TURKEY'S VIBRANT EXPORT TRENDS

The Republic of Turkey is now only 12 years away from celebrating its 100th anniversary. On the journey that started with 50,000 dollars worth of exports in 1923, we are aiming to attain a value of 500 billion dollars by 2023, when Turkey is expected to become one of the 10 largest economies in the world with 25,000 dollars of income per capita… Turkey is positioned well against the possible volatilities in other regions. It has the potential to turn threats into opportunities through the private sector's increased adoptive capabilities and the effective use of trade policy tools. Furthermore, structural reforms are planned and carried out boldly and decisively through programs and projects, such as GITES. With its government and private sector working hand in hand, we strongly believe that Turkey in 2023 will be a locus of attraction for trade and investment in the world.

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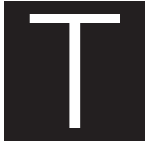

he Republic of Turkey is now only 12 years away from celebrating its 100th anniversary. On the journey that started with 50,000 dollars worth of exports in 1923, we are aiming to attain a value of 500 billion dollars by 2023 – the year Turkey is expected to become one of the 10 largest economies of the world with 25,000 dollars of income per capita.

According to "2012-2014 Medium Term Program," exports are estimated to increase to 134.8 billion dollars, 148.5 billion dollars, and 165.7 billion dollars in 2011, 2012, and 2013, respectively. Actual exports equaled to 114 billion dollars in 2010 and surpassed the estimate for that year.

Given the level of exports in 2010, exports can reach the target of 500 billion dollars in 2023 by an average annual growth of approximately 12 percent between 2011 and 2023. Turkey's exports have already grown by 16.9 percent on average, annually, between 2003 and 2010, despite the decline in 2009.

The key to sustainable economic growth will be export growth both in commodities and services. The correlation betweeen export growth and economic growth is found to be almost 60 percent for the time period between 1999Q1 and 2011Q2. Exports play a major role in increasing productivity both through economies of scale and innovation that is stimulated by international competition, in addition to creating other positive externalities, such as technological spillover effects. Imports, as well, support innovative activities through fair competition in the domestic market, help efficient allocation of resources and provide inputs that are not available at comparable quality and prices. A major step in reinforcing the linkage between economy and foreign trade was finalized recently by the establishment of The Ministry of Economy.

The Ministry of Economy has gathered the former Undersecretariat for Foreign Trade and various responsibilites that were previously carried out by the Undersecretariat for Treasury (foreign investment, incentives, Turkish FDI abroad and services that raise foreign exchange revenues) under an umbrella.

In order to expand market access opportunities, to better deal with the possible trade problems at first hand, and to keep better track of the developments in foreign markets, the number of positions of the Ministry abroad for commercial counselors has been augmented from 115 to 250 since 2007.

In coordination with the Prime Ministry Investment Support and Promotion Agency of Turkey (ISPAT), foreign investment that can increase production, exports, and employment will be attracted as another source of dynamism and technological development. Furthermore, both the general structure of the incentives and those

specifically in the existing 19 free zones are being re-examined. A transformation into new generation free zones are also considered in 2011.

The Input Supply Strategy (GITES) Perspective

Despite the overwhelming economic performance of Turkey, the current account deficit continues to be a fragile aspect of the economy. The main source of Turkey's current account deficit stems from foreign trade deficits, which is mostly attributable to the importation of intermediate goods for production. Input Supply Strategy (GITES) addresses the dependence of production on imported inputs, in addition to targeting secure and sustainable supply of inputs from non-distorted prices, higher domestic value added of exports and stronger competitiveness in exports.

Input Supply Strategy has been coordinated by the Ministry of Economy through the Export Oriented Production Strategy Assessment Committee, which has met six times until now. The analyses on "iron and steel and non-ferrous metals," "machinery and automotive products," "chemicals," "textiles," and "agricultural products" have been finalized. On each analyzed industry, a number of points and suggestions have been identified. Industry reports, which compile these points and suggestions, and strategic action plans are now being prepared to be discussed later at the Economy Coordination Board.

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The activities within the scope of GITES are recognized as an activity clause in "The Industry Strategy Document" prepared by the Ministry of Science, Industry and Technology. Also, GITES was named amongst the Policy Priorities and Measures in the Programme for 2011, which was prepared by the Ministry of Development.

Furthermore, existing and potential export items are analyzed for each of the 81 provinces by joint efforts of Prof. Ricardo Hausmann from Harvard University, Assoc. Prof. Cesar Hidalgo from MIT and Turkey Economic Policies Research Foundation (TEPAV). In another analysis named "Repositioning Turkey in Global Trade: New Routes in Foreign Trade," Turkey's competitiveness in 73 countries and in 1,243 industries were evaluated.

Economic Uncertainty in the Region

Following the financial crisis that hampered global production and trade in 2009, fears for a second slowdown cannot be ruled out. Turkish Economy, on the other hand, has recovered fast from the financial recession and continue to demonstrate strong performance. Yet, Turkish governmental bodies are following the developments in the world markets and take precautionary measures where appropriate.

Based on the IMF *World Economic Outlook,* which was revised in September 2011, world output declined by 0.7 percent, while the decline was higher, at 3.5 percent, for the U.S. and 4.3 percent for the Eurozone Countries. Economic recovery started in 2010, when world output increased by 5.1 percent. In 2010, production in the U.S. and Eurozone Countries also escalated by 3.0 and 1.8 percent, respectively.

According to the data released by the World Trade Organization, world exports declined by 12 percent in 2009 after rising by 6.5 percent in 2007 and two percent in 2008. The growth rate in Turkish exports was much higher, at 25.4 and 23.1, in 2007 and 2008, respectively, and the decline was at 22.6 percent in 2009. The recovery in 2010 was also tangible in Turkey with an 11.5 percent rise in exports.

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The recovery in Turkey is also apparent in its economic growth, which was well above all expectations, realized at 9.0 percent in 2010. Also, the expected growth rate for Turkish economy in 2011 is stated as 7.5 percent in the Medium Term Programme of Turkey, which is prepared for 2012-2014 while it is 8.7 percent according to the latest IMF estimates. However, the recovery from recession in world markets also brought new uncertainties. In the European Central Bank's statement on 4 August 2011, "downside risks" were addressed as further increases in energy prices, protectionist pressures, and the possibility of a disorderly correction of global imbalances.

Volatility and escalation in energy and commodity prices has been a major source of uncertainty and now a major issue also discussed in the G-20 Platform. Turkey, as a member of G20 and a net importer of energy, supports the discussions on possible international measures to decrease the volatility in commodity prices. Average crude oil import cost of the largest economies soared by 29-30 percent in

2010. Also, the price of crude oil increased further in the first half of 2011. Despite some decline since May 2011, crude oil, in July 2011, was still 45 percent higher compared to the level in July 2010. Similarly, the rise in the price of commodity food items was 25 percent in July 2011 compared to the same month in 2010.

Regional risks have also increased in 2011. Calls for public reform spread across MENA (Middle East and North Africa) countries and turned into political turmoil. The dictators in Tunisia and Egypt had to resign while tension in Libya, Yemen, Syria, Oman, Bahrain and others continue in varying degrees. The costs of political instability in North Africa caused a 17.9 percent decline in exports to the region in the first half of 2011 but exports to the Near and Middle Eastern region continued to increase by 21.3 percent in this period. To mitigate possible negative impacts of the political chaos on Turkish exports to MENA countries, alternative markets to 11 countries (Tunisia, Egypt, Libya, Bahrain, Jordan, Yemen, Saudi Arabia, Oman, Morocco and Algeria) are identified by the Ministry of Economy for the major export items to the mentioned countries.

Also, seven of the determined fifteen target countries to increase overall Turkish exports (Egypt, Iran, Saudi Arabia, Algeria, Libya, Jordan, Qatar) are located in the MENA region. Action plans are prepared annually for all target countries that cover a number of policies, such as trade missions, trade fairs, economic forums and meetings on promoting bilateral investments. Such dedicated efforts helped to diversify Turkish exports and increased market access to MENA region. As a result, the share of Turkish exports to MENA countries increased from 16 percent in 2004 to 27 percent in 2010.

Another region with increasing uncertainties has been the Eurozone Countries, where the sovereign debt crisis has been intensifying and spreading since late 2009. Greece, Ireland and Portugal are officially in debt crisis and sovereign ratings of these countries' bonds have been lowered to varying levels of "speculative" status.

The crisis in the Eurozone Countries may affect Turkey in various indirect ways if it cannot be managed well by the European Leaders. First of all, the region is the largest trade partner of Turkey. A possible reduction in import demand parallel to smaller economic growth in Europe can have negative effects on Turkish exports. Also, the escalation of uncertainty in the region increased the volatility of euro/dollar parity, which had a peak at 1,4882 on the 4th of May in 2011 and declined to around 1,38 by mid October. Thus, foreign exchange risk has been on the rise. Also, nominal trade that is conducted in euros tend to be deflated in terms of dollars.

The Greek government had to revise the level of budget deficit/GDP ratio in November 2009 from six percent to 12.7 percent and later in May 2010 to 13.6

percent. Austerity measures had to be enacted in Greece in order to receive financial support from the IMF and the ECB. European Financial Stability Facility (EFSF), a special purpose vehicle to support financial stability in Europe which is now worth 440 billion euros (625 billion dollars), was launched on 9 May 2010. Furthermore, a package for Greece which is worth 110 billion euros was approved in May 2010, which was followed on 21 July 2011 by a second package composed of 109 billion euros from official sources and 50 billion euros from the private sector.

Italy and Spain, the third and fourth largest countries in the Eurozone, are also considered to have bailout risks, which would be too large to handle considering the size of EFSF.

Meanwhile, the U.S. had its own crisis regarding the legislation needed to increase its debt limit over 4.3 trillion dollars and to decrease budget deficit. Although such increases in the U.S. debt limit has not been rare until now, reaching an agreement between the Democrats and Republicans on the measures to decrease budget deficit led to a crisis, which ended with the country's triple A rating to be decreased to AA by Standard and Poor's on 5 August 2011.

Strength of the Turkish Economy

Despite the ongoing risks in various major regions, Turkey stands to promise a stable, sustainable and qualified economic growth fueled by export growth. The record high growth rate of Turkey among European Countries at 11.6 percent in the first quarter of 2011 was followed by another record at 8.8 percent in the second quarter, leading to an average 10.2 percent growth in the first half of 2011.

Unemployment, as well, has been decreasing in Turkey as trade and economy prospered after 2009. The unemployment rate, which was 16.1 percent in the period of January-February-March 2009, declined to 11.9 percent in 2010 and 9.1 percent in the period of June-July-August 2011. On the other hand, unemployment rates in the Eurozone Countries were recorded as 10 percent in the Eurozone Countries and 9.5 percent in the EU in August 2011. Also, it was as high as 21.2 percent for Spain and 14.6 percent for Ireland in August 2011, in addition to 16.7 percent for Greece in June 2011. Turkey's central government budget balance turned into a surplus of 4.2 billion TL in August 2011 following a budget deficit of 15.4 billion TL in 2010. In 2009, the EU-defined budget deficit equaled to 6.7 percent of GDP and was quiet low compared to Ireland (32.4 percent), Greece (10.5 percent), Spain (9.2 percent), Portugal (9.1 percent), the UK (10.4 percent), and the U.S. (10.6 percent).

As for debt stock, Turkey's government debt stock to GDP ratio was 42 percent in 2010 and well below the Maastricht criteria of a maximum level of 60 percent, whereas fourteen EU members failed to satisfy it. The respective ratios of Greece and Italy in 2010 reached 143 and 119 percent, respectively.

Also, the capital adequacy ratio (CAR) of Turkish banks indicates the strength of our banking system. CAR of Turkey stood at 16.6 percent in July 2011 while it was 14.8 percent for the U.S., 15.0 percent for the UK, 12.4 percent for France, 12 percent for Italy, 15.6 percent for Canada, 12.2 percent for China, and 11.5 percent for Australia as of March 2011. Also, eight banks in the Eurozone were announced to be under the level of five percent CAR in July 2011 in addition to some others which recently faced bankruptcy despite passing this critical level. Therefore, capital standards have become one of the most important items in the agenda of EU Leaders. According to the estimate of IIF (The Institute of International Finance) Deputy Director Jeremy Lawson, capital flows to Turkey will rise from 45 billion dollars to 74 billion dollars in 2011 and to 80 billion dollars in 2012. One of the main benefits of FDI inflows is possible technology spillovers, which spurs economic growth in the long run. Also, according to 2011 Competition Report of the European Commission's Innovation Union, Turkey is reported to record the fourth highest growth rate (10.1 percent) in Europe in terms of its gross domestic expenditures on R&D over the period of 2000 to 2009.

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In a nutshell, Turkey is positioned well against the possible volatilities in other regions. Although the economies nearby are going through turbulent crises, Turkey distinguishes itself with its strong fiscal performance and financial sector. Also, market diversification strategies in exports mitigate risks and opens doors to new markets and opportunities. Turkey has the potential to turn threats into opportunities through the private sector's increased adoptive capabilities and the effective use of trade policy tools. Furthermore, structural reforms are planned and carried out boldly and decisively through programs and projects, such as GITES. With its government and private sector working hand in hand, we strongly believe that Turkey in 2023 will be a locus of attraction for trade and investment in the world.