

WORKING DRAFT

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A Diagnostic Overview of Turkish Exports to the United States

TAİK Board Presentation

Ankara, December 3 2009


Executive summary (1/2)

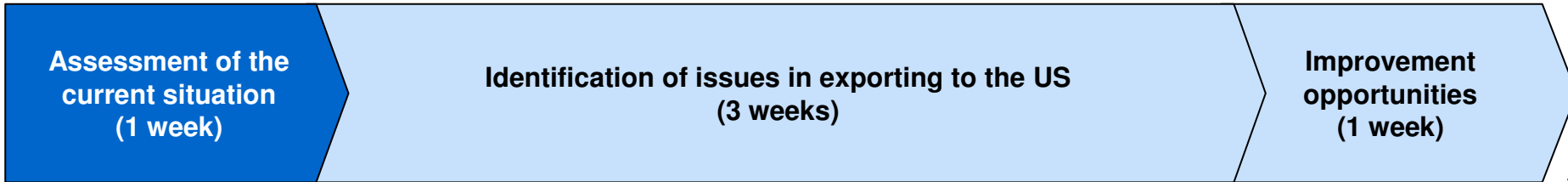
- During 2000-2008 period, **Turkish exports to the United States has grown at a compounded annual growth rate (CAGR) of 4% while Turkish overall exports has grown at 21.5% CAGR.** Share of US exports in the overall Turkish exports has decreased from 11.3% in 2000 down to 3.3% in 2008.
 - During the same period, the US import market has grown at 7% and Turkey's share in this market has decreased from 0.26% down to 0.20%
 - While several product segments such as automotive, iron and steel have captured a larger share of the US import market, sectors such as textile have lost significant market share leading to an overall decline in the market share
- Discussions with Turkish exporters have yielded a consistent theme of regional market preference (e.g., EU, Middle East) over the US. **The US market is deemed to be disadvantaged for 3 primary reasons:**
 - **Limited value proposition/product portfolio mismatch:** Turkey's main export categories are labor intensive (e.g., textiles) and capital intensive (e.g., iron & steel, automotive) whereas US import categories are raw material intensive (e.g., petroleum products) and research intensive (e.g., machinery)
 - **Logistics/currency disadvantages:** Turkish exports to the US suffer from disadvantaged logistics compared to i) Turkish exports to regional markets and, ii) some other countries competing in the US import market (e.g., China and Italy). Depreciation of the Dollar vs. the Euro also made US market less lucrative than the European market
 - **Unfavorable factors in the US market**
 - US consumers demand high quality, customized products at low cost
 - The US retail market operates on low margins, high volumes and subsequently has a high degree of bargaining power

Executive summary (2/2)

- The US is an important market for Turkish exporters as it represents the largest import market in the world. Therefore, **the following four topics should be investigated in further detail to develop mitigate some of the competitive disadvantages aforementioned in order to boost exports to the US:**
 - Short term:
 - **Trade barriers and agreements:** Turkey can gain a competitive advantage over other exporting countries by establishing and/or expanding/extending scope of trade agreements (e.g., GSP, QIZ)
 - **Efficiency and flexibility of the supply chain:** Establishing trade organization and logistics infrastructure in the US will help Turkish exporters to receive critical trade information and better manage supply chain
 - Medium term:
 - **Value proposition:** While Turkey has historically had a labor cost advantage, this has eroded due to competition from other developing countries (e.g., China, India). Turkey should review its product portfolio and identify products (e.g., research intensive, domestic raw material advantaged industries) for which there is a strong demand from the US and she could have a competitive edge over other exporting countries
 - **Corporations developing investment/marketing strategies with an objective to export to the US,** e.g., US and local companies invest in Turkey to produce products demanded by the US market, building brand equity

Phases and timeline of the 5 week study

 Detailed in the following section

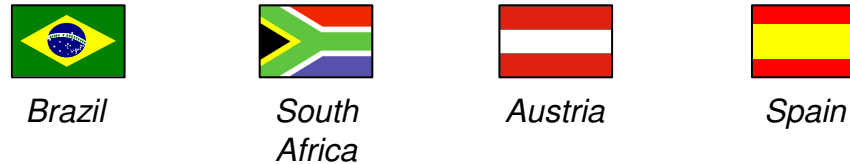


- Analysis of US import and Turkish export trends by category
- Analysis of logistics as a factor in the US import market
- Analysis of US trade barriers

- Exporter interviews, detailed analyses



- Case analysis of selected successful countries



- Expert interviews
 - US retail, iron and steel, logistics experts
 - TİM (Turkish Exporters' Assembly)

- Finding opportunities to increase exports by analyzing steps taken by countries that have successfully increased their export volume to the US

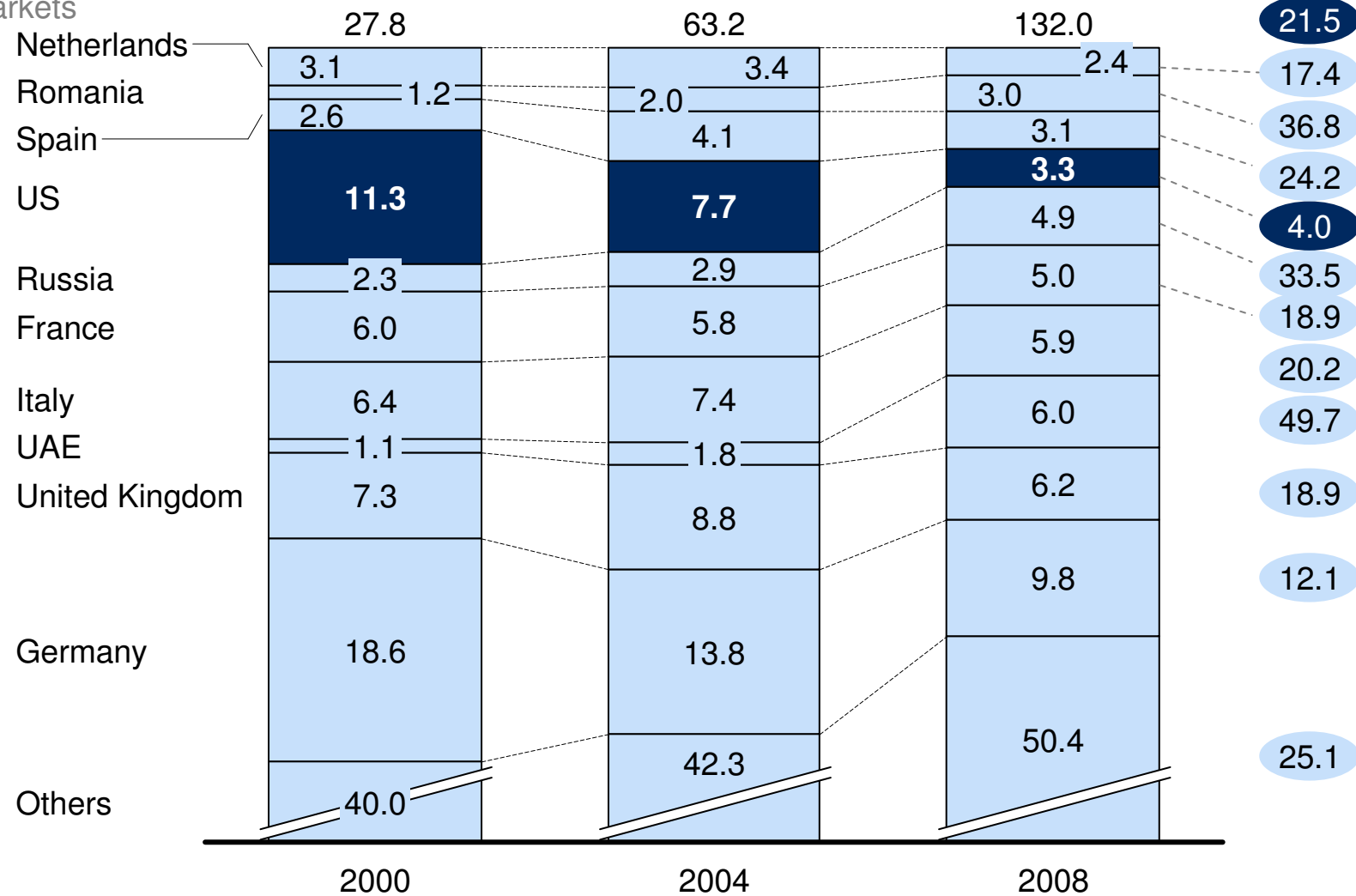
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From 2000 to 2008 total Turkish exports grew at a rate of 21.5% while exports to US only grew at 4.0%

USD billion, percent, 10 largest export markets

CAGR (2000-2008)
Percent



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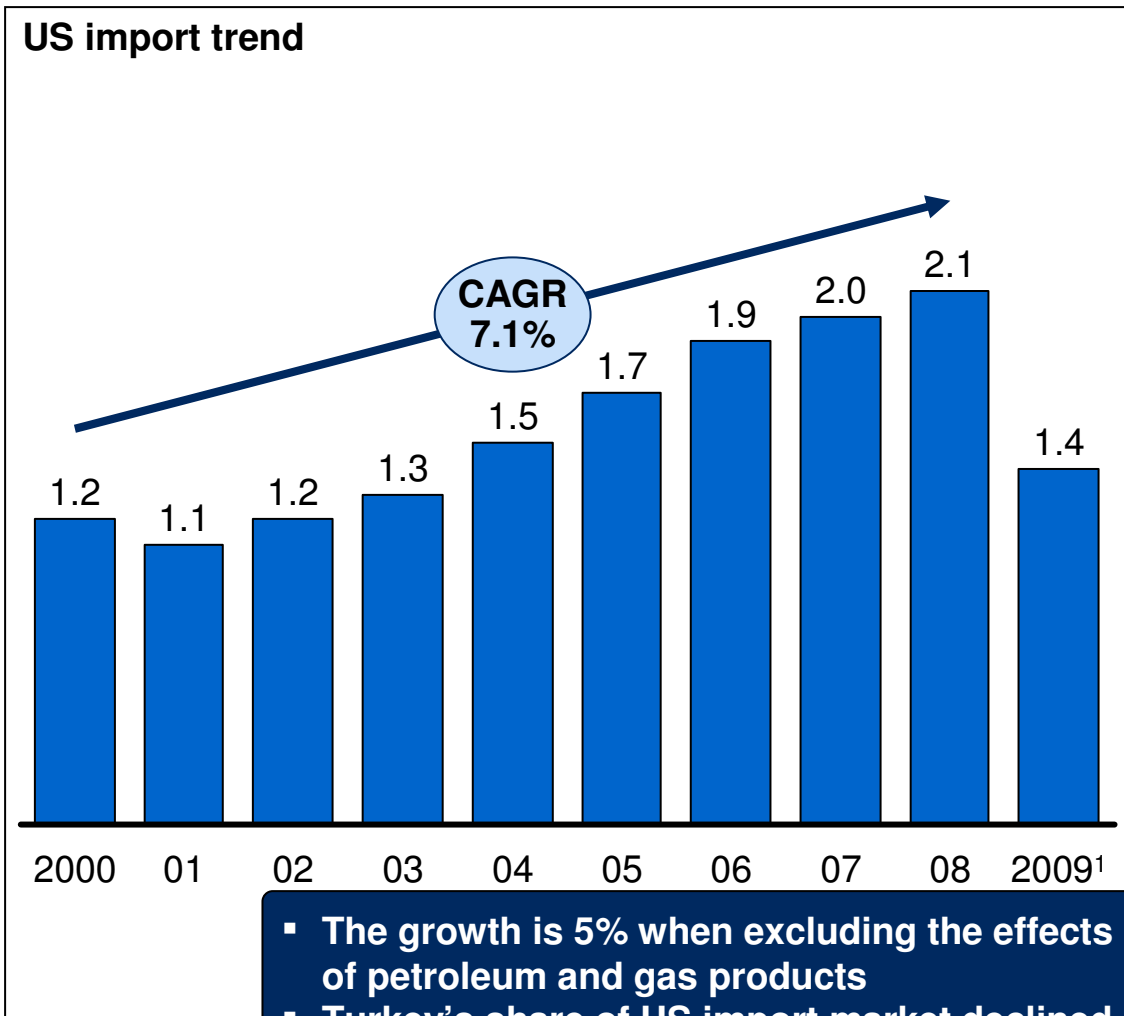


The US is the world's largest import market and has grown at a CAGR of 7.1% since 2000

USD trillion

Largest importers, 2008

Rank	Country	Import volume
1.	US	2.1
2.	Germany	1.2
3.	China	1.1
4.	Japan	0.7
5.	France	0.7
6.	United Kingdom	0.6
7.	Italy	0.5
8.	Netherlands	0.5
9.	South Korea	0.4
10.	Canada	0.4



¹ Extrapolated from June 2009 mid-year data



Growth of Turkish exports to the US varies significantly by product line

Product line ¹	Total Turkish exports 2008 USD billion	Turkey-US exports 2008 USD million	2000-2008 CAGR ²			
			Total Turkish exports	Total Turkish Exports to US	Total US imports	
Electronics ³	7.4	52.0	25.2	10.3	0.5	Turkey is gaining share in a relatively stagnant market
Automotive	18.0	78.7	36.2	18.4	2.1	
Cement/Construction materials	2.1	319.8	24.3	15.2	6.0	
Machinery	8.6	480.1	27.2	12.4	6.5	
Ships	2.6	46.6	47.0	37.8	4.5	
Manufactured metal goods	4.8	124.6	28.9	11.7	8.0	Turkey is gaining share in a growing market
Fruits and vegetables	5.3	181.7	14.3	12.5	9.5	
Iron and steel	16.8	757.8	31.7	16.7	13.0	
Petrol and gas	7.4	422.5	47.9	29.6	17.6	Turkey is losing market share
Textiles and apparel	23.0	812.1	10.6	-7.4	3.0	
Jewelry	1.7	191.8	19.9	-1.7	5.1	
Television/telephone	2.2	9.4	11.3	-1.0	8.3	
Other	32.1	822.9		3.3	6.7	

1 The chosen products constitute the top 80% of total Turkish exports

2 Compounded annual growth rate

3 Office machines, ADP equipment (computers), electrical machinery apparatus, appliances

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- Exporter interviews, detailed analyses



- Case analysis of selected successful countries



Brazil



South Africa



Austria



Spain

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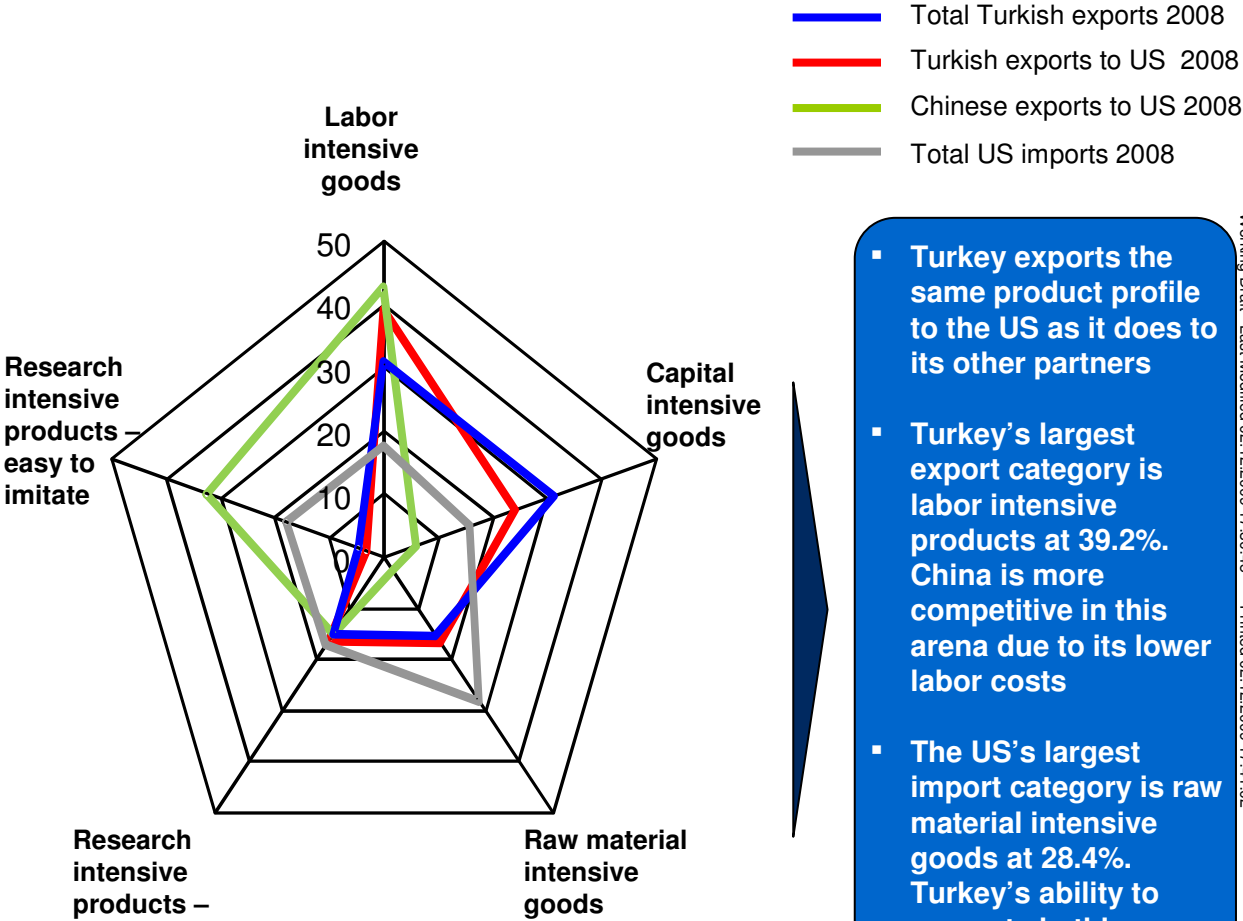
Regional markets (e.g., EU, Middle East) are more attractive to Turkish exporters than the US market

Reasons	Explanation
1 Limited value proposition/product portfolio mismatch	<ul style="list-style-type: none">Turkey's main export categories are labor intensive (e.g., textiles) and capital intensive (e.g., iron and steel, automotive) whereas US import categories are raw material intensive (e.g., petrol products) and research intensive (e.g., machinery)
2 Logistics/currency disadvantages	<ul style="list-style-type: none">Turkish exports to the US suffer from disadvantaged logistics compared to<ul style="list-style-type: none">Turkish exports to regional marketsSome other countries competing in the US import market (e.g., China and Italy).Depreciation of the Dollar vs. the Euro has made US market less lucrative than the European market
3 Unfavorable factors in the US market	<ul style="list-style-type: none">Certain factors make the US market difficult to penetrate and/or make regional markets more attractive<ul style="list-style-type: none">A US consumers place greater emphasis on both low cost and high quality while also demanding unique customizations to productsB The US market operates on high volumes and low margins and US retailers have a high degree of bargaining power



1 Turkey's export profile is misaligned with US import demands and where aligned, exporters face stiff competitive pressures

Product Category ¹	Examples
Labor intensive goods	<ul style="list-style-type: none"> Textiles / apparel Cement / construction materials Manufactured metal goods Jewelry
Capital intensive goods	<ul style="list-style-type: none"> Iron and Steel Automotive
Raw material intensive goods	<ul style="list-style-type: none"> Petrol / gas Fruits and Vegetables
Research intensive goods – difficult to imitate	<ul style="list-style-type: none"> Electronics (eg. power production machinery, industrial machinery)
Research intensive goods – easy to imitate	<ul style="list-style-type: none"> Organic chemical products Manufactured plastics Television / telephone Electronics (eg. computer)



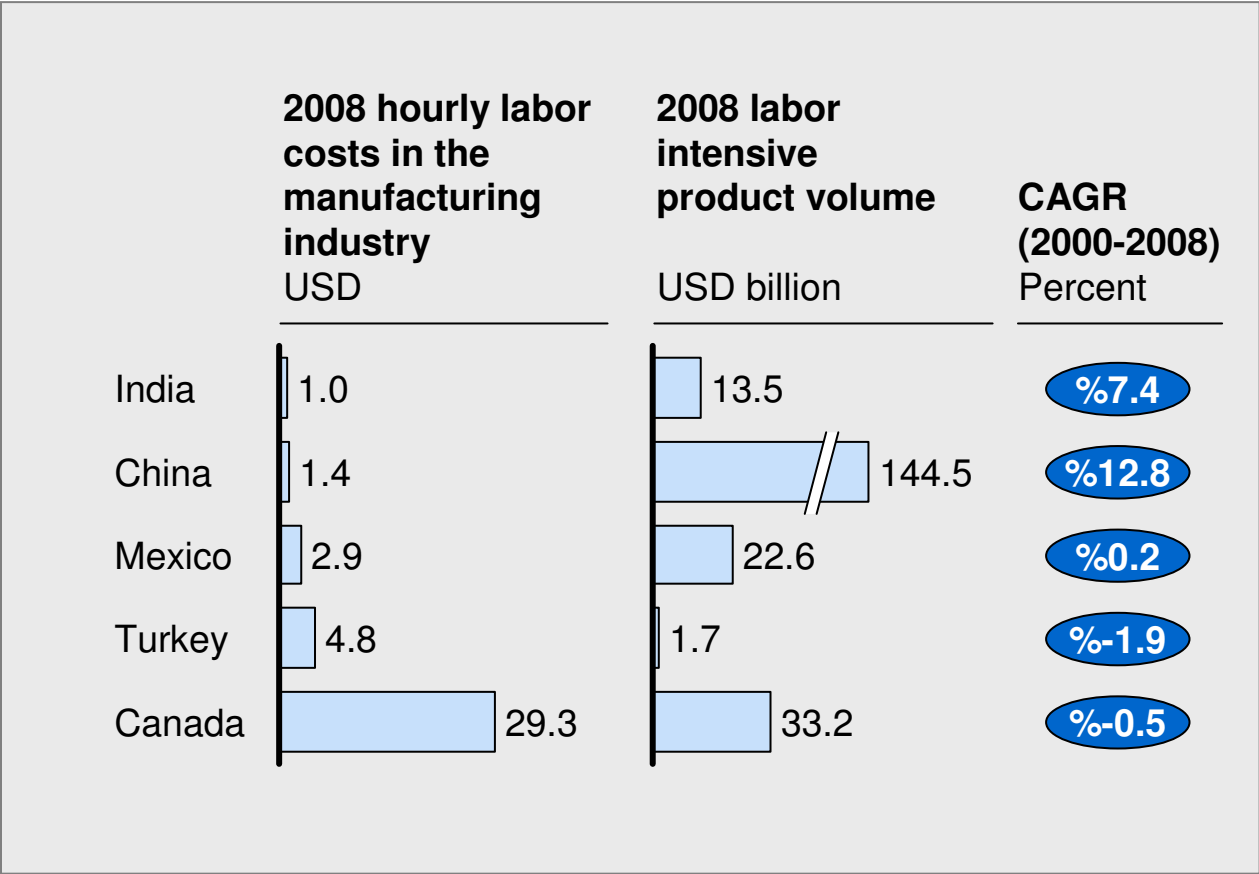
- Turkey exports the same product profile to the US as it does to its other partners
- Turkey's largest export category is labor intensive products at 39.2%. China is more competitive in this arena due to its lower labor costs
- The US's largest import category is raw material intensive goods at 28.4%. Turkey's ability to compete in this category is limited

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¹ "Specialization by Industrial Countries", Hufbauer and Chilas, 1974



1 Relatively high labor costs have put Turkey at a disadvantage versus other developing countries such as China and India



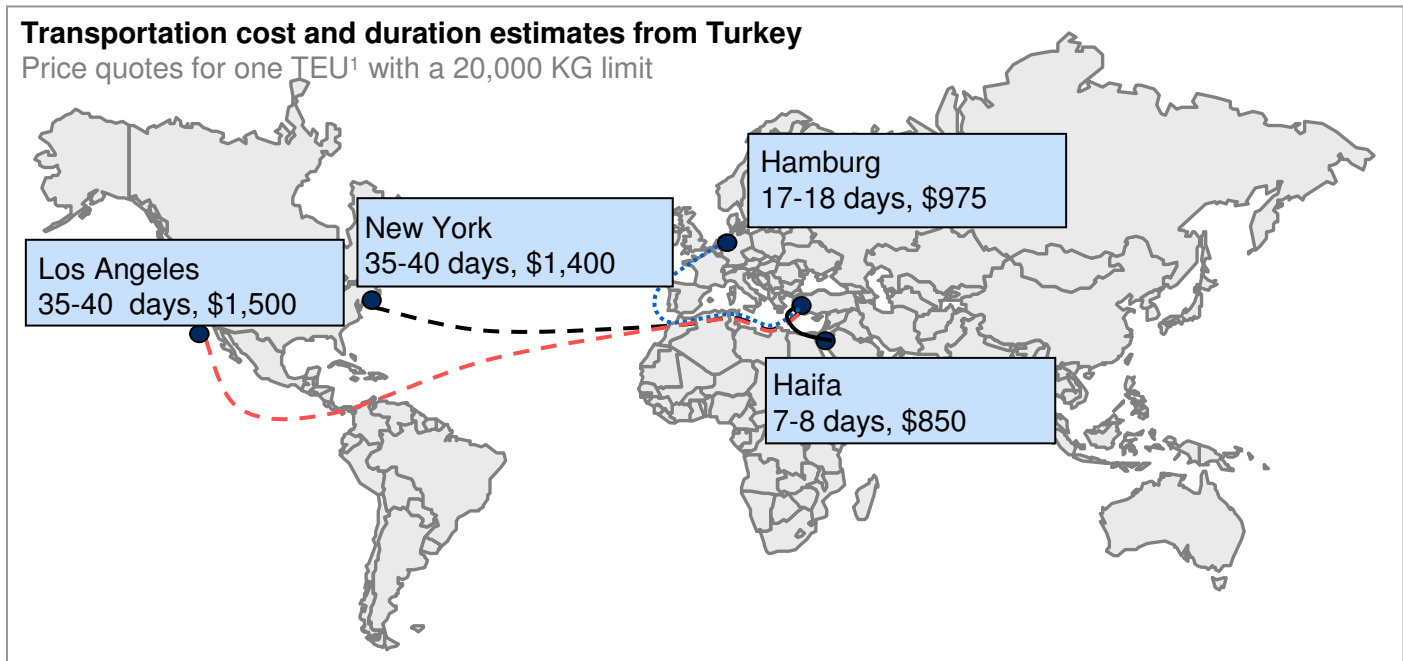
China and India are consistently increasing their market shares due to the low cost of labor

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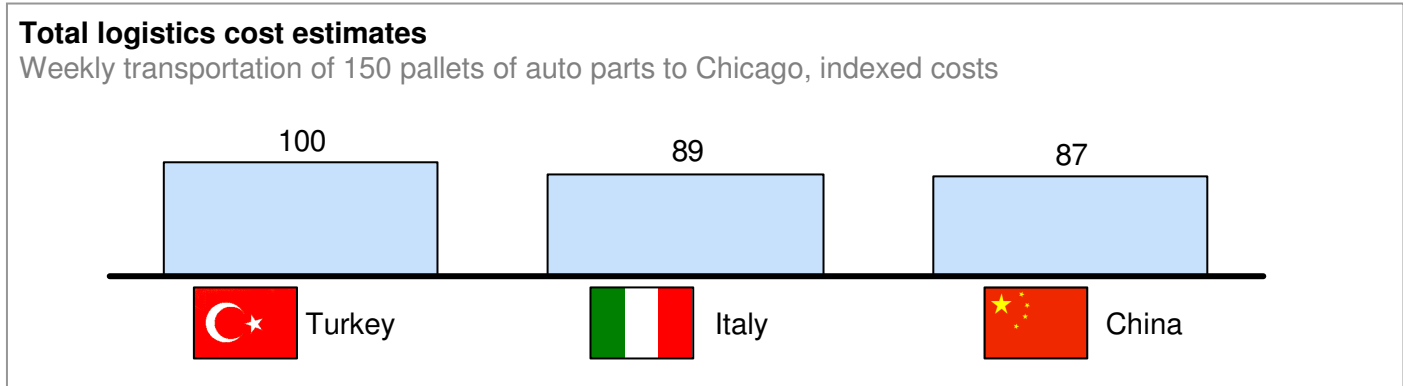


2 Logistics of Turkish exports to the US are disadvantaged compared to logistics to alternative markets and of competing exporters

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- Shipping to regional markets is less expensive and entails less lead time
- Other exporters to US face less expensive logistics costs and shorter lead times



1 Twenty foot equivalent unit



3A US consumers are more demanding than their European counterparts

NOT COMPREHENSIVE

Consumer survey asking respondents to rate importance of various dimensions
Percent of respondents rating dimensions “extremely important”

Dimension	Criteria	US consumer	European consumer
Price	▪ Honesty, no artificial inflation	64	58
	▪ You are getting the lowest price available	54	38
Product	▪ Retailer consistently provides good merchandise	70	67
	▪ Retailer carries a wide assortment	58	50
	▪ Retailer offers top quality throughout store	59	40
Service	▪ You can unconditionally return merchandise	69	60
	▪ Returning merchandise is quick and hassle free	65	56
Experience	▪ Store is clean and well maintained	69	71
	▪ Price is easily visible, well marked	68	64
	▪ Employees courteous and respectful	73	69
	▪ You are treated as a valued customer	66	51
	▪ Staff responds to concerns in a positive manner	61	54

US consumers place greater value on price, quality, and service than European consumers

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3A US product specifications differ from those of Europe so companies often need to alter their production to export to this market

Consumer preferences

White good examples

Refrigerators

US

- Wider models with side by side doors



Europe

- Narrower models with top and bottom doors



Washing machines

- Top load, high capacity



- Front load, low capacity



Ovens

- Wider, stand alone



- Narrower, growing trend in built-in units



Dishwashers

- Tall tub for extra capacity and plastic covering



- Standard sized tub with steel covering

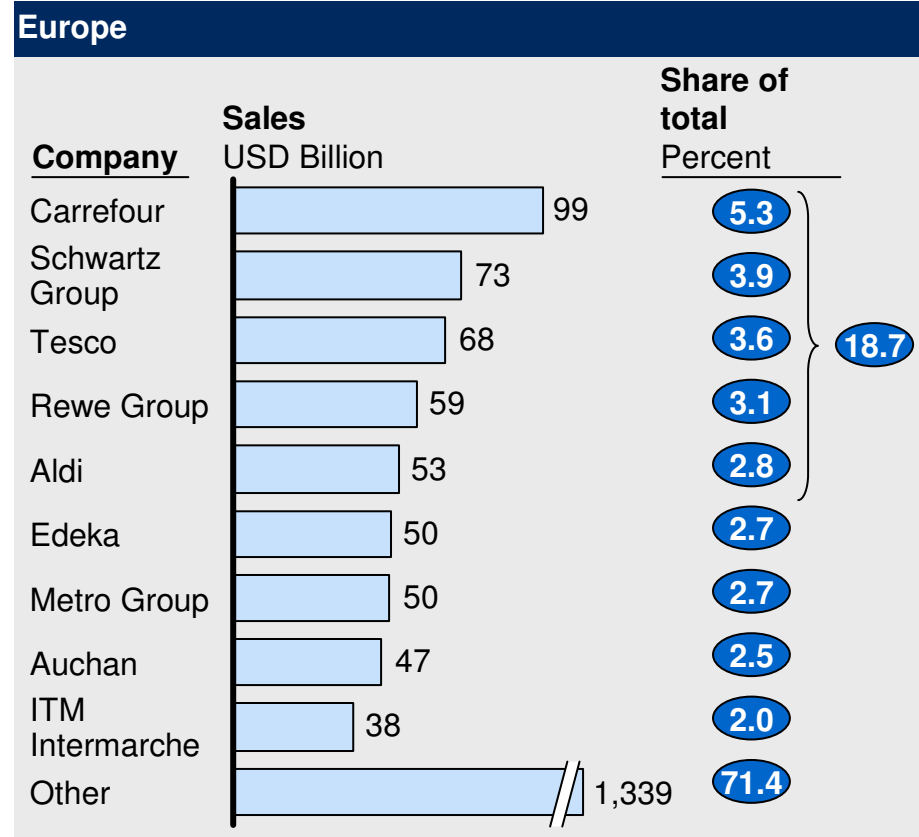
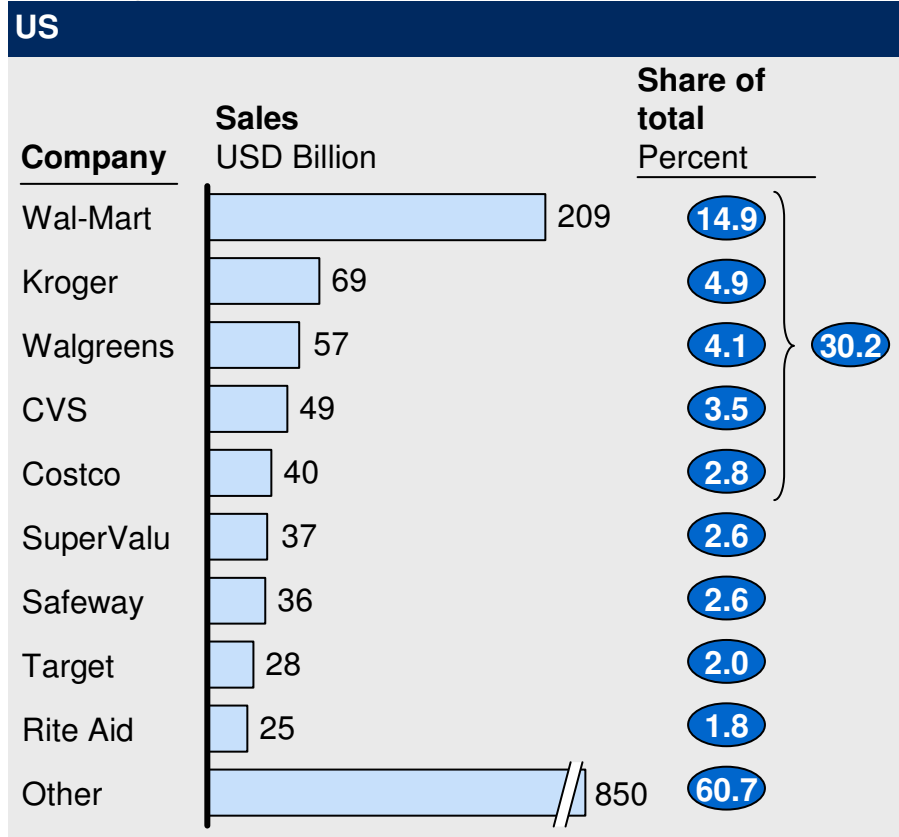


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3B Low margins and high bargaining power that result from consolidation makes the US market less attractive to exporters

Grocery sales



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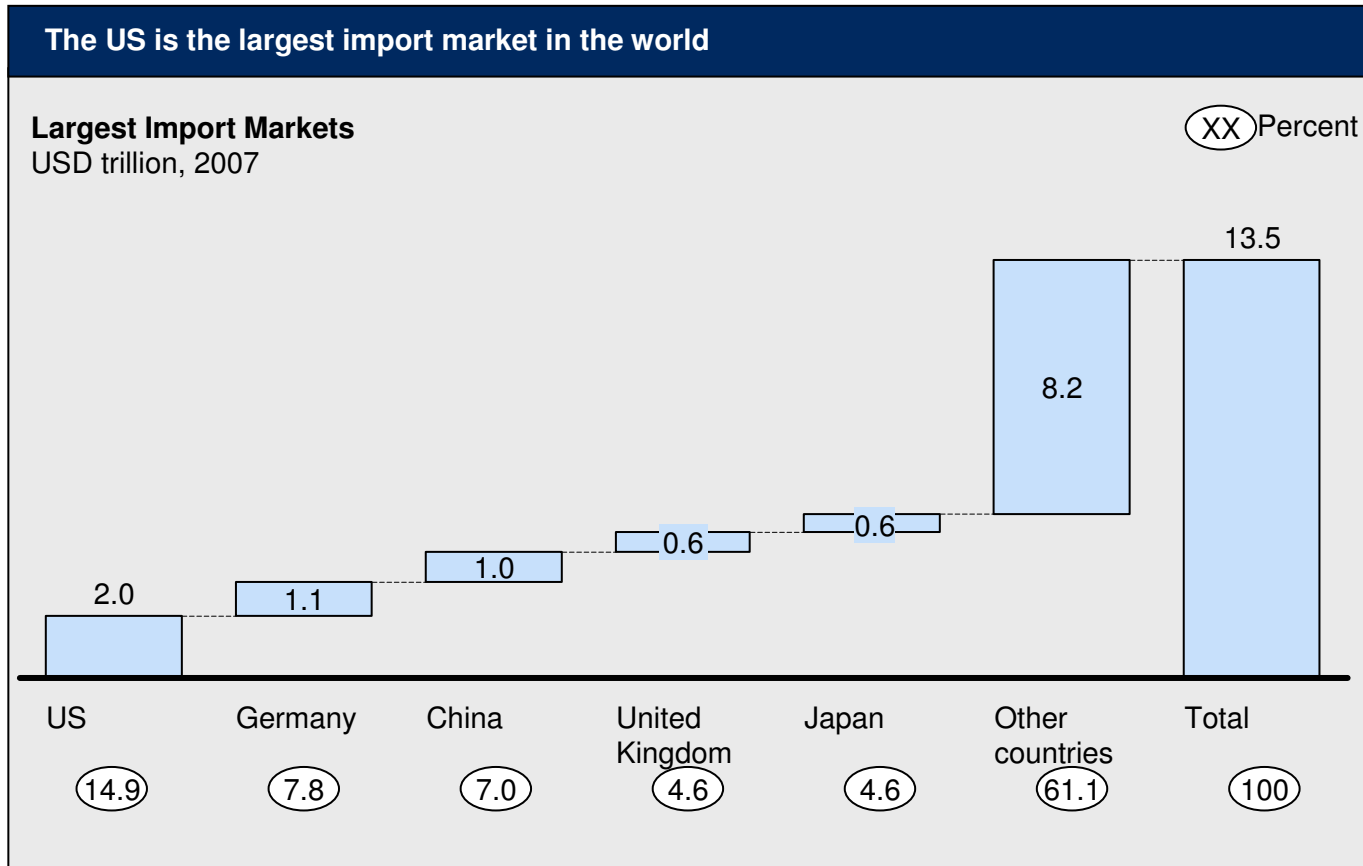
- The top 5 companies own 30.2% of the \$1,401 billion US grocery market
- Consolidation has driven down profit margins relative to Europe (EBIT¹ %2)
- Turkish exporters are at a disadvantage when bargaining with high volume retailers

- The top 5 companies own 18.7% of the \$1,876 billion European grocery market
- Profit margins are high relative to the US (EBIT¹ %4-7)
- Turkish exporters have greater bargaining power in the fragmented market

¹ Earnings before interest and taxes




Despite the difficulties that the Turkish exporters face, the US market remains attractive

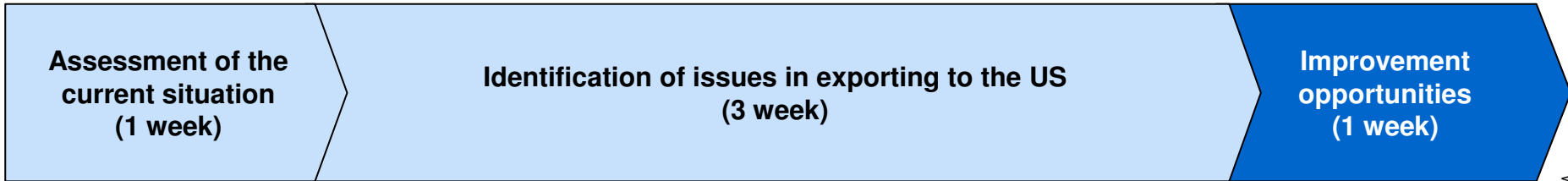


- To reach the 2023 export goals, Turkish exports will have to grow from 0.2% of the total US import market to 1%.
- If the disadvantages of exporting to the US can be overcome, the size of the market might make it a strategic priority for Turkish exporters

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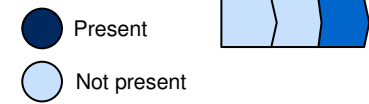


Four topics covering short and medium-term initiatives should be explored to increase the volume of exports from Turkey to the US

	Explanation	Potential Applications	Successful Examples
1 Short-term A Trade barriers and agreements	<ul style="list-style-type: none"> Obtaining a competitive advantage by minimizing trade barriers and engaging in bilateral trade agreements 	<ul style="list-style-type: none"> Export incentives by Turkey Import privileges by the US Lifting current trade barriers and preventing new ones 	<ul style="list-style-type: none"> Companies receiving APEX support have increased their export volume from USD 16 billion in 2005 to USD 26 billion in 2008 South Africa has leveraged AGOA to export USD 2 billion in automotive products to the US
	B Efficiency and flexibility of supply chain	<ul style="list-style-type: none"> Organizing to make the supply chain more efficient and flexible 	<ul style="list-style-type: none"> Establishing a trade organization and infrastructure in the US to help with distribution and logistics
2 Medium-term A Value proposition	<ul style="list-style-type: none"> Trending away from legacy areas such as labor intensive goods to product lines where Turkey can be more competitive 	<ul style="list-style-type: none"> Increasing investments in value added research intensive and domestic raw material advantaged industries 	<ul style="list-style-type: none"> Austria has increased their medical and pharma exports to the US at a 15.8% CAGR by implementing incentives for R&D
	B Corporate investment/marketing strategies	<ul style="list-style-type: none"> Affording the US a separate place in the overall corporate strategy to cater to the unique nuances and high degree of competition of the market 	<ul style="list-style-type: none"> Allocating personnel and resources to the market Entering into JVs with US firms Crafting unique strategies for penetrating the US market

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Countries with profiles resembling that of Turkey have taken active steps to increase their exports



Countries



S. Africa



Spain



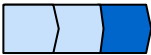
Brazil



Austria

	Initiatives	Examples	S. Africa	Spain	Brazil	Austria
1 Short term	A Trade barriers and agreements	<ul style="list-style-type: none"> Trade agreements South Africa has a customs advantage over other countries due to AGOA provisions 	●	○	○	○
	B Efficiency and flexibility of supply chain	<ul style="list-style-type: none"> Government support to increase exports Brazil's APEX program was created to support exporters through initiatives such as the development of distribution centers and trade organizations 	●	○	●	○
2 Medium term	A Value proposition	<ul style="list-style-type: none"> Leveraging competitive advantages South Africa leverages their low energy costs to produce and export aluminum 	●	○	◐	○
		<ul style="list-style-type: none"> Utilizing industries that have developed for the domestic market To reduce health care costs, Spain supported the generic drug industry and transitioned to exporting products in the health and pharmaceutical sectors 	●	●	○	●
	B Corporate investment/marketing strategies	<ul style="list-style-type: none"> Strategic decisions by large companies Red Bull, which is based in Austria, invested large sums to promote their product and penetrate the US market with a strategy unique to that market 	●	○	○	●

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1A The AGOA Act of 2000 has led to a marked increase of exports from sub-Saharan Africa to the US

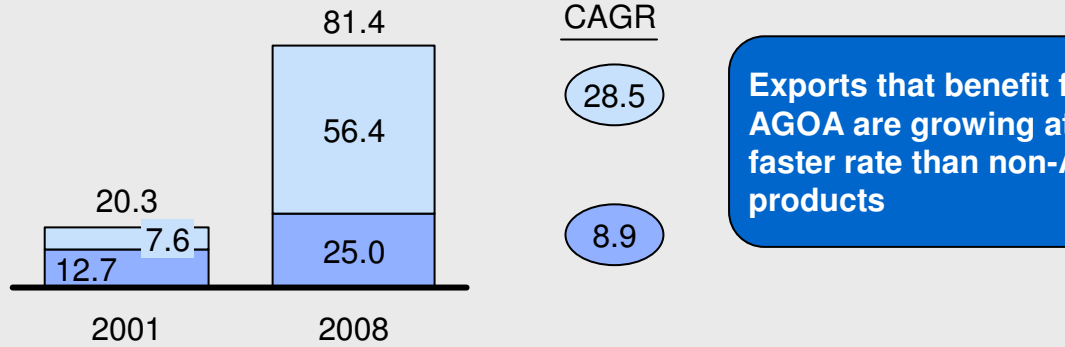
AGOA details

- The US passed legislation to bolster trade with sub-Saharan African countries by:
 - Increasing flexibility in quota restrictions
 - Expanding GSP¹ treatment for certain product categories

MIDP details

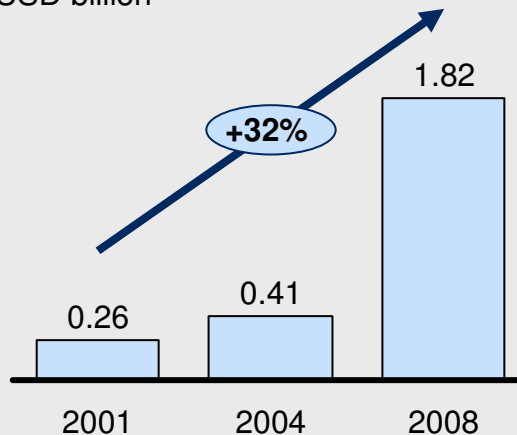
- The Motor Industry Development Programme of 1995 is aimed at stimulating the country's automotive sector
 - Car companies are allowed to import parts duty free (up to the value of the car)

Total exports from AGOA nations to the US
USD billion



Exports that benefit from AGOA are growing at a faster rate than non-AGOA products

South Africa's automotive exports to the US
USD billion



To benefit from this program, Mercedes has decided to manufacture and export their C-Class model from South Africa

¹ Generalized System of Preference



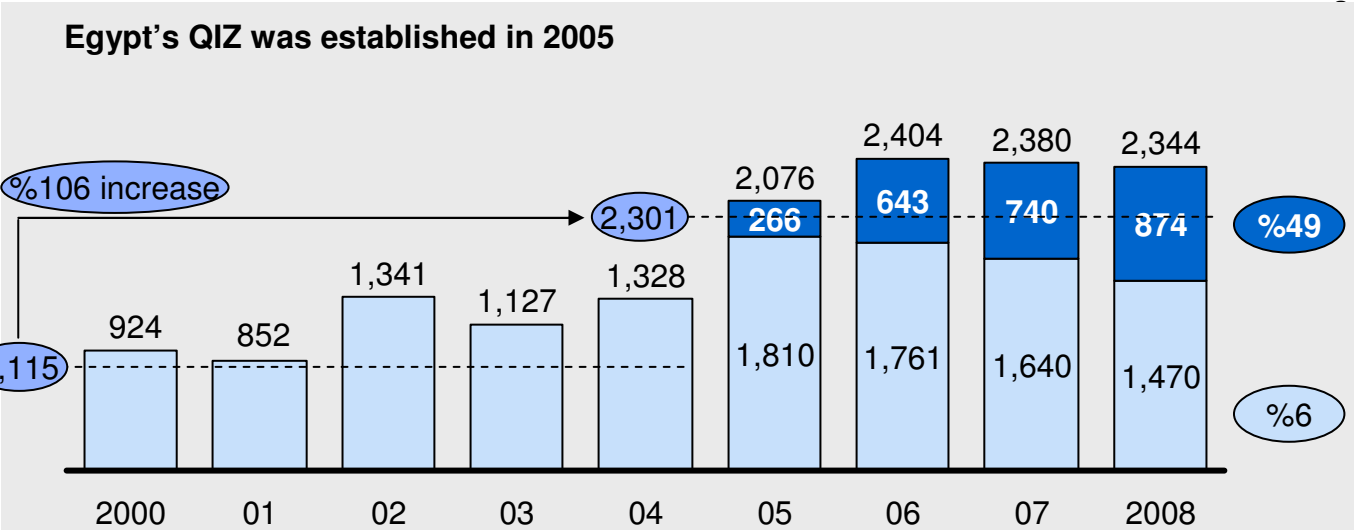
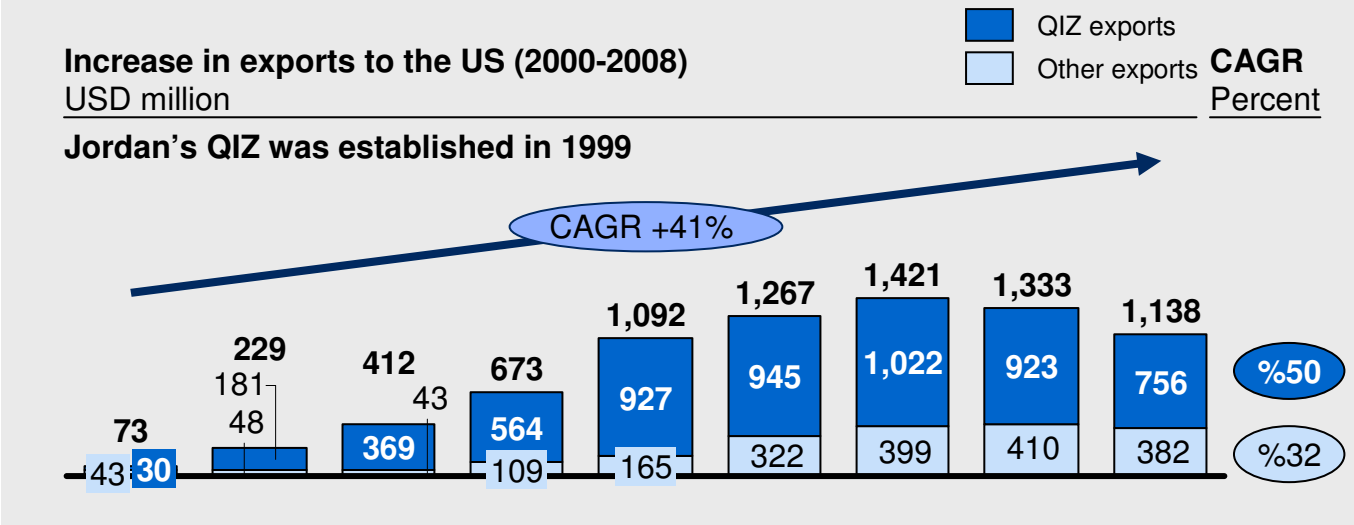
1A Jordan and Egypt benefited from QIZ agreements and increased their exports

QIZ¹ details

- Products manufactured in QIZs are imported tax free
 - 35% of the total cost is to be incurred in the QIZ region and in a predetermined fashion

QIZ objectives

- To help with the countries economic development
- To enhance the political and trade relations between QIZ countries, (Egypt, Jordan, Israel)

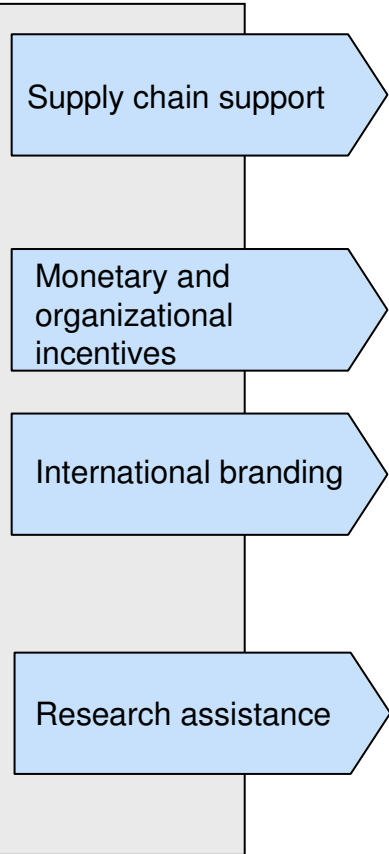


1 Qualifying Industrial Zone



1B Small and medium-sized companies in Brazil have benefited from APEX's support in areas such as distribution and logistics

APEX services



Explanation

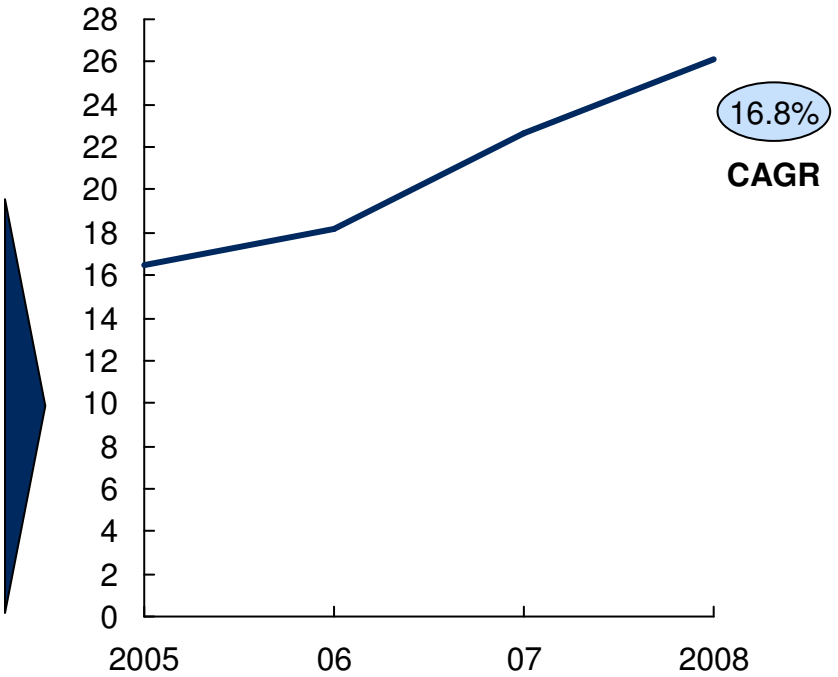
Setting up regional distribution centers in places like Miami and Dubai, arranging shared storage, and sponsoring show room space

Providing incentives for small and medium size businesses in certain sectors (e.g., machinery)

Organizing representation at international expos to introduce Brazilian products and arranging meetings with industrial trade organizations in various countries

Preparing market research and compiling legal information for exporters through trade centers located in various regions (e.g., Miami)

Export volume of companies receiving APEX support
USD billion



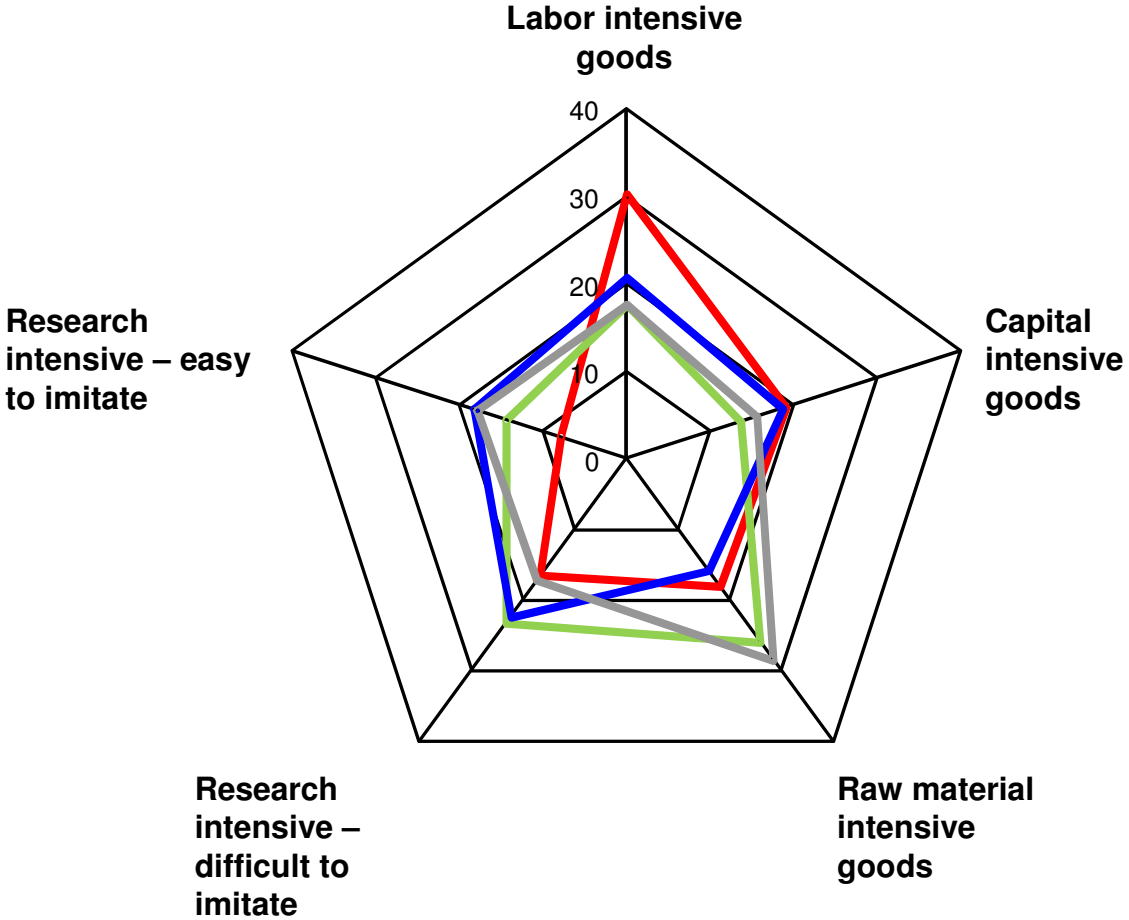
Exports have increased due to help and services offered to small and medium sized companies

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2A Spain has altered their product portfolio which resulted in a closer match to US import portfolio

- US imports in 2000
- Spanish exports to US 2000
- Spanish exports to US 2008
- US imports in 2008



Spain has decreased the labor intensive portion of their overall portfolio from 30% to under 20% while increasing their research intensive efforts significantly

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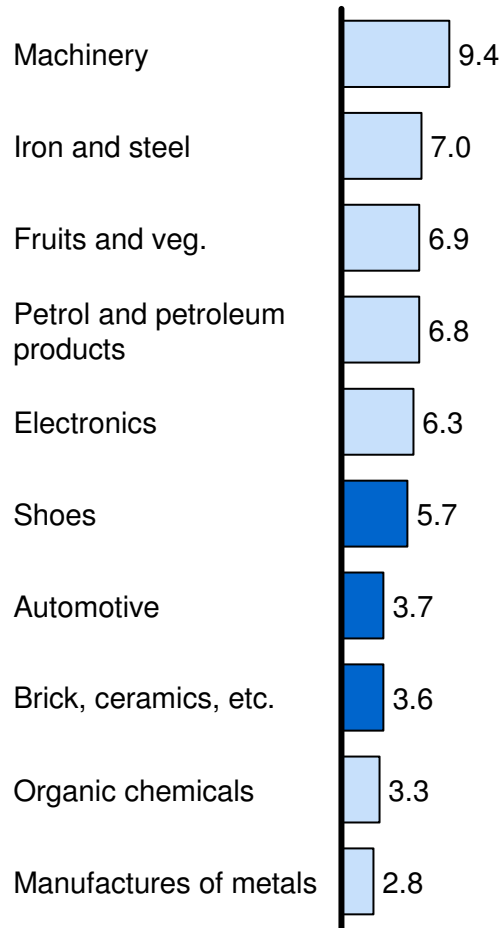


2A Spain has trended away from labor and capital intensive and to research intensive exports such as pharmaceutical products

USD billion, percent

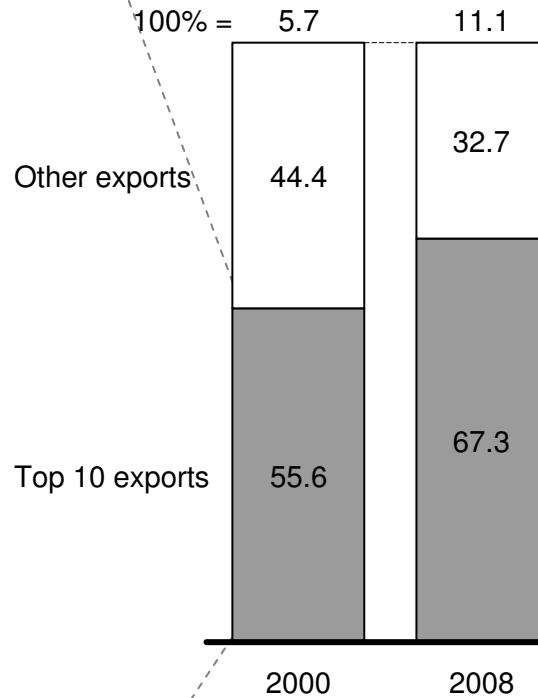
2000 and 2008 top ten exports
Other exports

2000 top ten products

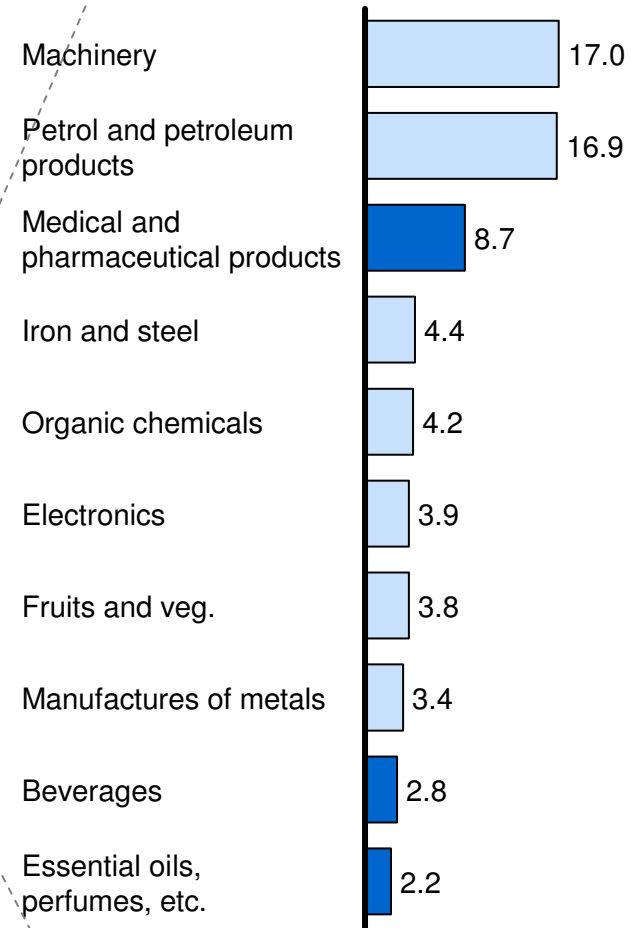


CAGR (2000-2008)

%8.6



2008 top ten products



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2B Joint ventures with non-domestic companies creates opportunities for increasing exports to the US



Agreement details

- Tusaş Engine Industries (TEI) is a joint venture agreement between General Electric and Turkish Aerospace Industries (TAI)
 - TAI, %50.5
 - GE, %46.2
 - Other, %3.3

Products

- Research intensive products:
 - engine parts
 - engine assembly/overhaul
 - design work

Impact on exports

- 2008 revenues surpassed USD 300 million of which USD 170 million were exports
- Ranked among top 5 Turkish exporters to the US

- Ford - Otosan
 - Koç Holding %41,
 - Ford %41
 - Publicly traded 18%
- Since its inception in 1959, the partnership has grown to include two production facilities, one spare part distributorship, and a technology center
- The Kocaeli production facility was established in 2001, Transit Connect production started in 2002

- Total exports have grown from USD 0.9 billion in 2003 to USD 3.3 billion in 2008
- Began export of Transit Connect to the US in 2009, expected revenues of USD 350 million

- Magna runs an automotive manufacturing facility in Austria
- The company manufactures vehicles on a contract basis
- The products tend to be niche vehicles that don't warrant structural changes to the automaker's own facilities

- BMW chose to outsource the production of their X-3 line to Magna

- Magna exported ~30,000 X-3s to the US per year from 2004 to 2007
- Chrysler, Volvo, Mini have also contracted out work to Magna

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