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## THREE THINGS TO KNOW ABOUT TURKEY'S TRADE WITH CHINA

Following the 2008 crisis, Turkey, which had demonstrated high economic growth with a low current account deficit, had to increase its current account deficit to sustain comparable levels of economic growth. Moving forward, low growth and high current account deficit expectations for 2014 pose a risk for Turkey. The largest factor causing the current account deficit is trade in goods and services. Excluding oil, Turkey's largest trade deficit is with China, with a share of 26%. Factors impacting Turkey's trade deficit with China help explain the composition of the current account deficit.

Turkey's trade with China has been accelerating since the late 90s. While the value of trade between Turkey and China was below \$1 billion in 2000, it has exceeded \$24 billion in 2012. As of 2012, Turkey's exports to China were \$2.8 billion, while its imports were \$21.2 billion, resulting in a \$18.4 billion deficit.

Three points concerning Turkey's economic relationship with China stand out considering the rising importance of trade with China for Turkey. First, Turkey imports high-tech products at a low price from China. Second, Turkey exports a large fraction of natural resources to China below average world prices. Third, despite the rapid increase in exports over the past 16 years, Turkey has neither captured a significant share of Chinese imports, nor integrated into emerging Asian markets.

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Turkey imports sophisticated machinery products below world prices from China. The machinery sector is composed of highly sophisticated products with high unit prices, and exports in this sector generally originate from high income and developed countries. It is noteworthy that the machinery sector occupies an important share of Turkey's imports from China. In 2013, Turkey imported 26% of its machinery from China. In the 6-stage division of Turkish imports, for Turkey's top 10 imported products from China, China offers the lowest unit price among other countries. Concerning the largest Chinese export sectors to Turkey, China possesses a large price difference relative to its competitors and sells to Turkey significantly below weighted average global prices. For example, in the \$1.3-billion laptop market, where China exports for \$168 per kilogram, non-Chinese exports cost \$325 per kilogram. In the comparable wireless communication and remote control components and parts market, non-Chinese imports cost \$259 per unit, whereas Chinese unit costs are at \$32.

**Table 1: Comparison of Unit Prices for the Top 10 Chinese Products Imported to Turkey**

| Product Code (HS -6) | Product Name                                                               | Turkey's import from China (Million US \$) | Unit Value of Turkey's import from China (\$/kg) | Average unit value of Turkey's world import (\$/kg) | Weighted average world unit value (\$/kg) | China's rank on total world export |
|----------------------|----------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------------|-----------------------------------------------------|-------------------------------------------|------------------------------------|
| 847130               | Portable automatic data-processing machines, weighting not more than 10 kg | 1.231                                      | 167,6                                            | 325,3                                               | 203,6                                     | 1.                                 |
| 852520               | Transmit-receive apparatus for radio, TV, etc.                             | 1.091                                      | 569,5                                            | 501,6                                               | 628,4                                     | 1.                                 |
| 852990               | Parts for radio/tv transmit/receive equipment, nes                         | 464                                        | 31,9                                             | 258,6                                               | 61,4                                      | 2.                                 |
| 853120               | Indicator panels incorporating electronic displays                         | 450                                        | 31,5                                             | 150,5                                               | 367,6                                     | 3.                                 |
| 851780               | Telephone sets, including telephones for cellular networks                 | 379                                        | 82,3                                             | 311,2                                               | 211,9                                     | 1.                                 |
| 950390               | Toys nes                                                                   | 338                                        | 13,3                                             | 25,9                                                | 11,2                                      | 1.                                 |
| 847160               | Keyboards                                                                  | 288                                        | 19,1                                             | 113,3                                               | 27,6                                      | 1.                                 |
| 850239               | Electric motors and turbo generators                                       | 259                                        | 6,0                                              | 59,5                                                | 45,7                                      | 10.                                |
| 550410               | Staple fibres of viscose rayon, not carded or combed                       | 224                                        | 2,3                                              | 5,3                                                 | 2,3                                       | 1.                                 |
| 841430               | Compressors for refrigerating equipment                                    | 183                                        | 4,0                                              | 20,2                                                | 13,2                                      | 1.                                 |

Source: TURKSTAT, Comtrade, TEPAV Calculations

In addition to the limited volume of Turkish exports to China, the quality and price of exports are also problematic. Turkey's exports to China in 2012 were only \$2.8 billion and constituted only 0.15% of total Chinese imports. Measured by value in dollars, 5 of Turkey's top 10 exports to China are those in which Turkey is the world leader. Concerning Turkey's top exports to China, the price is largely below world averages. Generally, in the largest sectors in which Turkey exports to China, the prices are once again below global averages. For example, Turkey's exports of marble and travertine, which measure \$560 million in total, cost 19 cents per kilogram while the global weighted average is 29 cents per kilogram. In the \$267-million copper ore and rod export market, Turkey's exports to China cost \$1.2 per kilogram, while the weighted global average is \$4.9 per kilogram. However, in some sectors, despite relatively lower weighted global average prices, China chooses to import from Turkey.

Transportation costs are another important factor when comparing unit costs. The most significant way to increase competitiveness in distant markets is to switch to light, expensive, high tech exports. A point that draws attention is that while China generates \$21 billion of exports with 3.8 million tons of product, Turkey only generates \$2.8 billion with 8 million tons.

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China's high unit value exports allow the country to reduce its transportation costs, thereby easing its access into more distant markets.

**Table 2: Comparison of Unit Prices for the Top 10 Chinese Products Turkey Exported to China**

| Product Code (HS -6) | Product Name                                        | Turkey's export to China (Million US \$) | Unit Value of Turkey's export to China (\$/kg) | Average unit value of Turkey's world import (\$/kg) | Weighted average world unit value (\$/kg) | Turkey's rank on total world export |
|----------------------|-----------------------------------------------------|------------------------------------------|------------------------------------------------|-----------------------------------------------------|-------------------------------------------|-------------------------------------|
| 251512               | Marble and travertine in blocks etc.                | 560                                      | 0,19                                           | 0,17                                                | 0,29                                      | 1.                                  |
| 261000               | Chromium ores and concentrates                      | 360                                      | 0,20                                           | 0,20                                                | 1,07                                      | 2.                                  |
| 260300               | Copper ores and concentrates                        | 268                                      | 1,21                                           | 1,27                                                | 4,97                                      | 14                                  |
| 251511               | Marble and travertine, crude or roughly trimmed     | 173                                      | 0,18                                           | 0,25                                                | 0,23                                      | 1.                                  |
| 260700               | Lead ores and concentrates                          | 103                                      | 1,46                                           | 1,47                                                | 3,25                                      | 9.                                  |
| 252890               | Natural borates etc nes, natural boric acid (<85%)  | 83                                       | 0,34                                           | 0,31                                                | 0,35                                      | 1.                                  |
| 261690               | Precious metal ores and concentrates except silver  | 64                                       | 3,12                                           | 3,10                                                | 2651,29                                   | 11.                                 |
| 260800               | Zinc ores and concentrates                          | 63                                       | 0,32                                           | 0,47                                                | 2,01                                      | 11.                                 |
| 251520               | Ecaussine, calcareous building stone nes, alabaster | 47                                       | 0,19                                           | 0,20                                                | 0,32                                      | 1.                                  |
| 261900               | Waste, scale, dross, slag of iron or steel industry | 33                                       | 0,08                                           | 0,07                                                | 0,27                                      | 5.                                  |

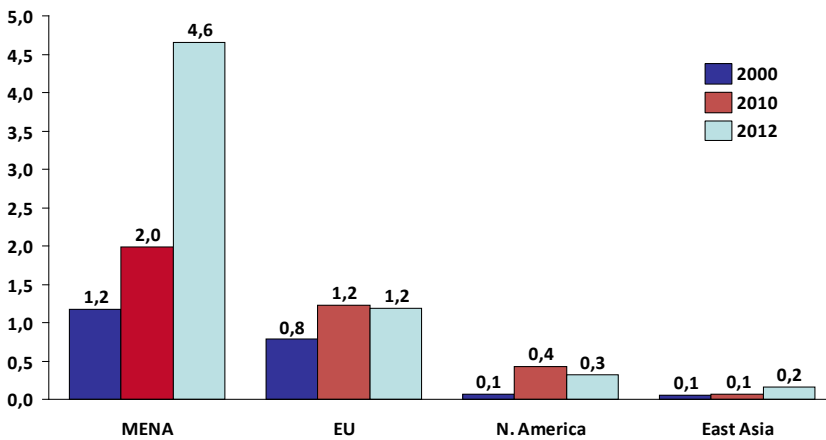
Source: TURKSTAT, Comtrade, TEPAV Calculations

In China and other Asian countries, Turkey has not been able to expand beyond exporting raw materials and has not increased its share in exports to the Far East. In 1996, 10% of Turkey's imports originated from Asia; in 2013, the figure increased to 21%. However, as for exports, Turkey exports only \$6.9 billion to the \$4.5-quadrillion Asia export market, which corresponds to a share of 0.15%. Turkey's most important export partner is China. China's imports have rapidly increased, from \$138 billion in 1996 to \$1.8 quadrillion in 2012. Despite China's importance in Turkish imports, Turkey has not achieved the same significance for China and has not tapped the opportunities presented by the Chinese market. Between 1996 and 2012, China's total imports have increased 13 fold, but Turkey's share of Chinese imports fell from 0.5% to 0.15%. The products Turkey exports to China do not differ from those it exports to other Asian countries: raw materials and natural resources.

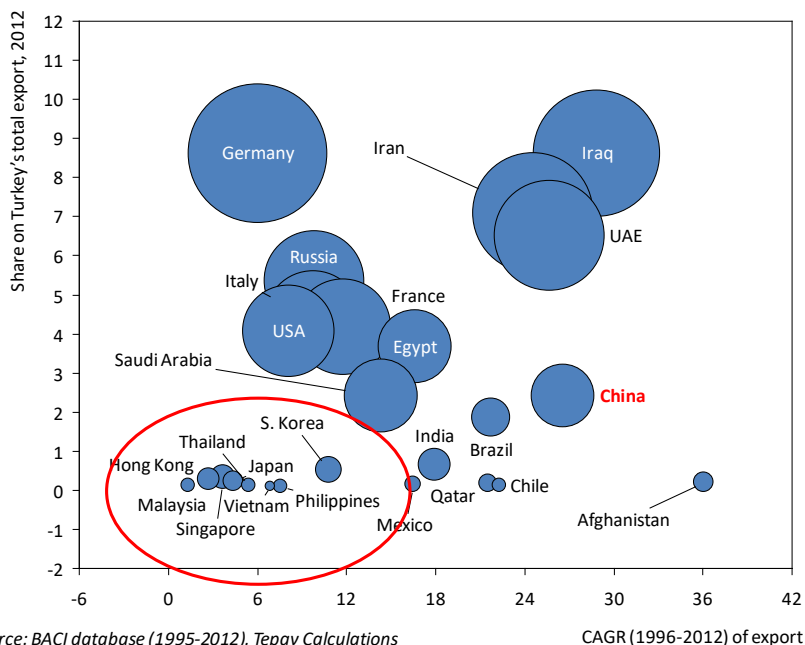
In past years, Turkey's main export market has shifted from Europe to the Middle East and North Africa. While the Turkish share of Middle Eastern imports were 1.2% in 2000, this figure has increased to 4.6%. The share of East Asian countries in Turkish exports is small and increasing only meagerly. As Turkey does not export to distant markets, the share of Turkish exports to the Far East is small. According to figures from 2011, China's export range based on a basket of goods averaged 6843 km, while Turkey's range was only 2846 km.

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Figure 1: Turkey's Share of Exports to Major Markets (2000-2012)



Source: BACI database (1995-2012), Tepav Calculations



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Despite its rising export volume, Turkey has been unable to enter in rising markets. Turkey's reliance low-quality and cheap natural resource exports in Asian markets raises questions about Turkey's economic future. The biggest reason Turkey is unable to advance beyond exporting raw materials is its lack of an industrial infrastructure. Exports are tied to production, and this indicates that low growth and high current account deficits can only be solved through an effective industrial policy.