

TURKEY'S TRADE STRATEGIES IN THE NEW DIGITAL AGE

Change and transformation are key for the welfare of humankind. Today, we are particularly challenged by the rapid evolution of information technologies. Digitalization and automation have fundamentally altered the way business is conducted and have transformed the way countries trade with one another. Consequently, the success and welfare of the Turkish economy and the world lie mostly in the ability to foresee future technological trends, particularly the digitalization of economies. Against the backdrop of deepening integration in the global economy through digitalization, the recent surge in protectionist discourse should be regarded as outdated and ineffective. Turkey is, as always, committed to supporting free and fair trade and bolstering the effectiveness of the multilateral trading system of the WTO, while continuing to digitalize its economy.

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The need for change and transformation was instigated by varying factors at different stages in history. However, it has always been something essential for the welfare of humankind. In our day, for example, we are especially challenged by the evolution of information technologies. Digitalization and automation alter the way of doing business and transform the way countries trade with each other. As always, the success and welfare for countries lie mostly in the ability to foresee such trends and dynamics of the future and to adapt policy measures accordingly.



In this context, Turkey, as a dynamic developing country, must race against time and successfully carry its economy into what may be referred to as the digital age. With a population of more than 80 million, 68 percent of whom are at working age; a high growth performance as well as a trade volume nearing 400 billion dollars; Turkey is a significant actor of the world economy and needs to capitalize on such developments brought by technology and globalization.

The Digitalization of the Turkish Economy

One of the most obvious fields that our digital age manifests itself in is e-commerce, which continues to grow steadily at the global level. Since 2012, the business-to-consumer (B2C) e-commerce volume has increased by an average of more than 20 percent annually.¹ It is crucial for Turkish companies to effectively use e-commerce opportunities domestically as well as for foreign trade. Citizens and companies in Turkey have been rapidly adapting to shopping and trading online. Numerous Turkish e-commerce websites have emerged over the recent years and are operating quite successfully. In addition, being a crossroads-country, Turkey has great potential for serving as a logistics hub with respect to e-commerce. Recent investments realized by global e-commerce giants demonstrate Turkey's potential with respect to the logistics of this field. Although it is estimated that the Turkish e-commerce volume is currently below the world average, the adaptation of Turkish citizens and companies to e-commerce is quite promising. The Ministry of Trade believes that the adaptation to e-commerce is very important and it will continue to

¹ Based on data collected by the Ministry of Trade of the Republic of Turkey.

be a policy agenda of priority for the Ministry.

Digitalization is a broad concept which does not consist merely of e-commerce. Digital transformation can be described as the integration of digital technologies into many critical processes of an institution. Technological developments, particularly in the field of information and communications technologies, are at the center of this transformation, affecting how economic actors operate and deliver all kinds of goods and services to customers. Digital transformation closes the gap between customers and businesses. Fostering a more effective business environment through digital platforms is in line with global efforts to facilitate trade in the international arena. Indeed, trade facilitation continues to be an important item on the international agenda and it involves many legal and technical reforms while effectively monitoring consumer and product safety.

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Digitalization offers both opportunities and risks to businesses, consumers, and governments. While it enables an increasing exchange of products and services, it may also translate into the closing down of businesses and hence job losses, especially in the case of Small and Medium Size Enterprises (SMEs). It may also bring about new risks in the field of consumer safety. Monitoring and regulating e-commerce is an issue for all governments and a collective effort on the international level is essential. As with previous large-scale economic transformations of the past, one would expect the advantages of digitalization to be greater than its risks. However, this will greatly depend on the steps taken at the national and international level.

A study by McKinsey shows that the US and European countries are far below their potential in terms of sectors and firms adapting to digitalization. Today, Europe operates at only 12 percent of its digital potential while the United States operates at 18 percent. Within Europe, France operates at 12 percent of its digital potential, Germany at 10 percent, and the United Kingdom at 17 percent.²

Turkey's Trade-Related Strategies Towards Digitalization

As the Turkish Ministry of Trade, we are taking a proactive approach in employing necessary strategies for reaping the benefits of digitalization. From domestic

² McKinsey Global Institute, “*Digital Europe: Pushing The Frontier, Capturing The Benefits*,” June 2016.

commerce infrastructure to customs procedures, incorporating an enhanced level of digitalization is one of our key priorities.

Many customs processes and documents such as the ATR movement certificates and certificates of origin are being transferred to electronic platforms. This is a true challenge since customs processes constitute a complex environment shaped by many actors at the domestic and international level. As a country with a high volume of transit trade, security of customs is also an important priority. Thus, we are very active in introducing electronic processes and automation to our customs services. Digitalization at Turkish customs necessitates cooperation especially with our neighboring countries since many documents need to be verified and recognized in a cross-border manner. This is especially true in our trade relationship with our Customs Union partner, the EU, to where Turkey exported about 84 billion dollars of products in 2018.

In the area of domestic commerce, the Ministry of Trade has achieved great progress and realized some outstanding projects in terms of digitalization. By introducing “MERSIS” (The Central Registration Information Network), we are now able to monitor and manage all kinds of company procedures—from registration to successive legal performances—electronically. The system is integrated with the official e-government portal (turkey.gov.tr). While this network eases the formal workload of companies, it also enhances coordination among different ministries and branches of the government with respect to domestic commerce. A similar project named “PERBIS” (Retail Information System) will be completed within 2019.

We have also introduced a unique and exemplary project by drafting a new law on electronic checks and bonds. By using the codes that will be imprinted on checks and bonds, any party will be able to electronically investigate the relevant record of the issuing company. This one of a kind network, which will also be integrated with the Turkish banking system, will support financial prudence, enhance market efficiency, and avert fraudulent activities.

Among the Ministry’s other projects are a new registration and information system, as well as a mobile application with respect to foods and vegetable markets across the country. This will provide us with great insight into the supply chain in agriculture. This is very crucial for ensuring food security as well as fighting inflation based on food prices.

These are only some examples of projects the Ministry is pursuing; they demonstrate the larger role information technologies are occupying at the policymaking level. Such projects will surely be multiplied in different fields.

In order to ensure real success with respect to digitalization of the economy, concerted effort among the private sector, universities, NGOs, and the government is essential. Only through cooperation can the share of medium and high technology products within total exports reach desired levels. To provide some examples from the private sector, video game production in Turkey has been noticeably thriving in recent years. We hear success stories from sector incubations where young people demonstrate their skills, knowledge, and creativity. The export amount has already passed a billion-dollar figure in this sector. Another example is the Turkish movie and screenplay sector, which is flourishing. The export of TV series alone is estimated to have reached half a billion dollars in revenue. Both sectors rely heavily on digital technologies, and digital infrastructure is crucial not only in terms of production but also in terms of marketing.

“From domestic commerce infrastructure to customs procedures, incorporating an enhanced level of digitalization is one of the Ministry of Trade’s key priorities.”

In this context, one could argue that almost all sectors of the economy need to revise their production and marketing strategies in consideration of the new information and communication technologies available. This would certainly complement our overall aim of transforming Turkish production and export structure to a level with more innovation, technology, and value-added. From the rising sectors of the economy such as the aviation and defense industry to more conventional sectors like textile or agriculture, almost all sectors of the economy must take into account technological novelties and opportunities brought about by the digitalization of global business in today’s economic environment. This is essential for the sustainability of Turkey’s successful economic performance.

It is also important to touch upon the individual or the consumer in the light of the digital economy. Behavioral economics and particularly the “nudge theory” have come to the forefront of economic discourse in recent years. These rely heavily on the gathering and disseminating of information with respect to consumer preferences. It is a hard task given that consumer preferences themselves are transforming rapidly. As the Turkish Ministry of Trade, we could not be indifferent to these conditions, therefore, we assigned a team of experts to examine the applicability of behavioral economics in policymaking. We started off with some simple exercises whereby we introduced some of our Ministry’s services to our target groups using some unique and creative communication techniques. After these trials, we recently

decided to establish an official department named “Behavioral Public Policy and New Generation Technologies.” Furthermore, we decided to incorporate blockchain to our work. We have identified some pilot projects that will actively use digital blockchain technologies; one with regards to product inspections and laboratory testing and the other involving the geographical indication of products.

Given the complexity of the transformation that global business is experiencing, success can only come with cooperation among the public and private sectors, as well as other actors of civil society. If Turkey wants to boost its innovative capacity, researchers, entrepreneurs, investors and policymakers should integrate into the same habitat. In order to support this goal, the Turkish Ministry of Trade is trying to employ new and inclusive governance strategies. The recently established “Working Group on Innovative Trade” is one such initiative. This is a platform that gathers successful entrepreneurs from Turkey and abroad, as well as bureaucrats from the Ministry to identify new ideas, methods, and techniques that can boost Turkey’s innovative capacity, as well as enhance the conditions of doing business. Likewise, the “Consultancy Council” of the Ministry that periodically brings together the Minister with the chairpersons of the major private sector organizations, serves a similar objective.

The current global business environment, characterized by technological transformation and digitalization, essentially entails a higher business and trade volume among people, companies, and nations. On the other side, we cannot disregard some of the imminent political discussions that put global business under stress, particularly the issue of protectionism and “trade wars.”

A Note on Protectionism and Trade Wars

Particularly under the Trump Administration, we have seen the resurgence of trade wars in the international arena—both in discourse and in action. However, one must question whether hard-line protectionism can be sustained in the long-term in the current global economy. Supplementary to this, it is prudent to question whether it is even rational to resort to such protectionist and segregative measures in our day. I believe trade wars as a policy option is neither sustainable nor rational. This is especially true if we take into account the main global challenges of our times such as migration and climate change, which are at the same time economic problems and need to be tackled collectively.

With regards to migration, for example, masses of people choose to migrate to more prosperous parts of the world. While security is the primary concern for the majority of these people, as in the case for many Syrians, aspiration for economic well-being is another main motivation. Therefore, the surge in migration highlights the importance

of investment and trade as a tool of sustainable development in developing or less developed countries (LDCs). Cooperation on a global level in trade, investment matters, as well as development is critical for mitigating migration. This will contribute to fostering a secure and prosperous environment for the people of developing and less developed nations, whereby they can find employment and pursue their economic livelihood in their homelands.

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We can extend this discussion from the growth perspective. Developed parts of the world such as the EU or Japan are prone to relatively low growth rates due to their already sophisticated market conditions and accumulated competitiveness. Developing countries like China, India, and Turkey are much more dynamic and are characterized by higher growth rates. In fact, any developing country or LDC is expected to achieve some level of convergence with developed parts of the world. Overall, economic convergence is the ultimate path to preventing people from migrating to more prosperous parts of the world. This would serve the interest of all, including developed countries. Hence, more trade and development—enabling the better integration of developing countries into the global value chain—is the rational and viable policy strategy of our time. Protectionism and segregation-oriented strategies are not the way forward. In this context, trade wars that have crept into the international agenda are very likely to wane sooner or later.

In fact, the world is very familiar with protectionist tendencies. Such policies, with roots dating back to mercantilism, have appeared at various times in history. However, each time we come across them, we realize once again that such policies do not yield a net benefit in the long-term. Today, a chief concern of ours is that some countries are still operating under the same misconception.

Turkish foreign economic relations have always rested on the premise of international cooperation, as well as free and fair trade. While Turkey is closely monitoring developments regarding protective measures and also engaging in them to the extent that it is necessary, the core of the Turkish position is unchanged. Turkey has had to retaliate against US measures on steel and aluminum by introducing custom duties on a set of products. We have also intensified our work at the World Trade Organization (WTO). The recent WTO panel decision that upheld Turkey's claim against US countervailing measures regarding steel pipe and tubes was an example

of this effort. However, Turkey is seeking every opportunity to boost constructive cooperation with our trading partners, including the US and the EU. Overall, our position is that international trade order should be rid of destructive protectionist measures.

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Instead, countries should focus on trade facilitation, preferably under the multilateral trading system of the WTO. To argue for reform of the WTO is one thing; to disregard or even denounce the WTO altogether is another. In this respect, every nation must specify what kind of a reform they expect from the WTO and pursue these reform activities under the same roof.

Turkey will continue to focus on carrying its dynamic economy to new horizons, especially by boosting its innovative capacity. In this regard, adaptation to technological developments, particularly in the realm of digital economy and e-commerce, is paramount. Turkey has been pursuing proactive policies so as not to miss out on the benefits of technological transformations. In fact, Turkey aims to leap forward in this direction to maximize its potential gains. As in many cases, coordinated work among public, private, NGO and academic actors is essential, and the Trade Ministry is doing its best to facilitate such coordination.

Turkey’s geostrategic location, the dynamism of its economy, and the success of its companies, position the country to bring benefits to the entire region and beyond. Our primary trading partner, the EU, certainly needs such dynamism while in turn, our country’s economy and Turkish companies need collaboration from our European partners. Turkey is expected to grow steadily, and by achieving a more innovative capacity, it will move closer towards the group of developed countries. In this sense, Turkey will continue to be a prevalent economic actor with its resources, productive capacity, as well as young and skilled human capital; open for cooperation in the international arena. Indeed, the spirit of our age requires a decent level of international collaboration.