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Economic Relations Between Turkey & Italy

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ABSTRACT

The main objective of this dissertation is to examine the economic relations detailedly between Turkey and Italy from past to present and to describe Turkish Economy and business environment of Turkey from the global point of view by applying relevant economic terms. In order to achieve the objective of this thesis, a qualitative research methodology was used during the study. Both primary and secondary resources were applied in terms of collecting adequate and reliable information. The primary resources were acquired from government documents, statistical data and research reports, while journal articles, books, encyclopedias relevant dissertations were used to obtain the secondary resources. The results from data analysis demonstrate that the bilateral economic relationships between the countries possess a considerable importance in terms of trade and the foreign direct investment issues. However, the population of immigration among those countries was surprisingly seen much lower than expected. With regard to the economic volatility in Turkey, the reasons were originated from crises, sanctions and governmental issues. Even if the bilateral relations were also negatively influenced by Turkey’s unbalanced economy, both of countries strive to increase the volume of trade facilities and ease of doing business in their own countries under the favor of mutual political relations every passing day. In conclusion, the article gives an opportunity to understand the strong ties and the cultural closeness coming from the past and, by analyzing current economic and politic relations to prove that Turkey and Italy are just more than friends.
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CHAPTER 1: INTRODUCTION

Turkey and Italy share long-standing economic and political ties from the past until today. Dating back to the times of the Ottoman Empire, in which had close relationships with Italian city states such as Genoa and Venice. In fact, the connection between two countries was established at that time by the trading activities in a year of 1381. Also, diplomatic relations were initiated with approval of both sides in 1856.

1.1 Overview

As a reason of having common Mediterranean Identity, Italy has become one of the key trading partners of Turkey and a strong supporter of Turkey’s European Union membership process. Italy is one of the founding members of the European Union and it has believed that Turkey would make important contributions to the European Union by implementing the high potential power of economy and the great potential rate of human capitalization. In this regard, Turkey would help the union in order to become a real global power. However, Turkey’s accession to the European Union as member state is still indefinite, negotiation progress between Turkey and European Union is still leading.

Today, the ties between two countries still strong and they are two regional powers that possess common interests, common values and common history (Incecam & Ozenbas, 2015). These similarities would ensure to define the bilateral relationships as a strategic approach for the sides. They liaise against the problems on regional and global issues and act together in order find the solutions related to that matters.

Trade volume between two countries has been gradually increasing over last decade thanks to good relationships which are carries out by both governments of states. In this respect, Italy is currently 4th biggest trade partner of Turkey. Trading activities are conducted in a vary of areas or industrial sectors such as energy, defense industry, tourism, infrastructure, automotive, and chemicals. However, there is still a room to accelerate economic and commercial relations by further developments.

In respect to sustain the bilateral relations, there are various platforms are conducted including; Turkey-Italy Intergovernmental Summits, Turkish-Italian Forum and Turkish-Italian Media Forum. During the meetings through the platforms, it is possible to exchange views regarding to different dimensions of the relations. Moreover, the
importance of those platforms is to provide the adequate contributions to the improvements on the political, commercial and economy issues.

According to statistics, Turkey-Italy bilateral trade volume amounts to nearly $20 billion and it is obviously foreseen that the relationship of those two important economies would significantly go up in the next decade.

1.2 Objectives

The main objective of this dissertation is to make a detailed assessment and analysis of the relation between Turkey and Italy from the past until today by exploiting a required information, statistics and graphs which are obtained from appropriate documents and articles.

On the other hand, it aims to generate the general description of Turkish economy and its position in the world economy, and its evolution in time as positively and negatively. Also, another issue is defined that the economic volatility of Turkey, including the economic crisis in various years and their implications to the both of global economy and the economic relation between Turkey and Italy.

1.3 Outline of The Dissertation

In order to have a full understanding of relations between Turkey and Italy, it is essentially required to exploit a detailed analysis of Turkish economy. As a reason of Turkish economy is many times more fluctuant than Italian economy in the recent years so it will be focused comprehensively to the financial statement of Turkey. In this way, it is able to generate an accurate analysis about the relations for both parties.

In chapter 2, it is demonstrated a fundamental information about Turkey including the positioning of the country in its geographical area, demographic characteristics, and population dynamics at first. Later, economic history of Turkey is defined that involves the whole history from the date of establishment to the nowadays. In respect, it should be applied for adequate economic determinants which are the three macroeconomic trends of the economy including gross domestic product (GDP), unemployment rate and inflation rate. Thus, it is possible to exploit the pattern of the economy of the country.
After the general analysis of Turkey, it is important to show the economic environment and is going to provide the main economic sectors in a detail. While marketing and advertising opportunities in Turkey, its attractiveness from the view of other countries will be demonstrated by applying threats and strengths of Turkey. In addition, law and legal issues which affect the doing business in Turkey will be mentioned together with foreign direct investment. On the other hand, how and in which ways the country distributes their products, goods and services to the outside is clarified with respect to external trade and investment.

In chapter 4, the issue will be expressed is financial volatility and political uncertainty in Turkey and, their causes together with negative impacts to the its economy, trade and investment activities and of course the implications to the trade with other countries, especially the economic relationships with Italy.

There many crises in Turkey as far as it goes, but it is assumed that fundamental recent crises which are dramatically encountered in various years covering 1994, 2001, 2008-09, and lastly 2018. Although there are many differences in the emergence of crises in Turkey, significant similarities can be found between the years of 1994 and 2001 crises. The first two episodes were deemed to be mostly finance-led and finance driven but the crisis of 2008 is different in all aspect. That was fully fledged real sector crisis as a reason of both impacts on employment and real economic productivity. (Comert & Yeldan, 2018). Moreover, the last one, the crisis in 2018 which the country has experienced in a bad way two years ago which is with respect to the unexpected and huge decrease in a value of Turkish currency.

In the last part, after being provided appropriate information and is gained insight about Turkey at the previous phases, now it should be introduced the main discussion about the dissertation. Covering importance rate for both sides as a meaning of investment and trade issues, it is going be criticized in order to better understand importance of the relations among Turkey and Italy. Moreover, it aims to examine in terms of goods and services, foreign direct investment and immigration for both parties. Terminally, some future aspects can be clarified in point of the sustainability and the maintenance of togetherness and of course the growth opportunities in order to gain momentum for the bilateral trade in further years.
CHAPTER 2: THE REPUBLIC PUBLIC OF TURKEY

2.1 Introduction

Turkey is a transcontinental country which serves as a bridge between Asia and Europe. This unique area provides a crossroad of some geographic areas such as Balkans, Caucasus, Middle East and Eastern Mediterranean. When it is looked at the big map which includes Europe, northern Africa and the southwest Asia, it can be easily seen that Turkey is roughly in the center of the map. The geopolitical position of country has been major factor in Turkey’s relations with other states.

The country is also a peninsula which is surrounded by three seas; Black Sea on the north, Aegean Sea on the west and Mediterranean Sea on the south. Another sea which is called Marmara Sea locates where Asia meets Europe. Also, the sea insists of two straits (the Bosporus and the Dardanelle) which act as gates for international trade and tourism. The straits are the shortest and common way in and out of the Black sea for the trading countries. Similarly, Black Sea countries, the straits give an opportunity to access to Mediterranean Sea. Seas and straits are some of the most important geographical factors which provide economically a positive influence.

Turkey is bordered by eight countries; Georgia, Armenia, Azerbaijan, Iran, Iraq, Syria, Greece and Bulgaria. The country is bounded on the north by the Black Sea, on the northeast by Georgia and Armenia, on the east by Azerbaijan and Iran, on the southeast by Iraq and Syria, on the southwest and west by the Mediterranean Sea and the Aegean Sea, and on the northwest by Greece and Bulgaria. Over 30 land border points exist at the frontier zones of those countries. Nowadays, with mobility of persons and goods are becoming widespread, security and management of borders are significant for Turkey as well as other countries.

Throughout the history, the location of Turkey has maintained its strategic importance and attractiveness. Also, the country and its environment still geographically are esteemed across the world for the both developed and developing countries in this day and age. However, intersection between continents sometimes acted as a barrier as well during some circumstances which happened in the past.
2.2 General Information About Turkey

2.2.1 Demographic Trends

The word “Turk” is used as a political term and covers all Turkish citizens without any distinction of race or religion. This term is approved by Turkish constitution and each individual which lives in Turkey must respect against someone else’ religion and race. Ethnic minorities do not have any official status. Moreover, while majority of population speak Turkish language as a mother tongue, Kurdish and Arabic are the other languages that are spoken by minority races.

Turkey is formed by majority of Turkish citizen and together with the composition of ethnic groups including; Kurdish, Crimean Tatar, Arabic, Yuruk, Azerbaijani and others. Those groups of people are distributed in various regions of the country. While Kurds correspond to the greater part of those ethnic groups, and also their population which is accounted to one fifth of the whole population is rapidly growing day by day.

Even if more than nine percent of the population is Muslim, Turkey is a secular country. Before the republic is founded, the country was managed by Islam at the Ottoman Empire time. Islam was removed as official state religion in 1928 by the
constitutional amendment. Nevertheless, the state has unfortunately found itself periodically at odds with the issue of religion.

About three-fourths of the population lives in towns and cities. Prior to the mid-20th century, however, the population was predominantly rural, and its distribution was strongly influenced by the agricultural potential of the land. Thus, there are pronounced regional variations in population density, the main contrast being between the interior and the periphery. The regional coastlands of the Black Sea, the Sea of Marmara, and the Aegean Sea are the most densely settled regions; accounting for less than two-fifths of the country’s land area, the regions together represent more than half its population. The Mediterranean coastal region is more thinly settled, though there are pockets of high population density in the Antalya and Adana basins. The remainder of the country is relatively lightly populated: the Anatolian interior and southeast, occupying more than half the country’s territory, contain less than two-fifths of Turkey’s population.

In addition to the strategic location of Turkey, it is one of the larger countries in that region in terms of population and territory. According to Turkish Statistical Institute (TURKSTAT), the population surpassed 82 million in 2018 by an increase of 1.2 million. Also, that number will frequently and rapidly continue to go up year on year vis-a-vis previous years’ statistics. On the other hand, the size of land is more or less 780 km2 in total, including 1.3 percent water. While the biggest part of the territory is stated in Asia continents which is known as Anatolia, the rest of the land area is occupied in Europe part which is named as Turkish Thrace. Istanbul is the unique city that situates in the both Europe and Asia.

Moreover, the province has a characteristic of being the most crowded city in Turkey with around 15 million. After Istanbul, the other two biggest cities in terms of population and development are Ankara and Izmir in respectively. The population of the capital city considerably goes up in recent years and reached the top point with 5.5 million in 2018. Likewise, Izmir has a somewhat growing population considering with Ankara and the population accounted 4.2 million in 2018. Ankara is the capital city so has a strategic and geopolitical importance, Izmir is a port city and stands for key position in terms of export and import facilities. Moreover, there are some cities which are getting a quite popular in
terms of economic actions including Bursa and Kocaeli. Since those provinces are located to three big cities of Turkey, they attract investors and entrepreneurs.

Figure 2: Turkey’s Population Growth 1927-2020

![Population Growth Graph]

**Source:** Turkish Statistical Institute (TURKSTAT)

In the late 1920s, the population was just around 13 million in Turkey. The population growth was started to accelerate from 1927 and came to a head today with six-fold increase. The main factor which lead up to this kind of rapid development at the flows of population is an internal migration. Between the years of 1930s and 1960s, the habitants immigrated to the urban areas from the rural areas as reason of attraction of the major urban places such as the zone around the Sea of Marmara, the Aegean coast, Adana Plain and the capital city.

While the rate of the population increase was around 3 percent until the 1960s, it was balanced by the equality of the birth rate and the death rate during the next two decades. Moreover, another determinant that influenced the population evolution is an external immigration. Some Turkish citizens emigrated to the Western European countries in order find the work opportunities between two decades period; 1960s-1980s (Uneven Development in Southern Europe, 1985). In those years, the number of Turkish labors was nearly two million whereas the immigration population reached roughly six million at the present time.
Nowadays, when it is considering the general characteristics of the population, it varies across age groups. Citizens who are at the under the age of 30 correspond to almost half of the whole population. This rate is far below than Turkey in the many countries.

According to age breakdown in 2016, 30-44 ages and 45-69 ages have the substantial percentages which were set at 23.1% and 15.6% in respectively. People who are the older than 75 form the lowest part of the population. Moreover, average life expectancy varies by gender. Life expectancy for women is 78 years whereas this period for men is a bit less like 73 years.

Figure 3: Turkey Age Breakdown in 2016

![Figure 3: Turkey Age Breakdown in 2016](image)

Source: Encyclopedia Britannica, Inc.

### 2.2.2 Economic History of Turkey From 1923 to Today

According to necessities of time, economical strategies must be applied by governments to have an advanced economy. Since it was founded in 1923, Turkey has operated the different policies in order to economic development. Also, the transformation which is from predominant agricultural sector to industry and services sector occurred during this timeframe. This evolution demonstrated in Figure 4 in term of sectoral basis.

At first periods of the establishment of the country which last until 1950s, the state played the important role in the economy. Development policy emphasized state accumulation in period of global crises that is occurred by the World War II.
The state spent most of the capital for the structural improvement such as railways, ports and shipping facilities. Also, some investments which are related to manufacturing, food processing, textile and building material sectors are made by a government. On the other hand, foreign investment underwhelmed by the reason of tariff barriers on these years. This also influenced the foreign trade activities of Turkey as the economy is cut off from the outside world.

The third decades period which is between 1950 and 1980 is named as an industrialization. The economy became more open foreign facilities thanks to transition to multi-party system and also Turkey’s adherence to the Western alliance as soon as the World War II is dead and buried. However, Turkey was an undeveloped country and it didn’t have sufficient capital. In a favor of especially United States of America, Turkey could import agricultural and industrial machinery and also transportation equipment. These improvements accelerated the economy and industrialization. However, macroeconomic trends became unbalanced such a high inflation, large-scale unemployment, and a chronic foreign trade deficit at the end of third decades.

Figure 4: Structure of Gross Value Added by Sectors, Turkey

Source: World Bank
Since 1980, Turkey took a step further its economy with opening liberal trade in goods, services and financial market actions. While foreign investments were increasing by the entrepreneurs encourage, the state sector lost its significance. Even if the economic situation got better under favor of foreign investment and trade, the high rate of inflation influenced negatively Turkish economy at 1990s. As a result of this determinant, Turkey’s per capita gross domestic product remained far more behind comparing with other countries.

The high inflation problem was solved for a while by International Monetary Fund in the early 2000s. Moreover, the sharp economic growth was observed at the further years until 2008 which is the year of global economic crisis. Despite the financial crisis did not bypass Turkey neither, the country weathered the storm easily compared to other countries. Especially, after the justice and development part took the control, Turkey’s contribution to the world’s economy has increased from 0.7 percent to 1.2 percent for six years period.

Since 2008 the period of regression began, and Turkish economy under-performed compared to other countries unlikely first decade of 2000s. Turkey’s comparative performance has stagnated until today. According to the world bank’s figures in 2018, Turkey’s GDP was at $770 billion, so this number correspond to 0.89 percent of the world economy. Thus, Turkish economy which became successful at the early of 2000s has made no head until today even if some economic growths are seen in 2010 and 2011.

2.3 Macroeconomic Trends

It is required some metrics in order to understand economic structure of a country. These which are also called three pillars of the economy, are growth domestic product (GDP), Inflation and Unemployment. Gross domestic product (GDP) is the market value of all final goods and services from a nation in a given year. Inflation is a sustained increase in the general price level of goods and services in an economy over a period of time. Unemployment is when persons above a specified age are not in paid employment or self-employment and are currently available for work during the reference period.
2.3.1 Gross Domestic Product (GDP)

Firstly, as it mentioned at the previous paragraph, the gross domestic product is one of the pillars of the economy. It measures the monetary value of the all final goods and services in a national economy within a year with the prices of that period. That’s why GDP is the most important indicator which provides to follow the economic performance of the given country in stipulated period of time. In summary, it shows the growth or downsizing in an economy.

According to a spline area graph which is given below, it figures the GDP performance of Turkey from the early of 1960s to until today. It’s obviously seen that there is no a big change or growth until the year of 2002 and the GDP amount have always remained at the below $200 billion. After the justice and development party took the control, Turkey had economically positive change from 2002. GDP rapidly increased to nearly $800 billion at the first governing period of the justice and development party. However, the country couldn’t take a regular lead afterwards even if growth domestic product reached a peak with $950 billion in 2013. Especially after the year of 2014, the continuous decrease has started and GDP amount that is performed in 2018 is similar to 2008 with more or less $776 billion.

Figure 5: Turkey – Growth Domestic Product (GDP) by years

Source: TradingEconomies.com, World Bank
2.3.2 Unemployment Rate

Secondly, unemployment rate is another pillar of the economy, it indicates total amount of people who do not have work, are available for work or have taken an action for at least 4 weeks to find a job. On the other hand, labor force consists of all citizens of the country which are able to work. Those citizens are sum of unemployed, self-employed and in paid people. Unemployment rate is calculated by dividing unemployed number of people to whole population of labor force. An increase of the unemployment rate means that the country has a weak economy.

According to column graph which shows the change at the unemployment rate of Turkey within the years of 2006-2018. An increase at the rate which began in 2006 reached the top point with 14.8% in 2009. The reason for this is the global economic crisis that influenced all around the world. After the effect of the economic crisis was over, the unemployment rate has considerably gone down like 7%. However, even if it is seen the lowest level of unemployment rate in 2013, Turkey could not get out of hand with this problem until today. Nowadays, the rate reached again to the almost maximum level that is faced in the past. A percentage is 14.7% in 2019 that indicates nearly 4.8 million unemployed citizens of the whole population in Turkey.

Figure 6: Turkey - Unemployment Rate by Years

Source: TradingEconomies.com, Turkish Statistical Institute (TURKSTAT)
2.3.3 Inflation Rate

Lastly, inflation is another element which influences the economy of one country by driving a purchasing power of nation’s currency. As a general explanation of inflation, it refers to the environment of generally increasing prices goods and services in a particular economy. In this situation, the prices of goods and services go up so consumers’ purchasing power correspondingly decrease.

According to line graph which is related to the inflation rate change of Turkey by years that include nearly last forty years period from the late of 1960s to today. Especially early of 1980s and middle of 1990s were the difficult times for the Turkish economy.

While the inflation rate reached the maximum point at 140% in 1980, the second highest level is seen at 125% rate in 1994. After those though eras, Turkey targeted to decrease the inflation in order to exploit economic developments.

The inflation rate has declined year by year until 2012 and arrived at the lowest level of 6.40% even if global crisis happened and many big economies seriously have been affected. Inflation rate has been balanced next few years until 2017 thanks to equilibrium policy. As a result of currency and debt crisis in 2018, it can be easily said that inflation rate was again more than it should be. Inflation rate which is at more or less 25% caused negatively every sector of goods and services. However, Turkey recovered its economy again in 2019 by enforcing new economic program. It has been succeeded to level down to 7% on these days.

Figure 7: Turkey – Inflation Rate by Years

Source: TradingEconomies.com, Turkish Statistical Institute (TURKSTAT)
2.4 Political Structure

Turkey political system is based on a separation of the powers principle and each power are governed by the different organizations. While executive branch is related with exercising authority in and holding responsibility for the governance of a state, legislative branch is correlated about enacting laws and also appropriating the money necessary to operate to the government. On the other hand, a judiciary is completely an independent from the other two powers. The judicial branch is responsible for interpreting the constitution and laws and applying their interpretations to controversies brought before it.

The executive function of the political system is in the hands of the president and council of ministers. The president which is the head of state is elected by a direct universal suffrage over five years period. Recep Tayyip Erdogan who is the president of The Republic of Turkey has been carrying out his duty since 2014. His authorities are defined in working as an arbitrator in terms of promulgation of laws and signature of decrees, and also appointing the council of ministers, judicial organs and governmental organs.

Grand National Assembly of Turkey is on charge of a legislative power which is unicameral. It is usually known as TBMM or Ankara Government. The political meetings held in the parliament which is located in the capital city of Turkey. Composition of the parliament includes 600 seats and its members are elected by universal suffrage for five years, according to a system of proportional representation. In other words, this type of electoral system provides an opportunity to create a representative body that reflects the overall distribution of public support for each political party. The total figures of seats are divided within various parties considering the number of votes that they receive during the general elections.

Major parties which receive more %10 of the votes can able to represent themselves in the Turkish parliament. Each major party has a voice on the management of the state. Political parties are significant elements in order to sustain the democracy. They gather number of different views on various issues and represent them to the government. There are five main parties which have various amount of seat in the Grand National Assembly of Turkey. Justice and Development Party (AKP) is socially a conservative and a primary
leading party which has governed the country since 2002. The center-right party is also the party of the current president of Turkey. It advocates for a liberal market economy and a foreign policy that prioritizes Turkey’s regional role. On the other hand, Republican People’s Party (CHP) is a primary opposition party and its mentality is based on social-republican values. Mustafa Kemal Ataturk who is the first president of Turkey is an important symbol for that party and aims to defend the fundamental Kemalist values of republicanism and secularism. After those parties, People’s Democratic Party (HDP) comes as third part that represents the Kurdish people and other minority groups. It centers its election program on minority rights and on support for the Kurdish peace process. There are also two nationalist parties which could achieve to take a seat on the parliament are defined as Nationalist Movement Party (MHP) and Good Party (İYİ). Especially, MHP does not support Turkey’s possible membership in the European Union. The party is extremely critical of Kurdish demands for further autonomy and opposes the Kurdish peace process.

The judicial function is protected by the Constitution and the courts have a responsiveness of this power by implementing the provisions of the Constitution, the laws, the jurisprudence and their personal convictions.

President Recep Tayyip Erdogan and his Justice and Development Party has ruled Turkey since they took the control of the country in 2002. AKP government actually was a successful on the initial stages by implementing some liberalizing reforms. However, fostering an increasingly hostile environment for political rights and civil liberties resulted in a crackdown on opposition in recent years. Firstly, Turkey faced with coup attempt in 2016. Secondly, constitutional changes adopted to consolidate power in the president's hands in 2017. For instance, worsening electoral conditions have made it increasingly difficult for opposition parties to challenge Erdogan’s control.

According to political freedom analysis by a country which was studied by Freedom House organization, Turkey is defined as not a free country with 31 points out of 100 points. Together with aggregate freedom score, freedom rating is also negatively scored at 5,5 points out of 7 points. Political rights and civil liberties are taken as a basis in order to define freedom rating score.
Moreover, same organization also published the annual report which is named as ‘Freedom in the world 2019’ in consideration of political rights and civil liberties. In this report, the line graph demonstrates how aggregate freedom score has changed within sixteen years period as a result of the effects of a leader’s attacks on democratic institutions.

Especially in the five countries are mentioned in this study as a reason of higher governmental factor than other countries in the world. Those countries are United States, Hungry, Serbia, Venezuela and together with Turkey. The circles indicate the year when the current ruling party or leader was initially elected.

As it obviously seen in the Figure 8, there is an unbalanced trend for Turkey in the era of AKP government. The aggregate score remains over 60 points for the first ten years period. Afterwards, the country encounters the huge decline from 2013 to 2018. Lastly, the amount reaches to 32 points in 2018.

**Figure 8: The Effects of a Leader’s Attacks on Freedom Score**

[Image of a line graph showing the effects of a leader's attacks on freedom score for the 5 countries mentioned, with Turkey experiencing a significant decline in the AKP government era.]

*Source: Freedomhouse.org*
CHAPTER 3: BUSINESS ENVIRONMENT

3.1 Main Economic Sectors

The sectoral composition of an economy is the proportionate contribution of different sectors to the total Gross Domestic Product (GDP) of an economy during a year. It gives the share of agricultural sector, industrial sector and service sector in GDP.

The sectoral composition mainly splits into three categories together with their sub-sectors which are;

- Agricultural Sector (Fishing, Timber and Tobacco)
- Industrial Sector (Electronics industry, Textiles and clothing, Automotive industry, Defense & Aerospace industry, Steel-Iron industry)
- Services Sector (Tourism, Transportation, Financial services, Construction, Mass media, Information and Software industry, Healthcare and Insurance industry)

In regard their shares in time, the service sector should contribute the maximum to the total GDP. There exists a phenomenon called structural transformation which implies that gradually the country’s dependence on the agricultural sector will shift from the maximum to minimum and at the same time, the share of industrial and service sector in the total GDP will increase. This structural transformation together with the economic growth is termed as economic development.

The stack bar chart illustrates the share of main economic sectors in gross domestic product (GDP) for a decade which is from 2007 to 2017 in Figure 9. Three economic sectors which are agriculture, industry and services correspond to different contributions in the economy of Turkey. However, services sector has always been is the most important sector by acquiring more than half of the total gross domestic product value. While industry sector is coming to second position with a quarter of a percent, the agriculture sector corresponds to less than ten percent.
Moreover, there is no big change at the percentage of services sector even if there were some small fluctuations in this period. The percentage of this sector went down from 54.5% to 53%. Especially industry sector which is developed by almost 3 percent increase. It is obviously seen that Turkey has given the importance and started to run the more industry activities during the ten years term. On the other hand, agriculture sector which has the least share of the GDP value could have not been competed with other sectors and the percentage of this sector decreased from 7.5% to 6%.

3.1.1 Agriculture

Agriculture which is also known as primary sector contributes to the growth domestic product (GDP) of the total economy. Even it exists a structural transformation the economy in global size and mostly of countries pursues to invest in service and industrial sectors, agriculture still provides a significant finance to the few countries like Turkey on these days.

Turkey has always been one of the leading agricultural countries since ancient times. There are several factors which has made the state agriculturally well known. Thanks to its favorable geographical conditions and four seasons climate, the country is hosting to the very fertile lands and large water supplies. Thus, it has been able to grow a great variety of the products in terms of agriculture and food in every period of the year. Moreover, the country’s young population, dynamic private sector economy, substantial
tourism income can be defined as the other strengths to accelerate dynamism of agriculture sector in Turkey (Aytop, Cukadar, & Sahin, 2014).

According to statistics, Turkey is the world’s 7th largest agricultural producer overall and it ranks 1st in Europe’s agriculture economy in 2018. Turkey is a major producer of wheat, sugar beet, milk, whole fresh cow, tomatoes, barley, potatoes, grapes, maize, watermelons and apple. Also, apricots, cherries, hazelnuts with shell, figs, quinces and poppy seed are the most produced agricultural commodities by Turkey in the world. Turkey's top three agricultural export products are respectively flour of wheat, tomatoes, lemons and limes. On the other hand, soybeans and sunflower seed are respectively Turkey's top three agricultural import products.

Turkey runs a business with the major players in the market in terms of food and agriculture. For instance; Carrefour, Danone, Unilever, Coca cola together with Italian well-known brands like Ferrero, Barilla. These major brands allow the country to meet other players in the market and provides new opportunities and approaches. Of course, the awareness of the products and commodities which are exported would increase thanks to these big players in the world.

As a result of giving more importance to the developments in industrialization and service sectors, there has proportionally been decreased in share of agriculture sector since Turkey is established. According to Figure 10, while the share of the sector was 42.8% in that years, now is around just 6% of the country’s GDP in 2018 and this contribution equals to $42.5 billion.

However, agriculture is still an important for the Turkish economy in terms of meeting food need, supplying input to the industry sector, export and employment opportunities. Also, in terms of employment power, the sector welcomes to almost 20% of the country’s working population. In the future, Turkey will maintain its position in the world agriculture sector by making use of bountiful production and keep going to produce and export a large variety of products to the world.
3.1.2 Industry

As a secondary sector, industry is another actor on the GDP composition which makes up a country’s economy. Companies in industrial sector produce and sell machinery, equipment and supplies that are used to produce other goods rather than sold directly to consumers. The sector covers wide variety of subsectors including; Automobile, aerospace and defense, chemical, telecommunication, textile and clothing, food, steel industries etc.

During economic recession periods, industrial goods sector generally faces declines even if its various subsectors often perform differently from one another. The main reason of a decrease in contribution of industrial sectors is based on postponing the expansion strategies and lowering the amount of production.

Line graph demonstrates the change on the GDP share for the industrial sectors through over forty years. In Figure 11, it can be clearly understood that share of the industry increased dramatically from 1965 to late of 1980s, up from %17 to 34%. During the next ten years, there was no big change at the contribution percentage which picked up again in 1998. Afterwards, as a reason of global and local crises, the period of regression lasted for ten years. Turkish economy and industrial sectors were also affected in a bad way and especially the percentage went deeply down to around %27 in both in 2002 and 2009. Turkey has pursued to follow growth opportunities in variety of industrial sectors since 2010.
Among the all industrial sectors, the frontrunner industries are automotive industry, defense and aerospace industry, apparel and textile industry which provide much higher contribution to the Turkish economy that’s why the detail analysis about the industrial sectors is made by assuming those sectors.

Over the past decades, the defense and aerospace industry have been undergoing an extensive transformation in Turkey. After this industry has achieved more success compared to other industries in recent years, today Turkey is known as one of the leader countries in term of defense and aerospace sectors in the world. The major determinant which has incredibly boosted the industry is the experience and emphasis of quality on the products and services. While Turkish defense and aerospace companies undertake numerous endeavors, create products that are competitive worldwide, they also assume important roles in international projects. Moreover, Turkish companies bring global solutions to satisfy many countries' local requirements in a favor of qualified human resources and state-of-the-art technology infrastructure. These Turkish companies can able to manage the various activities in the critical areas of the defense and aerospace sector, from original design development to domestic production, from modernization to modification, and from R&D to international projects.

On the other hand, Turkey is one of the world's largest spenders on the defense industry. Turkey has been ranked as the 15th highest defense budget in the world with
$19 billion in 2018. As a result of high amount of the expenditures, turnover in the defense industry doubled over the past decade and reached USD 8.8 billion in 2018.

Moreover, development of the Turkish aerospace and defense sector's capability in the past decade gave an opportunity to accelerate the exports facilities and, influenced positively international relations between Turkish companies and foreign ventures. The industry's exports increased from USD 600 million in 2007 to USD 2.2 billion in 2018. The orders received by the industry amounted to USD 12.2 billion in 2018 thanks to developed and skilled production capacity.

Regarding aerospace industry, Turkey has also emerged as a convenient place for civil aviation business over the years. In 2018, the number of airline passengers increased to 210.2 million including 97.2 million international passengers, up from 34 million in 2004 in a favor of its unique geographical location. The number of civilian aircrafts increased from 626 to 1,404 between 2003 and 2018, with airline fleet size increasing to 515, up from 162. In the same period, the turnover in civil aviation reached USD 21 billion, up from USD 2.2 billion. Turkey is determined to position itself as a hub for civil aviation.

Especially Istanbul is extensively used as a hub for international flights by tourists and international passengers. Moreover, a new airport has been constructed in Istanbul in order to serve higher number of international passengers. The airport is the largest airport in the world with a capacity of 200 million passengers per year and flights to nearly 350 destinations.

Automotive industry foundation dates back to the early 1960s but it was not actualized any successful attempts in order to produce its own car until 2020. On the other hand, the sector transformed itself from assembly-based partnerships to fully-fledged industry with design capability and massive production capacity in time. This change has also affected on the automotive industry in Turkey and original equipment manufacturers (OEM) have invested over $15 billion for their operations between 2000 and 2018. Thanks to this business partnership, while investors have significantly expanded their manufacturing capabilities and experiences, Turkey has become an important part of the global value chain of international OEMs.
The annual amount of vehicle production which has been completed by global OEMs has significantly increased from 300,000 to 1.5 million units in 2018. The reason of the great growth of the production volume in a very short time stems from a competitive and highly skilled workforce combined with a dynamic local market and favorable geographical location. Thus, Turkey has took a 15th position among all automotive manufacturer countries in the world, while it ranks as 5th largest automotive manufacturer in Europe.

Germany, France, Italy, The United Kingdom and Spain are currently the major export countries of Turkish automotive industry. Major players of the automotive industry which runs investments and projects are Ford, Fiat, Daimler and AVL. These firms currently carry on works in terms of product development, design and engineering activities in Turkey.

Today, besides its advanced manufacturing techniques and abilities, Turkey is planning at improving its R&D, design and branding capabilities. First steps were taken as a several R&D and design centers were operational in order to contribute its goals in terms of producing first fully homemade car of Turkey. The new domestic electric car which is named TOGG was revealed in late of 2019 and it will be released in 2021. This product matters a lot in many ways in terms the progress and development of the country. Also, Erdogan which is the president of the Republic of Turkey also stated this importance "The dream of a national and a local car isn't new for Turkey, we've been chasing this dream for the past 60 years. The first national automobile attempt, the story of Devrim, shows us how our dreams turned into a nightmare."

With a long history of textile manufacturing dating back to the Ottoman Empire, Turkey remains an important country in the global textile and apparel industry. In 2017, the country ranked as the fifth largest exporter of textiles worldwide, accounting for almost four percent of all exports. The industry is also still showing signs of growth, with the value of both textiles and clothing exported having more than doubled since 2000. A large proportion of the textile and apparel goods leaving Turkey arrive in locations inside Europe, with Germany, the United Kingdom, Spain and Italy ranking as the top four destinations.
In 36 years from 1980 to 2018, the production and export of the industry shifted from low value-added commodities to high value-added manufactured items and fashionable goods. Major strengths of the Turkish textile and apparel industry including; qualified and educated human resources, design capacity, accumulation of know-how, investment in technology, dynamic and flexible production capacity, advanced sub-industry in the clothing sector, concern about quality, health, and environment.

For Turkey’s top players, textile and apparel production is clearly a profitable business. Overall, there are around 20 thousand textile manufacturers and 52 thousand wearing apparel manufacturers in Turkey, who generate an annual turnover of around 30 billion euros and 22 billion euros respectively.

For the last two years, the industry has been stable despite geopolitical conditions in the neighboring countries and diplomatic tension between Turkey and leading European Union (EU) countries. With its fashion-oriented and quality products, Turkey has been increasing her share in the main markets, especially in the European market.

3.1.3 Services

Service sector is also known as tertiary sector and focus on the production of services instead of end products. The sector plays an important role on the most economies in the world by making a contribution to GDP. Together with providing job opportunities, inputs, and public services, the sector is a necessary and significant component for the economy. It is possible to split in service sectors the six different categories including; tourism, financial services, energy services, information and communication technology, health services and temporary movement of persons (Yildirim, 2019).

Like other developed countries, the service sectors have a key role on the Turkish economy. In Figure 12, it can be obviously seen that a great acceleration rate of the contribution percentage of the services from the past to today’s over the other primary and secondary components of the economy. While share of the services in GDP was under the 25% in the early of 1960s, it is accounted almost 55% in 2018 and has become a dominant area of the economic activity.
Tourism, transportation, construction and financial sectors have a dominant role within all service sectors in Turkey. As a developing country, Turkey, gives more importance and makes a large variety of investment in these areas mostly.

Figure 12: Turkey – GDP Share of Services

Source: TheGlobalEconomy.com, The World Bank

Tourism is one of the most dynamic and fastest developing sectors. Turkey ranks as 6th most popular tourist destination in the world. According to Ministry of Culture and Tourism, the total number of visitors was 46 million in 2018 and those tourists contributed to the Turkish economy with $29.5 billion turnover in total. As Turkey meets a great variety of different requests, it becomes a focal point for foreigners. The county is suitable for all recreational, historical, cultural and religious purposes. While Antalya is the most popular destination where one third of the total population of tourists has visited in 2018, Istanbul is ranked at the second position by serving a number of cultural, historical and religious factors.

Turkey is the country which all types of transportation are used in a way of different aims. Since Turkey’s strategic location as a bridge between East and West, the transportation is also necessity for the travelers and traders. While new railroads and highways are constructed in order to make an interprovincial travel easier and faster, including three ports along the three seas; West on Aegean Sea - Cendarli Port, North on Black Sea - Filyos Port, South on Mediterranean Sea - Mersin Port and two straits which are Istanbul and Canakkale, marine transportation is also one of the most important determinants of the transportation sector. Moreover, air transportation is also developing
by the new build airports like Istanbul airport which ranks as 9th biggest airport in the world and commercializing the local brands such as Turkish airlines and Pegasus Airlines.

Financial sector which is another service sector is predominantly covered by banking, more than 70 percent of overall financial services. While total foreign direct investment inflows are $52 billion into the financial services between 2002 and 2018, total asset size of Turkey’s financial services industry is TRY 3.9 trillion. Country’s robust economy with bright future explains the importance of the financial sector. Since 2002, Turkish economy has been growing at an average annual real GDP growth rate of 5.5 percent, and the growth momentum is expected to continue at the further years as well. Another issue which is planning to be implemented sets Istanbul as a prominent financial center.

Besides the other service sectors, construction is the other sector which its investments and activities are related with other service sectors including healthcare, transportation and energy. Also, the dense population, growing trade volume and strategic location enforced the country to tend to make investments at the infrastructure area. In this regard, the contacts which have been made in Public-Private Partnership (PPP), is amounted $165 billion from 1990 to 2015 and also Turkey ranked 3rd in the world in terms of infrastructure investment.

### 3.2 Foreign Trade

According to general trade system, in 2019, exports were 171 billion 579 million dollars with a 2.2% increase and imports were 202 billion 704 million dollars with a 9.1% decrease compared with 2018. Exports coverage imports was 84.6% in 2019.

Table chart and bar chart demonstrate export and import facilities, and their total size in terms of foreign trade between 2005 and 2019 in Table 1 and Figure 13 respectively, together with their total volumes, their share rates of the whole trade activities and of course their variance according to previous year. Also, it is covered individually the month of December in recent years and provides the data and statistics in a month’s time.
Table 1: Turkey’s Export, Import and Foreign Trade Volume 2005-2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Export</th>
<th>Import</th>
<th>Foreign Trade Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Change Rate(%)</td>
<td>Share Rate(%)</td>
</tr>
<tr>
<td>2005</td>
<td>73,478</td>
<td>-20.6</td>
<td>-38.1</td>
</tr>
<tr>
<td>2006</td>
<td>85,535</td>
<td>24.4</td>
<td>-38.0</td>
</tr>
<tr>
<td>2007</td>
<td>107,771</td>
<td>25.4</td>
<td>-38.4</td>
</tr>
<tr>
<td>2008</td>
<td>132,077</td>
<td>23.2</td>
<td>-35.5</td>
</tr>
<tr>
<td>2009</td>
<td>153,348</td>
<td>-22.0</td>
<td>-38.7</td>
</tr>
<tr>
<td>2010</td>
<td>113,883</td>
<td>11.5</td>
<td>-36.6</td>
</tr>
<tr>
<td>2011</td>
<td>144,487</td>
<td>18.0</td>
<td>-36.6</td>
</tr>
<tr>
<td>2012</td>
<td>152,462</td>
<td>13.0</td>
<td>-39.2</td>
</tr>
<tr>
<td>2013</td>
<td>251,825</td>
<td>0.0</td>
<td>-35.1</td>
</tr>
<tr>
<td>2014</td>
<td>257,830</td>
<td>3.8</td>
<td>-39.4</td>
</tr>
<tr>
<td>2015</td>
<td>253,830</td>
<td>8.7</td>
<td>-42.0</td>
</tr>
<tr>
<td>2016</td>
<td>252,590</td>
<td>-0.9</td>
<td>-41.8</td>
</tr>
<tr>
<td>2017</td>
<td>194,991</td>
<td>10.4</td>
<td>-40.2</td>
</tr>
<tr>
<td>2018 (Jan-Dec)</td>
<td>157,621</td>
<td>7.0</td>
<td>-42.9</td>
</tr>
<tr>
<td>2019 (Jan-Oct)</td>
<td>171,529</td>
<td>2.2</td>
<td>-45.8</td>
</tr>
<tr>
<td>2019 (Dec)</td>
<td>13,825</td>
<td>0.0</td>
<td>-45.5</td>
</tr>
<tr>
<td>2019 (Dec)</td>
<td>14,895</td>
<td>0.4</td>
<td>-45.0</td>
</tr>
</tbody>
</table>

Source: Turkish Statistical Institute (TURKSTAT)

Since 2005, export volume has gradually increased except a few years. As a reason of Turkey has foreign dependent economy, it has been hard to reduce the quantity of import activities until recent years. While the trade deficit reached the highest amount with $105 billion 935 million in 2011, lowest number was seen last year with $31 billion 125 million. All in all, Turkey strives to decrease the amount of trade deficit by selling its goods and services rather than purchasing them from outside.

Figure 13: Turkey’s Export, Import, Foreign Trade Volume and Balance 2005-2019

Source: Turkish Statistical Institute (TURKSTAT)

In respect to trade balance, Ruhsar Pekcan who is the minister of trade for Turkey said, "Our goal, in the medium-to-long term, is to keep this export-import coverage ratio at a sustainable level and consistent with Turkey's value-added oriented high-growth perspective". This mention defines Turkey’s future goals and growth opportunities in terms of trades and investments.
3.2.1 Import Facilities

According to Turkish Statistical Institute, the top country for Turkey's imports was Russia with 22 billion 454 million dollars in 2019. The country was followed by China with 18 billion 497 million dollars, Germany with 17 billion 976 million dollars, USA with 11 billion 186 million dollars and Italy with 8 billion 612 million dollars. The ratio of first five countries in total import was 38.8% in 2019.

The fact that China has the largest population in the world and its workforce in parallel with it, being the third country in the world as a geographical area, having a developing and rapidly growing economic structure distinguishes this country from others. As a result of these reasons, China is coming as a number one importer for Turkey in terms of international trade. Turkey mostly imports from China including telephones, automatic data processing machines, synthetic filament yarns, and components, parts and accessories for vehicles (Ersungur, Bayramoglu, & Pabuccu, 2017).

As a second import destination, Russia is an important country as well as its geographic size and its population. The Russian economy stands out especially with its rich natural resources. The source of imports of Turkey from Russia is mainly fuel oil and steel. Also, Turkey’s energy and raw material dependence improve Russia’s effect on the external trade.

German economy which is one of the leader economies in the world, is known as being high successful in export facilities. Also, more than 5 million Turkish people live in Germany and having historical ties with Turkey are other positive factors which lead Turkey to the German market. After Russia and China, Germany is the third business partner of Turkey. Main items of Turkey’s imports from Germany are road vehicles, medicaments and parts and accessories for motor vehicles.
3.2.2 Export Facilities

According to Turkish Statistical Institute, the main partner country for exports was Germany with 15 billion 435 million dollars in 2019. The country was followed by the United Kingdom with 10 billion 870 million dollars, Italy with 9 billion 300 million dollars, Iraq with 8 billion 999 million dollars and USA with 8 billion 58 million dollars. The ratio of total export of the first five countries in total export was 30.7% in 2019.

Turkey mostly imports their products and services to the European Union countries such as Germany, Italy, France and Spain. As well as Germany one of the primary importers of Turkey, it pursues to sustain business relationships with Turkey in terms of its foreign importing activities. Main items of Turkey’s exports to Germany consist of road vehicles, parts and accessories for motor vehicles and parts for use with piston engines. Even if the export performance decreased by 4.15% with respect to 2018, Germany still keeps its position and importance for foreign trade in Turkey with 9%.

The United Kingdom is the second importer of Turkey and its contribution percentage is 6.3% to the export facilities of Turkey. The major items that is exported from Turkey to The UK include clothing, other road vehicles, electrical goods, tobacco, cars. Tukey can be bigger part of the UK supply chain in the future.
However, the trade statistics demonstrate positive expectations from the future, The UK-Turkey investment depends on Brexit issue. In case of leaving from the European Union for England, it might affect the trade between those countries. Furthermore, EU possess more strategic importance for Turkey.

Exploiting bilateral trade and using historical ties, trade volume reaches approximately $20 billion between Italy and Turkey. While the total amount of Italy’s imports from Turkey is equal to $9.46 billion, Italy concurrently sold its good and services at $10.15 billion in 2018. These statistics prove the balanced trade conditions among the states. In terms of export activities of Turkey to Italy, primary items consist of passenger motor vehicles, motor vehicles for good transport, fresh or dried fruits. Also, Italy possess %5.4 of the overall export value.

**Figure 15: Turkey’s Imports by Countries**

![Turkey's Imports by Countries](image)

*Source: Turkish Statistical Institute (TURKSTAT)*

### 3.2.3 Trade Between European Union and Turkey

As Turkey imports from European Union countries and exports to those countries mostly, it would be more sensible that it comes up with those ties in detail. In this regard, horizontal bars in Figure 16 demonstrate in which goods and services mostly are traded among EU countries and Turkey in 2018.
Together with percentages of the import and export goods, coverage ratio also provides relative measure that is based on the ratio which is expressed in percentage terms between the value of exports and between the value of imports. If exports are higher than imports, the cover ratio will be above 100.

According to bar chart, motor cars and motor vehicles which are used more comparing to other products possess a significant role in this trade for the both parties, even so EU countries cover just %49 of this trade with exports to Turkey. Also, Turkey excessively sells other machinery and equipment goods and articles of apparel of textile fabrics which have less coverages by European countries with only %14 and %7 in respectively.

On other hand, the goods and services which provides EU to capability to cover extremely the imports of those products are ferrous waste and scrap and petroleum oils other than crude with %3034 and %901 coverages respectively.

**Figure 16: Turkey’s Exports, Imports and Their Balance with EU**

*Source: Statistical Office of The EU (EUROSTAT)*
3.3 Advertising & Marketing Opportunities

In the market, there is close relationship between the customers and the firms, so they affect each other in terms of their strategies and behavior. In order to understand those interactions which are carried out by buyers and sellers, the basic conceptual framework is designed to visualize the determinants and their effects to one to another by defining the boxes and arrows. According to a conceptual framework which is showed in Figure 17, income and social class of the customers which can be determined as one factor directly influence on both their buying behavior and firms’ marketing strategies on the existing market. Also, sellers’ marketing strategies are able to change customers’ propensity to purchase any product (Ahmed, Khan, & Samad, 2016).

Figure 17: A Basic Conceptual Framework for The Consumer’s Buying Decision

Customer profile should be detailly analyzed in order to better understand market demographics in Turkey. The country with over 80 million population which is relatively young and growing is a high potential market for traders and investors. Since more than half of the population is aged between 15-54 years old, Turkey is considered as a young and dynamic country. In terms of types of gender, there is balanced pattern and, %50.75 females and %49.25 males of the whole population. On the other hand, the population ethnically is diversified; Turks (%70-%75), Kurds (%19) and other minority groups (%7-%12). When examining the concentration of the population within cities, urban areas like Istanbul, Ankara, Izmir stand out over the other cities.

Turkish citizens are becoming educated and urbanized especially in recent years. However, some educational developments are implemented by the government, Turkey is still far behind the other OECD countries in terms of an educational background. For instance, just 3 young people have a university diploma within every 10 persons in the population although there is more than 6 million persons which have graduated from a
university. Moreover, higher degree education graduates can able to be employed more than 50% comparing to other lower degree graduates.

Labor force of Turkey is formed by more than 31 million employees in total who currently participate to the business life within various kind of sectors. In terms of sectoral distribution of the labor force, it is actually aligned by considering the GDP contribution of sectors. Service sector expectedly ranks 1st by far with %54.34. While service sector employees equal to %26.91, agriculture sector’s contribution to the labor force correspond to %18.75.

Purchasing power of customers which depend on their revenue is another determinant which dramatically affect the marketing and advertising decisions for local and foreign companies. Also, the amount of buyers’ income affects considerably their purchasing behavior in terms of products, good and services. According to Figure 18 which is based on CEIC Data, the spline area graph shows change in Turkey's Annual Household Income per Capita from 2007 to 2018. The figure which gradually goes up from 3,545.075 USD arrives to the peak point with 4,134.509 USD in 2013 thanks to the successful economic policies that are performed by the government. On the other hand, there is exactly a contrary situation which starts after 2013. The long decline process continues until today. Finally, it reaches to 3,060.862 USD in 2018, compared with the previous value of 3,604.107 USD in 2017. The major reason of the more than half thousand USD decrease in household revenue per capita within just one year is the depreciation of Turkish currency over EUR and USD.

**Figure 18: Annual Household Income per Capita, Turkey**

![Figure 18: Annual Household Income per Capita, Turkey](image)

*Source: CEIC Data*
On the other hand, according to Figure 19, Gross Domestic Product’s PPP per Capita has a gradual increasing pattern especially after 2009. While it is accounted with USD 15,641.013 in 2009, GDP per capita reached approximately USD 28,044.394 PPP in 2018. While developing countries tend to have a higher PPP than nominal, developed countries have higher nominal than PPP. Thus, purchasing power of customers normally are higher than nominal value in Turkey as well which is developing.

Turkey’s Purchasing Power Parity per GDP per capita index value was 64 points for 2018. This value has an average of 100 points in European countries, showing that Turkey is behind them. However, income inequalities do still exist: The income of the richest quintile is 7.5 times higher than the income of the poorest quintile for Turkey.

**Figure 19: Purchasing Power Parity per GDP per Capita, Turkey**

![Chart showing Purchasing Power Parity per GDP per Capita, Turkey](chart)

**Source:** CEIC Data

After analyzing customer profile and its purchasing power, customer behavior is a dependent factor which might be accelerated or diminished by the marketing activities and, consumers’ income and social class characteristics. Culturally, Turkish consumers’ demographic characteristics are significantly different from those of European and Western consumers in terms of age and cultural aspects. Most Turkish consumers believe that self-care and following the latest trend is important. Recent political and economic uncertainty have dampened disposable income growth as well as consumer spending. Nevertheless, country’s young and dynamic population is expected to boost the economy in coming years, with the help of greater access to consumer credit.

Consequently, economic volatility differs the status of customers and lowers their income in recent years in case of Turkey. As a result of the mistakes on the governmental policies, the purchasing power of the Turkish citizens are negatively influenced and, they
intend to buy less amount of good and services. Also, the firms’ activities naturally tend to decline as well in terms of marketing and advertising issues. However, Turkey which is defined as a developing country has a great size of population and it is expected to boost Turkish Economy in the following years thanks the power of young population. For foreign investors and companies, Turkey can become a convenient environment by serving the great opportunities to the outside from the point of marketing and advertising actions.

3.4 Governmental Incentives and Tax Policies

In order to improve the investment climate, number of reforms has been implemented by Turkish Government. Those developments provide to ease of economic operations and activities in various areas and sectors. Major reforms are chronologically aligned with starting from 2001 to the end of 2018 in Figure 20.

Figure 20: Major Reforms, Turkey

Source: Investment Support and Promotion Agency of Turkey (ISPAT)

The Turkish government has performed to establish a number of incentives for foreign investors in order to increase the external investments in Turkey. Also, those investment incentives are upgraded year by year according to the necessities of the time and the governmental policies. Investment incentives are examined into the four schemes: general, regional, strategic and project-based investment incentives. They differ from each other in terms of an eligibility criteria.
General investment incentives are needed to make a minimum fixed investment amount between TRY 500,000 – TRY 1 million depending on the investment location. The state supports the investors with a value added tax (VAT) exemption and customs duty exemption for procurement of machinery and equipment. Those incentives are carried out regardless of the investment region.

Regional investment incentives include minimum fixed investment amount between TRY 500,000 – TRY 4 million depending on the investment location and industry. While the encouragements cannot be influenced by regional difference on general investments, the incentives are provided to the enterprises regionally changes according to the development level of the relevant region. Those type of incentives provide higher incentives for investments to be made in less developed regions. Together with governmental supporting factors on the general investment incentives, there are much more promotive motivations on the regional type of incentives including; corporate income tax (CIT) rate reduction with %15-%55 of investment expenditures, social security premium support between 2-12 years, land allocation and interest rate support in the amount between TRY 1-1.8 million. All those supporting drivers also depends on which region a relevant investment will be established in.

Compared to the previous two incentives, strategic investment incentives are provided to the business areas which are related to the high importation facilities and are significant to reduce Turkey’s foreign dependency. In other words, those type of investments are not a good idea for just investor company but also the host country can able exploit a lot of benefits thanks to become less dependent to the outside. However, the eligibility of those enterprises brings some difficulties to complete to the investment project. The investment amount should be at least TRY 50 million which is much more than other type of investments. Since strategic investments are placed on the production of imported goods and services, the criteria are more related to the product’s importance and its production capacity issues. The product’s domestic production capacity has to be less than its import volume. While 40% of domestic value addition is necessary in the production process, the product must have an import value of USD 50 million in the previous basis year. On the other hand, even if strategic incentives’ supporting factors have similarities with the regional incentives, their scope are more extended especially about corporate tax rate
reduction and interest rate support. While CIT rate reduction equals to %50 of whole investment expenditures, the amount of TRY 50 million is supported by interest rate.

Project-based investments which are also named as tailor made investments are generally performed in the critical areas for Turkish economy. Those type of enterprises are required to much greater amount of capital for the establishment process. The major eligible criteria are a minimum fixed investment amount of TRY 500 million. Also, the main objective of investment project is to produce strategic products that are technology intensive, have high added value, import dependent, not locally produced or locally produced at low quantities. While corporate tax reduction is up to %200 of investment expenditures, interest rate support lasts up to 10 years for the project-based investments.

Apart from supporting factors which are already defined for other types of governmental incentives, many various motivations are additionally provided to the new entrepreneurs and investors for a given period of time including cash support, income tax with-holding support for 10 years, qualified personnel support for 5 years, energy support for up to 50% of energy expenditures for 10 years, capital contribution up to 49% of the investment amount. In order to ease of the setting up the firm or organization, constructive issues are also implemented as a supportive factor including infrastructure support, facilitation of authorization permit license procedures, VAT refund for building-construction expenditures together with land allocation for 49 years.

Employment incentives, R&D and design incentives, regional management center incentives and export incentives are other types of the motivations which are also provided by Turkish government for the foreign ventures. While the employment incentives give an opportunity the overseas companies to be able train their staff in terms of business and personal issues thanks to tax exemptions and cash supports, the companies can benefit from R&D and design centers in order to accelerate the relevant research, technology development and innovation activities. Moreover, regional management centers which are established in fundamental cities in each region of Turkey also support the international investors by implementing tax advantages. Export incentives assist investors in terms of the marketing and advertising activities and 19 free zones also exist for export-oriented companies in Turkey.
Together with governmental incentives, taxation system of the state should be also considered why Turkey struggles to enhance the taxation system in order to attract more foreign investors by implementing new tax reforms. Taxes are split into 3 main categories including; income taxes, taxes on expenditures and taxes on wealth. The rates are individually defined for each tax type depending on a type of goods and services by the state of government. The Turkish corporate tax legislation has noticeably clear, objective, and harmonized provisions that are in line with international standards.

While the corporate income tax (CIT) was %33 before the tax reforms which was made in 2006, it excessively decreased to %20 percent. In Turkey, the corporate income tax rate levied on business profits was 20% until 2018. Afterwards, the rate has been increased to 22% for the tax periods 2018, 2019, and 2020, but the Council of Ministers is authorized to reduce the 22% rate to a rate as low as 20%.

Taxes on expenditures include the four different forms; Value added tax, special consumption tax, banking and insurance tax, and stamp duty. Value Added Tax (VAT) are set at %18 in most cases, but also %8 and %1 can be also applied for the good and services as defined in law. VAT is charged on commercial, industrial, agricultural, and independent professional goods and services, goods and services imported into the country, and deliveries of goods and services as a result of other activities. However, exported goods and services are not subject to value added tax.

Special Consumption Tax (SCT) is also applied at different rates for some group of products including; Petroleum products, automobiles and other vehicles, tobacco and tobacco products, luxury products. This type of tax is a subject on this occasion only unlikely VAT.

Banking and insurance company transactions are actually excluded from VAT but are subject to a Banking and Insurance Transaction Tax. This tax applies to income earned by banks, such as loan interest. Although the general rate is 5%, some transactions, such as interest on deposit transactions between banks, are taxed at 1%. No tax has been levied on sales from foreign exchange transactions since 2008.

Stamp duty applies to a wide range of documents, including contracts, notes payable, capital contributions, letters of credit, letters of guarantee, financial statements, and payrolls. Stamp duty is levied as a percentage of the value of the document at rates ranging
from 0.189% to 0.948% or is collected as a fixed price (a pre-determined price) for some documents.

Taxes on wealth are divided into the three categories; property tax, motor vehicle tax and, inheritance and gift tax. Any property owned such as apartment, building and land is subject to real estate tax. The rate of the tax ranges between %10 and %60 and is collected annually. Motor vehicle tax are levied depending on the age and engine capacity of the vehicles each year. Inheritance and gift taxes are related with the receiving donor or property from someone and are collected ranges which changes from %1 to %30.

CHAPTER 4: ECONOMIC VOLATILITY IN TURKEY

Turkey is like other developing countries in the world which has encountered some economic crises since the 1980s. The Turkey and other developing countries sometimes have faced the economic recession as a result of their own wrong financial policies, the economic crises which occurred in developed countries sometimes have followingly influenced other developing countries as well. Turkish economy was also influenced by political and geographical effects even if it is seemed as a main reason of the economic crises are related to the integration of structural problems into the global economy.

Turkish economy suffered significantly from the crises which were arose in 1994, 2001, 2008–09 and 2018. The most recent one which occurred in 2018 is named as a Turkish currency and debt crisis. Each one of the financial crises accompanied the different negative effects to the Turkish economy. In order to better understand the crises, the characteristics, evolutions and consequences of each of them should be analyzed.

4.1 The Characteristics Of The Crises

The economic crisis means that the events that suddenly and unexpectedly arise in the economy will have a serious impact on the economy of the country in macro terms and on the companies in micro aspects. Economic crises occur in many different ways including a rapid contraction in production, sudden drops in general prices, the bankruptcies, an immediate increase in unemployment rate, decline in wages, stock market crash and specultive movements.
While the three economic crises; 1994, 2001 and 2018 belong to the economic performance of Turkey, the crisis of 2008-09 is originated by the global financial crisis. The economic crises are differentiated in terms of many specific characteristics. While it is seen significant similarities between the cases of the 1994 and 2001 crises, the crisis of 2008–09 can be considered different than previous ones in many aspects. On the other hand, as the crisis of 2018 is the most complicated comparing to others that’s why should be individually tackled in order to see the whole picture. In this sense, first three tales can be discussed between each other whereas the recent one will be defined later on.

First, unprecedented government deficits with a very high interest burden and relatively high inflation were the characteristics of the period before the crises of 1994 and 2001, while high private debt was the characterizing factor in the 2008–09. Second, in all three episodes, financial flows played a role to varying degrees. The sheer size of the financial shock relative to Turkey’s reserves and gross domestic product (GDP) played a key role in the crises of 1994 and 2001, whereas it seemed to have played a secondary role in the most recent crisis. In the first two crises, a very sharp exchange rate, foreign currency reserves, and interest rate movements were observed. Third, the trade channel played a decisive role in the last crisis, whereas there was no decline in Turkish exports in the previous two crises. The 2008–09 crisis likely exposed the limitations of export-based strategies. Fourth, the Turkish government implemented very tight monetary and fiscal policies during the crises of 1994 and 2001 whereas fiscal and monetary policies were relatively expansionary during the most recent crisis. This was possible due to specific domestic and global factors, such as relatively low public debt levels and low borrowing costs, mostly related to low interest rates globally, itself a result of the enormous expansion of liquidity by developed economies. Fifth, unlike the other two cases, the crisis of 2008–09 took place in the midst of a severe global economic crisis, while the global economic environment was not exceptional in the previous crises. Sixth, the sensitivity of the labour market to crisis appears to have increased over time. In other words, the severity of the employment implications of crisis seems to have increased over time.

On the other hand, the currency and debt crisis involve both economic and political problems. In terms of economic aspects, the major reasons can be aligned Turkish currency plunging in value, high inflation rate, increase in borrowing costs and rising loan
defaults. In this sense, it can be also said that the crisis is mostly characterized by deficit in Turkish economy’s current account. Together with financial issues, political factors played a role on the emergence of this crisis as well. Those factors can be separated two in which are the president Recep Tayyip Erdogan’s authoritarianism and geopolitical frictions between the governments of Turkey and the United States of America. After a constitutional referendum which was held in 2017, Erdogan has become more powerful over the management of the country thanks to the new constitutional amendments. Additionally, Trump administration enforced the tariffs on some Turkish products such as steel and aluminum.


An economic crisis can be defined in different ways. In textbook versions, two consecutive quarters of negative GDP growth are considered a recession. Relatively deep recessions are deemed as crises. In some cases, sharp movements in unemployment, inflation, interest rates and exchange rates can also be utilized to determine the periods of crises. In order to make consistent comparisons, a crisis is defined as the period when quarterly real GDP recorded negative growth from the same quarter in the previous year. Accordingly, the Turkish economy has encountered four apparent economic downturns since the 1980s. Here, we will focus on the crises of 1994, 2001 and 2008–09, excluding the crisis of 1999 which can partially be explained by the devastating earthquake of August 1999 in north western Turkey. (Akcay & Gungen, 2019).

In general, the comparison between different crises in terms of GDP is based on annual real GDP growth rates. Turkish GDP declined by 4.8 per cent, 5.7 per cent and 4.9 percent annually in 1994, 2001 and 2008–09, respectively. The crisis of 2001 is apparently the harshest one the Turkish economy has experienced after 1945 if annual growth rates are considered solely. However, quarterly data reveal more information about the duration and magnitude of the crises. For the three crises, quarter two of 1994, quarter two of 2001 and quarter two of 2008 were the quarters where negative growth was first recorded in a basis year. Similarly, the end periods of those recessions were quarter two of 1995, quarter one of 2002 and quarter four of 2009, respectively. While The crises of 1994 and 2008–09 lasted four quarters, the crisis of 2001 lasted three quarters. However, the first positive growth in GDP recorded at the end of the crisis of
2001 was relatively very low. If seasonally adjusted real rates of GDP growth are taken into account, all three crises prevailed over four quarters. Figure 21 demonstrates that all three crises have a more or less classical V-shape, revealing that relatively monotonically decreasing growth rates are followed by monotonically increasing GDP growth rate.

After the economy reaches its point of lowest negative growth. Furthermore, we compared total output from the beginning and the end of the crises with that in the same previous period. Interestingly, irrespective of the duration of the crises, GDP declined by about 8 percent in all three crises including 8.03 percent in 1994, 8.18 percent in 2001 and 8.53 percent in 2008–09. As a result of GDP growth analysis, it can be clearly deduced that most severe crisis in Turkey was in 2001. According to quarterly data the crisis of 2008–09 seems to have been at least as severe or even more severe than the 2001 crisis, irrespective of the fact that there was no financial collapse in 2008–09.

Especially during the 2008-09 crisis, Turkish economic performance was one of the worst in the world. If it is excluded very small countries, Turkish economy performed just better than in a small number of former Eastern Bloc countries, including Latvia, Lithuania, Ukraine, Armenia and Russia, and raw material exporters, such as Botswana and Kuwait.

**Figure 21: Turkish Growth Rate During Crises**

![Graph showing Turkish growth rate during crises](image)

*Source: Turkish Statistical Institute (TURKSTAT)*
Moreover, it should also be applied for unemployment statistics together with GDP performance analysis of the basis country. Although all three crises caused a harsh decline in domestic production, the influence of each crisis on employment was significantly different. The severity of the employment implications of economic crises in Turkey appear to have gradually increased. As it is demonstrated on Figure 22, consequences of the 1994 crisis are not very striking on the unemployment issue. However, Turkey’s unemployment rate reached very high levels after the initial periods of negative growth in production during the 2001 and 2008–09 crises. This trend implies that some structural changes in the Turkish economy, such as a decreasing rural population, and increasing deregulation in labour markets, appear to have increased the sensitivity of the labour market to economic crises. Furthermore, the recovery periods after the crises have not generated enough employment, and have been described as periods of ‘jobless growth’.

**Figure 22: Unemployment Rate During Crises**

![Unemployment Rate During Crises](image)

*Source: Central Bank of the Republic of Turkey (CBRT)*

The inflation rate can signal important information about the economic fragility of a country. High inflation and high nominal interest rates can feed each other in some cases. Furthermore, persistently high inflation may feed uncertainty and create significant distortions.
Historically, the Turkish economy has had a severe inflation problem. From 1990 to the 1994 crisis, the average rate of inflation was above 60 percent. From the end of the 1990s to the 2001 crisis, although inflation was still in double digits, it was on a declining trend and fell to 36 percent thanks to the exchange rate peg policy of the 1999 disinflation programme. As can been seen from figure, in both episodes a sudden hike in inflation, mostly related to significant depreciation in the Turkish lira, took place. According to Figure 23, quarterly annual inflation rates reached about 125 percent and 70 percent during the crisis of 1994 and 2001 respectively. In contrast, inflation remained relatively under control which is below 10 percent before the 2008–09 crisis. However, the central bank had difficulty in reaching its intended inflation targets about 5 percent.

While the economic outlook in terms of inflation was worst in 1994 episode and inflation rate was high but exhibited a declining trend in the 2001 case. Unlikely, the inflation was relatively moderate during the 2008–09 crisis.

Figure 23: Annual Inflation Rate During Crises

Source: Central Bank of the Republic of Turkey (CBRT)
4.3 Political and Geographic Configuration

Political structures of the countries and geopolitical factors significantly navigate the direction of an economy. In certain governmental and external scenarios, there is possibility to face a number of risks. Therefore, it is also important to understand the political and geopolitical configurations for the three crises.

The Turkish economy was led in the 1994 and 2001 crises by relatively fragile coalition governments. In the case of the 1994 crisis, there were domestic conflicts especially in the south eastern part of Turkey, so this caused to increase existing uncertainties in the economy. Prevailing domestic problems within the coalition government and between the Prime Minister and the President increased economic fragility in 2001. On the other hand, the Turkish economy faced the 2008–09 crisis with a relatively strong, single-party government which controlled by the justice and development party. In short, it is likely that domestic political configurations exacerbated existing fragilities before the 1994 and 2001 crises. Domestic and political conditions were relatively favorable in 2008-09, although this did not prevent the economy from experiencing one of the worst crises in its history.

The similar patterns are seen between 1994 and 2001 crises in terms of the geopolitical issues. The 1994 crisis took place in a period of global upswing although there was a mild slowdown in 1993. Likewise, the crisis of 2001 took place at the end of a global upswing despite the fact that, the 1997 Asian Crisis, the 1998 Russian and Brazilian crises caused a slowdown in the global economy. Additionally, global growth was also affected negatively by the 11 September attacks in the USA in 2001. Between the periods of the 2001 and 2008 crises, the global economy recovered quickly and entered into a relatively long period of growth. As opposed to the other two cases, the crisis of 2008-09 took place in the midst of a severe global economic crisis triggered by the US sub-prime mortgage crisis.

The monetary policy stance of developed countries has considerable influence on the economic trajectory of developing countries. The adverse effects of a deterioration of the global economic outlook can be mitigated via expansionary monetary policies. In this sense, the movements of the US Federal Reserve interest rate, indicating the Fed policy stance, can give some clues about the global liquidity and interest rates. High (or low)
Fed interest rates may be an indication of increasing (or decreasing) attractiveness of US and other developed economies’ financial assets, which sometimes causes slowdowns (or surges) in financial flows to developing countries, forcing them to offer higher interest rates to attract financial flows.

As Fed increased interest rates before the crisis 1994, there was no exceptional development in financial markets. The Turkish economy also could not benefited from the financial inflows during the period of crisis. The Fed monetary policy was relatively tight before the crisis of 2001. However, there was very sharp easing during the 2001 crisis. The Turkish economy and other developing countries benefited from this situation in the form of an abundance of financial inflows. The crisis of 2008–09 was exceptional in terms of global liquidity and interest rates. The Fed and the central banks of many other advanced countries embarked on significant expansionary monetary policies. This led to close-to-zero interest rates and excess liquidity in advanced economies. Turkey and many other developing countries enjoyed these developments by welcoming this liquidity into their economies.

4.4 The Evolution of Turkish Currency and Debt Crisis 2018

In every 7 years, Turkey has encountered the different type of crises between 1994 and 2008. Afterwards, it is seemed that Turkish economy put something right at least until 2018. Even if there is no evidence of a crisis during this period of time, the AKP government periodically has pursued the strategy of the postponing crises. The government has organized number of elections which are one local, three parliamentary, and one presidential in order to response to a political pressure on itself. However, those gained elections have temporarily provided the AKP to get rid of the economic problems. After the first two episodes were successfully postponed, the state of Turkish government could not handle with the third one which was composed by the crisis tendencies so the Turkish economy was exposed to face more severe economic crisis in 2018. (Akcay & Gungen, 2019). Those tendencies are demonstrated in Figure 24 considering the several determinants which are consumer price index, weighted average cost and USD/TL exchange rates.
The first crisis tendency occurred between 2013 and 2014. There were negative economic developments in both financial conditions and political stability of Turkey on those years, but Policymakers avoided increasing interest rates for a while. The Fed’s tapering announcement was the key international change in 2013 while the Gezi Park events and the collapse of the informal ruling coalition between AKP and the Gülen organization were two aspects of the political crisis inside Turkey. Those political and financial factors considerably increased the inflation rate in Turkey. Afterwards, the Central Bank of the Republic of Turkey (CBRT) pursued the policy of the raising interest rate by more than 4 percent in order to get the inflation under control. Area 1 demonstrates this act in the figure.

The second episode which is another crisis tendency was seen in 2016 with the failed coup attempt. Turkish economy had to encounter a small currency shock and interest rate hike as a result of the failed coup attempt. Policymakers implemented the strategy of state-sponsored credit expansion in order to cope with those economic and political issues. In this sense, they established the Credit Guarantee Fund (CGF) mechanism which the government provides guarantees to banks for extending more credit to the Small and Medium sized Enterprises. By way of doing so and also by way of reducing the legal amount to be allocated by banks as provision, the government reduces the cost of providing credit. In case of a credit default, the losses are absorbed by the Turkish Treasury. Additionally, the government supported SMEs by providing three years loans with no payments in the first year. Those developments were successful not only avoid the economic recession also contributed the Turkish government’s idea which is related to political regime change in 2017 referendum. Area 2 also describes the crisis tendency by giving the change in the determinants.

The final tendency, which caused the emerging of real economic crisis in 2018 occurred by gathering both of global financial tightening and the impact of other factors that Turkey has already overcame at the previous episodes. Comparing to other crises in previous years, the political uncertainty played considerably an important role together with economic determinants. On the one hand, the process of change in the political regime took a long time in regard to adopt new political structure. After an early presidential and parliamentary elections were completed in June 24, the political tension could not be resolved even if Erdogan and his alliance with far-right party won. On the
other hand, the Turkish currency crisis arisen as result of high political tension between Turkey and USA. Turkish lira lost %23 of its value against the United States dollar in August 2018.

Figure 24: Three episodes of Intensifying Crisis Tendencies in Turkey (2013/1 - 2019/2)

![Graph showing three episodes of crisis tendencies in Turkey](image)

Source: Central Bank of the Republic of Turkey (CBRT)

Together with political uncertainty, Turkey also had to struggle with the currency crisis which acted as a strong catalyst. The president of USA, Donald Trump formed a group opposed to the Turkish government by implementing number of tariffs in terms of export and import facilities with Turkey.

In figure 25, change in GDP as percentages is indicated quarterly and annually with blue bars and red line in respectively from the first period of 2013 to the last period of 2018. It can be obviously seen that the year of 2018 is started with a decline comparing to the last quarter of 2017 and the GDP growth reaches to zero point in the second quarter because of the presidential and parliamentary elections. Afterwards, while Turkish economy was still cooling, the external factors caused to arise the currency crisis. Thus, GDP change encounters the negative levels which are %-1.5 in 3rd quarter and %-2.5 in 4th quarter. In order to understand the shaping of this financial crisis, it has already been mentioned the two tendencies which had a negative impact on the economy for a
temporary period of time even if they didn’t cause a full-scale economic crisis. Those periods are the 2\textsuperscript{nd} quarter of 2014 and 3\textsuperscript{rd} quarter of 2016 mostly relating to the political factors which are Gezi Park events and coup attempt in respectively.

\textbf{Figure 25:} Turkey’s Gross Domestic Product (percentage change between 2013 and 2018)

Additionally, some economic facts considerably triggered this economic crisis together with political and geopolitical dimensions. These can be aligned as following the Turkish lira plunging in value, high inflation, rising borrowing costs, and correspondingly rising loan defaults.

As it is mentioned at the previous parts which is related to the evolution of the crisis, Turkish lira (TRY) incredibly lost %30 of its value in consequence of Donald Trump’s impulsive attitude toward the economic relations with Turkey. His tweet explains this situation “I have just authorized a doubling of Tariffs on Steel and Aluminum with respect to Turkey as their currency, Turkish Lira, slides rapidly downward against our very strong Dollar! Aluminum will now be %20 and Steel %50. Our relations with Turkey are not good at this time! “.

Inflation rate is another factor which has hit 25 percent in 2018. Consumer price index largely driven by the currency crisis. Currency depreciation can be said as a key determinant behind the high inflation rate. However, the absence of Turkish central bank’s independence and a diplomatic crisis with USA stimulated the inflation rate to

\textbf{Source:} Turkish Statistical Institute (TURKSTAT)
increase more than expected. Traditionally, the central bank has to respond this type of crisis by increasing interest rates, but this did not happen in Turkey.

Turkey had a large credit boom over the last decade financed with capital inflows from abroad. The private sector in particular both corporations and banks borrowed from foreign investors. About 60 percent of the corporate sector debt was in foreign currency in 2013. Having foreign currency-denominated borrowing is particularly risky for sectors such as construction whose earnings are in Turkish liras. (About 70 percent of the construction sector's debt is in foreign currency and for manufacturing it is 50 percent). If the Turkish lira loses value with respect to foreign currencies, the debt held by these companies becomes more difficult to repay and foreign investors become nervous about investing in the Turkish private sector.

Even if there are clear advantages to borrow extensive amount of money from abroad for emerging countries like Turkey, this issue is convenient at the period of global crisis in which developed or richer countries have very low interest rates. After extensive borrowing from abroad, the developing countries often encounter a boom bust cycle. The consequence of this period of time results in crisis on the emerging market countries. Since emerging market government and companies transfer the money in dollars rather than domestic currency, this cause to arise the currency mismatches.

In case of Turkey debt and currency crisis, a major macroeconomic fallacy is private sector short term borrowing in dollars and those companies could not repay the loans because of the extensive increase of the dollar against Turkish Lira. Thus, private sector experienced with loan defaults. In conclusion, the Turkish economy relied on capital inflows to fund private sector excess and, Turkey’s banks and big firms borrowed heavily from abroad in the foreign currencies. Thus, those developments paved the way for the crisis in Turkey.

Together with currency crisis, the economic dependency of Turkey to the outside caused in the debt crisis as well. While Turkey’s current account deficit was $33.1 billion in 2016, the figure reached $47.3 billion with huge growth. After the year of debt and currency crisis, Turkey had one of the largest current account deficits in the world with $58 billion debt.
**4.5 Implications for Global Economy**

The direct impact of what looks like an inevitable recession in Turkey would be relatively small because, despite a population of 80 million and strong growth in recent years, the country accounts for only 1% of global GDP. Eurozone countries run a trade surplus with the country of Turkey but that is small. In the two previous Turkish financial crises since the turn of the millennium, European exporters have been able to divert their business to other markets. The European Central Bank has expressed concern about potential contagion through the eurozone banking system, with Spain, followed by Italy, the most heavily exposed countries.

A bigger danger is that Turkey’s crisis will spill over into other emerging market economies and there were signs on Monday that other countries seen as vulnerable were coming under speculative attack. Turkey’s problems are particularly acute because it has more than $300 billion denominated corporate debt, which is getting more expensive to finance by the day. However, other countries such as Mexico and South Africa also took advantage of low US interest rates in the years after the financial crisis to borrow heavily in dollars and saw their currencies coming under pressure. The fear is of a full-blown emerging market crisis.

Since the second world war, Turkey has gravitated to the west. It has been a member of NATO since 1952; in 1987 it applied to join what later became the European Union and prided itself in being a secular democratic state. But there has been a marked shift under Erdogan. Accession talks with the EU have been suspended in response to alleged human rights and rule of law abuses; Washington has said Ankara’s decision to buy Russian S-400 missiles was incompatible with NATO’s defense systems; and Erdogan has supported the Islamization of Turkey.

The Turkish president’s standoff with Trump has fuelled concerns of a foreign policy shift that would result in Turkey leaving Nato, forging stronger political links with Russia, China and Iran, and allowing the three million Syrian refugees living in Turkey to leave for the EU. But none of these long-term decisions will resolve Turkey’s immediate problems.
CHAPTER 5: ECONOMIC RELATIONS BETWEEN TURKEY & ITALY

5.1 Introduction to the Relations and It’s Dimensions

In order to sustain and improve relations, various types of institutional and coordination mechanisms were established between Turkey and Italy. While business council and agreements help and ease the investments and trade activities within mutual ways, platforms which are held in various time intervals strengthen the ties in terms of both diplomatic and economic.

There are three important platforms that make it possible to exchange views regarding various dimensions of Turkish-Italian relations:

- Turkey - Italy Intergovernmental Summits
- Turkish - Italian Forum
- Turkish - Italian Media Forum

The first intergovernmental summit was organized in 2008 in the western province of Izmir, Turkey about discussing Turkey’s European Union membership bid and strengthening ties between the two countries. Then, the second summit was held in Rome, Italy in 2012 with the participation of both parties’ prime ministers and the head of other government departments including EU, Economy, Foreign, Environment, Energy, Interior and Finance. Two countries signed three contracts about the fight against the terrorism, environment and social security. They also signed two statements on economic and trade relations.

The Eighth Turkish-Italian Forum and the third Turkish-Italian Media Forum were organized in İstanbul on 24-25 November 2011 and on 4 July 2010 respectively. These platforms also contribute to the institutionalization of bilateral relations.

Moreover, Turkey-Italy Business Council was established in 1990 by signing an agreement in Rome. While one side of the agreement is Foreign Economic Relations Board of Turkey (DEIK), Confederation of Italian Industry (CONFINUSTRID) acts as Counterpart Organization. The Council organizes joint meetings, investment seminars and regional conferences in order to advance the economic and trade ties between Turkey and Italy. The Council’s goal is to encourage joint investments, technological cooperation
and joint ventures in third countries such as Libya and Iraq, with Italy the more experienced party in the former and Turkey in the latter country. Council’s key sectors are tourism, the wood working industry and ecological issues. The Council uses various platforms to bring businesspeople from both countries together and to identify potential areas of cooperation.

SME plays an important role in both countries which offers another area of the business opportunities the Council seeks to develop. For this reason, the Council focuses on the organization of regional and sector-oriented meetings in Italy as well as in Turkey and entertains close contacts with relevant associations. The Council is also interested in attracting more Italian investments to Turkey and in particular to Anatolia.

Among Turkey and Italy, there are also several agreements and protocols which help the development of commercial and economic relations. The important ones are chronologically listed as follows:

- Agreement on International Road Transport (30 June 1971)
- Economic, Industrial and Technological Cooperation Agreement (16 December 1976)
- Agricultural Cooperation Protocol (24 December 1987)
- Double Taxation Avoidance Agreement (1 December 1993)
- An Agreement on Promotion and Mutual Protection of Investments (22 March 1995 (not put into effect) - 02.03.2004 entered into force on)

5.2 Import & Export (Goods and Services)

Together with sharing common interests, common values and common history, Turkey and Italy pursue currently a bilateral relation in foreign trade too. Those cornerstones make the close cooperation possible in terms of international trade issues. Since citizens of the both countries are known as a people of Mediterranean Sea, the customers possess similar incentives, needs and goals to purchase goods and services in transactions.
Moreover, close diplomatic partnerships give an opportunity both countries to improve their trade facilities amongst themselves. Thanks to constructive politics and diplomacy between the governments of Turkey and Italy, economy and commercial areas have been affected positively.

In terms of economic connectivity, Italy is Turkey's second-largest European trading partner after Germany and the fifth worldwide after China, Germany, Russia and the U.S. Also, statistics and researches prove the closeness between countries and predicts to increasingly go on further years.

According to Turkish Statistical Institute (TUIK), the detail analysis defines the trade statistics between Turkey and Italy which includes export and import amounts, their ratio to overall amounts, total trade volume and annual trade balance was published for each individual year starting from 2005 until 2019 in Table 2. Also, this annual report provides how many percent the values of export and import goods change comparing to previous year amounts together with their ratio in whole export and import activities which is done in basal year.

In terms of exports from Turkey to Italy, the value generally goes up year after year even if there are some declines which were encountered in 2009, 2012 and 2015. The amount starts from $5.6 billion with %7.6 of the total exports. The value reaches $7.8 billion at the end 2008 by a rapid increase. Between 2009 and 2015, there is a pattern which shows three year’ time intervals that are one year of regression and then two years of ascent periods. Afterwards, the exports peak up to $9.5 billion by a huge increase in two years from 2016 to 2018. The report provides the data which covers ten months period in 2019, but it is able compare this amount with ten months’ analysis in 2018. While the amount increase is seen between those years in general, share of the exports decrease properly year by year and falls into %5.5 at the previous year.

On the other hand, imports from Italy to Turkey also is defined by using same parameters within same period of time. The imports from Italy have a key role in Turkey’s foreign trade especially between 2005 and 2012. After starting from $7.5 billion with %6.5 ratio to the imports, the total amount of exports peaks up to $13.5 billion thanks to an excessive increase in 2012. However, the different scenario has been seen since that year and imports from Italy loses conservatively its importance in Turkish economy.
After the gradual declines, the value of the total purchases from Italy down to $10 billion with %4.5 share.

The parameters which are total trade volume and the sum of exports and the imports according to base year enable us to see the main picture about trade between Italy and Turkey. Trade volume climbs gradually up as well as the imports from Italy until 2011 and peaks up to $21.4 billion by over $8 billion increment. However, negative implementation of the pursuing to trade from outside is the enhancement of the trade deficit. The balance between exports and import goes down to the least level, $-7.1 billion in 2012. Contrarily, trade deficit diminishes coordinately as well as Turkey sells more products and services to Italy since 2012. It is seen unbalanced trade volume on those years and encounters a little decline to $19.7 billion. Lastly, balance turns from negative value to positive value for the first time in 2019 with $0.675 billion.

Table 2: Trade Statistics Between Turkey & Italy

<table>
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<tr>
<th>Years</th>
<th>Export</th>
<th>Export Change %</th>
<th>General Export Rate %</th>
<th>Imports</th>
<th>Import Change %</th>
<th>Ratio to General Imports %</th>
<th>Volume</th>
<th>Balance</th>
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<td>2009</td>
<td>5899.5</td>
<td>-24.7</td>
<td>5.8</td>
<td>7673.4</td>
<td>-30.3</td>
<td>5.4</td>
<td>13563.9</td>
<td>-1,782.9</td>
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<tr>
<td>2010</td>
<td>6550.5</td>
<td>10.4</td>
<td>5.7</td>
<td>10203.7</td>
<td>33.0</td>
<td>5.5</td>
<td>16709.0</td>
<td>-3,688.4</td>
</tr>
<tr>
<td>2011</td>
<td>7851.5</td>
<td>20.7</td>
<td>5.8</td>
<td>13546.5</td>
<td>32.8</td>
<td>5.6</td>
<td>21401.0</td>
<td>-5,698.6</td>
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<tr>
<td>2012</td>
<td>6372.5</td>
<td>-18.8</td>
<td>4.2</td>
<td>13558.7</td>
<td>0.1</td>
<td>5.7</td>
<td>19932.2</td>
<td>-7,167.2</td>
</tr>
<tr>
<td>2013</td>
<td>6718.4</td>
<td>5.4</td>
<td>4.4</td>
<td>13097.1</td>
<td>-3.4</td>
<td>5.2</td>
<td>19815.5</td>
<td>-6,378.7</td>
</tr>
<tr>
<td>2014</td>
<td>7141.1</td>
<td>6.3</td>
<td>4.5</td>
<td>12195.5</td>
<td>-6.9</td>
<td>5.0</td>
<td>19336.5</td>
<td>-5,054.4</td>
</tr>
<tr>
<td>2015</td>
<td>6897.4</td>
<td>-3.6</td>
<td>4.8</td>
<td>10756.9</td>
<td>-11.8</td>
<td>5.2</td>
<td>17844.3</td>
<td>-3,869.5</td>
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<tr>
<td>2016</td>
<td>7580.8</td>
<td>10.1</td>
<td>5.3</td>
<td>10226.9</td>
<td>-4.9</td>
<td>5.2</td>
<td>17807.7</td>
<td>-2,646.1</td>
</tr>
<tr>
<td>2017</td>
<td>8473.5</td>
<td>11.8</td>
<td>5.4</td>
<td>11360.8</td>
<td>11.1</td>
<td>4.9</td>
<td>19834.1</td>
<td>-2,887.2</td>
</tr>
<tr>
<td>2018</td>
<td>9860.6</td>
<td>12.9</td>
<td>5.69</td>
<td>10155.7</td>
<td>-10.2</td>
<td>4.57</td>
<td>19716.3</td>
<td>-605.1</td>
</tr>
<tr>
<td>2019 / (1-10)</td>
<td>7953.9</td>
<td>15.9</td>
<td>5.7</td>
<td>8656.1</td>
<td>-6.2</td>
<td>4.6</td>
<td>16010.0</td>
<td>-702.2</td>
</tr>
<tr>
<td>2019 / (1-10)</td>
<td>7747.3</td>
<td>-2.6</td>
<td>5.5</td>
<td>7971.8</td>
<td>-18.3</td>
<td>4.3</td>
<td>14819.0</td>
<td>675.7</td>
</tr>
</tbody>
</table>

Source: Turkish Statistical Institute (TURKSTAT)
When a detail analysis is done in term of goods and services, it should also need to define the major types products which are used in transaction between the countries. This analysis makes it possible to better understand the size of dependence and requirements in trade one country to another country.

While Table 3 demonstrates which major goods and services Turkey exports to Italy, Turkey’s imports from Italy as a primary good and services are listed in Table 4. Together with thee product labels, those tables provide each goods and services’ harmonized system (HS) code, the total volume of products for three years period including 2016,2017 and 2018. Also, the change between last two years and of course share rate of each product are stated according to 2018 data in both tables.

Automotive sector plays an important role on the exports of Turkey to Italy. Cars, station wagons and race cars are the main types of products exported to Italy. Even if there is a somewhat decrease compared to 2017, the sector maintains its necessity by far with $1.7 billion and around %18 of whole export activities in 2018. Secondly, Steel-iron industry comes as a second which gave a very good performance by %121 increase compared to the previous year. Iron-products are sold at $0.8 billion in total with %8.4 of all exports. Motor vehicles for carrying goods and shelled fruits are coming later with %6.3 and %3.6 in respectively.

On the other hand, petroleum oils and oils obtained from bituminous minerals crude are the major product groups as undertaking a significant role with %6 of all imports of Turkey in 2018. By 2% increment, the total value of the products sold in oil industry is amounted $0.6 billion. Also, automotive aftermarket is effective on the imports from Italy and, parts and accessories for vehicles are transferred from Italy is costed $0.5 billion and takes the share of %5.2. Diesel engines and jewelries are following product types which possess similar shares in import activities with $0.27 billion and $0.26 in respectively.
<table>
<thead>
<tr>
<th>HS Code</th>
<th>Product Label</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2017-2018 Change %</th>
<th>2018 Share %</th>
</tr>
</thead>
<tbody>
<tr>
<td>8703</td>
<td>Cars, station wagons, race cars</td>
<td>1421284</td>
<td>1718744</td>
<td>1708191</td>
<td>-0.6</td>
<td>17.9</td>
</tr>
<tr>
<td>7208</td>
<td>Iron/r steel hot rolled flat products-width 600mm. Masts</td>
<td>146753</td>
<td>361617</td>
<td>801657</td>
<td>121.8</td>
<td>8.4</td>
</tr>
<tr>
<td>8704</td>
<td>Motor vehicles for carrying goods</td>
<td>941428</td>
<td>612022</td>
<td>606158</td>
<td>-1.0</td>
<td>9.3</td>
</tr>
<tr>
<td>8802</td>
<td>Other shells fruits (fresh/dried) (groots/peeled)</td>
<td>477990</td>
<td>388625</td>
<td>347868</td>
<td>-10.5</td>
<td>3.8</td>
</tr>
<tr>
<td>8708</td>
<td>Parts and accessories for land vehicles</td>
<td>269172</td>
<td>284657</td>
<td>303727</td>
<td>6.5</td>
<td>3.2</td>
</tr>
<tr>
<td>8702</td>
<td>Motor vehicles for the transportation of passengers in bulk</td>
<td>119316</td>
<td>147624</td>
<td>207562</td>
<td>40.6</td>
<td>2.2</td>
</tr>
<tr>
<td>8701</td>
<td>Tractors</td>
<td>77754</td>
<td>100389</td>
<td>181862</td>
<td>81.2</td>
<td>1.9</td>
</tr>
<tr>
<td>7413</td>
<td>Copper thin, thick, knitted, etc. Ropes (excluding electricity-isolation)</td>
<td>71090</td>
<td>94604</td>
<td>118070</td>
<td>24.8</td>
<td>1.2</td>
</tr>
<tr>
<td>4011</td>
<td>New rubber tires</td>
<td>104585</td>
<td>102582</td>
<td>111485</td>
<td>8.7</td>
<td>1.2</td>
</tr>
<tr>
<td>5205</td>
<td>Cotton (excluding weaving) thread (weight: &lt;= 85% cotton) (wholesale)</td>
<td>96840</td>
<td>105845</td>
<td>108465</td>
<td>2.5</td>
<td>1.1</td>
</tr>
<tr>
<td>8418</td>
<td>Refrigerators, freezers, coolers, heat pumps</td>
<td>90137</td>
<td>121638</td>
<td>106398</td>
<td>-12.5</td>
<td>1.1</td>
</tr>
<tr>
<td>6109</td>
<td>T-shirt, undershirt, other underwear (knitted)</td>
<td>109977</td>
<td>95247</td>
<td>94442</td>
<td>-0.8</td>
<td>1.0</td>
</tr>
<tr>
<td>6006</td>
<td>Other knitted fabrics</td>
<td>81919</td>
<td>96645</td>
<td>92391</td>
<td>-4.3</td>
<td>1.0</td>
</tr>
<tr>
<td>8459</td>
<td>Washing machines</td>
<td>94353</td>
<td>91129</td>
<td>87265</td>
<td>-4.2</td>
<td>0.9</td>
</tr>
<tr>
<td>6204</td>
<td>Suits, suits, jackets etc. for women / girls.</td>
<td>78341</td>
<td>84537</td>
<td>85254</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>6004</td>
<td>Other knitted fabrics (width&gt; 30cm, elastomeric / rubber thread =&gt;5%)</td>
<td>104143</td>
<td>104607</td>
<td>81957</td>
<td>-21.7</td>
<td>0.9</td>
</tr>
<tr>
<td>8415</td>
<td>Air conditioners-ventilators, heat and humidity changing devices</td>
<td>17922</td>
<td>30165</td>
<td>79090</td>
<td>162.2</td>
<td>0.8</td>
</tr>
<tr>
<td>8528</td>
<td>Television receivers, video monitors and projectors</td>
<td>61394</td>
<td>77183</td>
<td>78337</td>
<td>1.5</td>
<td>0.8</td>
</tr>
<tr>
<td>8409</td>
<td>Parts of internal combustion piston-engines</td>
<td>67251</td>
<td>78961</td>
<td>75195</td>
<td>-4.6</td>
<td>0.8</td>
</tr>
<tr>
<td>2529</td>
<td>Feldspar; eolith; nepheline and syenite nepheline; fluor spar</td>
<td>58416</td>
<td>63213</td>
<td>74316</td>
<td>17.6</td>
<td>0.8</td>
</tr>
<tr>
<td>2719</td>
<td>Petroleum oils and oils from bituminous minerals</td>
<td>19113</td>
<td>14023</td>
<td>73972</td>
<td>427.5</td>
<td>0.8</td>
</tr>
<tr>
<td>6110</td>
<td>Sweaters, sweaters, cardigans, vests, etc. Geoc lins (knitting)</td>
<td>65324</td>
<td>64406</td>
<td>73513</td>
<td>14.1</td>
<td>0.8</td>
</tr>
<tr>
<td>3920</td>
<td>Other sheets, sheets, pellets and slides made of plastic</td>
<td>51543</td>
<td>61814</td>
<td>73468</td>
<td>18.9</td>
<td>0.8</td>
</tr>
<tr>
<td>2836</td>
<td>Carbonate; peroxycarbonate; commercial ammonium carbonate containing ammonium carbonate</td>
<td>50234</td>
<td>58809</td>
<td>71983</td>
<td>22.4</td>
<td>0.8</td>
</tr>
<tr>
<td>7403</td>
<td>Treated copper, unprocessed copper alloys</td>
<td>24701</td>
<td>28070</td>
<td>71210</td>
<td>183.7</td>
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<tr>
<td>8544</td>
<td>Insulated wire, cable, other insulated electrical conductors; fiber optic k</td>
<td>96748</td>
<td>63805</td>
<td>69147</td>
<td>8.4</td>
<td>0.7</td>
</tr>
<tr>
<td>6302</td>
<td>Bed sheets, tablecloths, table, kitchen clothes</td>
<td>72551</td>
<td>66449</td>
<td>65363</td>
<td>-1.6</td>
<td>0.7</td>
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<tr>
<td>7219</td>
<td>Flat rolled product made of stainless steel (larger than 600mm)</td>
<td>12428</td>
<td>44905</td>
<td>64958</td>
<td>44.7</td>
<td>0.7</td>
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<tr>
<td>8516</td>
<td>Electric water heaters, calorierheinic devices (water heaters)</td>
<td>41614</td>
<td>47312</td>
<td>58846</td>
<td>24.4</td>
<td>0.6</td>
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<tr>
<td>5509</td>
<td>Yarns from synthetic staple fiber (excluding shell) (wholesale)</td>
<td>39555</td>
<td>52516</td>
<td>58177</td>
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<td>0.6</td>
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<tr>
<td>6005</td>
<td>Other warp knitted fabrics</td>
<td>64015</td>
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<td>54354</td>
<td>-5.6</td>
<td>0.6</td>
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<tr>
<td>7213</td>
<td>Iron / steel wire red (hot rolled, in rolls)</td>
<td>8288</td>
<td>33576</td>
<td>53711</td>
<td>60.0</td>
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<tr>
<td>7408</td>
<td>Copper wires</td>
<td>39635</td>
<td>51446</td>
<td>53016</td>
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<td>0.6</td>
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<tr>
<td>5209</td>
<td>Cotton man (woven 85% cotton over 200g/m²)</td>
<td>83611</td>
<td>57329</td>
<td>52521</td>
<td>-8.4</td>
<td>0.5</td>
</tr>
<tr>
<td>9302</td>
<td>Fish (fresh / chilled)</td>
<td>99029</td>
<td>57435</td>
<td>52430</td>
<td>-9.7</td>
<td>0.5</td>
</tr>
<tr>
<td>7607</td>
<td>Leaves and strips of aluminum-thickness&lt;0.2mm</td>
<td>32453</td>
<td>37862</td>
<td>49167</td>
<td>30.1</td>
<td>0.5</td>
</tr>
<tr>
<td>7209</td>
<td>Iron / steel flat product, cold rolled coated (wider than 600mm)</td>
<td>75044</td>
<td>66446</td>
<td>45725</td>
<td>70.6995</td>
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<tr>
<td>8451</td>
<td>Washing machines, drying machines, ironing machines and devices</td>
<td>23370</td>
<td>30125</td>
<td>46531</td>
<td>54.5</td>
<td>0.5</td>
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<tr>
<td>8403</td>
<td>Central heating boilers other than steam boilers</td>
<td>26628</td>
<td>34243</td>
<td>46461</td>
<td>35.7</td>
<td>0.5</td>
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<tr>
<td>7306</td>
<td>Other tubes, pipes, hollow profiles of iron / steel</td>
<td>24249</td>
<td>37882</td>
<td>45748</td>
<td>20.8</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: Turkish Statistical Institute (TURKSTAT)
Table 4: Turkey’s Imports from Italy Major Products

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Product Label</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2017-2018 Change %</th>
<th>2018 Share %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2710</td>
<td>Petroleum oils and oils from bituminous minerals</td>
<td>365760</td>
<td>600192</td>
<td>612943</td>
<td>2.0</td>
<td>9.9</td>
</tr>
<tr>
<td>8708</td>
<td>Parts and accessoires for land vehicles</td>
<td>578880</td>
<td>605777</td>
<td>524896</td>
<td>-13.4</td>
<td>5.2</td>
</tr>
<tr>
<td>8409</td>
<td>Diesel, semi-diesel engines (air pressure ignition piston)</td>
<td>316809</td>
<td>317304</td>
<td>270341</td>
<td>-14.8</td>
<td>2.7</td>
</tr>
<tr>
<td>7113</td>
<td>Jewellery made of precious metals and coatings</td>
<td>200327</td>
<td>254401</td>
<td>261440</td>
<td>2.8</td>
<td>2.8</td>
</tr>
<tr>
<td>8803</td>
<td>Balloon, air ship, glider etc. Parts and parts of other aircraft</td>
<td>101962</td>
<td>195245</td>
<td>230257</td>
<td>17.9</td>
<td>2.3</td>
</tr>
<tr>
<td>3004</td>
<td>Medicines prepared for use in treatment / prevention disorders</td>
<td>212518</td>
<td>213097</td>
<td>223524</td>
<td>4.9</td>
<td>2.2</td>
</tr>
<tr>
<td>8461</td>
<td>Plumbers, pipe fitting pressure reducer, including thermostatic valve</td>
<td>248792</td>
<td>257459</td>
<td>206336</td>
<td>-19.9</td>
<td>2.0</td>
</tr>
<tr>
<td>8479</td>
<td>Unique function machines and devices</td>
<td>217924</td>
<td>173677</td>
<td>183868</td>
<td>5.9</td>
<td>1.8</td>
</tr>
<tr>
<td>8903</td>
<td>Yachts, other recreational and sports boats, rowing boat, canoe</td>
<td>1462</td>
<td>491054</td>
<td>174968</td>
<td>-94.4</td>
<td>1.7</td>
</tr>
<tr>
<td>8422</td>
<td>Washing, cleaning, drying, filling etc. Machine device for jobs</td>
<td>179472</td>
<td>197080</td>
<td>167572</td>
<td>-15.4</td>
<td>1.6</td>
</tr>
<tr>
<td>8407</td>
<td>Atmospheric-pulse ignition internal combustion engines</td>
<td>99969</td>
<td>130553</td>
<td>153086</td>
<td>17.3</td>
<td>1.5</td>
</tr>
<tr>
<td>8419</td>
<td>Devices for processing substances with the heat exchange method</td>
<td>168965</td>
<td>122950</td>
<td>109975</td>
<td>-10.6</td>
<td>1.1</td>
</tr>
<tr>
<td>8413</td>
<td>Pumps for liquid, liquid-liquid separators</td>
<td>105147</td>
<td>112724</td>
<td>109099</td>
<td>-3.2</td>
<td>1.1</td>
</tr>
<tr>
<td>6704</td>
<td>Motor vehicles for carrying goods</td>
<td>219730</td>
<td>193733</td>
<td>91387</td>
<td>-52.8</td>
<td>0.9</td>
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<tr>
<td>3901</td>
<td>Polyethylene polymers (in the first forms)</td>
<td>76522</td>
<td>91329</td>
<td>90376</td>
<td>-1.0</td>
<td>0.9</td>
</tr>
<tr>
<td>8536</td>
<td>Electrical circuit equipment whose voltage does not exceed 1000 volts</td>
<td>105942</td>
<td>111636</td>
<td>69692</td>
<td>-19.7</td>
<td>0.9</td>
</tr>
<tr>
<td>8483</td>
<td>Transmission shafts, cranks, bearing housings, gears, impellers</td>
<td>83749</td>
<td>87485</td>
<td>88511</td>
<td>1.2</td>
<td>0.9</td>
</tr>
<tr>
<td>8474</td>
<td>Solder, solder paste etc. Sorting, sieving etc. Machines for</td>
<td>67460</td>
<td>74189</td>
<td>86896</td>
<td>16.7</td>
<td>0.9</td>
</tr>
<tr>
<td>3007</td>
<td>Polymethylacetal, other polyethylen, epossyclycoxy resins etc. (first step)</td>
<td>82821</td>
<td>90907</td>
<td>81114</td>
<td>-10.8</td>
<td>0.8</td>
</tr>
<tr>
<td>3909</td>
<td>Amine resins, phenolic resins, polurethane etc. (initial form)</td>
<td>68922</td>
<td>73819</td>
<td>80987</td>
<td>9.7</td>
<td>0.8</td>
</tr>
<tr>
<td>3920</td>
<td>Other sheets, sheets, pellets and slides made of plastic</td>
<td>75574</td>
<td>90111</td>
<td>77775</td>
<td>-13.7</td>
<td>0.8</td>
</tr>
<tr>
<td>8477</td>
<td>Rubber and plastic goods manufacturing and processing machinery and devices</td>
<td>107718</td>
<td>89467</td>
<td>76425</td>
<td>-14.8</td>
<td>0.8</td>
</tr>
<tr>
<td>3902</td>
<td>Polymers of propylene and other olefins (in the first forms)</td>
<td>72331</td>
<td>79257</td>
<td>75939</td>
<td>-4.2</td>
<td>0.7</td>
</tr>
<tr>
<td>7219</td>
<td>Flat rolled product made of stainless steel (larger than 600mm)</td>
<td>46978</td>
<td>54455</td>
<td>72463</td>
<td>33.1</td>
<td>0.7</td>
</tr>
<tr>
<td>8469</td>
<td>Shear, lever, sole, rubber, plastic, natural, artificial leather etc.</td>
<td>75939</td>
<td>73192</td>
<td>72042</td>
<td>-1.6</td>
<td>0.7</td>
</tr>
<tr>
<td>8421</td>
<td>Cambric, chintz, plain, filling, purification devices</td>
<td>69326</td>
<td>68888</td>
<td>72006</td>
<td>4.6</td>
<td>0.7</td>
</tr>
<tr>
<td>7398</td>
<td>Other tubes, pipes, hollow profiles of iron / steel</td>
<td>62763</td>
<td>73417</td>
<td>66322</td>
<td>8.9</td>
<td>0.7</td>
</tr>
<tr>
<td>8501</td>
<td>Electric motors, generators</td>
<td>83871</td>
<td>82359</td>
<td>67810</td>
<td>-17.7</td>
<td>0.7</td>
</tr>
<tr>
<td>8414</td>
<td>Air-vacuum pump, air / gas compressor, fan, refrigerators</td>
<td>91827</td>
<td>93814</td>
<td>67294</td>
<td>-28.3</td>
<td>0.7</td>
</tr>
<tr>
<td>8445</td>
<td>Machines that prepare the fibres, produce and prepare yarn</td>
<td>41016</td>
<td>45942</td>
<td>66831</td>
<td>45.5</td>
<td>0.7</td>
</tr>
<tr>
<td>8428</td>
<td>Lifting, stacking, loading, unloading machines and devices</td>
<td>72145</td>
<td>75259</td>
<td>69985</td>
<td>-12.3</td>
<td>0.8</td>
</tr>
<tr>
<td>3824</td>
<td>Chemical products used in chemistry and related industry</td>
<td>57470</td>
<td>69044</td>
<td>63039</td>
<td>-9.7</td>
<td>0.6</td>
</tr>
<tr>
<td>3402</td>
<td>Washing, cleaning preparations, except soaps</td>
<td>49619</td>
<td>59845</td>
<td>62349</td>
<td>4.2</td>
<td>0.6</td>
</tr>
<tr>
<td>8447</td>
<td>Knitting looms, guipure, tuile, lace, netting, machine, devices</td>
<td>27221</td>
<td>51012</td>
<td>61850</td>
<td>21.2</td>
<td>0.6</td>
</tr>
<tr>
<td>3308</td>
<td>Synthetic polymers based; dissolving / dispersing in anhydrous environment, paint and varnish</td>
<td>55570</td>
<td>63646</td>
<td>61303</td>
<td>-3.7</td>
<td>0.6</td>
</tr>
<tr>
<td>7210</td>
<td>Iron / steel flat product, coated, plated (500mm. Wider than)</td>
<td>120968</td>
<td>54537</td>
<td>61192</td>
<td>-35.3</td>
<td>0.6</td>
</tr>
<tr>
<td>2106</td>
<td>Food preparations not elsewhere in the tariff</td>
<td>54961</td>
<td>61349</td>
<td>59325</td>
<td>-3.3</td>
<td>0.6</td>
</tr>
<tr>
<td>5112</td>
<td>Woolen of cotton wool and fine animal hair</td>
<td>52361</td>
<td>54039</td>
<td>58581</td>
<td>9.1</td>
<td>0.6</td>
</tr>
<tr>
<td>3002</td>
<td>Human and animal blood, serum, vaccine, toxin, etc. Products</td>
<td>45309</td>
<td>51371</td>
<td>67886</td>
<td>12.7</td>
<td>0.6</td>
</tr>
<tr>
<td>8462</td>
<td>Metal forging, processing, cutting, foil pressers, machines</td>
<td>41821</td>
<td>37772</td>
<td>57687</td>
<td>52.7</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Source: Turkish Statistical Institute (TURKSTAT)
5.3 Foreign Direct Investment

After defining a bilateral connection in term of trade between Turkey and Italy, another strong tie exists also in foreign direct investment. As a reason of suitable economic environment in both countries, let them make an investment amongst themselves.

Demographic vitality and geographical locations are main pros of Turkey in order to doing business. The country has a developing young middleclass population with increased purchasing power and orientation towards consumption. Geographical position allows it to be a regional hub between Europe, Asia and Middle East and North Africa.

Together with high industry power, Italy has skilled workforce which possess technical knowledge and experience in high quality production and tourism. Also, Italy is one of the centers in terms of making globally trade fairs and thus there is suitable environment to attract a lot of buyers or customers all around the world.

Moreover, lucrative incentives attract the companies to have a business outside. Firms can able to create a large volume of income or return in this way. Also, governments act an important role in terms of doing business outside.

The Turkish Government has played a large role in initiatives to make the country a more attractive destination for foreign investment and business operations. Turkey’s movement towards the European Union, in particular, has helped establish and further momentum to embrace European business regulations and standards. The new Turkish Commercial Code encompassed significant reforms to create a more transparent, equal and modern environment for investment/business. Moreover, the Government has taken the lead on industrial promotion and investment financing through the BOT model (build, operate, transfer).

On the other hand, the Italian Government supports FDI via tax credits, including 25% for private investments in R&D (50% for projects with universities or research institutions) and 15% for investments in machinery and capital goods. Further public support is granted to new investments in manufacturing and R&D, especially in southern regions.
According to the World Investment Report 2019 of UNCTAD, volume of foreign direct investments increased in both Turkey and Italy. While FDI inflows in Italy stood at USD 24.3 billion in 2018, up from USD 22 billion in 2017, FDI inflows in Turkey reached USD 12.94 billion in 2018, edging up from USD 11.48 billion in 2017. Line graph demonstrates the change of the FDI inflows both in Turkey and in Italy according to the years from 1998 to 2018.

**Figure 26: Foreign Direct Investment Flows in Turkey and Italy 1998-2018**

![Line graph demonstrating the change of the FDI inflows both in Turkey and in Italy according to the years from 1998 to 2018.](image)

*Source: United Nations Conference on Trade and Development (UNCTAD)*

Moreover, Turkey received $6.5 billion worth of foreign direct investments in 2018 and Turkish central bank figures showed that a $381 million rise in investments made Italy the country with the fastest increase in capital inflows to Turkey, Anadolu Agency reported. Italian investment in Turkey rose to $509 million in 2018 from $128 million the previous year. Thus, Italy ranks as 3rd country with %8.5 share.

According to Central Bank of The Republic of Turkey, Turkey performed $6 billion worth of overseas investment in 2018 and Italy ranks 9th among the host countries $32 million and %0.8 share.
While over 1500 Italian firms actively continues one’s operations in various sectors and industries today, the total number of Turkish firms in Italy surpassed 200 in 2019. Italian investors focus in energy, automotive, confectionery, pasta, chemistry and medicine sectors in Turkey while Turkish investors are mainly interested in logistics and ports, real estate and production industries in Italy.

5.4 Immigration

Turkey signed a number of legal agreements with some European countries such as Germany, France, Austria, Belgium, The Netherlands between 1950-1970s. However, there was not any agreement made with Italy on those years. Thus, the immigration process from Turkey to Italy began as late as the early of 1980s in a consequence of the economic crises in those western European countries. After those economic crises, the immigrants preferred to stay in Europe by moving to Italy instead of going back to Turkey. For the period of 1990, Italy become a temporary place for human trafficking as an important route. Those people were abandoning illegally at the initial times and the country became legalized after a while. In addition, there is not low immigrant population for both ethnics; Turks and Kurds who made asylum application (Erdogan, 2009).

Nowadays, the way of immigration from Turkey to Italy is partly changed. Labor migration is substituted by brain drain which refers to migration of skilled persons from developing countries to developed countries. Also, the aim of seeking a higher standard living and existence of more favorable professional opportunities outside result in applying for a brain drain. While people moved mostly as a refugee and low skilled labor in the past from Turkey to Italy, that immigration occurs by higher skilled labors, professionals, and students. Since Italy is a developed country which enables favorable conditions to live and work, it attracts Turkish people to immigrate to Italy.

In Italy, which are formed by 21 states, migrants from Turkey mostly reside in the northern regions and regions which close to the capital city, Roma. Among the reasons of this is the deportations during trying to reach Germany and other western European countries and the prospect of returning to those countries, economically the northern regions of Italy are more convenient in order to find a job opportunity.
There are four immigration types for Turkish residents in Italy;

- Refugees
- Economic migrants
- Those who are married with Italians
- Students who settle down in Italy after the educational process

The first two and the last two groups are correlated with each other. As an ethnic structure, Kurdish people are in the first two groups and they are mostly among the refugees. Economic immigration occurs generally by a way of solidarity between previous immigrants and their relatives or acquaintances. Those are low level educated and families with more than one kid. Third group refers to high level educated immigrants, predominantly women and marriage with Italians which come to Turkey as an individual. Last group consists of students which move to Italy for educational aims by a way of exchange programs, bachelor or master level education etc. After the end of education, they settle in Italy by founding a job opportunity or getting married with someone. They do not have any cultural integration problems unlikely the first two groups as a reason of the closeness of their lifestyles to Italian culture.

According to Italian National Institute of Statistics (ISTAT), the table 5 shows how total population of Turkish immigrants has changed for 8 years period which contains between 2011 and 2018. Also, the figures for each year are specified by gender. The population of Turkish citizens in Italy is considerably smaller for the first two years period of the analysis, the numbers by gender are around 9 thousand males and about 7 thousand females in those years. While total size of population of Turkish residents are equal to 16354 and 17711 in 2011 and 2012 respectively, the increase is observed afterwards for both genders and of course whole population of Turkish immigrants. Especially in 2013, the total population is accounted almost 20 thousand by increasing more than 2 thousand persons from the previous year. After that year, there is no big change in the figures of genders and the total population of Turkish residents in Italy. While the total number of the population is accounted more or less 19 thousand persons on those years, this figure is attributed to men and women as 11 thousand and 8 thousand in respectively. In general, males are always significantly higher than females during the 8 years period and a steady population is observed at least last years. However, those figures can be positively
changed by the economic and political relations between Italy and Turkey in the further years. Since Italy offers favorable conditions such as various job opportunities, good quality educational programs and high standards of living to their immigrants, more Turkish citizens may prefer to immigrate to Italy in the future.

Table 5: Turkish Residents Population in Italy

<table>
<thead>
<tr>
<th>Years</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>11172</td>
<td>8544</td>
<td>19716</td>
</tr>
<tr>
<td>2017</td>
<td>11159</td>
<td>8350</td>
<td>19509</td>
</tr>
<tr>
<td>2016</td>
<td>11026</td>
<td>8191</td>
<td>19217</td>
</tr>
<tr>
<td>2015</td>
<td>11165</td>
<td>8223</td>
<td>19388</td>
</tr>
<tr>
<td>2014</td>
<td>11304</td>
<td>8478</td>
<td>19782</td>
</tr>
<tr>
<td>2013</td>
<td>11414</td>
<td>8537</td>
<td>19951</td>
</tr>
<tr>
<td>2012</td>
<td>9869</td>
<td>7842</td>
<td>17711</td>
</tr>
<tr>
<td>2011</td>
<td>9144</td>
<td>7210</td>
<td>16354</td>
</tr>
</tbody>
</table>

Source: Italian National Institute of Statistics (ISTAT)

5.5 Turkey-Italy Bilateral Projects and Investments

Turkey and Italy have been running various kind of projects and investments which make a contribution to diplomatic and economic relations in recent years. While the cooperation mainly based on automotive, defense and infrastructure industries, the trends for tourism and agriculture sector are increasing significantly as well. Large companies from Italian manufacturing industry including Fiat, Barilla, Ferrero actively carry out their business activities with their own production facilities. On the other hand, Yavuz Sultan Selim Bridge and TOGG Turkish national car are just a few of the projects which were performed by the bilateral relationship.

In regard automotive industry, FIAT Chrysler Automobiles which is one of leader companies in the market purchased shares %37.8 shares of the Turkish automotive company, TOFAS. While both manufacturer companies own same size of shares, the rest of pie which amounts %24.3 belongs to free float. Moreover, the corporation is one of two R&D centers of FIAT in Europe. The company which is the 6th largest industrial enterprise in Turkey has a production capacity of 400 thousand vehicles per year and 9,481 employees. While FIAT ranked 2nd in 2018 with 70058 car sales in total, it has
taken 1st position in 2019 with 57161 passenger cars sales and 19090 light commercial vehicles sales even if the automotive industry entered into the recession period in 2019. Fiat also increased its shares from %11.3 to %15.9 percent in just one year.

The Ferrero Group, one of the market leaders of the confectionery industry, continues to strengthen its presence in the hazelnut market in order to guarantee and further improve the quality of a leading raw material. Ferrero Turkey was founded in 1999 as part of Ferrero group in order to meet their a leading brands such as Nutella, Kinder Surprise, Ferrero Rocher with Turkish consumers. Ferrero is as one of the most important buyers of Turkish hazelnut, accelerated its investment in Turkey. First, the group established Manisa factory in 2013 and made the factory one of the most important production facilities in the group. Afterwards, the company acquired Oltan Gıda which is the worldwide leading operator in the procurement, processing and marketing of hazelnuts, with an annual turnover above $500 million. The groups’ major brands are produced and exported to 100 countries as well as the domestic market. Ferrero has a total of 7 production facilities in Turkey and 6 of them are hazelnut factories.

Unicredit S.p.A, global banking and financial services company, is coming the one the largest companies in terms of market share in eastern and western Europe. Also, the company has been running commercial banking operation in Turkey since 2002. Yapi ve Kredi Bankasi A.S (YKB) which is the 4th largest publicly owned bank in terms of asset size in Turkey were acquired by joint venture between Unicredit and Koc Holding. However, the shareholder agreement has been run until 2019 and both sides made an agreement to terminate the bilateral relationship. Unicredit sold its whole shares in Koc Financial Services to the Koc Holding and reduced its stake from %40.9 to %31.9 in YKB in regard to simplify shareholder structure. Even if Unicredit recently reduced its facilities in the Turkish banking and financial services sector, the company has feature of the first foreign company which accessed to banking sector in Turkey.

In regard the recent joint projects, third bosphorus Bridge which is named Yavuz Sultan Selim Bridge was opened to traffic in 2016 after the three years of construction period. The bridge is the third tallest bridge and one of the widest suspension bridges in the world. Even if there were already two bridges in Istanbul which connects two continents, Asia and Europe, there was needed to construct new bridge as a reason of
traffic problem in Istanbul. Plans for third bosphorus bridge were approved by the Ministry of Transportation of Turkey and the construction of the project was awarded to the consortium between the Turkish company Ictas and the Italian company Astaldi on 29 May 2012. The construction was originally expected to be completed in 36 months with the opening date scheduled for the end of 2015, but it could be completed on 26 Aug 2016 due to disruptions. The construction of project costed TRY 4.5 billion which was approximately USD 2.5 billion as of March 2013. However, Bloomberg reported that Astaldi was poised to sell its stake in the flagship Yavuz Sultan Selim Bridge project for $467 million due to Turkish currency and debt crisis in 2018. The company made an application to Turkish competition authority in order to sell its stake.

On the other hand, Turkey are planning to produce its own national automobile which is named TOGG in further years. In this sense, the adequate actions have been carried out with Pininfarina S.p.A which is Italian car designer company for design process of the electrical car. Due to the design process plays an important role on the attractiveness of vehicle, Turkey received a support from the Italian worldwide designer. The design was done by Pininfarina based on TOGG requirements and the domestic car was unveiled as a prototype in 2019. The first Turkey’s domestic car will be manufactured Turkey’s Automobile Joint Venture Group and later on factory will be opened in 2021. The first vehicles are scheduled to roll off the production line a year later. The plant will be capable of manufacturing 175,000 vehicles per year, and Euronews reports that Turkey hopes to produce five different models within 15 years that’s why the collaboration with Pininfarina can be sustained in the next years due to expand the product range.
CONCLUSION

Turkish economy is one of the world’s fast-growing economies and it is placed in top 20 economies in terms of nominal GDP and GDP-PPP value. The economy was able to recover even if the country has already been encountered a number of crises and some policy issues with its neighborhoods for thirty years. As a result of the negative events, inflation and unemployment were considerably influenced. Turkey still endeavors to solve those macroeconomic problems at the present time. As a developing country, Turkey, possess the positive and negative sides. While a geostrategic position, an adequate business environment and a young-growing population can be accounted as the strengths of Turkey, the country suffer from political instability, wars and conflicts, and some economical metrics including high current account deficit together with high inflation and unemployment rate.

Turkish Economy fell into the recession periods as a result of the crises which occurred in 1994, 2001, 2008 and 2018. While the wrong policies of the Turkish government, the wars, the conflicts around the country resulted into those economic crises, Turkey could not economically go ahead for a while. During that periods, Turkey’s current account recorded a lot more deficit and the state turned into a country which is economically dependent to the outside. Additionally, there was also some negative effects on the economic relations between Italy and Turkey. The trade volume decreased at the following year after the crises and, a few Italian companies had to exit from the Turkish market or reduce their investments considering the course of events. For instance, Astaldi which is one the construction firms of the third Bosphorus Bridge sold its whole share after the currency and debt crisis and Unicredit S.p.A which has a half ownership of Yapi Kredi Bank (YKB) took a decision to reduce its stake in 2019.

In regard of economic relations between Turkey and Italy, the three issues which are the trade facilities, foreign direct investment and the population of immigration were analyzed by carrying out the adequate studies. Both of the countries’ statistical institutions was applied in order to acquire the official statistical metrics and the reliable information.
According those official data, export and import facilities has been becoming more significant in recent years. In line with both of countries’ requirements over goods and services, foreign trade volume is expanded by the contribution of the two states. Also, foreign direct investment is another positive determinant on the economic relations. Turkey is regarded as a convenient place in order make an investment for Italian firms even if some of the companies has made an exit decision in previous years, Turkish companies also adopt to Italian market by actualizing more investments than before. While the number of Italian companies passed over 1500, Turkish companies in Italy was accounted approximately 200 according to the statistics of previous year. On the other hand, the immigration between the counties has never been an important issue since the past. In this regard, the differences between languages spoken in those countries and the cultural adherence of both of the nations can be counted as a reason. In my opinion, the number of immigrants from Turkey to Italy will increase considering the students, employees and entrepreneurs. Since Italy serves a number of job opportunities and various educational facilities for foreign people, Turkish citizens who are expecting to move to foreign country can prefer to immigrate to Italy as well in the coming years.

In sum, the bilateral economic relations are expanding under favor of the reciprocative trade facilities and investments and both of countries’ governments strive to actualize those economic actions on the different kind of industrial sectors by implementing new agreements and reforms.
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