



LEGAL CHALLENGES FACED BY
FOREIGN INVESTORS IN TÜRKİYE

N E W S L E T T E R

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A Strategic Insight by
Torun Law Firm

FOREIGN DIRECT INVESTMENTS

Guiding foreign investors
through legal complexities
with clarity, confidence, and
precision.

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Summary

Türkiye offers vast opportunities for foreign direct investment (FDI), thanks to its strategic location, large consumer base, and dynamic workforce. However, foreign investors face persistent challenges in navigating regulatory complexity, compliance obligations, and taxation risks. Restrictions on land ownership and uncertainty in dispute resolution further complicate the investment climate. Compared to its regional peers, Türkiye presents both unique advantages—such as a broad Bilateral Investment Treaties (BITs) network and EU Customs Union access—and heightened risks stemming from legislative volatility. The key to sustainable investment lies in proactive legal planning: structuring entities wisely, securing tax clarity, and embedding robust arbitration clauses. In Türkiye's evolving market, legal preparedness is not optional—it is the cornerstone of success.

- **Türkiye offers vast potential**
 - *A strategic bridge linking East and West.*
- **Regulatory framework remains complex**
 - *Frequent changes, inconsistent enforcement.*
- **Taxation and property restrictions**
 - *Key challenges for foreign investors.*
- **Judicial delays and arbitration issues**
 - *Legal certainty at risk.*
- **Proactive legal strategies**
 - *Structuring and compliance turn risks into opportunities.*

Introduction

Türkiye has long stood at the crossroads of East and West, offering foreign investors not only access to a vibrant domestic market of over 85 million people but also a strategic hub bridging Europe, the Middle East, Central Asia, and Africa. The country's infrastructure, growing export base, and young workforce have positioned it as one of the most attractive emerging markets for foreign direct investment (FDI).

Following the adoption of the Foreign Direct Investment Law No. 4875 in 2003, Türkiye liberalized its investment environment, embracing the principle of national treatment and abolishing many of the restrictions that once differentiated foreign from domestic investors. Yet, despite this liberal legal framework, foreign investors often face significant legal, regulatory, and bureaucratic challenges that can hinder market entry, increase compliance costs, and affect long-term sustainability of investments.

This paper aims to examine the major legal challenges foreign investors encounter in Türkiye, spanning from corporate formation hurdles and compliance obligations to taxation complexities, property restrictions, and dispute resolution mechanisms. It also provides strategic recommendations to mitigate risks and enhance investor confidence



I. Regulatory and Bureaucratic Complexity

One of the most consistent concerns voiced by foreign investors is the complexity of Türkiye's regulatory environment. While the law guarantees freedom of investment, in practice the regulatory landscape remains fragmented and often unpredictable.

- **Overlapping Authorities:** *Different sectors—such as banking, telecommunications, broadcasting, energy, and mining—are subject to specialized regulatory agencies. These authorities operate under distinct statutes, sometimes issuing inconsistent or even contradictory rulings.*
- **Administrative Delays:** *Licensing and permitting procedures can be prolonged. Investors often face delays ranging from several weeks to several months, particularly in industries requiring multiple layers of approval.*
- **Frequent Legislative Changes:** *Amendments to tax laws, labor codes, or sector-specific regulations occur frequently, and are sometimes implemented without sufficient transition periods. This creates uncertainty and increases compliance burdens.*

For example, in the energy sector, investors must navigate the Energy Market Regulatory Authority (EMRA), local municipalities, and environmental authorities—each requiring different forms of documentation. Inconsistent application between regions remains a major source of unpredictability.

- **Multiple regulators with overlapping authority.**
- **Lengthy licensing processes create delays.**
- **Frequent legal amendments add unpredictability.**
- **Regional inconsistencies complicate compliance.**

II. Local Compliance Burdens

Perhaps one of the most underappreciated aspects of investing in Türkiye is the weight of local compliance requirements. While they may appear routine, these obligations impose significant costs and operational challenges, especially for multinational enterprises unfamiliar with Türkiye's legal infrastructure.

e-Compliance Infrastructure

- Türkiye has pioneered e-transformation systems, mandating e-invoicing, e-ledgers, and electronic archiving.
- While these reforms aim to increase transparency and reduce tax evasion, foreign companies often find the digital infrastructure requirements unfamiliar and costly to implement.
- Integration with global accounting systems is not always smooth, leading to increased dependency on local IT and legal support.

Localization Requirements

- Certain sectors—most notably technology, retail, and pharmaceuticals—impose localization mandates.
- Data protection rules under KVKK (Law No. 6698) may require data to be stored on servers physically located in Türkiye.
- Retail regulations sometimes mandate that a certain percentage of goods sold must be sourced locally, increasing operational complexity for global retailers.

Employment Regulations

- Companies employing foreign staff must comply with the International Labor Force Law No. 6735, which sets quotas for foreign employees.
- Work permit approvals are subject to sectoral and national interest considerations.
- In practice, investors encounter language requirements, where documentation, contracts, and communication with authorities must be conducted in Turkish.
- Labor unions and collective bargaining agreements in specific industries can further complicate compliance.

Practical Implications

- These compliance burdens not only increase the cost of doing business but also create a risk of regulatory sanctions in cases of inadvertent non-compliance. For instance, late filings of electronic tax returns may result in fines, while failure to meet localization requirements may jeopardize licensing.

- **e-Compliance systems** (*e-invoicing, e-ledgers*) increase costs.
- **Localization mandates** in data, retail, pharmaceuticals.
- **Employment quotas** restrict hiring foreign staff.
- **Practical risk:** *Non-compliance leads to fines and licensing issues.*



III. Taxation and Financial Reporting Risks

Taxation remains one of the most challenging areas for foreign investors in Türkiye.

Dual Obligations

- Investors must navigate domestic tax obligations while simultaneously applying provisions of bilateral double taxation treaties. Misinterpretations are common, leading to unnecessary withholding or penalties.

Corporate Tax Volatility

- Recent reforms have increased the corporate income tax rate and introduced minimum taxation thresholds to align with OECD standards. However, frequent changes erode predictability.

Withholding Taxes

- Payments such as dividends, royalties, and technical service fees are often subject to withholding taxes. In practice, this sometimes results in double taxation where treaty benefits are not effectively applied.

Audit Risks

- Tax inspections are retrospective, formalistic, and often focus on documentation rather than substance, increasing exposure to penalties even where good faith compliance exists.

- Double taxation risks despite treaties.
- Corporate tax volatility erodes predictability.
- Withholding taxes on dividends, royalties, services.
- Audit focus on form over substance → penalty risks.

IV. Land Ownership and Real Estate Restrictions

Foreign ownership of immovable property is another area of concern.

Legal Restrictions

- Under the Land Registry Law No. 2644, foreign investors are subject to limits on acquiring agricultural land, coastal properties, and areas near military zones.

Approval Requirements

- Certain acquisitions require approval from the Ministry of Defense or other authorities.

Zoning Issues

- In secondary cities and rural areas, zoning rules are inconsistently enforced, leading to legal disputes and unexpected project delays.

These restrictions are particularly relevant in the real estate and tourism sectors, where land is often the primary asset.

- **Restrictions** on agricultural, coastal, and military land.
- **Approval requirements** from defense and other ministries.
- **Zoning disputes** common in rural/secondary cities.
- **Real estate & tourism sectors** most affected.

V. Dispute Resolution and Legal Certainty

Although Türkiye is a contracting party to **both the New York Convention and the ICSID Convention**, foreign investors continue to face practical challenges in the recognition and enforcement of arbitral awards. While Turkish legislation formally upholds international arbitration mechanisms, including ICSID, the local judiciary occasionally adopts restrictive interpretations—particularly invoking broad and undefined notions of public policy.

In the context of ICSID arbitration, Türkiye’s obligations under Article 54 of the ICSID Convention require automatic recognition and enforcement of arbitral awards without local judicial review. However, in practice, enforcement proceedings may still encounter procedural bottlenecks within Turkish courts, such as formalistic objections or public order defenses, leading to delays and uncertainty.

At Torun Law Firm, we possess a **deep-rooted specialization in international investment arbitration**. Our team has not only represented clients in investor-state disputes but also **contributed to academic literature** in this field. Notably, we have published a **comprehensive legal volume on International Investment Arbitration “Legal Recourse Against Arbitration Decisions of the International Centre for the Settlement of Investment Disputes (ICSID)”** originally *“Uluslararası Yatırım Uyuşmazlıklarının Çözüm Merkezi (ICSID) Hakem Kararlarına Karşı Hukuki Başvuru Yolları”*, alongside doctoral-level research examining ICSID arbitration and its procedural abuse, particularly in cases brought against Türkiye. These works reinforce our practical and academic command of the dispute resolution framework applicable to foreign direct investment.

- **ICSID & New York Conventions** formally recognized.
- **Enforcement issues** from restrictive court practice.
- **ICSID Article 54** automatic recognition, but delays persist.
- **Torun Law Firm** – proven track record in investor-state disputes published academic works on ICSID arbitration and procedural abuses.



VI. International Comparison

Türkiye offers a distinctive investment climate within the region, balancing **high-growth potential** with certain legal and regulatory challenges. Its **strategic location** at the intersection of **Europe, Asia, and the Middle East**—coupled with a large domestic market and robust transport infrastructure—makes it a natural hub for regional operations.

Also, Türkiye provides several structural advantages:

Extensive BIT Network

- With over 110 Bilateral Investment Treaties, Türkiye offers broader international legal protections than many EU peers, including access to ICSID arbitration mechanisms.

Customs Union with the EU

- The Customs Union facilitates tariff-free trade in industrial goods with the European Union, enhancing Türkiye's appeal as a production and export base.

Competitive and Skilled Workforce

- Türkiye's young, well-educated, and cost-efficient labor force is a major asset—particularly in sectors like manufacturing, technology, and services—where qualified professionals are readily available.

Evolving Arbitration Infrastructure

- Although local institutions such as ISTAC, ITOTAM, TOBB Tahkim are still gaining international recognition, there is clear progress toward aligning Türkiye's arbitration framework with global standards.

In summary, while Türkiye may present more regulatory volatility than some Central and Eastern European (CEE) jurisdictions, it compensates with strategic access, treaty protections, and a highly competitive workforce—making it a strong contender for investors with a well-structured legal strategy.

- **High potential** despite regulatory challenges.
- **Strategic hub** between Europe, Asia, and the Middle East.
- **110+ BITs** ensure strong legal protections.
- **EU Customs Union** enables tariff-free industrial trade.
- **Skilled workforce:** young, educated, cost-efficient.
- **Arbitration improving** with ISTAC reforms.

VII. Legal Solutions and Strategic Recommendations

Given the complex regulatory terrain, foreign investors must adopt a legal strategy that anticipates both operational and post-investment risks. Torun Law Firm offers a multifaceted legal service model tailored to the demands of cross-border investment in Türkiye:

Tailored Legal Due Diligence

- We provide sector-specific legal feasibility reports identifying regulatory bottlenecks, approval requirements, and jurisdictional risks—ensuring investors are fully informed before market entry.

Investment Structuring Based on BIT Networks

- Our team advises on optimal corporate structuring using jurisdictions with strong Bilateral Investment Treaties with Türkiye, thereby maximizing protections under international law and ensuring ICSID jurisdiction where applicable.

Customized Arbitration Clauses

- We draft robust arbitration agreements incorporating ICSID or ICC rules, selecting neutral forums and enforcing language and procedural clarity to safeguard enforceability.

Advance Tax and Regulatory Rulings

- We assist clients in obtaining advance tax rulings and legal interpretations from relevant authorities to minimize compliance ambiguities and future disputes.

Local Counsel with International Expertise

- Our legal counsel bridges the divide between global investor expectations and Türkiye's legal culture. With expertise in Turkish, English and French, our firm ensures seamless representation across jurisdictions.

Thought Leadership in Investment Arbitration

- Torun Law Firm actively contributes to legal academia. Our published works and academical theses and publications in ICSID arbitration and investor-state dispute settlement serve not only as scholarly contributions but as practical guides for our clients.

- **Tailored due diligence** – sector-specific risk mapping before entry.
- **BIT-based structuring** – maximizing treaty protections and ICSID jurisdiction.
- **Robust arbitration clauses** – ICSID/ICC rules with neutral forums.
- **Advance rulings** – securing tax and regulatory clarity upfront.
- **Local counsel + global expertise** – bridging legal cultures in TR, EN.
- **Thought leadership** – published works in ICSID & investment arbitration.

Investors partnering with Torun Law Firm gain more than legal representation—they gain strategic foresight grounded in scholarship, litigation experience, and a command of Türkiye's evolving legal landscape.



Conclusion

Türkiye presents a dual reality for foreign investors: a **market of immense potential**, yet one marked by **regulatory complexity, taxation risks, property restrictions, and procedural uncertainty** in dispute resolution. While its legal environment can appear volatile compared to some CEE peers, Türkiye **compensates with unique advantages**—its strategic location at the **intersection of continents**, a **dynamic and skilled workforce**, **tariff-free access to the EU market** through the Customs Union, and one of the **broadest networks of Bilateral Investment Treaties** worldwide.

The lesson is clear: success in Türkiye is not the product of chance but of preparation. Investors who approach the market **with a structured legal strategy**—anticipating compliance obligations, securing protections under international treaties, and embedding strong arbitration safeguards—are **best positioned to transform risks into sustainable opportunities.**

At **Torun Law Firm**, we believe that legal foresight is the cornerstone of investment resilience. Our combined strength in litigation, arbitration, and academic contribution allows us to **guide clients through Türkiye's evolving legal landscape with clarity and confidence.** For investors prepared to match ambition with preparedness, **Türkiye remains not just a destination for capital, but a gateway to long-term growth** across multiple regions.

About Our Law Firm

Torun Law Firm is a leading practice in Türkiye with a **proven track record** in foreign direct investment, corporate law, and international arbitration. Combining **litigation experience with academic depth**, our team delivers strategic foresight across jurisdictions.

We distinguish ourselves not only through practical expertise but also through our network of distinguished experts. When necessary, we collaborate with **retired senior civil servants and distinguished academics whose expertise in regulatory and institutional matters** enriches our legal services.

Areas of Strength



International Arbitration



Cross-Border Investments



Corporate & Commercial Law



Thought Leadership & Academic Contributions



Access to Expert Advisors & Former-Policy Makers & Public Officials

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