

Turkey: Trade Brief*

Trade Policy

Ranked 4th out of 125 countries on the latest (for 2006) Trade (MFN) Tariff Restrictiveness Index (TTRI), Turkey's trade policy regime is considerably more open, on the whole, than in an average Europe and Central Asia (ECA) or upper-middle-income country and is noticeably less restrictive than in the early 2000s. A party to a customs union with the EU, Turkey applies the EU's common tariff to imports from third countries and imposes no tariffs or quotas on imports of industrial goods from the EU. Its 2007 MFN applied trade-weighted tariff average (4.1 percent) is lower than its regional or income comparator groups', although the simple tariff mean (10.1 percent) is high relative to that of an average ECA or upper-middle-income country. When taking into account preferential rates, the applied import-weighted average tariff is even lower, at 1.8 percent, down from almost 6 percent in the late 1990s. The maximum tariff of 333.3 percent (2007) is applied on cinematographic film. In addition to decreases in tariff barriers, nontariff measures have also been reduced dramatically in the past few years. Antidumping (AD) measures are employed quite frequently, however, with the number of AD initiations in 2002–04 approximately equal to that of EU-25. About 38 percent of Turkey's imports in 2006 were MFN duty free. While Turkey's GATS commitment is comparable to that of an average upper-middle-income country, there is still room for greater future multilateral commitments.

Market Access

According to the latest Market Access TTRI (tariff only but including preferential rates), Turkey is ranked 37th out of 125 countries. In 2006 MFN duty-free exports accounted for 13.3 percent of Turkey's total exports, a share considerably below the ECA and upper-middle-income group averages. A Generalized System of Preferences (GSP) beneficiary with a number of industrialized countries, Turkey is also a signatory to the Trade and Investment Framework Agreement (TIFA) with the United States, a member of the Euro-Mediterranean Free Trade Area (EMFTA) and the Economic Cooperation Organization (ECO), and is a candidate for EU membership (the EC–Turkey Customs Union entered into force in 1996). In addition, it has free trade agreements (FTAs) with Syria, Morocco, Tunisia, Israel, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, and the European Free Trade Association (EFTA). The Central Bank of Turkey publishes a CPI-based real effective exchange rate (REER) index, which shows sustained substantial annual appreciation of the currency through 2007.¹

Behind the Border Constraints

Improving over the previous year, Turkey's Doing Business 2007 rank was 57th (out of 178 countries), although startup costs and licensing procedures remain burdensome. Surpassing its comparators on nearly all aspects of the index, Turkey is ranked 34th (out of 150) on the 2006 Logistics Performance Index. Among its subcategories, Turkey performed best on timeliness of shipment indicator, while its performance was weak on quality of transport and information technology (IT) infrastructure indicators—in part as a consequence of Turkey's high telecommunication services and energy costs, which remain among the highest in the Organization for Economic Co-operation and Development (OECD) area. With fairly low per

*As of April 2008. See the World Trade Indicators 2008 database at <http://www.worldbank.org/wti2008>.

¹ 5.9, 3.7, 5.9 and 9.6 percent during 1995–99, 2000–04, 2005–06, and 2007, respectively.

container export and import costs, its rank on the Doing Business—Trading Across Borders subcategory was 56th. an improvement over the previous year due, for example, to noticeably lower average number of days required for export and import in 2007 than in 2006. Quality of services facilitating trade has also improved in recent years. Furthermore, its 2006 regulatory quality, rule of law, and control of corruption indicators all point to a more favorable institutional environment than in an average ECA country (and are comparable to the upper-middle-income group means). The country's 2006 secondary gross school enrollment rate was a relatively low 74.4 percent; the same year, its tertiary gross enrollment rate (31 percent) lagged considerably behind the regional average.

Trade Outcomes

According to international databases, averaging 13 percent in the early 2000s, Turkey's real growth in total trade of goods and services decelerated to 8.9 percent in 2005–06 and 7.5 percent in 2007 (the ECA average in 2007 was 9.4 percent). Despite the improvement since the late 1990s, however, its trade share in GDP at 61.1 percent (2007) is still considerably below the regional and upper-middle-income mean openness ratios. Corresponding national accounts estimates, which have been revised in March 2008 in line with EU methodology, show a more robust trade growth for 2007, although entirely due to a high import growth. In 2005, Turkey's main exports were cars and trucks, various garments, and electronics (its 2006 export product concentration index is 47.2, however, more than five-fold that of 2005). Services accounted for 23.4 percent of total exports in 2005–06 and 20.4 percent in 2007. The EU is Turkey's main export market with most of 2005 exports oriented to Germany, the United Kingdom, Italy, the United States, France, and Spain. The same year, imports were predominantly obtained from Germany, the Russian Federation, Italy, and China. Foreign direct investment (FDI) inflows as a share of GDP were 3.8 percent in 2005–06 and 4.2 percent in 2007, reflecting the country's efforts to improve its investment climate through, for example, the Foreign Direct Investment Law of 2003.

Trade outcomes estimates according to national sources

	1995-99	2000-04	2005-06	Latest (2007)
Real growth in trade of goods and services (%)	12.1	10.3	8.5	9.0
Exports	10.1	9.0	7.3	6.7
Imports	14.2	12.4	9.5	11.1
Other trade outcome indicators				
Trade integration (trade as % of GDP)	45.8	47.9	48.7	48.9
FDI inflow (% of GDP)	0.4	0.8	2.9	3.3

Note: consistent with Turkish Statistics Institute March 2008 revisions of Turkish GDP estimates in line with EU methodology

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