

Foreign economic relations of Turkey (Türkiye)

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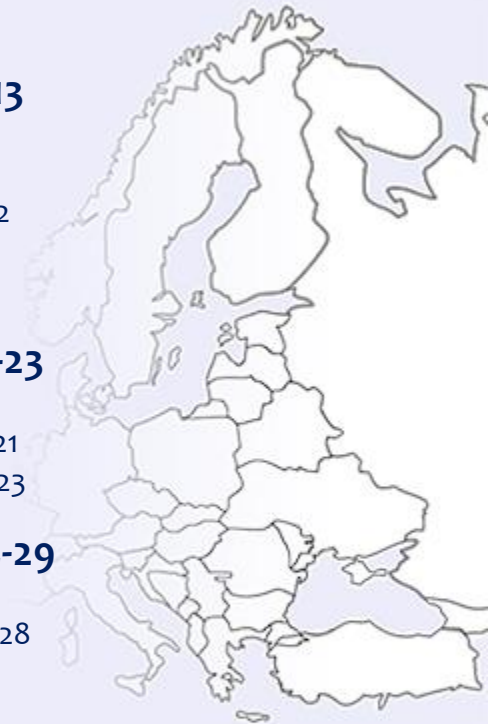
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1) Background

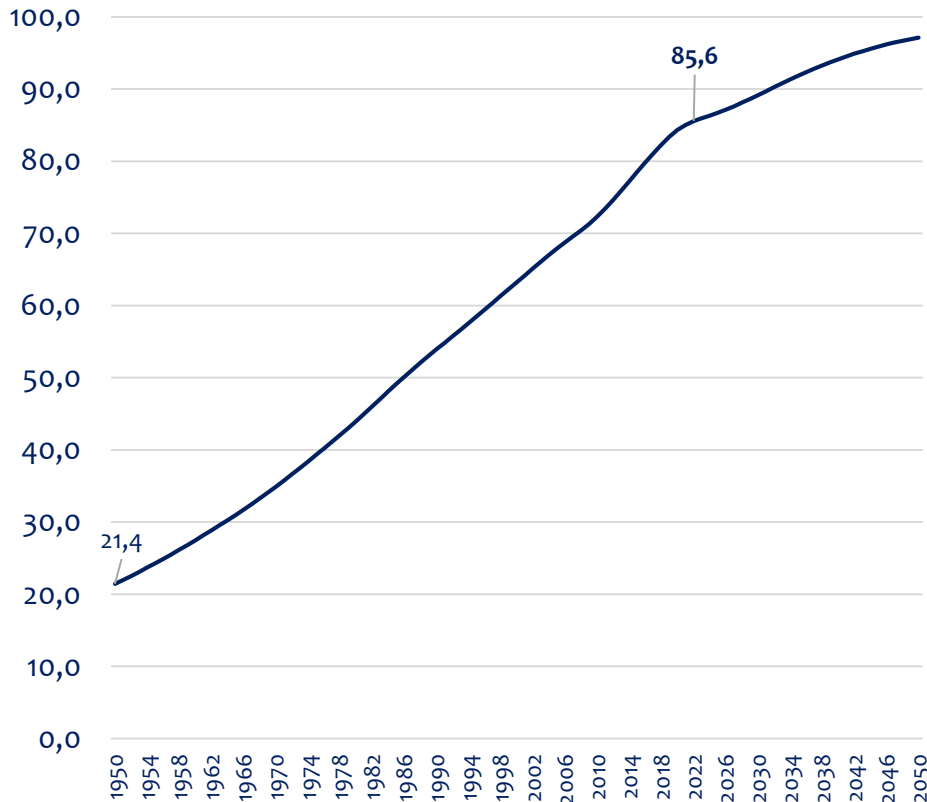


The territory of Turkey is nearly 800,000 square kilometers, i.e. more than double the size of the Finnish territory. "Turkey joined the UN in 1945 and in 1952 it became a member of NATO. In 1963, Turkey became an associate member of the European Community; it began accession talks with the EU in 2005. Over the past decade, economic reforms, coupled with some political reforms, have contributed to a growing economy, although economic growth slowed in recent years, with occasional bouts of turmoil. ... The Turkish Government conducted a referendum on 16 April 2017 in which voters approved constitutional amendments changing Turkey from a parliamentary to a presidential system.", CIA.

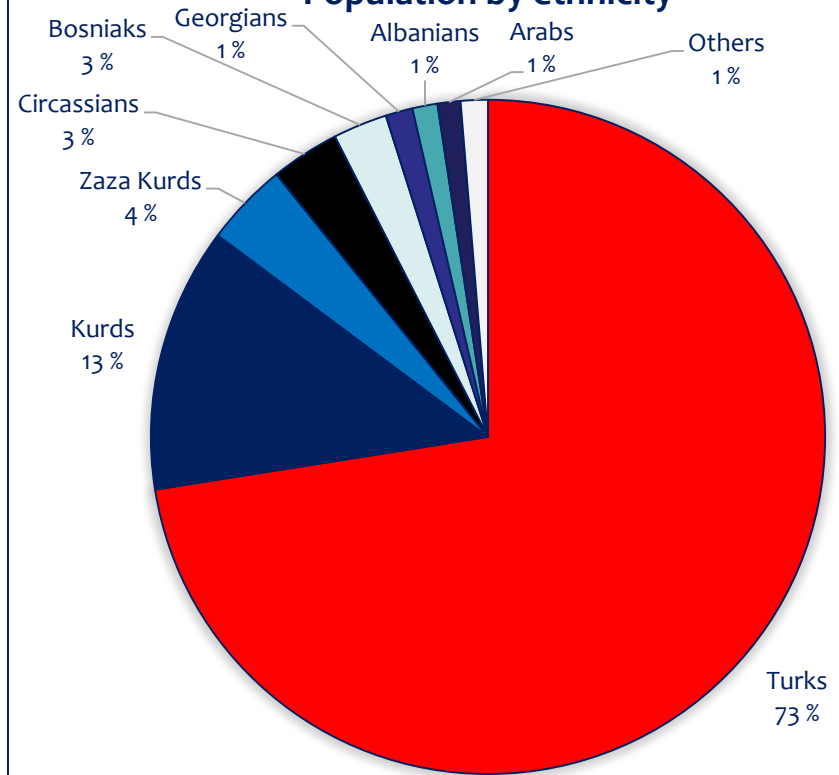
Sources: CIA;
Nations Online
Project

1a) Population

Population development (million)



Population by ethnicity

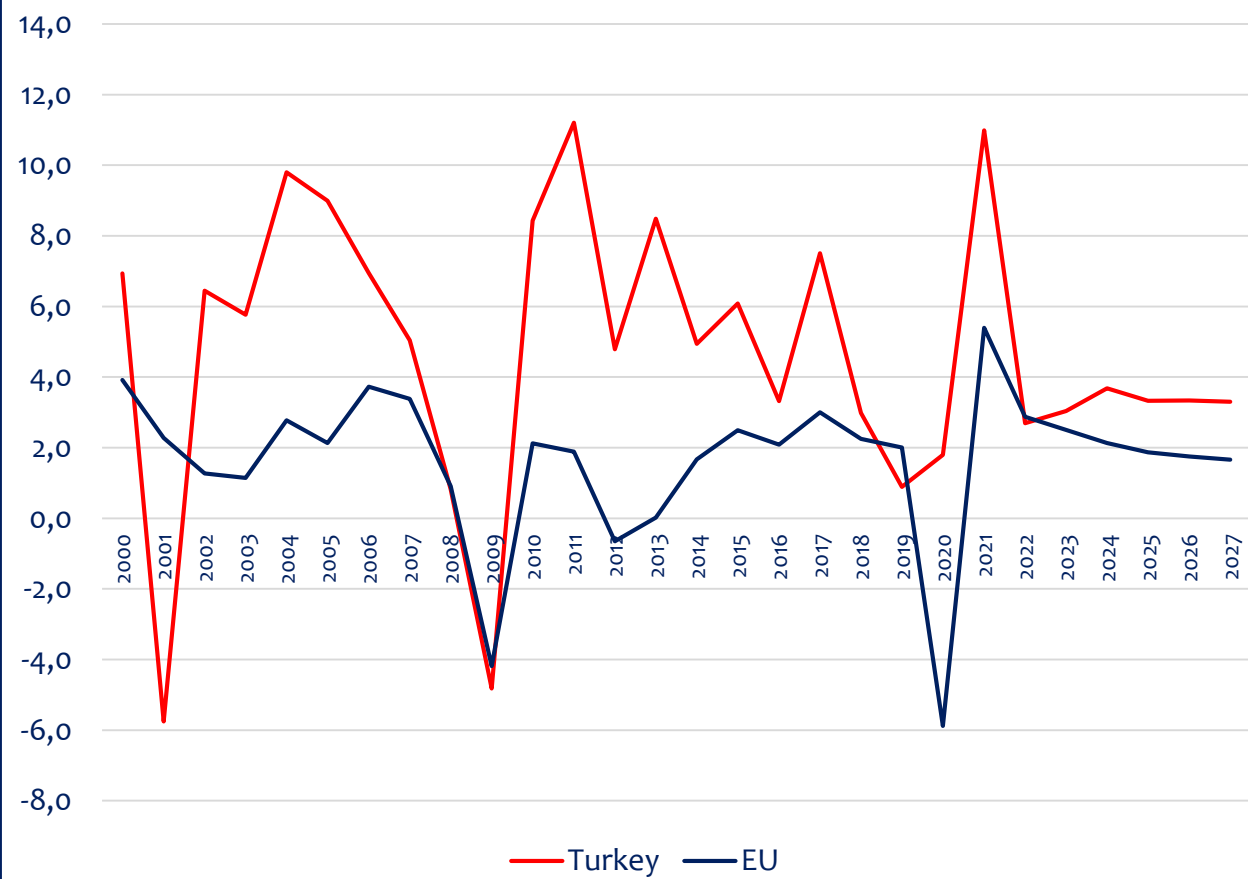


The Turkish population has quadrupled since 1950. At the same time, the world population has “just” tripled. Turkey’s largest city is Istanbul with over 15 million inhabitants. Approximately 5 million people live in the country’s capital Ankara. Ethnic Turks account for three-quarters of the population. Kurds form over 1/10 of the Turkish population. According to the Turkish Government, approximately 3.7 million Syrian refugees live in Turkey and 0.2 million Syrian refugees have received the Turkish citizenship since the beginning of the war in 2011. The total population of the Turkish people living abroad exceeds 6.5 million people, around 5.5 million of which live in Western European countries.

Sources: UNCTAD; WorldAtlas; CIA; Aljazeera; MFA of Turkey

1b) Economy

Annual real GDP change (%)

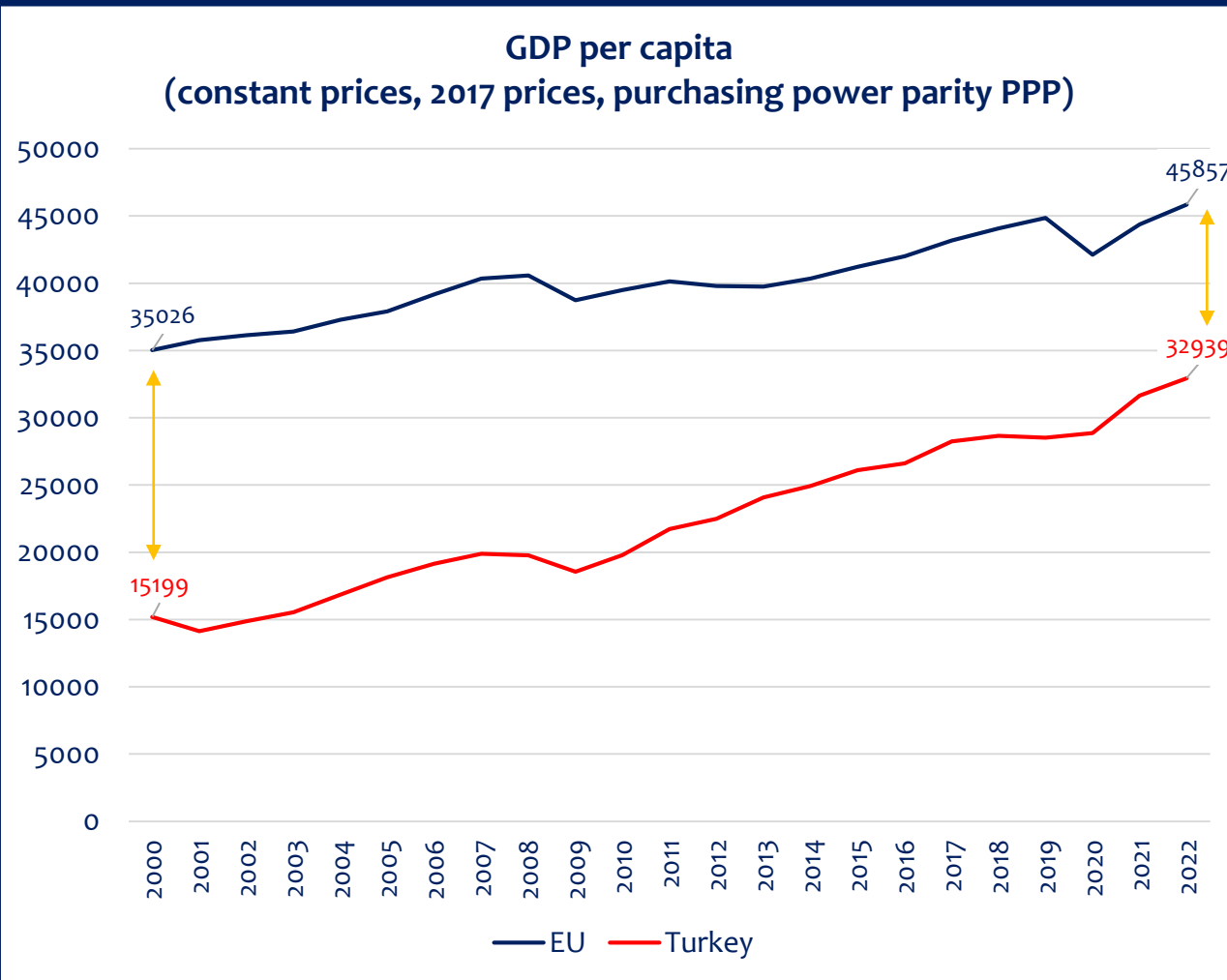


2022	GDP (\$ billion; current prices)
Turkey	853
EU	16,613
Finland	281
Netherlands	991
USA	25,035

During the past 10 years, the Turkish economy (GDP) has grown faster than that of the EU. Despite the fast growth of the Turkish economy, the EU economy is some 20 times larger than that of Turkey. The size of the Turkish economy is comparable to that of the Netherlands. The Economist Intelligence Unit (EIU) forecasts that consumer price inflation will reach 75% in Turkey this year and nearly 40% in 2023.

Sources: IMF; EIU

1b) Economic wellbeing

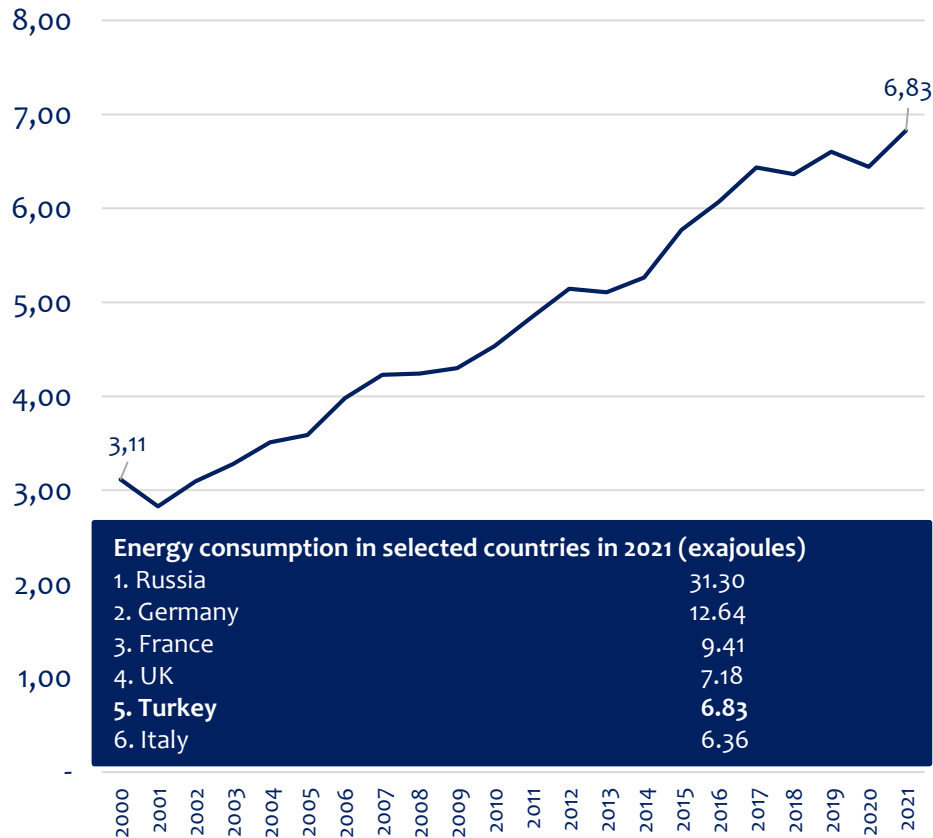


2022	GDP per capita (\$; constant prices; PPP)
Turkey	32,939
EU	45,857
Finland	49,850
Netherlands	59,246
USA	63,890

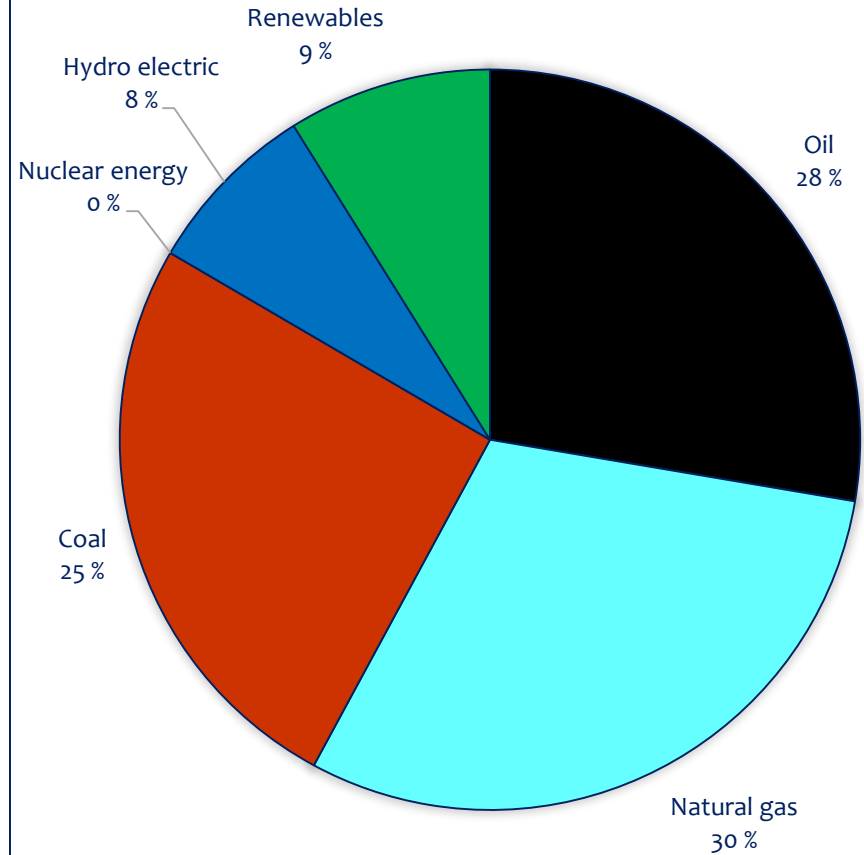
The economic wellbeing gap between Turkey and the EU has narrowed since the beginning of the millennium. The economic wellbeing of a Turk is clearly lower than an average citizen of the EU. However, the following EU member states have lower GDP per capita (PPP) than Turkey: Bulgaria, Croatia, Greece, Latvia and Romania.

1c) Energy

Development of energy consumption (exajoules)



Energy consumption by fuel in 2021



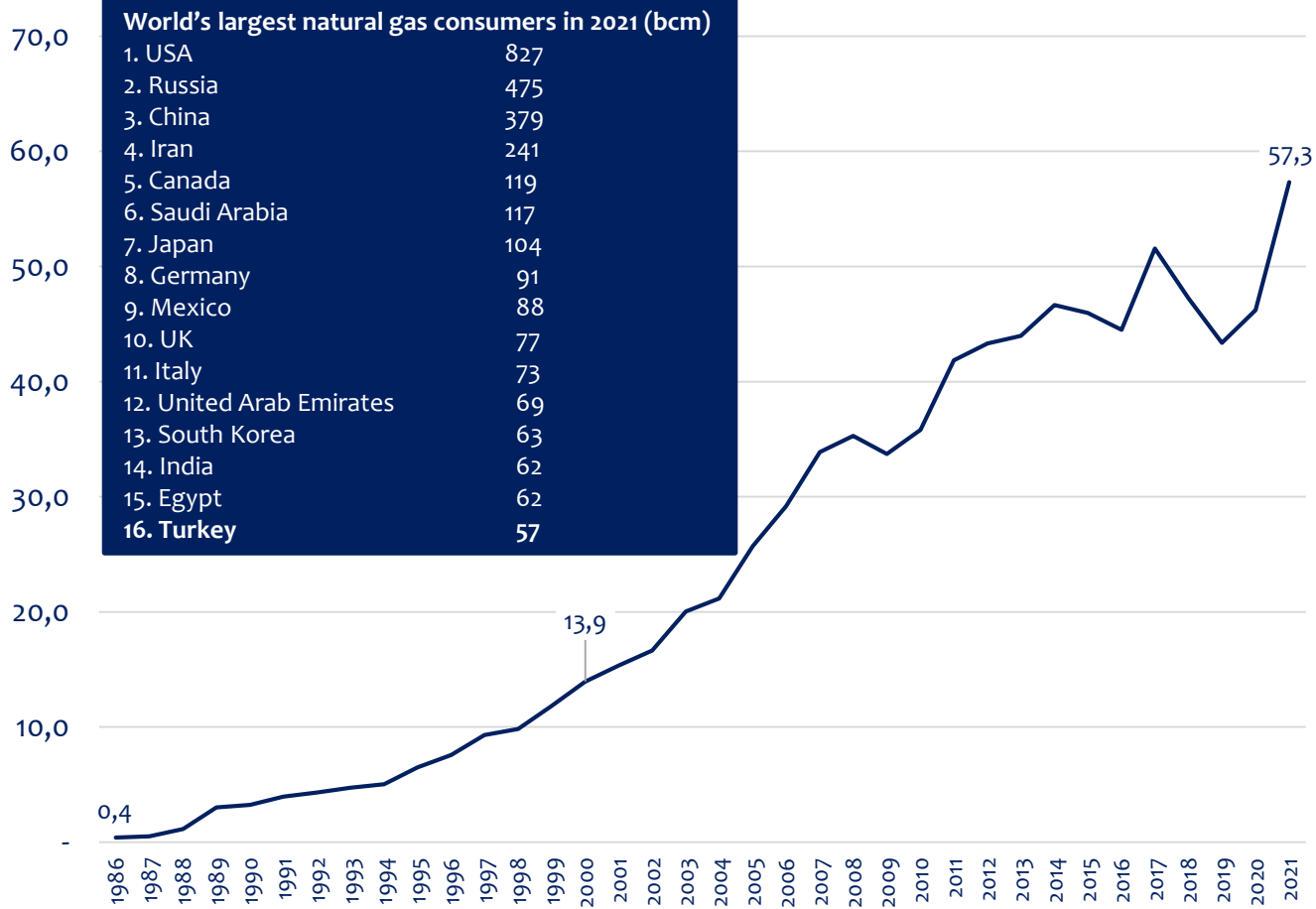
Energy consumption in selected countries in 2021 (exajoules)	
1. Russia	31.30
2. Germany	12.64
3. France	9.41
4. UK	7.18
5. Turkey	6.83
6. Italy	6.36

Energy consumption in Turkey has doubled during this millennium. Fossil fuels met over 80% of Turkey's total energy consumption in 2021, natural gas being Turkey's most significant fuel, covering 30% of the country's total energy consumption. Turkey currently builds its 1st nuclear power plant with Russian know-how at Akkuyu, the Mersin province. The 1st unit out of 4 is expected to be in operation in 2023. Exajoule = 1 quintillion joules (1 x 10¹⁸)

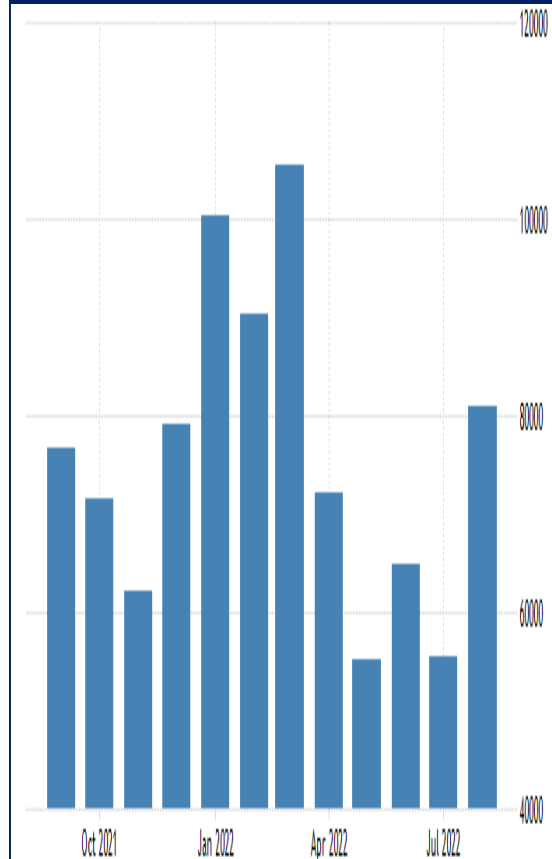
Sources:
BP; World Nuclear Association

1c) Natural gas

Natural gas consumption (billion cubic metres – bcm)

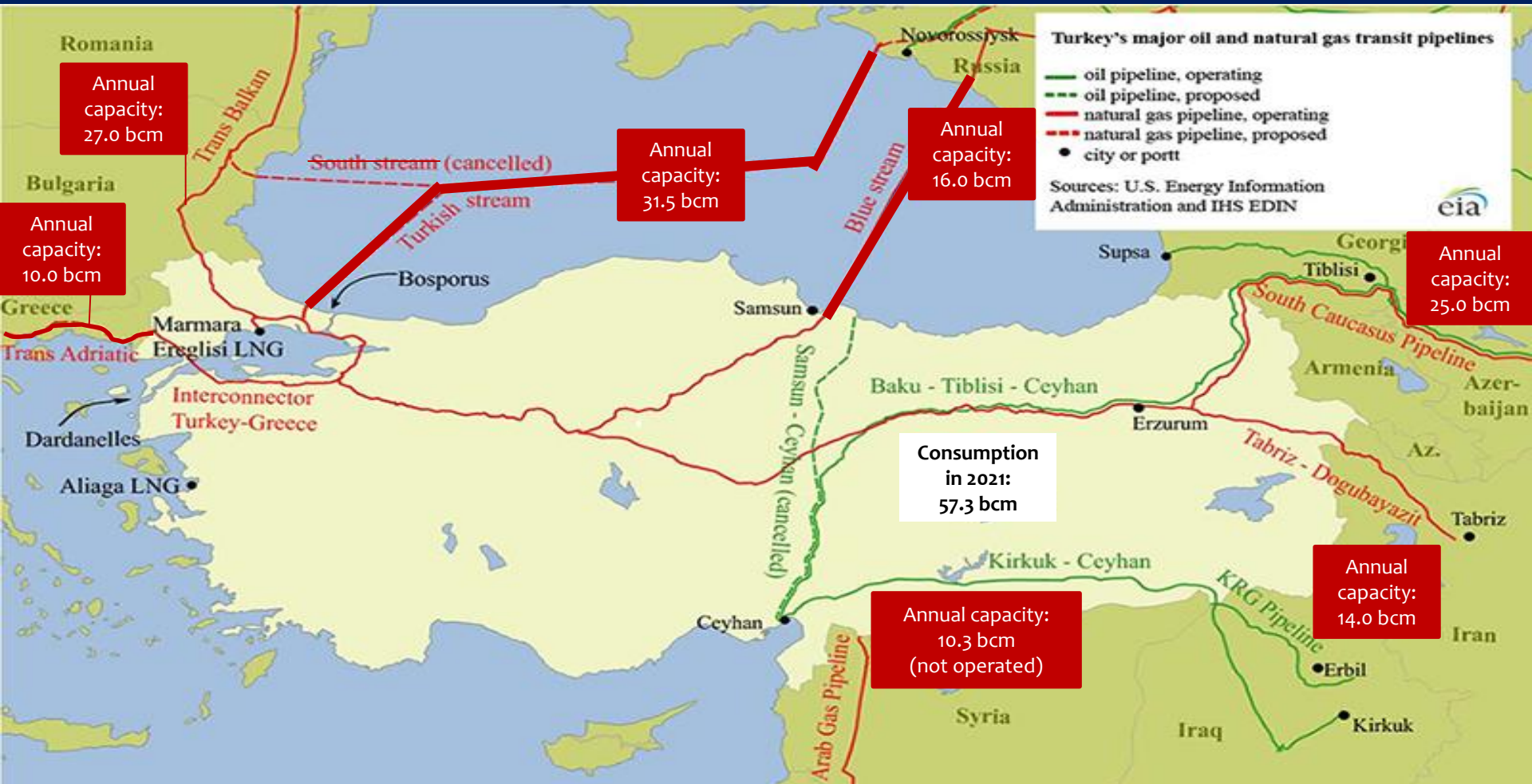


Gas imports from Russia during September 2021-August 2022 (terajoules)



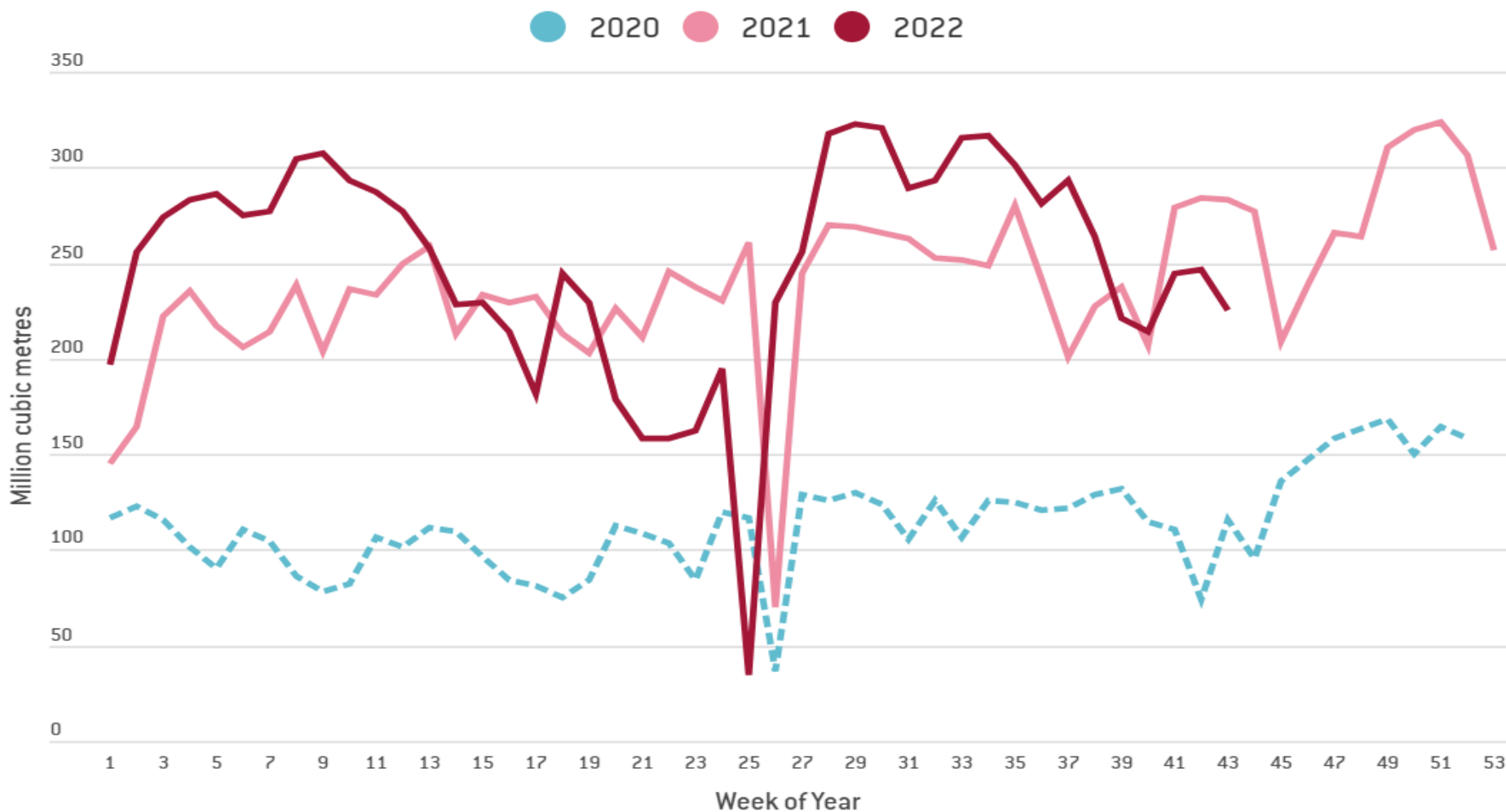
Turkey's natural gas consumption has quadrupled during this millennium. In 2021, Turkey consumed 57 bcm of natural gas. As Turkey does not produce any gas, it must import all gas consumed in the country. Nearly 15 bcm of gas was imported as liquefied natural gas (LNG) and the rest (c. 45 bcm) was transported via pipes. Almost 45% of LNG came from Algeria and over 30% from the USA. In 2021, Russia supplied 26.3 bcm of natural gas to Turkey, i.e. nearly 1/2 of total gas consumption. Turkey's gas imports from Russia has increased in August 2022 but the figures are in line with the figures of autumn 2021.

1c) Natural gas



Turkey is connected with several gas pipelines, 2 coming from Russia, namely the Turkish stream and the Blue stream. Their combined annual capacity is nearly 50 bcm, i.e. Turkey used only 1/2 of their capacity in 2021. In addition, Turkey has two operational LNG terminals: Aliaga in Marmara and Ereğlisi. Marmara Ereğlisi is located in the west of Istanbul and Aliaga is located in Izmir. Turkey has become a transit hub of natural gas to the EU. Turkey may forward gas, including Russian gas, to Greece and Bulgaria and further to Italy and Romania.

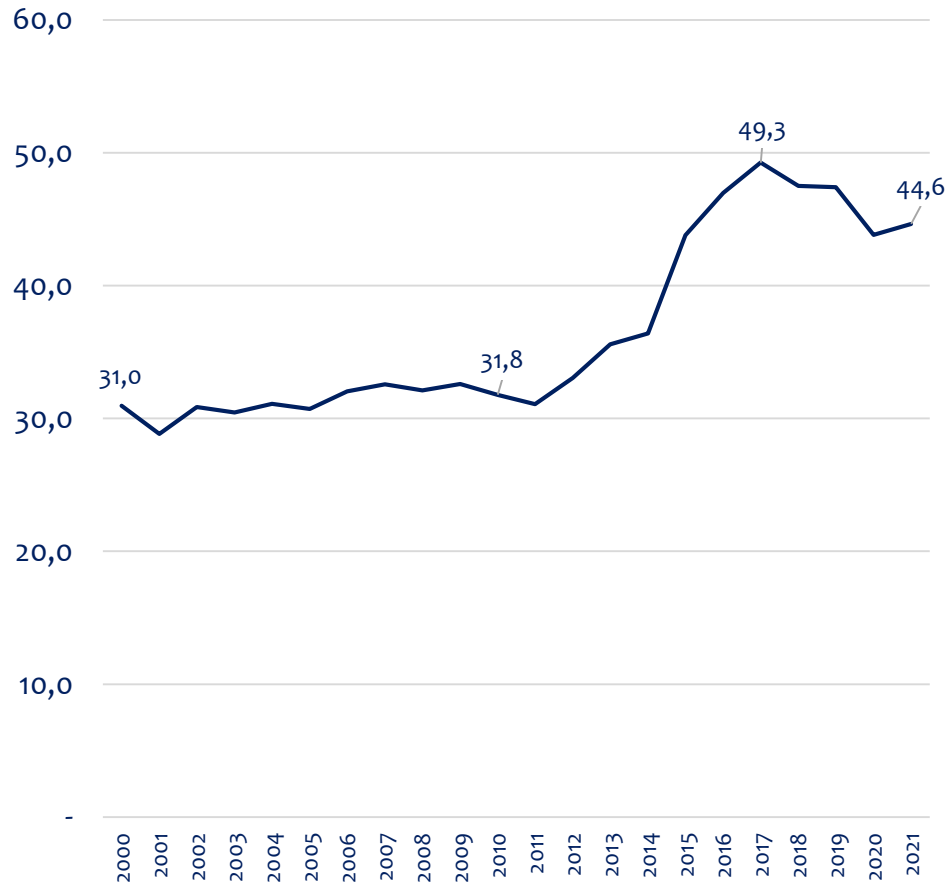
1c) Natural gas transit from Russia via Turkey to the EU



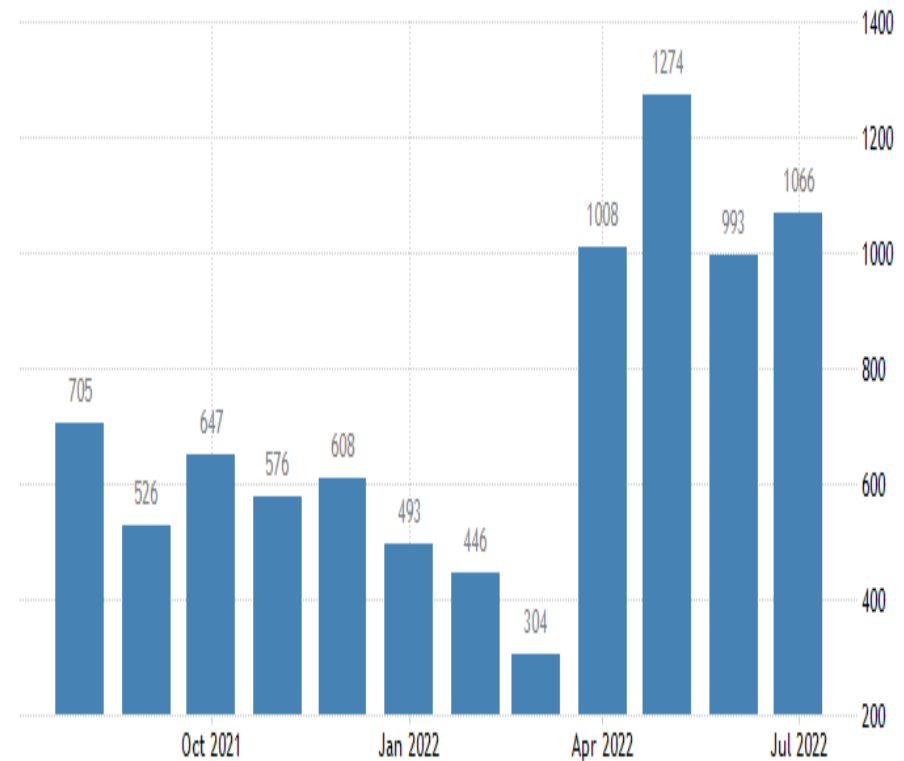
In Week 43/2022 (24-30.10.2022), more than a half of Russian pipe gas to the EU went through Turkey. A transit of Russian gas to the EU has not increased in autumn 2022 compared with the year earlier.

1c) Oil

Oil consumption in Turkey (million tonnes)



Turkey's crude oil imports from Russia during August 2021-July 2022 (thousand tonnes)



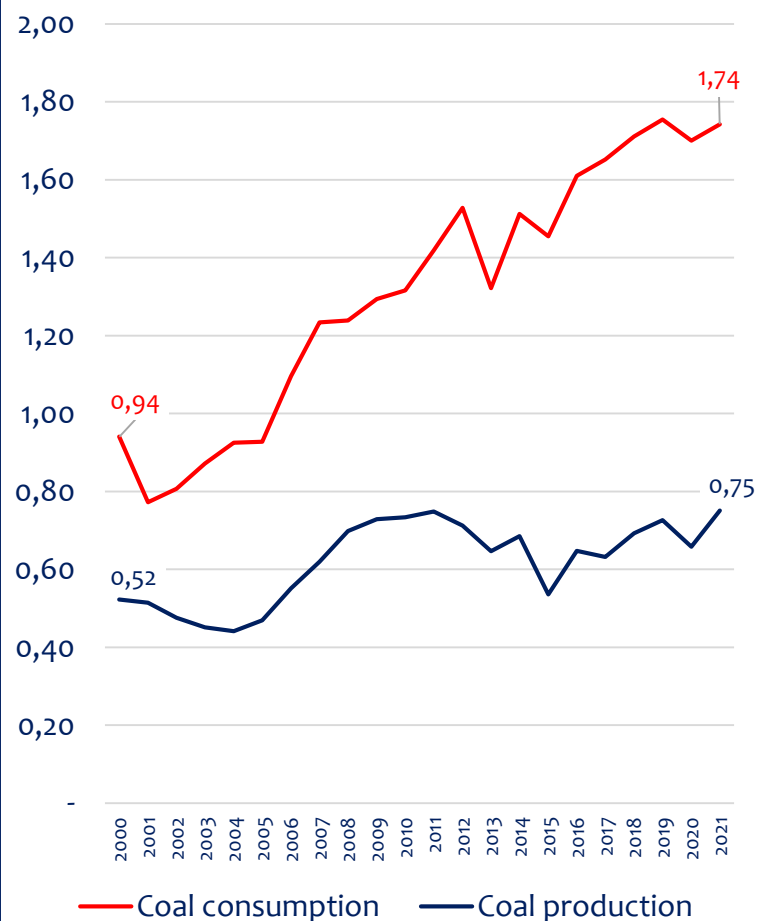
TRADINGECONOMICS.COM | EUROSTAT

Turkey's oil consumption remained relatively stable until 2011. Turkey's oil consumption has increased by 40% since 2011. In 2019, Russia met 33% of Turkey's crude oil imports and about the similar share of the country's oil product imports. Turkey's crude oil imports from Russia has grown after Russia's military attack to Ukraine, indicating that Turkey refines increasing amounts of Russian crude oil and sells its oil products to the European market.

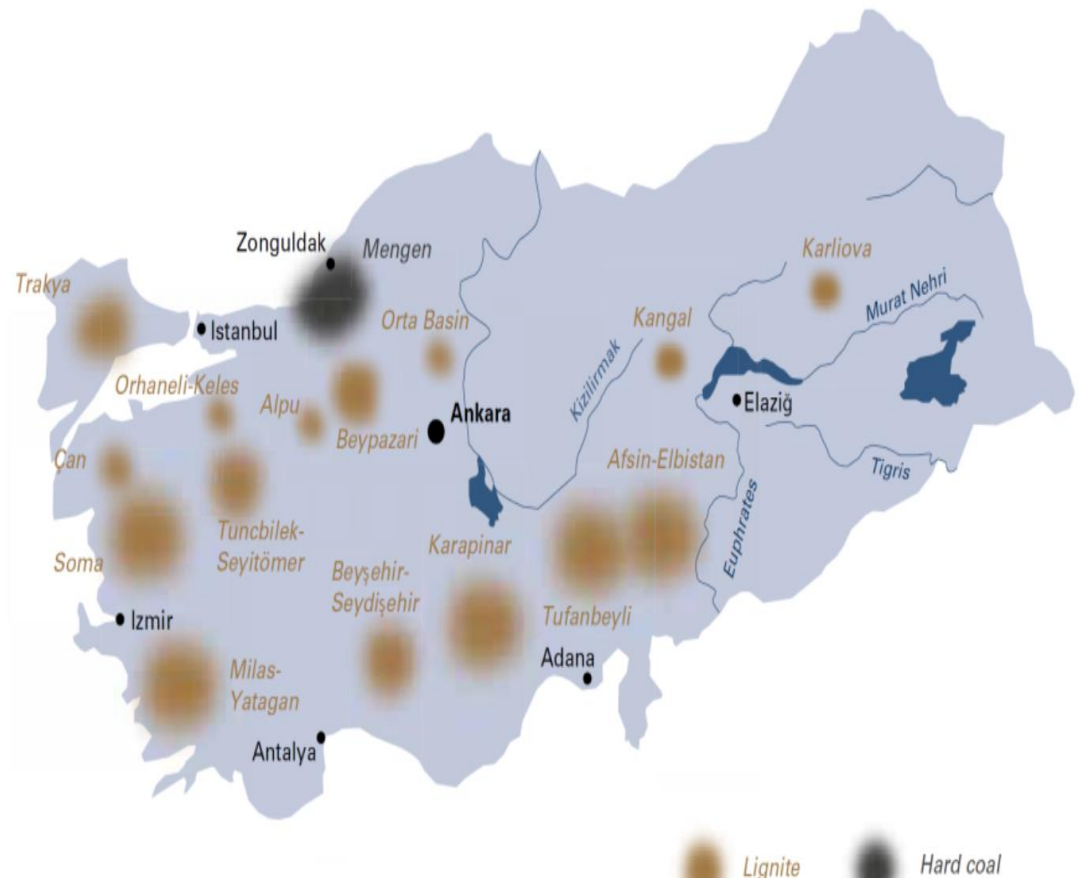
Sources: BP; Trading Economics; IEA

1c) Coal

Turkey's coal balance (exajoule)



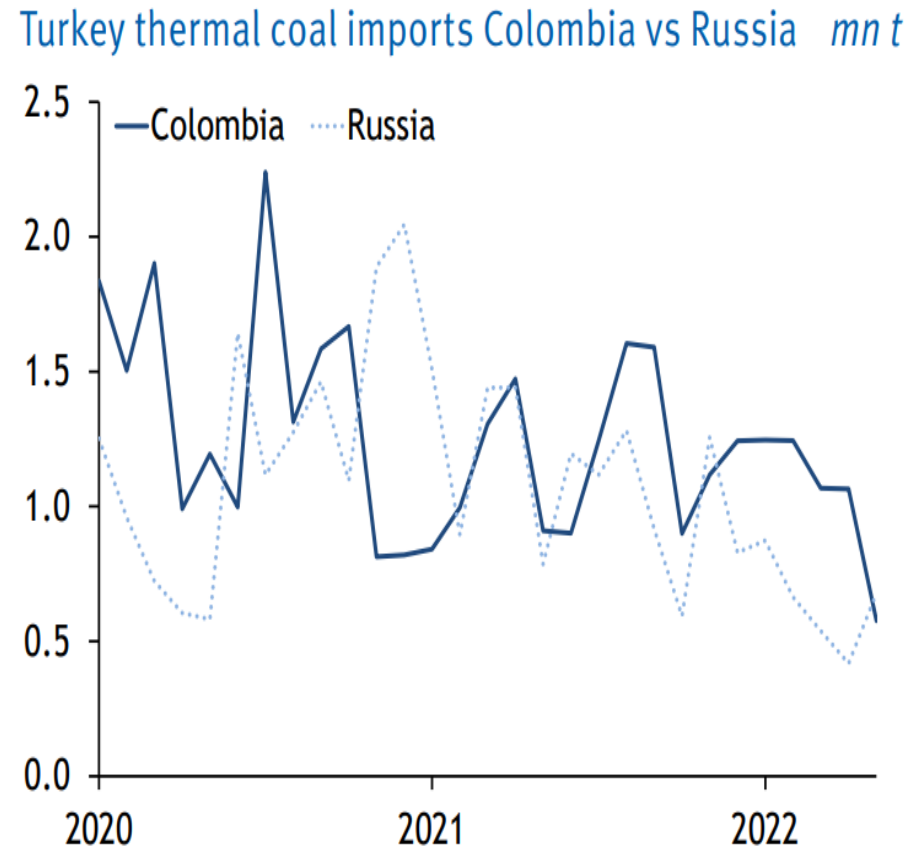
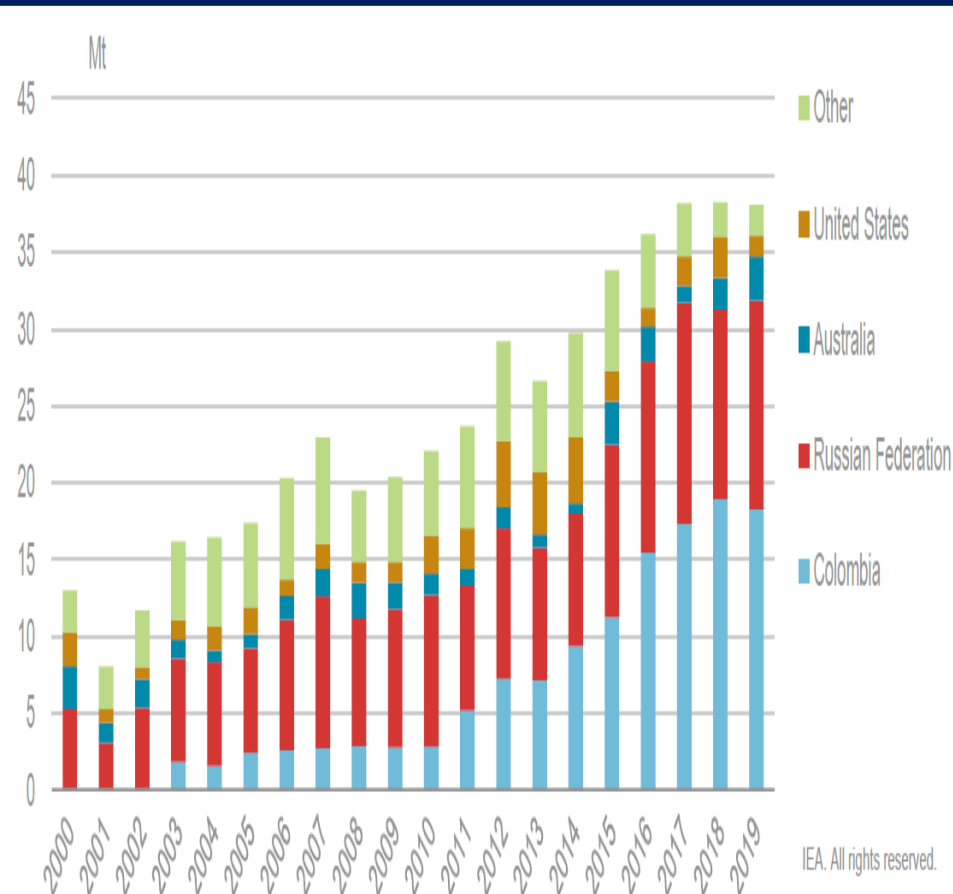
Turkey's coal deposits



In the beginning of the millennium, Turkey could meet more than 50% of its coal consumption with own production. In 2021, the share has dropped to approximately 40%.

Sources:
BP; IEA

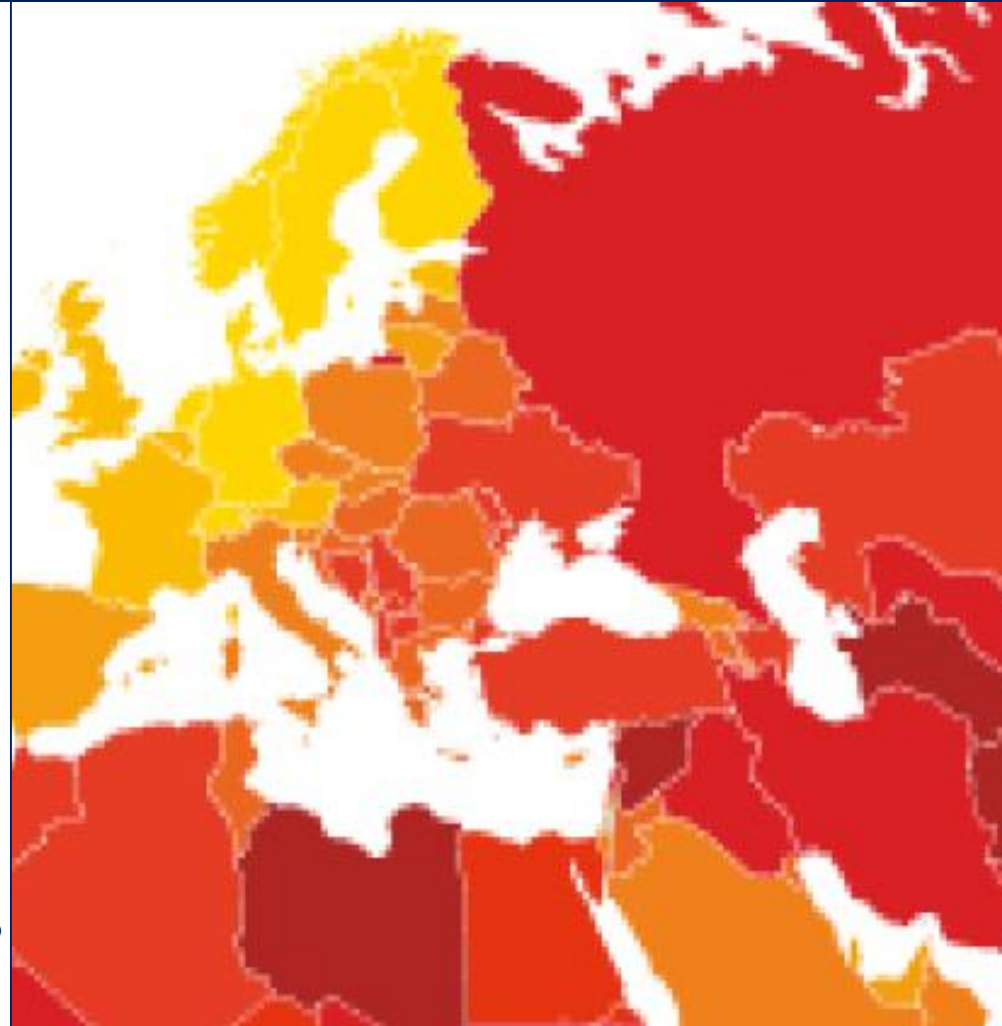
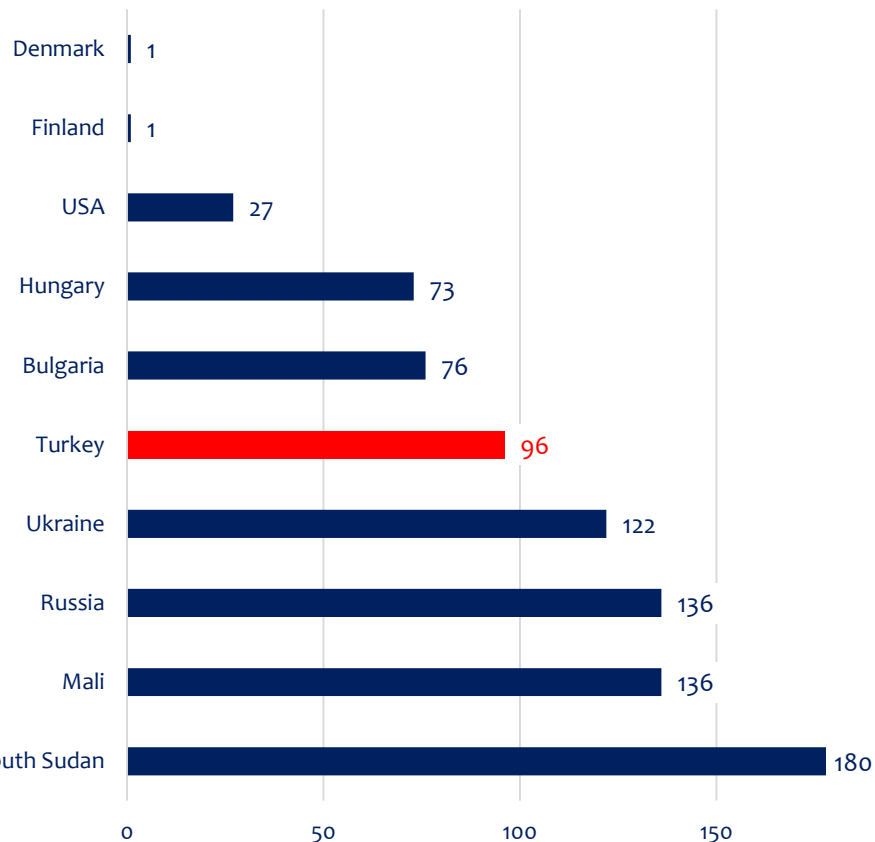
1c) Coal imports



In 2019, Russia amounted to 36% of Turkey's coal imports. In spring 2022, Turkey's coal imports have been declining. The EU banned coal imports from Russia starting from 10th of August 10, 2022. Russia will probably redirect its coal exports. According to Russian news service TASS, "in the first case, trade with EU countries will be carried on via Turkish traders, which will result in a reduction in the marginality of transactions for Russian coal companies and an increase in the cost of coal for consumers in the EU. In the second case, coal producers will redirect their supplies to the markets of China, India or Turkey."

1d) Corruption

Corruption perception in 2021
(180 countries ranked – higher the number,
larger corruption)

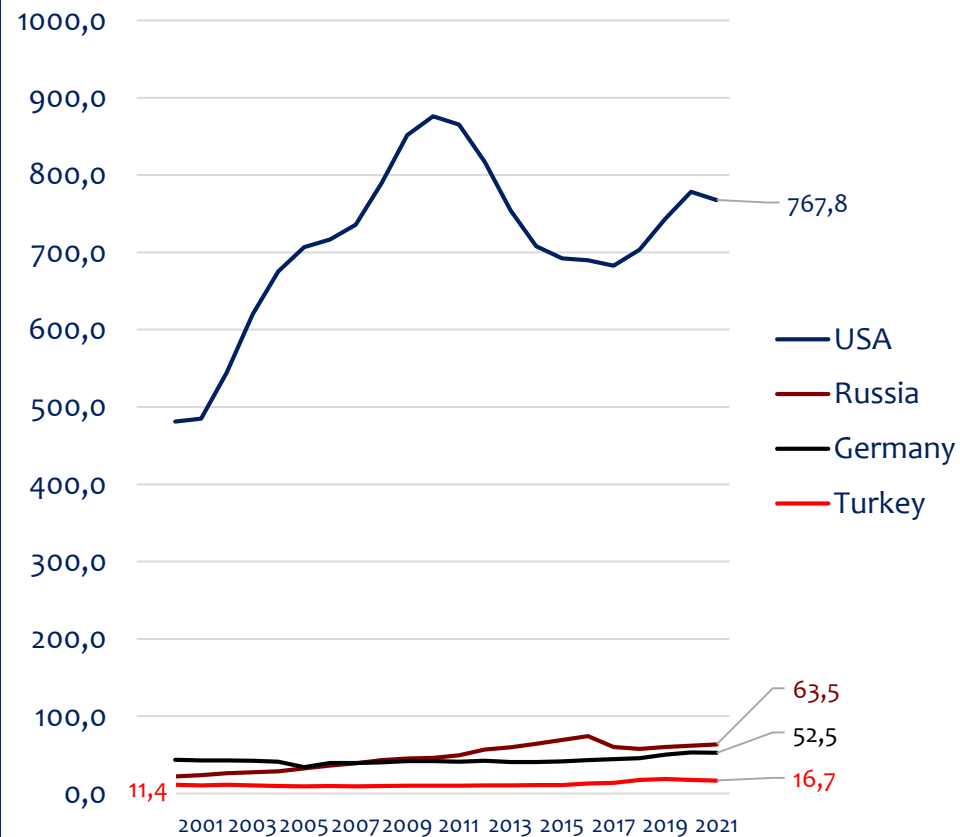


In 2021, Turkey was perceived as a more corrupt country than any of the EU member states. According to Transparency International, the corruption situation in Turkey has worsened during the past 10 years. In 2011, Turkey's rank was 61.

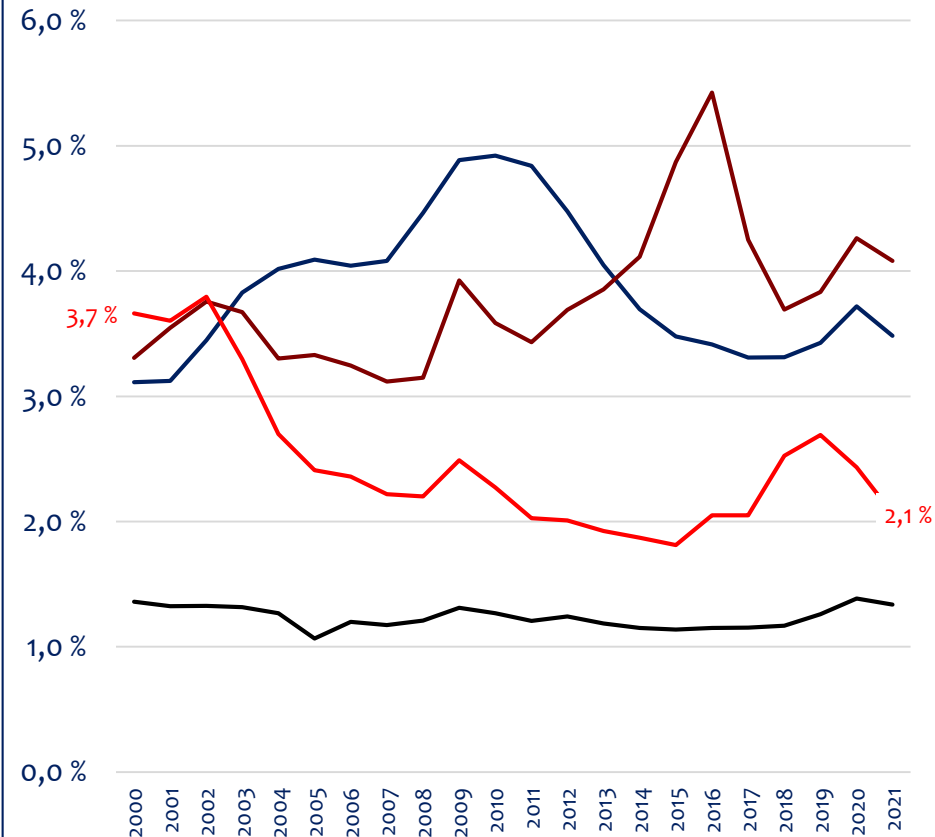
Source:
Transparency
International

1e) Military spending

Military spending
(\$ billion, 2020 constant prices)



Share of military spending of GDP
(%)



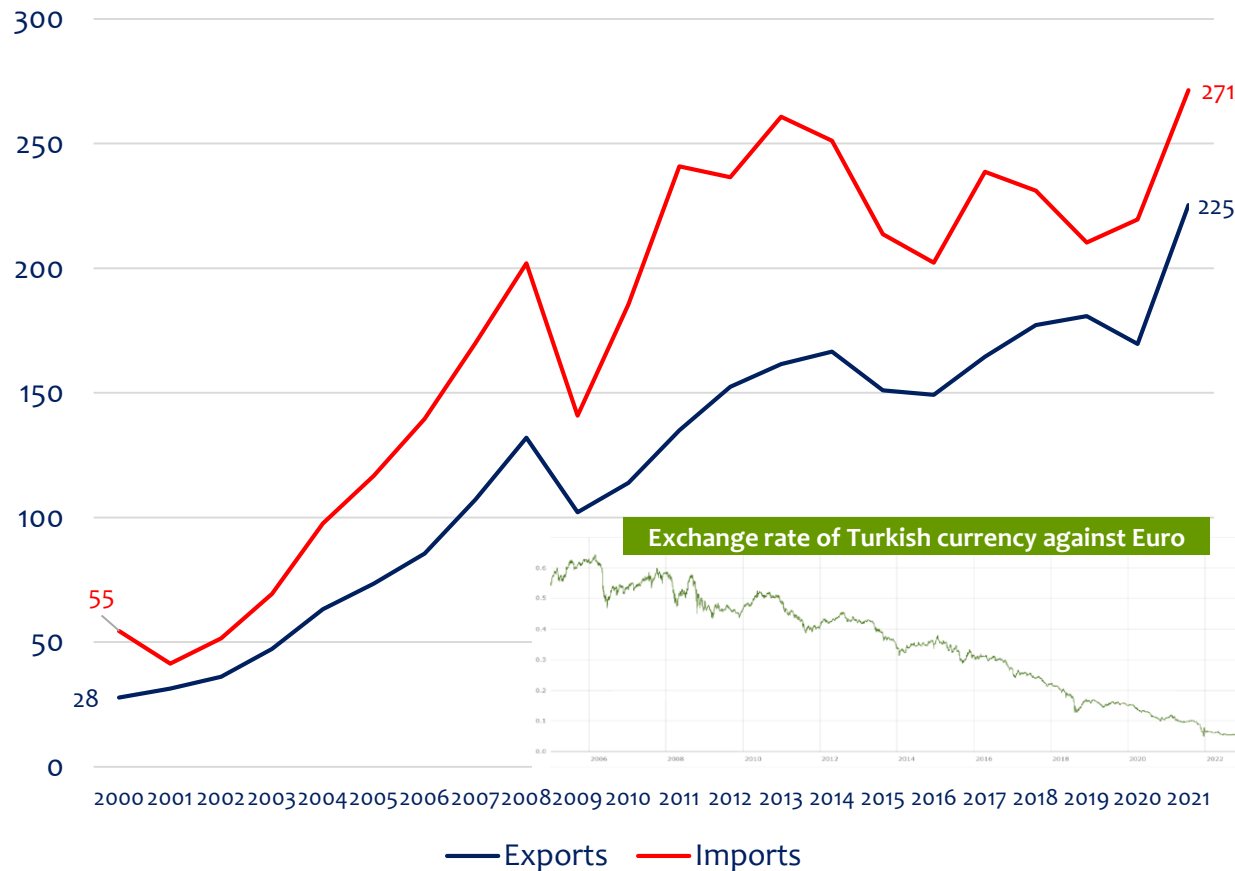
Turkey's military spending has increased by nearly 50% in this millennium. Despite the increase, Turkey's military expenditure is quite modest in international comparison. As an example, Spain (over \$ 18 billion) used more to its military than Turkey in 2021. Moreover, the military spending-GDP ratio of Turkey has declined in this millennium. Turkey's purchase of the Russian S-400 missile system in 2019 has put the Turkey-USA relations under severe strain.

2) Foreign trade



2a) Foreign trade development

Merchandise exports and imports (\$ million)

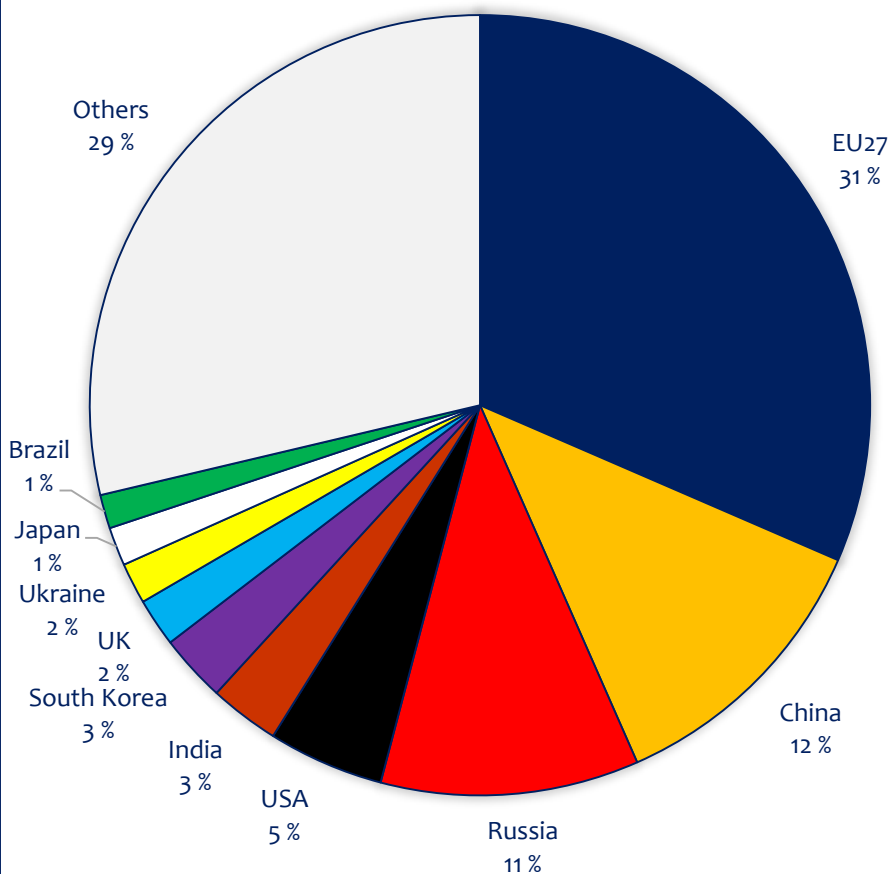


2020	Foreign trade / GDP (%)
Turkey	54
EU	27
Finland	50
USA	18
China	32

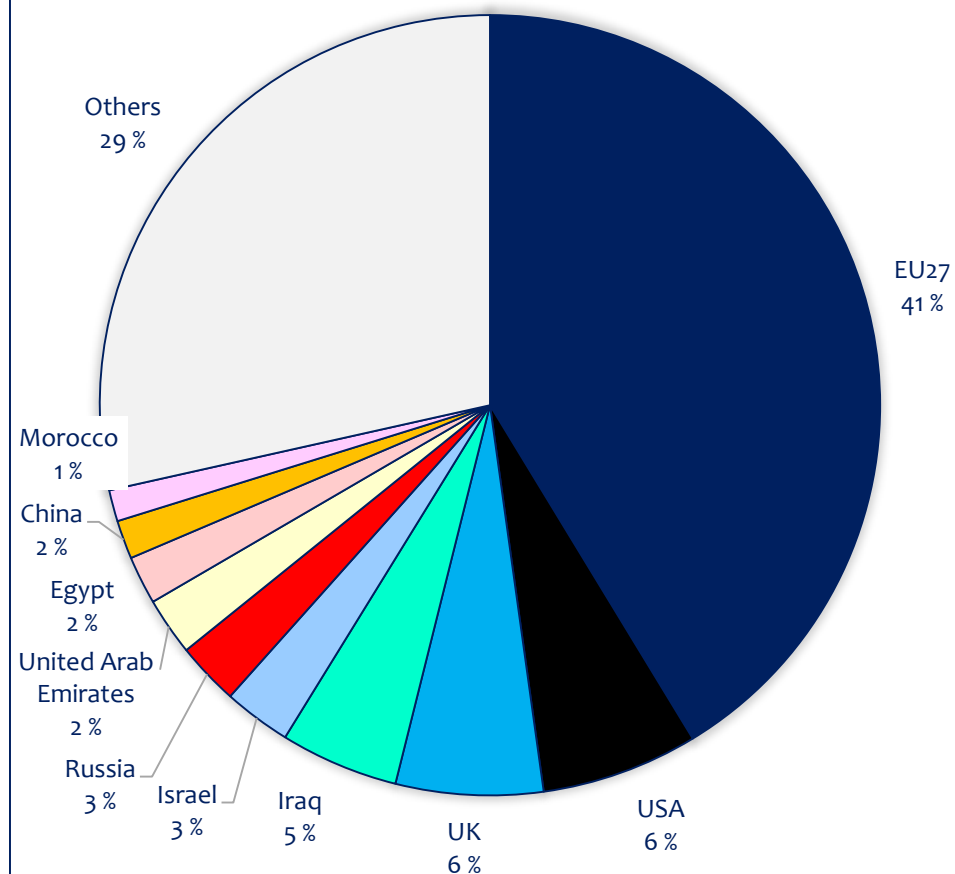
The Turkish foreign trade has grown by 6 fold since the year 2000, i.e. faster than the world trade in general. The world trade has increased “just” by 3.5 fold. Fast foreign trade growth has improved significantly the economic wellbeing in Turkey. The GDP per capita (PPP) in Turkey has doubled in this millennium. Simultaneously, Turkey has become more dependent on its foreign trade, i.e. external market forces. In 2000, the foreign trade-GDP ratio of Turkey was 30%.

2b) Foreign trade geography in 2021

Turkey's imports



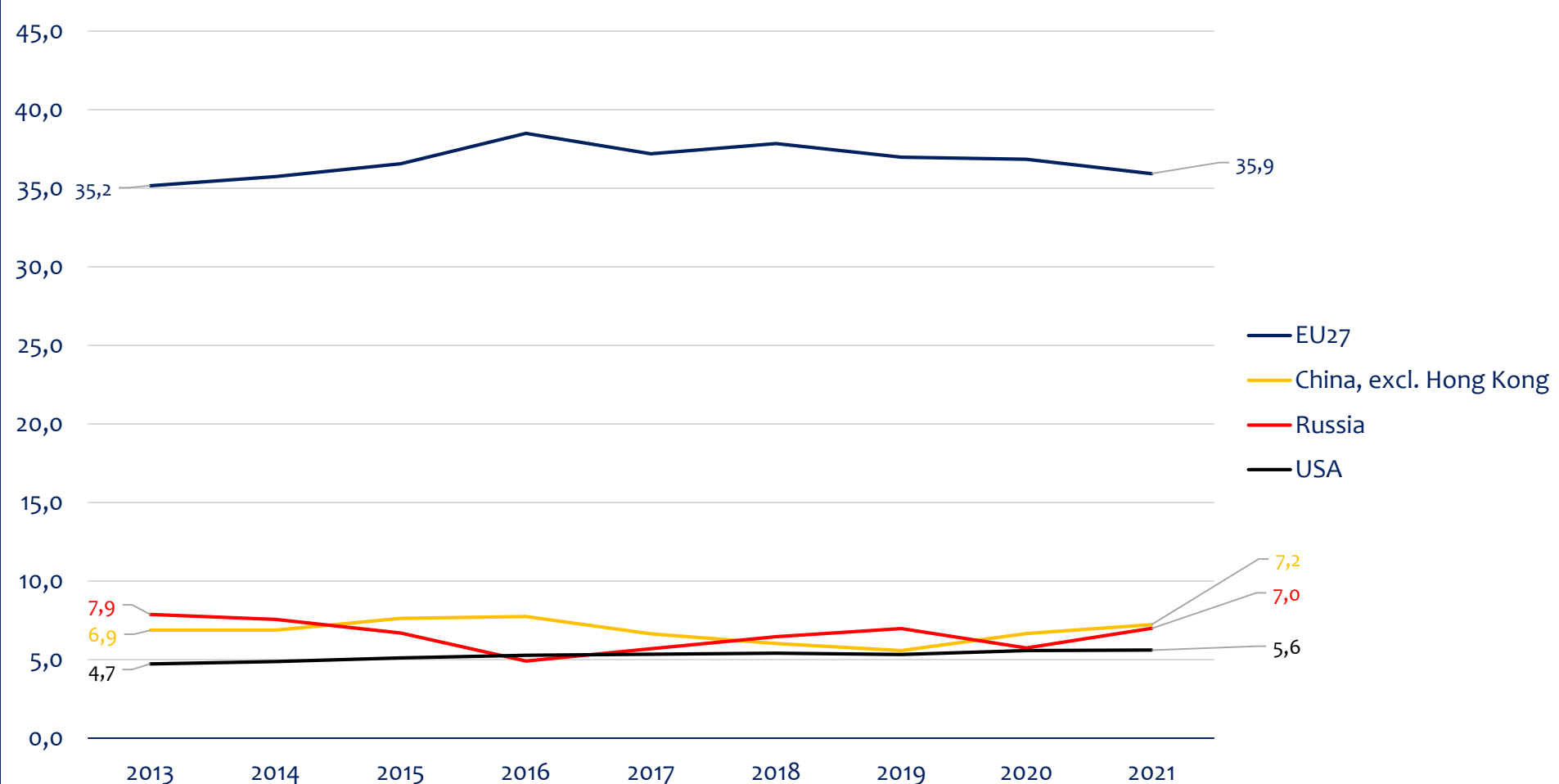
Turkey's exports



The EU is clearly Turkey's largest foreign trade partner. In 2021, China was Turkey's 2nd largest import partner with 12%. China's import share has grown fast. In 2000, China's share in the Turkish imports was less than 2.5%. In turn, the Chinese share in the Turkish exports was just 2% last year. The USA was Turkey's 2nd largest export destination in 2021.

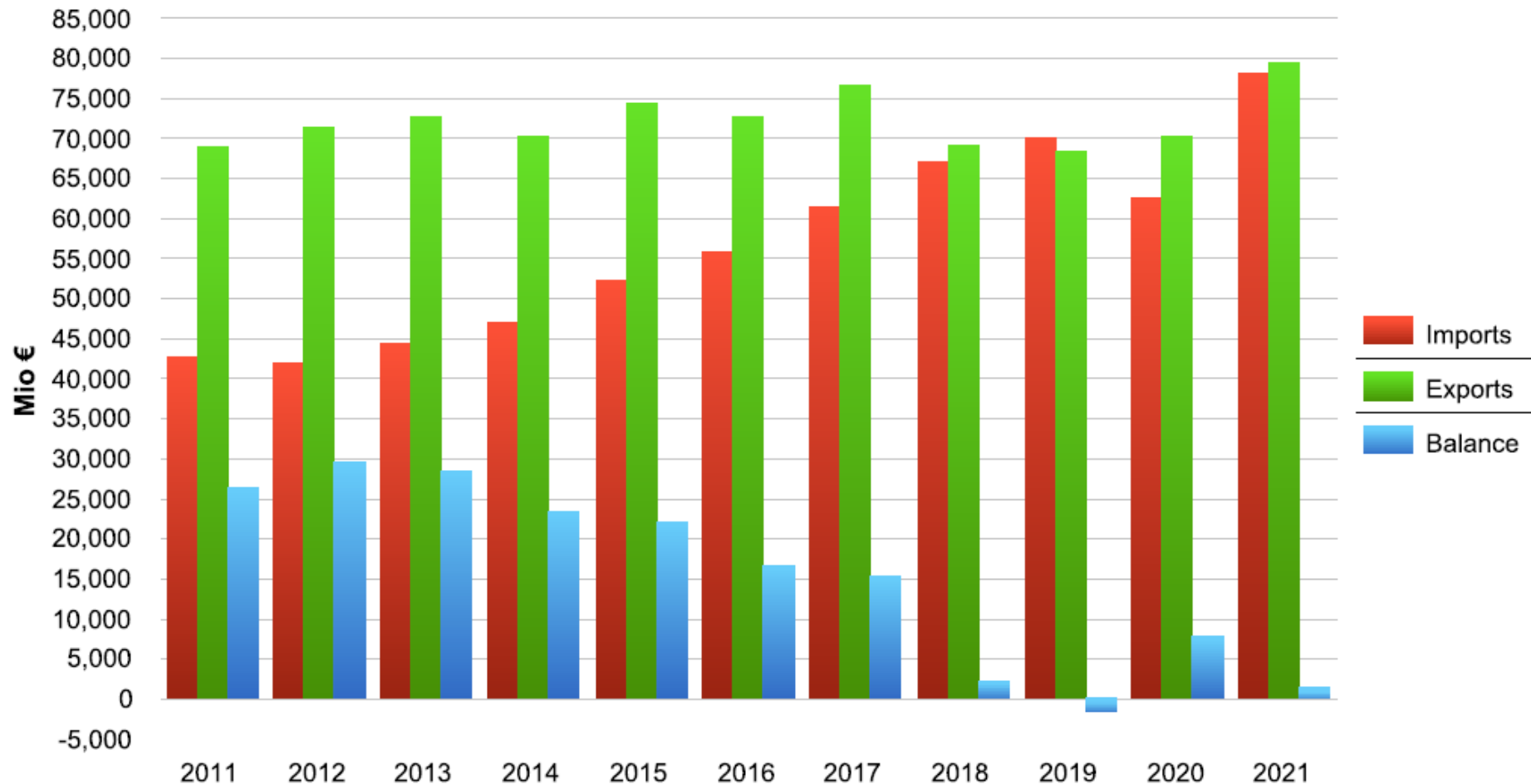
2b) The importance of Turkey's main trading partners

The development of the foreign trade share of Turkey's main trading partners (%)



As a consequence of the war in Ukraine, Turkey will take Russia's place as the EU's 5th largest trade partner. In 2021, Turkey covered nearly 4% of the EU's external trade.

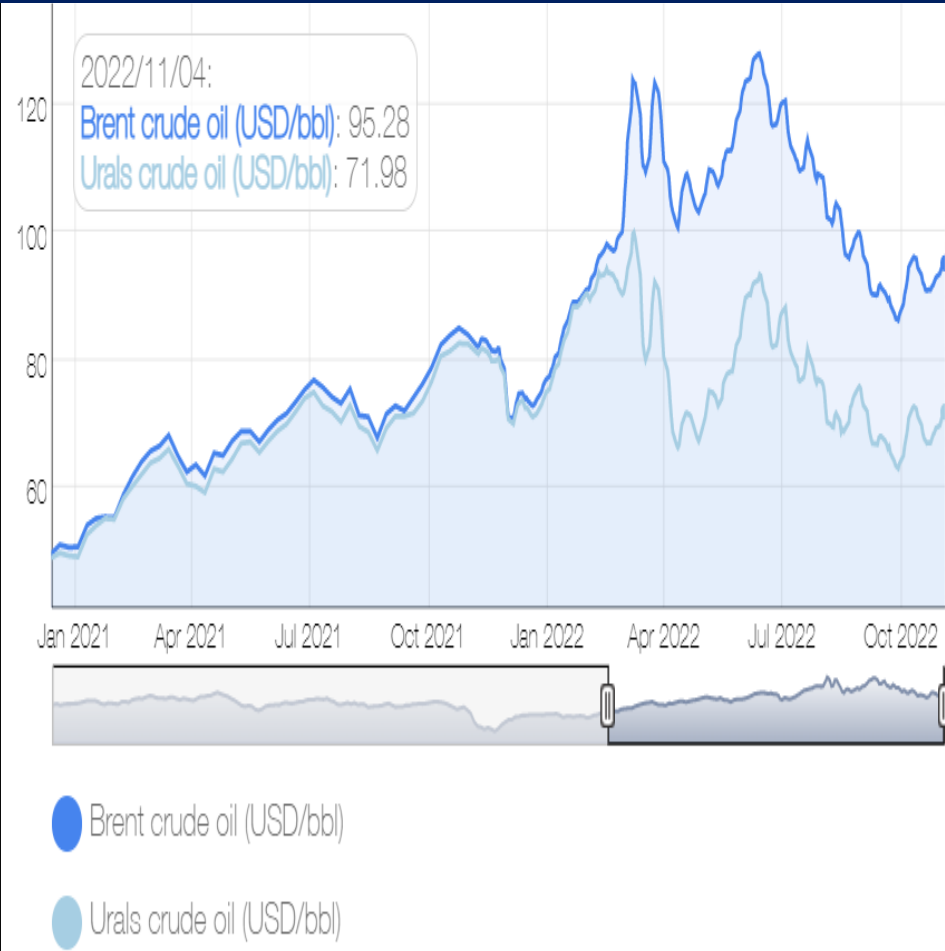
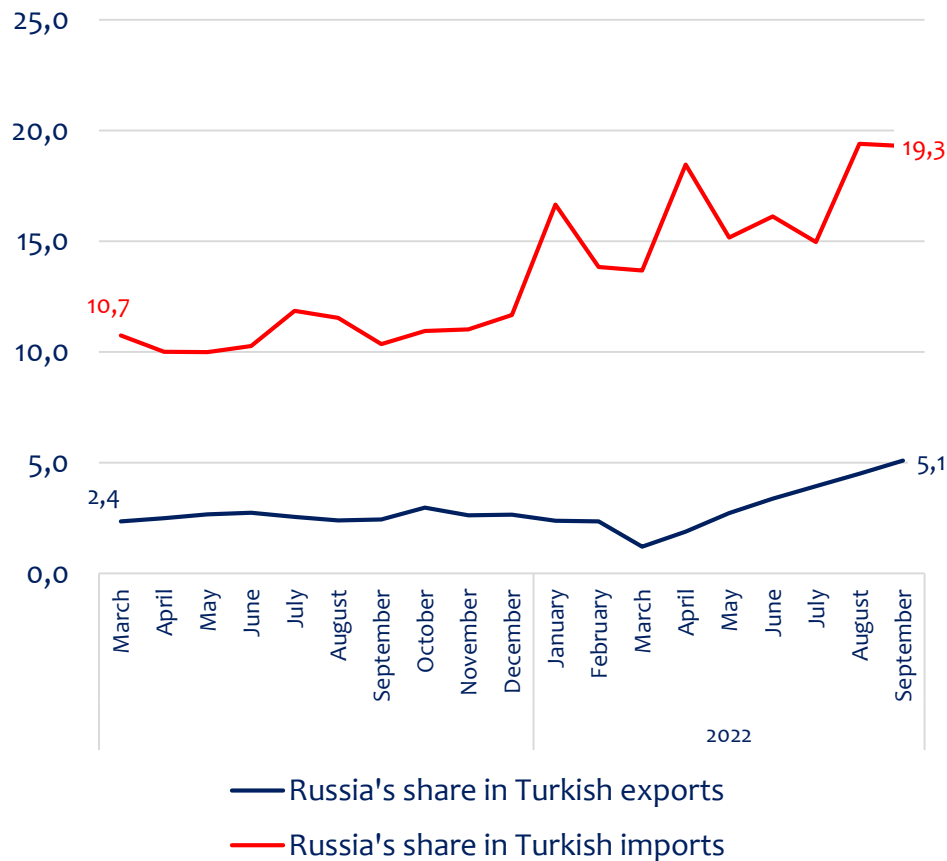
2b) The development of the EU-Turkey trade



The EU's trade balance with Turkey was still positive for the EU in 2021, but during past 10 years the EU's trade surplus with Turkey has evaporated.

2b) The development of Russia's share in the Turkish foreign trade

Russia's share in the Turkish foreign trade in 2021-2022 (%)

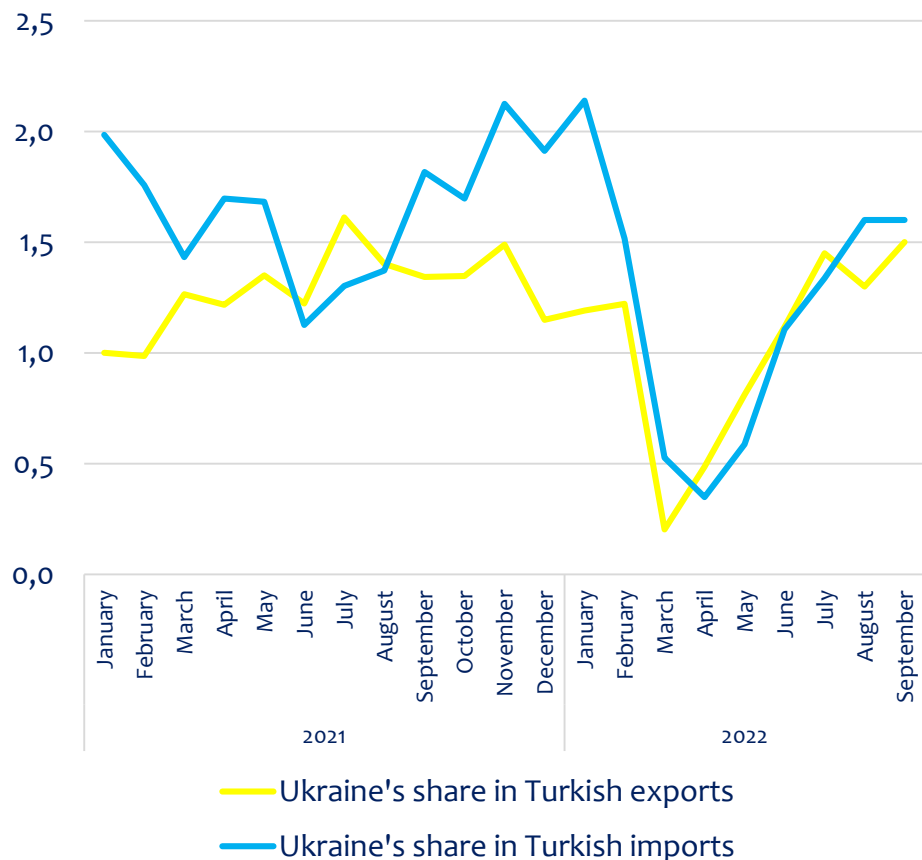


Russia's share in the Turkish foreign trade has increased since the beginning of Russia's invasion of Ukraine on 24th of February, 2022. Oil price development is reflected in Russia's share in the Turkish imports.

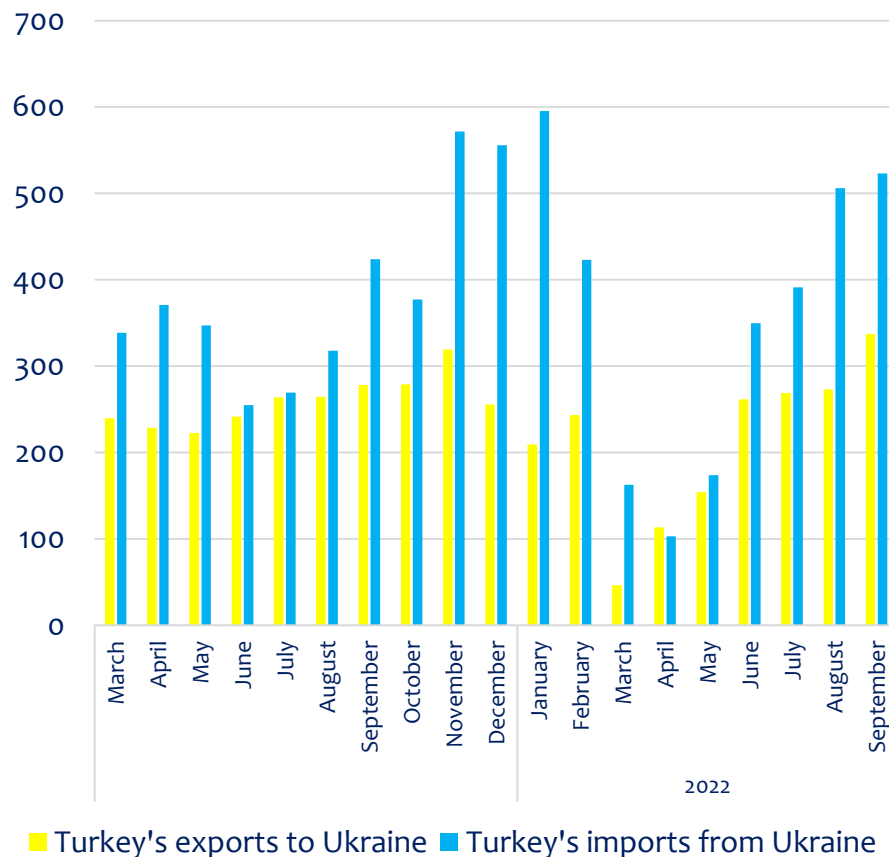
Sources: Turkstat; Neste Oyj

2b) The development of Ukraine's share in the Turkish foreign trade

Ukraine's share in the Turkish foreign trade in January 2021-September 2022 (%)

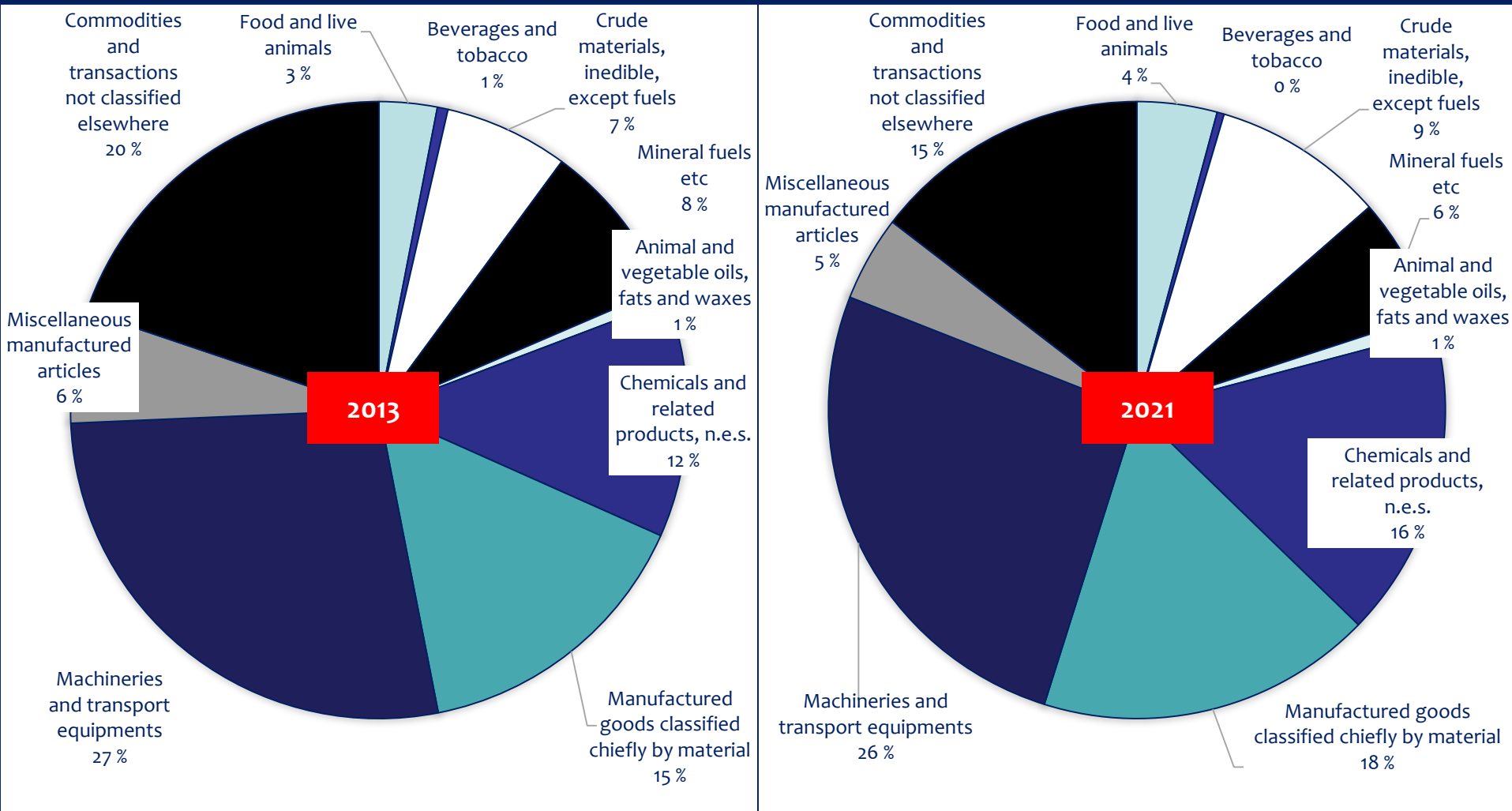


The Turkey-Ukraine trade in January 2021-September 2022 (\$ million)



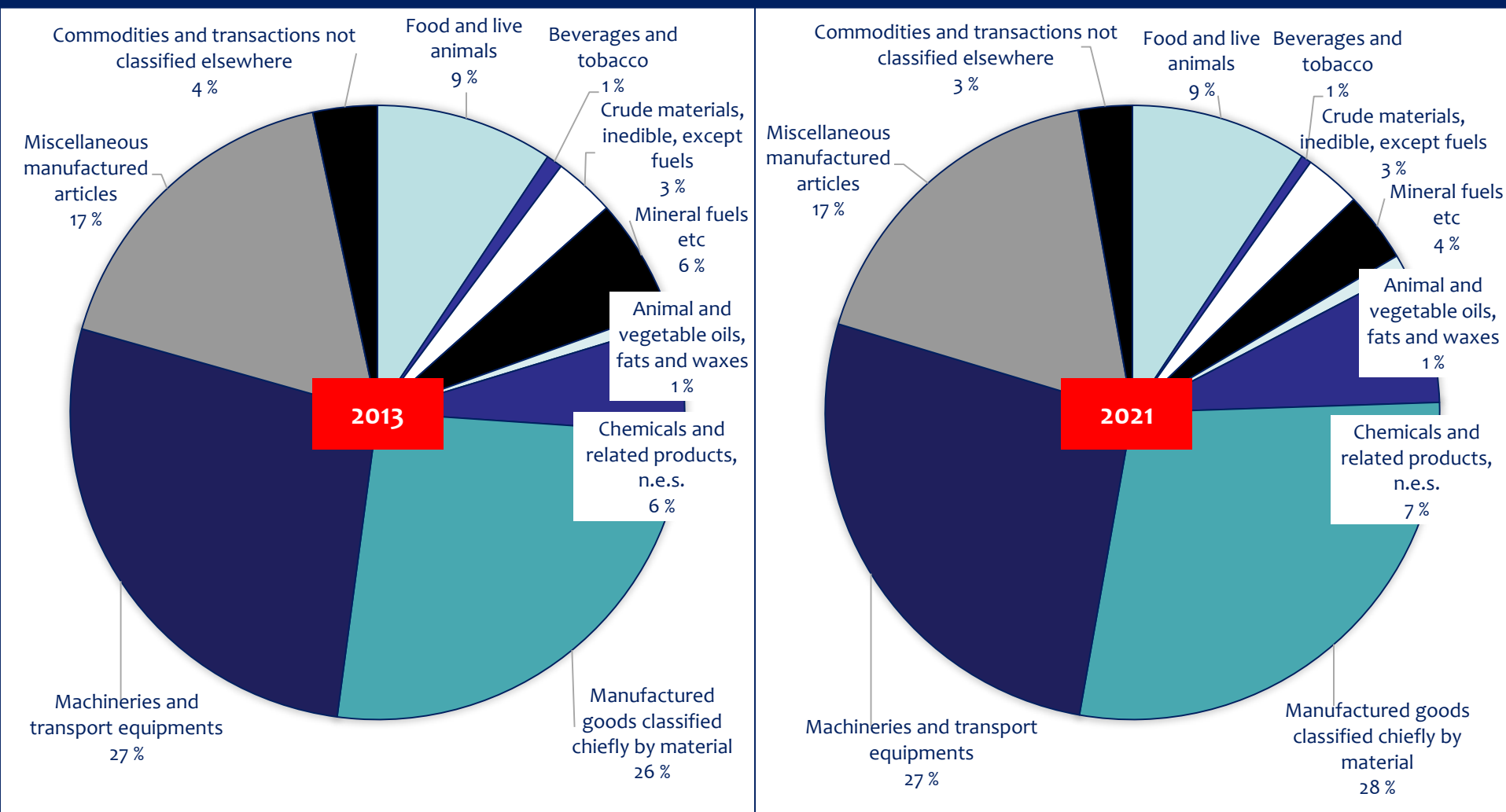
The Turkey-Ukraine trade has almost recovered from Russia's military attack towards Ukraine launched at the end of February 2022.

2c) Import structure in 2013 and 2021



The import structure of Turkey has remained relatively unchanged between 2013 and 2021. Machinery and transport equipment is the largest import item, covering $\frac{1}{4}$ of Turkey's total imports.

2c) Export structure in 2013 and 2021



Even if the Turkish exports have grown substantially between 2013 and 2021, the export structure has transformed surprisingly little. In 2021, iron and steel covered nearly 1/3 of the group “Manufactured goods classified chiefly by material”. Road vehicles covered over 1/10 of Turkey’s total exports in 2021.

3) Foreign investment



200 TÜRK LİRASI



100 LİRA



50 TL



20 TL



10 TL



5 TL



1 TL



50 KURUŞ



25 KR



10 KR



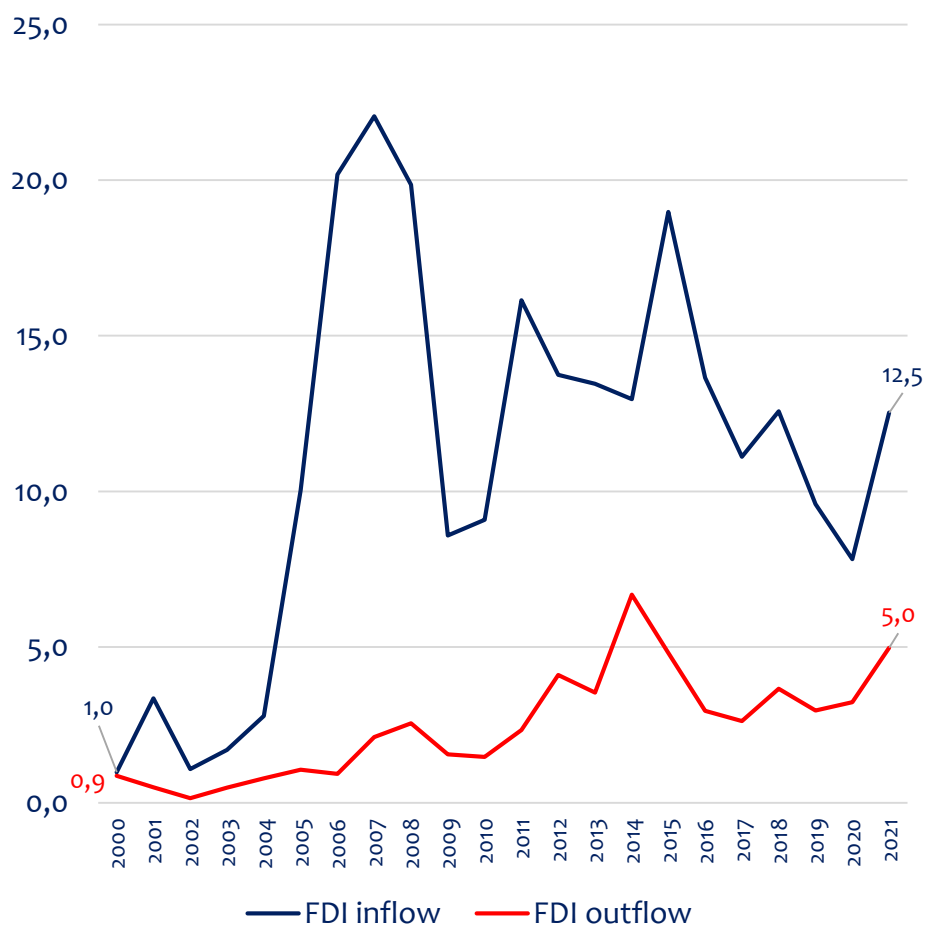
5 KR



1 KR

3a) Foreign investment development

Annual FDI inflow and outflow (\$ billion)

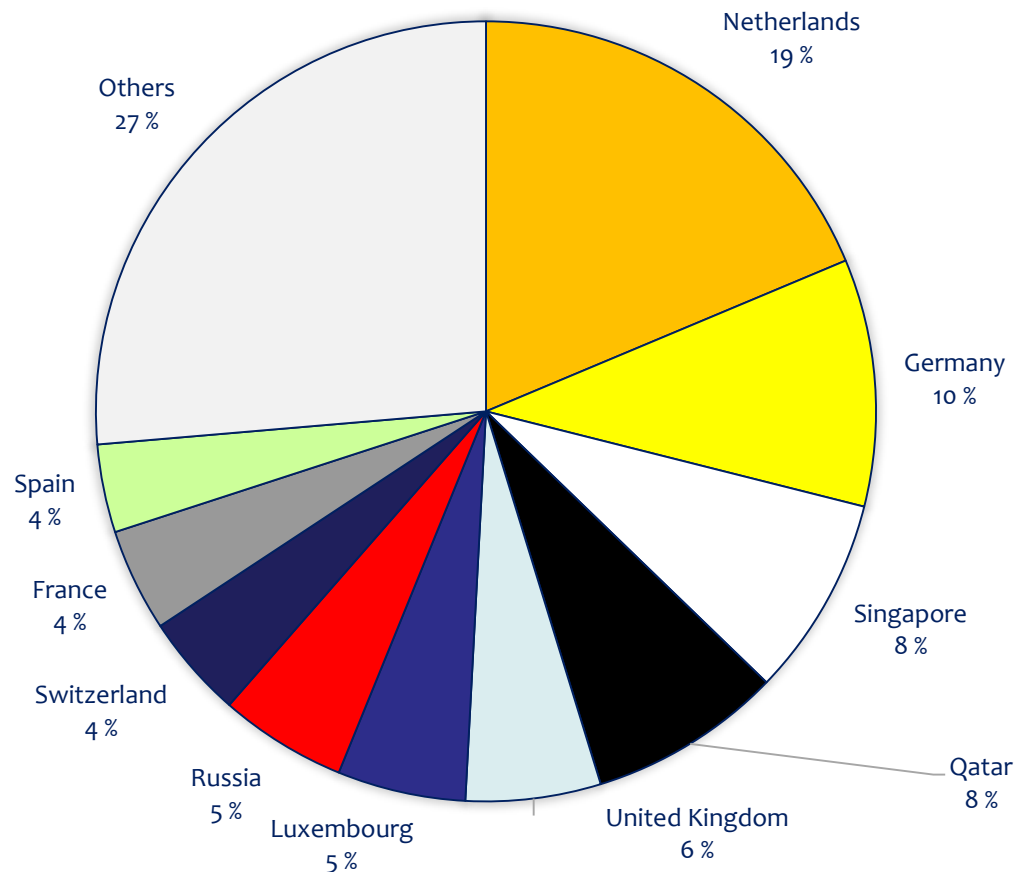


2021	Inward FDI stock (\$ per capita)	Outward FDI stock (\$ per capita)
Turkey	1,419	674
Germany	13,577	25,522
Netherlands	150,015	195,472
USA	40,551	29,220
China	1,429	1,788

Turkey's FDI inflow and outflow have grown considerably during the past 15 years. Moreover, the FDI flows are recovering from the COVID pandemic. Despite the growth, both Turkey's inward FDI stock and its outward FDI stock per capita are modest. Turkey's inward FDI stock valued at \$ 120 billion and outward FDI stock nearly \$ 60 billion at the end of 2021.

3b) Foreign direct investment in Turkey

Turkey's FDI stock by country at the end of 2021 (equity)

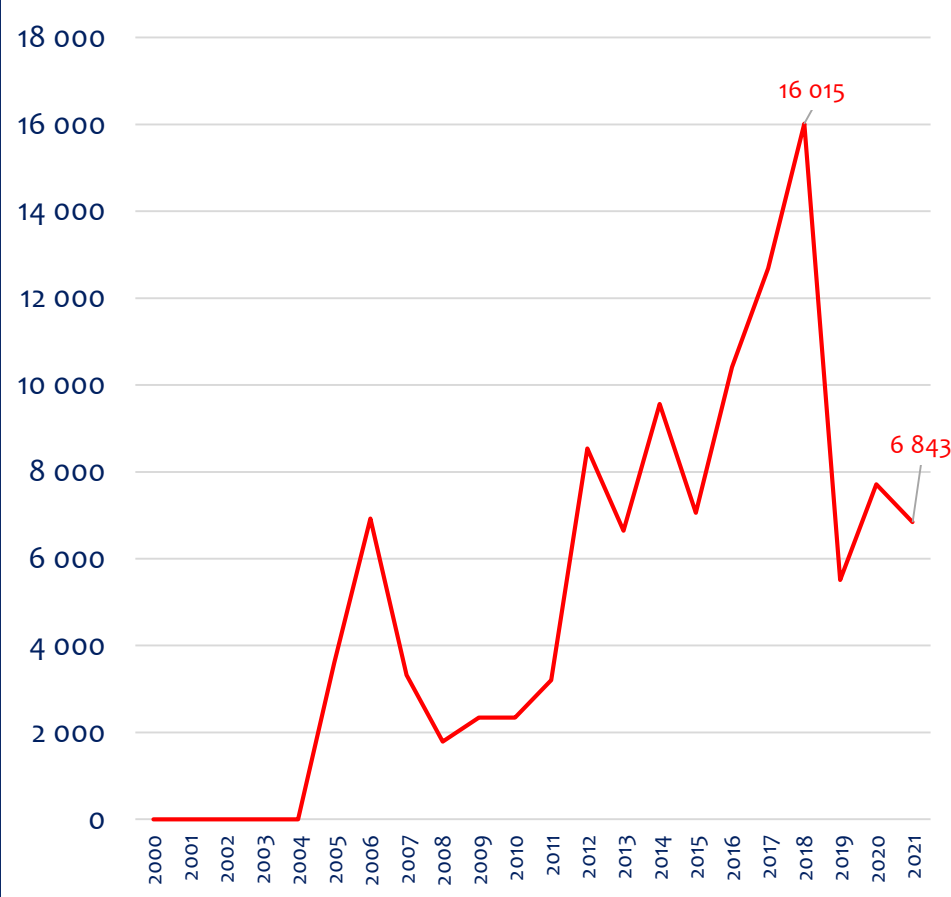


Even if the Netherlands is the largest foreign investor in Turkey, one should not forget that the Netherlands is frequently used as a capital transit country, i.e. only a part of the investments from the Netherlands is genuinely Dutch by real origin.

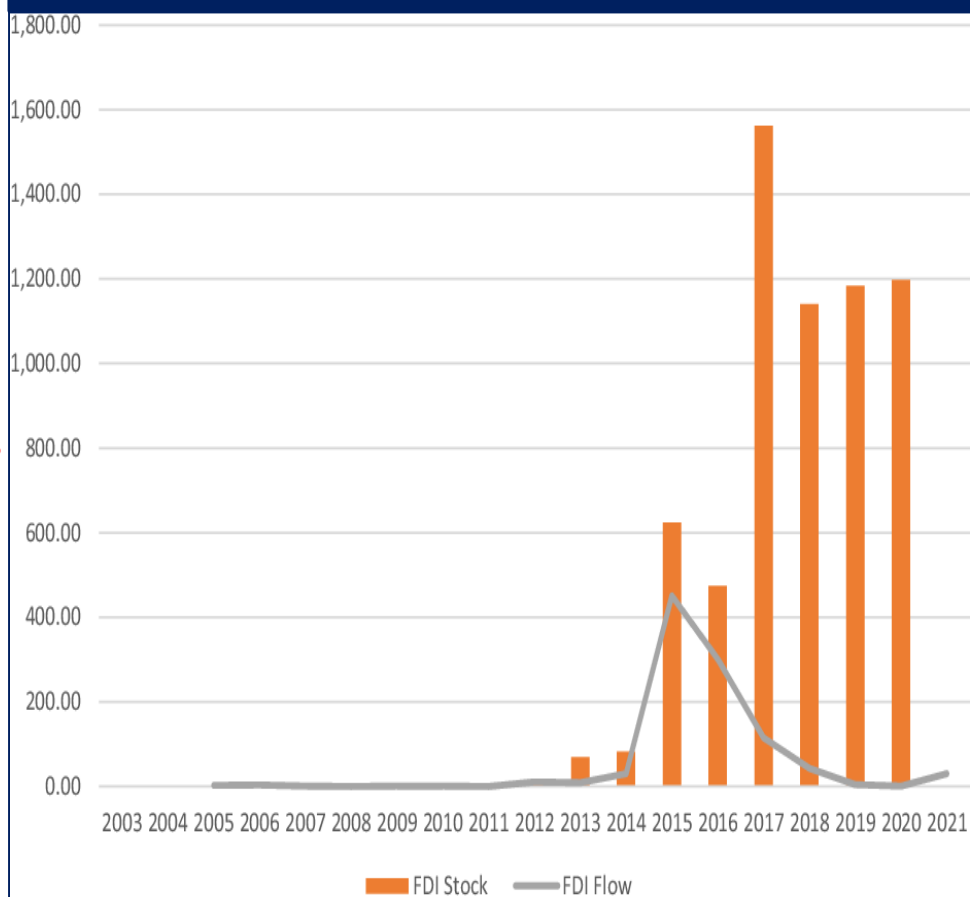
Russia covered some 5% of Turkey's inward FDI stock at the end of 2021. China does not appear in the top 10.

3b) Russian and Chinese direct investment in Turkey

The inward FDI stock of Russia in Turkey
(end of year, \$ million)



The Chinese FDI stock in and FDI flow to Turkey
(end of year; \$ million)

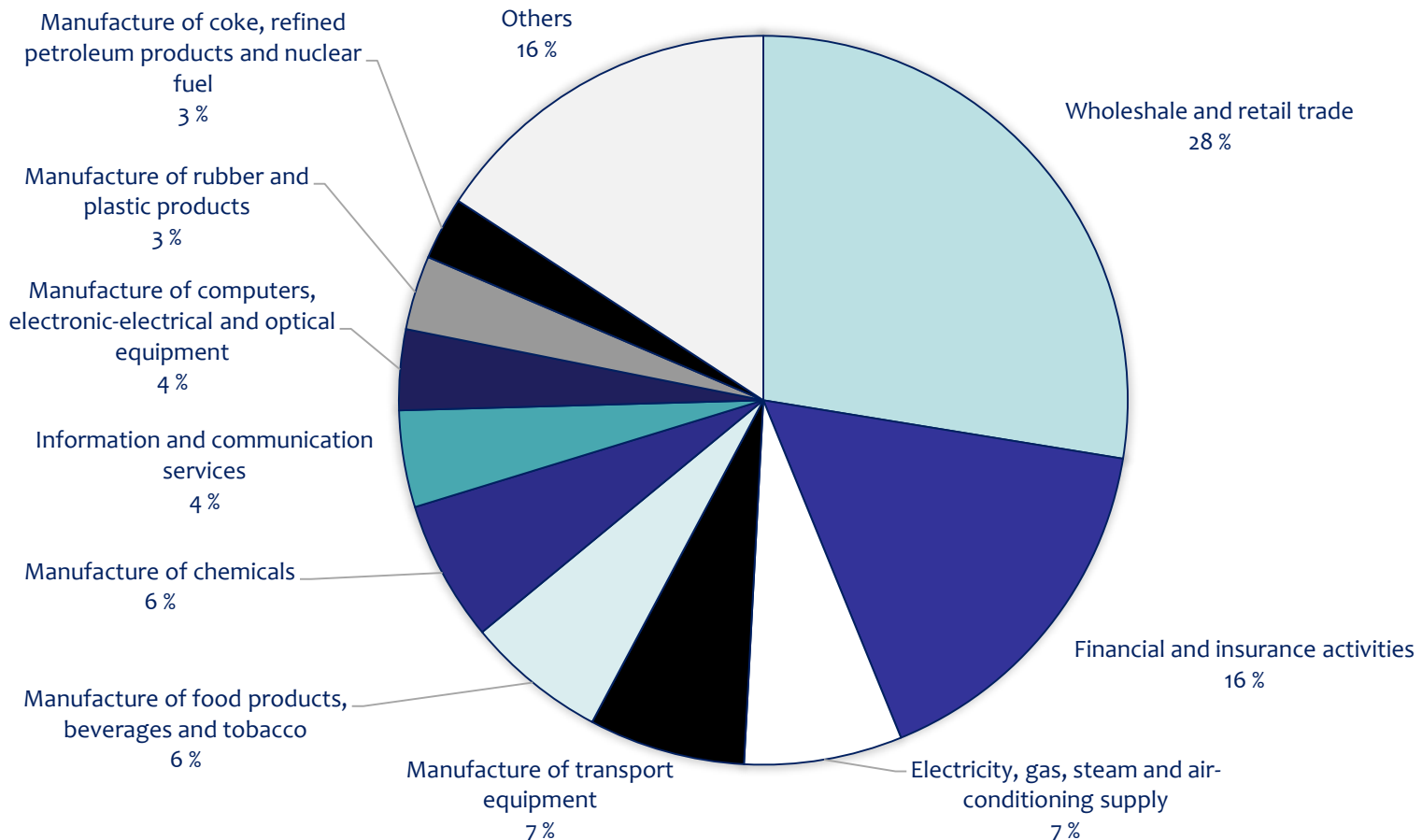


Russia's FDI stock has radically diminished from \$ 16 billion to some \$ 7 billion during 2018-2021. The Chinese FDI stock in Turkey peaked in 2015-2017, but thereafter the Chinese FDI inflow to Turkey has almost stopped.

Sources: Central Bank of Turkey; Gürel & Kozluca

3b) Foreign investment structure by the end of 2021

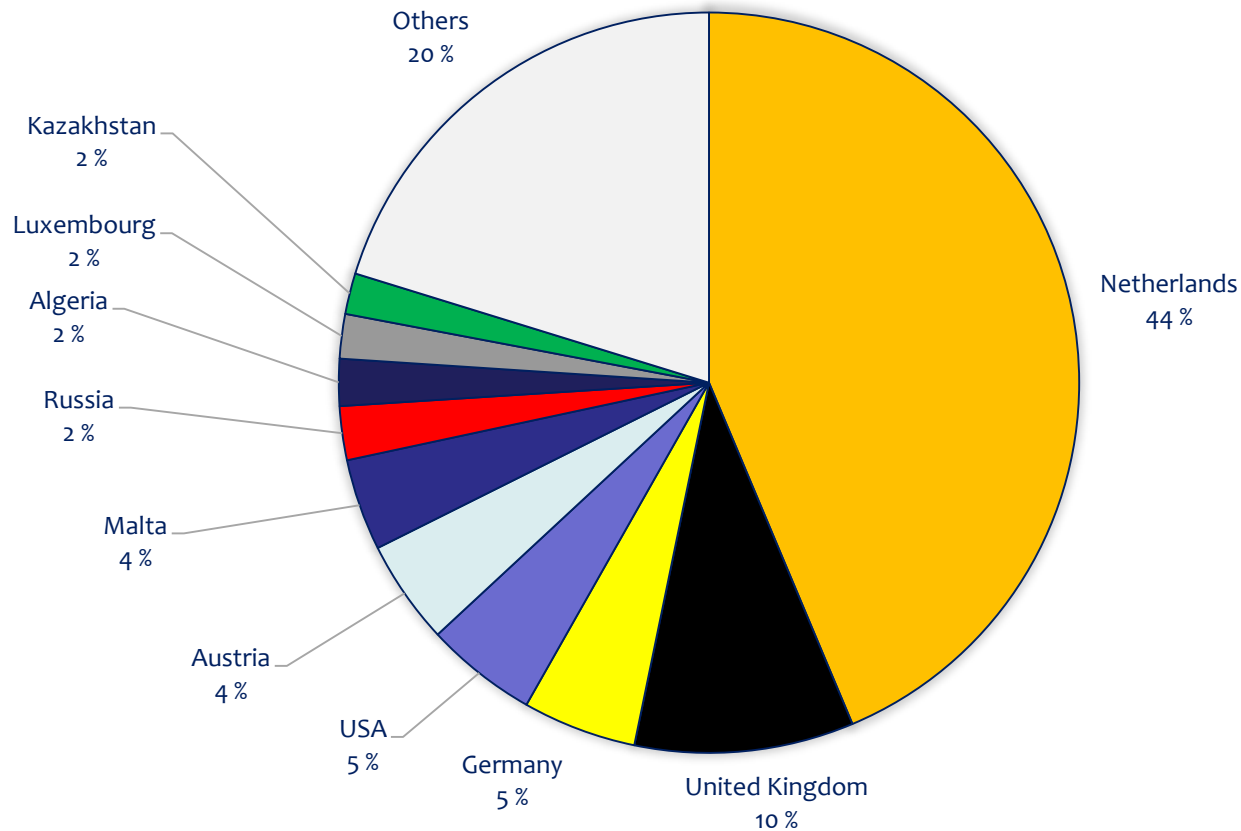
Turkey's FDI stock by industry at the end of 2021 (equity)



Unsurprisingly, foreign investors have invested the most to trade and finance sectors.

3c) Turkish investment abroad

The investments of the Turkish residents abroad by the of 2021



The majority of the Turkish capital has landed in the Netherlands and the United Kingdom. As these two countries account for a great share of Turkey's inward FDI stock as well, one may assume that there is a linkage between these investment flows, i.e. some Turkish citizens (residents) may hold the Netherlands and the UK as a safe haven of their capital. $\frac{3}{4}$ of the Turkish investment abroad have been placed in the financial sector. Capital outflow from Turkey has recently increased.

4) Foreign tourism



4a) Foreign tourism development

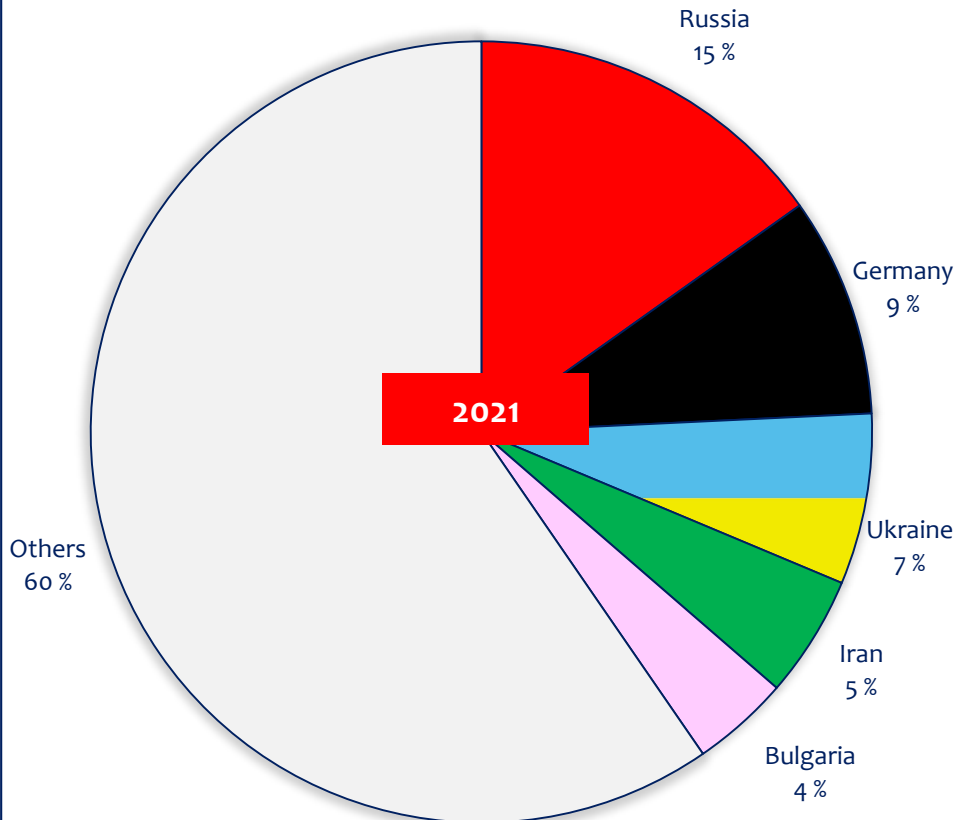
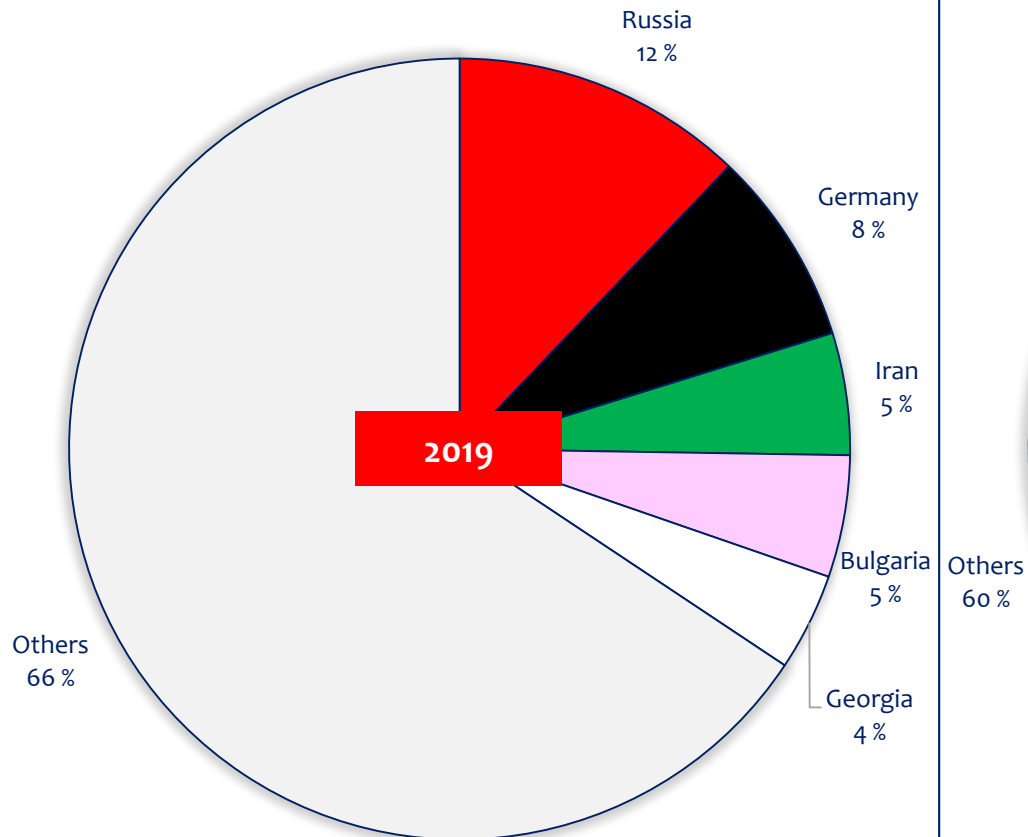
2021	International tourism spending / total exports (%)
Turkey	9.8
Croatia	23.7
Finland	1.1
Italy	3.6
Montenegro	68.4
Portugal	13.1
Spain	7.4



International tourism is important to Turkey. In 2021, international tourism spending/total exports in Turkey was 9.8%. The COVID-19 pandemic collapsed inflow of foreigners to Turkey from over 50 million in 2019 to some 16 million in 2020. However in 2021, there has happened a rapid increase in foreign visits to Turkey.

Sources: Turkstat;
World Travel &
Tourism Council

4b) Geography of foreign tourist arrivals in 2019 and 2021



Russians are an important source of income for the Turkish tourism industry. The importance of Turkey as a travel destination for the Russians will increase as several western foreign tourism destinations have started closing their doors to Russians due to Putin's war in Ukraine. Ukrainians accounted for 7% of foreigners' arrivals in Turkey in 2021.

5) Summary

The EU accounted for more than 1/3 of Turkey's foreign trade, whereas Turkey represented nearly 4% of the EU's external trade in 2021. The Turkish share gradually grows, while Russia's share in the EU's external trade declines.

Turkey has become a transit gateway of Russian energy to the EU market. Putin's invasion attempt of Ukraine and the EU export sanctions on Russian energy sales strengthen Turkey's energy gateway position for a while, but in longer run a Turkish role in the Russian energy transit to the EU will diminish/vanish.

Russia is a strategic source of energy for Turkey. Russia covers some 1/3 of Turkey's oil and coal imports, and nearly a half of Turkey's natural gas imports. As a whole, Russian energy meets approximately 30% of Turkey's total energy consumption, and the Russian share increases, if Turkey begins to use Russian uranium in its 1st nuclear power station to be finalised in 2023.

International tourism is an important source of income for the Turkish tourism industry. In 2021, Turkey's international tourism income/total exports-ratio was almost 10%, and the Russians formed 15% of foreigners' arrivals to Turkey in 2021.

Turkey formed a bit over 1% of Finland's foreign trade in 2022 (January-August). Paper and board is Finland's main export item to Turkey (over 20%), whereas the motor vehicles are Finland's largest import commodity from Turkey (15%). Before the corona pandemic (2019), Turkey represented nearly 1.5% of the Finns' travels abroad.

The 1st round of the presidential elections in Turkey will be held on 18th of June 2023 at latest. After the elections, the reserved attitude of Turkey towards the NATO membership of Finland and Sweden may change.

<https://studies.aljazeera.net/en/policy-briefs/2023-turkish-elections-unmarked-road>

