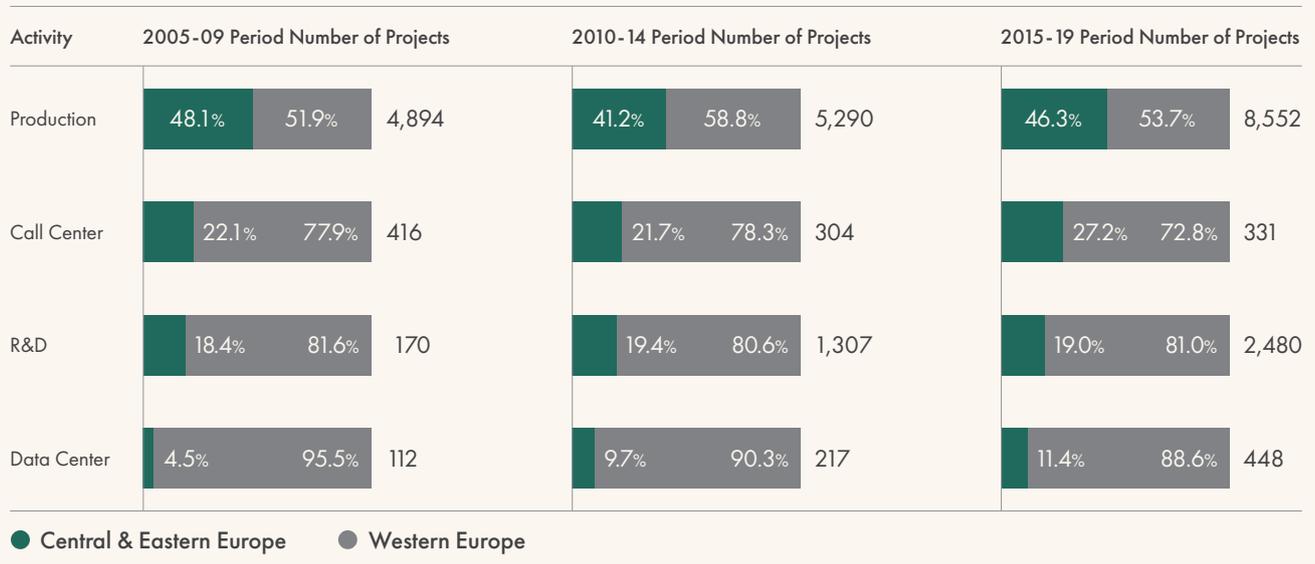
While Central & Eastern Europe is clearly not a competitor of Western Europe in terms of merger & acquisition investments, Western Europe is the strongest competitor of Central and Eastern Europe in greenfield investments. The share of greenfield investments directed to the greater Europe region of Central and Eastern Europe in 2005-2009 was 48.6%, but fell to 43.1% and 35.2% respectively in the following 5 years.

Share of Greenfield and Merger & Acquisition Investments in Europe by Region

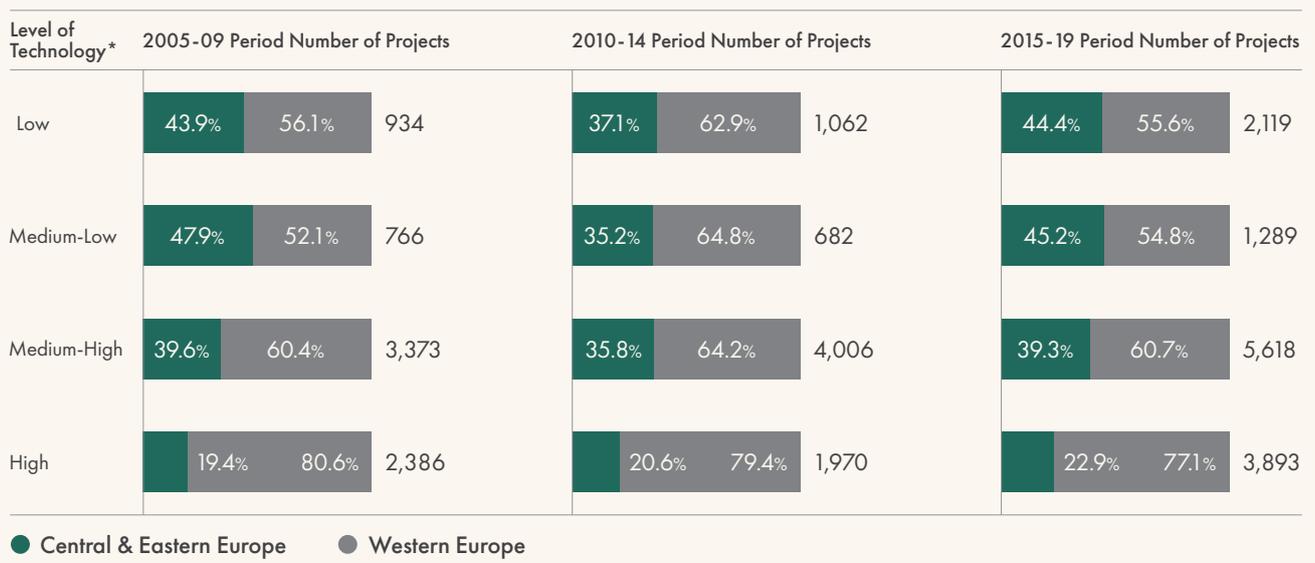


Source: UNCTAD, WIR Annex Tables, 2020

Traditionally, R&D investments are considered to be prominent in Western Europe, while production investments are prominent in Central and Eastern Europe; however, Western Europe is still considered an important production location. In 2015-2019 period, Central and Eastern Europe increased its share in Production, Call Center and Data Center investments compared to the previous periods. In terms of R&D and Data Center investments with high added value, Western Europe still continues to attract a significant part of the investments.



Western Europe is prominent in high-technology manufacturing investments, while Central & Eastern Europe stands out as the competitor of Western Europe in low, medium-low and medium-high technology manufacturing sectors. On the other hand, Central & Eastern European region relatively increased its market share compared to the previous period, on all technology levels in 2015-2019 period. It is observed that the market grew substantially on all technology levels in the period in question and the increase in the share of Central & Eastern Europe in this growing market is an important development.



Source: EY EIM FDI Database, 2020

(*) Sectoral FDI is classified according to the technology levels accepted for the sectors under OECD's criteria, except investments for Sales and Marketing activities.

High Technology: Digital, ICT, Pharmaceutical and Medical; Medium-High Technology: Chemistry, Machinery & Equipment, Electrical Appliances, Motor Land Vehicles;

Medium-Low Technology: Plastics, Raw Materials and Metal; Low Technology: Agriculture & Food, Textiles, Apparel and Leather, Furniture

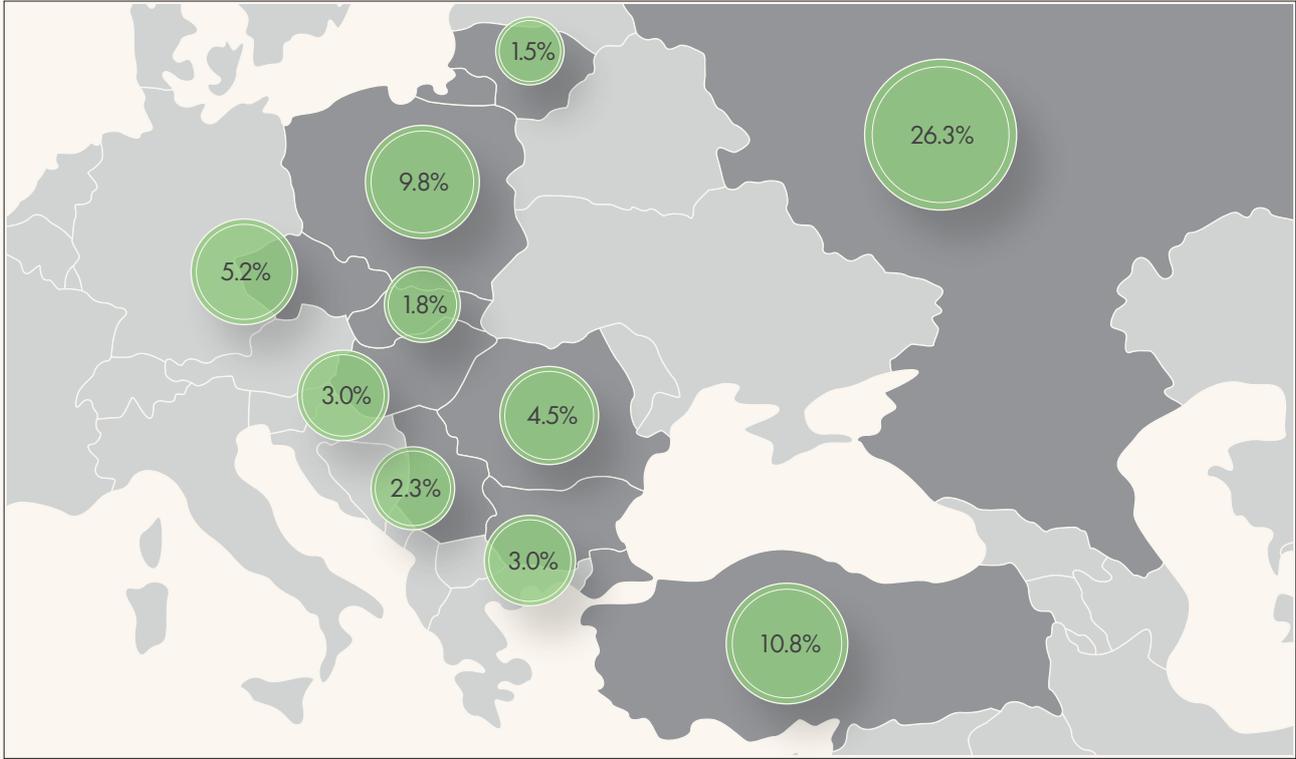
2.2

FOREIGN DIRECT INVESTMENT (FDI)
STRATEGY OF TURKEY (2021-2023)

Global Outlook and Turkey

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Regional Market Share of the Central and Eastern European Countries which Attracted Most Investments in the 2015-2019 Period and the Change in their FDI Performance for 2015-2019 Compared to the 2010-2014 Period (%)



The first 3 countries which received most investments in terms of amount of FDIs in the Central and Eastern Europe in 2005-2019 period were Russia, Turkey and Poland respectively. Turkey is the country attracting most FDIs in the region, after Russia. These 3 countries attracted 46.7% of the investments directed towards the Central and Eastern European region.

The countries which achieved the highest increase in FDI performance in the last 5 years among the Central and Eastern Europe are Lithuania, Poland, Czechia and Turkey respectively.

| Country | FDI Share of the Central and Eastern European Market (2005-2019, %) | Performance in the 2015-2019 Period Compared to the 2010-2014 Period (%) |
|-----------|---|--|
| Russia | 26.3% | - 2.2% ↓ |
| Turkey | 10.8% | + 3.5% ↑ |
| Poland | 9.8% | + 4.9% ↑ |
| Czechia | 5.2% | + 3.9% ↑ |
| Romania | 4.5% | + 3.0% ↑ |
| Hungary | 3.0% | (*) ↓ |
| Bulgaria | 3.0% | - 1.1% ↓ |
| Serbia | 2.3% | + 1.4% ↑ |
| Slovakia | 1.8% | + 0.7% ↑ |
| Lithuania | 1.5% | + 16% ↑ |

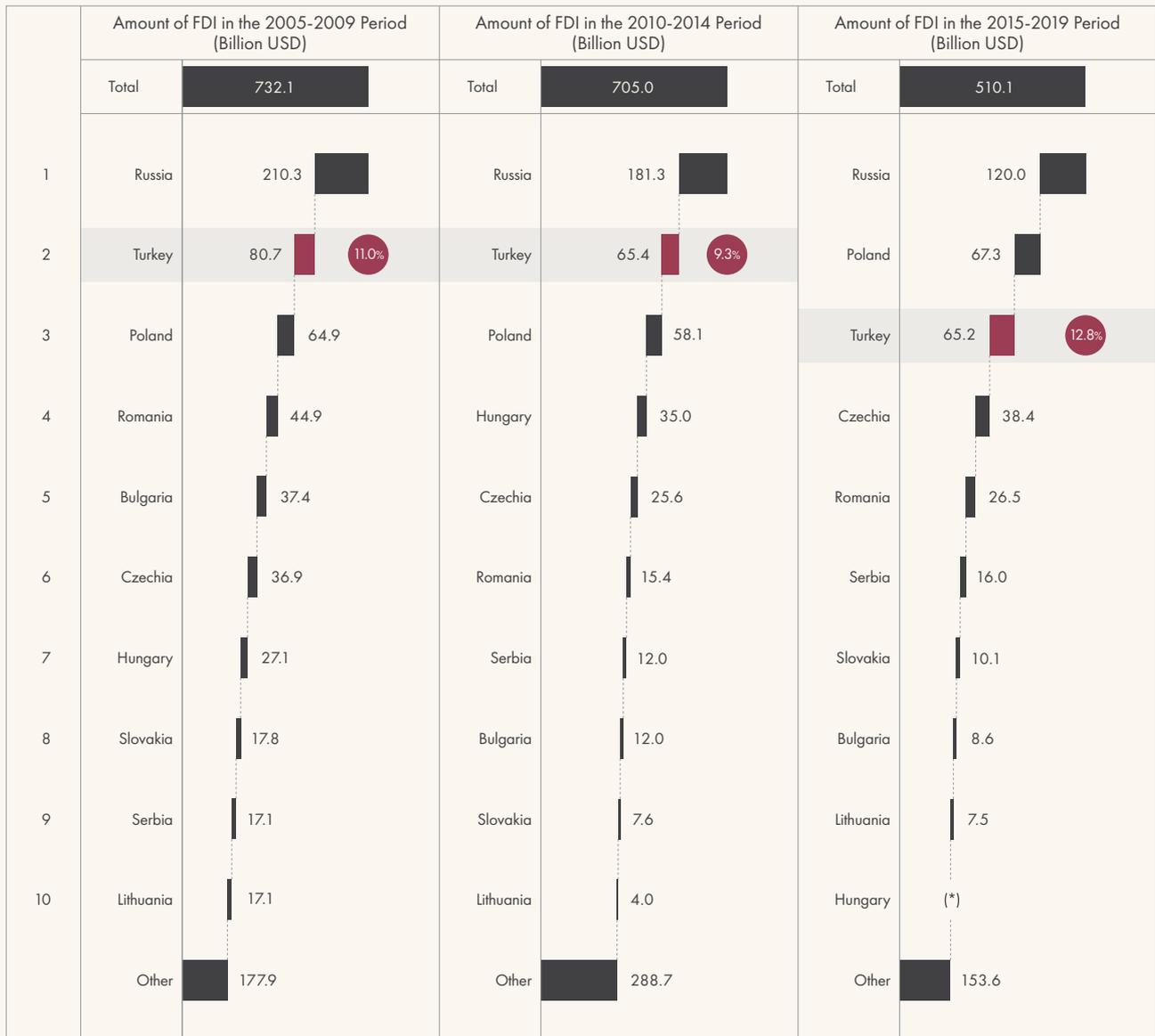
Change in the Share Received from the Investments Made in the Region Compared to the 2010-2014 Period

Source: UNCTAD, WIR Annex Tables, 2020

(*) The FDI directed to Hungary in 2015 and 2016 is indicated as negative in FDI UNCTAD records.

Considering the investments made in the Central and Eastern Europe, Turkey is among the top 3 countries attracting most investments in the region. The most effective factors in the performance of Russia, which ranks first in the region, are its rich resource availability and large domestic market of approximately 145 million people. Therefore, Russia is an attractive investment destination for market-seeking and natural resource-seeking FDI.

Poland and other Eastern European countries are considered as Turkey's prominent competitors for efficiency-seeking FDI. Turkey attracted 11% of the investments made in Central and Eastern Europe in 2005-2009 period and 9.3% in 2010-2014 period. Furthermore, in the 2015-2019 period, it managed to attract 12.8% of the investments through a 3.5-point increase in its share,



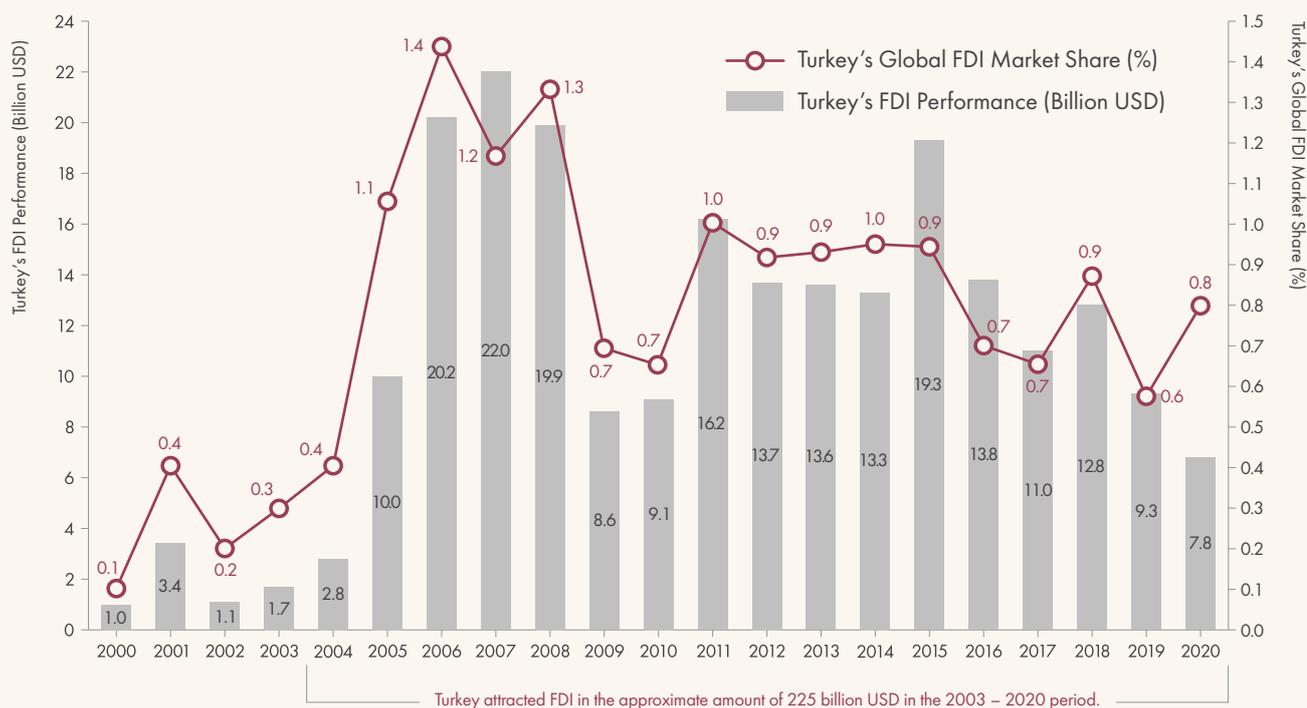
Source: UNCTAD, CBRT

 Turkey's share in the Central and Eastern European FDI Market

After 2000, Turkey initiated a dynamic reform process to improve the investment climate of the country. The principle of equal treatment introduced by the Foreign Direct Investments Law No. 4875, which became effective in 2003, increased the international investors' confidence in Turkey, as well as the amount of investments directed to Turkey.

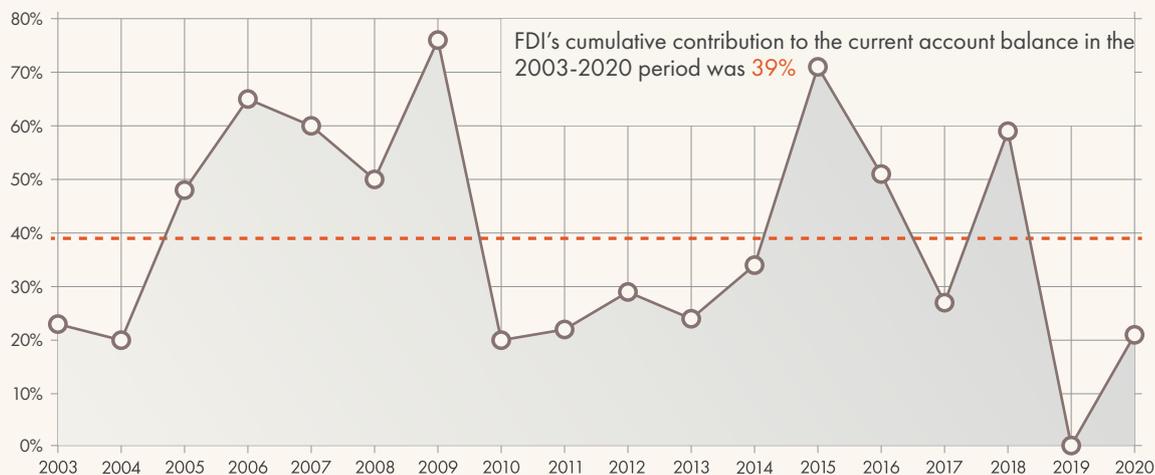
The average share received by Turkey from the global FDI market in the years that followed the Foreign Direct Investments Law was 0.9%, making Turkey one of the countries that attracted most investments in the region. In the wake of the global financial crisis of 2007-2008, there was a partial decline in the level of share received by Turkey from the global FDI market, similar to Central and Eastern Europe. On the other hand, it is observed that Turkey's share is following a relatively horizontal course.

Turkey's Share in the Global FDI Market (2000-2020, Trillion USD, %)



Thanks to the significant momentum achieved by Turkey in the FDI entries in 2003-2020 period, a substantial part of the current account deficit could be financed with FDI entries. The contribution of the FDI attracted in this period to the current account balance was around 39%.

FDI's Cumulative Contribution to the Current Account Balance (2003-2020, %)

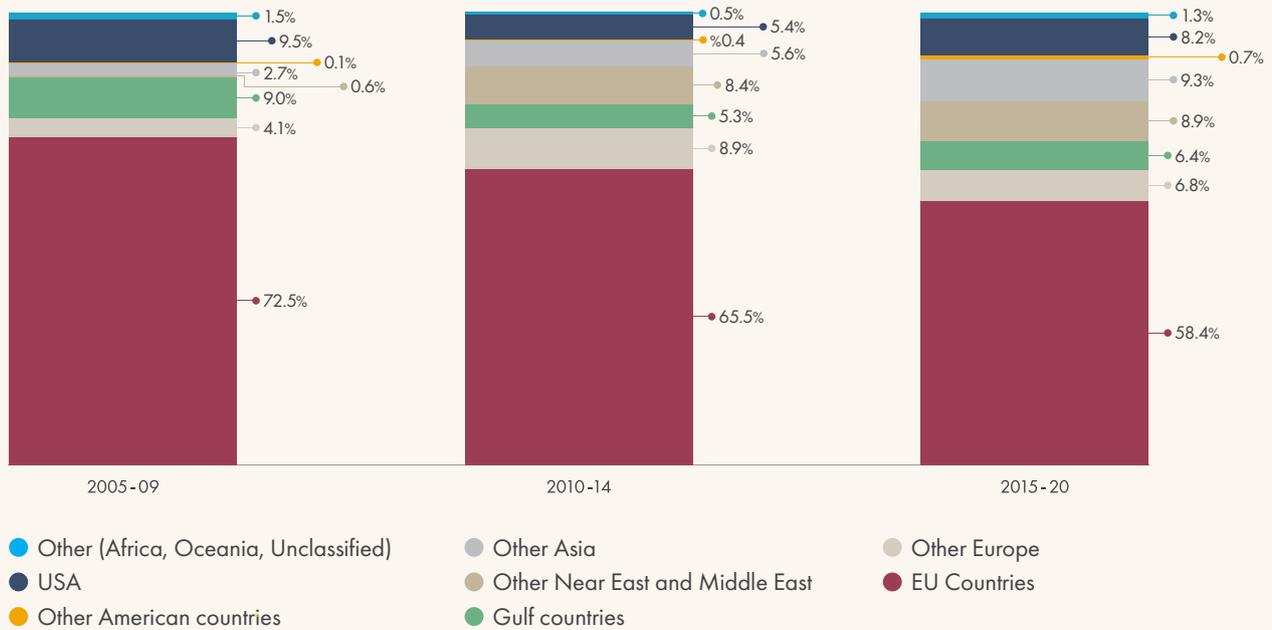


Source: CBRT, UNCTAD, World Bank

Turkey’s FDI composition was diversified in terms of source countries and investment sectors in the 2005 – 2020 period.

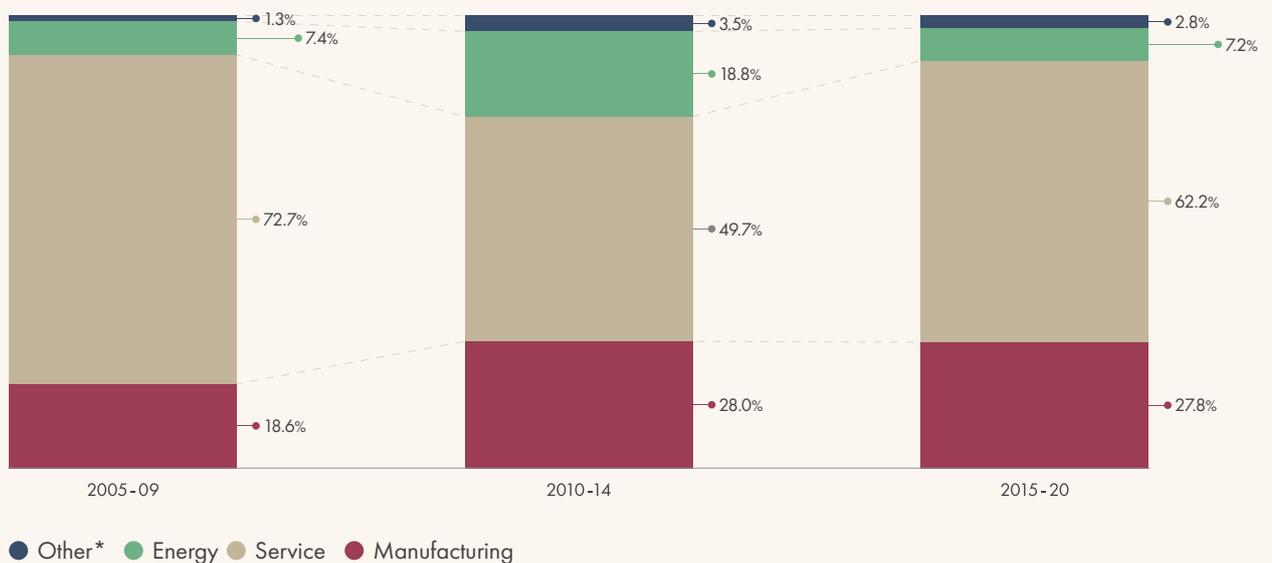
While the investments from EU declined from 72.5% in 2005-2009 period to 65.5% in 2010-2014 and 58.4% in 2015-2020 period, the share of Asia (Gulf countries, other Near-Eastern and Middle-Eastern countries and other Asian countries) increased from 12.3% in 2005-2009 period to 22.1% in 2015-2020 period.

Geographical Distribution of FDI Resources (Billion USD, 2005-2020, %)



Evaluation of the FDI directed to Turkey in terms of sectors indicates that the share of investments in the services sector declined from 72.7% in 2005-2009 period to 49.7% in 2010-2014 period and 49.7% and to 62.2 in recent period . The rate of investments in the manufacturing sector achieved a significant increase in the 2010-2014 period compared to the previous period, reaching around 28% in the consecutive periods.

Distribution of FDI by Sector (Billion USD, 2005-2020, %)

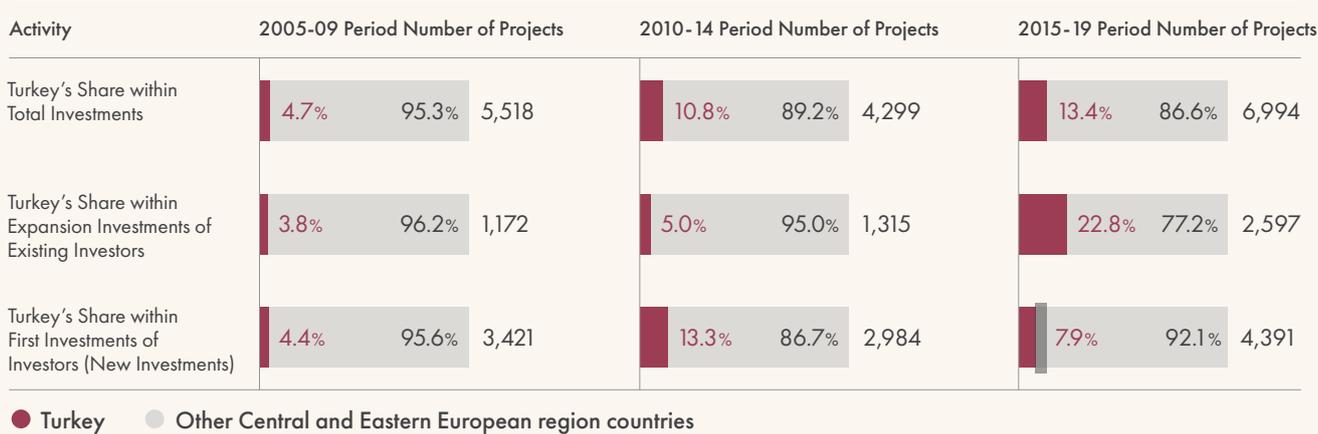


Source: CBRT

(*) Agriculture and mining investments were followed under the other category.

Expansion investments of current investors indicate the effectiveness of the business environment and efficiency of doing business in the respective country. Within this context, the efficiency of business and investments in Turkey is more visible, considering the FDI directed towards the Central and Eastern European region in 2005-2019 period in terms of the number of projects and the investor’s presence in the country.

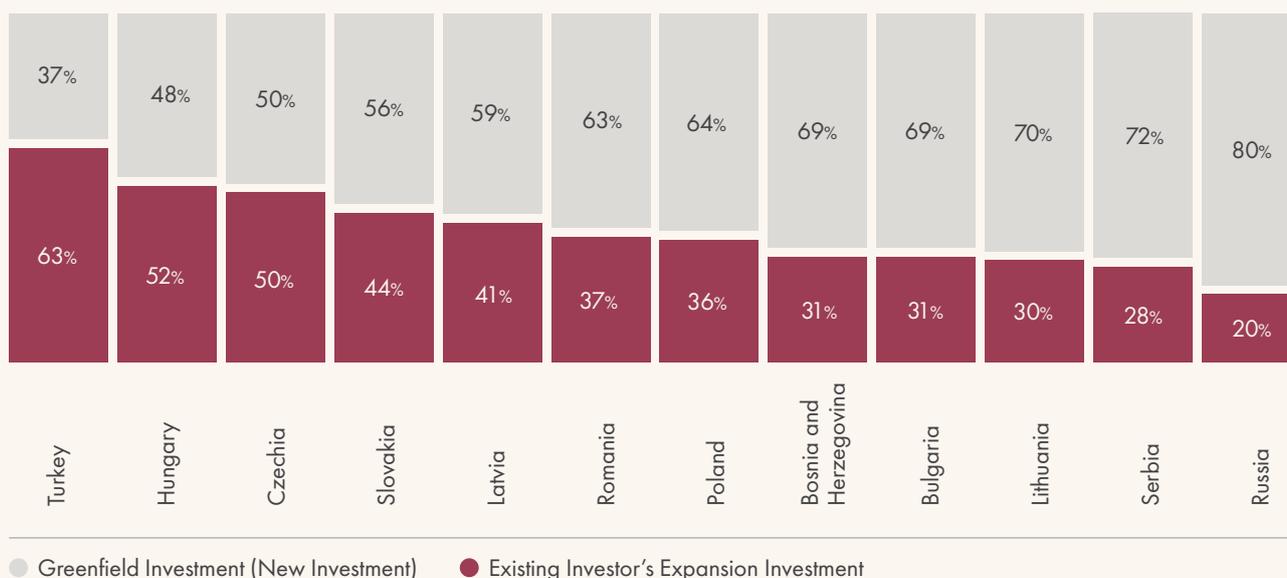
Turkey attracted 13.4% of the investments directed to the Central and Eastern European region in terms of the number of projects in the 2015-2019 period, while managing to attract 22.8% of current investors’ «expansion» investments. This situation shows that companies which did business and made investments in Turkey choose Turkey for growing their operations and enhancing their value chains through expansion investments.



Source: EY EIM FDI Database, 2020

The share of expansion investments in Turkey’s FDI composition increased to 63% in 2015-2019 period. Expansions made by the existing investors in Turkey to their investments in Turkey demonstrate the existing investors’ confidence in both the investment climate and future of Turkish economy.

Distribution of Greenfield / Expansion Investments in Central & Eastern European countries (2015-2019, Number of Projects, %)

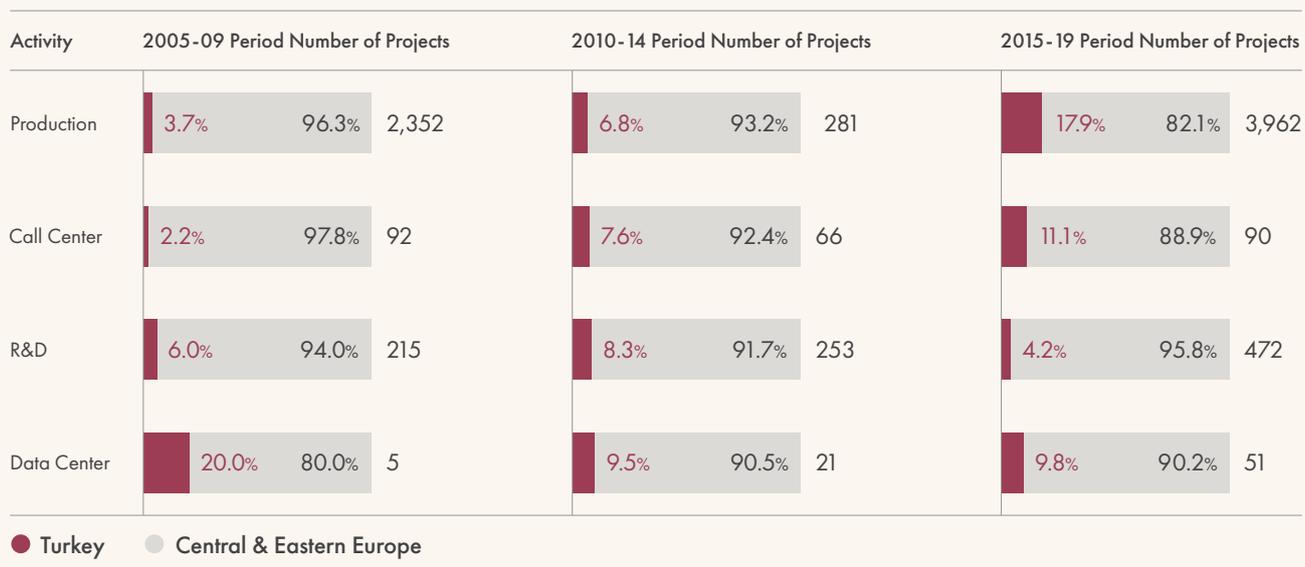


Existing investors who made investments particularly in the Automotive, Agriculture & Food, Chemicals & Plastics, Pharmaceuticals & Medical Devices, Electrical Products, Machinery & Equipment and Electronics & ICT sectors in Turkey performed most increases in their investments.

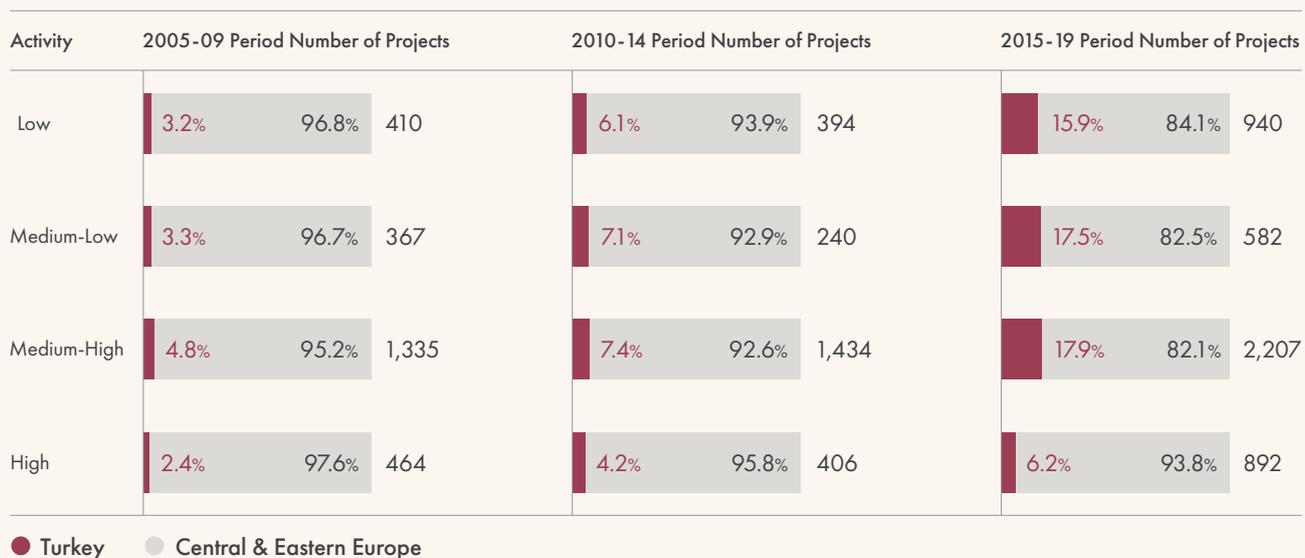
Source: EY EIM FDI Database, 2020

Turkey is the leading country of the region in terms of investment projects regarding medium-high technology manufacturing sectors and production activities.

It is observed that Turkey has become the most important player in the Central and Eastern Europe for production investments. While attracting 3.7% of the investments in the region in the 2005-2009 period, Turkey increased its share to 17.9% in the 2015-2019 period. Turkey was chosen for one out of each 5 production investment projects directed to the Central and Eastern Europe.



Turkey is the leading country in its region in terms of medium-high and medium-low technology sectors. Turkey managed to increase its market share in medium-high technology sectors, which was 4.8% in 2005-2009 period, to 7.4% in 2010-2014 period and 17.9% in 2015-2019 period. Turkey has become one of the leading players of the market in the growing high-technology sector investments as well. The market share, which was 2.4% in the 2005-2009 period, was measured at 4.2% in the 2010-2014 period and 6.2% in the 2015-2019 period.



Source: EY EIM FDI Database, 2020

(*) Sectoral FDI is classified according to the technology levels accepted for the sectors under OECD's criteria, except investments for Sales and Marketing activities.

High Technology: Digital, ICT, Pharmaceutical and Medical; Medium-High Technology: Chemistry, Machinery & Equipment, Electrical Appliances, Motor Land Vehicles;

Medium-Low Technology: Plastics, Raw Materials and Metal; Low Technology: Agriculture & Food, Textiles, Apparel and Leather, Furniture

2.3

FOREIGN DIRECT INVESTMENT (FDI)
STRATEGY OF TURKEY (2021-2023)

Global Outlook and Turkey

- 2.1 Global and Regional FDI Market
- 2.2 Turkey within the Regional Market and the FDI Performance of Turkey
- 2.3 Future of FDI and Key Trends Characterizing the Market

According to the data announced by UNCTAD (World Investment Report, 2021), the global FDI market shrank by 35% in 2020 compared to the previous year and this value is almost 20% below the 2009 performance after the global financial crisis of 2007-2008.

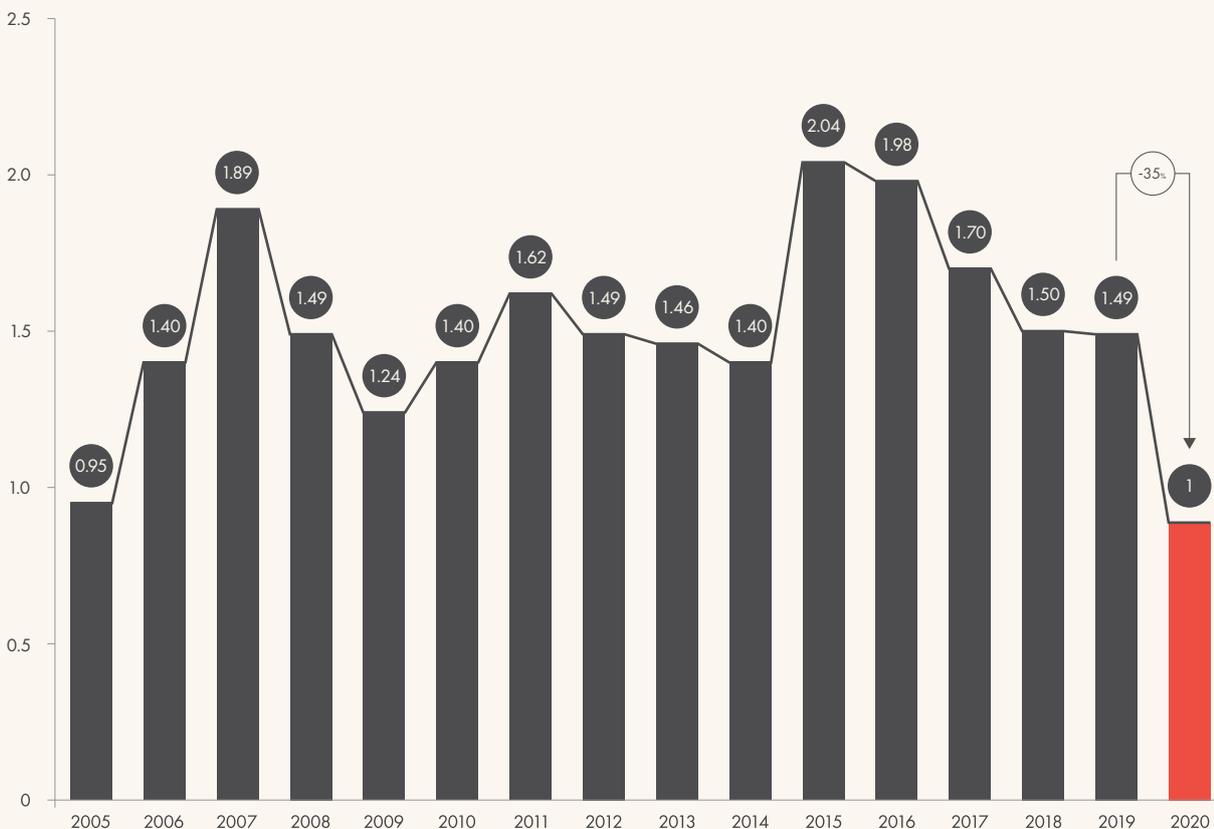
The intensity of the shrinkage in the FDI market particularly in developed economies is remarkable. FDI inflows to developed economies decreased by 58% to an estimated 312 billion USD. Inflows to Europe decreased by 80% in 2020 which makes the region most severely hit region around the globe.

On the other hand, developing economies experienced a relatively smaller shrinkage. The decline in FDI flows in developing economies was less than expected at 8% mainly due to the resilient flows in Asia. Furthermore, developing economies' share in the global FDI market reached 66%, the largest share to date.

The value of greenfield investment project announcements, which is an indicator of future FDI trends, reached an estimated 564 billion USD in 2020. With respect to greenfield investments, developing economies experienced a much greater decline (-44%) compared to developed economies (-16%). It is observed that the biggest decline among the developing economies occurred in Africa (-75%), Latin America and the Caribbean (-46%).

It is expected that the recession will continue and the FDI market will remain weak in 2021. According to UNCTAD, although global FDI flows are estimated to increase between 10% and 15% in 2021, a gradual recovery in FDI flows is expected from 2022. It is predicted that the recovery will be slower and more gradual than the recovery experienced after the global financial crisis of 2007-2008.

Global FDI Amount (2005-2020 Actual, Trillion USD)



Source: UNCTAD, World Investment Report, 2021

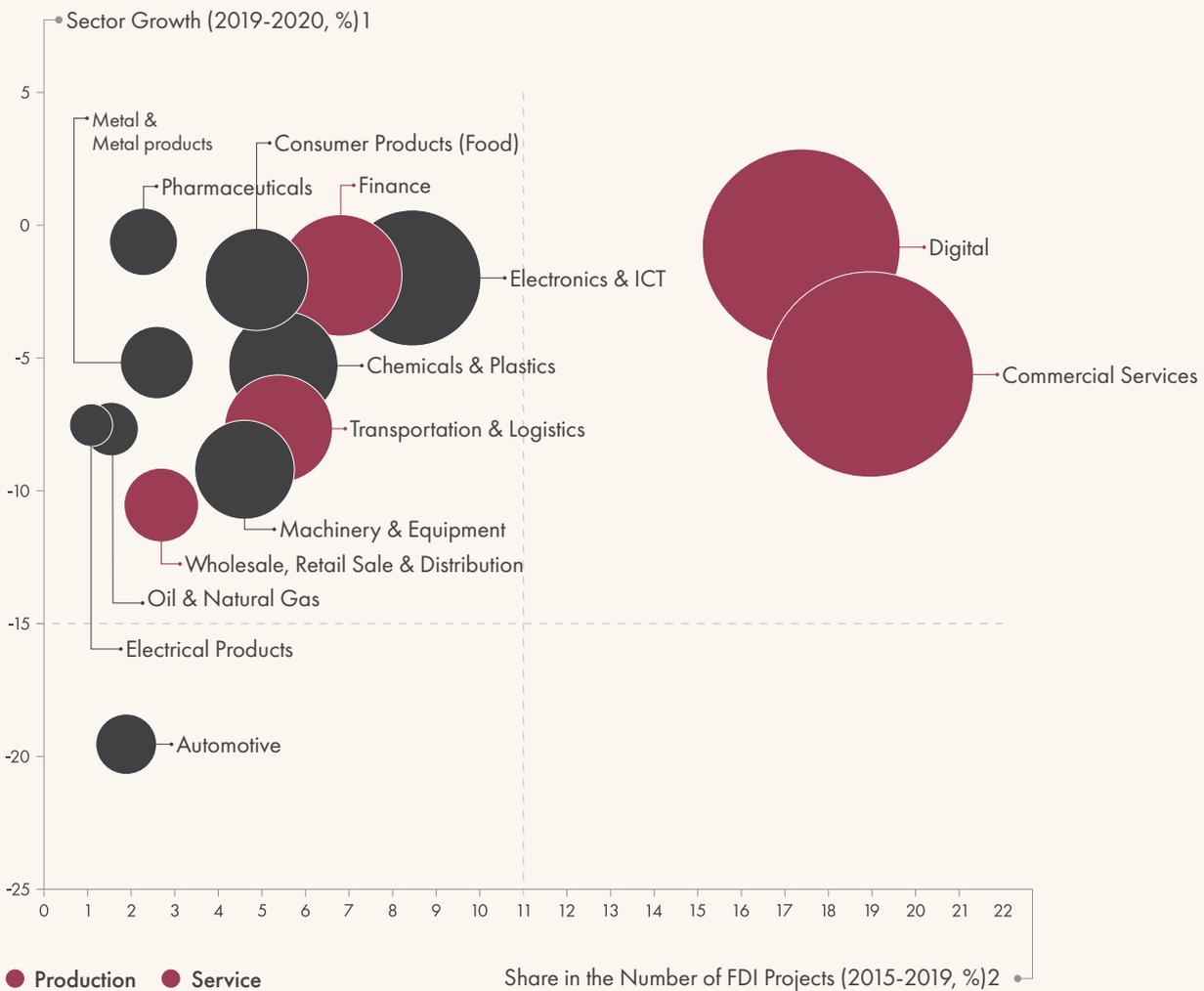
The devastating consequences of the Covid-19 outbreak deeply affect both the production and service sectors. The impact is expected to be deeper particularly for FDI projects in manufacturing sectors dominated by multinational companies.

The turbulent period resulting from Covid-19 will have the maximum effect on sectors dominated by multinational companies which carry out their operations relying on global value chains. The primary sectors to be affected the most by Covid-19 are Automotive, Electrical Products, Metal and Metal Products and Chemicals and Plastics.

The relationships between the supply chain, supply and demand shocks triggered by Covid-19 have a deep and long-term impact on manufacturing sectors in particular. In this respect, a reduction in the investment mobility regarding production activities is inevitable.

While the economic effects of Covid-19 create recession and difficult conditions for the companies operating in the service sector, the digital and commercial services sectors, which have high market shares within the scope of FDI projects, are expected to maintain their strong positions in the market.

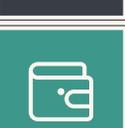
Growth Estimations and Comparison of the Number of FDI Projects by Sector



Source: (1) Oxford Economics, (2) UNCTAD, WIR Annex Tables

* Chamber sizes are directly proportionate with the Number of FDI Projects Rate in 2015-2019. | ** The sectors were obtained by matching with FDI Markets sector classification.

The 12 mega trends characterizing the FDI market are expected to shape the future of FDI and increase the impact of these trends on global investment flows in the medium and long term after Covid-19.

| | |
|---|--|
|  | Digitalization and FDI Asset Lightness There is a growing market for high technology service investments, medium-high and high technology manufacturing investments and investments for R&D activities, as a result of the acceleration and deepening of the digital transformation of business and production processes. |
|  | Sustainability & Climate Change UN's Sustainable Development Goals (SDGs) and the global trade and investment policies shaped accordingly will be particularly effective in the investment decisions of investors with EU origin. Countries unable to align their supplier base and business environment with SDGs face the risk of being out of the game. |
|  | The Difference in the Rate of Return on FDI between Developed and Developing Countries The difference in the rate of return on FDI between developed and developing countries is diminishing. Consequently, developed countries become competitors of developing countries in the new era. |
|  | Protectionist Trade and Investment Policies Trade wars and protectionist policies increasingly continue their influence on the FDI market. Protectionist policies are expected to increase their impact on both global trade and investment decisions in the medium term after Covid-19. |
|  | Increasing Predominance of Expansion Investments The predominance of existing investors' expansion investments in the FDI market is increasing. |
|  | Brexit The distinctive impact of «Being an EU Member» on the investment decisions of companies based in UK will disappear. The competitiveness of EU member Eastern European countries regarding investments with United Kingdom origin is expected to decline partially. |
|  | Free Trade Agreements The reverse globalization process triggers the process of transforming Free Trade Agreements to Deep Trade Agreements. |
|  | More Controlling Investment Policies In line with motivations such as protection of national security and local economy, especially developed western markets create restrictive mechanisms for the entry and exit of certain investments |
|  | Data Policies Protection of personal data and cyber security issues have increased its importance in the last 10 years, and their increased importance began to affect investment decisions. Whether countries have the related regulatory framework and effectively implement this framework are determining factors in investment decisions. |
|  | Start-up Ecosystems Financial investments for start-ups which produce innovative technologies and develop products and services through innovative technologies became more visible in the FDI market |
|  | China's Belt & Road Initiative (BRI) BRI is a vast and extensive financing source for transportation, logistics and energy infrastructure investments. In the new era when the transformation pressure in the GVCs has accelerated, the impact of the related investments, as well as the competition for these investments are expected to be higher. |
|  | Transformation Pressure in the GVCs The effects of logistic proximity, delivery speed, quality, reliability, flexibility, and supplier risk factors on investment decisions have increased, with a relative decrease in the importance of costs. Expectation of a possible regionalization in this regard promises to make Turkey the «production and distribution base» of the region. |

3

FOREIGN DIRECT INVESTMENT (FDI)
STRATEGY OF TURKEY (2021-2023)

10 Key Findings that Drive the Strategy

The analysis on global, regional and national level, and comprehensive survey studies performed with investors and stakeholders, which were conducted within the scope of strategy preparation works, as well as the guidance provided by senior public executives, constituted the main inputs of Turkey's FDI Strategy (2021-2023). The key findings that drive the strategy, and the areas of opportunity and development they indicate for Turkey are presented in this section.

The global and regional market trends indicate a market structure that is more competitive than ever for the medium term future of FDI.

- After the global financial crisis in 2007-2008, the global FDI market failed to build up the upward momentum before the crisis. It was observed that the growth resulting from mergers and acquisitions (M&A) in 2015 could not be sustained in the following years. The anticipation of further reduction in the FDI flow in the medium term due to Covid-19 brings a shrinking market outlook.
- Developed countries are increasingly becoming competitors of developing countries in terms of FDI attraction. This was caused by (1) the decline in rates of return on FDI in developed countries, (2) the incentive policies implemented by the main countries for encouraging investors to bring their investments back to their countries (3) increase in the share of high technology sectors and activities in the FDI composition.
- The survey study conducted with investor companies within the scope of FDI Strategy preparatory works reveal similar trends as well. While evaluating Turkey, investors took not only developing economies, but also developed countries such as Germany, USA, China, United Kingdom and Italy into account, considering them as Turkey's competitors.

1. Turkey competes with both Central and Eastern European countries and developed countries for FDI, in the shrinking FDI market.

The strategy will be implemented in the 2021-2023 period, when the global FDI market and competitive elements in the market are redefined. Global trends have changed the investment decision criteria of international companies and the relative weights of such criteria.

- In the new normal of the FDI market, Risk Indicators, Infrastructure Quality and Logistics, and Human Resources and Labor have become even more important for investors. Although cost remains important for investments with low added value, its importance has relatively decreased for medium-high and high technology manufacturing investments and investments in R&D activities.
- According to the existing investors in Turkey, the FDI services most effective in their investment decisions are legislation support, facilitation and aftercare services.

2. In the new normal of FDI, dynamic monitoring of the needs of investors and changing investment decision criteria on the global scale and implementation of the required arrangements will be determining factors for Turkey's FDI performance.

The 12 mega trends relating to the FDI market which were observed in the last 10 years became the elements that characterize the global and regional FDI market in 2014-2019 period. The impact of these trends on global investment flows is expected to increase in the medium and long term after Covid-19.

- There is a growing market for high technology service investments, medium-high and high technology manufacturing investments and investments for R&D activities, resulting from the acceleration and deepening of the digital transformation of business and production processes.
- In order to gain prominence in investment decisions of companies on the supply side of the market, human resources, ICT and digital infrastructure have become more important than ever.

3. Turkey has the potential to increase its share from the growing market in terms of high technology service and manufacturing investments. 2 key factors are deemed to have critical importance for the realization of this potential: (1) shaping the support mechanisms with investor feedback; and (2) improving the investment climate to ensure facilitation of investment decisions.

- Sustainability and climate change have become one of the main items on international companies' agendas. In the new era, particularly investors based in the EU have to make their investment decisions in line with these policies, taking into account new sanctions or policy frameworks (such as the Green Deal) in this regard.
- 58.4% of the FDI received by Turkey in the 2015-2019 period was made by companies based in the EU, while 50.9% of Turkey's exports was performed to EU countries.

4. In order for Turkey to maintain and enhance its competitiveness in production and export-oriented FDI, it is critically important to align its business environment, regulatory framework and supplier base infrastructure with the Sustainable Development Goals (particularly with the green economy and sustainable development context).

One of the trends, whose speed, depth and potential impact increased most due to Covid-19, has been the transformation pressure on GVCs. The shortening and simplification process of the GVCs, and its need to be transformed from a vertical and fragile chain to a horizontal and resilient supply network became more apparent with Covid-19. Covid-19 has accelerated the trend towards shortening and regionalization in supply chains.

- Optimization of supply chains has become one of the main decision criteria for investors to make new investment decisions or to increase and diversify their investments in the country where they are currently based.
- The success evaluations of companies regarding the global value chains has been changed by Covid-19. Logistic proximity, delivery speed, cooperation, quality, reliability, flexibility and supplier risk factors have become more important, while the importance of cost declined relatively.
- In this process where the GVCs is being reconstructed, the quality and diversity of the local suppliers and the transportation and logistics infrastructure of the countries will be determinant in the relevant investment decisions.

5. The shortening and regionalization of the GVCs create windows of opportunity for Turkey for the medium and long term. The new FDI era promises to reinforce Turkey's role as the production and distribution base of its region, through its geostrategic location, international companies' installed production capacities in our country and its strong supplier base. In this process, Turkey offers investors a safe harbor allowing them to establish and grow their value chains.

- It is considered that there are 3 channels through which the transformation in GVCs will enhance Turkey's role as the production and distribution base of its region: (1) Investments made in Turkey by multinational companies in the manufacturing sector which do not currently have manufacturing activities in Turkey, (2) Current investors' growth of their operations through expansion investments and diversification of the said operations by focusing on activities with higher added value and (3) Investments made in Turkey by companies which are international supplier bases of current investors.

6. In the comprehensive investor survey conducted during the strategy preparation stage, 43% of the investors operating in manufacturing sectors stated that they are making efforts to move their suppliers abroad to Turkey. The initiatives taken by the existing investors to bring their suppliers to Turkey in the new era also indicate an FDI potential for Turkey.

Turkey is the leading country of the region in terms of investment projects regarding medium-high technology manufacturing sectors and production activities. Multinational companies operating in the manufacturing sector have been based in Turkey for many years and are growing in Turkey.

- 17.9% of the production investment projects directed to the Central and Eastern European region selected locations in Turkey in the 2015-2019 period.

- 17.9% of the medium-high technology sector investments and 17.5% of the medium-low technology sector investments directed to Turkey selected locations in Turkey in the 2015-2019 period. Turkey became one of the leading players of the market with a share of 6.2% in high technology sector investments as well.
- The share of the manufacturing sector within Turkey's FDI composition has increased. 15.6% of the investments received by Turkey in 2005-2009 period were related with the manufacturing sector, while this rate increased to 17.1% in 2015-2020 period.

7. Turkey is considered an important production and export base for its region by international investors. Turkey offers significant opportunities in its region, with its production capacity and variety, qualified and diverse supplier base and the established presence of multinational manufacturing sector companies in our country for many years, under increasing competitive conditions.

The Central and Eastern European FDI market is characterized by expansion investments. Covid-19 further increases the strategic importance of expansion investments. It is expected that the shrinkage in FDI in 2021-2023 period will be stronger in greenfield investments, and existing investors' expansion investments will be the backbone of FDI.

- Existing investors' expansion investments (the growth and diversification of operations through additional investments) will be decisive in the FDI performance in the short and medium term after Covid-19.
- It is observed that companies which did business and made investments in Turkey choose Turkey for growing their operations and enhancing their value chains through expansion investments.
- 22.8% of the expansion investment projects directed towards the Central and Eastern European region in the 2015-2019 period were attracted by Turkey. The share of expansion investments in Turkey's FDI composition increased to 63% in this period.

8. The positive perception of Turkey by the current investors establishes an advantageous position for Turkey in the region. Expansion of investments in our country through approaches focused on investor satisfaction and supporting their orientation towards areas with higher added value are of critical importance for Turkey's FDI performance.

Increased competitiveness in the global and regional FDI market intensifies the need for focusing on and prioritization in the field of FDI.

- The only tools available to countries to increase their competitiveness in the FDI market are considered as (1) investment climate and (2) services provided to investors in the field of FDI - investment promotion, investment attraction, facilitation, aftercare and legislation support.
- Maximum advantage of these tools can be taken by defining what the country expects from FDI in the economic sense, as well as understanding the needs of investors.
- Determination of the FDI profiles which will be targeted with priority in the global and regional market and constructing the investment climate and FDI services so that these profiles are targeted are of critical importance in increasing the FDI performance.

9. There is need for a setup of services specialized for quality FDI, which will significantly contribute to Turkey's achievement of its macroeconomic goals of 2023, which is in line with the definition of quality FDI for Turkey and which prioritizes quality FDI.

The key elements of success in the implementation of Turkey's FDI Strategy (2021-2023) are considered as cooperation and coordination among the relevant institutions and monitoring and evaluation of the implementation.

10. (1) A defined institutional framework for FDI (2) structured cooperation mechanisms between relevant institutions through coordination of the Investment Office (3) a structured approach for monitoring and evaluation of the strategy will be necessary to ensure the application's success. These mechanisms in the implementation stage will provide the strategy with the flexibility and agility needed to respond to changing conditions and investors' needs.

4

FOREIGN DIRECT INVESTMENT (FDI)
STRATEGY OF TURKEY (2021-2023)

Quality FDI for Turkey

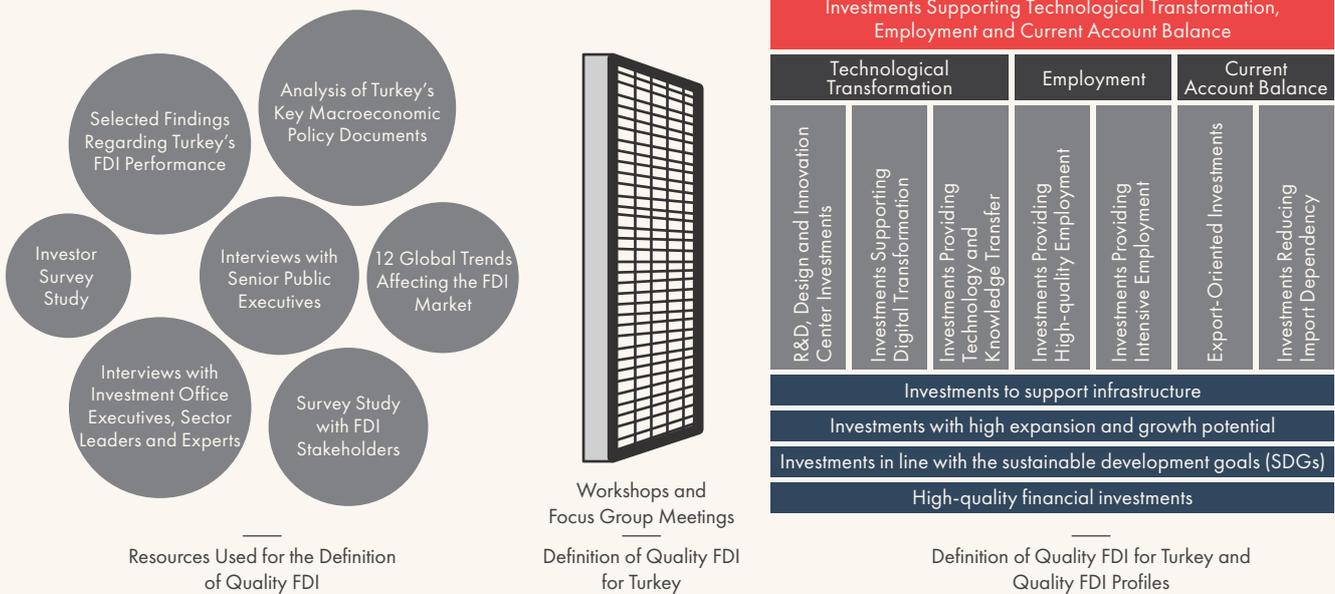
Definition of Quality FDI for Turkey

It has been necessary to determine the investments which will significantly contribute to Turkey’s achievements of its macroeconomic targets for 2023, which will be pursued directly by Turkey in the global FDI market in 2021-2023 period and prioritized within the scope of its strategy. In this respect, «quality FDI» for Turkey is basically designed in line with the following input, in accordance with its key policy documents.

- Analysis of Turkey’s key macroeconomic policy documents
 - The 11th Development Plan of Turkey (2019-2023)
 - 2020-2022 New Economic Program of Turkey
 - Turkey’s 2023 Industry and Technology Strategy
 - Turkish Exports Strategy for 2023
- Global and regional FDI mobility in terms of sector and activity
- 12 mega trends characterizing the FDI market
- Turkey’s previous market performance and competitiveness in terms of investment decision criteria
- Evaluations of senior public executives
- Evaluations of public institutions and professional organizations which have responsibilities and activities in the field of FDI
- Evaluations of existing investors in our country

The definition of quality FDI for Turkey was made with respect to the 7 profiles and 4 horizontal axes under 3 main components, by combining the collected input in accordance with the meetings, workshops and focus group meetings attended by senior public executives, public institutions and professional business organizations with responsibilities/activities in the field of FDI and Investment Office Executives, sector leaders and experts.

Definition Framework of Quality FDI for Turkey



Quality FDI necessary for Turkey is defined as «Investments Supporting Technological Transformation, Employment and Current Account Balance».

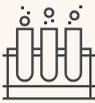
The definition of quality FDI is based on global and regional FDI mobility on sector and activity level, Turkey’s previous market performance and competitiveness in terms of investment decision criteria, key policy documents and evaluations of senior public executives and existing investors in our country.

| INVESTMENTS SUPPORTING TECHNOLOGICAL TRANSFORMATION, EMPLOYMENT AND CURRENT ACCOUNT BALANCE | | | | | | |
|---|--|---|---|--|---|---|
| Technological Transformation | | | Employment | | Current Account Balance | |
|  |  |  |  |  |  |  |
| R&D, Design and Innovation Center Investments | Investments Supporting Digital Transformation | Investments Providing Technology and Knowledge Transfer | Investments Providing High-quality Employment | Investments Providing Intensive Employment | Export-Oriented Investments | Investments Reducing Import Dependency |
| Profile 1 | Profile 2 | Profile 3 | Profile 4 | Profile 5 | Profile 6 | Profile 7 |
| All R&D, design and innovation center investments regardless of sector | Investments which develop/expand technologies ensuring the digital transformation of industries and services | Technology intensive production investments with high added value which develop supplier bases and have strong backward or forward linkages | Value-added, high-tech service sector and business services investments | Investments whose selected location is in priority development regions and which provide high employment, regardless of sector | Export-oriented production investments | Investments reducing import dependency in sector/product groups with high imports of intermediate goods |



Turkey’s FDI Strategy (2021-2023) has been constructed with a structure that prioritizes quality FDI profiles, but does not exclude other investments. In the strategy period, a proactive approach will be adopted to contribute investments which fit these profiles to Turkey and then to ensure the growth of these investments in Turkey.

| Quality FDI Profile | Defining Criteria | Investor Decision Criteria |
|--|--|---|
| <p>Profile 1. All R&D, design and innovation center investments regardless of sector</p>  | <ul style="list-style-type: none"> • Investments which can obtain R&D Center or Design Center status from the Ministry of Industry and Technology / operate in technology development zones and which will provide employment for +10 researchers/designers, regardless of sector and the initial investment amount. • Investments eligible to benefit from 1515 - TUBITAK Pioneer R&D Laboratories Support Program. • Investments regarding R&D activities in digital (software) and disruptive technologies (internet of things, machine learning, artificial intelligence, etc.) • R&D, design and innovation center investments which will carry out joint activities/projects with the universities in our country | <ul style="list-style-type: none"> • Human Resources and Labor Force • Business climate • Taxes and incentives • Regulatory framework • Investment area availability |
| <p>Profile 2. Investments which develop/expand technologies ensuring the digital transformation of industries and services</p>  | <ul style="list-style-type: none"> • Investments in the following activities in the digital sector <ul style="list-style-type: none"> ◦ Data Center ◦ Regional Management Center ◦ Shared Services Center ◦ New Generation Financial Technologies (FinTech) • «Hyperscaler» companies' investments other than sales and marketing activities | <ul style="list-style-type: none"> • Regulatory framework • Human Resources and Labor Force • Business climate • Market size and potential |
| <p>Profile 3. Technology intensive production investments with high added value which develop supplier bases and have strong backward or forward linkages</p>  | <p>Existing investors' expansion investments in the amount of +5 million USD and new investors' investments in the amount of +20 million USD which are made with respect to «Production» activities in the following sectors</p> <ul style="list-style-type: none"> ◦ Electrical Products ◦ Electronic ◦ Aviation & Defense Industry ◦ Automotive ◦ Chemicals ◦ Machinery & Equipment ◦ Agriculture & Food (high technology investments for agriculture and food processing technologies) <ul style="list-style-type: none"> ◦ Investments that contribute to the research ecosystems of universities and provide mutual knowledge exchange by carrying out joint projects with the universities in our country | <ul style="list-style-type: none"> • Business climate (diversity and quality of local suppliers) • Infrastructure quality and logistics • Cost • Taxes and Incentives • Investment area availability |

| Quality FDI Profile | Defining Criteria | Investor Decision Criteria |
|---|---|--|
| <p>Profile 4. Value-added, high-tech service sector and business services investments</p>  | <ul style="list-style-type: none"> • Investments other than sales and marketing activities in Finance and Commercial Services sectors • Investments regarding the following activities in sectors classified as medium-high and high technology <ul style="list-style-type: none"> ◦ Technical Training Center ◦ Repair & Maintenance Center ◦ Regional Management Center ◦ Shared Services Center • New generation financial technologies (Fin-Tech) investments • Investments with high multiplier effect in the field of e-Commerce | <ul style="list-style-type: none"> • Human Resources and Labor Force • Regulatory framework • Taxes and Incentives |
| <p>Profile 5. Investments whose selected location is in priority development regions and which provide high employment, regardless of sector</p>  | <ul style="list-style-type: none"> • All investments except sales and marketing activities, which select a location outside of the 1st region in incentive scheme and provide employment for +500 individuals independently of sector | <ul style="list-style-type: none"> • Cost • Investment area availability • Human Resources and Labor Force (access to qualified intermediate staff) • Regulatory framework • Infrastructure quality and logistics • Taxes and Incentives |
| <p>Profile 6. Export-oriented production investments</p>  | <ul style="list-style-type: none"> • «Production» investments of new investors in the amount of +20 million USD and +5 million USD for the expansion investments of existing investors who export least 70% of their production outputs, independently of sector. | <ul style="list-style-type: none"> • Cost • Infrastructure quality and logistics • Investment area availability • Taxes and Incentives |
| <p>Profile 7. Investments reducing import dependency in sector/product groups with high imports of intermediate goods</p>  | <ul style="list-style-type: none"> • Investments for «Production» activities in the following sectors <ul style="list-style-type: none"> ◦ Chemicals and Pharmaceuticals ◦ Electronics and ICT ◦ Machinery and Equipment ◦ Motor Land Vehicles ◦ Agriculture & Food ◦ Aviation and Defense Industry • Mining and Energy sector investments • Existing investors' expansion investments in the amount of +5 million USD and new investors' investments in the amount of +20 million USD in these investments | <ul style="list-style-type: none"> • Market size and potential • Business climate (presence of industrial branches/clusters which are customers of the relevant products) • Cost • Regulatory framework |

Issues within the framework of the shrinkage in the global economy 2021-2023 period, the transformation pressure in GVCs and concerns about climate and sustainability have been gathered under 4 horizontal axes. Investments that are deemed to be in line with these 4 horizontal axes are considered quality FDI.



A. Investments to Support Infrastructure (ICT, Energy, Transportation and Logistics Infrastructure)

Investments regarding logistics activities which will improve maritime transport infrastructure and support intermodality, as well as digital and Information and Communication Technologies (ICT) infrastructure investments are considered as valuable, quality investments for Turkey.

The infrastructure quality to be supported with FDI is of critical importance for enhancing the role of being the «production and distribution base» of its region, which is promised by the transformation pressure in the GVCs to Turkey.



B. Investments with High Expansion and Growth Potential

In the last decade, the predominance of expansion investments has increased in the global FDI market. These investments were effective in Turkey's FDI performance particularly in the 2015-2019 period.

Especially the existing investors' expansion investments and new investments with high growth potential will be more crucial in the FDI market in the short and medium term after Covid-19.



C. Investments in line with Sustainable Development Goals (SDGs)

EU is the biggest investor and export market of Turkey. In this respect, SDGs, energy efficiency and global trade and investment policies shaped according to them will directly affect both the global trade and investment performance of Turkey. Principal SDGs:

- SDG 7. Affordable and clean energy
- SDG 8. Decent work and economic growth
- SDG 9. Industry, innovation and infrastructure
- SDG 11. Sustainable cities and communities
- SDG 12. Responsible production and consumption
- SDG 13. Climate action

Turkey will prioritize and stand as a candidate for these investments, in order to maintain and boost its competitiveness in the production and export-oriented quality FDI profiles.



D. High-quality Financial Investments

A high-quality financial investment is expected to improve the current knowledge (managerial, operational and organizational skills) and technology level of the company it buys/invests in.

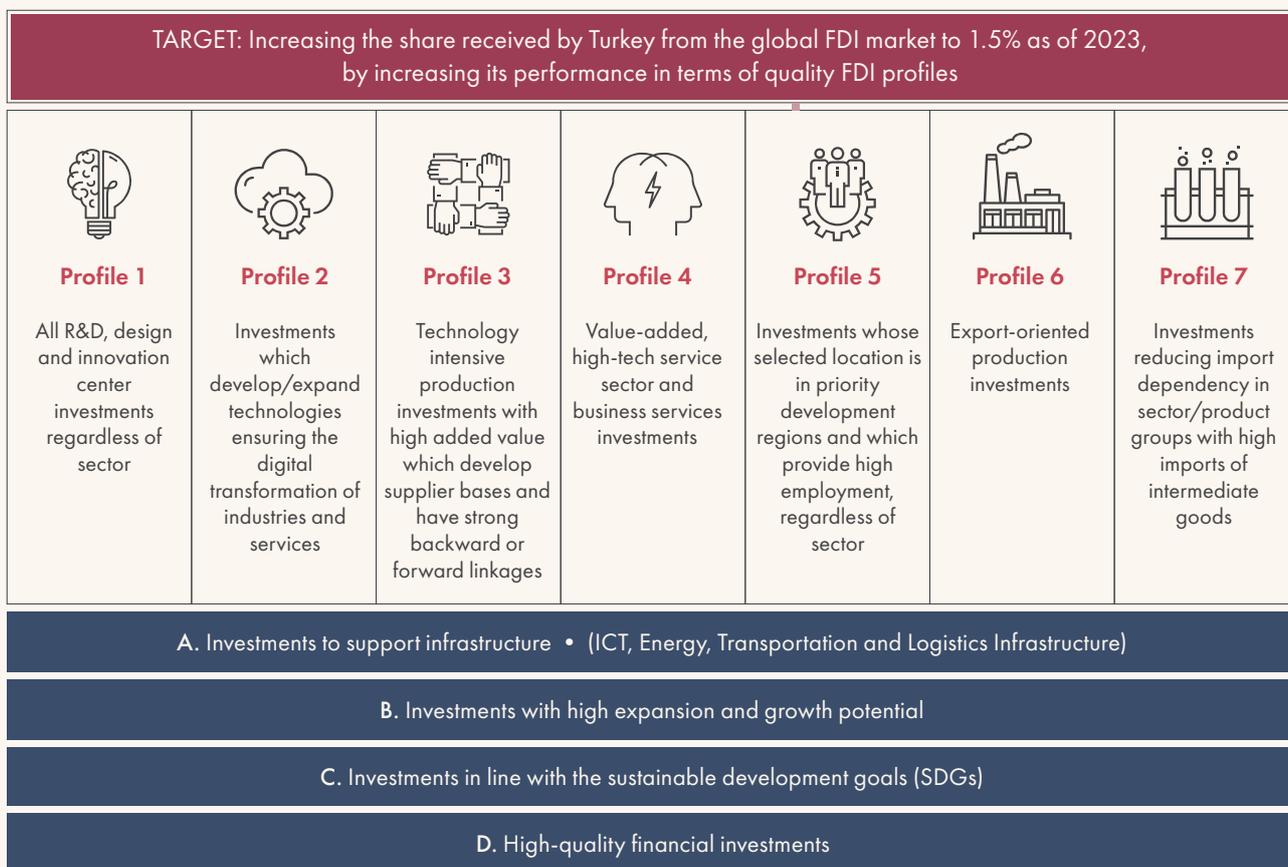
International Development Finance Organizations, Participation Finance Organizations, Asset Funds, Pension Funds, Investment Banks, Asset Management Companies, Private Equity Funds and Venture Capital Funds are significant players in quality financial investment.

5

FOREIGN DIRECT INVESTMENT (FDI)
STRATEGY OF TURKEY (2021-2023)

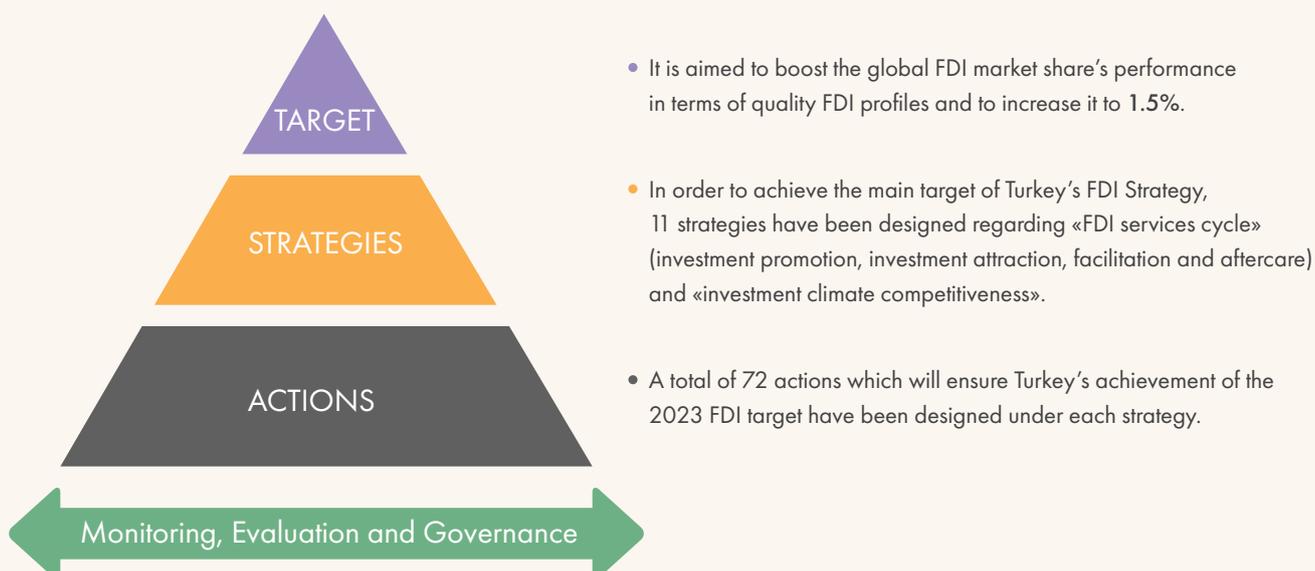
Main Target of Turkey's FDI Strategy,
Strategies and Actions

The main target of Turkey's FDI Strategy is determined as increasing the share from the global FDI market to 1.5% as of 2023, by increasing its performance in terms of the quality FDI profiles.



It is aimed to improve Turkey's FDI performance and existing investment portfolio in terms of quality. The share targeted from the global FDI market will be reached by increasing the performance in quality FDI profiles.

11 strategies and 72 actions under these strategies have been designed for attaining the main target of Turkey's FDI strategy in 2021-2023 period.



Turkey's FDI strategies are constructed in terms of FDI services cycle (6), investment climate competitiveness (4) and cooperation and coordination among institutions (1).

| FDI Services Cycle | | | |
|--|--|--|---|
| Investment Promotion | Investment Attraction | Facilitation | Aftercare |
| S.1 Planning and implementing a central and holistic investment promotion campaign that focuses on quality FDI | S.2 Performing investment attraction studies specifically for 'quality FDI profiles' | S.3 Enhancing the facilitating role of public institutions in investment processes | S.5 Improving the supplier base in Turkey in accordance with the backward linkage requirements of quality FDI profiles |
| | | S.4 Improving the supply of industrial land needed by investors and access to information about land that is suitable for investment | S.6 Enhancing the policy and support mechanisms for the improvement of the investment climate, in line with investor feedback |

| Investment Climate and Competitiveness |
|---|
| S.7 Developing the transportation, logistics, digital and ICT infrastructure needed to attract quality FDI to Turkey |
| S.8 Developing the regulatory framework and the support and incentive mechanisms to enable Turkey to achieve its potential in the FDI market, which transforms according to global tendencies |
| S.9 Enhancing the skill sets of the human resources needed to attract quality FDI to Turkey |
| S.10 Conducting studies which will boost the compliance of the business climate and the regulatory framework with UN's Sustainable Development Goals (SDGs) and the European Green Deal. |

S.11 Enhancing the information exchange and cooperation mechanisms among FDI stakeholders

Strategy 1:**Planning and implementing a central and holistic investment promotion campaign that focuses on quality FDI**

S.1.1 An «Investment Promotion Master Plan», which prioritizes digital media and methods for Turkey, will be created in collaboration with the Presidency of the Republic of Turkey Directorate of Communications, regarding quality FDI, source country of quality FDI and investor company profiles.

S.1.2 An «Investment Promotion Main Deck» will be created and kept up to date to be used in 2021-2023 period for Turkey. Guidance activities will be carried out to align the scope and content of the relevant activities of public institutions and professional organizations engaged in investment promotion activities, with the Investment Promotion Main Deck.

S.1.3 Awareness studies regarding investment promotion activities will be carried out, targeting our embassies in countries which are the investors of quality FDI.

S.1.4 Initiatives with high growth potential in our country will be promoted to international investors who match the quality FDI profiles, through Turkey Entrepreneurship (Start-up) Ecosystem Platform.

S.1.5 Cooperation and consultation mechanisms with the Turkish executives of international companies and Turkish entrepreneurs based abroad will be developed and joint activities will be carried out for promoting our country's investment climate.

S.1.6 Communication and collaboration programs aimed at international business organizations, international organizations, media organizations and journalists based in Turkey will be developed.

S.1.7 A portal will be created by taking the inventory of successful clusters operating in the sectors where our country is advantageous in terms of FDI and these clusters will be promoted on the global scale.

S.1.8 Sector reports in Turkish and required foreign languages will be prepared with the cooperation of the Presidency of the Republic of Turkey Investment Office and relevant public institutions and organizations in certain sectors and these reports will be updated annually.

S.1.9 It will be ensured that chapters titled «Facilitation of Investments» and/or «National Regulations in the Trade of Services» which will contribute to our country's investor-friendly image are included within the scope of international trade agreements executed by our country. The number of agreements which contain provisions within this framework will be increased; special work groups for the facilitation of investments under the agreements signed will be established and the investment climate of our country will be promoted through the joint studies and investment forums to be carried out in this regard with the respective countries.

S.1.10 Specific events which bring together the existing investors and FDI stakeholders in Turkey will be organized and «International Investor Awards» activities will be held.

Strategy 2:**Performing investment attraction studies specifically for 'quality FDI profiles'**

S.2.1 In the priority sectors determined in national policy documents, sub-sectors and product groups in line with the quality FDI profile will be determined and customized investment attraction activities will be carried out accordingly.

S.2.2 For each quality FDI profile, potential investment areas and potential investor companies will be identified for the 2021-2023 period, and investment attraction activities will be carried out for these companies.

S.2.3 In sectors with high backward linkage potentials, the overseas suppliers of companies which are large buyers based in Turkey will be determined and activities will be carried out in cooperation with the respective buyer companies to attract these suppliers' investments to Turkey.

S.2.4 A portfolio including projects ready for investments (Public-Private Partnership-PPP, Industrial Cooperation Projects, privatization projects, technology start-up projects and ready-to-invest projects of which feasibility reports have been prepared by development agencies on the basis of provinces, etc.) will be created for international investors.

S.2.5 Activities supporting the creation of Fin-Tech ecosystem and activities regarding Istanbul Finance Center to encourage international Fin-Tech and Participation Finance companies to invest in our country will be carried out, and direct connections will be established with potential investors.

S.2.6 Preliminary preparations will be made for the projects which can receive project based incentives in quality FDI profiles and company-oriented investment attraction activities will be carried out for international investors regarding investment subjects with potential.

S.2.7 An inventory of important international companies who match quality FDI profiles and operate in our country, but who have not made R&D and Design Center investments will be identified and investment attraction activities will be carried out for these companies' expansions.

S.2.8 A mapping study regarding the activities carried out in our country by international investors who match quality FDI profiles and operate in our country will be performed and investment attraction activities aimed at these companies will be conducted to expand their activities in our country and direct them to activities with more added value, in line with the inventory to result from the mapping study.

S.2.9 The necessary legislation studies will be performed in order to increase tourism investments in regions with tourism potential, to contribute the public immovables in these regions to tourism investments and to ensure facilitation and acceleration of investment processes.

Strategy 3:

Enhancing the facilitating role of public institutions in investment processes

S.3.1 A «Central Investment Information System» where the related authorities will regularly enter information for monitoring permission, approval, license, etc. processes for the investments will be set up.

S.3.2 «Investment Coordination Units», which will receive permission, license, etc. applications and coordinate them from a single window will be established in the related ministries.

S.3.3 Digital applications which will facilitate international investors' investment processes on local basis (e-municipality, etc.) will be developed.

S.3.4 «Digital welcoming package» applications, which provide informative content specific to the region of investment to the companies which decide to invest in Turkey will be developed in pilot provinces.

S.3.5 In order to attract entrepreneurs in line with quality FDI profiles from foreign countries to our country and ensure the settlement of their initiatives here, mechanisms such as «welcoming package» and «entrepreneur visa» will be provided to facilitate entrepreneurs' work and residence permit procedures.

S.3.6 Foreign persons and their families will be provided priority and convenience in issue of residence and work permits for making, managing or operating investments in quality FDI profiles.

S.3.7 Environmental impact assessment, strategic environmental assessment, authorization, license, monitoring and supervision mechanisms and capacities will be developed and the legislation will be enhanced in these matters.

Strategy 4:**Improving the supply of industrial land needed by investors and access to information about land that is suitable for investment**

S.4.1 Potential industrial land requirement analysis will be made in line with the targets set for quality FDI profiles and qualified industrial areas will be developed accordingly.

S.4.2 A digital industrial land database through which information about land availability suitable for current investments can be monitored on the Geographic Information Systems (GIS) will be developed.

S.4.3 The up-to-date land availability information (parcel, infrastructure, price. etc.) in the investment regions (OIZ, free zone, technology development zone) will be shared with investors in digital format. Furthermore, an Inventory of Industrial Areas of Turkey will be taken and presented to investors via a digital platform.

S.4.4 Specialized free zones specifically for R&D intensive sectors involving high technology, such as informatics, biotechnology and nanotechnology, will be expanded.

Strategy 5:**Improving the supplier base in Turkey in accordance with the backward linkage requirements of quality FDI profiles.**

S.5.1 Supplier development programs will be implemented for international investors based in Turkey who match quality FDI profiles. Within the scope of supplier development programs, target-oriented incentive mechanisms for the current supplier base and mechanisms such as mentoring supports for supplier companies will be developed.

S.5.2 «Supplier Platform of Turkey», which compiles the profile information (products, production standards, location, number of employees, etc.) of companies that can be considered as the suppliers of investments in terms of quality FDI profiles and which match suppliers with investors and enable them to meet each other will be developed.

S.5.3 «Supplier activities» that will bring together international investors and suppliers based in Turkey based on sector/product group/technology will be planned and carried out.

S.5.4 Activities such as training, assignment of personnel to work at the supplier, etc. to be carried out by international investors who match quality FDI profiles with respect to local companies with high growth potential will be supported.

S.5.5 A support program will be created for the international companies based in Turkey who match quality FDI profiles and SMEs that are suppliers of these companies, to direct their R&D projects and provide co-financing.

S.5.6 Platforms will be established to improve the cooperation capacity of large companies, including technology initiatives (startups), innovative SMEs and international investors based in our country, in priority sectors under qualified FDI profiles and matching and joint project development support will be provided.

Strategy 6:**Enhancing the policy and support mechanisms for the improvement of the investment climate, in line with investor feedback**

S.6.1 In order to increase the predictability of the legislation, it will be ensured that legislative amendments that fulfill certain criteria are presented to the public opinion via an internet portal through e-Government integration and a transition process is required for implementing the legislation in cases where possible.

S.6.2 The «www.yatirimadestek.gov.tr» platform, where all state supports provided to the investors are presented on a single platform, investment incentive elements are analyzed, the returns of incentives can be calculated and questions of investors are answered will be put into service in English.

S.6.3 The use of dispute resolution methods such as international arbitration, settlement and mediation will be increased for the resolution of the investment disputes encountered by international investors based in our country.

S.6.4 «Investment climate evaluation surveys» will be conducted regularly with the existing investors in Turkey and the survey output will be presented to YOIKK.

S.6.5 A comprehensive legislation study, which will facilitate international investors' investment processes in our country, increase predictability and transparency, strengthen investors' confidence, guarantee the non-retroactivity of adverse provisions and remove the obstacles preventing the acceleration of investments, will be carried out.

S.6.6 An investment ombudsman system will be established to settle investment disputes which may arise between public authorities and investors.

S.6.7 Specialized courts in fields such as environment, zoning and energy will be established; studies will be carried out to ensure that certain lawsuits such as those relating to commercial, intellectual and industrial rights are handled by the specialized courts in provincial centers.

S.6.8 To increase voluntary tax compliance and ease of doing business, tax returns will be reviewed and simplified in accordance with the opinions of taxpayers and professionals.

S.6.9 To ensure effectiveness in the incentives and supports, the «Incentive and Support Information System», which supplies holistic and quality data, will be implemented. The support applications will be revised based on the impact assessment studies to be performed by the related institutions and organizations, in order to increase the efficiency of the incentive and support system.

S.6.10 The «Single Contact Point», which will allow companies' establishment and licensing procedures to be carried out from a single digital window, will be established to ensure that entrepreneurs start their business life safely and rapidly.

S.6.11 The legislation on more effective protection of trade secrets pertaining to intellectual property will be revised; the intellectual property legislation will be improved and the application will be enhanced.

S.6.12 Capital market instruments such as venture capital funds and crowd-funding platforms will be effectively utilized in order to provide industrial and technology companies engaged in R&D and innovation activities with long-term financing opportunities under convenient conditions

Strategy 7:**Developing the transportation, logistics, digital and ICT infrastructure needed to attract quality FDI to Turkey**

S.7.1 Priority will be given to investments that will support the transportation infrastructure of quality FDI profiles

S.7.2 In order to extend intermodal transportation and increase the competitiveness of the industry, junction lines and logistics centers that will serve important freight centers will be completed, and the share of railways in freight transport will be increased.

S.7.3 Permission and right of way processes regarding the establishment of electronic communication infrastructure will be activated, and regulations will be introduced regarding electronic communication information systems, fiber network, base stations, right of way and facility sharing for the dissemination of high-speed and high-quality broadband electronic communication infrastructures throughout the country.

S.7.4 «Combined Freight Transport Regulation» will be introduced in order to create a climate suitable for environmentally friendly transportation, by shifting freight transportation from land to railway, maritime and inland waterways, and to encourage those who produce services in the field of combined transportation and those who benefit from their services.

S.7.5 Completion of reliable data communication infrastructure investments at the speed of gigabit per second in industrial and technology development zones and university and research centers in accordance with the "National Broadband Strategy Action Plan" will be monitored and the necessary regulation and cooperation supports will be provided to prepare the digital transformation infrastructure of industrialists.

Strategy 8:**Developing the regulatory framework and the support and incentive mechanisms to enable Turkey to achieve its potential in the FDI market, which transforms according to global trends**

S.8.1 New Free Trade Agreements (FTAs) for the target countries determined in terms of quality FDI profiles will be negotiated and studies for the expansion of the scope of the effective free trade agreements will be continued.

S.8.2 The existing incentive mechanisms will be simplified and developed and updated in line with the changing needs and global trends (such as digitalization, transformation scenarios in the GVCs, data policies, strategic importance of the expansion investments of existing investors and the increasing importance of technology initiative ecosystems).

S.8.3 Efforts will be made to provide GVCs relocation support to big international and national companies operating in the sectors most affected by the transformation in GVCs and highlighted in quality FDI profiles.

S.8.4 Alignment of the legislation on the protection of personal data with the EU General Data Protection Regulation (EU GDPR) will be ensured.

S.8.5 Location simulation models and benchmarking studies which will demonstrate Turkey's comparative position in terms of sector/activity/investment decision criteria against its competitors in the field of FDI will be made and published.

S.8.6 Periodic surveys where investors who have not invested in Turkey yet evaluate Turkey's investment climate will be conducted.

Strategy 9:**Enhancing the skill sets of the human resources needed to attract quality FDI to Turkey**

S.9.1 The human resources competencies needed in terms of quality FDI profiles and the additional competencies to be needed in the next 10 years will be mapped and areas of development for Turkey will be determined.

S.9.2 Efforts will be made to increase our country's attractiveness for qualified human resources (talent attraction and talent retention).

S.9.3 Efforts will be made in cooperation with the Ministry of National Education and Council of Higher Education, for the development of the qualified employment needed by investors in quality FDI profiles (improvement of foreign language competencies, etc.)

S.9.4 Active labor programs will be organized to elevate the level of digital skills needed by quality FDI profiles.

S.9.5 The vocational training courses organized by the Turkish Employment Agency (ISKUR) within the scope of the Jobs of the Future Project will be reconstructed, to respond to the needs to arise in relation with technological developments in the following period and to attract quality FDI profiles to our country.

S.9.6 Digital contents will be produced to promote active labor programs to international investors who match quality FDI profiles.

S.9.7 Sector studies will be performed to determine the sectors where qualified foreign personnel will work in the labor market and field visits will be made to international investors based in our country who match quality FDI profiles

Strategy 10:**Conducting the studies which will boost the compliance of the business climate and the regulatory framework with UN's Sustainable Development Goals (SDGs) and the European Green Deal.**

S.10.1 Legislative work will be carried out in order to reconstruct the regulatory framework relating to production and international trade in compliance with the SDGs and the European Green Deal.

S.10.2 Incentive mechanisms supporting the transformation of sectors will be designed to ensure compliance with the European Green Deal.

Strategy 11:**Enhancing the information exchange and cooperation mechanisms among FDI stakeholders**

S.11.1 «Turkey's FDI Strategy» will be monitored and the progress in the actions will be regularly reported to stakeholders.

S.11.2 An «FDI e-Coordination Team» where short-medium term plans and evaluations will be shared for FDI services and which is comprised of representatives from institutions with intensive communications and collaboration with the Investment Office will be formed. The FDI e-Coordination Team will convene with monthly meetings where the progress and developments regarding the actions are shared.

S.11.3 In order to increase cooperation in promotional activities, informative meetings regarding the investment promotion master plan will be held for the relevant institutions and organizations.

S.11.4 Academic studies to be carried out in the field of FDI will be encouraged.

6

FOREIGN DIRECT INVESTMENT (FDI)
STRATEGY OF TURKEY (2021-2023)

Framework for *Monitoring*
and Evaluation

A 3-tier approach has been developed for the method of monitoring and evaluating Turkey's FDI Strategy.

1. Turkey's FDI Strategy Monitoring Board

The developments occurring and progress achieved in terms of the strategy's main targets will be monitored and evaluated once in every 6 months, within YOIKK which convenes under the chairmanship of the Vice President.

Meeting Frequency: Once in every 6 months



Implementation Groups

4 implementation groups which will bring together the organizations responsible for the respective actions will be established under the strategies developed in terms of FDI services and investment climate and competitiveness. The implementation groups will convene once in every 6 months and monitor the progress achieved in terms of the strategy and actions, as well as the input provided by the FDI e-Coordination team.

1. Investment Promotion and Investment Attraction Implementation Group
2. Facilitation Implementation Group
3. Aftercare Implementation Group
4. Investment Climate and Competitiveness Implementation Group

Meeting Frequency: Once in every 6 months



3. FDI e-Coordination Team

A communication network with representatives from the institutions responsible for the actions will be established. It will be ensured that the progress of the actions is closely monitored through this network.

Monitoring Frequency: Monthly



PRESIDENCY OF
THE REPUBLIC OF TURKEY
**INVESTMENT
OFFICE**

INVEST IN TÜRKİYE

