COMPARATIVE ADVANTAGE OF TURKEY IN INTERNATIONAL TRADE

Presented by

MURAT ŞEKER
University of Minnesota
Population: 69,660,559
Capital City: Ankara
Currency: New Turkish Lira (YTL)
Area: 301,383 sq miles (780,580 sq km)
## ECONOMY OF TURKEY vs. USA

<table>
<thead>
<tr>
<th>INDICATORS</th>
<th>TURKEY</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP PPP (2005 estimate)</td>
<td>$572 billion</td>
<td>$12.36 trillion</td>
</tr>
<tr>
<td>GDP growth rate (2005 estimate)</td>
<td>5.6 %</td>
<td>3.5 %</td>
</tr>
<tr>
<td>GDP per Capita (2005 estimate)</td>
<td>$ 8200</td>
<td>$ 41800</td>
</tr>
<tr>
<td>GDP by sector (2005 estimate)</td>
<td>agriculture:11.7%,</td>
<td>agriculture:1%,</td>
</tr>
<tr>
<td></td>
<td>industry: 29.8%,</td>
<td>industry: 20.4%,</td>
</tr>
<tr>
<td></td>
<td>services: 58.5%</td>
<td>services: 78.7%</td>
</tr>
<tr>
<td>Inflation rate (2005 estimate)</td>
<td>8.2 %</td>
<td>3.2 %</td>
</tr>
<tr>
<td>Labor force (2005 estimate)</td>
<td>24.7 million</td>
<td>149.3 million</td>
</tr>
<tr>
<td>Unemployment rate (2005 estimate)</td>
<td>10.20%</td>
<td>5.10%</td>
</tr>
<tr>
<td>Imports (2005 estimate)</td>
<td>$101.2 billion f.o.b.</td>
<td>$1.727 trillion f.o.b.</td>
</tr>
<tr>
<td>Exports (2005 estimate)</td>
<td>$72.49 billion f.o.b.</td>
<td>$927.5 billion f.o.b</td>
</tr>
</tbody>
</table>
Agriculture Industry in Turkey

- Because of its geographical location, the mainland of Anatolia has always been prominent as a center of commerce because of its land connections to three continents and the sea surrounding it on three sides.

- Turkey is the largest producer and exporter of agricultural products in the Near East and North Africa region and ranks seventh worldwide in farm output.

- Turkey currently has an industrial and traditional economy where agriculture sector in 2005 still accounted for 30% of employment which is equivalent to some 7 million workers.
➢ In 2003, the share of agriculture in the total GDP accounted for 12.2% (In 1983, the share was 21.4%) but the value of agricultural products in US$ doubled from 1983 to 2003.

➢ As a consequence of economic development, the share of agricultural products in total exports fell from 57% in 1980 to 16% in 1995.

➢ Agriculture is still one of the most important sectors in the Turkish economy thus; it is a key determinant of growth (European Commission, 2004).
Economic Reforms in Agricultural Industry

➢ Before 1980, Turkish government intervened heavily in agricultural sector through:
  • price supports
  • input subsidies
  • import protection
  • marketing monopolies
  • export subsidies and taxes
  • public production

➢ Government objectives were:
  • Increasing food self-sufficiency
  • Rural development
  • Stabilizing farmers' incomes
  • Providing adequate nutrition
After 1980

➢ In 1980 Turkey implemented its first structural adjustment program.

➢ Since then, Turkey has developed ongoing series of agricultural policy reforms designed to:

• Privatize markets
• Reduce agricultural subsidies
• Remove trade barriers
• Integrate Turkey into the global economy
• Moving towards a market oriented agricultural policy

➢ Turkey's structural adjustment program improved agricultural export competitiveness and increased output and trade, from 1980 to 1998 overall volume of agricultural production rose by an average of 3 percent per year.
Competitiveness of Turkey and Comparative Advantage

Definition:

In economic theory, a country has a *comparative advantage* over another in the production of a good if it can produce it at a lower opportunity cost. That means it has to give up less labor and resources in other goods in order to produce it compared to the other countries.
Traditionally four agricultural products, hazelnuts, raisins, dried apricot and dried figs have played significant role in Turkish economy.

The availability of land and climate appropriate for growing these goods and the relatively cheap and abundant labor force puts Turkey in an advantageous position compared to other countries in resource and labor intensive industries.

As a comparison, monthly wage rate in agricultural sector in Turkey is around $310 where the in USA it is around $1520 (NSI & National Agricultural Statistics Services 2006).
Turkey dominates world export of these four products, hazelnuts (73%), dried apricots (74%), dried figs (63%) and raisins (27%) (Food and Agricultural Association (FAO), 2004).

The main export markets of Turkey are the European Union, United States and the Middle East countries.
I. Hazelnut

![World Hazelnut Production Graph]

Inshell. Metric Tons x 100,000

Source: Black Sea Exporters Union
Hazelnut Prices

Kernels, USD per pound
Source: Hazelnut Council
Hazelnut Producing Countries

2003 Crop
25-30 years ago Turkey had been exporting hazelnut to 32 countries, now exports to 106 countries. Almost 82 percent of total exports are directed to European Union countries.
II. Raisin

The United States is the largest raisin producer in the world. Combined with Turkey, two countries account for more than 80% of global production.
Major Raisin Exporters

Note: 2003 values not available for Iran

Source: Global Trade Atlas

III. Apricot and Figs

- Total world export values for dried apricot and figs were realized as 153 and 113 million dollars in 2002, respectively.
- Turkey is the largest producer and exporter of dried apricot and figs.
Another method to Measure Comparative Advantage

Relative Export Advantage (RXA):

The index is defined as the ratio of a country’s export share of a certain product in the world market to the same country’s share in world export of all other commodities.
Table 1 Competitiveness indicator of major hazelnut exporters

<table>
<thead>
<tr>
<th>Year</th>
<th>Turkey</th>
<th>Italy</th>
<th>Spain</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>2362</td>
<td>3.8</td>
<td>7.9</td>
</tr>
<tr>
<td>1985</td>
<td>434</td>
<td>7</td>
<td>2.9</td>
</tr>
<tr>
<td>1990</td>
<td>895</td>
<td>3.5</td>
<td>1.2</td>
</tr>
<tr>
<td>1995</td>
<td>1520</td>
<td>1.4</td>
<td>0.5</td>
</tr>
<tr>
<td>2000</td>
<td>658</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>2002</td>
<td>489</td>
<td>3.6</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Table 2 Competitiveness indicator of major raisin exporters

<table>
<thead>
<tr>
<th>Year</th>
<th>Turkey</th>
<th>USA</th>
<th>Greece</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>162</td>
<td>1.6</td>
<td>130</td>
</tr>
<tr>
<td>1985</td>
<td>49.6</td>
<td>2</td>
<td>140</td>
</tr>
<tr>
<td>1990</td>
<td>72.7</td>
<td>2.6</td>
<td>97.4</td>
</tr>
<tr>
<td>1995</td>
<td>93.2</td>
<td>3.3</td>
<td>54.5</td>
</tr>
<tr>
<td>2000</td>
<td>98.7</td>
<td>2.1</td>
<td>104</td>
</tr>
<tr>
<td>2002</td>
<td>66</td>
<td>3.1</td>
<td>38.5</td>
</tr>
</tbody>
</table>
For the Future

➢ Within the Near East and North Africa region, Turkey probably has the greatest potential to expand agricultural output.

➢ To meet its agricultural sector objectives, many ongoing programs will have to be accelerated.

➢ Trade liberalization and reduced market intervention should continue, including the removal of export levies, the phasing out of input subsidies and a reduction in costly purchase and storage price support operations.
THANK YOU