



This Project is co-funded by the European Union
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TEBD workshop in Athens, Greece

24 June 2019



tepaV

The Economic Policy Research Foundation of Turkey

Turkey-EU Business Dialogue

***EU-Turkey Trade and Investments:
opportunities , rules and requirements***

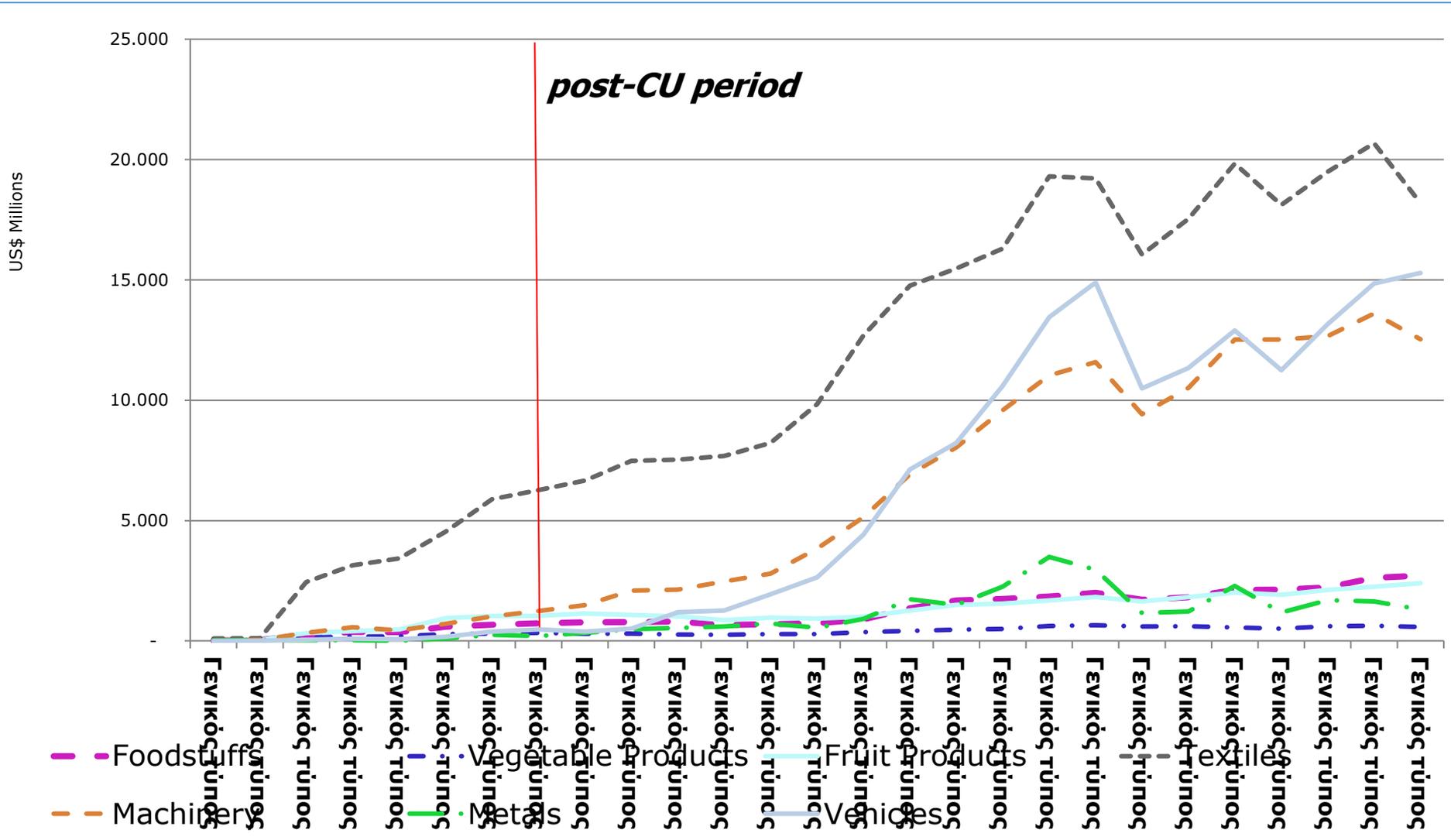
M. Sait AKMAN, PhD

***June 24, 2019
Athens***

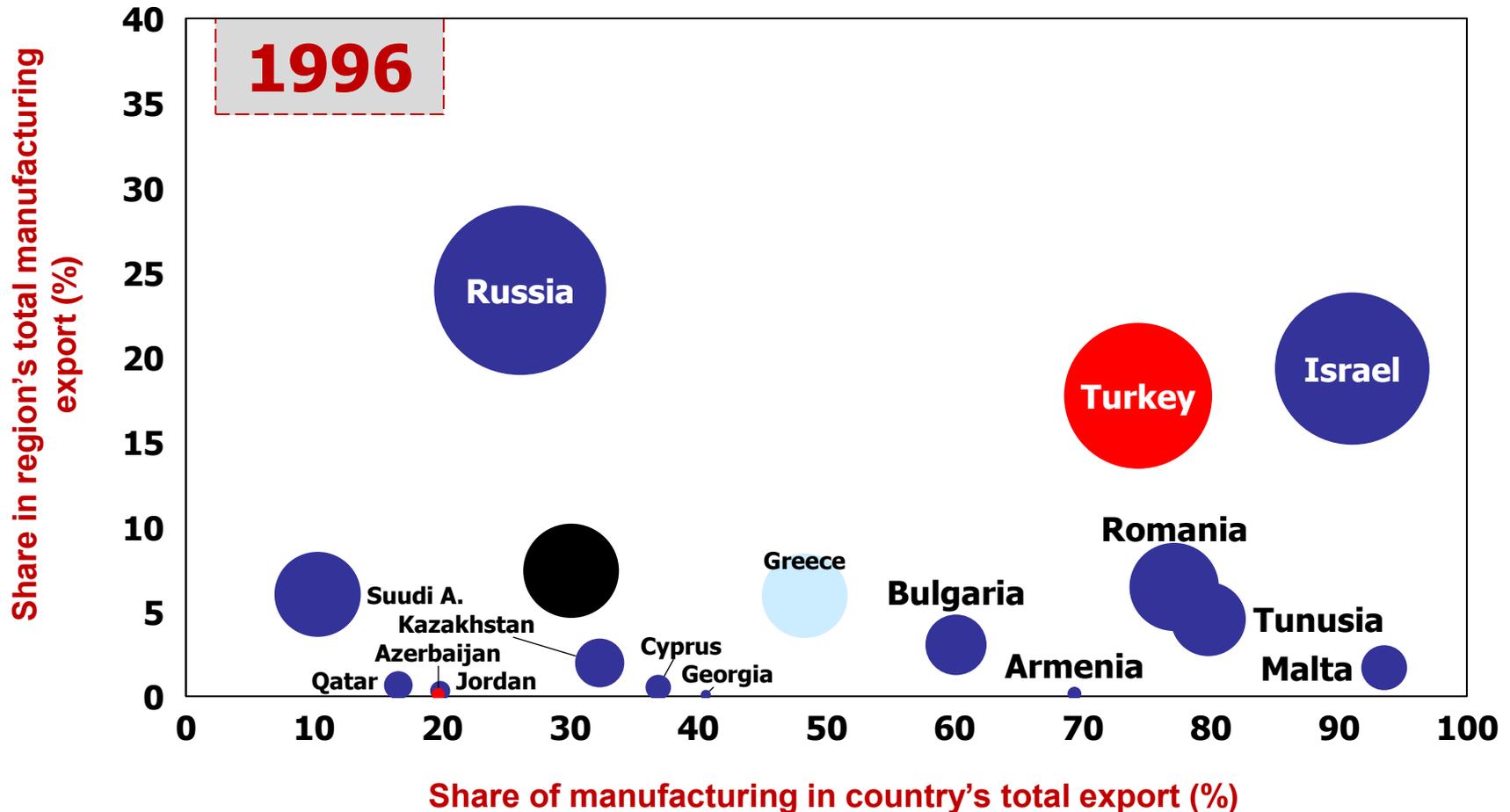
Outline

- Turkey – EU Customs Union: benefits & challenges, and the need for updating
- Turkey-Greece bilateral trade & investments
- Impact on SMEs

Turkey's Exports to the EU: Product Composition (\$ millions) UN Comtrade(2014)



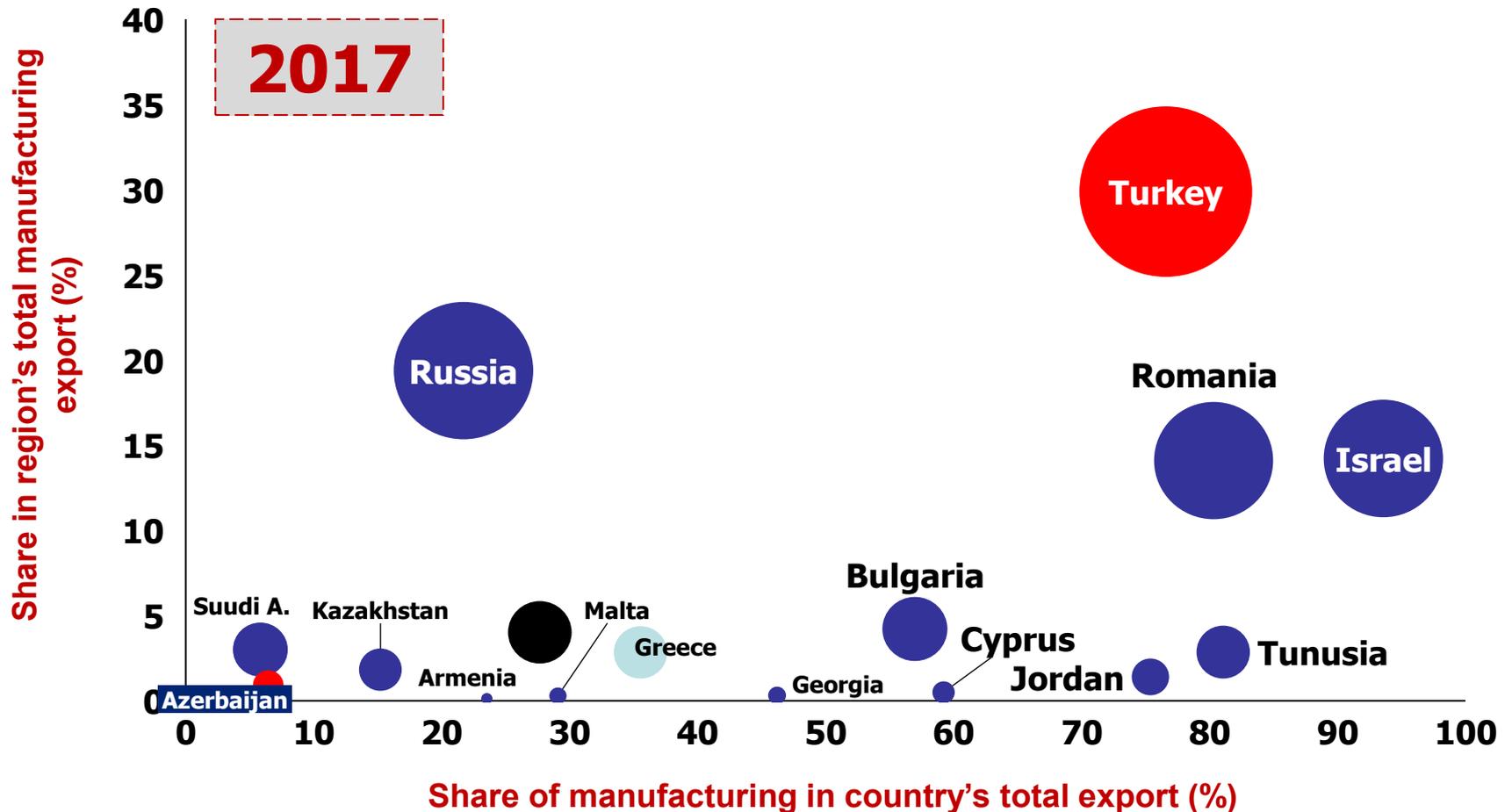
TUR – GRE economic positions in the region



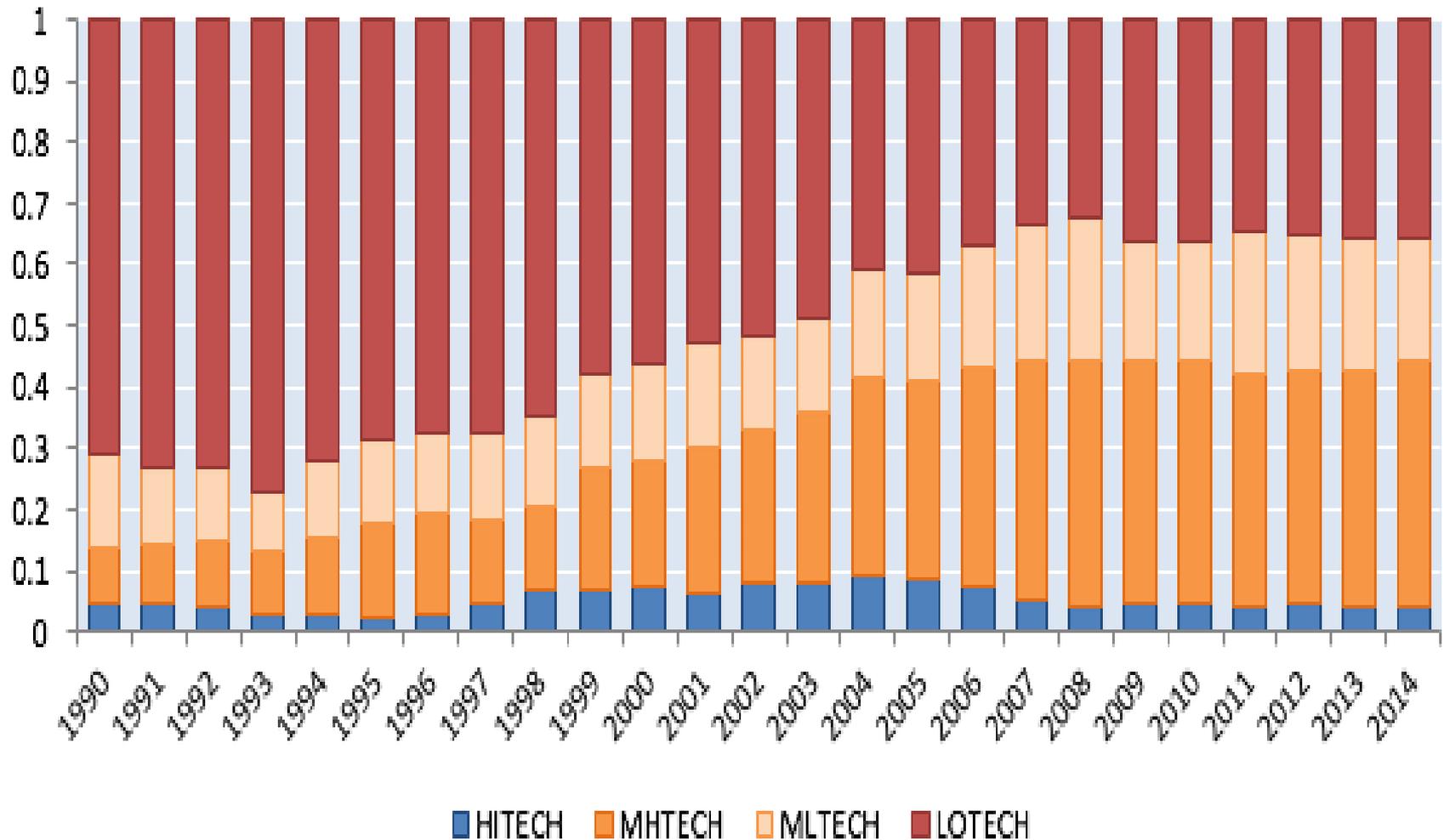
Source: UN Comtrade, World Bank, TEPAV calculations

Note: Bubble sizes represent volume of manufacturing exports in 1996.

Turkey and Greece after the EU process



More sophisticated Turkish exports to the EU (100% = 1)



Source: Felbermayr, Aichele and Yalcin (2016)

The CU, then and now...

- CU 23 years-old, with expectations and realities of 1990s.

-*things changed*:
 - Emerging Economies (China et.al.)
 - Globalisation (global production networks-GVCs)
 - Global crisis
 - Doha Round is “deadlocked”
 - New generation FTAs (DCFTAs; mega-deals –TTIP)
 - Trade protectionism

inducing a need to revise the CU.

World Bank proposes:

(World Bank Report, 2014)

- **Not** designed as **a well-equipped regime** to deal with modern day challenges
- CU has **not fulfilled** its potential:
- Formalize **parallel negotiations** for FTAs
- **Reduce asymmetries** in consultation and decision making mechanisms under CU.
- Widen preferential trade to primary **agriculture** and **services**.
- First-best solution: progress in **accession negotiations**



Updating the CU *(Ministry of Trade, Turkey)*

1. Eradicating structural problems:
asymmetries –FTAs / Decision making

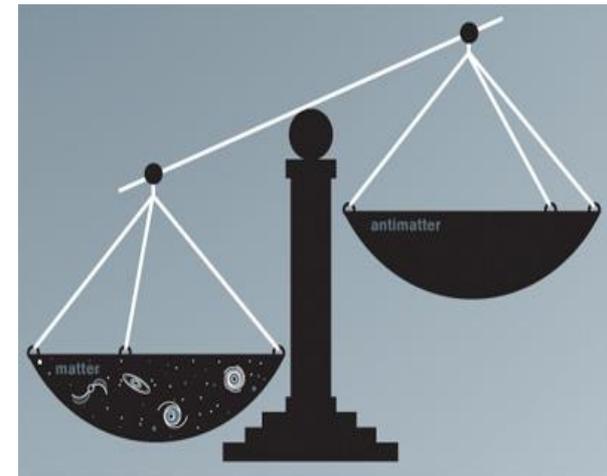
2. Modernising the customs union

3. Deepening the customs union

Challenge: asymmetry in structure

TR has to align itself with EU policy and *acquis*, but cannot participate in decision-making in EU, in areas pertinent to CU.

Turkey is a 'rule-taker'



EU trade agreements

THE STATE OF EU TRADE

2018

-
- EU & Customs union (Andorra, Monaco, San Marino, Turkey)
 - European Economic Area (Norway, Iceland, Liechtenstein)
 - Applied preferential trade agreement (FTA, EPA, DCFTA)
 - Preferential agreement awaiting application
 - Pending negotiations for a preferential trade agreement
 - Potential preferential trade partners
 - Pending negotiations for a stand-alone investment agreement
 - Preferential agreement in the process of modernisation

Asymmetry: EU's FTAs

- ***Turkish exporters cannot have automatic reciprocal access to FTA-partners market while the opposite is possible due to CCT***

2. Modernising the customs union:

- *Technical barriers to trade*
- *Intellectual property rights (IPRs)*
- *Trade facilitation and customs matters*
- *Trade defense instruments*
- *Dispute settlement mechanism*

3. Deepening the customs union:

Agriculture

Trade in services

Public procurement

Progress to upgrade the CU

- **2014 World Bank study (*Evolution of EU-Turkey CU*)**
- **2015-May Memorandum of Understanding to modernise and extend the CU**
- 2016 Domestic procedures and **impact assessment** reports
- 2016-Commission proposal to Council to launch negot.
- **2017 political blocking** of CU upgrading process
- **2019** still no progress, **but full of trade barriers...**

Effect on Turkey/EU: upgraded CU

(E. Commission impact assessment study)

	Bilateral exports (EUR million)	Welfare (EUR millions)	GDP (%)
EU			
Upgrade CU	27,062	5,388	0.007
TURKEY			
Upgrade CU	4,960	12,522	1.44

The challenges in upgrading CU

political

economic

Challenges

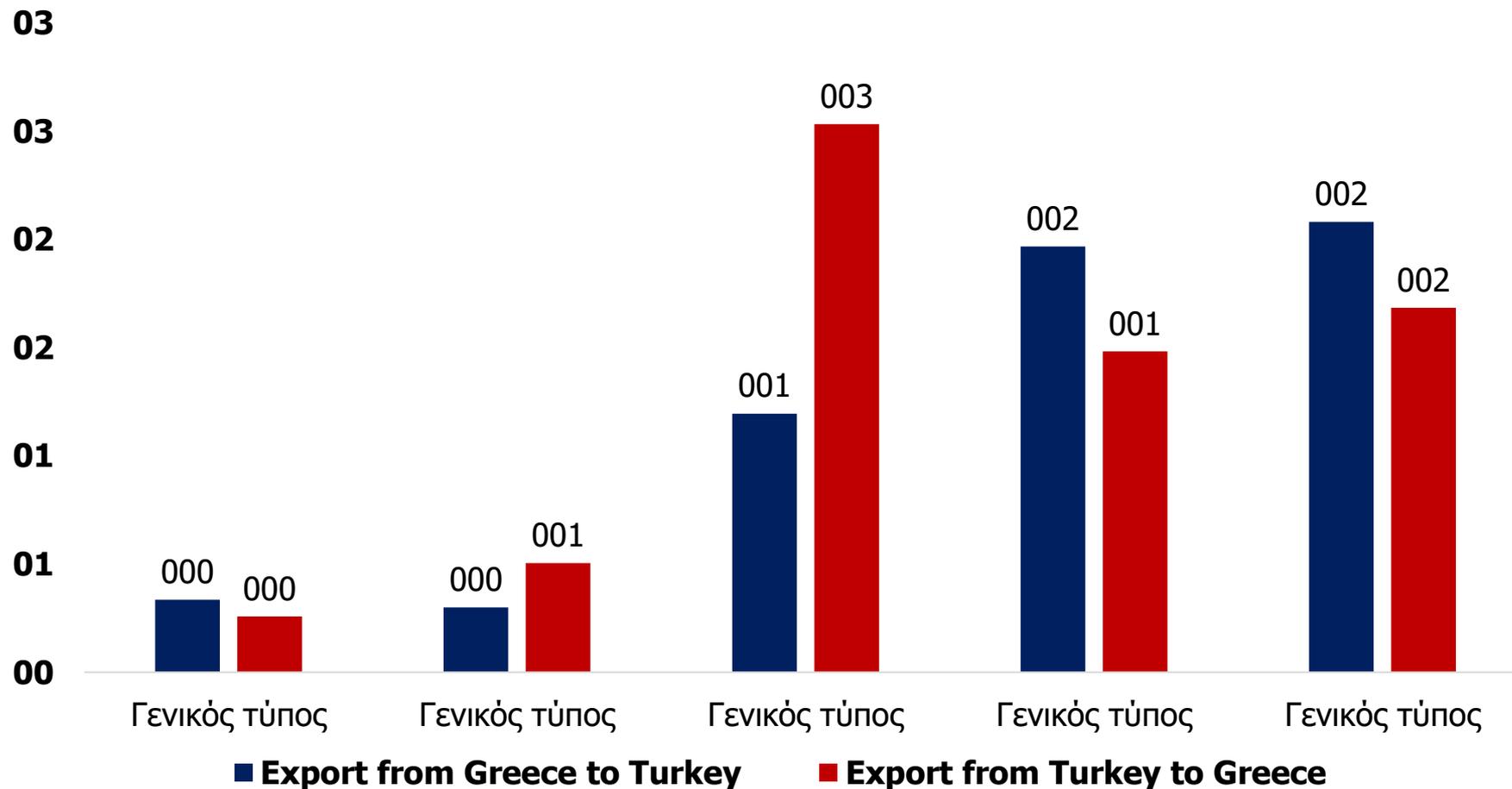
■ EU:

- Domestic resistance (remember CETA, TTIP...)
- Not all Member States like 'Turkish delight'
- European Parliament resolution to 'suspend negotiations'
 - stressed that suspending work on upgrading the customs union would have serious economic consequences for Turkey.
- Political resistance in the Council ("Germany's effect")

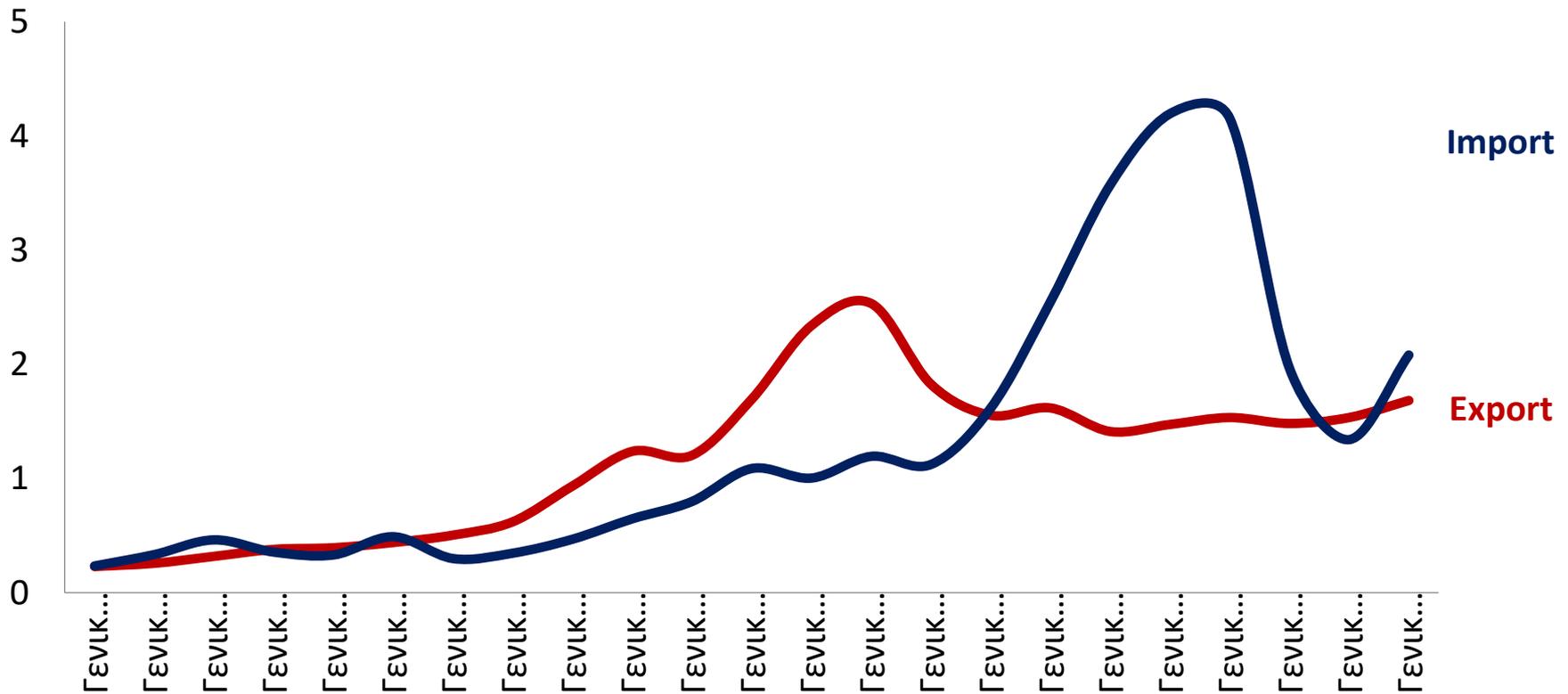
■ TURKEY:

- Is Turkey ready for reforms (public procurement, agriculture so on)?
- Rising anti-European discourse

Bilateral trade between Turkey and Greece, billion \$



Turkey's bilateral trade with Greece, billion USD \$, 1995-2017



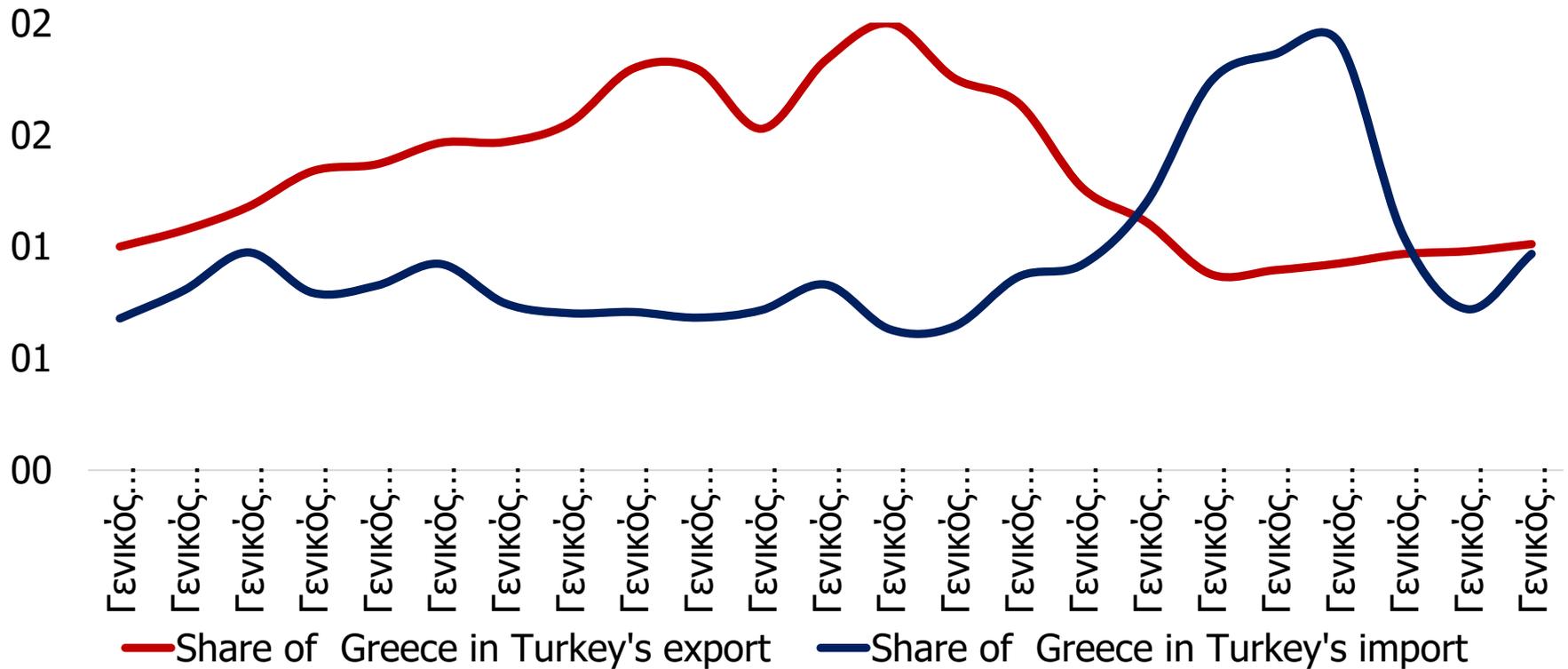
Source: UN Comtrade, BACI, TEPAV calculations

Share of Turkey in Greece's trade, %, 1995-2017



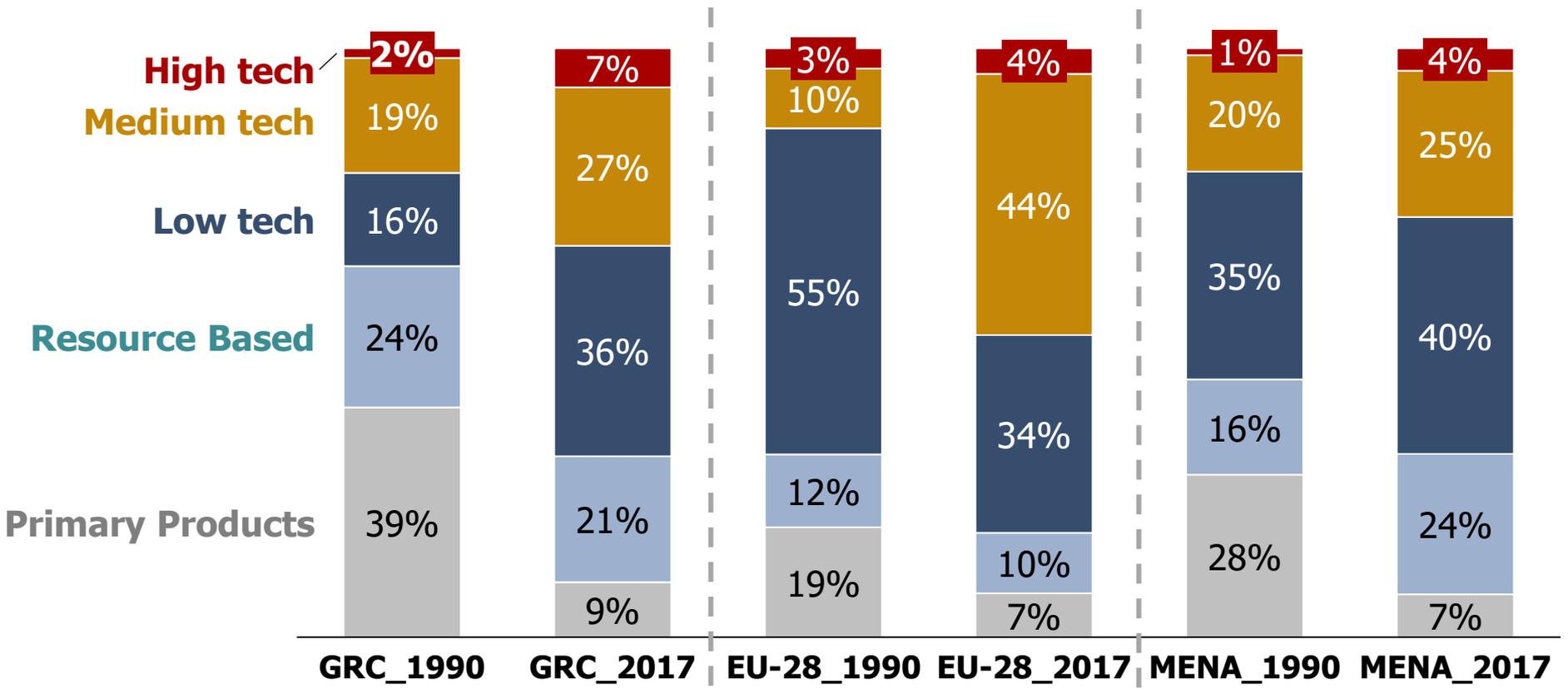
Source: UN Comtrade, BACI, TEPAV calculations

Share of Greece in Turkey's trade, %, 1995-2017



Source: UN Comtrade, BACI, TEPAV calculations

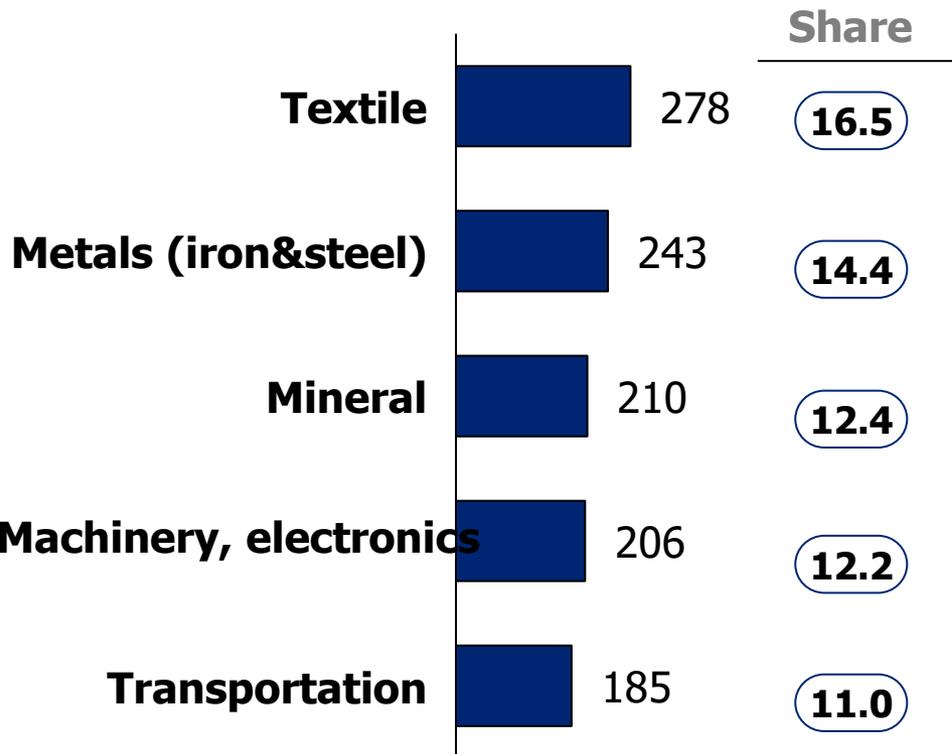
Technology breakdown of Turkey's exports to Greece, EU-28 and MENA, 1990-2017



Source: UN Comtrade, Lall (2000), TEPAV calculations

Turkey's export to Greece by major sectors million USD \$, 2017

Turkey's import from Greece by major sectors million USD \$, 2017

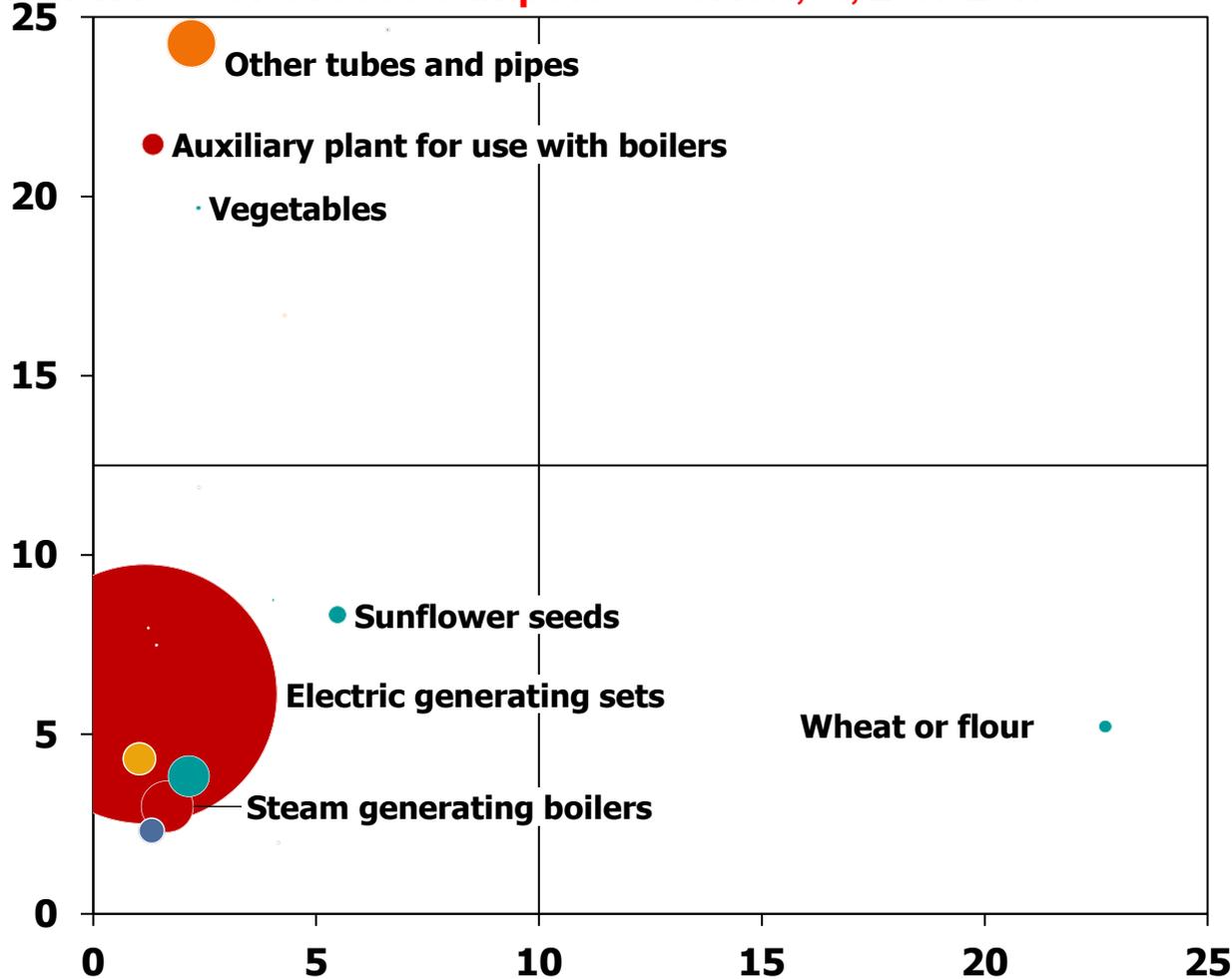


Source: UN Comtrade, BACI, TEPAV calculations

GROWTH / COMPETITIVENESS MATCHING

Growth rate of Greece's import

CAGR, %, 2007-2017



Bubble sizes represent Greece's import volume, 2017



Major sectors breakdown

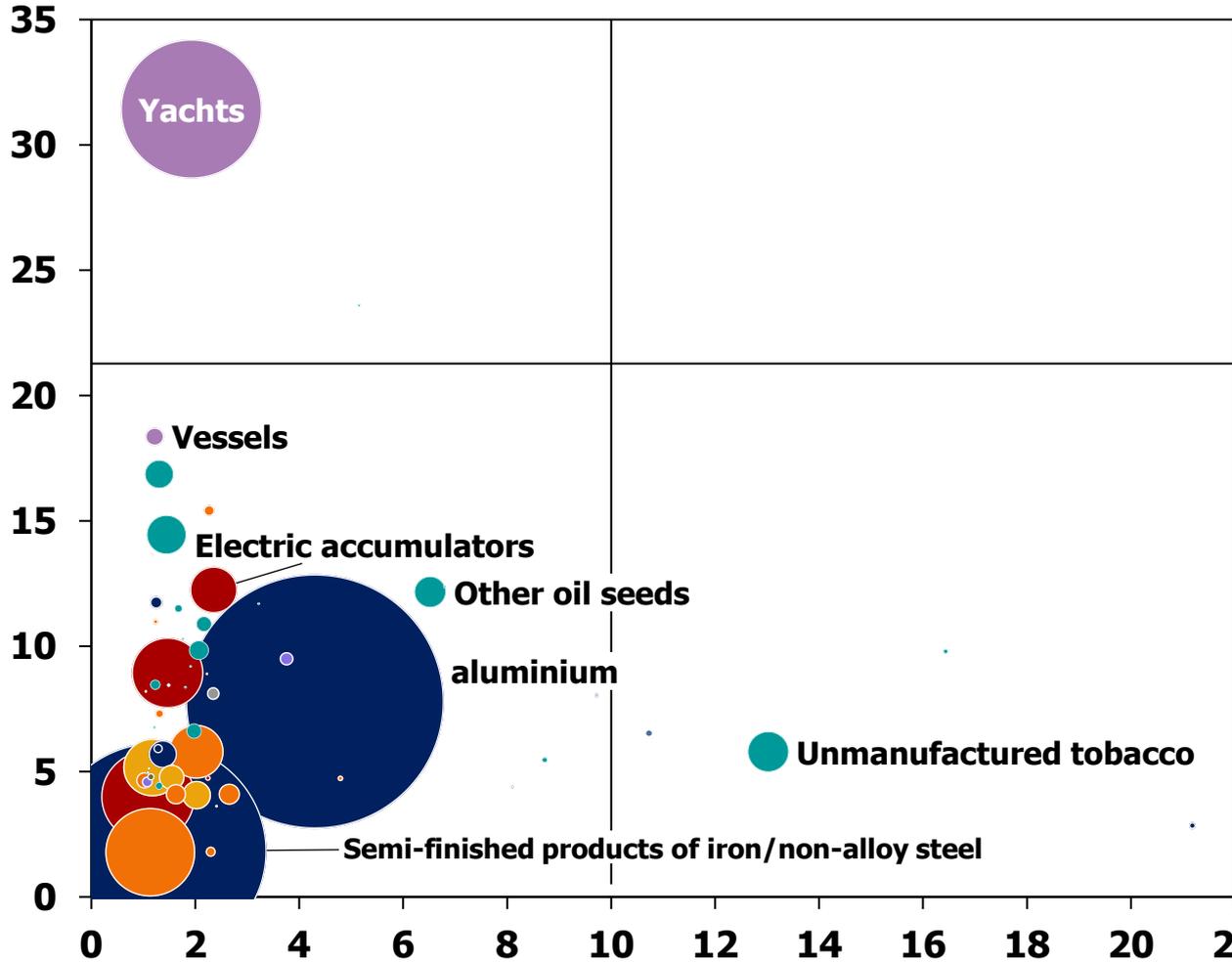
- Food
- Chemicals
- Plastics
- Wood
- Textile
- Metals
- Machinery, electronics
- Instruments, furniture, others

Turkey's competitiveness RCA, 2017

GROWTH / COMPETITIVENESS MATCHING

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Major sectors breakdown

- Food
- Mineral
- Chemicals
- Plastics
- Wood
- Textile
- Metals
- Machinery, electronics
- Transportation
- Instruments, furniture, others

Greece's competitiveness RCA, 2017

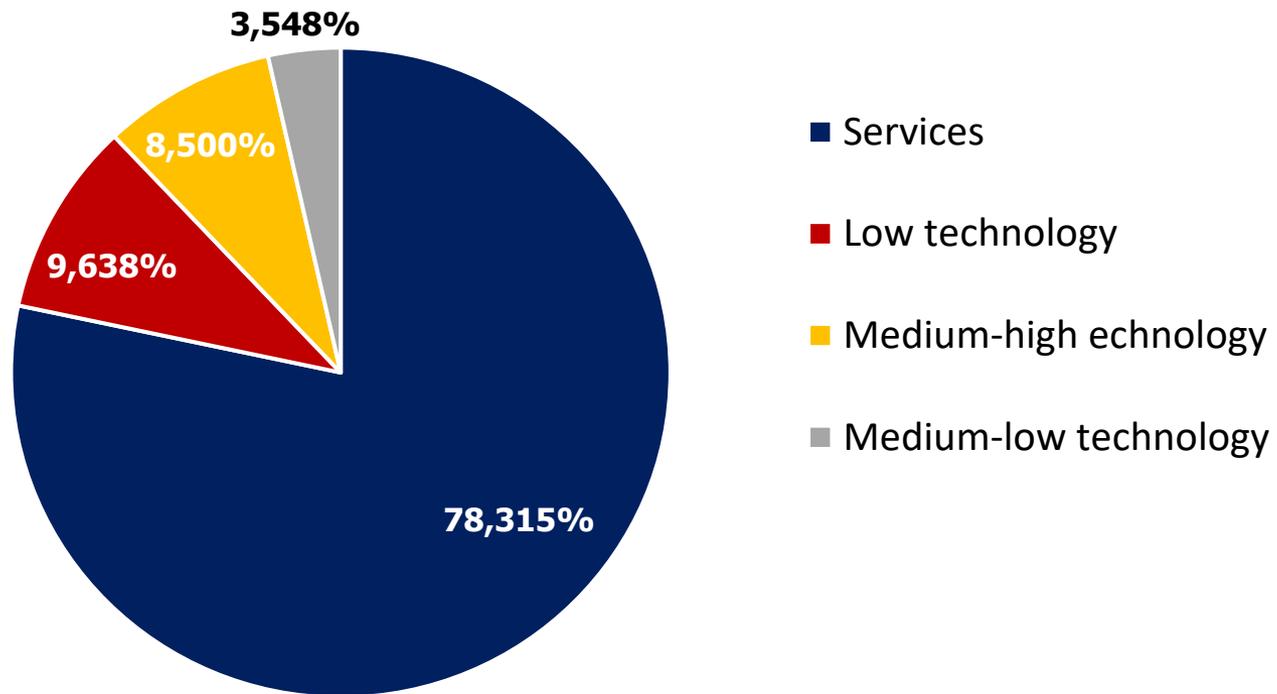
Turkey's FDI inflows, top 10 countries, cumulative, 2003-2019*

Rank	Country	Billion \$	Share
1	Azerbaijan	28.79	18.6%
2	Germany	18.04	11.7%
3	United States	16.34	10.6%
4	Netherlands	8.52	5.5%
5	China	8.14	5.3%
6	India	7.41	4.8%
7	France	6.45	4.2%
8	Japan	6.30	4.1%
9	Saudi Arabia	5.93	3.8%
10	UK	5.90	3.8%
29	Greece	0.41	0.3%

Turkey's FDI outflows, top 10 countries, cumulative, 2003-2019*

Rank	Country	Billion \$	Share
1	Russia	8.82	16.9%
2	Pakistan	3.66	7.0%
3	Romania	3.49	6.7%
4	Bulgaria	3.19	6.1%
5	Algeria	3.12	6.0%
6	Azerbaijan	2.14	4.1%
7	Kazakhstan	1.91	3.7%
8	Rwanda	1.51	2.9%
9	Serbia	1.32	2.5%
10	Macedonia FYR	1.26	2.4%
38	Greece	0.24	0.5%

Technological classification of Turkey's FDI inflows from Greece, cumulative, 2003-2019*



Conclusions

- Bilateral trade and investment level is too low
- Growth rate / competitiveness matching in mutual trade needs attention
- Exports need diversification and sophistication
- Better regulation and liberalisation in agriculture and services trade

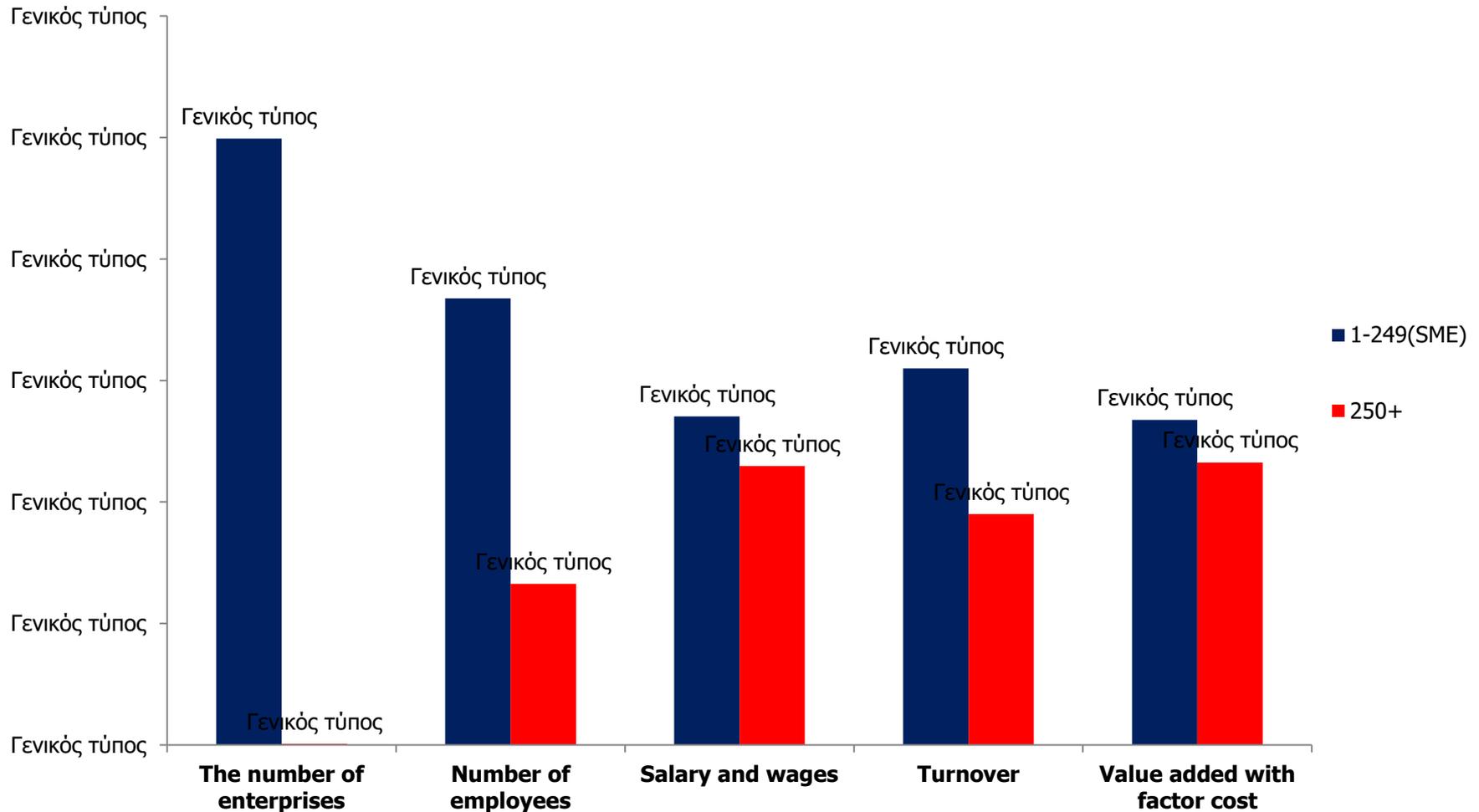
SMEs matter...

- SMEs are the main pillar of nearly all national economies in the world.
- They generate more than a half of jobs and income as well as value added.
- SMEs contribute to economic growth and innovation.
- They are increasingly integrated in **global value chains**, and form a working ecosystem with larger enterprises.
- They are engaged in and deeply affected by the **trading** and **investment environment** (i.e. doing business and trade protectionism).

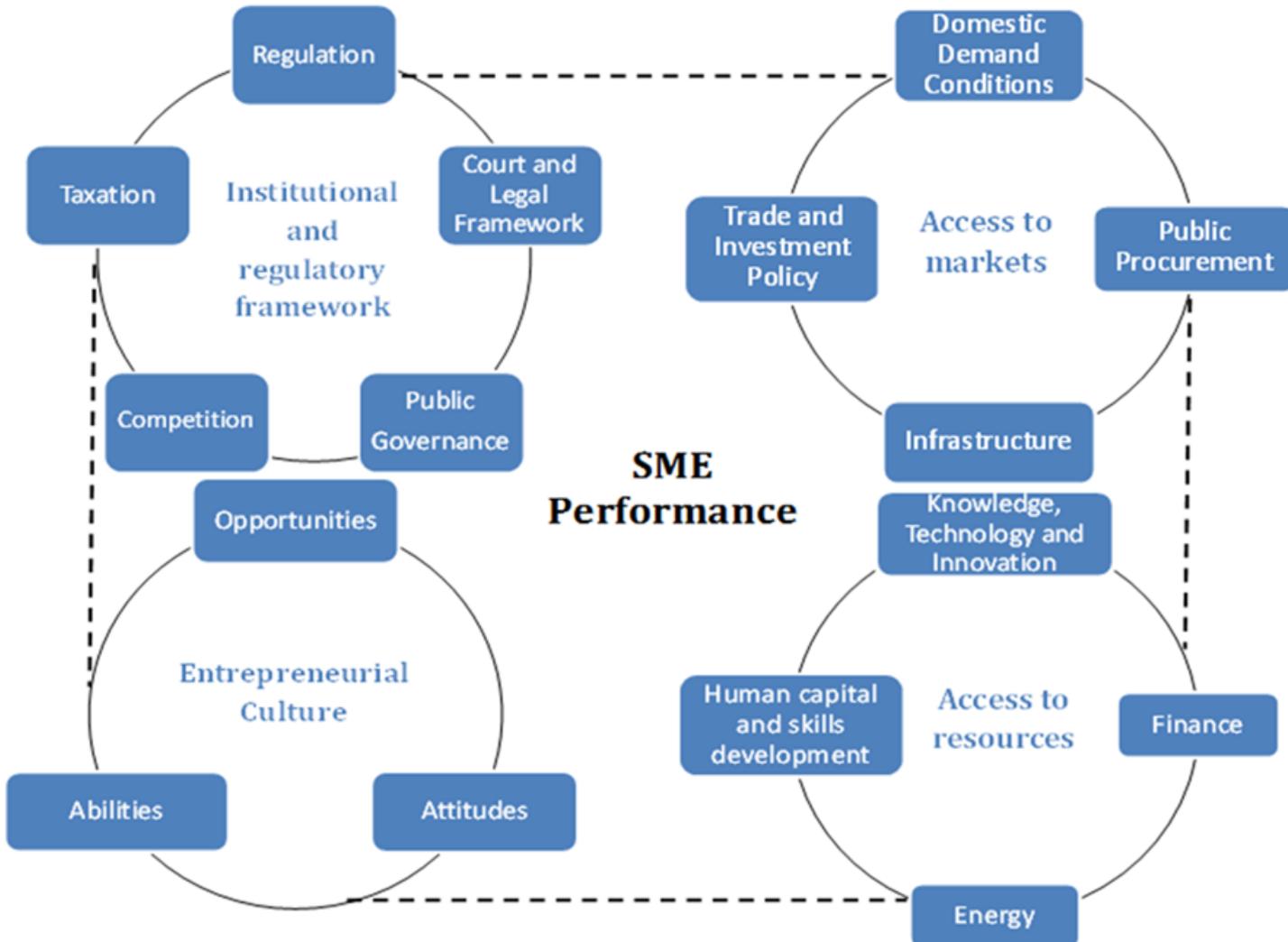
Challenges for the SMEs

- Limited access to finance
- Lower R&D, low intensity of technology use
- Limited internationalization and global supply chain (GVC) integration
- Regulatory environment
- Market access problems
- Limited skilled labor and productivity

SMEs in Turkey's economy, 2014-2016



Sound business environment is essential for SME competitiveness and growth



Why supply chains are essential for SMEs

- Trade, and **Global Value Chain (GVCs)** create opportunities for SMEs:
 - to absorb spillovers of technology, managerial knowledge
 - to innovate
 - to enhance productivity
 - welfare gains from **SME internationalization.**

OECD (2018), Fostering greater SME participation in a globally integrated economy.

SME integration to GVCs: Turkey

- Several important factors to boost SME competitiveness and GVC integration:
 - to improve **access to finance**
 - to cope with the **digital transformation**
 - to live in better regulatory environment and the **rule of law**
 - to better integrate into the trading system, and to boost **trade capacity**.

Access to finance

- Strengthen financial market infrastructure for SMEs
 - G20/OECD High Level Principles* on SME financing
 - impact assessment on financial regulation about SME lending, insolvency rules...
- Facilitate access to financial instruments
 - Boosting financial literacy of SMEs
- Enhance digital financial inclusion
 - Boosting SMEs for digital finance, electronic invoicing...

* The G20/OECD High Level Principles on SME Financing (in, 2015 Turkey presidency)

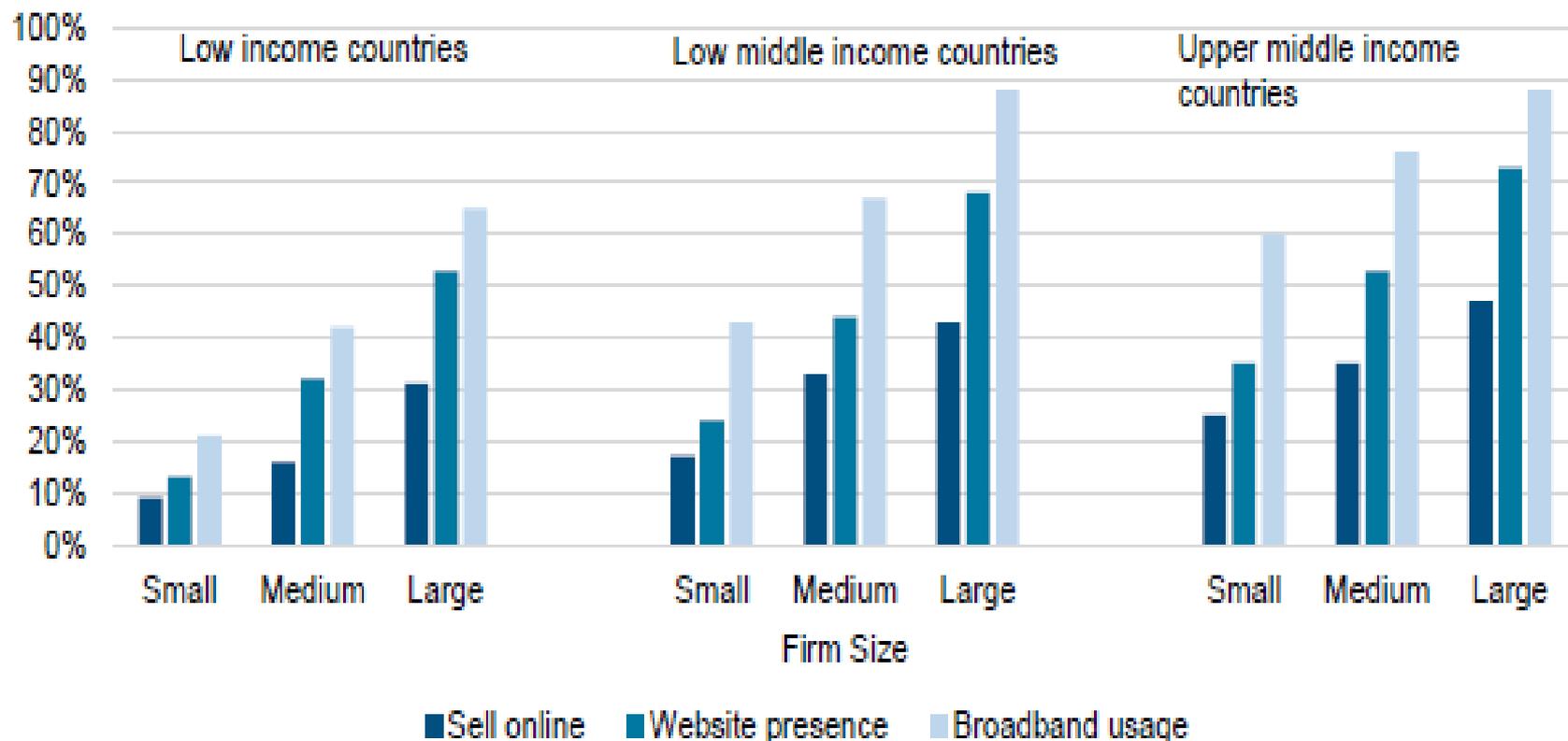
- 1. Identify SME financing needs and gaps.**
- 2. Strengthen SME access to traditional bank financing.**
- 3. Enable SMEs to access diverse non-traditional financing instruments.**
- 4. Promote financial inclusion for SMEs and ease access to formal financial services, including for informal firms.**
- 5. Design regulation that supports a range of financing instruments for SMEs, while ensuring financial stability and investor protection.**
- 6. Improve transparency in SME finance markets.**
- 7. Enhance SME financial skills and strategic vision.**
- 8. Adopt principles of risk sharing for publicly supported SME finance instruments.**
- 9. Encourage timely payments in commercial transactions & public procurement.**
- 10. Design public programmes for SME finance which ensure cost effectiveness**
- 11. Monitor and evaluate public programmes to enhance SME finance.**

Digitalization and SMEs

Potential Benefits of Digitalization for SMEs:

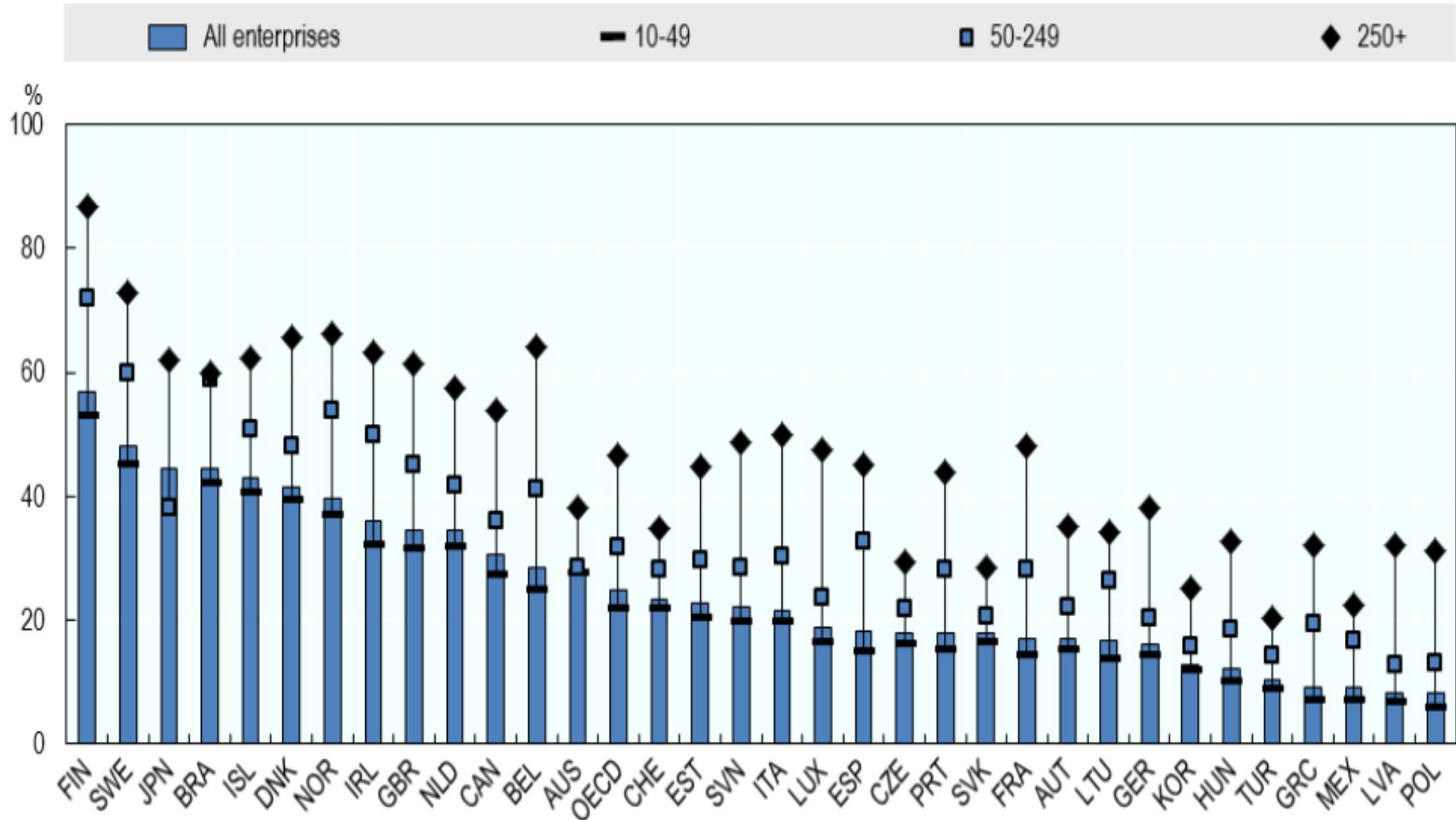
- **Greater access to markets:** E-Commerce and the Internet *lower costs for transaction* while reducing the need for physical infrastructure/presence in foreign market
- **More access to financing:** new opportunities for SMEs to obtain funding.
- **Greater access to technology and applications:** Through cloud services (improved ICT) SMEs can access a wide range of technologies and applications.

SMEs use internet less intensively



Source: Source: Hussain, based on World Bank Enterprise Surveys (2015), accessed March 29, 2017, <http://pubdocs.worldbank.org/en/38551451931382135/Fia1-6.csv>.

SMEs lag behind in adopting digital technologies

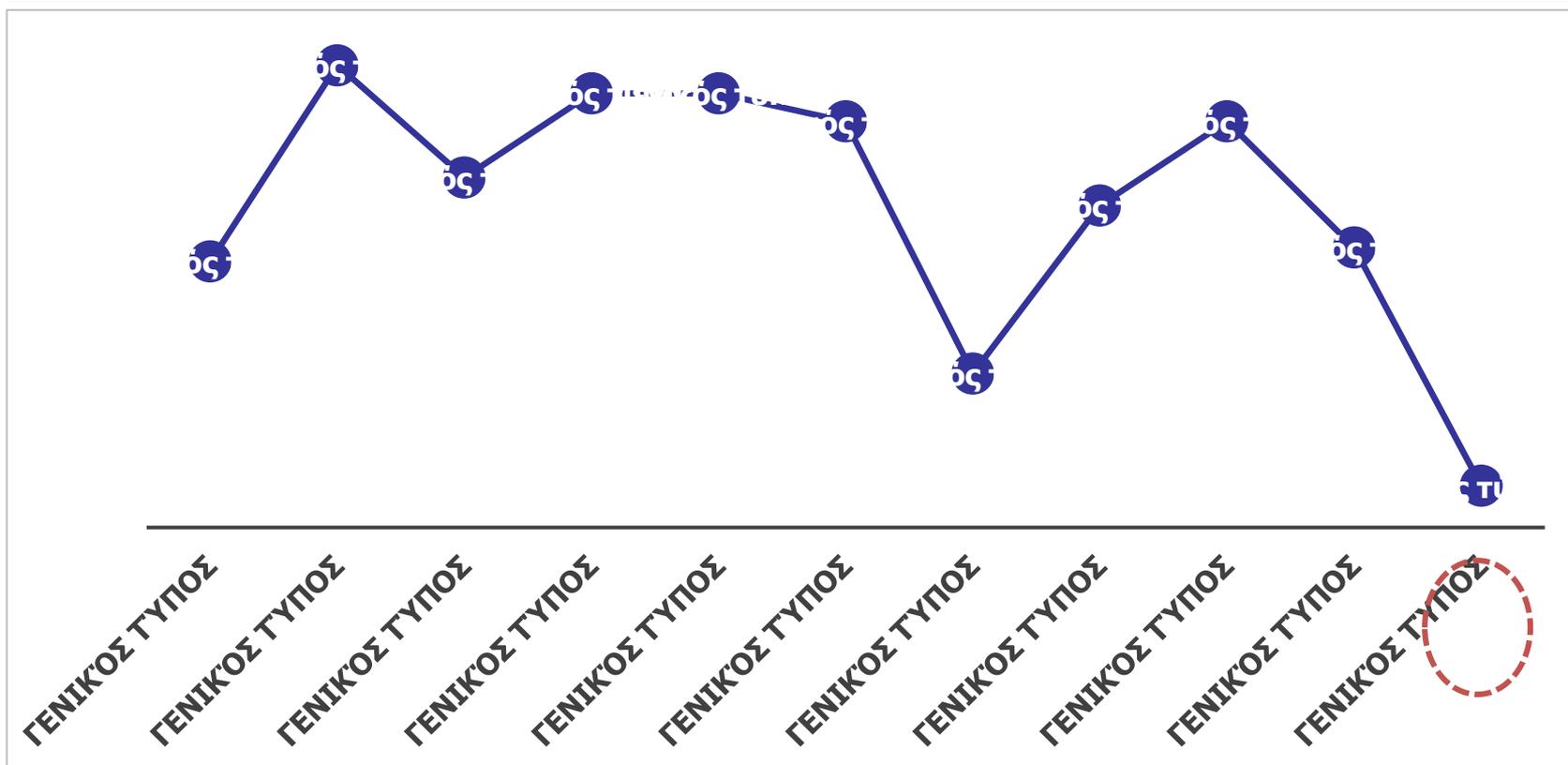


Regulatory environment and the rule of law

- ***For SMEs to take part in supply chains we need FDI which seeks a better investment environment:***
- ***Doing Business*** in Turkey
- ***Rule of Law*** index
- ***World Governance Indicators***
- ***.....***

Turkey ranked 60-70 for years

Doing Business Index, World ranking, 2009-2019



Best performance achieved by Turkey in the last decade, 2019

Getting better in Doing Business index

	DB 2018	DB 2019	Change
Starting a business	80	78	+2
Dealing with construction permits	96	59	+37
Getting electricity	55	60	-5
Registering property	46	39	+7
Getting credit	77	32	+45
Protecting minority investors	20	26	-6
Paying taxes	88	80	+8
Trading accross borders	71	42	+29
Enforcing contracts	30	19	+11
Resolving insolvency	139	109	+30
Overall ranking	60	43	+17

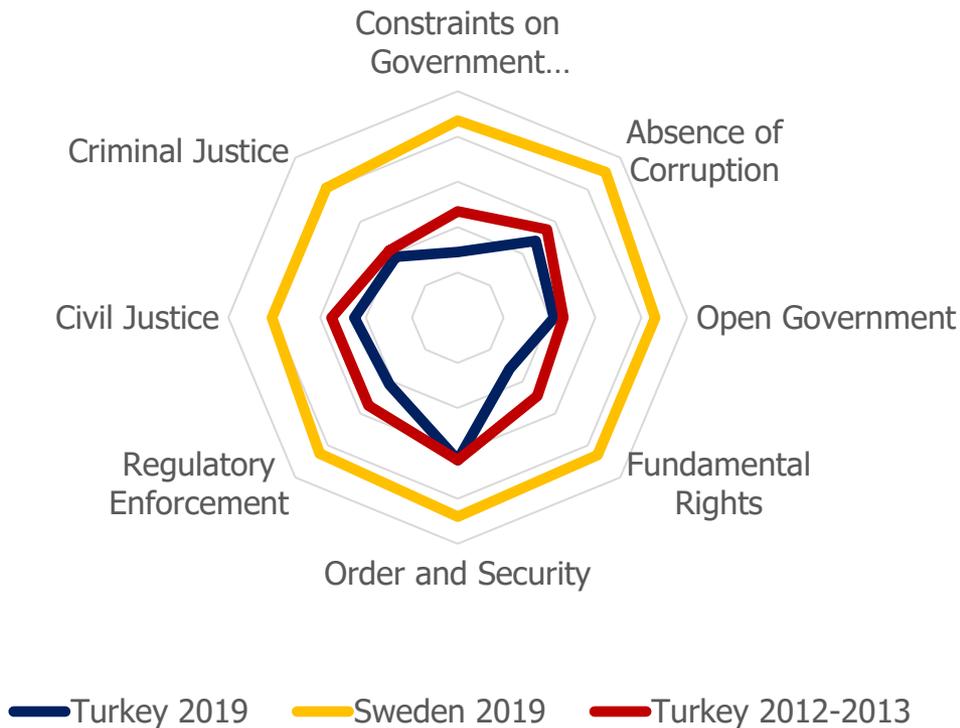
Turkey is among the 10 most improved economy in DB

Rule of Law

- High tech FDI is needed to bring positive spillovers for productivity, technology.
- For Turkish SMEs to integrate into GVCs.
- but this is possible by means of **more stability.**

Needs to improve in **Rule of Law index**

Turkey's Rule of Law Index indicators, 2012 & 2019



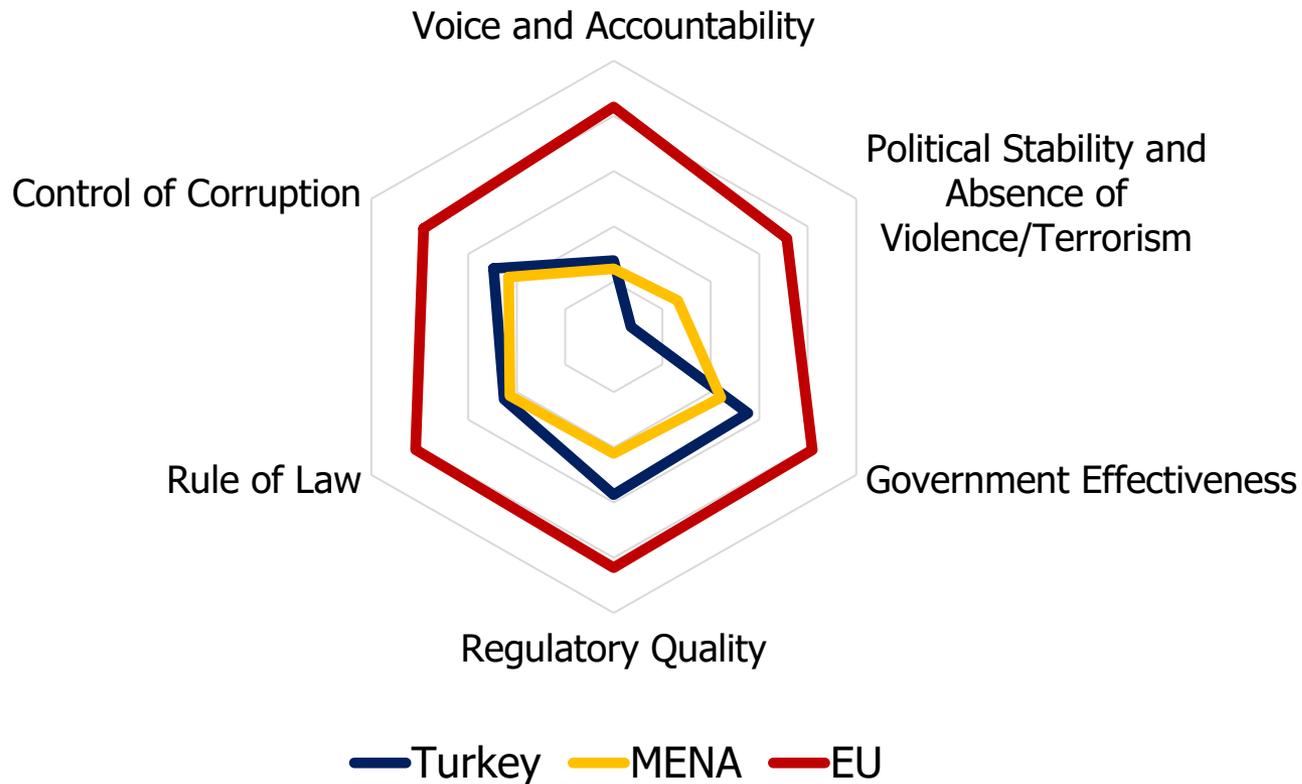
WJP Rule Of Law Index Factors	Ranking, 2019
Constraints on Government Powers	123/126
Absence of Corruption	57/126
Open Government	94/126
Fundamental Rights	122/126
Order and Security	96/126
Regulatory Enforcement	106/126
Civil Justice	96/126
Criminal Justice	85/126

Source: World Justice Project, TEPAV calculations (unweighted average)

Note: Outer side represents higher score

Turkey needs to decide where it stands...

WB World Governance Indicators, percentile rankings of EU-28, MENA and Turkey, 2017

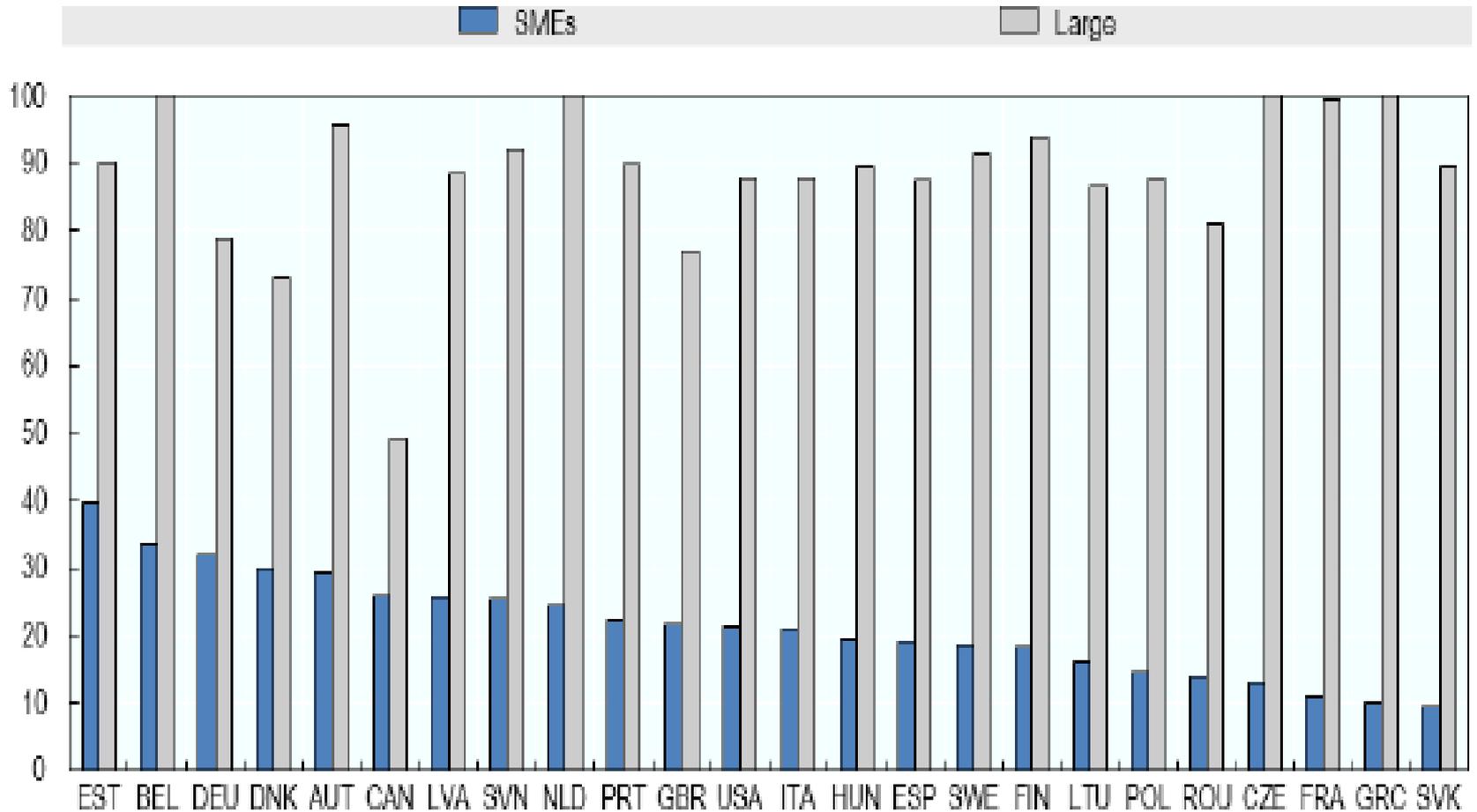


Source: World Governance Indicators, TEPAV calculations (unweighted average)
Note: Outer side represents higher score

SMEs and trade barriers

- Barriers to SMEs access to global markets:
 - (i) limited information about the working of the foreign markets, **difficulties in accessing export distribution channels**;
 - (ii) costly **product standards** and certification procedures,
 - (iii) burdensome **customs regulations/procedures**;
 - (iv) poor **access to finance** and slow payment mechanisms.

Industrial firms engaged in exports, as % of total firms by size, 2013



Source: Trade by Enterprise Characteristics database.

SMEs voice in CU process

- More attention to the specific needs of SMEs in EU-TR customs union.

→ Specific SME-friendly chapter

- Database listing all regulatory requirements for compliance
- trade facilitation (how to reform cumbersome procedures)-TFA
- Elimination of unnecessary hurdles and simplify RoO
- capacity building in digital trade and e-commerce (Alibaba/Kompass)
- SME committee to follow up implementation

→ Deepening CU into agriculture and trade in services

- to promote productivity in services and agricultural enterprises
- Service trade restrictions represent 10-20 % of tariff equivalence
- to reduce farm prices that can minimize labour costs in urban areas (working mostly in SMEs)

Opportunities are mutual for EU and TR SMEs:

if trading framework between the EU and TR is enhanced

EU SMEs

- *Dairy products*
- *Processed foods*
- *Fruit and vegetables*
- *Basic chemicals and plastics
(value chain integration for
intermediate products)*
- *Auto, machinery and
electrical equipment*
- *Business and professional
services- and trade services
(wholesale and retailing)*

Turkey's SMEs

- *Processed foods*
- *Fruit and vegetables*
- *Textile, clothing and footwear
(also to third markets)*
- *Trade, construction and
transport services,
recreational services, logistics*

Customs Union and SMEs

- Opening negotiations for an upgraded CU can help European (incl. Greek) and Turkish SMEs to benefit mutually as well as in third country markets.
- CU is a technical issue, which should not be politicized.

The EU *acquis* directly relevant to SMEs

Chapter not closed/not yet opened:

- Public procurement
- Company law
- Intellectual property law
- Competition
- Information society & media
- Food security, veterinary & phytosanitary policy
- Taxation
- Social policy and employm.
- Enterprise and industrial p.
- Regional policy...
- Environment
- Consumer & health protection

Chapter subject to political blockage:

- Free movement of goods
- Financial services
- Agriculture and rural development
- Customs union
- Freedom to provide services
- Education & culture
- Energy

Conclusions

- **Need for a new approach to internationalize SMEs and their linkage with the GVCs**
- **Strong and credible program with a new SME-driven narrative**
 - Turkey transformed itself from low-tech to mid-tech industrial country through EU engagement
 - Now is the time for the next jump (especially for its SMEs)
- **Choosing priorities is a good starting point**
 - Customs Union is an area of opportunity (should not be politicized)
 - Building digital capacity, integration with EU digital single market
 - financial inclusion and level-playing field for SMEs



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