





















































































































































they planned the “expansion/diversification of product lines”, while three said that they planned the “expansion of business through additional investments”. The rate of the companies that selected these two items exceeds the average ratios of Western Europe, as well as that of Central and Eastern Europe. Additionally, “increase in high value-added product lines”, “reinforcement of design/R&D functions” and “establishment of new production bases” were cited by one company. On the other hand, the specific policy for reduction was “cease production of certain product lines”.

(2) Countries/regions considered promising mid- to long-term (5–10 years) locations for production: “Turkey” and “Russia” highly evaluated

When Japanese manufacturing affiliates in Turkey were questioned about the countries/ regions that they consider to be “promising production bases for their company’s products”, responses were received from 11 companies, and 22 countries were mentioned.

“Russia” and “Turkey” were selected by five companies respectively, which were at the top of the poll, followed by “China” (three companies), “India” and “North Africa (Egypt)”, each selected by two companies.

#### IV. Management Problems & Attractions/Advantages as Production Bases

- The attractions/advantages of Turkey being a production base are its “high quality of workforce” and “ease in securing factory workers”.
- As managerial issues, companies are concerned about impacts on cost, such as “volatile exchange rate fluctuations” and a “high labor cost growth rate”.

##### 1. The attractions/advantages: evaluating the “high quality of workforce” and “ease in securing factory workers”

Concerning the attractions/advantages of having a production base in Turkey, 12 out of 15 respondent companies (80%) cited the “high quality of workforce”, while 10 companies (66.7%) mentioned the “ease in securing factory workers”.

As shown in the above survey result, the high quality of the workforce has been well evaluated by people concerned with manufacturers operating in Turkey, and the Turkish workers are famous for their diligence and are often “not overly concerned with working overtime”. According to data for the average working hours per week for the manufacturing industry (for February 2009), announced by the International Labor Organization (ILO) in August 2009, the average working hours of Turkish people is reported to be 52.0 hours. For neighboring nations, it was 41.5 hours in Poland, 40.3 hours in the Czech Republic, 40.6 hours in Slovenia, 41.2 hours in Bulgaria, 41.0 hours in Romania and 42.2 hours in Greece. This data shows how hardworking the Turkish people are. Additionally, according to the Investment Support and Promotion Agency of Turkey (ISPAT), their low absentee rate must be an “appealing” point, as it pairs well with their ability to work longer hours.

The “ease in securing factory workers” is mainly due to the fact that the labor force in Turkey is extremely broad in terms of age—Turkey has a large young labor pool to draw from. According to estimates by the United Nations, the median age of the workforce in Turkey is 28.3 years in 2010, almost 10 years younger compared to Western Europe (42.2), Eastern Europe (38.5), and even Russia (38.1) and the Ukraine (39.5). Additionally, the population growth rate from 2010 to 2015 was 1.10%, which is expected to be higher than Western Europe (0.13%) and Eastern Europe (-0.34%). Incidentally, the labor pool in Turkey (as of May 2009) was 24,840,000.

The above two factors were highly evaluated by the majority of respondent companies, and other than that, six companies (40.0%) referred to “low labor costs” and “offers strategic location” as advantages. Additionally, five companies (33.3%) mentioned “high labor productivity” and the “quality of end products” as advantages. While the number of the companies that responded as such was relatively small, some companies pointed out the attractiveness of “quality”, “procurement costs” and “delivery dates are strictly kept”, in the category of “procurement of parts and materials” (three companies each, or 20.0%).

Some companies also mentioned that the people in Turkey are “friendly with Japanese people, and Japanese language is widely accepted in the country”.

Such high evaluation of overall labor matters is considered to have resulted in the “satisfaction level of the product quality”.

## **2. Management problems: company concerns regarding impacts on cost, such as “volatile exchange rate fluctuations” and the “high labor cost growth rate”**

In the latest survey, the top managerial issue was “global economic downturn stemming from financial crisis”, cited by 13 out of 15 respondent companies (86.7%), followed by “finance: volatile exchange rate fluctuations” (12 companies or 80.0%) and “labor issues: high labor cost growth rate” (11 companies or 73.3%) (see Diagrams 7 and 8).

Diagram 7: Management Problems (2008)

(n=13)			
Category	Problem	Responses	Percentage
Labor Issues	High labor cost growth rate	12	92.3 %
Finance	Volatile exchange rate fluctuations	10	76.9 %
Others	Others	8	61.5 %
Standards, certifications and regulations	High costs of acquiring CE mark	7	53.8 %
Parts and materials procurement	Procurement costs	6	46.2 %
Political, economic, and social conditions	Political conditions	6	46.2 %
Others	Others	6	46.2 %
Political, economic, and social conditions	Public safety and social conditions	6	46.2 %
Trade legislation/procedures	Complicated administrative procedures and/or lack of transparency	5	38.5 %
Investment legislation/procedures	Visa/work permits	4	30.8 %
Labor Issues	Difficulty in securing engineers	4	30.8 %
Parts and materials procurement	Quality	4	30.8 %
Insufficient infrastructure	Power supply	4	30.8 %
Others	Others	4	30.8 %
Investment legislation/procedures	Frequent legislation revisions	3	23.1 %
Investment legislation/procedures	Complicated administrative procedures and/or lack of transparency	3	23.1 %
Labor Issues	High labor costs	3	23.1 %
Finance	Difficulty in obtaining credit	3	23.1 %
Insufficient infrastructure	General road conditions	3	23.1 %
Insufficient infrastructure	Communications	3	23.1 %
Trade legislation/procedures	High tariff rates	2	15.4 %
Tax systems/procedures	High corporate tax rates	2	15.4 %
Tax systems/procedures	Others	2	15.4 %
Labor Issues	Quality of workforce	2	15.4 %
Parts and materials procurement	Deliveries	2	15.4 %
Environmental regulations	REACH	2	15.4 %
Others	Living environment for foreigners	2	15.4 %
Trade legislation/procedures	Rule-of-origin	1	7.7 %
Trade legislation/procedures	Others	1	7.7 %
Investment legislation/procedures	Lack of transparency in investment incentive schemes	1	7.7 %
Investment legislation/procedures	Others	1	7.7 %
Tax systems/procedures	Complicated administrative procedures and/or lack of transparency	1	7.7 %
Labor Issues	Difficulty in securing managerial personnel	1	7.7 %
Labor Issues	Difficulty in securing clerical workers	1	7.7 %
Labor Issues	Union activities/strikes	1	7.7 %
Labor Issues	Others	1	7.7 %
Finance	Collection of receivables	1	7.7 %
Parts and materials procurement	Others	1	7.7 %
Insufficient infrastructure	Port facilities	1	7.7 %
Insufficient infrastructure	Others	1	7.7 %
Insufficient infrastructure	Water	1	7.7 %
Insufficient infrastructure	Others	1	7.7 %
Environmental regulations	RoHS	1	7.7 %
Environmental regulations	ELV	1	7.7 %
Trade legislation/procedures	Anti-dumping measures	0	0.0 %
Trade legislation/procedures	Others	0	0.0 %
Tax systems/procedures	Double taxation (in both Japan and the country where operations are located)	0	0.0 %
Standards, certifications and regulations	Others	0	0.0 %
Standards, certifications and regulations	Others	0	0.0 %
Labor Issues	Difficulty in securing factory workers	0	0.0 %
Labor Issues	Others	0	0.0 %
Finance	Others	0	0.0 %
Environmental regulations	WEEE	0	0.0 %
Environmental regulations	EuP, ErP (Eco-design)	0	0.0 %
Environmental regulations	Euro5	0	0.0 %
Environmental regulations	Others	0	0.0 %
Others	EU competition law	0	0.0 %
Others	Insufficient protection of intellectual property rights	0	0.0 %
Others	Others	0	0.0 %

Diagram 8: Management Problems (2009)

(n=15)			
Category	Problem	Responses	Percentage
Political, economic, and social conditions	Global economic downturn stemming from financial crisis	13	86.7 %
Finance	Volatile exchange rate fluctuations	12	80.0 %
Labor Issues	High labor cost growth rate	11	73.3 %
Standards, certifications and regulations	High costs of acquiring CE mark	8	53.3 %
Parts and materials procurement	Shortage of domestic procurement sources	7	46.7 %
Insufficient infrastructure	Power supply	7	46.7 %
Political, economic, and social conditions	Domestic economic conditions	7	46.7 %
Trade legislation/procedures	Complicated administrative procedures and/or lack of transparency	6	40.0 %
Investment legislation/procedures	Frequent legislation revisions	6	40.0 %
Investment legislation/procedures	Visa/work permits	6	40.0 %
Insufficient infrastructure	Communications	6	40.0 %
Trade legislation/procedures	Customs clearance issues	5	33.3 %
Tax systems/procedures	Transfer pricing taxation	5	33.3 %
Parts and materials procurement	Procurement costs	5	33.3 %
Insufficient infrastructure	General road conditions	5	33.3 %
Environmental regulations	REACH	5	33.3 %
Political, economic, and social conditions	Public safety and social conditions	5	33.3 %
Parts and materials procurement	Quality	4	26.7 %
Political, economic, and social conditions	Political conditions	4	26.7 %
Others	Extent of English language use	4	26.7 %
Investment legislation/procedures	Complicated administrative procedures and/or lack of transparency	3	20.0 %
Tax systems/procedures	Complicated administrative procedures and/or lack of transparency	3	20.0 %
Labor Issues	High labor costs	3	20.0 %
Labor Issues	Difficulty in securing engineers	3	20.0 %
Labor Issues	Union activities/strikes	3	20.0 %
Finance	Collection of receivables	3	20.0 %
Insufficient infrastructure	Highways	3	20.0 %
Insufficient infrastructure	Water	3	20.0 %
Environmental regulations	RoHS	3	20.0 %
Environmental regulations	ELV	3	20.0 %
Others	Inflow of counterfeit goods	3	20.0 %
Others	Living environment for foreigners	3	20.0 %
Others	Business practices	3	20.0 %
Trade legislation/procedures	Tariff classification	2	13.3 %
Trade legislation/procedures	Anti-dumping measures	2	13.3 %
Investment legislation/procedures	Lack of transparency in investment incentive schemes	2	13.3 %
Tax systems/procedures	High corporate tax rates	2	13.3 %
Labor Issues	Stringent dismissal laws	2	13.3 %
Finance	Depreciating local currency	2	13.3 %
Parts and materials procurement	Deliveries	2	13.3 %
Insufficient infrastructure	Railways	2	13.3 %
Environmental regulations	European regulation on new car CO2 emissions	2	13.3 %
Environmental regulations	Others	2	13.3 %
Political, economic, and social conditions	Concerns for measures against new strains of influenza	2	13.3 %
Others	Insufficient protection of intellectual property rights	2	13.3 %
Trade legislation/procedures	Rule-of-origin	1	6.7 %
Tax systems/procedures	Double taxation (in both Japan and the country where operations are located)	1	6.7 %
Standards, certifications and regulations	Others	1	6.7 %
Labor Issues	Heavy social security burdens	1	6.7 %
Labor Issues	Difficulty in securing factory workers	1	6.7 %
Labor Issues	Difficulty in securing managerial personnel	1	6.7 %
Labor Issues	Quality of workforce	1	6.7 %
Finance	Fluctuating interest rates	1	6.7 %
Insufficient infrastructure	Port facilities	1	6.7 %
Insufficient infrastructure	Gas	1	6.7 %
Environmental regulations	Euro5	1	6.7 %
Others	EU competition law	1	6.7 %
Trade legislation/procedures	High tariff rates	0	0.0 %
Trade legislation/procedures	Others	0	0.0 %
Investment legislation/procedures	Others	0	0.0 %
Tax systems/procedures	Non-uniform taxation among EU countries	0	0.0 %
Tax systems/procedures	Others	0	0.0 %
Standards, certifications and regulations	Different inspection standards for each country	0	0.0 %
Labor Issues	Double social security payments	0	0.0 %
Labor Issues	High personal income tax rates	0	0.0 %
Labor Issues	Difficulty in securing clerical workers	0	0.0 %
Labor Issues	Others	0	0.0 %
Finance	Appreciating local currency	0	0.0 %
Finance	Difficulty in obtaining credit	0	0.0 %
Finance	Others	0	0.0 %
Parts and materials procurement	Others	0	0.0 %
Insufficient infrastructure	Others	0	0.0 %
Environmental regulations	WEEE	0	0.0 %
Environmental regulations	EuP, ErP (Eco-design)	0	0.0 %
Others	Others	0	0.0 %

Source: JETRO Survey, Japan External Trade Organization

With regard to the foreign exchange situation, the Turkish lira temporarily depreciated significantly against the euro and U.S. dollar, affected by concerns about the currencies of emerging nations, after the financial crisis triggered by the economic turmoil in the U.S. toward the end of 2008. This seems to be the reason for the said concerns.

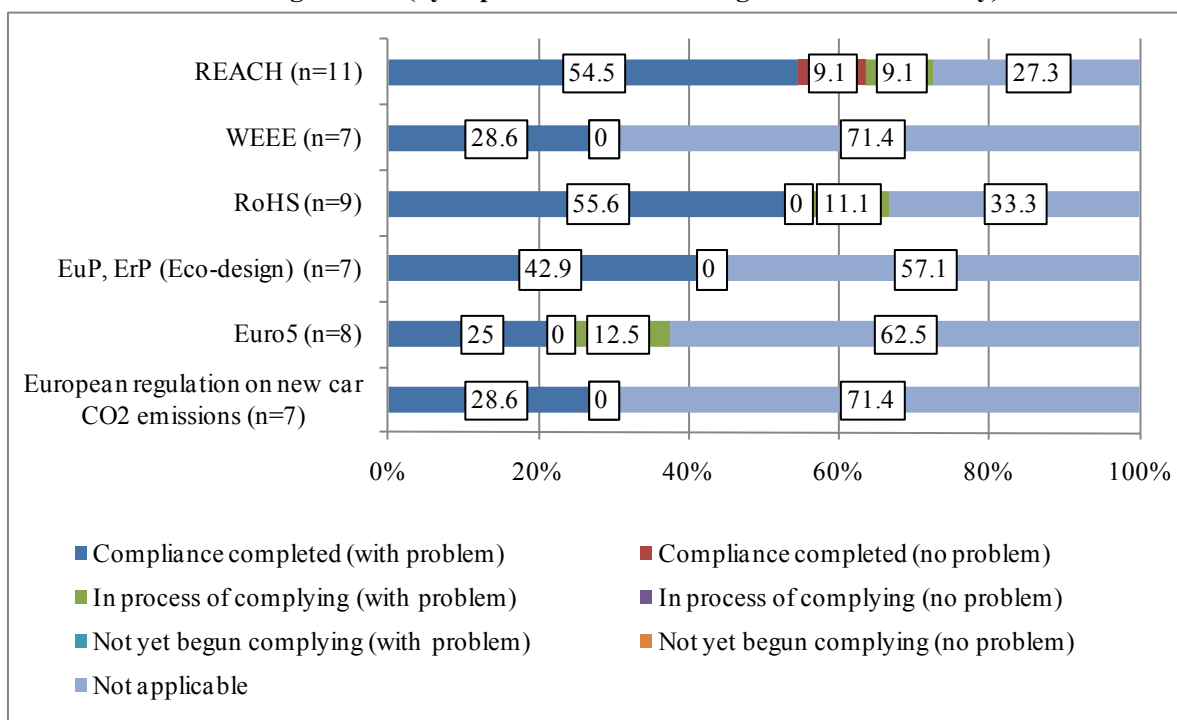
Other noteworthy answers were: “high costs of acquiring CE mark” (eight companies or 53.3%), the “shortage of domestic procurement sources”, “domestic economic conditions”, “insufficient infrastructure: power supply” (seven companies or 46.7%, respectively), “insufficient infrastructure: communications”, “trade legislation/procedures: complicated administrative procedures and/or lack of transparency” and “investment legislation/procedures: frequent legislation revisions, visa/work permits, lack of transparency in investment incentive schemes” (six companies or 40.0%, respectively). There were no changes in these top items from the previous survey.

## V. Compliance with EU Environmental Regulations

- “RoHS” is the most frequently applicable EU environmental regulation to Japanese manufacturing affiliates in Turkey, and compliance with the regulation is making good progress.
- Six out of seven respondent companies answered that compliance has “impact on cost”.

With regard to compliance status with EU environmental regulations by Japanese manufacturing affiliates in Turkey, seven companies are working on “REACH” (compliance completed by six companies and in progress for one company), six company is working on “RoHS” (compliance completed by five companies and in progress for one company), three companies completed compliance with “EuP/ErP (Eco-design), and two companies completed compliance with “WEEE”, “Euro5” and “European regulation on new car CO<sub>2</sub> emission”, respectively. As can be seen in the data, the largest numbers of companies are making responses to “REACH” (see Diagram 9).

**Diagram 9: Compliance Status with EU Environmental Regulations and Problems in Complying with Regulations (by Japanese Manufacturing Affiliates in Turkey)**



Source: JETRO Survey, Japan External Trade Organization

As for the problems involved in compliance with EU environmental regulations, problems were clearly identified with “REACH”, where the largest number of companies (seven, including one in process) is involved. Encountered problems in complying with EU environmental regulations were, “substances to be registered/notified are unclear” (three companies), “inadequate information sharing along supply-chain”



(one company) and “leakage of confidential information as a result of disclosure to third parties” (one company).

For the impact on product costs by compliance with EU environmental regulations, two companies referred to “increasing costs due to compliance” for “RoHS”, “EuP/ErP” (eco-design), and “Euro5”, respectively; there were many comments stating the impact of the compliance cost.

## VI. Alignment with European Union Law (*acquis communautaire*)

- The existing laws/legal systems, as well as the standards/certifications procedures, may be revised to harmonize Turkey's domestic laws with those of European Union law.
- Only a quarter of the respondent companies are taking countermeasures against such revisions, with specific solutions.

The “screening” (an examination of how Turkey's domestic laws comply with European Union law, in preparation for the introduction and enforcement of European Union law) has been gradually implemented in the 35 areas of negotiation, as part of Turkey's EU accession negotiations and was finally completed on October 13, 2006. Formal negotiations in the area of “science and technology” were also completed in June 2006. Additionally, negotiations were initiated in the area of “business and industrial policies” in March 2007, in the areas of “financial controls” and “statistics” in June 2007, in the areas of “trans-European networks”, as well as “consumer and health protection” in December 2007, and in the areas of “business law” and” intellectual property law “in June 2008.

Although the EU Foreign Affairs Council concluded to freeze eight chapters in the accession negotiation agenda while allowing negotiations in the remaining 26 chapters to be initiated but not completed (unless Turkey signs a customs agreement with Cyprus), at the meeting held at the end of 2006, the negotiations resumed in the areas mentioned above after the temporary interruption.

The Turkish government still maintains the policy of bringing the country's laws in line with European Union law (*acquis communautaire*), and it is possible that the existing laws/legal systems, as well as standards/certifications procedures, may be drastically revised. When asked about their responses to the process of the legislative compliance based on this situation, only four out of the 15 companies answered that “countermeasures are being taken” to deal with the situation, and the remaining 10 companies answered that “countermeasures are not being taken”. The number of companies increased by one from the previous survey in both categories (the action of one company is unknown). Regarding the specific countermeasures (multiple answers allowed), four companies referred to “gathering information”, one company referred to “re-examining production structures, including cutting back on costs” and one company referred to “others” (see Diagram 10).

The EU progress report issued in November 2008 commended the developments made on the part of Turkey in the aforementioned areas that were already in negotiation, but also commented that the country's compliance with the Copenhagen criteria (which ask for the protection of human rights and democratization) is limited, especially in the area of political reform (although it mentioned the legislation developed concerning freedom of expression). No major improvement has been seen as of August 2009.

**Diagram 10: Countermeasures to the Process of Legislative Compliance**

Countermeasures are being taken	Countermeasures are not being taken	Total number of companies responded
4	10	15
26.7	66.7	100.0

Upper row: Number of respondent companies

Lower row: Component ratio (%)

Source: JETRO Survey, Japan External Trade Organization

## VII. FTA Impacts

- Japanese manufacturing affiliates in Turkey are most concerned and cautious about the EU-South Korea FTA, among the FTAs between EU and countries/regions outside the EU.
- **Companies are considering a transformation from being an EU-oriented production and export base for Europe, to focusing on the new market, by effectively using FTAs between Turkey and neighboring countries.**
- Many said that there was a “high cost advantage” to a Japan-Turkey FTA.

### **1. Japanese manufacturing affiliates in Turkey most concerned and cautious about conclusion and effectuation of an EU-South Korea FTA, among FTAs between EU and third-party countries.**

In this survey, with regard to the FTA between the EU and the countries/regions outside the EU, questions were asked about the impact on the Japanese manufacturing affiliates in Turkey when they are agreed to and when they take effect.

The survey results shows that for the EU-South Korea FTA, six out of 14 respondent companies (42.9%) said that the FTA was expected to be a “substantial disadvantage” for them, while no company said it gave them any advantage (three companies said “no impact”). For the EU-ASEAN FTA, three companies said it would provide them with “substantial disadvantage”, and four responded as “no impact”, while for the EU-India FTA, two mentioned it would give them “substantial disadvantage”, with four responding “no impact”.

It was only the EU-South Korea FTA for which the percentage of companies that answered “substantial disadvantage” exceeded “substantial advantage” or “no impact”. Japanese companies have been highly cautious about South Korean products that they consider are competing with their own, and the progress of the negotiations is to be carefully monitored regarding the FTA between South Korea and the EU, which is Japan’s major sales market. As for specific comments, companies replies that an “increased import of competitive products” is expected by “enhanced competitiveness”, which leads to the concern about “tougher competition” and “(resulting) decreased sales”.

Incidentally, for the EU-Japan FTA, five companies (35.7%) replied that they would experience “substantial advantage”, while one company each said “substantial disadvantage” and “no impact”.

### **2. Companies are considering a transformation from being an EU-oriented production and export base for Europe, to focusing on the new market, by effectively using FTAs between Turkey and neighboring countries**













© JETRO 2010