Evaluations for Trade and Trade Finance in Turkey

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[1] Precious opinions of Hasan Ersel, Güven Sak, Esen Çağlar and Sarp Kalkan were taken in the preparation of the report.

Introduction

I. Turkey tier of the Trade Finance Project of the World Bank was executed by Economic Policy Research Foundation of Turkey (TEPAV). Final report of the Project "Unlocking Global Opportunities: The Aid for Trade Program of the World Bank Group" was published in June 2009[2]. This is the final report for the Turkey tier of the project. The report contains comprehensive evaluations and policy recommendations about trade and trade finance situation in Turkey. Within the context of the mentioned project, we conducted face-to-face interviews with 40 mid to high level managers of real sector firms in the list of biggest 1000 industrial enterprises of Turkey published by Chamber of Industry of Istanbul in 2007 and assistant general managers of 5 major banks, two public and three private, having an important role in trade finance in Turkey.

Executive Summary

II. Weaknesses in the mortgage market of the US triggered the global financial crisis of 2008. In a very short period of time crisis spread out from the US to the rest of the world. Negative impact of global financial crisis on world trade is now becoming visible. With the spread of the crisis all around the world, impacts on the world trade also intensified. World trade has been experiencing the biggest slowdown since the World War II. The foremost reason for this unintended consequence is the economic slowdown in major developed countries. In developing countries where the level of integration into the world economy has been gradually rising, both import demand and level of exports have been falling down as a repercussion of the global financial crisis.

III. Apart from the weakness in demand, problems about trade finance facilities also have a role in the slowdown of world trade. There are signs that financial institutions are tightening the conditions for extending trade finance credits. This substantially increases the cost of trade operations, and in some cases leads to the cancellation of the trade transaction. Other factors that push up cost are the increase in the demand for insurance tools due to the lack of mutual trust and the rise in insurance premiums due to the crisis. Turkey, which is an important part of the global economy, also encounters significant challenges in terms of both trade and trade finance facilities.

IV. From September 2008, when the impacts of the global crisis have become evident, to January 2008 imports and exports contracted in average by 26 and 16 percent per month, respectively. The survey conducted in the context of the project makes it possible to understand the reasons behind the fall in exports. Fall in Turkey's exports result rather from the tightening in foreign demand than trade finance problems. 60 percent of firm managers stated that the decline in the foreign demand for Turkish exports is mainly due to the lack of new orders. Lack of finance on buyer's part is defined as a factor limiting the rise in exports by 40 percent of the surveyed firms. On the other hand, only 10 percent of the surveyed firms addressed lack of finance on their part as a problem. Interviews with bank managers

[2] Full text of the report can be accessed at
http://siteresources.worldbank.org/INTPREMNET/Resources/UnlockingGlobalOpp.pdf

also supported that the problems foreign importers face in accessing finance is a factor that constrains export growth of Turkey.

V. In particular fall in exports to European Union countries contributed significantly to the steep decline in total exports. While Turkey's exports to EU countries increased by 23 percent from January 2002 to September 2008, exports declined by 32 percent from October 2008 to January 2009. In the October 2008-January 2009 period, Turkey's exports to Near and Middle Eastern and North African countries have increased by 11 and 32 percent, respectively. In the light of these data, it is possible to conclude that private sector in Turkey tried to compensate for the slowdown in traditional markets by opening up to new markets.

VI. A trend toward market diversification in Turkey's exports is also validated by the results of firm surveys. 62.5 percent of the surveyed firms expressed that they will direct their operations towards new export markets. Among the countries expected to be more important as export markets in 2009 are Azerbaijan, Algeria, China, France, Netherlands, Italy, Qatar, Kazakhstan, Mexico, Egypt, Uzbekistan, Russia, Saudi Arabia, Turkmenistan and Ukraine. Germany, USA, United Arab Emirates, Iraq, United Kingdom, Spain, Israel and Switzerland are among the countries that surveyed firms consider to cut exports to. Nonetheless, new markets do not seem to replace traditional markets. Rise in Turkey's exports to 10 countries, share of which in Turkey's total exports have increased the most in the first five months of 2009 compared to the same period in 2008, can compensate only for 26 percent of the fall in exports to 10 countries the share of which in Turkey's total exports has declined the most.

VII. Turkey's imports from EU countries have increased by 24 percent in January 2002-September 2008 period, whereas it fell by 33 percent in the October 2008-January 2009 period. It is observed that Turkey's imports from all country groups has been falling, except for North America, Australia and New Zealand, which have relatively limited share in Turkey's total imports.

VIII. In terms of methods of finance, it appears that Turkey is predominantly the country undertaking risks in trade operations. 60 percent of Turkey's exports in 2008 were financed through cash against goods method, which is the riskiest method for the exporters[3]. Share of cash against delivery method in exports of the survey participant firms is similar. Adoption of this method between parties that engage in trade operations for decades without facing any problems is considered normal as the method reduces intermediation costs. However, adopting the payment in cash method in the face of the uncertainly created by the global crisis climate has the potential to pose significant problems. It is of great importance to use less risky payment methods with respect to commercial relations established in new markets and to put insurance mechanisms into operation.

[3] In cash against goods method, exporter undertakes significant risks whereas importer gains advantages as the importer does not make any payment until he receives the purchased good.

IX. In 1008, around 50 percent of Turkey's imports were financed through advance payment method, which is the riskiest payment method[4]. This rate reflects the share in Turkey's total imports and this result is supported also by survey results. The share of imports financed through advance payment method in total imports have increased from 33 percent in 1998 to 50 percent as of the end of first half of 2009. Firms obtain the resources for imports paid in advance either through credits from financial institutions or using their internal resources. In the face of the global crisis where banks have tightened credit standard and internal finance facilities have decreased significantly, it is a high possibility that significant problems in import finance will be encountered.

X. The surveyed firms extensively prefer to use their internal funds in financing their production activities. 73 percent of the surveyed firms stated that they use internal funds, whereas around 58 percent of firms use bank credits. 60 percent of total finance requirement is met by internal funds whereas the share of banks credit is around 30 percent. Considering that the credit worthiness of the surveyed firms is high above the Turkey average, it is possible to conclude that bank credit based trade finance types are less common across Turkey. In the current period where enterprises cease production wholly or partially, internal finance facilities rapidly came to a halt. It is possible that as domestic and foreign demand conditions recover, Turkish firms face serious challenges in accessing finance.

XI. Import transactions have an important share in the production activities financed predominantly through internal funds. However, it can be argued that in a period where production and thus imports decrease rapidly, foreign exchange reserves firms have saved to finance imports became idle. It can be assessed that, when the said resources are used within Turkey, a significant increase in domestic foreign exchange supply arises leading to the appreciation or preventing the depreciation of the Turkish lira. There is a need for comprehensive research on the fall in import demand and its impact on the value of Turkish lira.

XII. One-third of the surveyed firms state that access to pre-export finance is a major obstacle for increase in exports. 52 percent of the surveyed firms claim that this problem became more serious after September 2008 as banks became pickier when extending credits and as the cost of finance has risen. Participants have claimed that pre-export finance costs have increased by around 40 percent. Moreover, average days of maturity decreased from 104 before Sept-08 to 61 after September 08. On the other hand, cash-to-cash cycle of half of the surveyed firms increased 52 days on average. Decrease in the average days of credit maturity as well as the problems in collection of export receipt puts private sector into trouble. Customers' unwillingness to make advance payments appears as another factor that hinders trade finance.

[4] In cash in advance method, importer makes the payment before he receives the good. In this context, substantial proportion of the risks arising from the trade transaction is undertaken by the importer whereas the exporter gains advantages enjoying pre-finance opportunities.

XIII. Similar to the problems in financing export activities, signals that problems also arise in the collection of export receipts have become apparent. 70 percent of the surveyed firms use open account transfers as a payment method to collect export receipts. Share of the mentioned method of payment in total payment methods is around 70 percent. However, adoption of payment methods that are extensively based on confidence puts some firms into trouble. 35 percent of the surveyed firms have stated that there has been an increase in the share of overdue payments in total sales. The amount of increase has been 13.5 percent in average. 32.5 percent of the surveyed firms changed their requirements with regard to the type of payment. Measures like increasing the advance ratio and use of factoring methods are becoming widespread.

XIV. 55 percent of firms using L/C to collect export receipts require confirmed L/C, which is a more guaranteed method. In deciding the method of payment, trust in the party engaging in the transaction is stated as the most important factor. In particular along with the global crisis, good standing of the trade partner and its bank gains higher importance. Therefore, duration banks provide confirmation for L/C's increase. In addition to this, confirmation commissions bank charge for L/C's have increased by 100% in the recent period.

XV. Advance payment and open account transfers are the two methods used must commonly in import operations. Share of advance payment and open account transfer methods in total import payments of the firms using the said methods are 48 and 50 percent, respectively. L/C and pa and cash against documents methods are preferred by 37.5 and 47.5 of the surveyed firms as a payment method.

XVI. 42.5 percent of the surveyed firms use export guarantees or trade credit insurance against potential export receipt problems. 42 percent of the firms using insurance instruments state that insurance premiums have increased after September 2008. They stated that premiums have increased by 37 percent. Rise in the demand for and the cost of insurance instruments is an obstacle for trade.

XVII. In the next part of the study, trade and trade finance situation in Turkey will be examined. In the second part, results of the firm and bank surveys conducted in the scope of the project will be evaluated.

1. Trade and Trade Finance Situation in Turkey

1) Turkey's ties with the global economy increased very rapidly after 2001 economic crisis. Successful implementation of crisis recovery program and favorable economic conditions in the world economy contributed to the emergence of this picture. Turkey's average annual import growth rate increased from 11 percent in 1991-2000 to 31 percent in 2002-2008. Not only imports but also exports have grown very rapidly after 2001. Average annual growth rate of exports increased from 8 percent in 1991-2000 to 30 percent in 2002-2007.

2) Another important implication of Turkey's global economic integration is the increase in foreign direct investment flows. Total amount of direct investment from abroad increased from 5.5 billion USD in 1991-2000 to 67.5 billion USD in 2002-2008. In an environment where global liquidity conditions are extremely favorable Turkish private sector started to borrow extensively from abroad. Total private debt stock of Turkey has increased from 42 billion USD to 196 billion USD in the third quarter of 2008. The rest of this section will analyze Turkey's export and import performance, respectively.

3) Share of exports in total GDP increased from 15.6 percent in 2002 to 16.3 percent in 2007. 95 percent of total exports in 2008 were manufacturing products[5]. The number of destinations of Turkish exports with a volume over 1 billion USD increased from 5 in 2000 to 30 in 2008. Resilience of Turkish exports to possible negative developments in major trading partner countries has also been increased. Thanks to the diversification process gone through, share of Turkish exports directed to 10 most important trading partners in total Turkish exports have declined from 62 percent in 2000 to 49 percent in 2005.

4) Share of imports in total GDP increased from 22 percent in 2002 to 26 percent in 2007. There is a high correlation between GDP growth and import growth in Turkey as the production structure is highly dependent on imported materials. Majority of Turkish imports is composed of intermediate goods. Share of intermediate (excl. processed fuels and oils), capital, and consumption goods in total imports are 68, 14, and 11 percent in 2008, respectively.

5) Table 1 shows the share of different country groups in Turkey's foreign trade. Although EU's share in Turkey's total import and export have declined from 2002 to 2008, EU countries are still the most important trading partner of Turkey. Importance of Near and Middle Eastern and African countries (except North Africa) as export markets have increased from 2002 to 2008. Geographical composition of Turkish imports is also changing. Share of imports originated from non EU member European countries and other Asian countries have increased in the same period.

[5] Export products are classified as manufacturing by using ISIC Rev 2 classification.

Table 1: Geographical distribution of Turkey's foreign trade, 1996 and 2008

	Export (%)		Import (%)	
	2002	2008	2002	2008
EU Countries	56.6	48.0	49.8	37.0
Other Country Groups	39.4	49.7	49.1	62.3
Near And Middle Eastern	9.5	19.3	6.2	8.7
Other European Countries than EU	7.2	11.9	14.5	21.9
Other Asian Countries	5.0	5.4	12.7	18.9
North America Countries	10.0	3.6	6.6	6.6
North African Countries	3.5	4.4	4.1	2.6
Other African Countries	1.2	2.4	1.1	1.2
South America Countries	0.3	0.7	1.0	1.6
Central America and Caraips	0.5	0.6	0.2	0.3
Australia and New Zealand	0.3	0.3	0.6	0.4
Other Countries	1.8	1.1	2.0	0.0

Source: TURKSTAT

6) As summarized above, Turkey's ties with the global economy have been strengthening since 2001 economic crisis. EU countries, which are still Turkey's most important trading partners, are losing ground while some Middle Eastern, Asian and other European countries are becoming more important. In this context, a possible decline in Turkey's import demand will definitely have adverse consequences on especially European and Asian economies, whereas, an economic downturn in European and Near Middle Eastern countries will negatively affect Turkey's export performance.

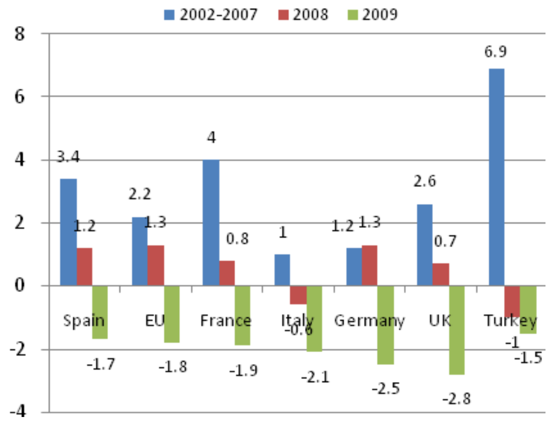
7) Global financial crisis of 2008 caused an economic downturn in Turkey and Turkey's trading partners[6]. As it was stated previously, one of the most important channels that will carry the crisis to Turkey is foreign trade channel. In the next section, the impact of global financial crisis on Turkey's foreign trade and trade finance situation will be analyzed.

1.1 Impact of global financial crisis on Turkey's foreign trade

8) Immediate impact of the global financial crisis became visible in EU countries, which as stated above are the most important trading partners of Turkey. In a very short period of time financial sector problems in these countries translated into the reel sector. In 2008, growth rates of Turkey's major trading partners declined to levels, which are far less than the 2002-2007 growth averages. Moreover, growth projections of IMF indicate that deterioration in the growth performance of the EU countries will continue in 2009 (Figure 1a). As economic slowdown inevitably affects the growth rate of imports of these countries, Growth rates of imports in majority of trading partners, which turned to negative after the crisis, Turkey's export performance is directly affected (Figure 1b).

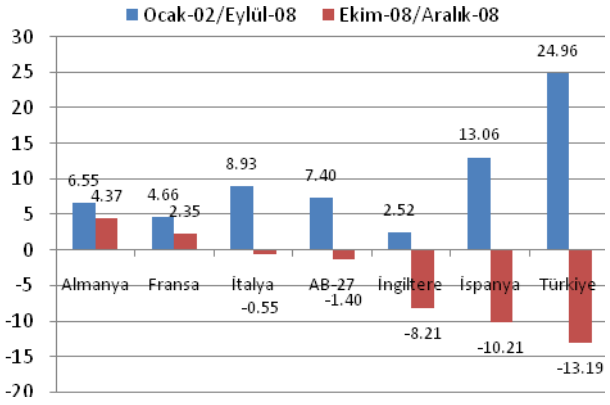
[6] However, it is important to note that we are not able to decompose the sources of slowdown in Turkey. Although, global financial crisis made an important contribution to the economic slowdown in Turkey, the rest of the effect comes from Turkey's internal dynamics.

Figure 1a: Growth rates of Turkey and Turkey's major trading partners (%)



Source: IMF

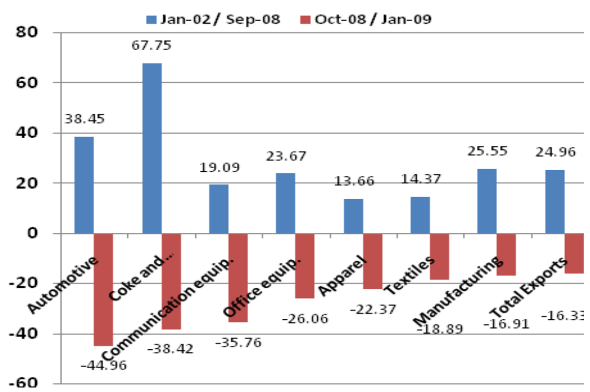
Figure 1b: Growth rate of **Turkey's export** and major trading partners' imports (%)



Source: EUROSTAT, TURKSTAT

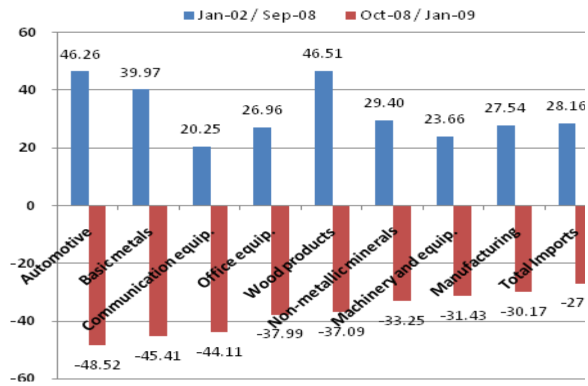
9) As it was mentioned above, majority of Turkish exports are manufacturing goods. Therefore, manufacturing industries have been affected from slowdown in major trading partners' import growth at most. Figure 2a shows the growth rates of exports of selected sectors most severely affected from the crisis, for the periods January 2002-September 2008 and October 2008–January 2009. These sectors accounted for 40 percent of Turkish exports in 2008. Current growth projections for Turkey's major trading partners indicate that Turkey's export performance will continue to deteriorate in 2009. Not only export but also growth rate of Turkish imports is declining very rapidly. Figure 2b shows the import growth rates of some subsectors of manufacturing industry which accounted for 34.5 percent of total Turkish exports in 2009. As it was mentioned above, Turkey's production structure is highly dependent on imported intermediate materials. Therefore, current economic slowdown caused an immediate decline in Turkey's import demand.

Figure 2a: Export growth rates of subsectors of manufacturing industry (%)



Source: TURKSTAT

Figure 2b: Import growth rates of subsectors of manufacturing industry (%)



Source: TURKSTAT

10) As the growth rate of Turkey's exports is evaluated in a regional basis, it is observed that the fall in export growth is mainly due to the slowdown in EU countries. After global financial crisis hit the EU countries, growth rate of Turkey's exports directed to EU countries started to decline very rapidly in October 2008-January 2009. The deterioration in the export performance of Turkey was not limited with the exports directed to the EU markets. Growth rate of Turkey's export to Near and Middle Eastern countries, which accounted for almost 20 percent of total Turkish exports, also declined from 38 percent in January 2002-September 2008 to 11 percent in October 2008-January 2009. Furthermore, growth rate of Turkish exports directed to other European countries declined from 37 percent in the pre-crisis period to -1 percent after crisis. The only country group, growth rate of Turkey's exports to which increased after crisis, is North African countries (Table 2).

11) The slowdown in Turkey's import predominantly manifested itself as the fall in demand for import from the EU countries. Other major exporters like other European countries and Asian countries, which have an important share in Turkey's total import, have been severely affected from the economic contraction in Turkey.

Table 2: Export and Import Growth for Different Country Groups

	Export (%)		Import (%)	
	Jan-02 / Sep-08	Oct-08 / Jan-09	Jan-02 /Sep-08	Oct-08 /Jan-09
EU Countries	**23.11**	**-31.81**	**24.41**	**-32.81**
Other Country Groups	28.13	4.63	31.46	-21.21
Other European Countries than EU	36.91	-1.24	37.44	-22.72
North African Countries	29.18	31.52	19.97	-14.04
Other African Countries	43.09	3.72	34.29	-51.81
North America Countries	7.61	0.51	25.69	9.50
Central America and Caribbean	53.06	36.78	66.13	-13.65
South America Countries	37.00	18.83	44.66	-3.32
Near And Middle Eastern	38.18	10.92	33.71	-27.02
Other Asian Countries	30.29	-9.35	37.94	-24.97
Australia and New Zealand	30.57	-10.19	56.80	84.15
Other Countries	223.36	11.34	21.31	-18.31

Source: TURKSTAT

12) Another important point to note is that the sectors, which experienced the most severe deterioration in export performance, are the ones that specialize in production of consumer goods such as automobiles and communication equipments. Turkey has an important place in the global value chain of these industries. Therefore, it is possible to claim that shrinkage in the production of these sectors might have serious implications for the whole value chain.

1.2 Trade finance situation in Turkey

13) Among the factors that provides for sustaining global economic integration through foreign trade, trade finance is the most important one. It is well documented in the literature that lack of trade finance is one of the most important factors that limits foreign trade. Experiences of East Asian countries in 1997 financial crisis showed that problems in access to trade finance caused a dramatic decline in economic activity[7].

14) Since the majority of trade related credits are provided by banks, it is possible to claim that countries with unhealthy banking sectors are likely to experience difficulties in financing their foreign trade. In this era of global financial crisis, the banking sectors of both developed and developing countries are shaking. Therefore, the world economy is now facing the risk that global trade might come to a halt. In an environment where all countries are experiencing financial difficulties, banks will be unwilling to confirm or underwrite letters of credit (L/C) issued by the counterparty banks. This situation might be very harmful for the developing countries, when high import dependence of these countries is taken into consideration.

15) Turkey's trade volume reached 330 billion USD in 2008. Sustainability of increases in the trade volume depends heavily on availability of low cost and reliable trade finance. Turkish banking sector, as an important provider of trade finance, is in a better condition than it was before 2001. On the other hand, although, banking sector is stronger than it was before 2001, Turkish economy has very high external financing requirements, which makes the country vulnerable to global financial crisis. Deterioration in the macroeconomic fundamentals, especially Turkey's high current account deficit is the most important source of vulnerability.

16) Stability of the value of the domestic currency is an important factor that increases the willingness of foreign banks to confirm foreign currency denominated L/Cs that are issued by counterparty banks. However, Turkish lira has depreciated 37 percent against US dollar since September 2008. In an environment that current outlook for private capital flows to emerging market countries continuously deteriorates, sustaining the stability of value of the Turkish lira is questionable. This appears as a factor that hinders trade finance in Turkey. The rest of this section will summarize Turkey's trade finance situation.

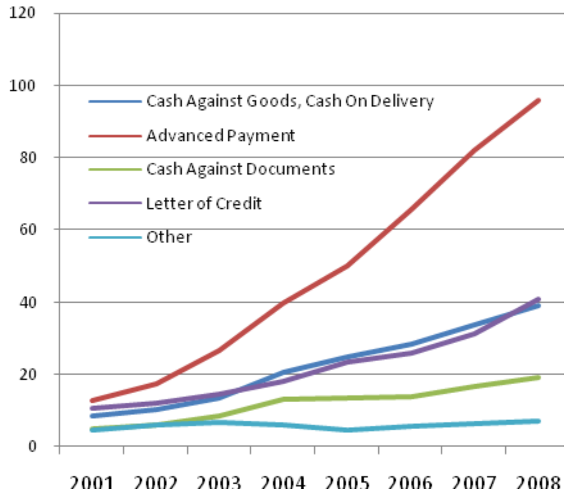
1.2.1 Import Finance in Turkey

17) Majority of imports are financed through advanced payment method in Turkey, which is the most risky method for the importers. Total value of imports financed through advanced payment has been increased from 13 billion USD in 2001 to 96 billion USD in 2008. Cash against goods and cash on delivery method, which is the most desirable method of payment for the importers, increased from 8 billion USD in 2001 to 36 billion USD in 2008. Total value of imports financed through the use of L/Cs has increased from 11 billion USD in 2001 to 41 billion USD in 2008. Finally, imports financed through the method of cash against documents have increased 5 billion USD in 2001 to 19 billion USD in 2008 (Figure 3a). This picture indicates that Turkey's imports are

[7] Meier-Ewert, Moritz (2003), *Improving the availability of trade finance during financial crisis*, WTO, Geneva.

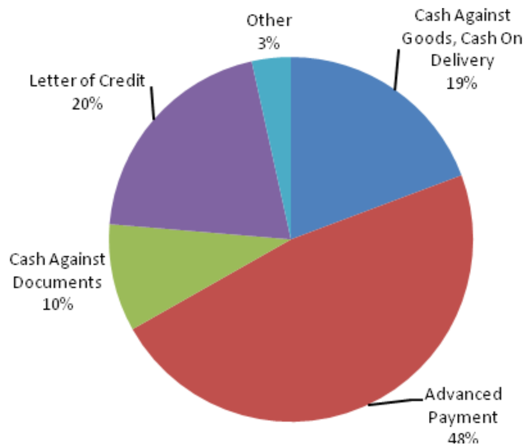
financed mostly by using the methods, which can be considered as risky for the exporters. Shares of each method of financing in Turkey's total import are given in Figure 3b.

Figure 3a: Imports by type of payments (Billion USD, 2004-2008)



Source: TURKSTAT

Figure 3b: Share of different method of payments used in Turkey's import (%, 2008)



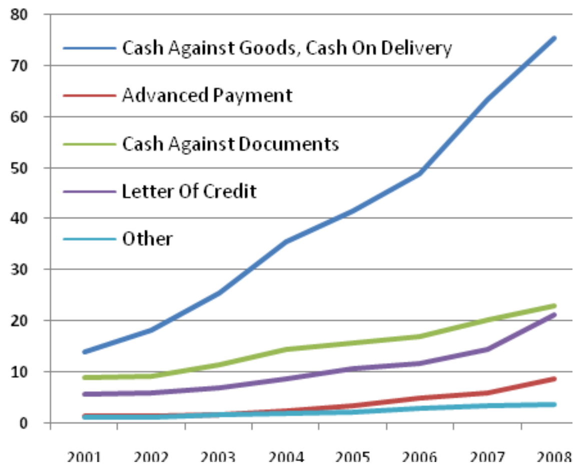
Source: TURKSTAT

1.2.2 Export finance in Turkey

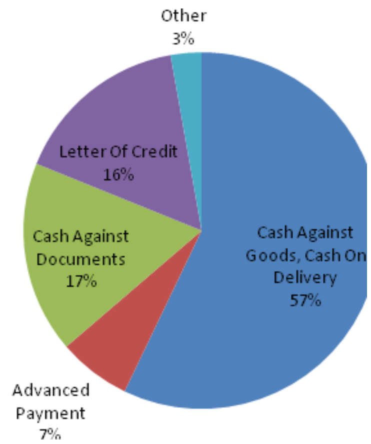
18) Majority of Turkish exports are financed through the method of cash against goods and cash on delivery. Value of exports financed through this method has increased from 14 billion USD in 2001 to 75 billion USD in 2008. Another form of payment that is crucial in export financing in Turkey is cash against documents, which has increased from 9 billion USD in 2001 to 23 billion USD in 2008. L/C is not an instrument that is used extensively in export financing in Turkey. The value of exports financed by this method has risen from 6 billion USD in 2001 to 21 billion USD in 2008. Most uncommon method of payment is advanced payment, which has increased from 1.5 billion USD in 2001 to 9 billion USD in 2008 (Figure 4a). This picture indicates that Turkey's exports are financed mostly by using the methods, which can be considered as risky for the importers. Shares of different methods of payments used in financing Turkey's export in 2008 are given in Figure 4b.

Figure 4a: Exports by type of payments (Billion USD, 2004-2008)

Figure 4b: Shares of different methods of payments used in financing of Turkey's export (%, 2008)



Source: TURKSTAT



Source: TURKSTAT

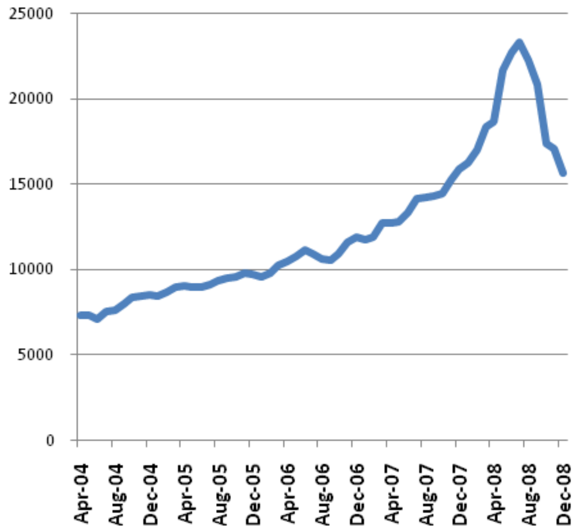
1.2.3 Role of Turkish banking sector

19) Turkey's banking sector was in a very weak position before 2001 economic crisis. After successful implementation of the banking sector reform, as part of the crisis recovery program, most of the problems with the Turkish banking sector were fixed. Macroeconomic instability and distortions created by the state banks were the main obstacles that limited the efficient functioning of the banks. However, these problems were also fixed to a great extend after 2001 with the banking reform implemented after 2001. This way, financial system in Turkey achieved a structure that supports trade growth.

20) L/Cs, which are considered as contingent liabilities of the Turkish banking sector, increased from 7.3 billion USD in April 2004 to 20.9 billion USD in September 2008[8]. However, from September to December, value of L/Cs issued by the Turkish banking sector declined by 25 percent to 15.6 billion USD (Figure 5a). 68 percent of the L/Cs is collateralized, whereas the remaining is uncollateralized. Amount of uncollateralized and collateralized L/Cs decreased by 18 and 28 percent, respectively from September to December. Turkish banking sector is actively involved in the financing of exports. Export credits provided by the Turkish banking sector are increased from 8.9 billion USD in April 2004 to 23 billion USD in September 2008. Afterwards, from September to December, export credits decreased by 13 percent (Figure 5b).

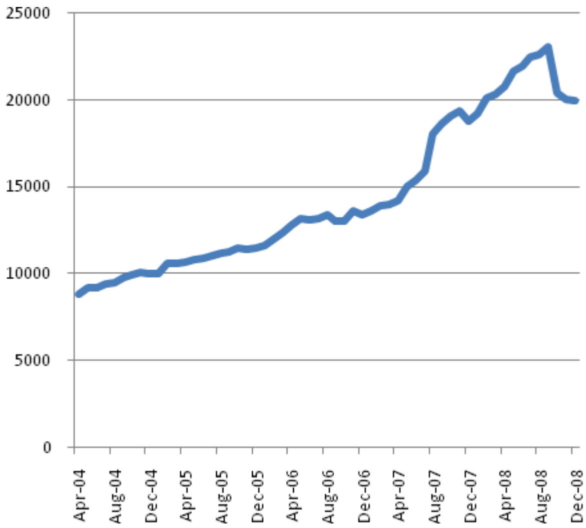
[8] These data are collected from the monthly bulletins of BRSA. Original data was published in Turkish lira terms. In calculating amount of LCs and export credits in USD dollars month- end USD/TL exchange rate was used.

Figure 5a: Total amount of LCs by Turkish banking sector (million USD)



Source: BRSA

Figure 5b: Total amount of export credits by Turkish banking sector (million USD)



Source: BRSA

2. Results of Banks and Firms Surveys

21) Decline in foreign trade is mostly due to unsatisfactory demand conditions in both Turkey and Turkey's trading partners. However, it is believed that deterioration in the trade finance situation across the world might be an important factor that hampers the recovery of global trade. In order to better understand the role of deterioration in global trade finance situation on Turkey's foreign trade there is the need for reliable data. In order to gather such data we conducted face-to-face interviews with 40 mid to high level managers of real sector firms and assistant general managers of 5 major banks in Turkey. In this section, we will summarize the main findings of the firm and bank surveys, respectively in two parts.

22) The boxes below summarize the characteristics of the sample and the survey results, respectively. The second part gives the survey results in detail.

Box 1: Characteristics of the sample

Survey participants constituted of the manager of 40 firms and 5 banks. Firms were selected from 8 different cities of Turkey: Ankara, Bursa, Denizli, Gaziantep, Kayseri, Izmir, Istanbul and Kocaeli. For bank surveys, assistant managers in charge of trade finance in Istanbul Head Offices were interviewed. Firm sample was selected out of the list of 1000 largest firms of Turkey announced every year by Istanbul Chamber of Industry. These firms account for 65 percent of Turkey's total exports. 29 percent of the surveyed firms have 50 to 250 employees, whereas 63 percent have 250 to less than 2500 employees. Only 2 percent of the surveyed firms have more than 2500 employees. The turnover of 50 percent of the surveyed firms has been less than 50 million TL in 2007. 26 percent of the firms are fully or partially owned by a multinational corporation.

Firms producing industrial materials account for 68 percent of the total surveyed firms. 25 percent of the surveyed firms produce consumer goods and only 5 percent produces computer, technology or software. Producer of semi-finished products constitute 37 percent of total surveyed firms, whereas designer/assembler of the final product accounts for 55 percent of the sample. Exports account for 53 percent of the total sales of surveyed firms on average. During Jan-June 2008 period average export of the firms surveyed is around 57 million USD.

Box 2: Summary of the firm survey results

a. More than half of the surveyed firms experienced a decline in their export performance after September 2008.
b. 80 percent of the firms anticipate that their exports will decrease by 32 percent on average in the rest of 2009.
c. 62.5 percent of the surveyed firms expect a change in the destination of their exports.
d. Majority of the decline in exports is due to lack of new orders. Second important factor is lack of trade finance on the buyer's side. Lack of finance on the firm's side relatively uncommon.
e. 27.5 percent of the surveyed firms expect a change in the origin of their imports. There is a tendency to move from less to more stable countries.
f. Self financing/retained earnings (73% of firms use this method) are the most common financing method of production activities. Commercial bank credit (58%), accounts payable (48%), and buyer down payment (40%) are relatively less common.
g. Self financing/retained earnings account for more than half of the total export financing needs of the surveyed firms. Commercial bank credit and accounts payable approximately account for 30 percent of total financing needs.
h. Access to pre-export financing is a major obstacle for expansion of 32.5 percent of the surveyed firms.
i. The most important factor that makes access to pre-export financing is refusal of banks to lend to the firms. Increase cost of financing and shorter maturity requirements of the banks are other factors.
j. The most common payment type used for exports is open account transfers (70% of the surveyed firms use this method). It is followed by cash in advance and pre-payment (48%), L/C (43%), and documentary collection (40%).
k. On average 70 percent of total exports receipt are collected by the method of open account transfers. L/C is the second important method, which accounts for 48 percent in total financing needs.
l. There isn't any strong sign of change in the composition of method of payment since Sept-08.
m. There has been an increase in overdue payments of 35 percent of surveyed firms.
n. Delays in receiving receipts are highest when the method of payment is direct payment. This shows that there is a high chance that safer method of payments like L/Cs will be preferred more in the coming period.
o. Almost 20 percent of the surveyed firms experienced difficulties in confirming their L/Cs. 47.5 percent of the firms declared that banks have increased their response time to add confirmation to their L/Cs.
p. Share of export credits in total financing of export activities are decreasing, whereas shares of supplier credit and factoring are increasing.
q. 57.5 percent of the firms declared that acquiring export finance has been more difficult since Sept-08.
r. 7 out of 17 firms, which use export guarantee mechanisms in order to secure their receipts, claimed that commission fees increased by 37 percent on average.
s. More than half of the surveyed firms reported that their exports have declined since September 2008.
t. 80 percent of the firms anticipate that their exports will decline by 32 percent during the rest of 2009.
u. 62.5 percent of the surveyed firms anticipate that destination of their exports will change.
v. The decline in the foreign demand for Turkish exports is mainly due to the lack of new orders. The second important factor that gave rise to the problems in foreign trade is the lack of finance on buyer's part. It is relatively less common that the firm encounters trade finance problems.
w. 27.5 percent of the firms consider changing principal origin of their imports. There is a shift from the countries that are severely affected from the global financial crisis.

Box 3: Summary of bank survey results

a. Demand for private banks' L/Cs has declined by 36 percent in Sept-Dec 2008 relative to September-December 2007.
b. However, exporters, which started to export more to the North African and Middle Eastern countries, started to use more L/Cs as a more secure type of payment.
c. In line with the firms' survey, there isn't much change in the composition of shares of different payment methods in total financing of imports and exports. There is a significant increase in advance payment in exports.
d. Drop in short term export credits is less than drop in L/Cs. Only two of the surveyed banks declared that they experienced a drop in demand for their export credits.
e. In the rest of 2009 all of the banks' managers expect sharp decline in demand for their short-term export credits.
f. Interest charged for short-term export credits increased by 100 percent (1.7 percentage points) after September 08.
g. Turkish banks are tightening their counter-party bank criteria by excluding the banks of CIS, Latin American and Eastern European countries.
h. Most important reason for drop in the demand for L/Cs and short term export financing is global slowdown. Increase in price of trade credit and exchange rate is other factors that contribute to the drop in demand.
i. Turkish banks started to ask for more insurance or confirmation with their counterparty banks.
j. All of the bank managers think that ECA should increase its lending capacity. Moreover, IFC and EBRD should increase their guarantee facilities in order to contribute to the recovery in global trade.

2.1 General company information and trade profile

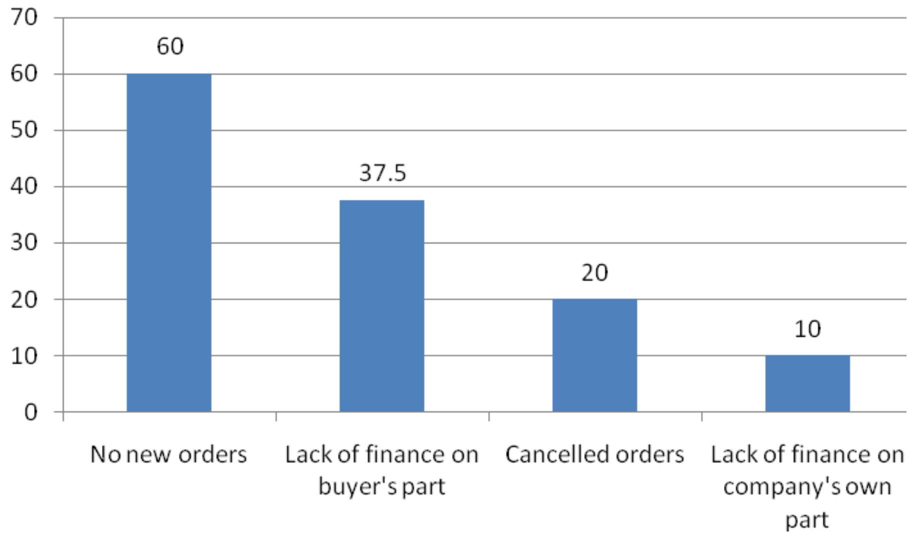
23) **The negative impact of the global financial crisis is visible on the export performance of the firms surveyed.** Fifty three percent of the surveyed firms reported that their exports have declined since September 2008. Average decrease in exports of these firms is around 26 percent. 35 and 12 percent of the remaining firms reported that their exports have increased or remained the same since September 2005, respectively.

24) **In the survey, the firms are asked about their expectations of the progression of their exports.** The average of the anticipated decline in the exports of the eighty percent of the respondents in 2009 is 32 percent. The remaining 20 percent of firms' expectation is that their exports will increase by 69 percent on average in 2009. The principal destinations of exports of these firms are Brazil, Bulgaria, China, France, Germany, Iraq, Italy, Libya, Moldova, Netherlands, Pakistan, Portugal, Serbia, Spain, Syria, Ukraine, USA, UK, and Yemen. Moreover, these firms produce glass fiber reinforced plastic pipe, yarn, t-shirt, automotive door profile, automobile carrier trailer and medicine.

25) **There is a tendency among 62.5 percent of the surveyed firms towards changing the geographical distribution of total exports.** Algeria, Azerbaijan, China, Egypt, France, Italy, Kazakhstan, Mexico, Netherlands, Qatar, Russia, Saudi Arabia, Turkmenistan, Ukraine, and Uzbekistan are among the countries, which are expected to be more important as export markets for the surveyed firms. Germany, Iraq, Israel, Italy, Spain, Switzerland, UAE, UK, and US are the countries that majority of firms reported that they will decrease exports to these countries.

26) **Decline in Turkish exports is mostly due to the decrease in the foreign demand rather than the problems with the trade finance.** Majority of the managers of the surveyed firms implied that the decline in the foreign demand for Turkish exports is mainly due to the lack of new orders. The second important factor that gave rise to the problems in foreign trade is the lack of finance on buyer's part. This is consistent with the results of the bank survey that both managers of the banks and managers of the private sector firms think that problems in the trade finance is more severe in trading partners.

Figure 6: Reasons behind decline in export



27) **Firms surveyed in the scope of this study are part of the global value chain in the sense that they import intermediate inputs and export their production to the rest of the world.** The share of imported intermediate inputs in total intermediate input use account for 42 percent on average. Only 12.5 percent of the firms import from their parent country and such imports account for 40 percent of their total intermediate input use. The average value of imports of the surveyed firms has been 57 million USD during Jan-June 2008 period. However, it is important to note that only 12.5 percent of the firms' imports are more than 57 million USD, where the only firm, whose imports have been 1 billion USD, increases the average.

28) **Since there is a high dependency on imported intermediate inputs, decline in the production directly translates into the import demand of Turkish firms.** Sixty two percent of the firms decreased their imports by 37 percent on average, whereas only 12.5 percent of the firms experienced an increase in their imports by 36 percent on average since Sept-2008. For the

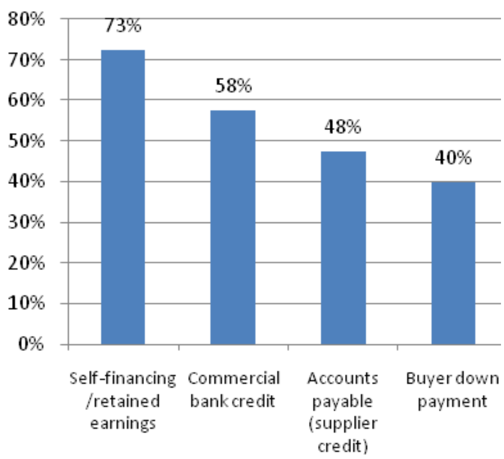
rest of 2009, 72.5 percent of the firms anticipate 40 percent decrease on average in their imports, which signals that the decline in imports will be sharper in the rest of 2009.

29) **The origins of the imports of the surveyed firms are generally European and Asian countries.** China and Germany are among the principal origins of 35 percent of the firms. Italy is another country, which has an important place in the import portfolio of the surveyed firms. Twenty five percent of firms import from Italy, whereas 22.5 percent of firms import from France and Spain. One of the implications of the crisis will be the change in the principal of origin of the imports of private sector firms. Actually, 27.5 percent of the firms consider changing principal origin of their imports. There is a shift from the countries that are severely affected from the global financial crisis.

2.2 Pre-export financing

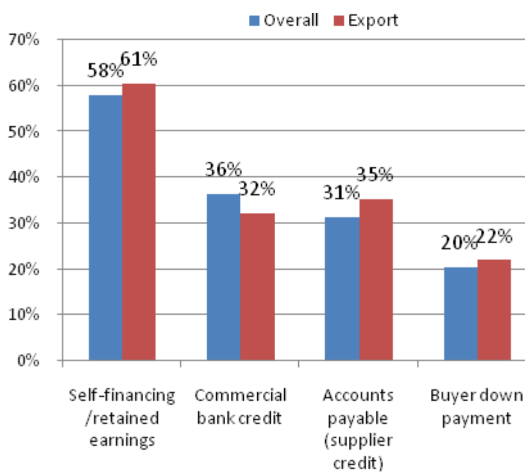
30) **The surveyed firms extensively prefer to use their internal funds in financing their production activities.** The most popular methods of financing are self financing and retained earnings, whereas the least popular one is buyer down payment (Figure-7a). The share of self-financing/retained earnings account for approximately 60 percent of total financing needs of the surveyed firms in both overall and export production, whereas the share of buyer down payment is around 21 percent, which is quite low (Figure-7b). Commercial bank credits are relatively less important in financing of export production than it is in production activities. **Cash-to-cash cycle of half of the surveyed firms remained the same since Sept-08, whereas 40 percent of surveyed firms' cash-to-cash cycle increased 52 days on average.** As the cash-to-cash cycle of the firms increases, financing need increases.

Figure 7a: Percentage of firms using different methods of financing in overall production activities (%)



Source: TURKSTAT

Figure 7b: Shares of different type of financing methods in total financing needs (%)



Source: TURKSTAT

31) **Access to pre-export financing is a major obstacle for expansion of 32.5 percent of the surveyed firms' exports.** Almost all of the managers, that consider pre-export financing as a major obstacle, claim that it is a more serious problem since Sept-08. 77 percent of the firms that consider pre-export financing a major obstacle characterized the increase in difficulty with the refusal of banks to lend to the firms. Moreover, higher cost is considered as a factor that increases the difficulty in access to pre-export financing by 62 percent of surveyed firms. These firms asserted that cost of pre-export financing increased by 20 percent on average. Almost 62 percent considers shorter maturity as an important constraint in the expansion of their exports. Average days of maturity decreased from 104 before Sept-08 to 61 after Sept-08. Only 10 percent of the firms cancelled a transaction due to problems in access to pre-export financing.

2.3 Method of financing and payment of international transactions

32) **Open account transfers have been used by 70 percent of the total surveyed firms.** Letter of credits (L/C), documentary collection and cash in advance and pre-payment types are relatively less common and approximately 40 percent of the surveyed firms use these methods.

33) **There isn't any strong sign of change in the composition of method of payment since Sept-08**. Decomposition of the firms according to their views about trends in different types of payments is given in Table 3. As it can be seen from the table, the majority of the managers of the firms responded that the share of different types of payment options remained the same after Sept-08. However, there is a slight increase in the popularity of L/C and cash in advance & pre-payment method, whereas a slight decrease in documentary collection and open account transfers. It is possible to claim that in order not to lost customers, surveyed firms still prefer to use open account transfers method.

Table 3: Trend in different type of payment methods since Sept-08 (number of responding firms)

	Large decrease	Decrease	Same	Increase	Large increase
Letter of credit	N/A	1	14	2	N/A
Documentary collection	N/A	2	13	1	1
Open Account Transfers	N/A	3	25	N/A	1
Cash in Advance & Pre-payment	1	1	15	3	N/A

34) **Share of overdue payments in total sales of the surveyed firms is around 7 percent on average.** Due to the negative impact of the financial crisis there has been an increase in the share of overdue payments in total sales of 35 percent of the surveyed firms. The amount of increase has been 13.5 percent since Sept 2008.

35) **Confirmed L/C is the most common type of payment among the surveyed firms.** 55 percent of L/C using firms requires confirmation for their L/C, whereas only 1 of the firms responded that

they don't require confirmation. In deciding on the type of payment 70 percent of the firms consider nature and length of the business relationship as a major factor. Good standing of the buyer and the buyer's bank is important for the 47.5 percent of the firms. Country of operation/incorporation of the buyer and banks' availabilities and pricing for the confirmation are considered as important by 21 firms corresponding to 15 percent of the surveyed firms as being important in determining the type of payment.

36) **32.5 percent of the surveyed firms changed their requirements with regard the type of payment since Sept-2008.** Change in the requirements takes several forms. There is an increase in advance ratio that they demand from customers. One of the firms declared that they started to use factoring in order to receive their receipts earlier. Moreover, some firms require more advance from their customers. Firms that rely more on accounts payable and supplier credit demands longer maturity from their suppliers.

37) **Only 7 out of 40 firms have experienced difficulties in confirming L/C since Sept-08.** Only one firm that exports mostly to Asian countries responded that 100 percent of their confirmation applications have been rejected after Sept-08, which was 15 percent before Sept-08 for that particular firm. General tendency is that problems with the confirmation are mostly related with the conditions with the buyer and/or buyer's bank or the problems with the economic condition of the trading partner country.

38) **It is quite common that banks have increased their response time in their real customers' request to add confirmation to L/C.** 47.5 percent of the firms reported that there is approximately 1.7 days increase in response time on average. However, such an increase does not caused either delays in meeting delivery schedule and/or cancellations of planned international transactions.

39) **Delays in receiving the payment once the terms of delivery/payment have been met with the client when the payment type is direct payment are higher than other type of payment. This shows that there is a high chance that in the coming period other payment methods will be preferred by firms, which in turn may bring about an increase in the cost of finance.** Table-4 shows that there is an increase in the delay time of payment when the payment method is direct payment, documentary collection, and advance payment.

Table 4: Average delay in different types of payment methods

	Jan-Aug 08		since Sept 08	
	# of firms	average delay (in days)	# of firms	average delay (in days)
Direct Payment	24	31.1	25	34.32
Documentary Collection	10	26.9	10	38.3
Letter of Credit	5	40.6	5	22.8
Advance payment (cash in advance)	4	8.25	4	12.5

40) **Share of export credits in total financing of export activities is decreasing, whereas shares of supplier credit and factoring are increasing.** However, majority of the firms surveyed relies extensively on short term export credits. As it can be seen from the Table-5, share of internal financing is also very common among Turkish firms. As we mentioned above surveyed firms access to finance is easier relative to non-exporter small firms. Nevertheless, internal financing still accounts an important portion of their financing portfolio.

Table 5: Sources of financing of international transactions

	Number of firms	% before Sept-08	% since Sept 08
Short-term Export Credit (up to 2 years)	23	61.9	56.85
Medium/long-term Export Credit (2 years and longer)	3	60	40.3
Supplier Credit	11	40.6	44.8
Factoring	9	23	39.3
Forfeiting (discounting of negotiable trade instruments)	2	15	11.3
Internal funds	13	86.5	78
Spot loan	1	40	40
From the main company	1	100	100
Letter of credit	1	90	90

41) **Provision of export finance has been more difficult since Sept-08. 57.5 percent of the surveyed firms declared that provision of export finance has been more difficult since Sept-08**. There are firms, which claim that banks are quite reluctant to extend new credits. Therefore, 10 out of 40 surveyed firms claimed that they have difficulty of finding an issuing bank in Turkey. Banks started to offer shorter maturity and higher cost credits. Other than this, customers are unwilling to make advance payments and this makes export finance difficult on the exporters' side.

42) **Lack of global liquidity and confidence caused an increase in the cost of all sort of credits in Turkey.** Exporters in Turkey also suffer from increasing cost of export finance. Increase in average cost of export finance is 4-6 percentage points, which corresponds to a 40 percent increase since Sept-08.

43) **42.5 percent of the surveyed firms use export guarantees or trade credit insurance.** 11 out of 17 firms that use export guarantee or trade credit insurance prefer to work with private providers. Besides that, 7 out of 17 export guarantee users claims that there has been an increase in the insurance premiums since Sept-08. Managers of these 7 firms stated that average increase in premiums has been 36.8 percent since Sept-08. Only 4 firms responded that they observed a change in coverage availability since Sept-08. 10 out of 40 firms claimed that their buyers' limits have declined since Sept-08. 6 firms declared that they observe a change in the delays to obtain guarantee. For the firms, which doesn't use export guarantees, the major reason for this attitude is that given the client and mode of payment export guarantees are not justified. Secondly, it is widespread that export guarantees are considered as costly.

44) **62.5 percent of the surveyed firms use advance payment method in imports**. In the concerned period, this method accounted for 48 percent of total imports. The second important payment method is open account transfers. 47.5 percent of the survey participants prefer this payment method. L/C, cash against documents and pre-payment accounts for 48 percent in total imports. These are followed by documentary collection which has 30 percent share in total imports. There isn't any significant change in composition of payment methods of imports. However, there is a slight move towards the cash in advance and L/C type payment methods.

Conclusion

45) The most important factor that has been negatively affecting Turkey's foreign trade is the economic slowdown in Turkey and Turkey's trading partners. Producers in Turkey have chosen to open up to new markets to ease the negative effects of the economic slowdown in traditional trade partners. However, it does not seem possible to compensate for the losses in traditional markets with the increases in exports to new markets. That the cash against goods method has extensively been used to collect export receipts puts exporters in a risky position.

46) Problems in trade finance can be a constraint for export growth. Banks' tightening the standards used for extending export credits and the rise in credit costs increases the cost of export finance further. It appears that private sector which opens up to new markets demand insurance instruments more to secure export receipts. Increase in insurance premiums is a matter of complaint for exporters.

47) It is observed that Turkey's private sector prefers payment in cash method for export operations. Turkey is the country that mostly undertakes the risks in imports as well as in exports. Since private sector predominantly uses internal funds to finance production activities, foreign exchange surplus arising from the fall in import demand of the private sector can be considered as a factor leading to the appreciation of the Turkish lira. There is need for a comprehensive study on this issue.

ANNEX 1: Regional Composition of Turkey's Sectoral Exports and Imports

A. Sectoral export growth

This section gives the regional and sectoral sub-groups of Turkey's exports for the period between October 2008 and January 2009.

48) **Manufacturing of apparels** export accounted for 9 percent of total manufacturing export in 2008. This sector's share in total manufacturing industry production was 4 percent in 2006 (TURKSTAT). This sector is a traditional sector of Turkish economy and 80 percent of its exports are directed to EU-27 countries. Rapid decline in EU's foreign demand created serious troubles for this sector. It is interesting to note that export directed to Near and Middle Eastern countries have increased from Oct 08 to Jan 09.

Table 6: Regional growth rates of apparels export (Oct 08-Jan 09)

Apparels	Share of the region in sectors total export	Oct 08-Jan 09
Near And Middle Eastern	3.35%	21.12%
Other European Countries than EU	6.34%	-16.44%
EU-27	79.86%	-22.90%
AB-10	3.91%	-22.97%
EU-15	74.39%	-23.10%
EU-25	78.30%	-23.11%
North America	2.86%	-47.15%

49) **Textiles** export accounted for 9 percent of total manufacturing exports in 2008. This sector's share in total manufacturing industry production was 10 percent in 2006 (TURKSTAT). EU's share in sectors export is very high. Therefore, problems with the EU economy also hurt this sector. Exports of this sector directed to Near and Middle Eastern countries have increased from Oct 08 to Jan 09.

Table 7: Regional growth rates of textiles export (Oct 08-Jan 09)

Textiles	Share of the region in sectors total export	Oct 08-Jan 09
Near And Middle Eastern	9.01%	12.13%
North Africa	4.20%	-6.21%
Other Asia	4.50%	-13.62%
AB-10	5.53%	-16.27%
Other European Countries than EU	15.10%	-17.86%
EU-25	50.96%	-20.61%
EU-15	45.40%	-21.13%
EU-27	57.15%	-22.03%
North America	5.15%	-25.95%

50) **Manufacture of basic metals export** accounted for 18 percent of total manufacturing export in 2008. This sector's share in total manufacturing industry production was 11 percent in 2006 (TURKSTAT). Relocation of Turkish exports is visible mostly in this sector. Export growth rates directed to North America, North Africa, Other African countries have increased very rapidly between Oct 08 and Jan 09. Export portfolio is more diversified relative to the most of the other sectors in Turkey. However, problems with the European economies also pose a risk for this sector.

Table 8: Regional growth rates of manufacture of basic metals export (Oct 08-Jan 09)

Manufacture of basic metals	Share of the region in sectors total export	Oct 08-Jan 09
North America	3.82%	420.35%
North Africa	6.91%	252.79%
Other European Countries than EU	11.96%	195.35%
Other Africa	4.96%	120.29%
Near And Middle Eastern	43.99%	-9.79%
Other Asia	3.27%	-28.71%
EU-15	14.97%	-38.96%
EU-27	21.18%	-39.90%
EU-25	16.04%	-41.00%

51) **Motor vehicles and trailer** export accounted for 15.5 percent of total manufacturing export in 2008. This sector's share in total manufacturing industry production was 9 percent in 2006 (TURKSTAT). Global financial crisis hit this sector very severely. Decline in foreign demand in EU countries is the major reason that caused a decline in this sector's export performance.

Table 9: Regional growth rates of motor vehicles and trailers export (Oct 08-Jan 09)

Motor vehicles and trailers	Share of the region in sectors total export	Oct 08-Jan 09
EU-27	75.51%	-51.18%
EU-25	70.86%	-50.13%
EU-15	64.14%	-50.47%
Other European Countries than EU	11.64%	-12.19%
AB-10	6.88%	-46.52%
Near And Middle Eastern	4.95%	-25.16%
North Africa	3.05%	-24.26%

52) **Manufacture of machinery and equipment** exports accounted for 8 percent of total manufacturing export in 2008. This sector's share in total manufacturing industry production was 7 percent in 2006 (TURKSTAT). Exports directed to North Africa and Near and Middle East countries have increased from October 2008 to January 2009. However, exports directed to

European countries, which have an important share in total export of this sector, declined very rapidly.

Table 10: Regional growth rates of manufacture of machinery and equipment export (Oct 08-Jan 09)

Manufacture of machinery and equipment	Share of the region in sectors total export	Oct 08-Jan 09
North Africa	6.81%	23.52%
Near And Middle Eastern	16.28%	7.12%
North America	3.53%	-1.23%
Other Asia	5.86%	-1.71%
AB-10	4.07%	-1.94%
Other Africa	2.63%	-4.63%
EU-25	43.00%	-13.54%
EU-15	38.91%	-14.67%
EU-27	48.22%	-15.78%
Other European Countries than EU	11.16%	-27.32%

53) **Coke, petroleum and nuclear fuel** export accounted for 6 percent of total manufacturing export in 2008. This sector's share in total manufacturing industry production was 15.9 percent in 2006 (TURKSTAT). Exports of this sector directed to North America and North Africa have increased between Oct 08 and Jan 09. European countries are major trading partner of this sector and naturally decline in foreign demand in these countries create some difficulties for this sector.

Table 11: Regional growth rates of coke, petroleum products export (Oct 08-Jan 09)

Coke, petroleum products	Share of the region in sectors total export	Oct 08-Jan 09
North America	5.67%	118.96%
North Africa	3.96%	12.60%
Other Asia	8.74%	-4.49%
Near And Middle Eastern	20.07%	-22.52%
EU-15	21.43%	-26.99%
EU-27	26.89%	-42.82%
EU-25	24.57%	-43.16%
Other European Countries than EU	12.10%	-51.41%
Other Africa	6.68%	-83.72%
AB-10	3.17%	-91.75%

B. Regional import growth

In this section, you will find the regional and sectoral decomposition of Turkey's import between October 08 and Jan 2009.

54) **Import of chemicals and chemical products** accounted for 18 percent of total manufacturing imports in 2008. This sector's share in total manufacturing industry production was 9 percent in 2006. Decline in demand for chemical imports of Turkey have the potential to negatively affect the EU countries.

Table 12: Regional growth rates of import of motor vehicles and trailers (Oct 08-Jan 09)

Chemical and chemical products	Share of the region in total import from this sector	Oct 08 - Jan 09
EU-27	54.09%	-25.53%
EU-25	51.12%	-25.15%
EU-15	49.64%	-25.44%
Other Asia	17.30%	-21.67%
Other European Countries than EU	10.48%	-8.61%
Near And Middle Eastern	7.22%	-12.69%
North America	6.52%	-17.49%
North Africa	2.60%	-30.02%
AB-10	1.72%	-16.34%

55) **Manufacture of basic metals** accounted for 18 percent of total manufacturing imports in 2008. This sector's share in total industrial production was 11 percent (TURKSTAT). Especially European countries other than EU have been affected from the decline in the demand for imported basic metals products in Turkey.

Table 13: Regional growth rates of import of basic metals (Oct 08-Jan 09)

Manufacture of basic metals	Share of the region in total import from this sector	Oct 08 - Jan 09
Other European Countries than EU	48.30%	-48.48%
EU-27	24.87%	-47.29%
EU-25	19.47%	-40.15%
EU-15	17.74%	-35.90%
Other Asia	14.60%	-3.09%
Near And Middle Eastern	3.72%	-11.71%
Other Africa	3.35%	-97.98%
AB-10	1.74%	-70.85%
North Africa	1.39%	-26.40%
South America	1.35%	-41.42%

56) **Manufacture of machinery and equipment** imports accounted for 11 percent of total manufacturing imports in 2008. This sector's share in total industrial production was 7 percent in 2006 (TURKSTAT). Turkey's import of machinery and equipment from near and Middle

Eastern countries has been increased from Oct 08 to Jan 09. During the same period import from EU countries has decreased very rapidly.

Table 14: Regional growth rates of import of machinery and equipment (Oct 08-Jan 09)

Manufacture of machinery and equipment	Share of the region in total import from this sector	Oct 08 - Jan 09
Near And Middle Eastern	1.36%	7.43%
North America	5.12%	-10.39%
Other Asia	25.10%	-25.00%
AB-10	3.26%	-29.48%
EU-25	61.72%	-31.88%
EU-27	62.31%	-31.94%
EU-15	58.55%	-32.01%
Other European Countries than EU	3.20%	-53.68%

57) **Motor vehicles and trailers** import accounted for 10 percent of total manufacturing imports in 2008. This sector's share in total manufacturing industry production was 9 percent in 2006 (TURKSTAT). Motor vehicles import from North African countries has increased rapidly from Oct 08 to Jan 09. However, North African countries' share is negligible. Decline in the demand from imported motor vehicles has negatively affected EU-27 countries due to high market share of these countries in Turkey's total import from this sector.

Table 15: Regional growth rates of import of motor vehicles and trailers (Oct 08-Jan 09)

Motor vehicles and trailers	Share of the region in total import from this sector	Oct 08 - Jan 09
Other Africa	1.1%	236.8%
North America	1.8%	-2.1%
South America	1.3%	-14.8%
Other Asia	16.0%	-37.5%
EU-15	68.3%	-50.9%
EU-27	78.6%	-52.6%
EU-25	77.3%	-52.8%
EU-10	9.2%	-66.0%

58) **Coke, petroleum and nuclear fuel** import accounted for 9 percent of total manufacturing imports in 2008. This sector's share in total manufacturing industry production was 16 percent in 2006 (TURKSTAT). Turkey's import of coke, petroleum products are mainly from European countries other than EU. There is a significant decline in Turkey's import from this

sector from this part of the world. However, import of coke, petroleum products from other regions like EU and near and Middle Eastern countries have increased from Oct 08 to Jan 09.

Table 16: Regional growth rates of import of coke, petroleum and nuclear fuel (Oct 08-Jan 09)

Coke, petroleum products and nuclear fuel	Share of the region in total import from this sector	Oct 08 - Jan 09
EU-10	1.03%	2037.22%
North America	7.84%	859.49%
EU-25	16.99%	100.11%
EU-15	15.97%	89.33%
South America	1.29%	79.34%
Near And Middle Eastern	7.84%	68.58%
EU-27	22.72%	42.07%
North Africa	11.54%	-7.86%
Other European Countries than EU	41.67%	-36.53%
Other Asia	6.32%	-61.09%

59) **Electrical machinery** import accounted for 5 percent of total manufacturing imports in 2008. This sector's share in total manufacturing industry production was 2 percent in 2006 (TURKSTAT). Turkey's electrical machinery import from North America and EU-10 countries has increased between Oct 08 and Jan 09, whereas import of this kind of products from other EU countries has decreased in the same period.

Table 17: Regional growth rates of import of electrical machinery (Oct 08-Jan 09)

Electrical machinery and apparatus	Share of the region in total import from this sector	Oct 08 - Jan 09
North America	4.32%	11.08%
EU-10	9.67%	5.07%
Other European Countries than EU	1.24%	-11.89%
EU-25	53.02%	-15.37%
EU-27	54.51%	-16.16%
EU-15	43.37%	-18.68%
Other Asia	37.25%	-31.97%