

Turkish Legal Newsletter: Basic Series No. 1

Overview of Turkey's Investment Environment: Geographical Advantages and Status as an International Trade Hub

Middle East Newsletter

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1. Introduction

Nishimura & Asahi (Gaikokuho Kyodo Jigyo), supervised by AKSAN, a leading law firm in Turkey, is pleased to launch this newsletter series explaining the complex and dynamic business legal environment in Turkey, in an easy-to-understand manner, for Japanese companies considering expansion to or investments in Turkey, as well as those already operating locally.

Turkey is a strategic keystone connecting Europe, the Middle East, and Asia, and due to its unique geographical and economic status, its regulatory framework and operational practices are changing rapidly. Through this series, we hope to support your business success from a legal perspective, by providing the latest legal trends and practical points to note in an in-depth, step-by-step manner.

This first issue will offer an overview of the macro appeal of the Turkish market and Turkey's status as an international business hub, with a focus on legal and economic foundations.

2. Turkey: A Strategic Keystone Connecting Three Continents

Turkey is located at the geographical crossroads of Europe, Africa and Asia. This strategic location allows Turkey to function not merely as a domestic market but as a gateway to broad surrounding markets.

(1) Huge Market Potential and Young Labor Force

Turkey has a large-scale free market economy, ranked 17th in the world by GDP in 2024, which combines traditional agriculture, modern industry, and a dynamic service sector.

- **Demographic Advantage:** Turkey has approximately 85.6 million people (as of 2024), giving the country the second-largest population in Europe. The median age is 34, which is 10.5 years younger than the European Union (EU) average, and about three-quarters of the population is of working age (15 to 64). According to OECD data, Turkey has the sixth-largest labor force in the world and the third-largest in Europe.
- **Industrial Structure:** Turkey's GDP contributions are centered on services (52.2%) and industry (31.87%). The automotive, textile, and consumer goods industries are the primary driving forces in

Turkish manufacturing. Recently, industries like technology, financial services, and healthcare and defense are supporting growth also.

(2) Extensive International Trade Network and Logistics Advantages

Turkey's geographical advantage makes it an ideal hub for international trade and logistics.

- **Node Between Regions:** Major cities in Europe, West/Central Asia, the Middle East, and Africa are within about a 4-hour flight radius of Istanbul, making the city, and the country as a whole, a key logistics point.
- **Foundation of Trade Regime (EU Customs Union):** The core of Turkey's trade policy is the Customs Union Agreement with the EU, which entered into force in 1995. This agreement requires Turkey to adopt trade policies aligned with the EU's common trade policy, ensuring consistency with EU legislation.
- **Expansion of FTA Network:** In addition to the EU Customs Union, Turkey has enacted 24 other Free Trade Agreements (FTAs), securing access to surrounding markets, and currently is negotiating FTAs with Japan, Indonesia, and the GCC (Gulf Cooperation Council).
- **Latest Logistics Trends:** Istanbul Airport is a rapidly-growing hub; it surpassed Germany's Frankfurt Airport in air cargo volume in 2024, and is continuing to demonstrate rapid growth. Logistics enterprises are showing increasing interest in transport routes that bypass Russia and Iran, using Turkey as a base to access Central Asian countries via Georgia, Azerbaijan, and the Caspian Sea.

3. Legal Foundation for Foreign Investor Protection

To promote foreign direct investment, Turkey has adopted a liberal investment environment and strong legal protections.

(1) Adoption of National Treatment Principle and Notification System

The Foreign Direct Investment Law (No. 4875) establishes the principal legal framework governing foreign direct investment in Turkey.

- **National Treatment:** Foreign investors are placed on an equal status with domestic Turkish investors, except in specific limited sectors (Principle of National Treatment). This allows foreign investors the freedom to establish companies, open branches and liaison offices, or acquire shares of existing companies in the same forms as Turkish domestic companies.
- **From Permit to Notification:** The new Foreign Direct Investment Law, enacted in June 2003, significantly simplified the procedures for establishment of companies using foreign capital, via a change from a screening/approval system to a notification system.

(2) Strengthening Investor Protection Through International Treaties

In addition to domestic legal protections, Turkey strongly protects the rights of foreign investors through international treaties.

- **Bilateral Investment Treaties (BITs):** As of November 2024, Turkey is a party to 89 Bilateral Investment Treaties (BITs). These agreements establish investor protection rights that exceed those available under Turkish domestic law, for example, international arbitration options for dispute resolution,

Fair and Equitable Treatment, full protection and security, and free repatriation of profits.

- **Availability of International Arbitration:** Turkey is a party to the ICSID Convention and the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. In addition, major international arbitration institutions, such as ICC awards, can be executed in Turkey, subject to applicable procedural requirements and the absence of any grounds for refusal of enforcement, including violations of Turkish public policy. This establishes a framework for international arbitration awards to be enforced within Turkey. The Istanbul Arbitration Center (ISTAC) also functions as an internationally accepted arbitration platform.
- **Foreign Courts Awards:** Turkey has a specific statute that allows foreign courts' awards to be confirmed and enforceable via Turkish internal court orders.

4. Latest Investment Trends and Rising Compliance Awareness

Turkey has announced an FDI Strategy for 2024-2028, which is designed to function as a roadmap to accelerate the attraction of quality FDI projects that align with Turkey's economic development goals. Recent trends in the Turkish market are driven by specific high-growth sectors and a commitment to international compliance standards, despite macroeconomic fluctuations.

(1) Active M&A and Focus Sectors

The Turkish M&A market remained strong in 2025, with support from macroeconomic stabilization efforts, and showed a 33.8% year-on-year increase, to USD 11.81 billion; the total transaction value by foreign investors was approximately USD 8.21 billion in 2025.

- **Technology and Energy:** As of 2023, technology and internet/mobile services led in M&A volume (123 deals), and the energy sector (31 deals, USD 570 million) also attracted significant transactions. In 2024, investments were concentrated in high-growth sectors such as computer programming, financial services, industrial manufacturing, and energy.
- **Response to "Killer Acquisitions":** In 2022, the Turkish Competition Authority (TCA) introduced an exception to turnover thresholds to capture acquisitions of technology companies. Acquisitions of companies in fields such as digital platforms, software, fintech, biotechnology, pharmacology, and healthcare technology are subject to notification obligations, even if the target company's turnover is low.

(2) Commitment to International Compliance Standards

Turkey actively participates in international anti-fraud and anti-money laundering frameworks.

- **Strengthening AML/CTF:** In compliance with Financial Action Task Force (FATF) recommendations, the Financial Crimes Investigation Board (MASAK) subjects Crypto Asset Service Providers (CASP) to Anti-Money Laundering and Counter-Terrorist Financing (AML/CTF) measures, and issues detailed guidance on Customer Due Diligence and Travel Rule compliance .
- **Integration of ESG:** Influenced by initiatives like the EU's Corporate Sustainability Due Diligence Directive (CSDDD) and Corporate Sustainability Reporting Directive (CSRD), the integration of ESG factors is progressing in the Turkish M&A market.

5. Conclusion

Turkey offers enormous opportunities for Japanese companies, due to its huge population, strategic location, and strong alignment with international legal systems. In particular, growth in technology and energy sectors and a robust international trade network allows the country to serve as a powerful platform for business expansion, including into surrounding regions.

In the next issue, we will explain "Options for Corporate Forms: Comparison of Joint Stock Company (AŞ) and Limited Liability Company (LTD) and Latest Capital Regulations," which are an essential first step toward starting a business in Turkey.

Turkish Law Web Consultation Session

We, in collaboration with the Turkish law firm, AKSAN, will be offering a complimentary online legal consultation session (approximately 30 minutes). Communication with AKSAN will be conducted in English; however, where possible, our firm will provide responses in Japanese. A preparatory meeting in Japanese with us is also available upon request.

If you wish to participate, please contact turkish_newsletter_project@eml.nishimura.com with a brief description of the matters you would like to discuss.

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