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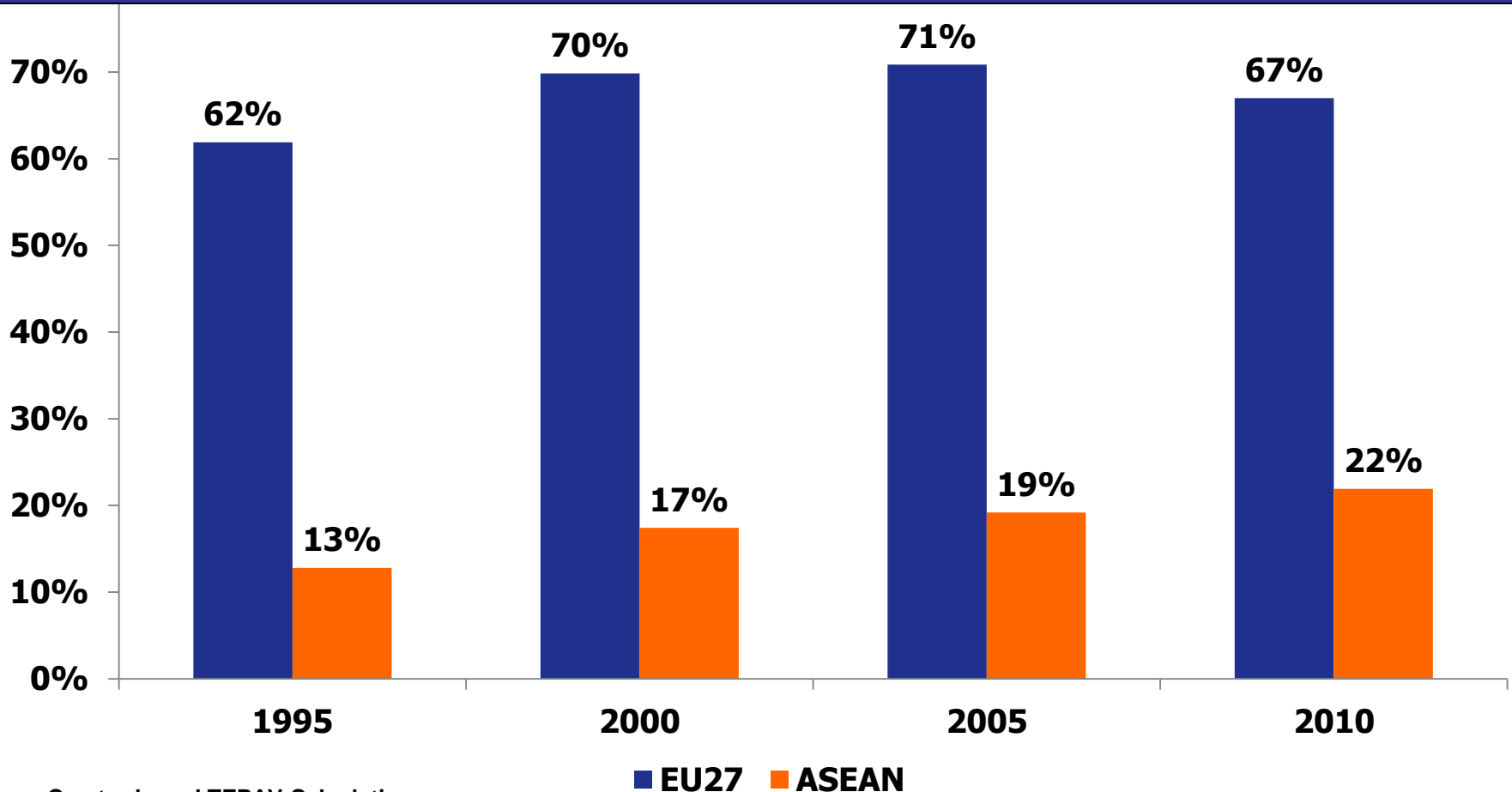
Economic Policy Research Foundation of Turkey

**The EU still matters to Turkey.
Does Turkey still matter to the EU?**

Güven SAK
Prague, 22 October 2012

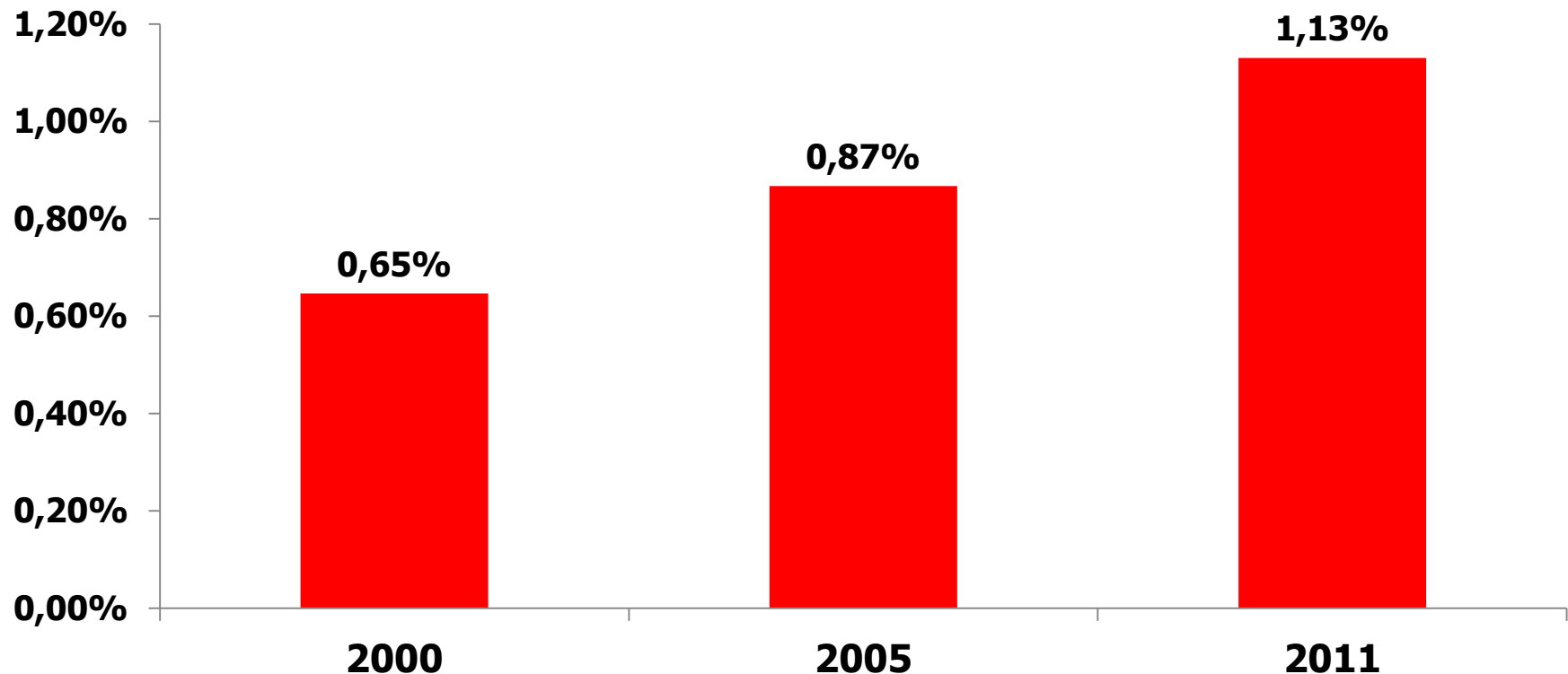
Value chains in the EU are highly integrated across countries

Share of manufactured inputs that are provided from own region, EU-27 vs ASEAN countries, as percentage of total manufactured inputs import , 1995 -2010



Role of Turkey for EU supply chains getting more important

Share of manufactured inputs that are provided from Turkey in EU's total manufactured inputs import (%)

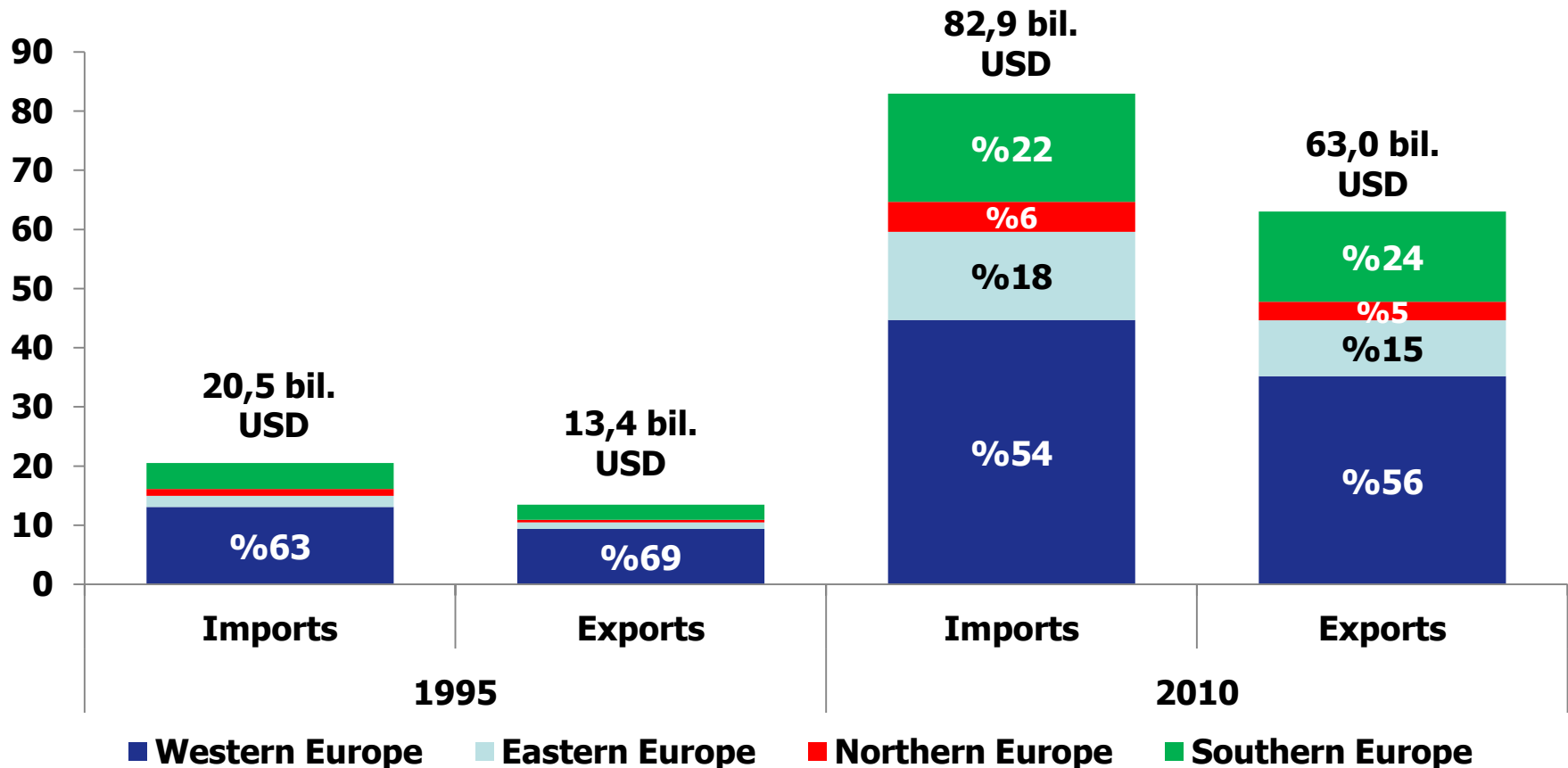


Framework

- Customs Union and EU accession process has already triggered Turkey's transformation
- Turkey reached 52 % of the EU per capita income much earlier than expected
 - Resilience due to vibrant domestic demand
- Time for new arguments
 - Deepening B-2-B partnerships
 - Toward a green, urbane, skilled and a totally connected Turkey

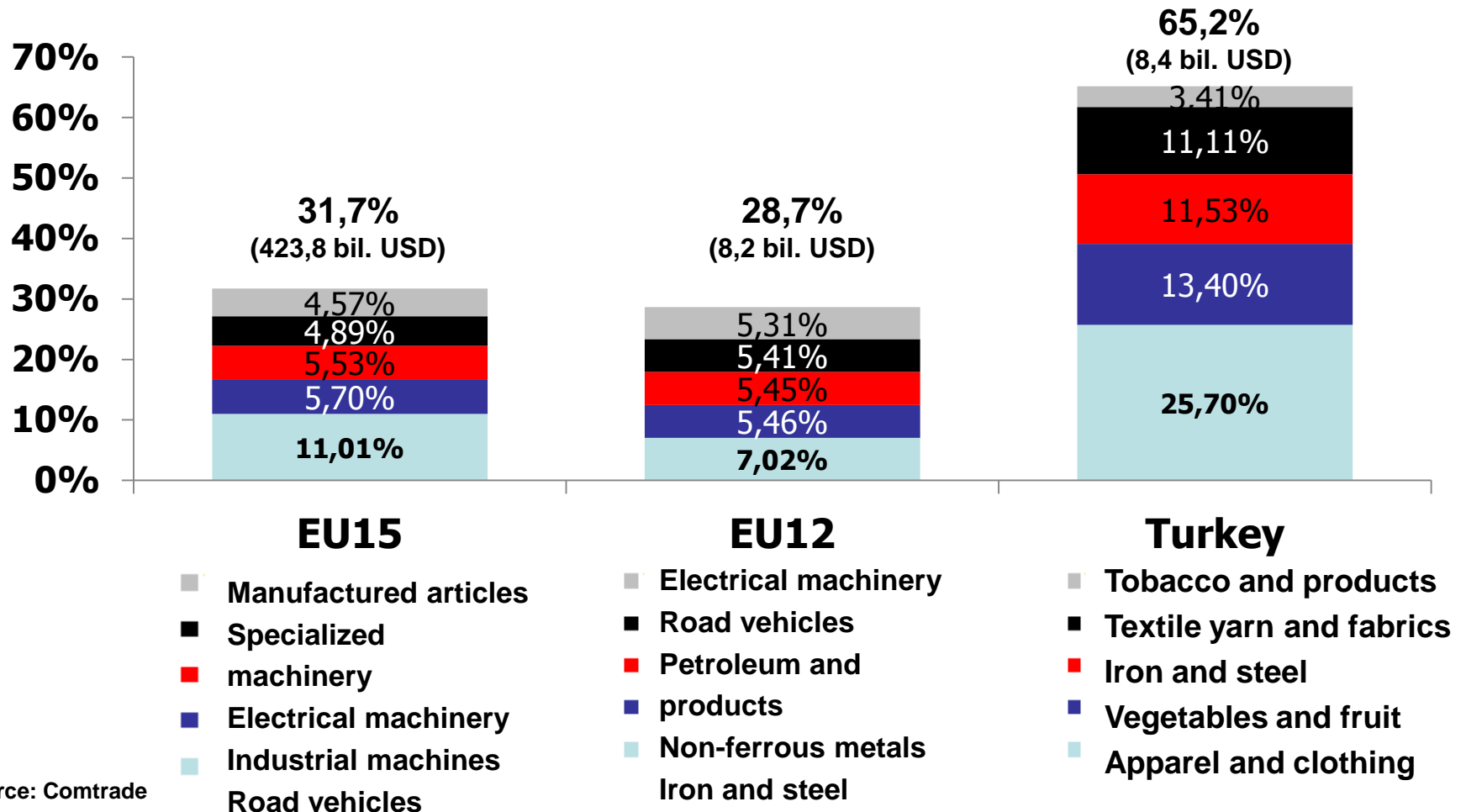
Reflection of EU enlargement on Turkey's trade: Connectivity increased

Change in value of Turkey's trade with Europe regions, billion USD, 1995 vs 2010



In 1990, vis-a-vis EU, Turkey was less diversified and less sophisticated

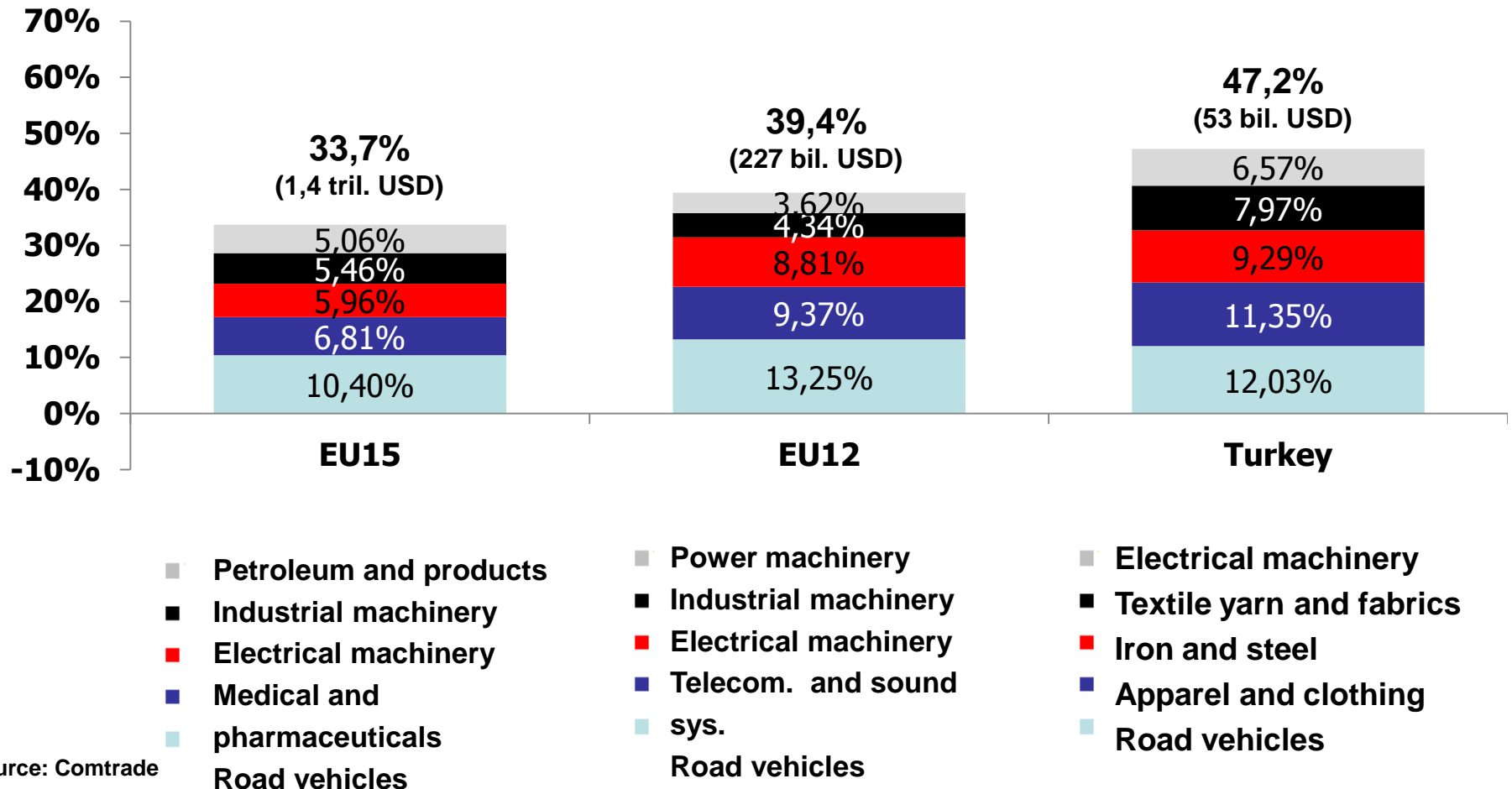
Composition of exports to world, 1990 (most important 5 products)



Source: Comtrade

Today, Turkey's export structure is as diversified as the EU-12, thanks to EU process

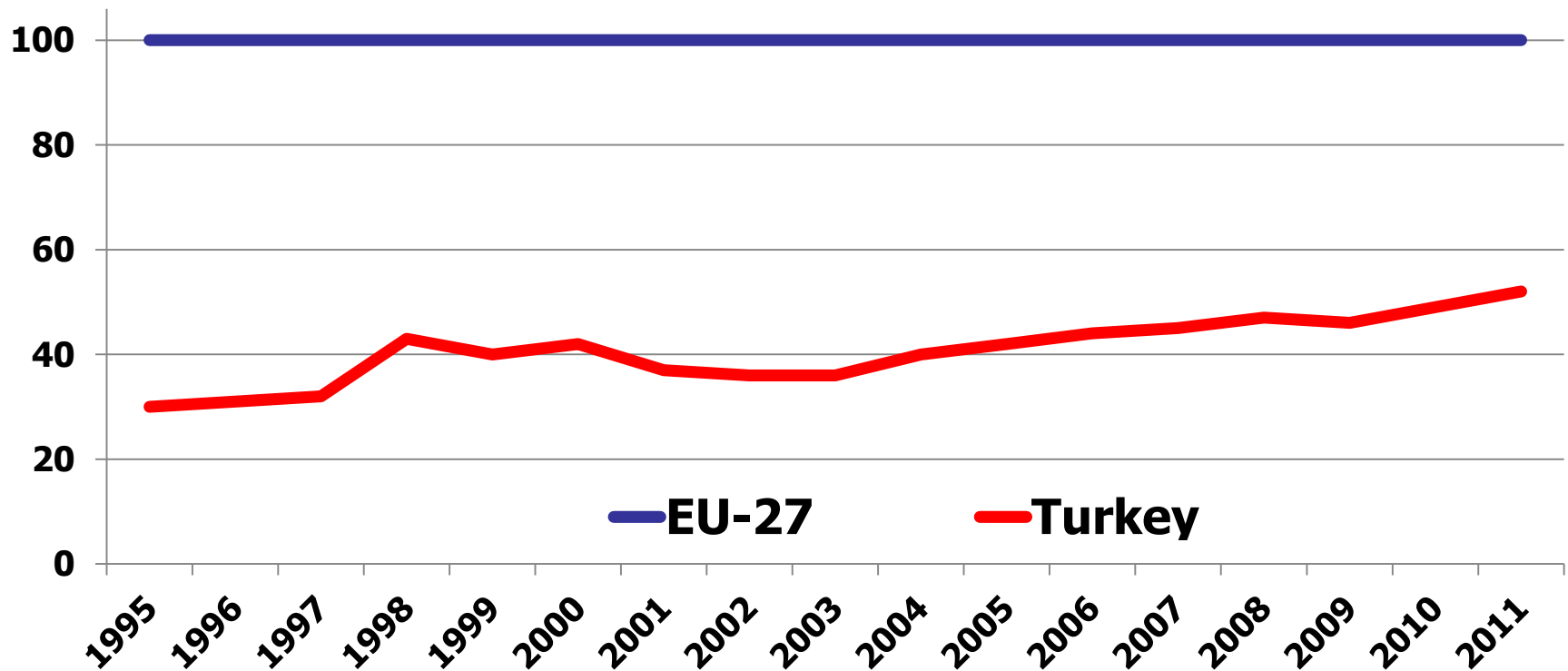
Composition of exports to world, 2010 (most important 5 products)



Source: Comtrade

2004 scenarios were expecting 50 % income convergence in 2020, came earlier than expected

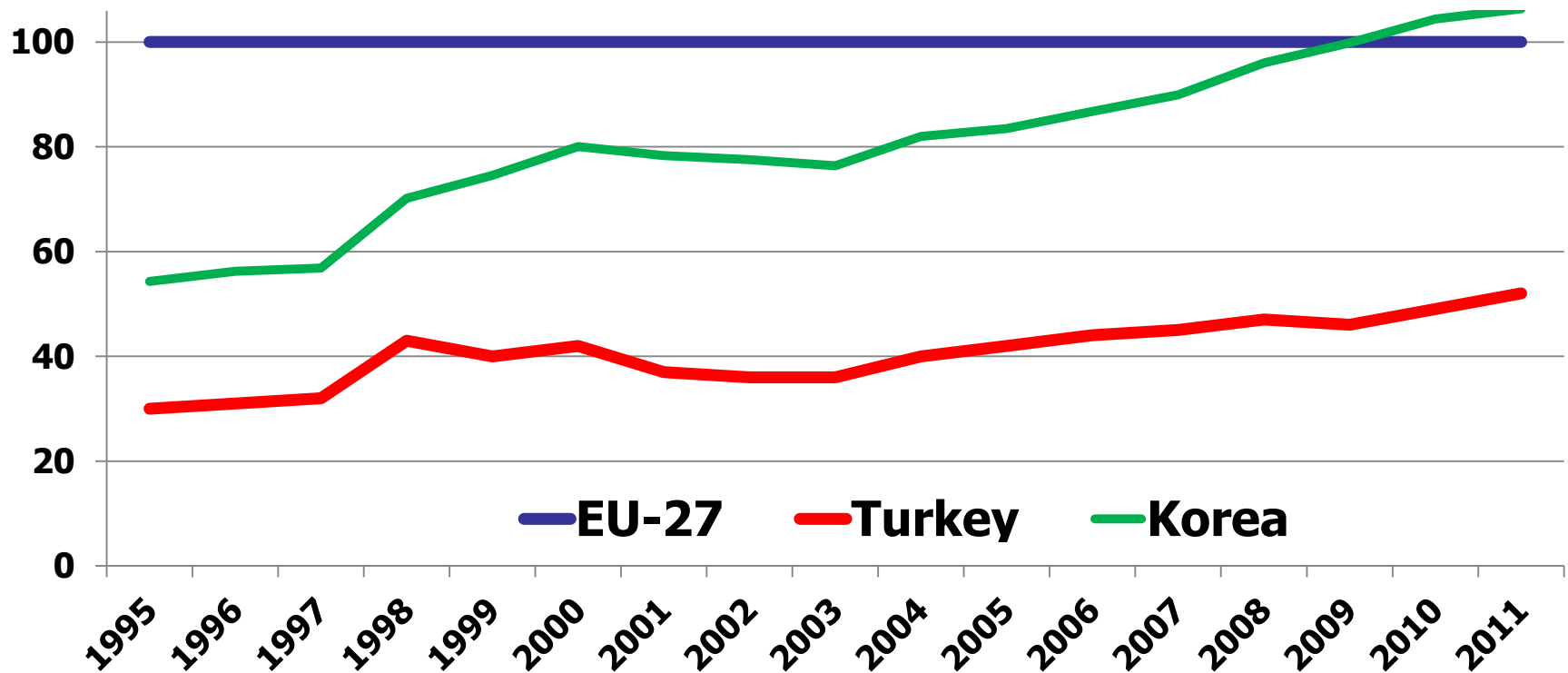
GDP per capita PPS (index, EU-27 = 100), 1995-2012



But still, convergence could have been faster...

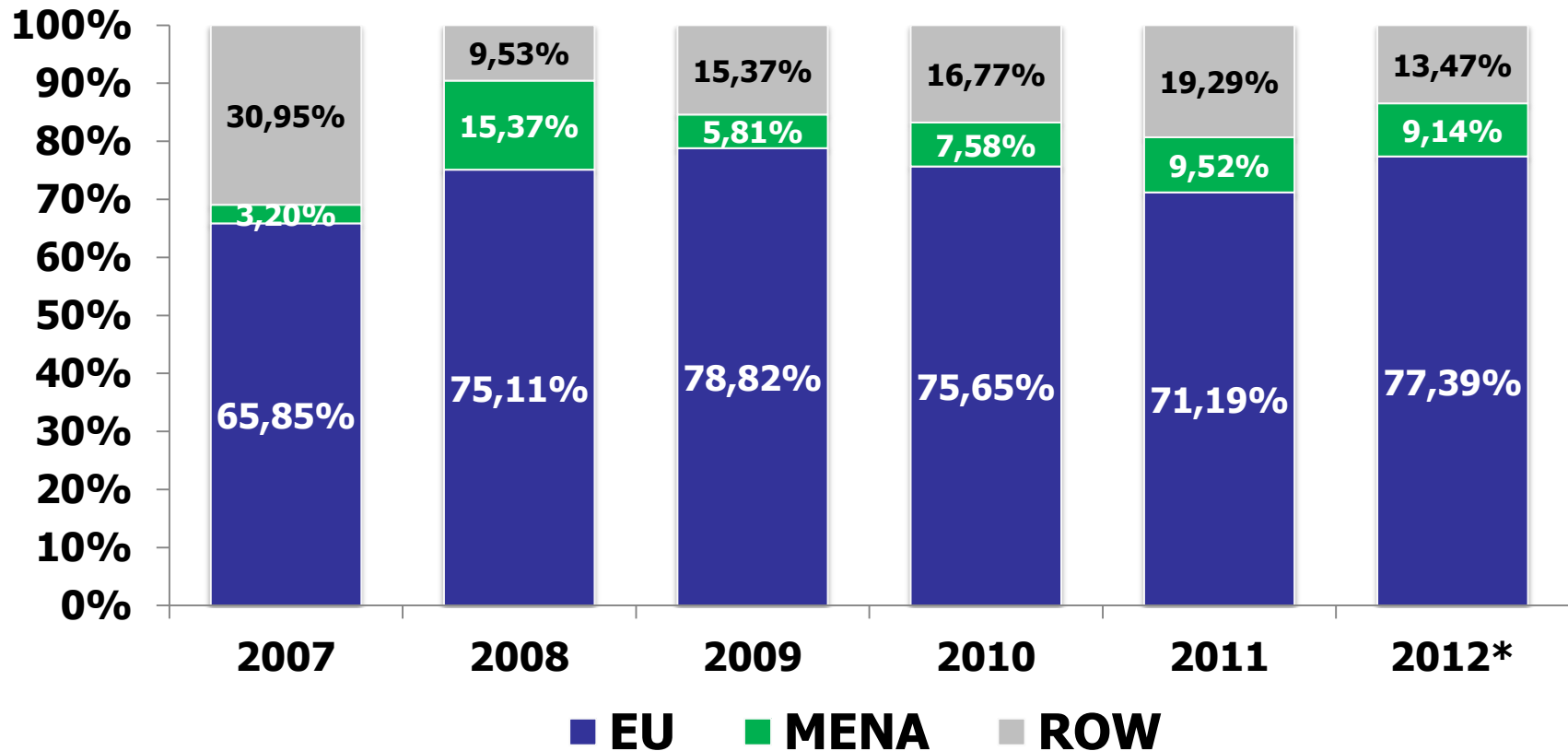
(if Turkey had the EU average female labor participation, we would reach 70% of EU income)

GDP per capita PPS (index, EU-27 = 100), 1995-2012



How did this happen? Role of the EU companies. Integrating into EU value chains?

Foreign Direct Investment to Turkey, distribution by region of origin, 2007-2012



Large European Firms in Turkey

Financial services

- Dexia (Denizbank)
- NBG (Finansbank)
- ING Bank (Oyakbank)
- BNP Paribas (TEB)
- UniCredit (Yapı Kredi)

Insurance industry

- Aviva (UK)
- Axa (France)
- Allianz (Germany)
- UniCredito (Italy)
- Groupama (France)
- BNP Paribas (France)
- Euroko (Netherlands)

Energy

- Verbund (Austria)
- CEZ (Czech)
- Energo-Pro (Czech)
- Essentium (Spain)
- Gaz de France Suez (France)
- RES (UK)
- Italgas (Italy)

Retail Trade

- Carrefour (French)
- Metro/Real (German)
- Tesco (UK)
- BC Partners (UK)

Food

- Unilever (Dutch-UK)
- Barilla (Italy)

Telecom

- Vodafone (UK)

Automotive

- Mercedes Benz (Germany)
- MAN (Germany)
- Renault (France)
- Fiat (Italy)

Aviation

- Airbus (France)
- LISI (France)
- Fokker Elmo (Dutch)

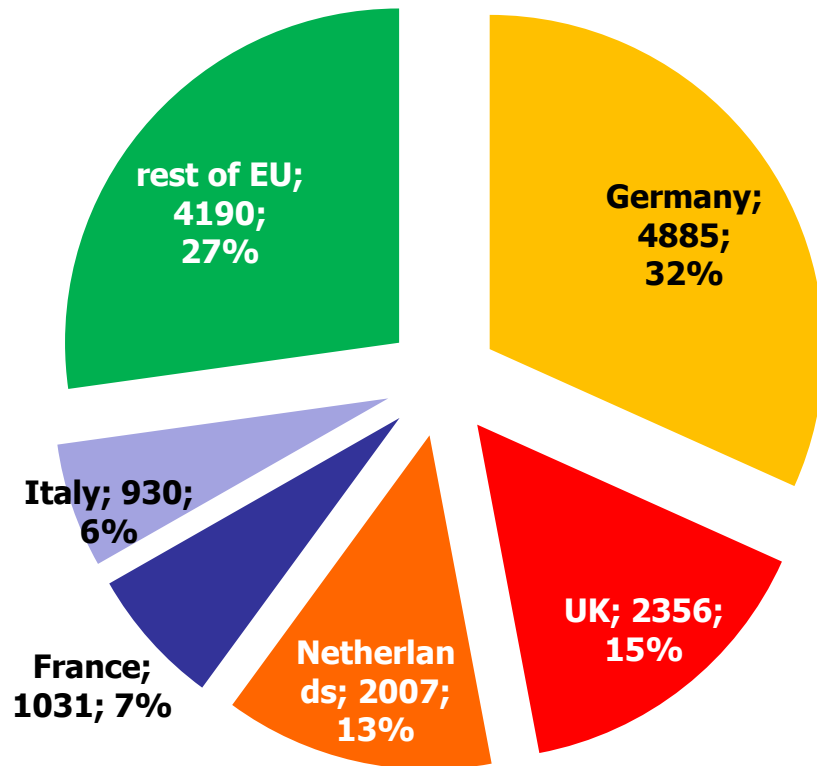
Component manufacture

- Bosch (Germany)
- Eldor (Italy)
- Pirelli (Italy)
- Bekaert (Belgium)

How about European SMEs?

From 4000 in 2003 to 15000 today, impact of the EU process...

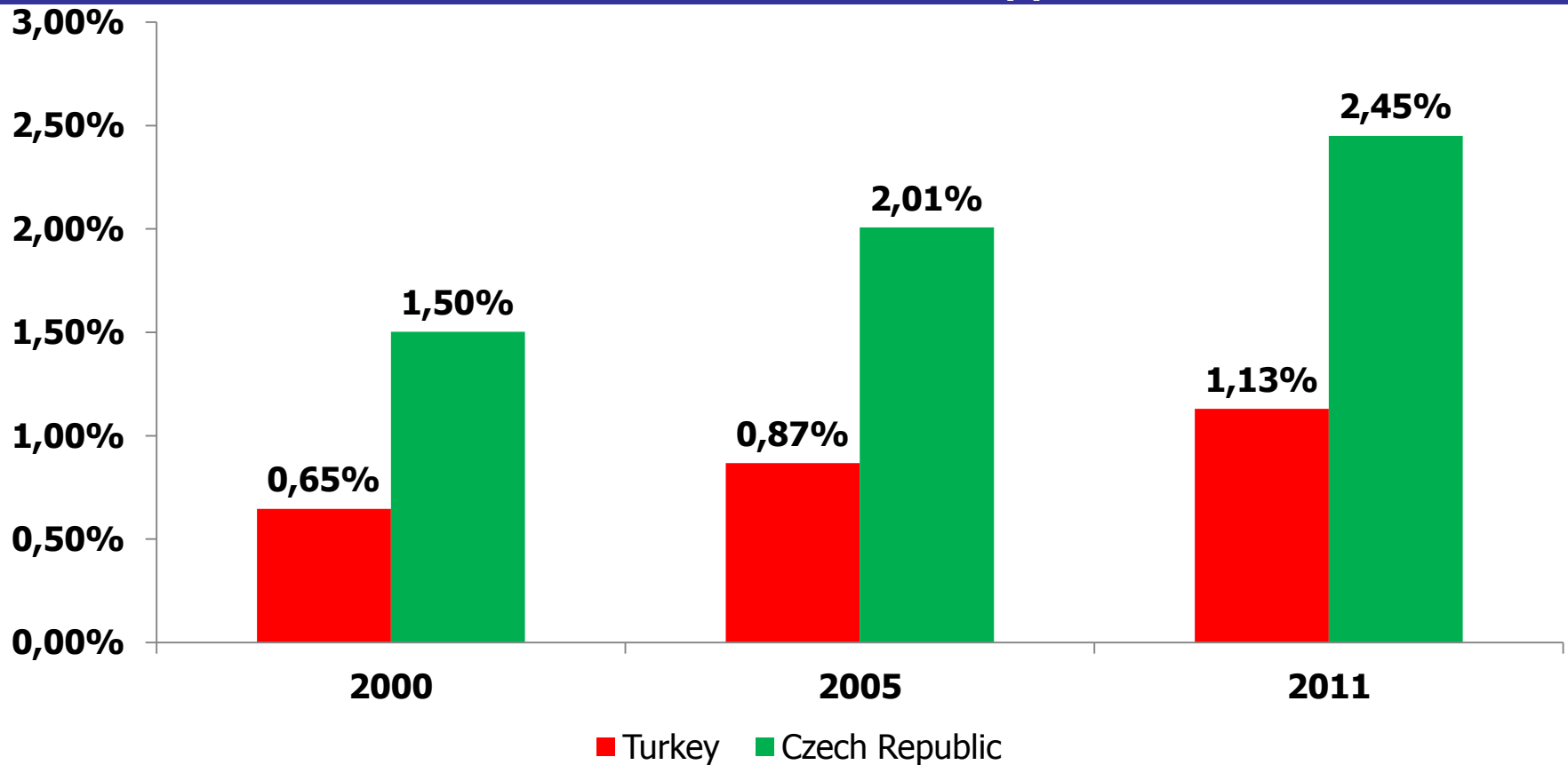
Distribution of EU companies in Turkey by country, 2012



- There are 15000 EU companies in Turkey
→ half of foreign firms.
- Before 2004, this number was only around 4000
- How about EU-Turkish joint ventures in MENA markets?

Czech vs. Turkish value chain integration: Room for deepening in Turkey

Share of Turkey and Czech Republic in EU's import of
manufactured industrial supplies



So, how Turkey still matters to the EU: We need to add more reasons

Typical arguments

- Economy's dynamism
- Geopolitical role
- Contribution to energy security
- Young population

New arguments?

- **Green growth?**
- **Massive urban transformation?**
- **Education and training**
- **SME internationalization**

Already existing success stories

Realizing the energy potential is essential to Turkey's sustainable growth

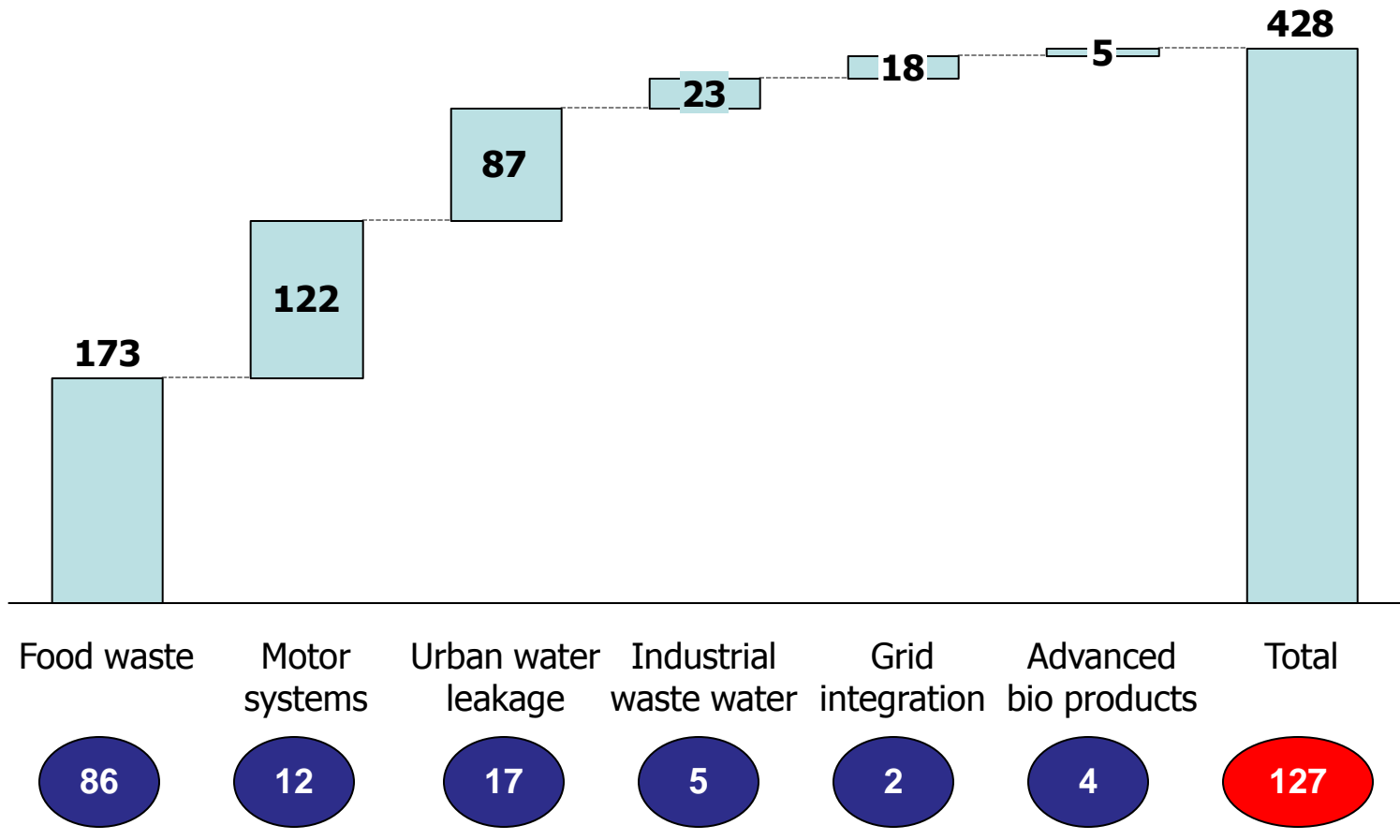
Turkey's renewables (ranking and utilization of potential)

	Rank	Potential Utilization
Wind Energy	3 rd in Europe	8,2%
Hydro Energy	3 rd in Europe	32,4%
Geothermal Energy	2 nd in Europe	4,7%
Solar Energy	2 nd in Europe	0,7%

- Targets have been set to meet the increasing energy demand in a more efficient way:
 - 30 % of total energy will be through renewables
 - 20 % lower energy intensity

Accelerating green growth in 6 areas would capture \$428 billion resource efficiency until 2030

Total resource benefits, cost/benefit perspective (2030, billion USD)

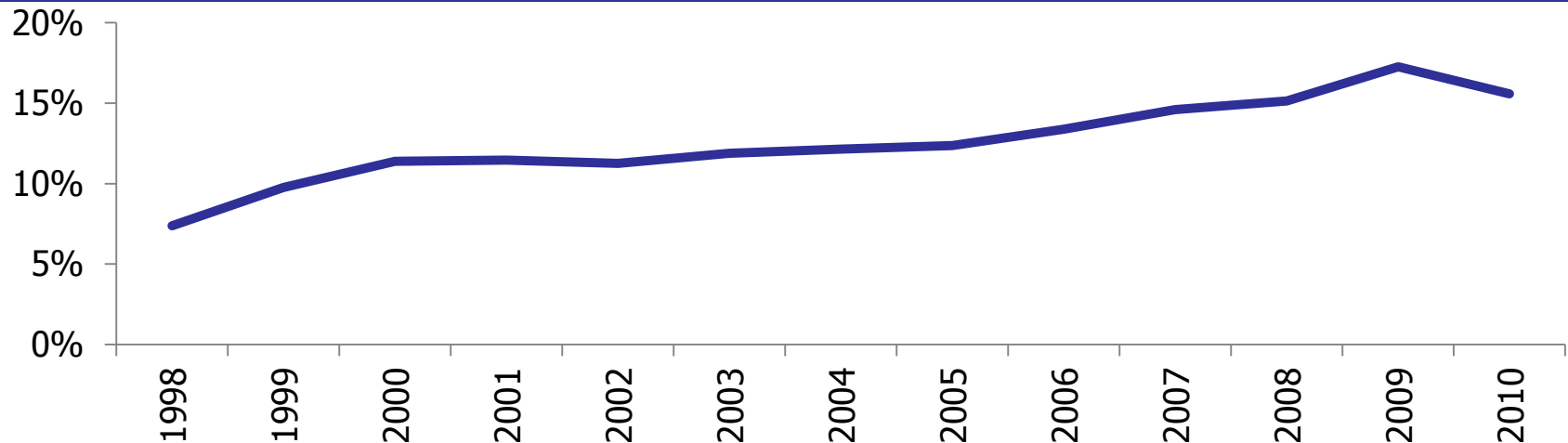


Source: TEPAV calculations based on McKinsey Resource Revolution Report and the World Bank data

Urban transformation combined with existing demand is a new growth axis

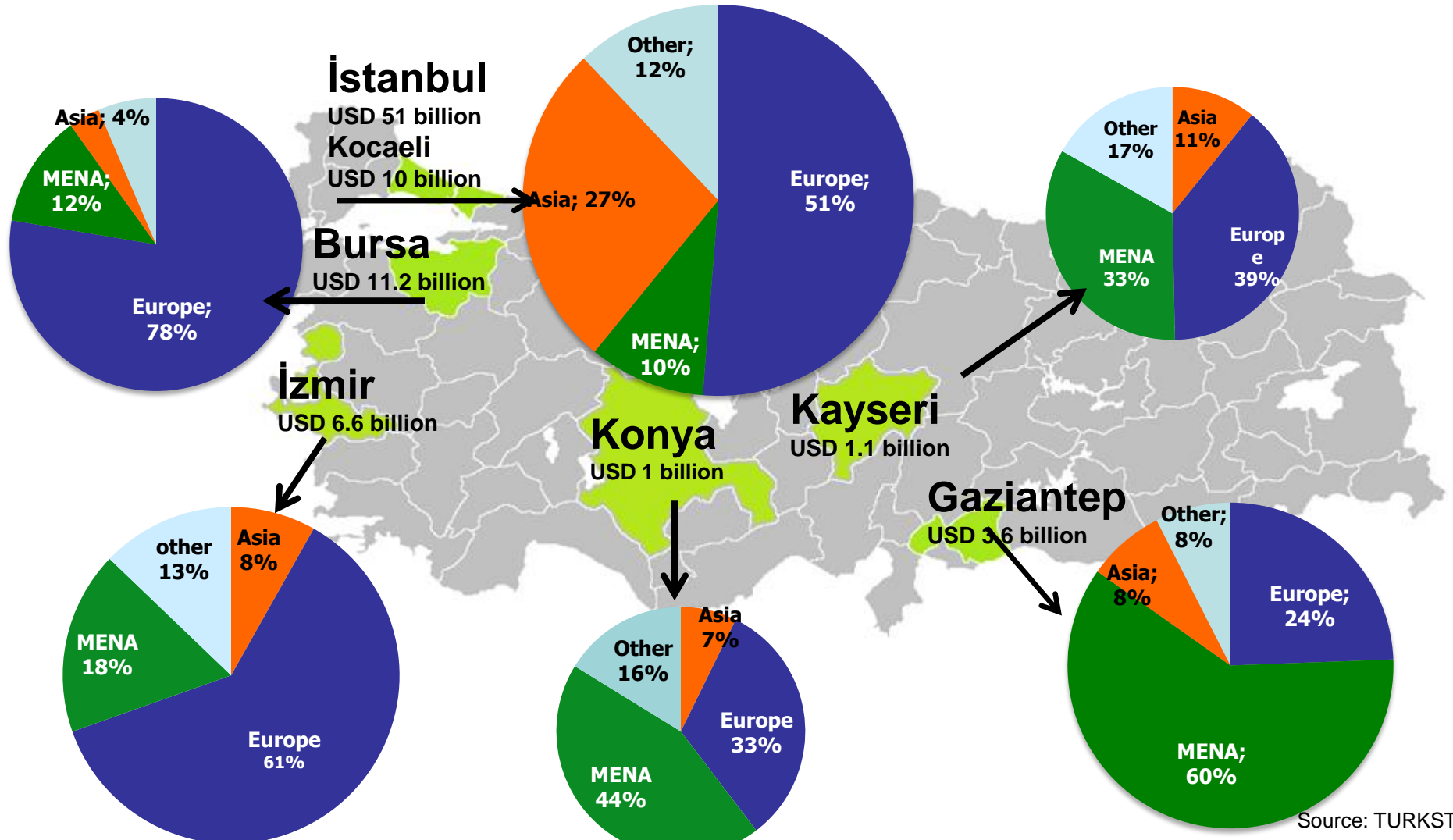
- 30% energy saving potential
- Annual housing demand of 650 thousand dwellings

Housing expenditures as a % of GDP



- Urban transformation toward safer and energy efficient buildings
 - ➔ 7 million buildings to be examined, most will be rebuilt
 - ➔ This equals to the number of dwellings in Netherlands alone (or Denmark and Hungary combined)

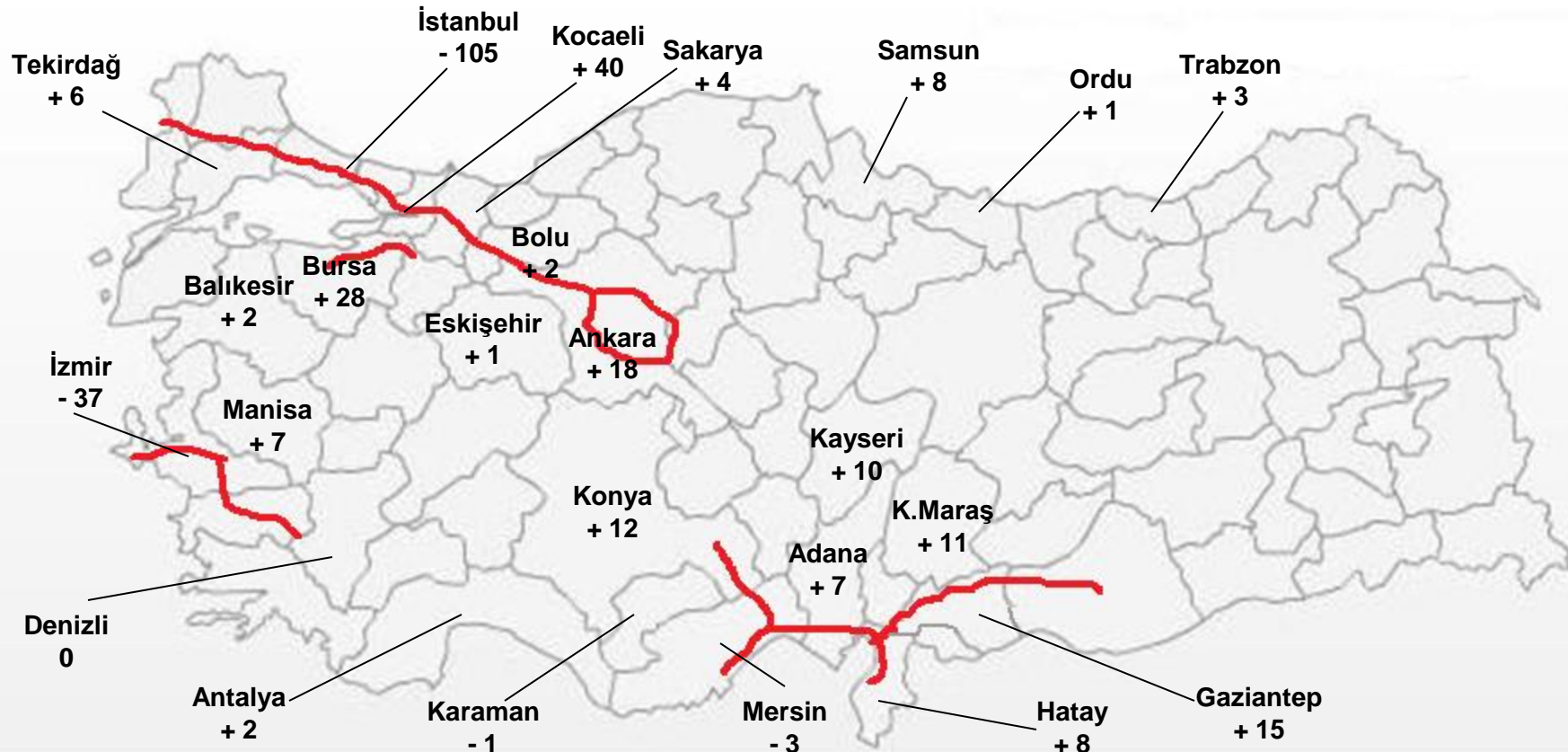
Untapped potential: Only Turkey's western regions are connected with EU



Source: TURKSTAT

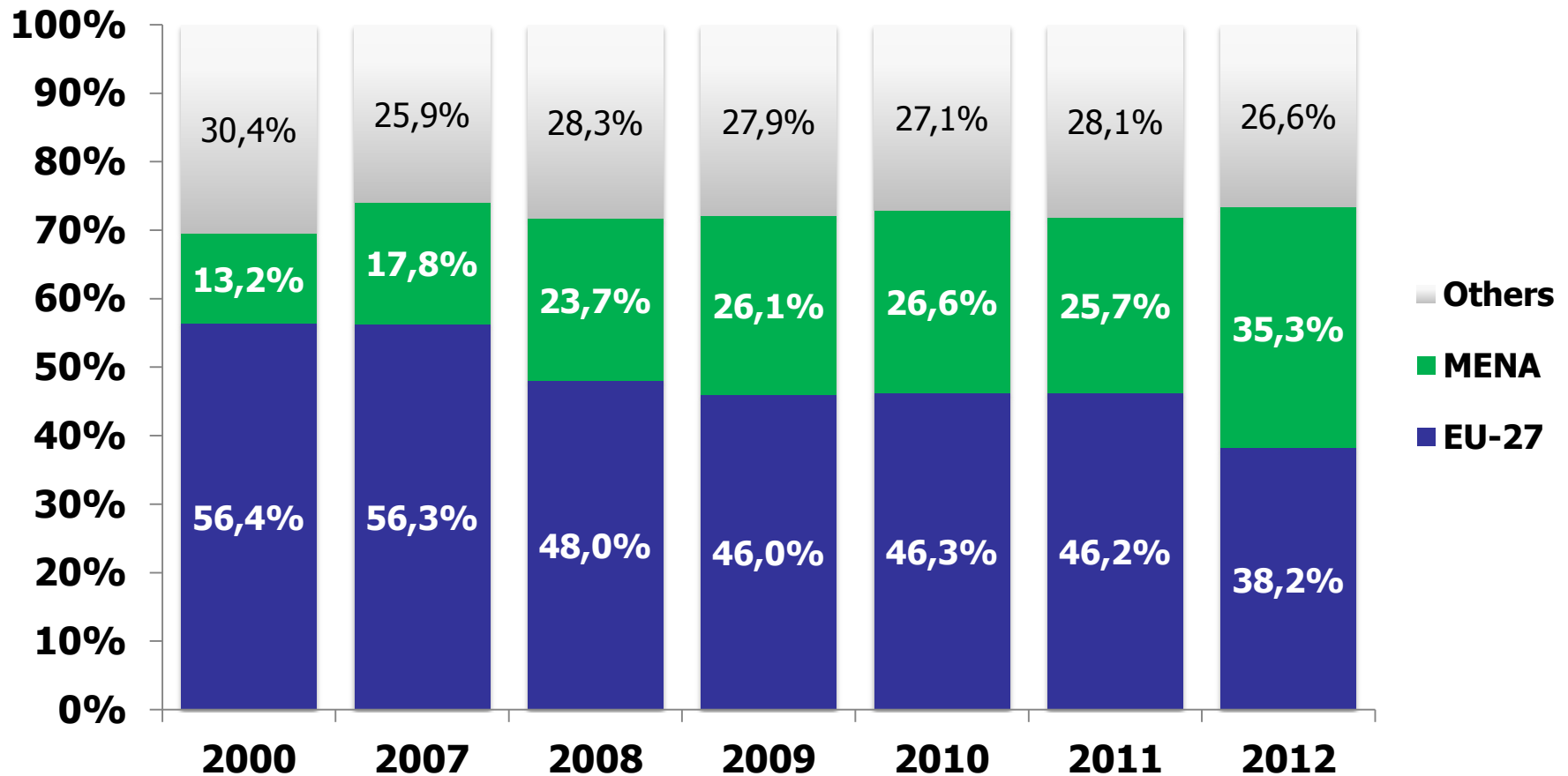
Turkey's regional disparities (worst in the EU) due to lack of connectivity

Six-lane Expressways (red lines, as of 2010) and the change in the number of firms located in the provinces that had more than 5 firms in the largest 1000 industrial enterprise rating of the Istanbul Chamber of Industry by 2009, between 1997 and 2009.



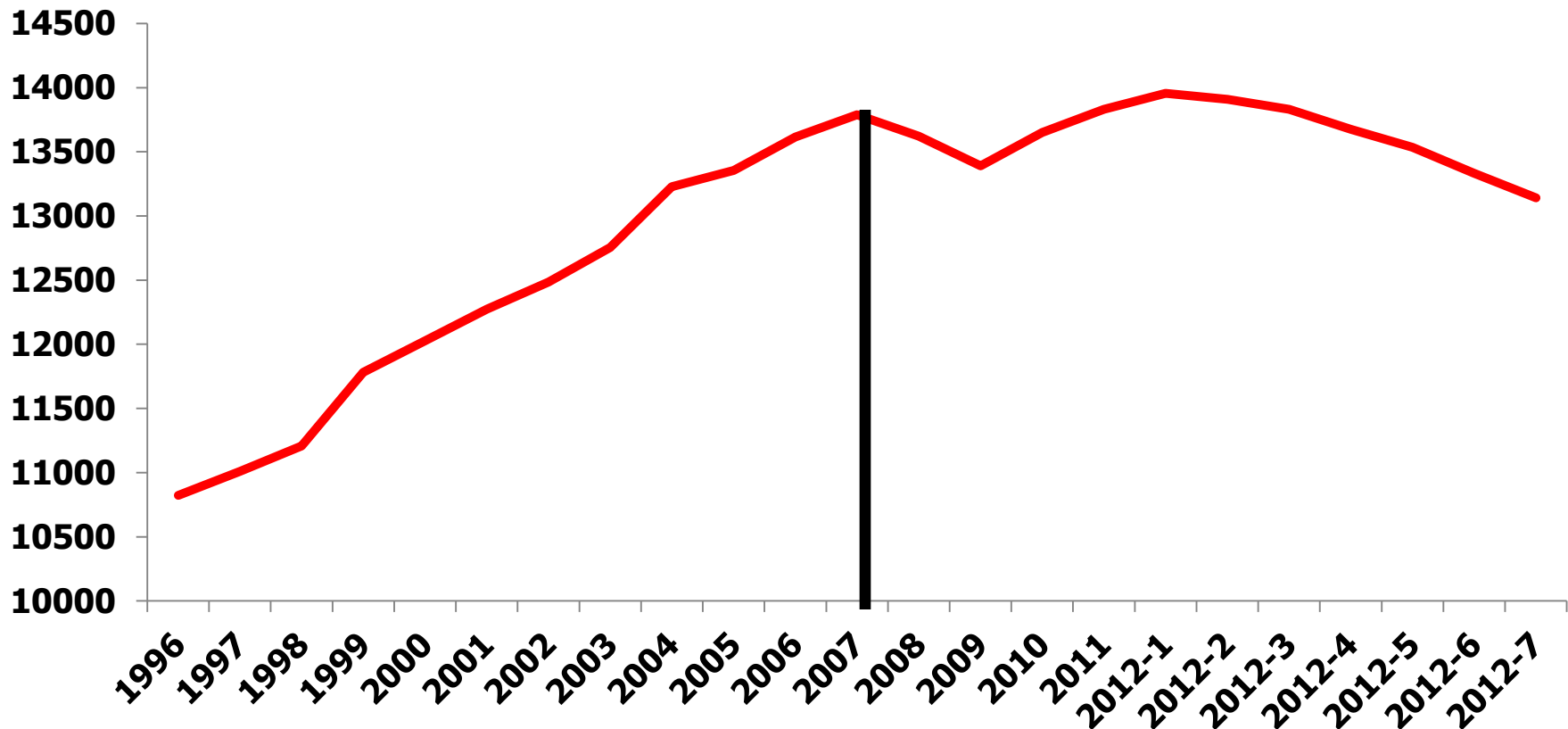
EU is Turkey's largest trading partner, but...

Share of geographic regions in Turkey's exports



EU crisis is structurally bad for Turkey: Permanent damage?

Export Sophistication Index (EXPY) of Turkey, 1996-2012 M7





Germany: Melander Family
Weekly food consumption: \$500.07



Egypt: Ahmed Family

Weekly food consumption: \$68.53

Conclusions

- Turkey's EU accession looks to be stalled on both ends
 - Time for thinking about the future
 - Both Turkey and the EU have benefitted from the Turkish accession process
- It takes two to tango: Turkey is now ready
 - Time to deepen B-2-B partnerships, more integration to EU value chains
 - Greener, urbane, more connected, more skilled Turkey
- New constitution should be the starting point of the much needed structural reforms
 - It's the economy, stupid.