

tepaV

The Economic Policy Research Foundation of Turkey

Strengthening the Connectivity and Business Synergies in the SEE

Session Two
**SEE-Turkey Economic Cooperation:
Past & Present**

Sarajevo, July 21, 2015

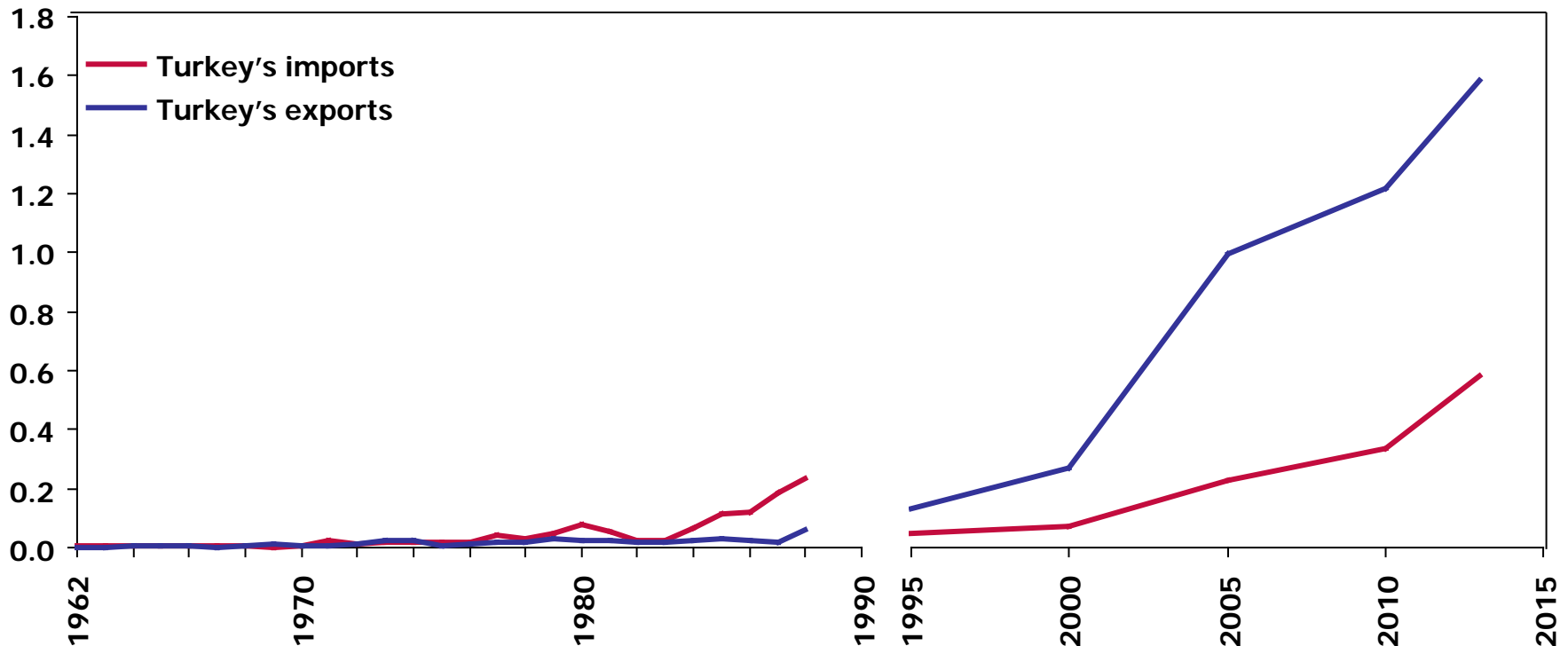
Framework

- Evolution of bilateral trade relations
 - Sophistication of traded goods
 - Pockets of growth
 - Turkey's regional integration performance
- Turkey's quest for regionalization
 - Snapshot of Turkish investments in the past decade
 - Patterns of Turkish investor behavior in SEE-6
 - Impact of Turkish investments for destination country
- Takeaways and discussion questions

Bilateral trade since Yugoslavia times

From surplus to deficit following breakup

Turkey – SEE total trade, billion USD (1962-2013)

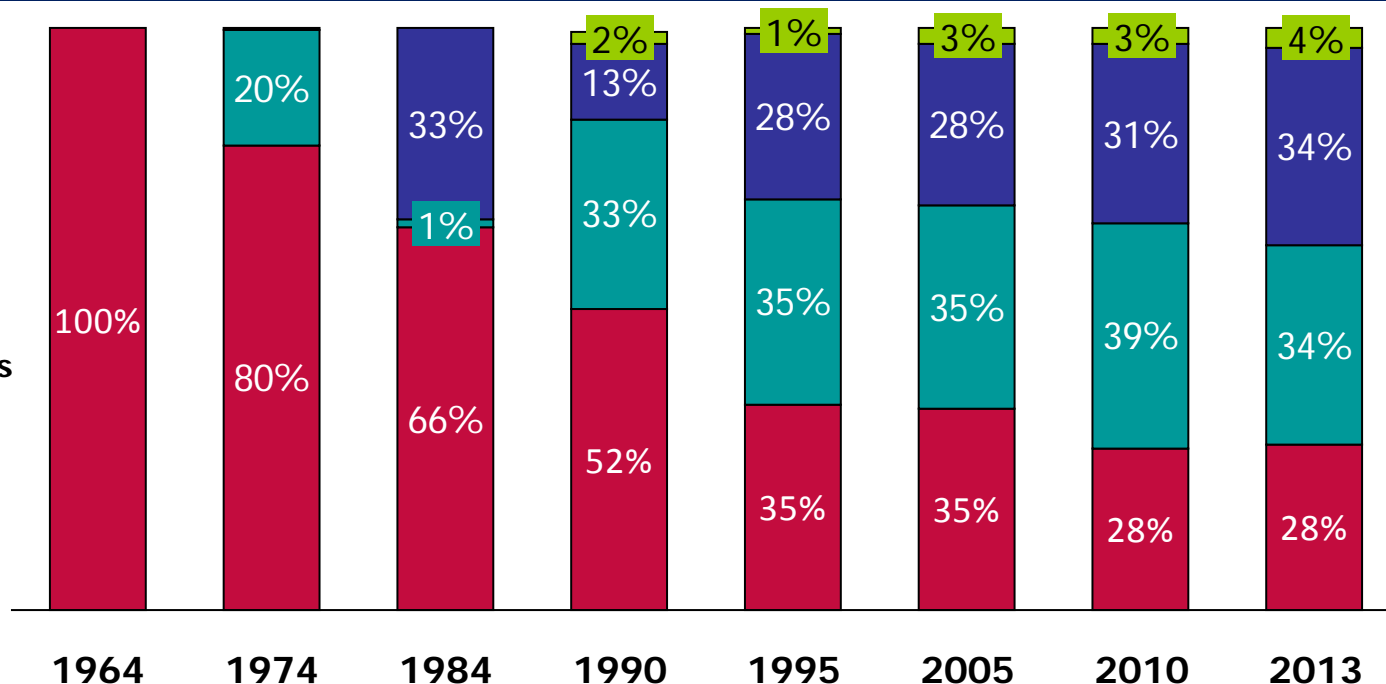


Turkey's exports to the region

Significant transformation, dominated by low/mid tech

Technology Classification of Turkey's imports to Yugoslavia / SEE (1964-2013)

- High Tech
- Medium Tech
- Low-Tech
- Primary Products



Turkey's total exports to the region

1964	1974	1984	1990	1995	2005	2010	2013
3,7m	27,2m	22,4m	151m	64,7m	186m	1 b	1,3b

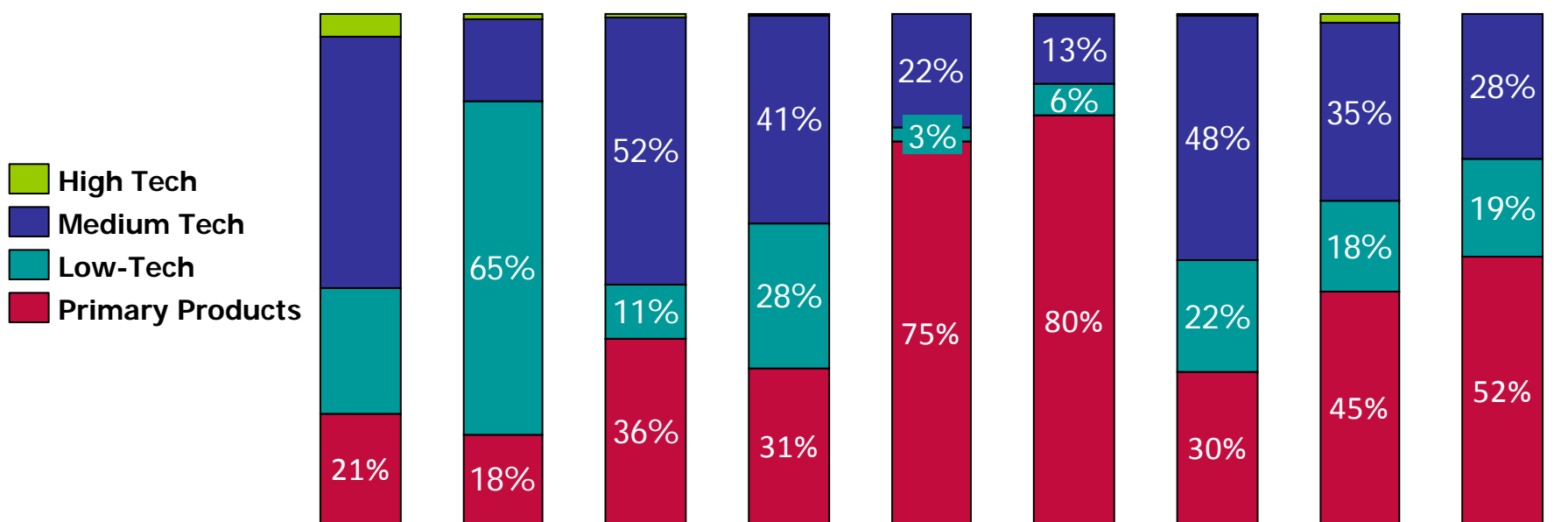
Region's share from Turkey's exports

0.9%	1.8%	0.3%	1.2%	0.3%	0.7%	1.0%	0.9%
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Turkey's exports to the region

Significant transformation, dominated by low/mid tech

Technology Classification of Turkey's imports to Yugoslavia / SEE (1964-2013)



Turkey's total import from Yugoslavia

Year	1964	1974	1984	1990	1995	2000	2005	2010	2013
Value (m)	4.7m	23.3m	68.1m	523m	104m	136m	361m	682m	1,110m

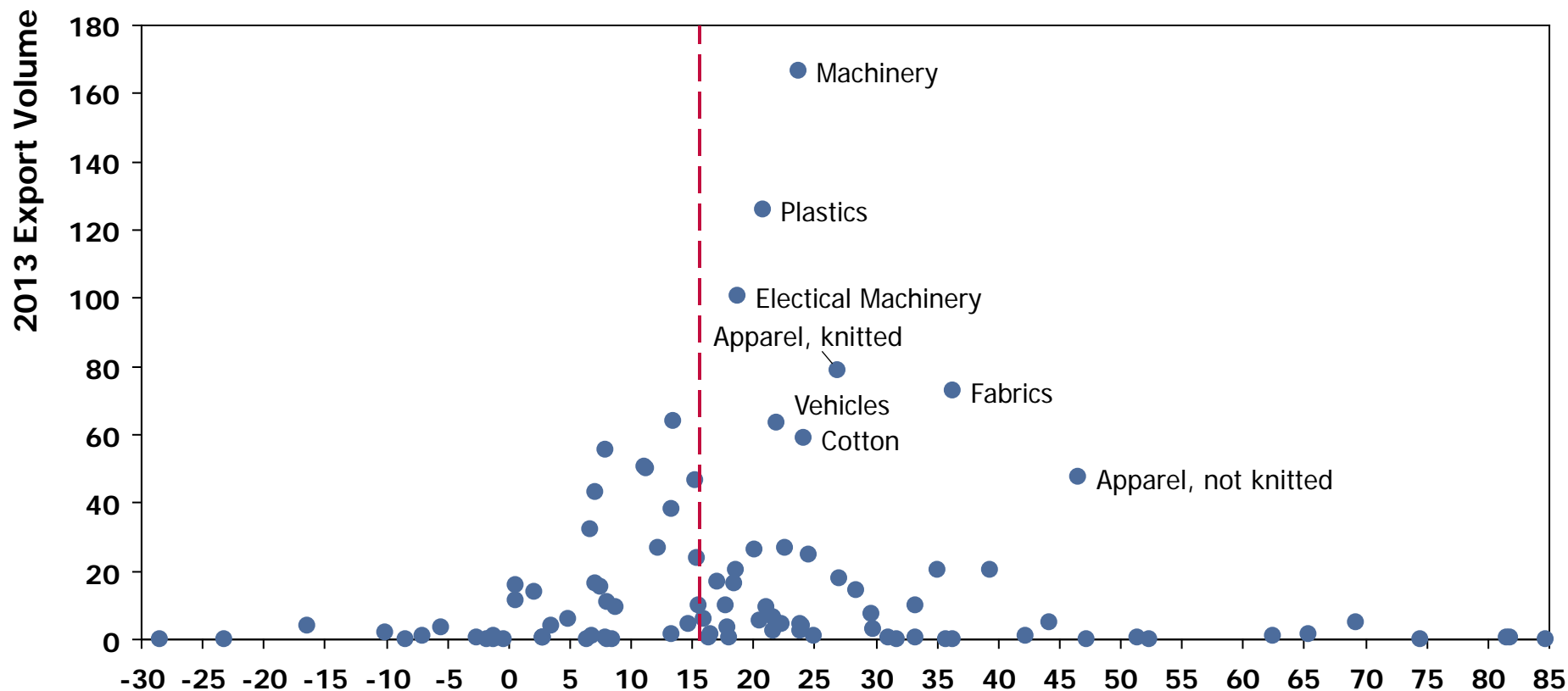
Yugoslavia's share from Turkey's import

Share (%)	0.9%	0.6%	0.6%	2.3%	0.3%	0.3%	0.3%	0.4%	0.5%
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Turkey's exports to the region

Growth driven by machinery and textiles

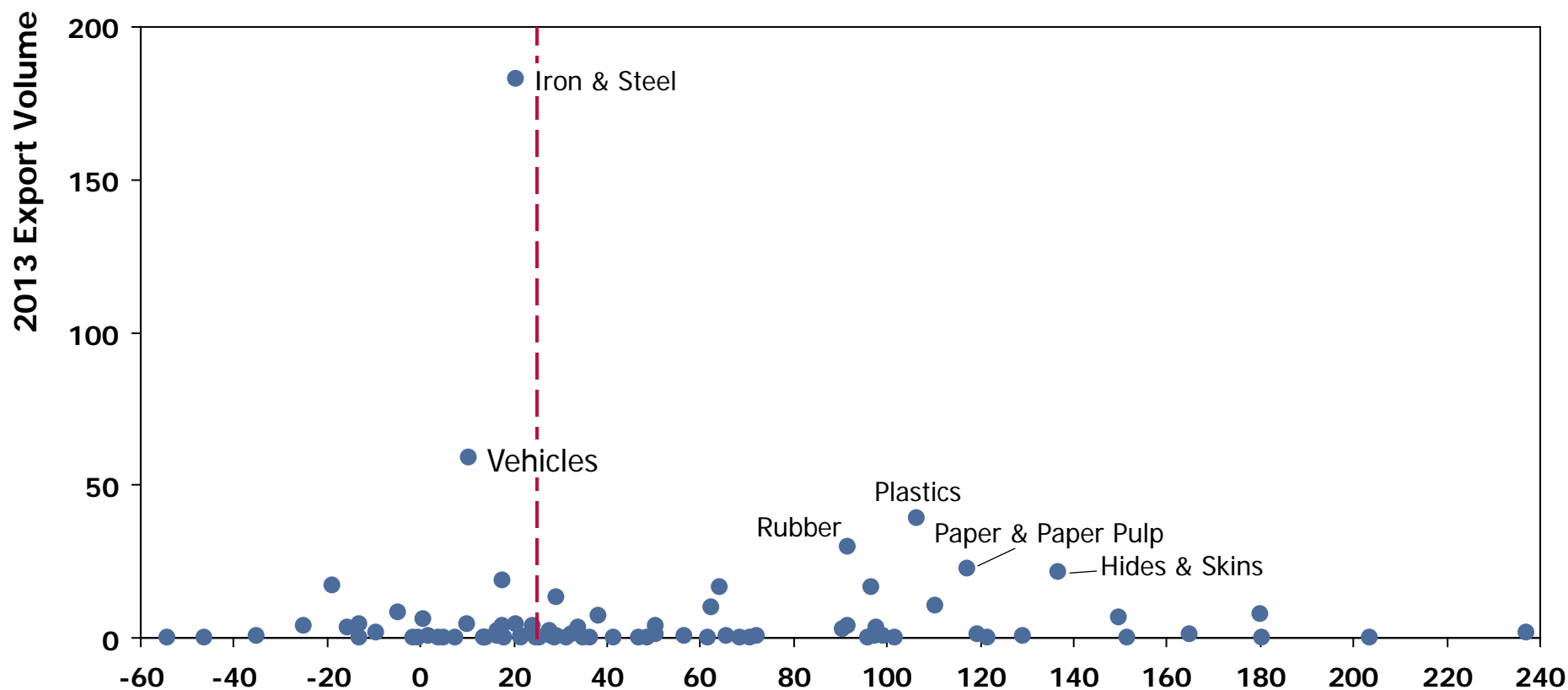
Turkey's exports to SEE, by sector, 2005-2013, million \$



Region's exports to Turkey

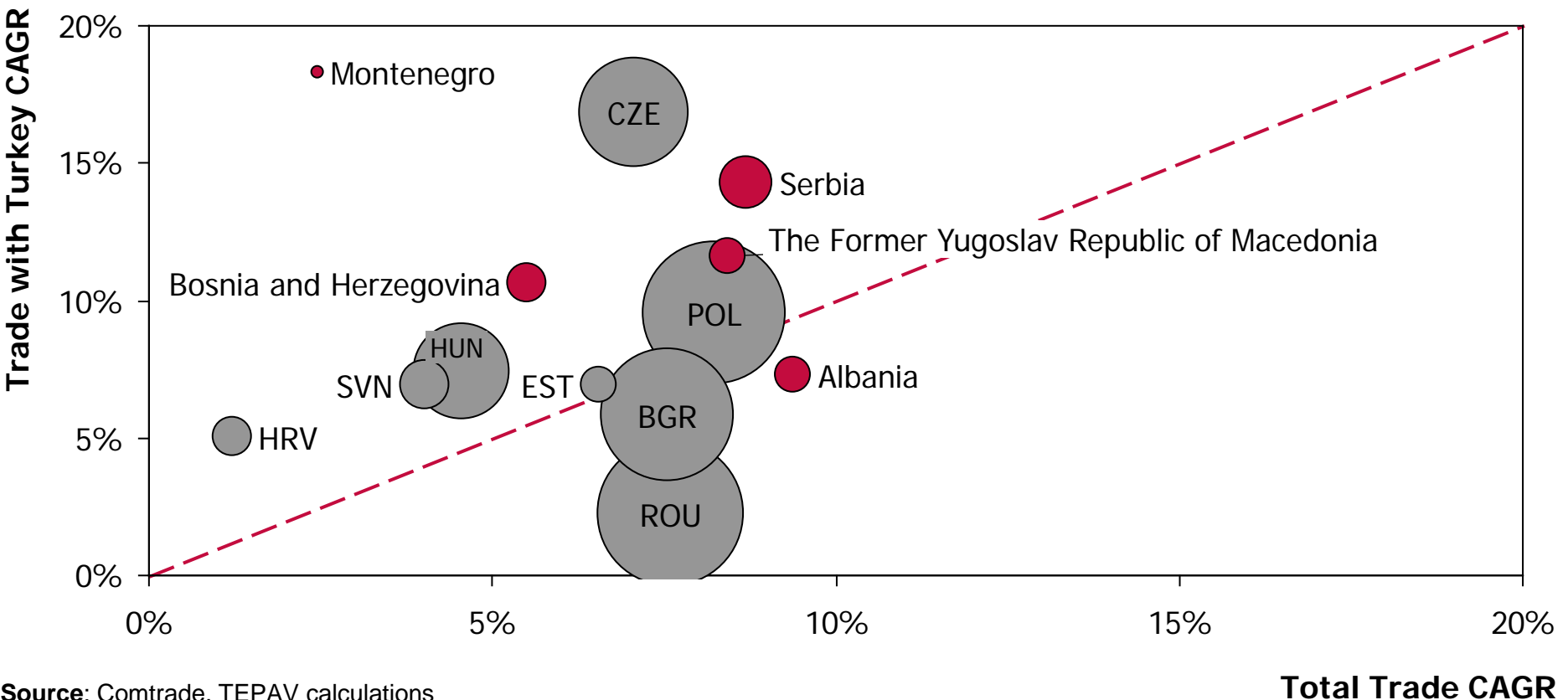
Growth driven by lower value added products

SEE's exports to Turkey, by sector, 2005-2013, million \$



The region is getting increasingly integrated with Turkey

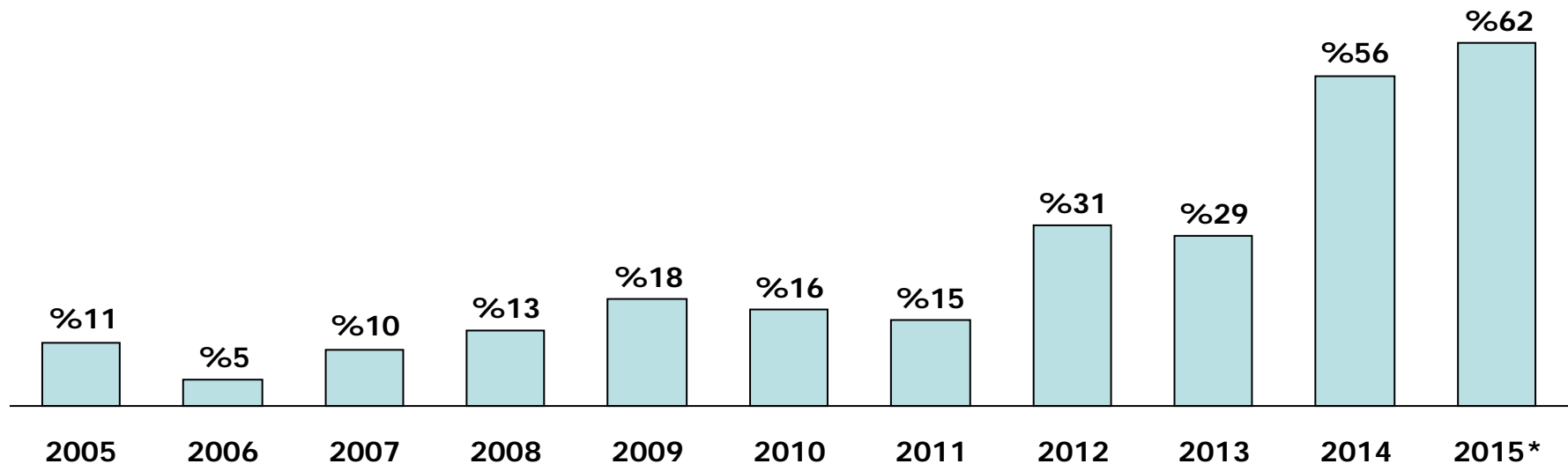
Countries trade growth with Turkey and the world, 2006-2013,



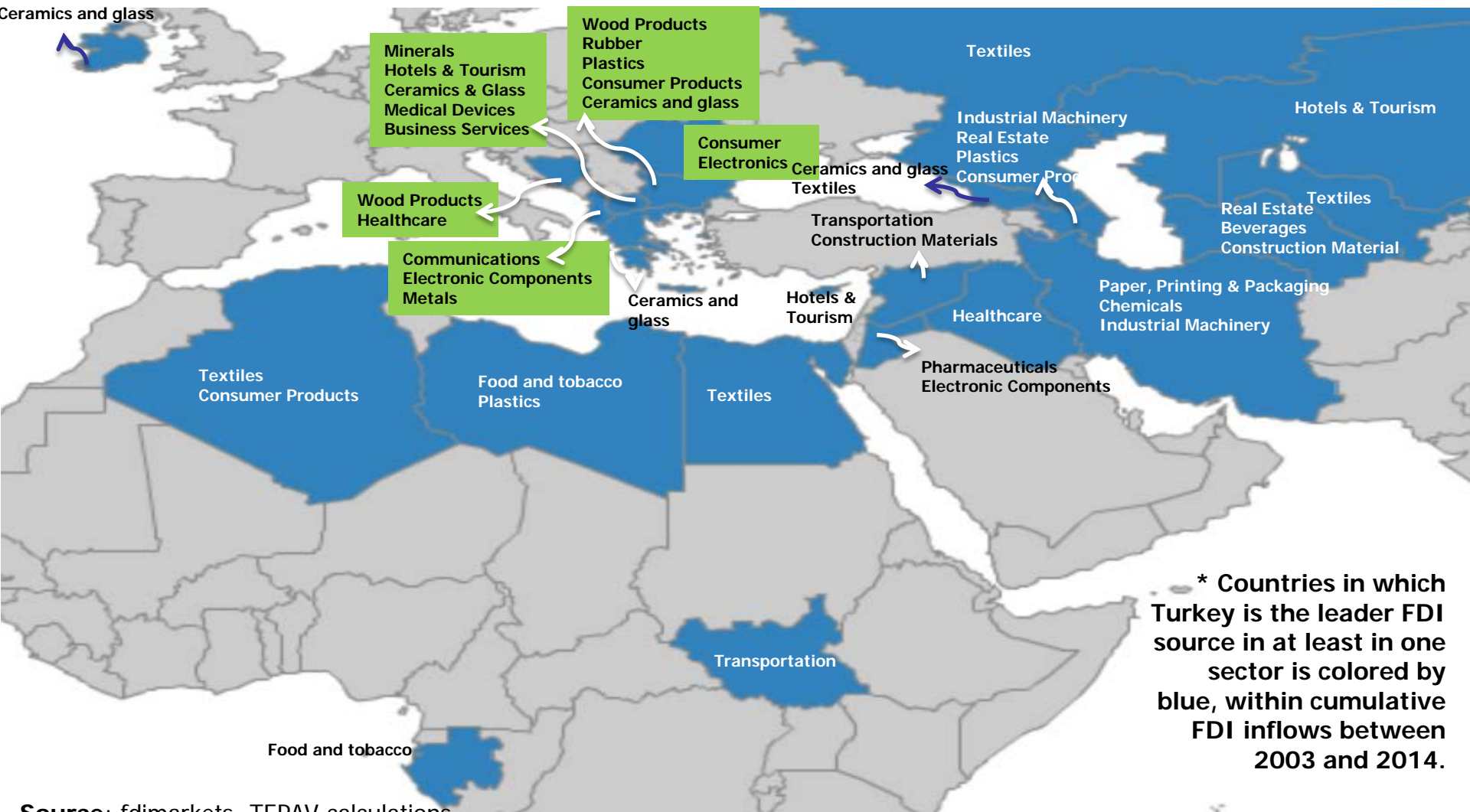
Turkish private sector is increasingly generating regional investors

- Before the millenium, large domestic market lead to Turkish private sector's disinterest for going global.
- However, in the past 10 years, we observe a silent but growing move towards regionalization.

ODI / FDI for Turkey, %, 2005-2015



Turkish companies are emerging as leading investors in a wide range of industries...

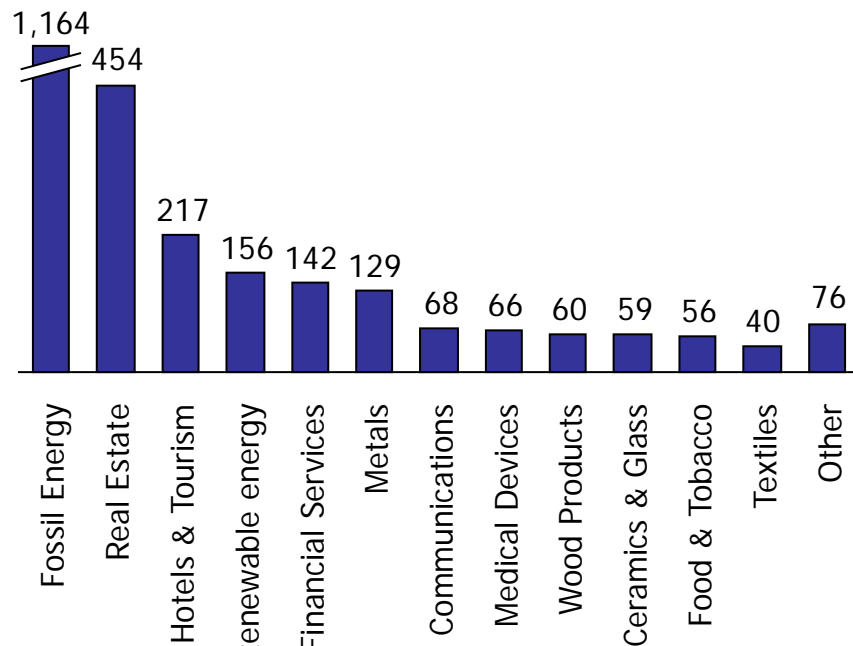


* Countries in which Turkey is the leader FDI source in at least in one sector is colored by blue, within cumulative FDI inflows between 2003 and 2014.

Turkish investments in SEE-6

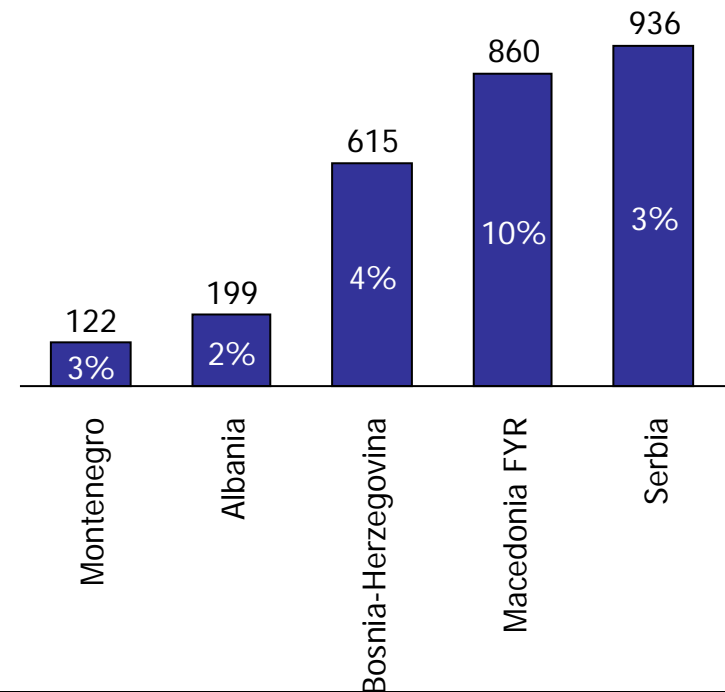
- Turkey is one of four countries that have active investments in all six economies.
 - Other three are Germany, Italy and Austria.
- Investments concentrate in energy, construction and services, with few manufacturing as well.

Turkish investments in the region (2003-14)



Source: fdimarkets, TEPAV calculations

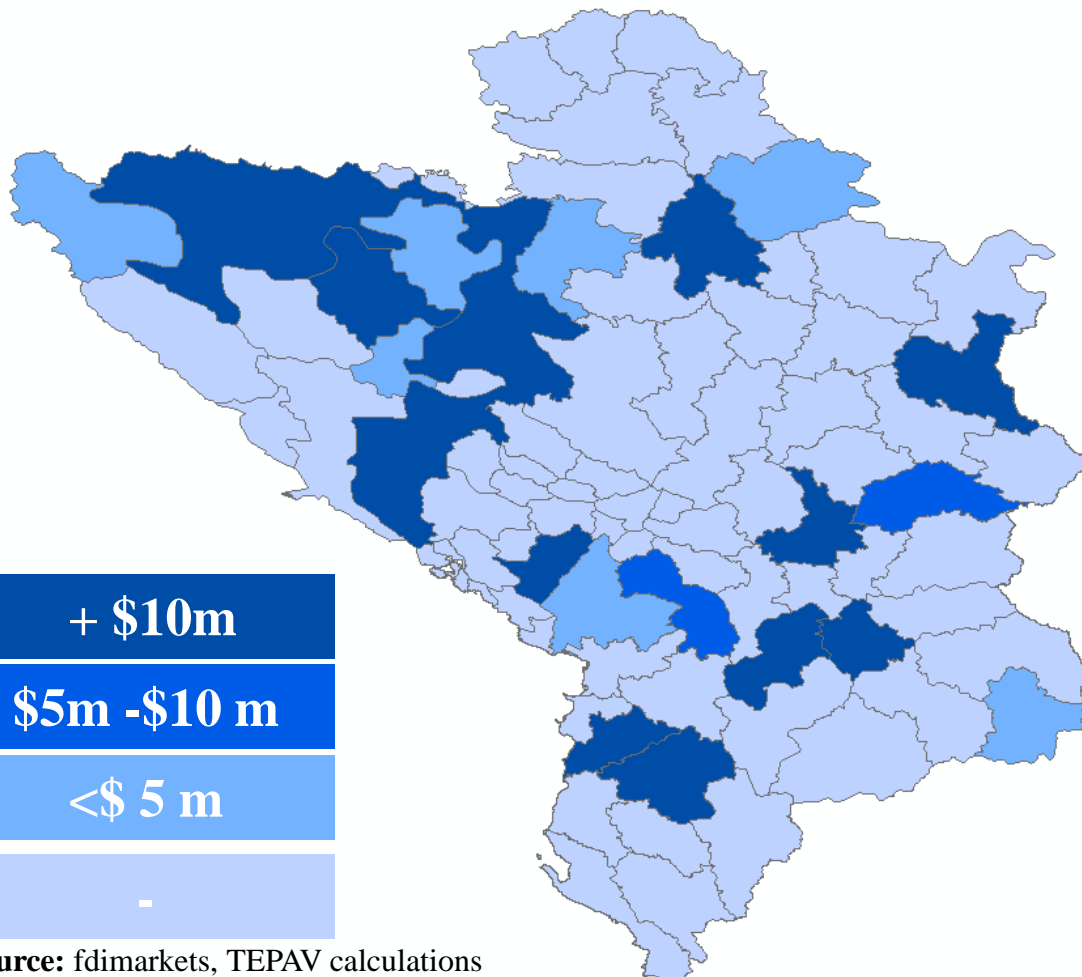
Total Turkish investments and its share



Regional concentration of Turkish investments in the SEE-6

A list of Turkish large companies active in SEE:

- ❖ Natron Hayat
- ❖ Şişecam
- ❖ Sütaş
- ❖ Çalık Group
- ❖ Cevahir Group
- ❖ TAV
- ❖ Enka
- ❖ Halkbank
- ❖ ZiraatBank
- ❖ TEB



+ \$10m

\$5m - \$10 m

<\$ 5 m

-

Patterns identified

1. Entry of Turkish Banks

BiH, Albania, The Former Yugoslav Republic of Macedonia, Kosovo, Serbia*

- Both state & private banks
- Access to strategic knowledge (who to work with, who to avoid etc.)
- Access to finance (investment and working capital)
- Lower transaction costs
- Potential for targeted industrial policy intervention / SME development

Sectoral breakdown of ZiraatBank's loans

	31 December 2013	31 December 2012
Trade	73	27
Mining and Industry	59	27
Real estate	19	4
Agriculture	12	5
Construction	6	3
Transport and communications	3	2
Hospitality and tourism	2	0,2
Energy	-	7
Other	21	10
<i>Legal entities</i>	196	86
<i>Individuals</i>	84	66
TOTAL	280	152

Patterns identified

2. First step towards global operations

- Presence of large Turkish companies
 - Emerging regional and global actors: Şişecam, Kastamonu Entegre, TAV, Sütaş.
 - Balkan focused companies: Kürüm Holding,
 - Large scale contractors: ENKA, Limak, Çalık Group, Cengiz İnşaat etc.
- A low-risk laboratory for streamlining operations.
- Possible different hubs for regional operations, particular functions.
 - Sarajevo: Creative industries, ICT and HR?
 - Skopje: Production for EU
 - Subotica: Production for EU
 - Belgrade and Novisad: Marketing and ICT

Patterns identified

3. Brownfield investments

- Preferred in sectors where constructing production facilities are too costly.
 - Instead, seeking to buy, upgrade and expand.
- Natron Hayat, Şişecam and Kürüm's entries were all through privatization.
- Sütaş entry through buying bankrupt state-of-the-art plant in Skopje.
- Enables focusing on internal structure and operational details.

Additional details

- Turkish Airlines
 - Primary connector of the region.
 - 84 weekly flights to six capitals.
- Turkish universities
 - Generating Turkish speaking human capital.
 - Need to strengthen bonds with investors.
- Turkish soap operas
 - Major source of Turkish image in the region
 - In 2013, 18 Turkish soaps were broadcasted accross six countries.

An important caveat:

Image issues of Turkish business delegations

- Managing the perception risks:
 - Too many unfulfilled promises of greenfield investments.
 - The closer the bilateral ties, the more negative Turkish investors are perceived.
 - Especially so in Bosnia and Herzegovina and Kosovo*.
 - Therefore, perhaps the best perception of Turkish investors is in Serbia.
- Need to develop mechanisms to distinguish serious Turkish investors from charlatans.
 - Important role for embassies, bilateral relations councils and Turkish banks.

Investigating synergies for value chain integration between Turkey and SEE-6

Correlation between Turkey and SEE-6 economies' composition of export baskets* (2013)



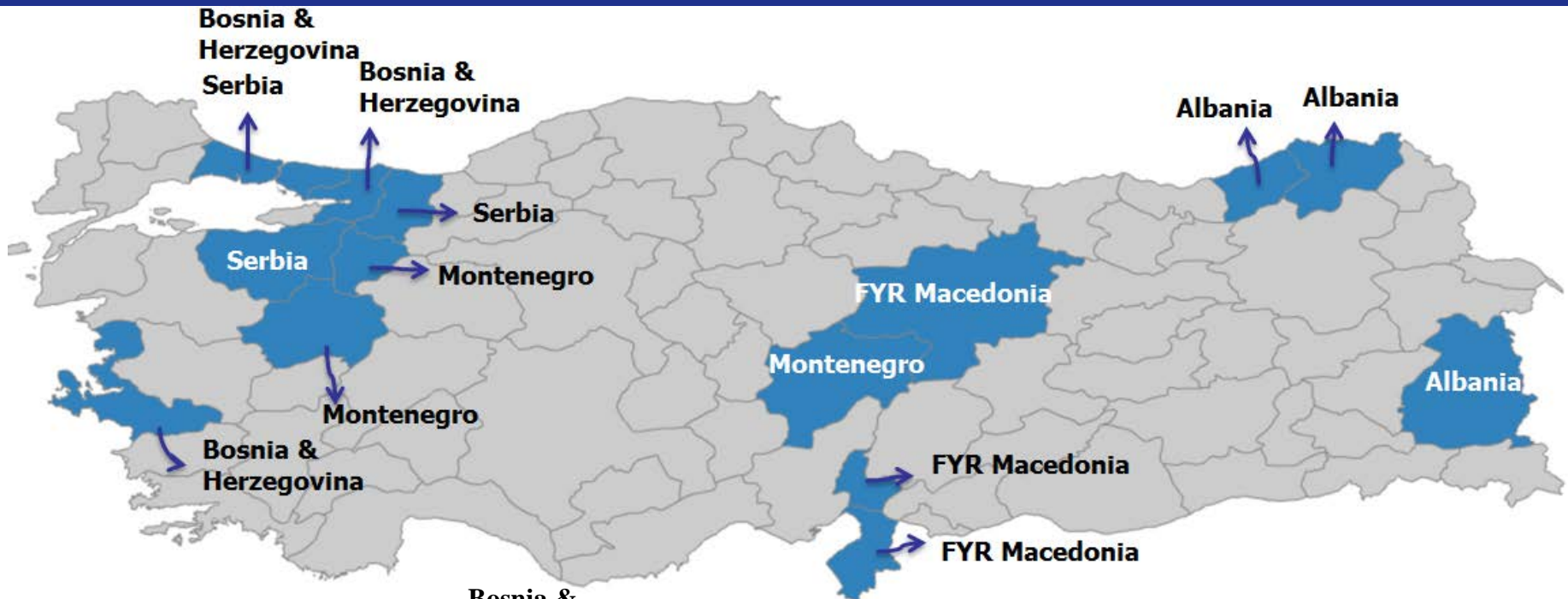
Albania	Bosnia & Herzegovina	FYR Macedonia	Montenegro	Serbia
Kocaeli	Kayseri	Karabük	Çankırı	Bursa
81%	54%	54%	52%	78%
Iğdır	Şanlıurfa	Muş	Eskişehir	İstanbul
36%	53%	51%	51%	77%
İzmir	Ankara	Şırnak	Diyarbakır	Manisa
35%	51%	51%	36%	76%

*For each economies, at HS 2 digit, the share of the products in the economies' export baskets is calculated with 2013 values. Correlation between Turkish provinces and SEE-6' export basket composition is represented.

Source: BACI, TURKSTAT, TEPAV calculations

Investigating opportunities for enhancing trade between Turkey and SEE-6

Correlation between Turkey's import and SEE-6 economies' export baskets* (2013)



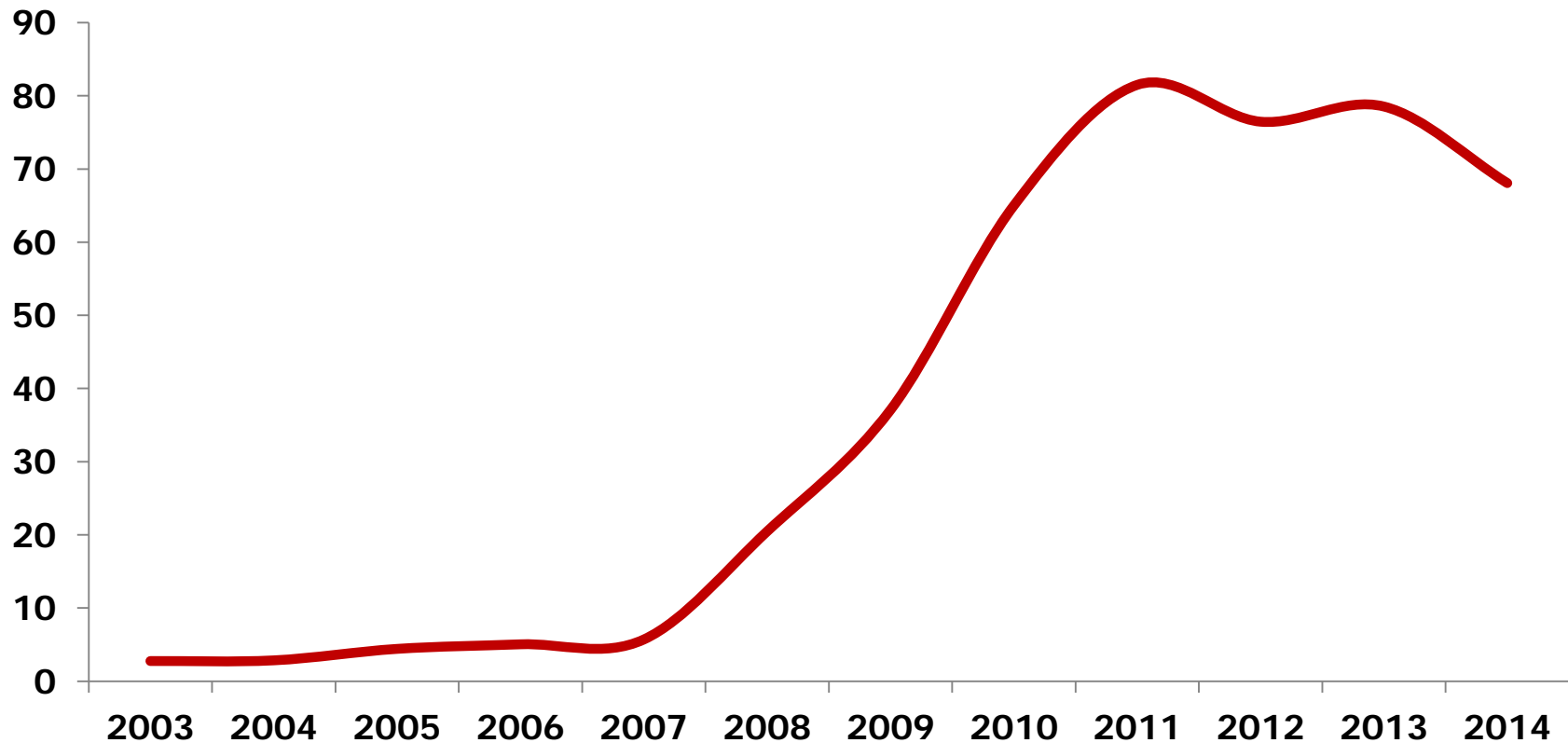
	Albania	Bosnia & Herzegovina	FYR Macedonia	Montenegro	Serbia				
Artvin	83%	İzmir	53%	Sivas	53%	Bilecik	64%	Sakarya	79%
Rize	81%	İstanbul	53%	Osmaniye	51%	Kayseri	40%	Bursa	70%
Van	79%	Kocaeli	51%	Hatay	50%	Kütahya	36%	İstanbul	66%

*For each SEE-6 economies, at HS 2 digit, the share of the products in the economies' export baskets is calculated with 2013 values. For each Turkish provinces, at HS2 digit, the share of the products in the provinces' import baskets is calculated with 2013 values. Correlation between Turkish provinces' import and SEE-6' export basket composition is represented.

Observing the impact of Turkish investments

The case of Natron Hayat

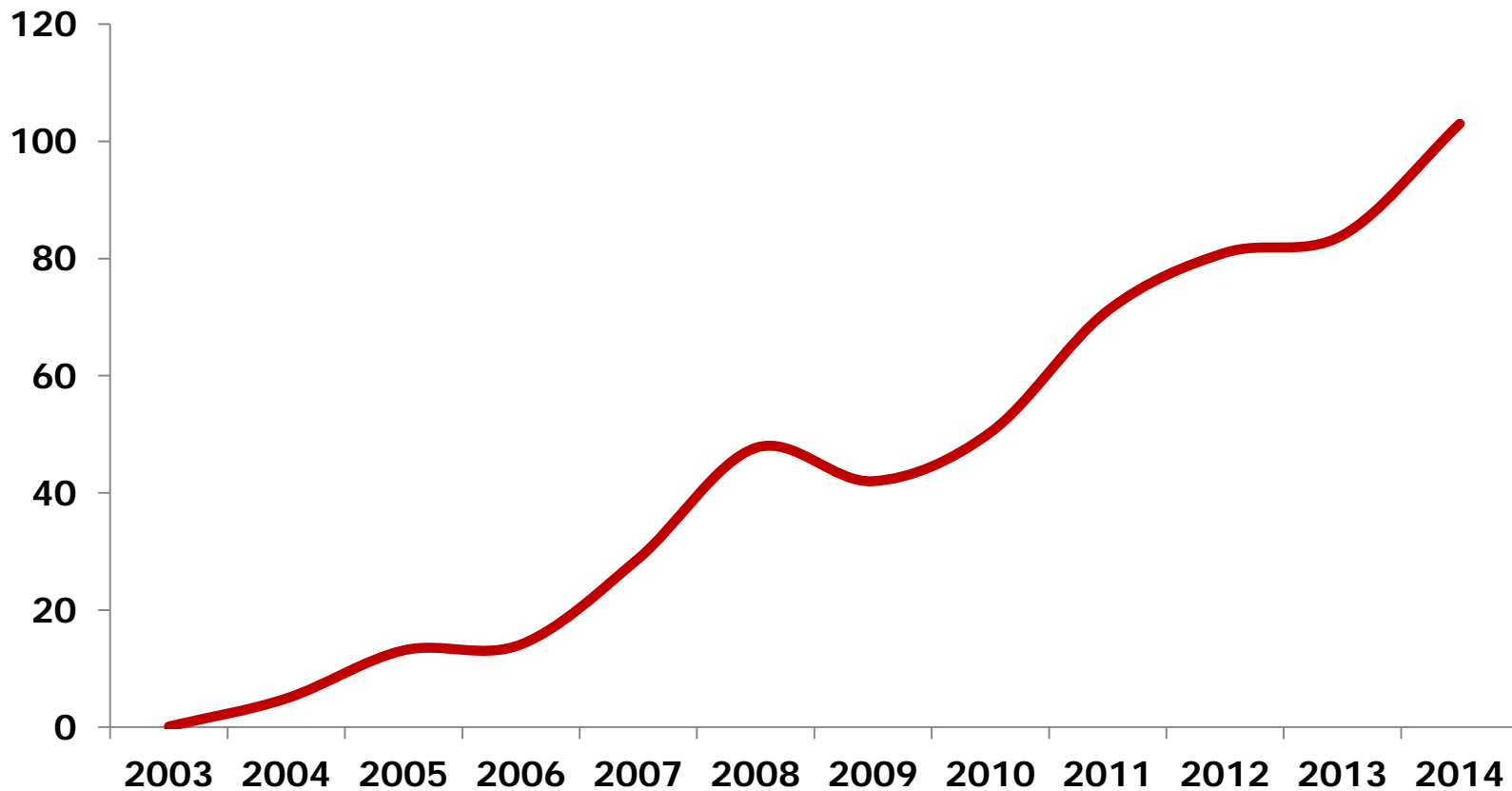
Bosnia and Herzegovina Wood Productst (Paper) Exports, millions US \$



Observing the impact of Turkish investments

The case of Şişecam

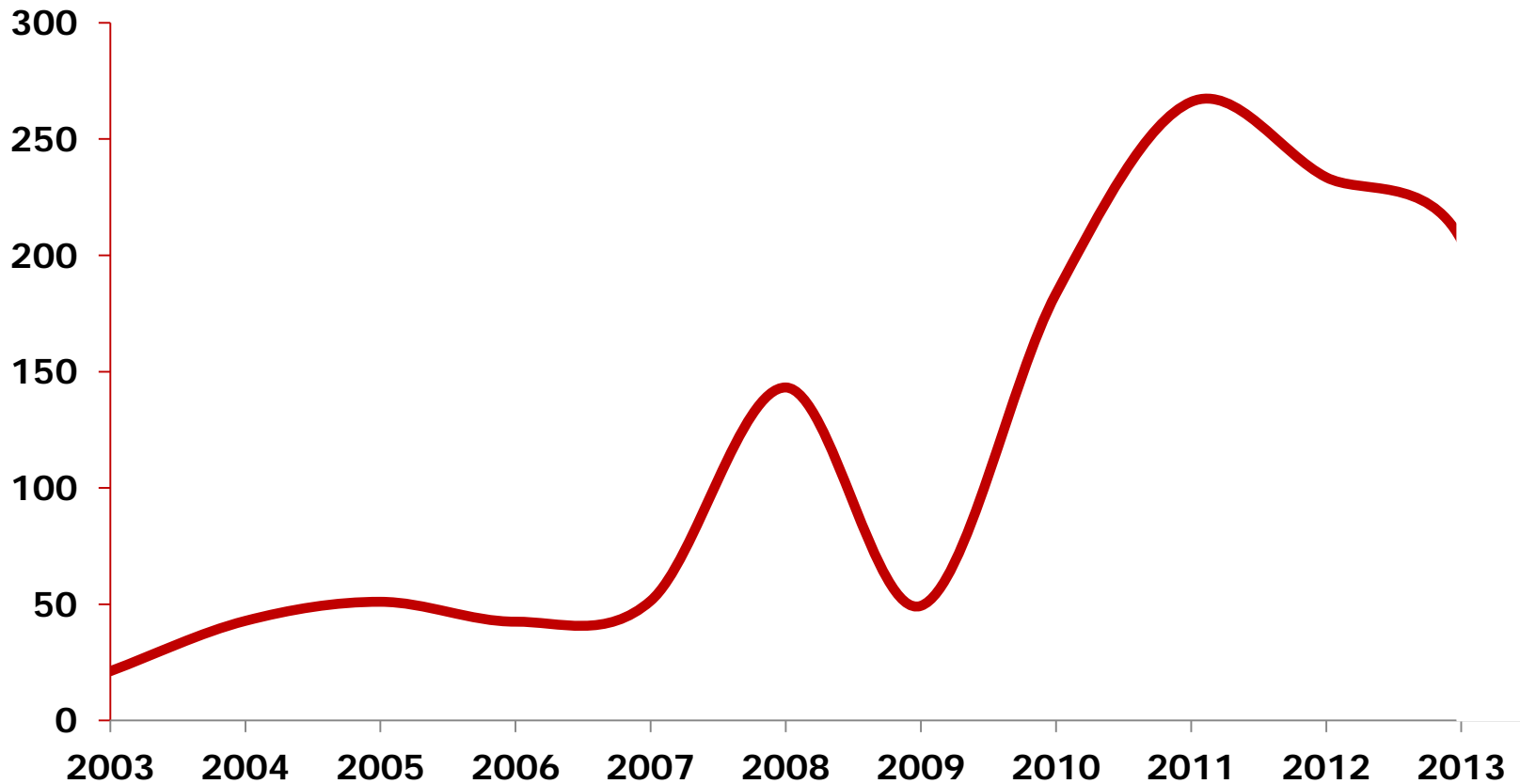
Bosnia and Herzegovina Disodium Carbonate Export, millions US \$



Observing the impact of Turkish investments

The case of Kürüm Holding

Albania Metal Export and FDI inflows, millions US \$



Conclusions / takeaways (1)

- Current state of economic relations do not reflect the future direction
 - Transformation potential in both sides, highly critical.
- Turkey is a medium technology, upper middle income country, with goals to become a high-tech, high-income country.
 - Transformation dimension. Technology and mode of integration.
 - Towards a different mindset.
 - Exports -- > Outward direct investments
 - Design, R&D, global operation capabilities
- For Turkey, the current mode of integration with the Balkans may change tomorrow.
 - Cases of Kastamonu Entegre, Şişecam, Sütaş are initial cases that can be taken to other industries, to the next level.

Conclusions / takeaways (2)

- SEE countries, have gone through a negative transformation process, just recently picking up
 - It is important to understand the capabilities inherited from Yugoslavia times. What is left? What can be revived and taken further?
 - EU accession process. Next region of growth?
 - How about the revival of the Silk road?
- How can SEE economies go beyond exporting primary products to Turkey?
 - Export oriented investments. Targeted investment promotion?
 - Transformation needed? Role of industrial policy? SME development?
- How can SEE economies use Turkey as a hub to reach other markets?
 - MENA, Central Asia, Asia? Case of Zira Solutions is both inspiring and telling.
 - What can be done together?

Some discussion starters

- What is your take on the transformation potential in SEE economies?
 - Which direction is it going? Where can it go?
- Which win-win frameworks, in terms of investments and exports, are possible? Most favorable?
 - Any past experience? Success stories?
- Where are the policy bottlenecks?
 - At the country level? Industrial policy, investment promotion agencies, etc.
 - At the regional level? Infrastructure project?