CSCMP Global Perspectives

Turkey

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Executive Summary

With the 16th largest economy in the world, Turkey is among the world's fastest developing countries due to a Gross Domestic Product (GDP) growth of 11% in the first quarter of 2011. The CIA World Factbook classifies Turkey as a developed country, while the IMF and World Bank classify Turkey as an emerging market and others classify the country as a growth market. Istanbul, Turkey's financial center, is host to 28 billionaires and is ranked the 4th worldwide, after New York, London and Moscow. The Economist predicts that “over the next seven years Turkey’s growth will match or exceed that of any other big country except China and India”.

Turkey is the third populous country in Europe behind Russia and Germany. It is also strategically located among developed European countries, energy rich Russia and surrounding areas, and developing Middle Eastern countries. This crossroad location has allowed Turkey to play the role of a trade and culture bridge. In addition, Turkey has become a competitive manufacturer, with manufacturing now comprising 17% of GDP. Other significant sectors are transportation and trade.

Many multinational companies run extensive operations from Turkey. Manufacturing plants are typically co-owned with local Turkish companies in the form of a joint venture. Many of these joint ventures were established several decades ago to cater to the domestic (Turkish) market. During the past few decades, these plants have adopted the latest technologies and become sources of manufactured goods for export. These changes have helped to pull Turkish annual exports above the $100 billion mark, which although not an impressive number in itself in view of Turkey's size, is noteworthy within the current global financial environment.

By many measures, Turkey is still a developing country going through industrialization and urbanization. The population is young with a median age of approximately 30, but is fairly well-educated. Despite having the competitive advantages necessary for rapid economic development, Turkey had lacked necessary regulations to stimulate privatization, investment, foreign trade, and banking), as well as much-needed macro-economic and political stability. After the implementation of sound policies beginning in the 1980s, domestic institutions and country conditions began to steadily improve, eventually leading to recent economic successes.

Among the domestic conditions that have significantly improved are expanded and modernized infrastructure. A significant portion of the Turkish budget has been allocated to airports, seaports, toll-ways, high-speed trains, power plants, and telecommunication network. In order to speed up these projects, Turkey is eagerly looking for collaboration from domestic and foreign private investors. Experienced Turkish construction companies are successfully completing infrastructure projects in Turkey and throughout the region. Once completed, these major infrastructure projects will accommodate fast and convenient flow of people and goods in Eurasia and beyond.

Logistics activities (transport, storage, and communication) constituted 15% of Turkey's GDP in 2010. Roughly one-third of the logistics market belongs to Turkish third party logistics (3PL) firms. Many of these firms are mature as they have been operational for at least a decade and, therefore, have honed their customer service practices. Due to a combination of this expertise and recessionary pressure, 3PL customers currently tend to ask for lower logistic costs over a variety of services. From 2009 to 2010, the revenues for logistics firms on Capital 500 list have increased more than the average. This revenue increase, coupled with Turkish economic growth, can help further increase the size of the domestic logistics market and make 3PLs more competitive via economies of scale.
The Turkish economy has challenges. Although it proved to be resilient by recovering from the 2008 global financial crisis and surpassing its 2008 activity levels, exports have not grown as fast as imports. This trade imbalance has created a higher trade deficit than what is healthy for growing economies. The deficit could potentially expand due to the financial crisis’ impact on European trading partners, unless other more viable partners can be found soon. Domestic demand can also contract if a liquidity crisis occurs in the global capital markets, and if Turkish banks significantly cut consumer credits. Turkey imports a significant portion of its energy. A drastic increase in energy prices can easily render Turkish goods too expensive to compete in global markets. The Turkish judiciary system has failed to keep up with economic developments, and can risk dropping further behind due to sluggish processes. Barring these concerns, as an EU candidate and member of OECD, NATO, IMF, and the Council of Europe for over half a century, Turkey has the will, infrastructure, capital (human, monetary, and social), reasonable institutions and regulations required for furthering its economic growth.