Economic Challenges and Opportunities for Turkey and Germany – A German Perspective

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Economic relations between Germany and Turkey have a long tradition and are already well developed. Germany is Turkey's most significant business partner, and accounts for a quarter of total EU trade with Turkey. German investors create important jobs in Turkey, deliver cutting-edge technology, and transfer valuable expertise. But the challenges faced by both countries are growing. One example is the globalisation of the world economy. The centres of gravity of growth are shifting, international competition is getting tougher, the pace of innovation is accelerating, and structural change is picking up speed. In addition to the economic trends, new social challenges are emerging, including ageing societies, mobility and climate change. Foreign policy developments such as the Ukraine crisis, Syria, or the international danger of terrorism are also forcing Turkey and the EU with new decisions.

We need new answers. These answers need to be reflected in the institutional cooperation between Turkey and Germany and in the cooperation with the EU. The strategic dialogue now underway is an important step at the intergovernmental level, and must be backed up by various forms of cooperation at an expert and working level. Examples for the economic sector are the German-Turkish Energy Forum and JETCO. The plans to revitalise the EU accession process will foster this process of increasing cooperation in the economic field.

We are following the political and economic developments in Turkey with great interest. Turkey continues to be a major anchor of stability and a key strategic partner in the region for the EU. It is important that the cooperation between the EU and Turkey has a healthy and robust economic basis. Turkey has made enormous economic progress in recent years. Average growth rates of 5 percent and a tripling of the per-capita gross domestic product (9,290 US dollars) in the last 10 years are clear proof of these advances. Moreover Turkey's economy is continuing to grow – GDP is expected to expand by 4 to 5 percent in both 2016 and 2017.

One major reason for the dynamic development of Turkey's economy is its massive market potential. The country's population is close to 80 million, and its consumers like to spend their money. Turkey's young population (average age 30 years) will continue to stimulate the economy in the coming years by generating high domestic demand. This factor is likely to be enhanced by the recent 30 percent increase in the minimum wage and by falling inflation (2014: 8.9 percent; 2015: estimated 7.4 percent). The unemployment rate stands at roughly 10.3 percent. This gives cause for concern – but also shows what untapped potential exists to boost economic output, if there is higher employment and thus higher consumption.

A further key to the economic success of the country on the Bosphorus is certainly the reforms implemented since 2001. The commencement of EU accession negotiations on 3 October 2005 makes the EU the main anchor and yardstick for Turkey's political and economic reforms. It must be remembered that the reform agenda to take on the *acquis communautaire* is not an end in itself, but is very much in the interest of a prosperous Turkey.

The dynamic economic upswing in Turkey is going hand in hand with rising energy demand. Alongside the need to secure its energy supply, Turkey is also facing major challenges in terms of attaining the climate targets. In strategic terms, the decoupling of economic growth from the rise in energy consumption and the shift to a low-carbon economy remain important parameters for the global competitiveness of the Turkish economy.

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In addition to the construction and transport sectors, both of which are developing dynamically, Turkey has a broad industrial base. There is a massive need for investment in economic modernisation and diversification. More specifically, export-oriented companies in the automotive sector, metal processing, foodstuffs, and textiles and clothing need to boost their competitiveness and modernise their machinery.

Turkey has a structural deficiency in view of its dependence on imported raw materials, fuels and semi-finished goods. Since many semi-finished products need to be imported so that goods can be manufactured for export, rising exports automatically result in rising imports. This has a negative impact on the trade balance. Turkey has had a trade and current account deficit for a long time now (2015: approx. 4.5 percent of GDP). Further problems include a lack of spending on research, inefficient vocational training, and a low domestic savings rate. Turkey therefore needs more foreign direct investment. But this requires political stability and a reliable business environment.

Germany continues to be a reliable partner for Turkey's economic development. We regard this as a partnership of equals. German firms are well-positioned to make attractive offers to Turkey across the board. This is one of the reasons why Germany was Turkey's most important European trading partner last year, with trade in goods totalling nearly 37 billion euros. This volume of trade amounts to a quarter of Turkey's trade in goods with the EU. Since the turn of the millennium, our trade in goods has more than doubled.

Due to the negative effects of the Middle East conflict and the Russian sanctions against Turkey, our role as a strategic business partner is continuing to grow. With a stock of 12 billion US dollars in investments, Germany is the largest foreign investor in Turkey. German companies can see a great deal of opportunity in Turkey, particularly in the country's energy sector. However, many companies feel uncertain in view of the current political situation and are delaying planned investments. An immediate ceasefire and the return to negotiations in the so-called peace process, as called for by the European Commission, would send out an important political signal to potential investors.

There are significant future challenges that Turkey and the EU need to tackle together if they are to maintain the dynamism of their economic relations. Three of the many key issues are:

- Maintaining legal certainty for investors,
- Reducing existing and avoiding new barriers to trade, and
- Promoting the adequate development of infrastructure in Turkey.

The revitalisation of the accession negotiations agreed in the EU-Turkey Action Plan is feeding through into specific action. For example, Chapter 17 – Economic and Monetary Union – was opened at an intergovernmental conference at the end of last year. Under the Dutch EU Council Presidency, efforts are being made to open Chapter 33 – Financial and Budgetary Provisions. The Commission is pressing ahead with preparatory work to open five further chapters for negotiation, including Chapter 15 on Energy and the chapters on the rule of law, 23 and 24. By making further efforts to meet the criteria for the opening of Chapters 5 (Public Procurement), 8 (Competition) and 19 (Social Policy and Employment), the Turkish government can generate further momentum in the accession talks. The full implementation by the Turkish government of the Ankara Protocol on the application of the EU-Turkey Customs Union in all EU member states would make progress possible on 8 additional chapters.

The impact of the TTIP negotiations on Turkey, which is linked to the EU *via* the Customs Union, is another important issue. The German Federal Ministry's for Economic Affairs and Energy's offer of talks to the Turkish side can help to keep the debate realistic and to alleviate unfounded fears. Whilst trade in goods between the EU and the United States rose to 699 billion dollars in 2015, Turkey's trade with the United States in the same year amounted to 17.5 billion dollars.

We take the view that we can cope successfully with the challenges arising from the TTIP negotiations through the further development of the EU-Turkey Customs Union. The relevant World Bank study provides a good basis for this. However, if a negotiating mandate for the European Commission is to be adopted at the end of this year, it seems necessary to establish a constructive atmosphere by overcoming various protectionist measures by the Turkish government, and thus stopping the process of erosion of the customs union. These issues and specific projects were covered by the talks held by the German Federal Minister for Economic Affairs and Energy in Berlin on 22 January 2016 with his Turkish colleagues Deputy Prime Minister Simsek and Economy Minister Elitas.

The Joint Economic and Trade Commission (JETCO), as agreed in 2013, and the continuation of our joint work in the German-Turkish Energy Forum, have established appropriate forums to respond to the interests of the companies. Furthermore, our traditional instruments of external economic promotion, such as Hermes export credit guarantees, investment guarantees, and the services of our bilateral chamber of commerce in Istanbul and of Germany Trade and Invest, are also available. Our traditionally good German-Turkish relations, our fellow citizens of Turkish origin, and our many links in tourism, culture and science are additional guarantors of consensus-based cooperation and also form a robust foundation for our joint efforts to tackle future challenges.