

Trade competitiveness in Turkey

Preliminary results

World Bank

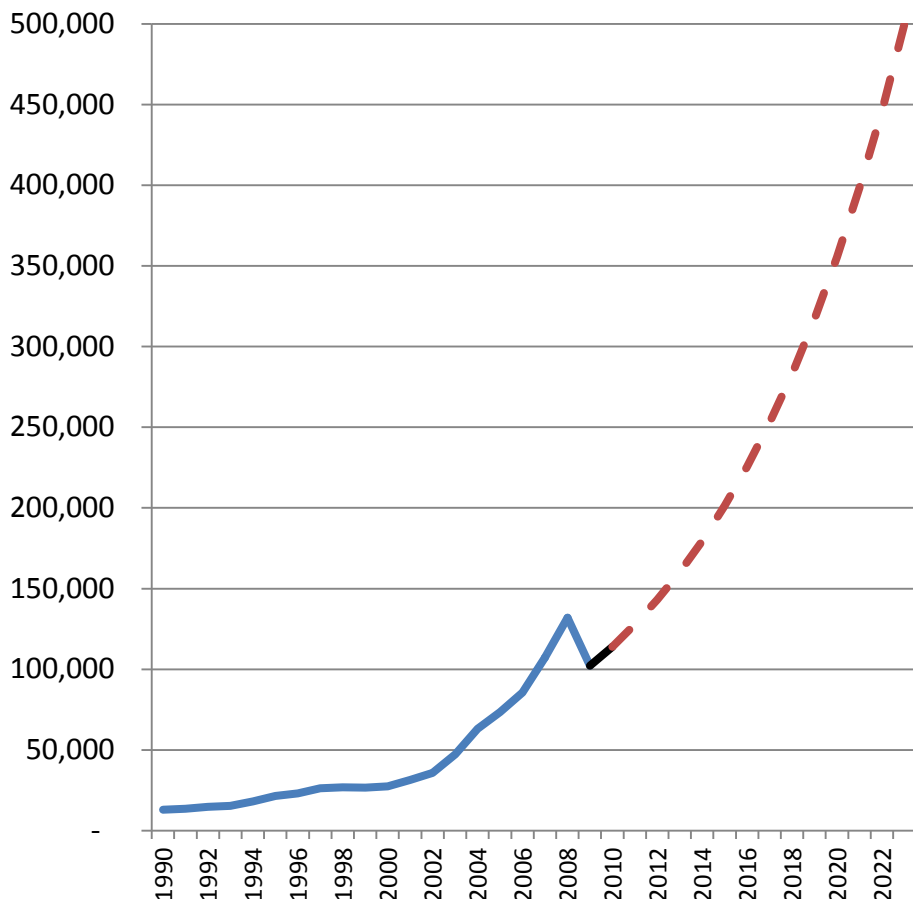
April 2012



THE WORLD BANK

Turkish exports are booming but there are challenges ahead

Export trends and future targets (US\$m)



- Aim of US\$500 billion in exports by 2023
 - Exports grew at 15% annually between 2000 and 2010
- But the pace of growth must continue to reach the target
- ... and in a context of :
 - possibly much slower regional and global growth
 - A rapidly deteriorating current account (10% deficit in 2011), which raises serious concerns about sustainability of growth.



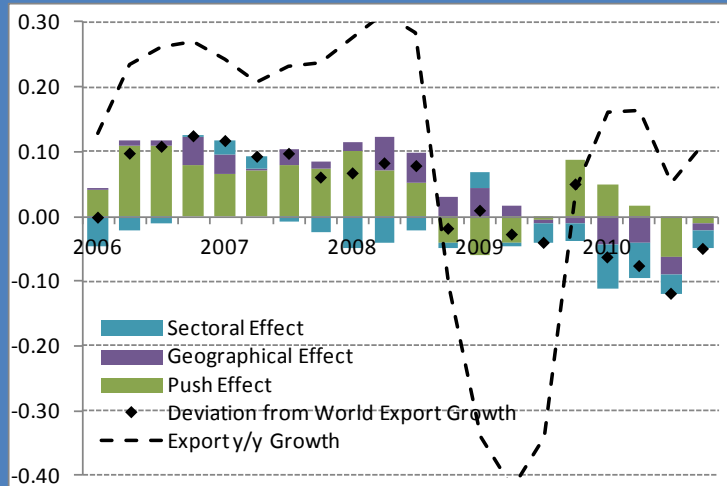
The CEM on Trade

- CEM is a tool for the Government of Turkey and the World Bank to jointly understand better the dynamics and the potential of Turkey's foreign trade and formulate policy options to increase trade competitiveness.
- Objectives:
 - Present an analysis of Turkey's recent performance along various dimensions
 - Assess main constraints to improve firm-level export performance and competitiveness
 - Identify policy measures and interventions that enhance the competitiveness of Turkey and the value added of its exports.
- Next steps: thematic studies
- Final step: synthesis report

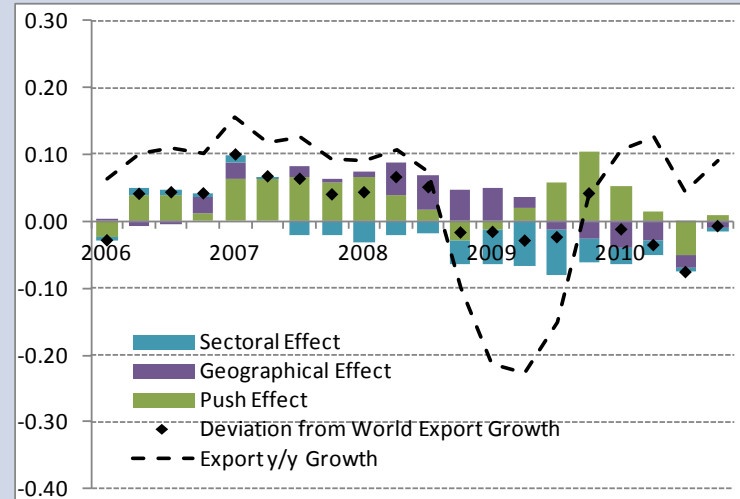


Decomposing export growth

Turkey's export performance decomposition - values



Turkey's export performance decomposition- volumes



- Turkey outperformed global average growth up until the crisis.
- Push factors drove this performance up until the crisis.
- Pull factors played a role since then, i.e. no serious structural impediments have emerged.



A comparison to BRICS

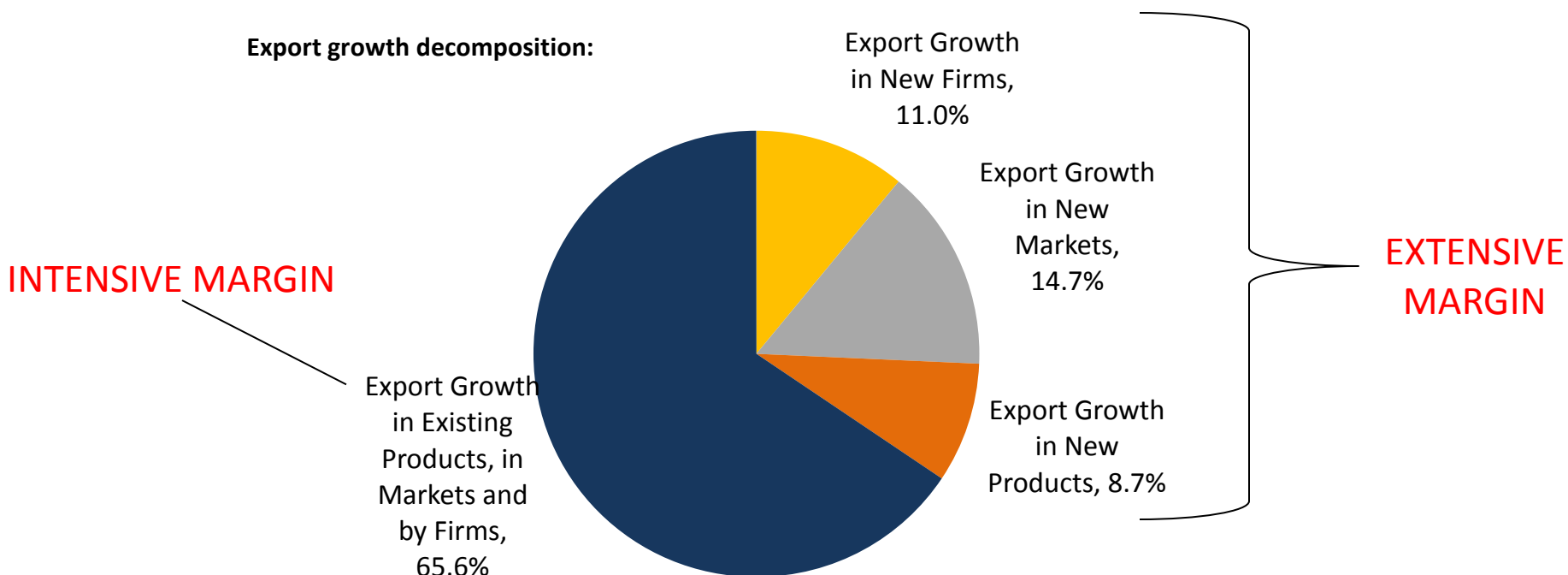
| | Export growth | Export market share change | Performance (export growth without composition effects) | Pull factors (specialization, composition effects), of which: | | Push factors ("performance", i.e. export market share growth without composition effects), of which: | | |
|---------------------|---------------|----------------------------|---|---|--------------|--|-----------------|-------------------|
| | | | | Geographical | Sectoral | Overall (Value) | Price component | Volumes component |
| Turkey | 11.8% | 2.4% | 13.1% | 1.0% | -2.4% | 3.6% | 0.6% | 3.0% |
| Brazil | 14.9% | 5.6% | 11.7% | 2.1% | 1.1% | 1.8% | 2.6% | -0.8% |
| Russia | 12.4% | 3.0% | 8.4% | 0.9% | 3.1% | -1.2% | 0.6% | -1.8% |
| India | 14.9% | 5.5% | 14.4% | 0.4% | 0.0% | 4.6% | -1.7% | 6.4% |
| China | 17.3% | 7.9% | 20.1% | -0.2% | -2.6% | 10.3% | 1.4% | 8.8% |
| South Africa | 12.1% | 2.7% | 10.6% | 0.9% | 0.6% | 1.0% | 0.1% | 0.8% |
| Germany | 6.1% | -3.2% | 6.8% | -0.5% | -0.2% | -2.3% | -1.3% | -1.1% |
| USA | 7.4% | -1.9% | 5.6% | 1.6% | 0.3% | -3.6% | -0.4% | -3.2% |

Note: figures are in average annual growth 2005-2010

- Export growth stripped of compositional effects is relatively strong, trailing only China and India among the BRICS.
- Again the negative sectoral composition is clear.
- Geographical contribution very buoyant, trailing only Brazil among BRICS: against conventional wisdom in Turkey of the need to shift away from EU and to markets like MENA.
- Export growth mainly driven by volumes (84%). In the future need for bigger contribution through price (value addition) component?



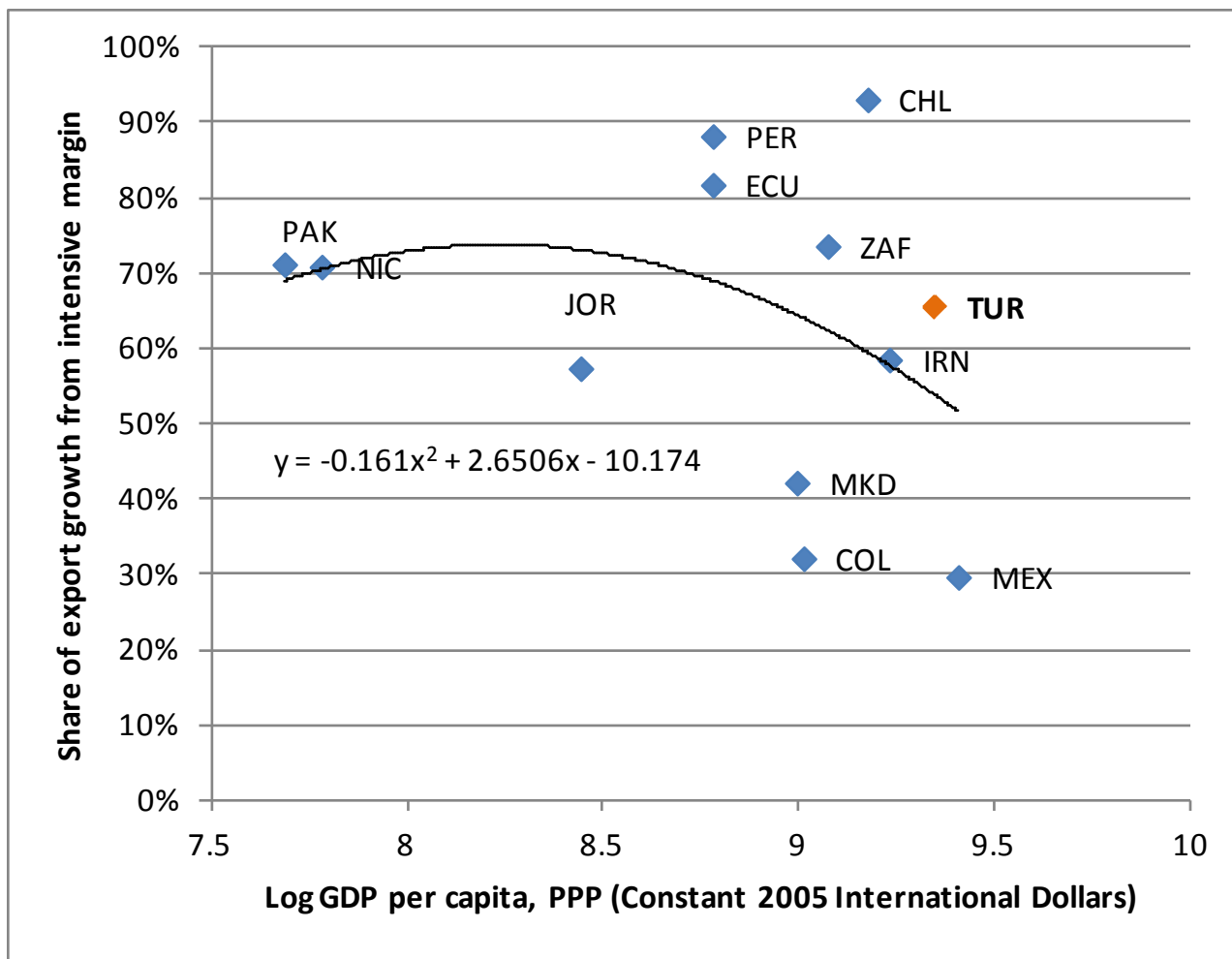
What is driving export growth in Turkey?



- In line with middle income countries
- Higher income countries see greater growth from extensive margin
 - E.g. France: 27% from new firms; 20% from new markets; 13% from new products

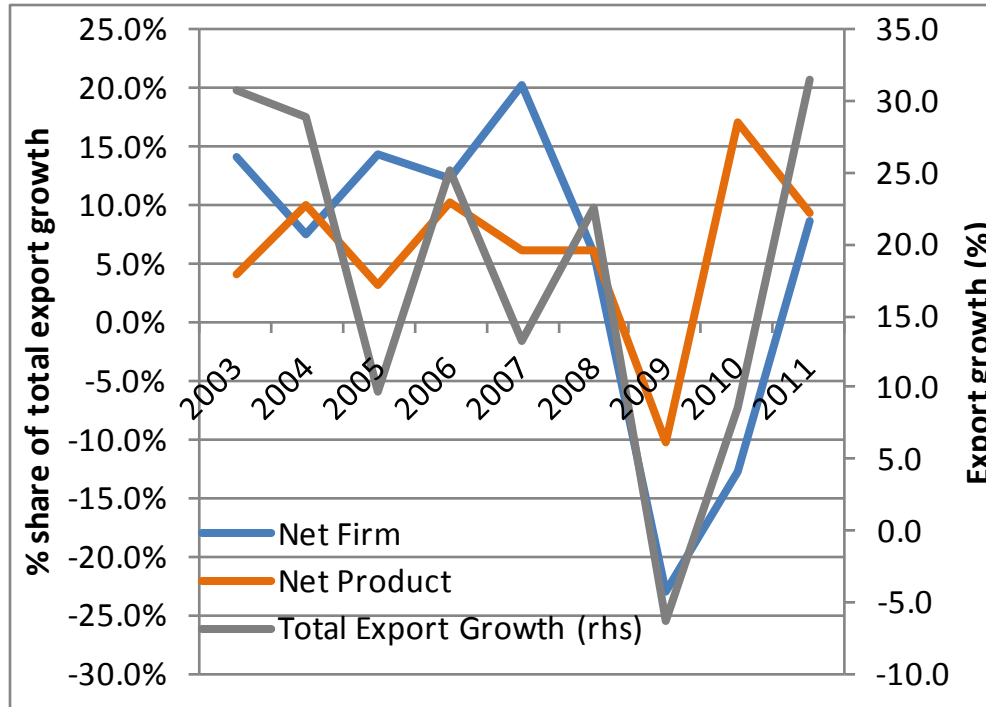


Margins and development: A U-shaped relationship



Export growth contribution of the extensive margin higher when export growth is sustained

Correlation of overall export growth with the margins



Export growth correlation with:

| | |
|---|--------|
| Share of growth from firm extensive margin | 65.8% |
| Share of growth from market extensive margin | -6.6% |
| Share of growth from product extensive margin | 54.5% |
| Share of growth from intensive margin | -65.5% |



Main points investigated through firm-level analysis

- Nature of export growth in Turkey: **markets, products** ?
- How are **mid-sized exporters (Mittelstand)** performing in Turkey?
- What is the impact of **quality, FDI, and import content** of exports and **quality of imported inputs** on export performance, survival rates and on the probability to export high quality goods?
- What are the **key determinants** explaining the export performance? On extensive and intensive margins ?



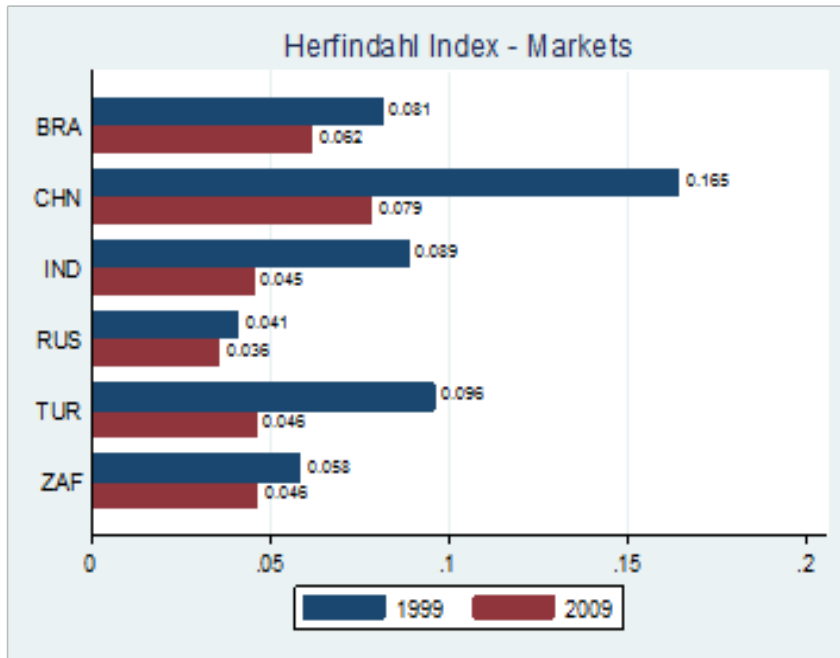
Outline of discussion

- **MARKETS**
- PRODUCTS
- GROWTH OF EXPORTERS
- THE DETERMINANTS OF EXPORT GROWTH

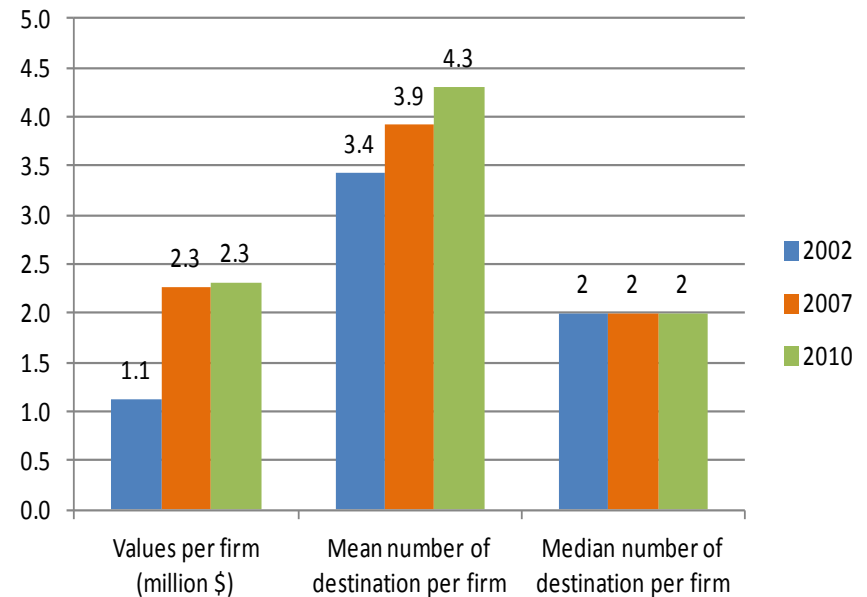


Market diversification: mainly driven by large firms

Market concentration v BRICS

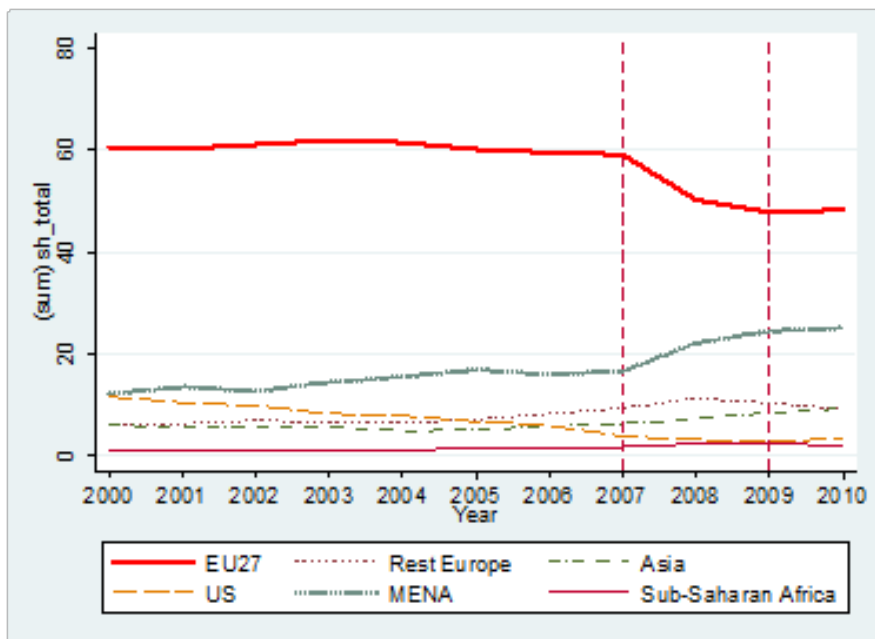


Market contribution at the firm-level



The relative importance of regional markets

Exports by region: share of total exports (2000-2010)



Exports growth decomposition: contribution of EU and MENA in 2010

| | EU | MENA |
|----------------------|-------------|------------|
| Firm Entry | 4.9 | 0.9 |
| Firm Exit | -10.1 | -0.5 |
| Net Firm | -5.2 | 0.4 |
| Country Entry | 5.2 | 0.8 |
| Country Exit | -4.7 | -0.6 |
| Net Country | 0.6 | 0.2 |
| Product Entry | 8.2 | 1.2 |
| Product Exit | -5.9 | -1.1 |
| Net Product | 2.3 | 0.1 |
| Net Extensive | -2.3 | 0.7 |
| Intensive Positive | 32.7 | 3.6 |
| Intensive Negative | -25.4 | -3.1 |
| Net Intensive | 7.3 | 0.5 |
| Total | 5.0 | 1.3 |

- Although 42% new exporters focused on EU only while an additional 8% on EU + other...
- ...increasing attraction for non-traditional markets
 - Number of entrants to non-EU regional markets doubled in 10 years
- But it pays more to serve the EU



Findings from focus group discussions - MARKETS

SUCCESS & OPPORTUNITIES

- MENA success and continued potential
- Russia and Central Asia
- Latin America (auto)
- China and India (apparel)
- Opportunity / demand for outward FDI

CHALLENGES

- Stability in emerging markets (esp MENA)
- Payment collection
- Tariffs
- NTBs (standards and market access, food sector)
- New EU bilateral agreements with MENA countries



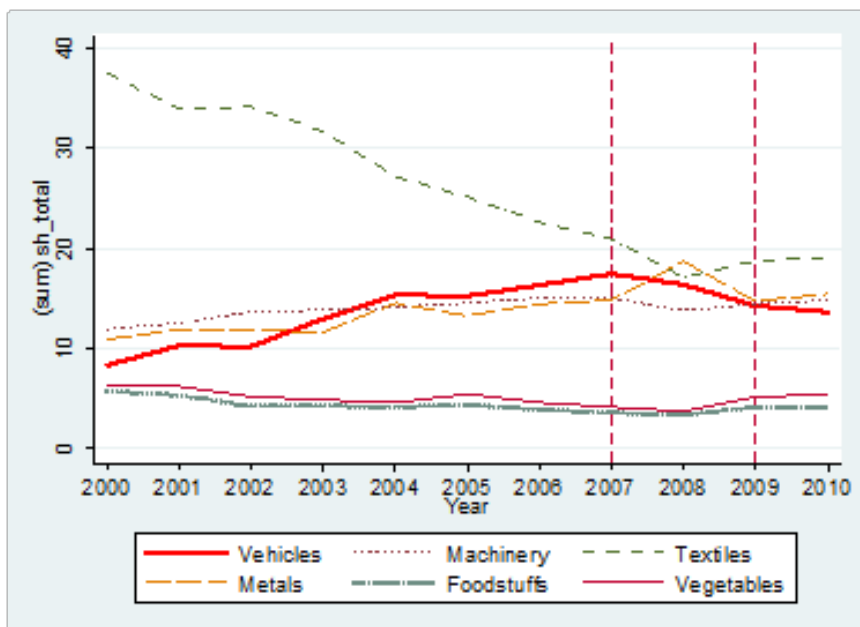
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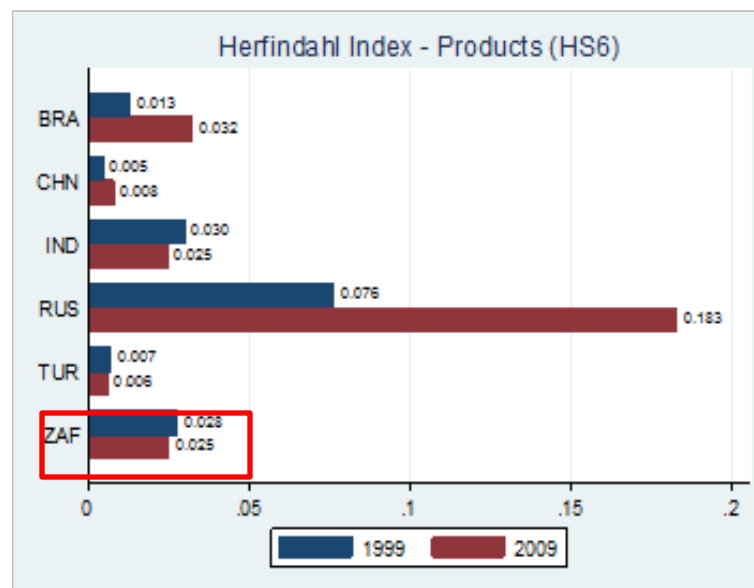


Product diversification

Exports by sector: share of total exports (2000-2010)



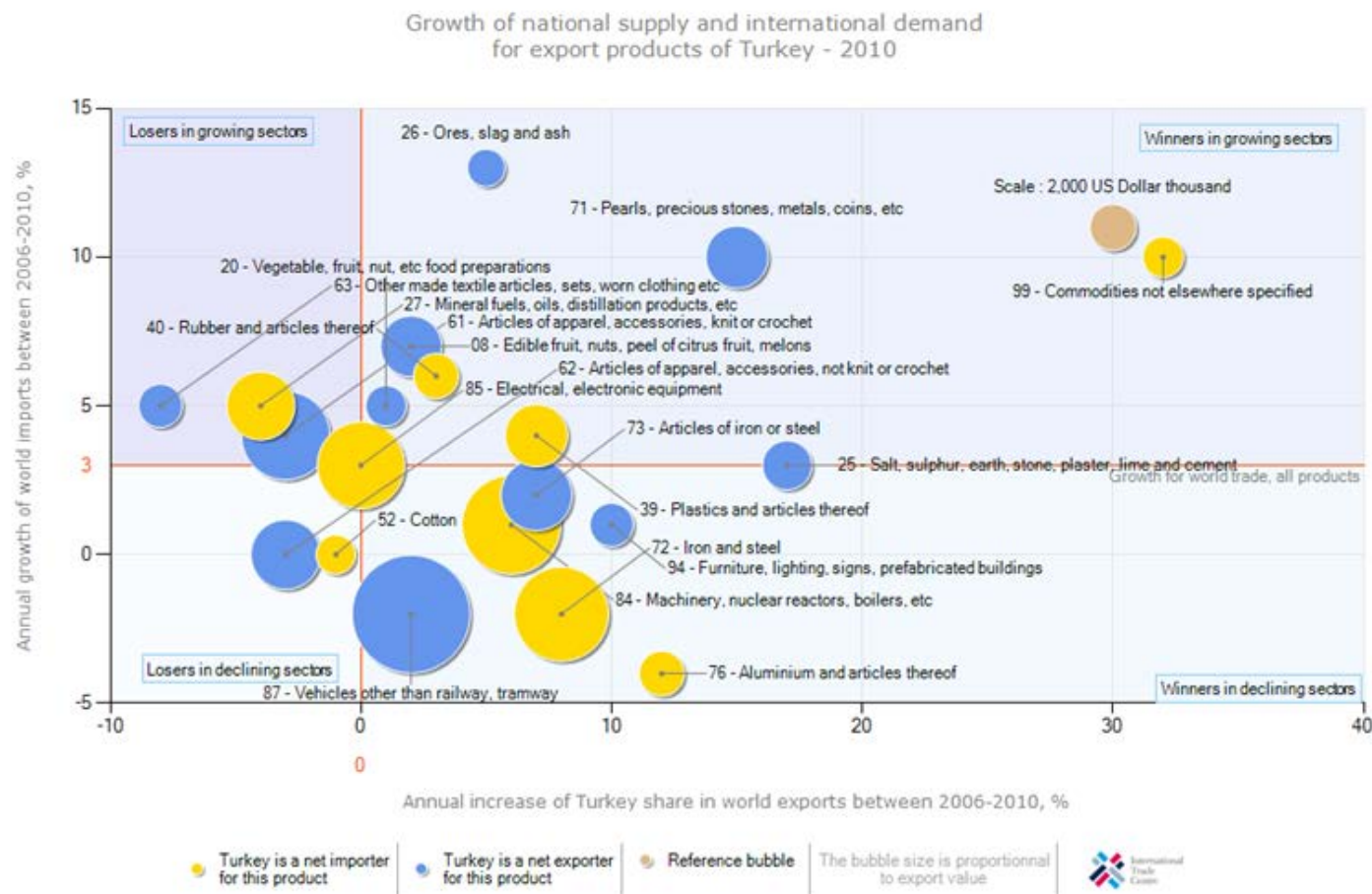
Production concentration v BRICS



- Sectoral shifts are not associated to industrial reconversion of existing exporters:
 - Intra-firm shifts contributed for 1.5% export growth over the period 2002-11.
- Large firms expanded product range but a positive imitation process took place:
 - Sensible increase in average and median number of exporters per product and destination.
- Firms are most likely to expand product range from 1 to 2 or more products, but unlikely to expand beyond 4 to 10 products.
- Product retrenchment is less likely than market retrenchment at times of crisis and very limited for multi-product firms.

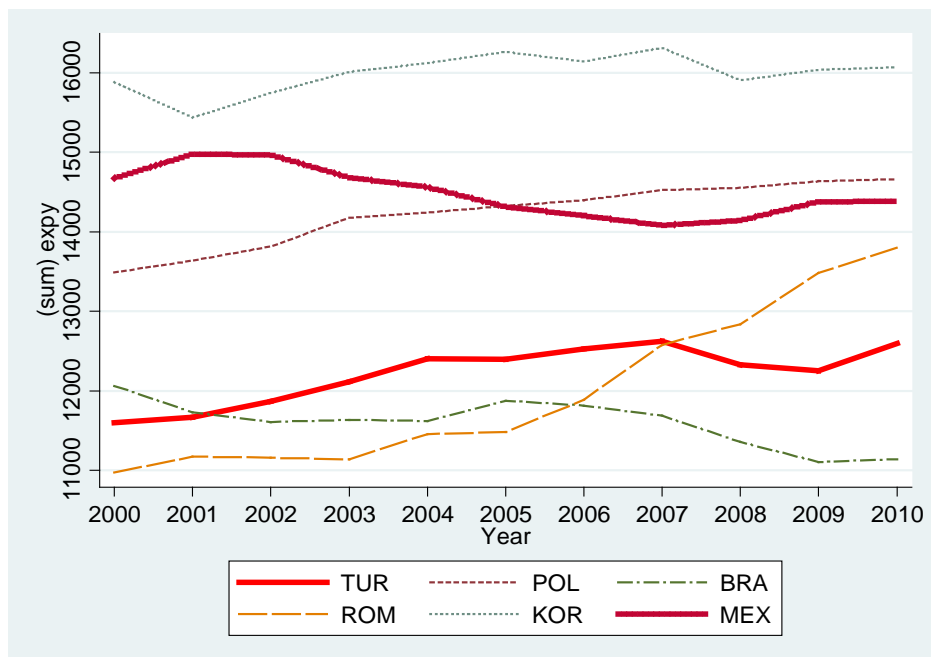


Top 20 export products are not very dynamic

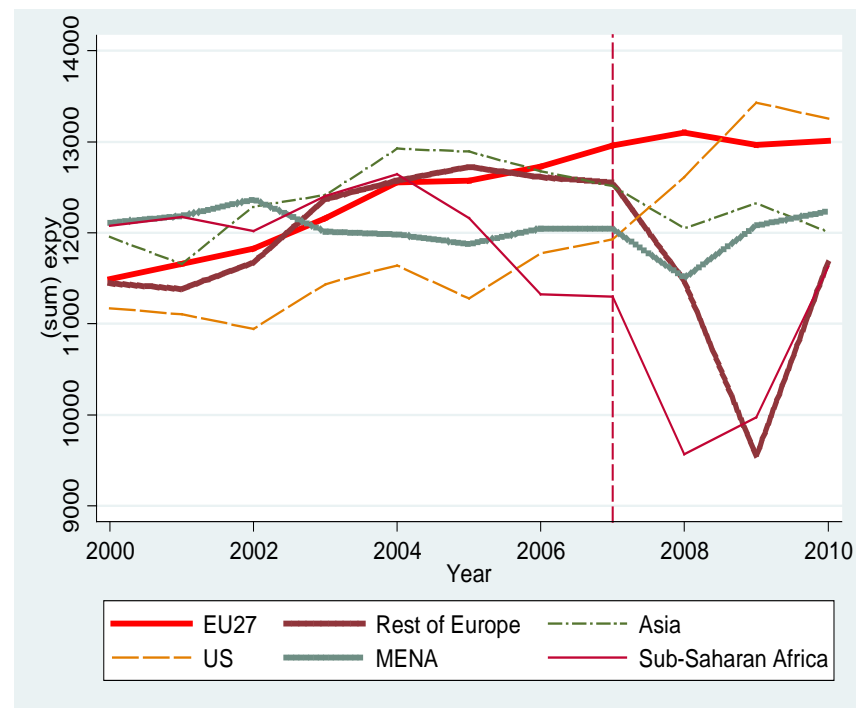


Product sophistication

Product sophistication (EXPY), 2000-2010



Turkey's export sophistication by region

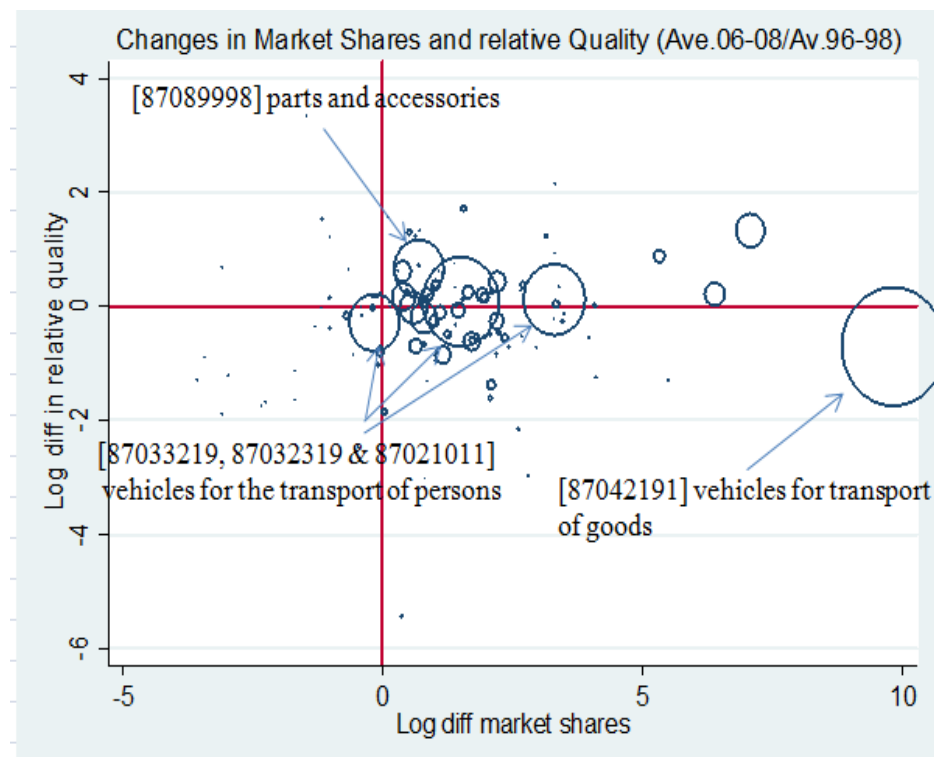
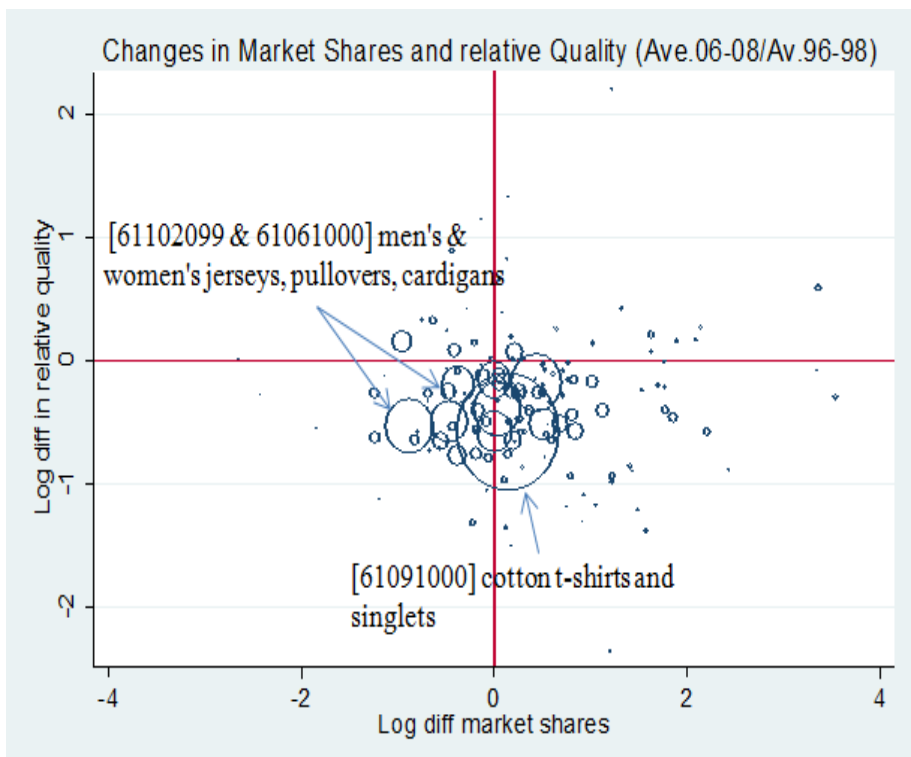


- Main channel of export sophistication: mid-tech exports to the EU-27



Product quality

Changes in market share and relative quality (example: apparel and auto sector)



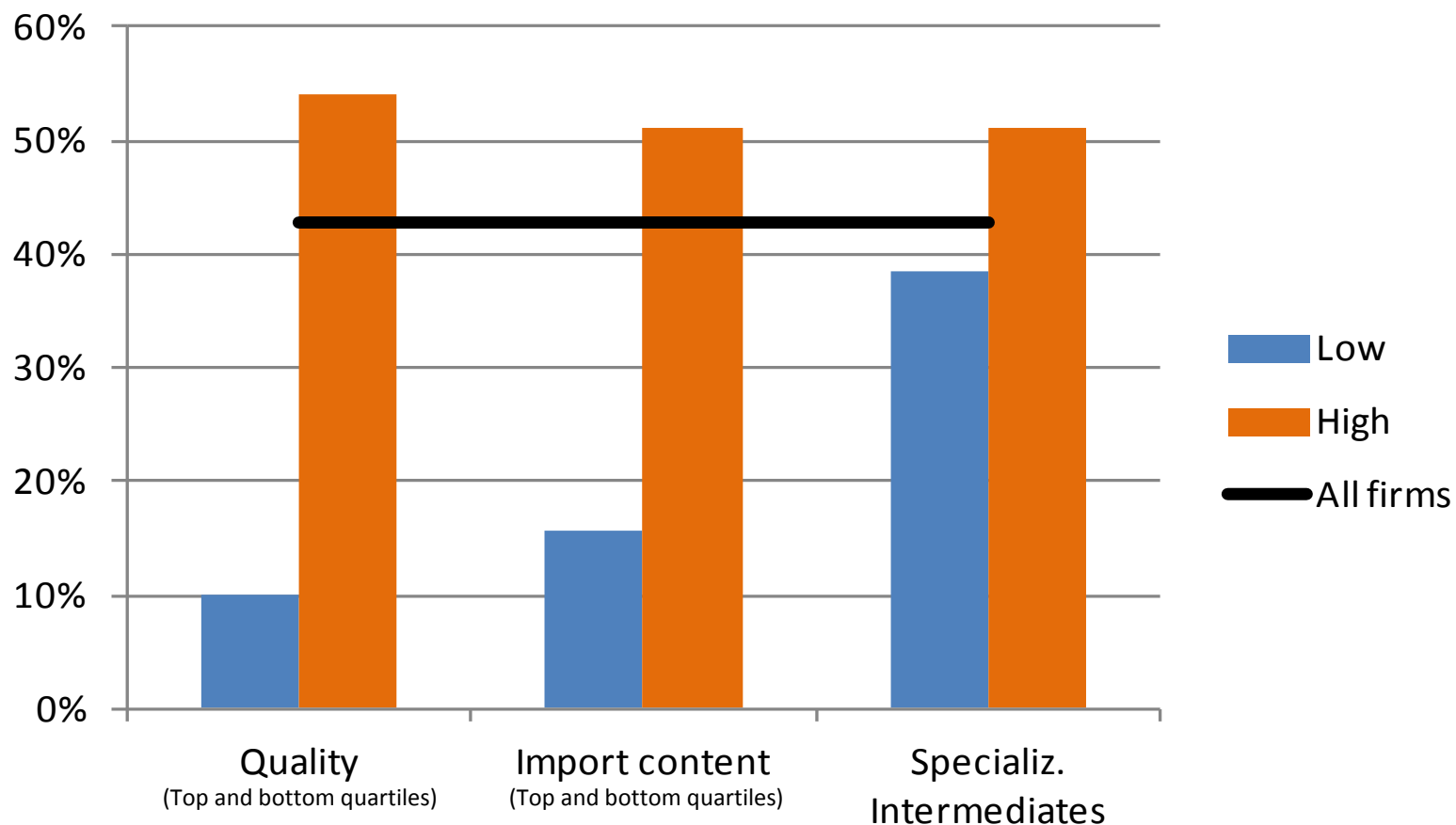
Determinants of high quality exports

| VARIABLES | (1) prob_lq |
|---------------------------------------|--------------------------|
| dln(TFP) | -0.00966*** (0.00314) |
| ln(revenue) | 0.0173*** (0.00233) |
| ln(mqual) | 0.130*** (0.00395) |
| ln(imports/turnover) | 0.00549*** (0.00169) |
| ln(exports_intermediates/exports) | -0.0786*** (0.0115) |
| majority foreign ownership | 0.0316 (0.0267) |
| full foreign ownership | 0.134*** (0.0196) |
| dln(time_trade) | 5.962*** (0.953) |
| PTA | 0.00893 (0.0162) |
| dln(RER) | 0.0791 (0.0711) |
| hs2 fe | yes |
| year fe | yes |
| Observations | 840,300 |
| Robust standard errors in parentheses | |
| *** p<0.01, ** p<0.05, * p<0.1 | |



Firm characteristics and export survival

5-year export survival (2003-2007)



Findings from focus group discussions - PRODUCTS

SUCCESS & OPPORTUNITIES

- Some improvements in quality over past decade
- “Know-how” / spillovers from EU
- Value chains and global standards
- Recent R&D incentives
- “Made in Turkey” brand in less developed markets

CHALLENGES

- Reliance on / cost of imported inputs
- Weak input sectors
- Quality reputation and pricing implications
- Value chain power
- Low levels of FDI
- Firm size



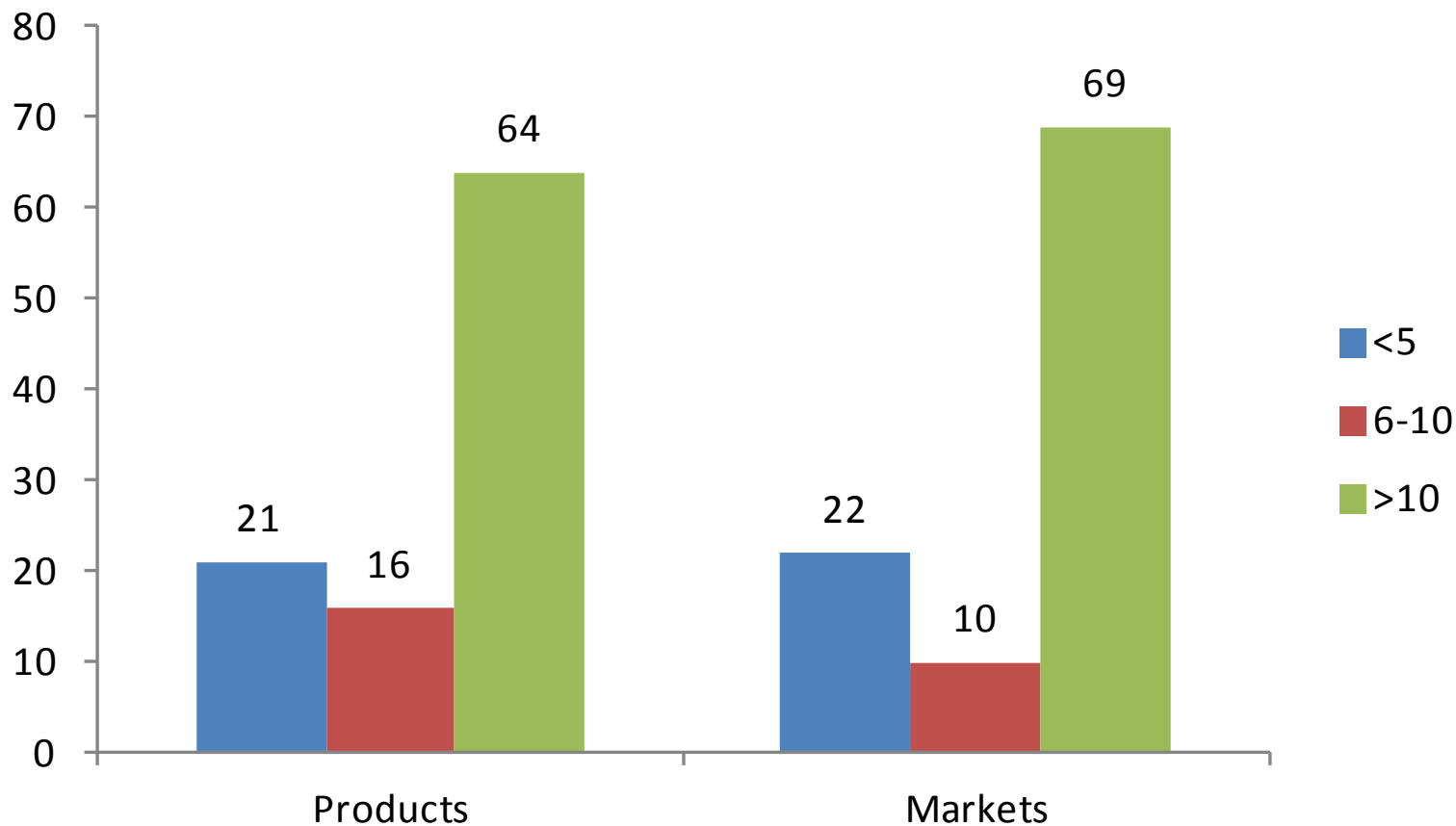
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Building dynamic, mid-sized exporters

Share of export value by exporter scope



Building dynamic, mid-sized exporters (contd.)

| | % of firms exporting more than: | | | | % total exports by firms exporting more than: | | | |
|-----------------------|---------------------------------|-----------------|-----------------|-----------------|---|-----------------|-----------------|-----------------|
| | 5% of turnover | 10% of turnover | 50% of turnover | 90% of turnover | 5% of turnover | 10% of turnover | 50% of turnover | 90% of turnover |
| Turkey (2003) | 55% | 43% | 15% | 3% | 97% | 94% | 55% | 15% |
| Turkey (2008) | 55% | 44% | 14% | 2% | 97% | 94% | 59% | 15% |
| Germany (2003) | 47% | 40% | 12% | 1% | 99% | 99% | 74% | 6% |
| France (2003) | 41% | 33% | 9% | 1% | 94% | 95% | 49% | 10% |



Findings from focus group discussions – SURVIVAL AND GROWTH

SUCCESS & OPPORTUNITIES

- Financial constraints less binding
- Good position from productivity / labor cost perspective

CHALLENGES

- Access to longer-term loans
- Mid-level skills (esp business / marketing)
- Policy instability
- Fragmented / ineffective incentives
- Export readiness of SMEs
- Cost of imported inputs
- Lack of specialization



Outline of discussion

- MARKETS
- PRODUCTS
- SURVIVAL AND GROWTH OF EXPORTERS
- **THE DETERMINANTS OF EXPORT GROWTH**



Determinants of export growth

| VARIABLES | (1) gr_try |
|---------------------------------------|-------------------------|
| dln(TFP) | 0.118*** (0.00765) |
| ln(revenue) | 0.0518*** (0.00315) |
| ln(xqual) | 0.0421*** (0.00966) |
| dln(time_trade) | -6.236*** (1.691) |
| ln(imports/turnover) | -0.00274 (0.00443) |
| dln(RER) | -0.162* (0.0929) |
| dln(netimport) | 0.0659*** (0.0141) |
| ln(exports_intermediates/exports) | -0.0724*** (0.0256) |
| PTA | 0.00740 (0.0303) |
| ln(mqual) | -0.0211*** (0.00311) |
| Constant | -2.388*** (0.334) |
| hs2 fe | yes |
| year fe | yes |
| Observations | 780034 |
| R-squared | 0.015 |
| Robust standard errors in parentheses | |
| *** p<0.01, ** p<0.05, * p<0.1 | |

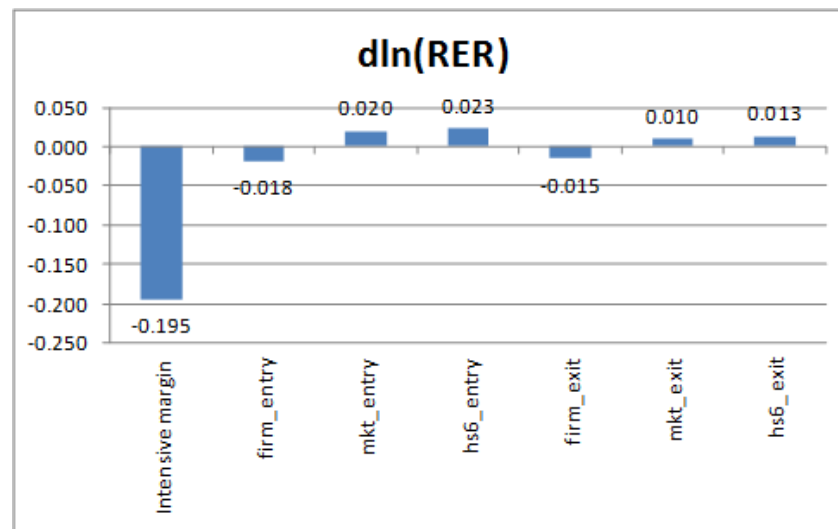
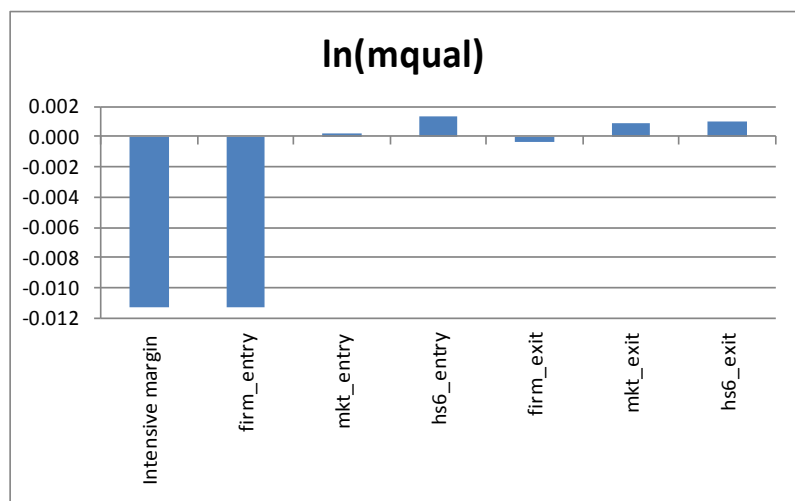
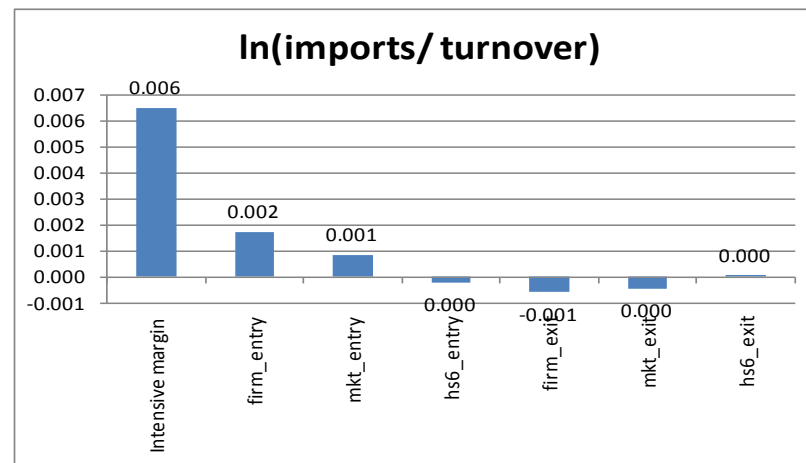
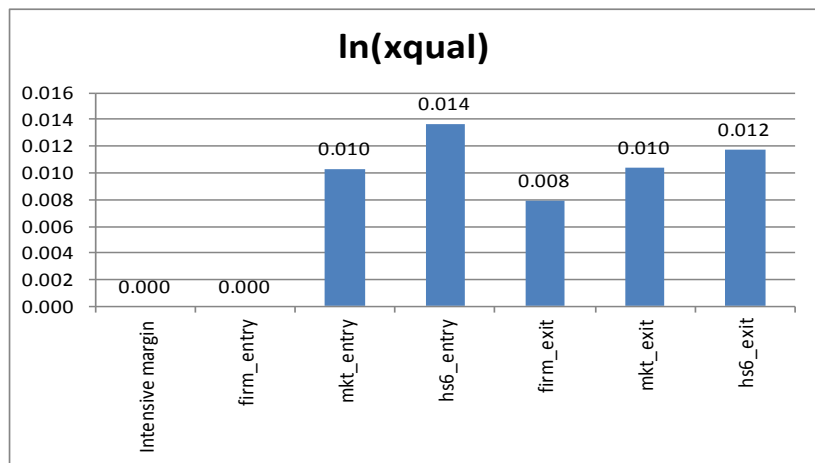


Determinants of export growth at the extensive margin

- Firm, market and product extensive margin:
 - New firms, product and markets do not make up for the loss of export growth from disappearing firms, products and markets.
- Firms with higher quality of exports perform better:
 - Export growth premium for firm, market and product entry/exit.
 - The effect on the **intensive margin** is slightly negative.
- Firms with higher import content face a small negative bias:
 - On export growth due to entry into new markets and products (2-3%)
 - and on export growth at the firm, market and product exit (also 2-3%).
- Evidence of pro-competitiveness effect of exchange rate:
 - Overall associated with lower export growth, due to predominance of **intensive margin**...
 - But associated with higher export growth through entry and with a milder export loss through exits (by 23-25%)
- PTAs are associated with a positive and significant extensive margin



The determinants of export growth at the margins



Main conclusions of the analysis

- Two routes to growing exports:
 - Market diversification (demand pull effects).
 - Increase cost-competitiveness or improve quality and technological sophistication in order to command higher prices in export markets.
- Export growth in Turkey is mainly due to increasing volumes of existing products to existing markets. Market diversification has also performed well.
- By contrast, despite experimentation, little growth in value terms from expanding to **new products**.
- A particular challenge seems to be moving to more products/more markets. As a result **mid-sized exporters in Turkey are somewhat underperforming**.
- Specialization in exports of **higher quality** and **high levels of import content** foster export growth, but the quality of imports (and their cost) can have a negative impact over the short run.
- Higher import content of exports and **higher quality of imports** enhances the probability to export high quality goods.
- Evidence of **pro-competitiveness effect of exchange rate**; stronger exchange rate negative for overall export growth, but associated with **higher export growth at the extensive margin**.
- PTAs enhance growth through the extensive margin.



Thank you

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