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European growth, emerging markets: economic and business relations between Turkey, France and Europe

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The French and France have been synonymous with Europe for much of Turkey's interaction with the Western world. Any cursory look at contemporary Turkish history and the Turkish language will show that France was the primary foreign cultural influence in the country. This prominent cultural position within Turkey has meant that they have consistently maintained strong economic ties, which have generally favoured French export driven industries and the development of industry within Turkey.

In the manufacturing sector, Renault's car manufacturing plant in Bursa, founded in 1971, is the most visible example of this trade relationship with a production capacity of 360,000 cars a year.[1] Indeed, industrial goods have been the tradition mainstay of the Franco-Turkish trade relationship. Turkey is a significant export market for the French aeronautical and automotive industries (27% of exports in 2013), cosmetic items (15,3%, 2013) and industrial and agricultural machines (11%, 2013) with overall annual exports reaching 5,9 billion euros in 2014.[23] Despite traditionally maintaining a trade surplus with Turkey, with the exception of the years 2009 and 2014, France's position as a supplier of Turkey has overall diminished considerably over the last two decades as the Turkish economy has grown and non-European Union (EU) countries, notably China and Iran, have taken over greater shares of its imports. France represented 3,4% of Turkish imports in 2014 compared to 6,4% in 2004, although French net exports have increased from the 4,2 billion euros they represented in 2004.[4]

Much of this can be explained by a structural shift in foreign direct investment in Turkey and Turkish investments. Though French direct investment in Turkey was ranked as the most significant throughout the final decade of the XXth century, France was only the seventh European investor in Turkey and failed to rank in the top ten globally in 2013.[5] Despite the fact that Europe still represents the overwhelming majority of foreign direct investment (FDI) in Turkey, Russia, the Arabian Gulf countries and the US have considerably increased their proportion of overall FDI since 2013.[6] Moreover, Turkish investment in the Middle East, namely Azerbaijan and Asia and the far-East, especially

China and Russia, has sharply increased since 2010, while its investments in Europe (which were always primarily focused on the Mediterranean region) have been fluctuating and showing a marked decrease following 2013.[7]

Other structural differences between the Turkish and French economies might also help explain the relative weakness of Franco-Turkish trade compared to its European counterparts: Germany, the United Kingdom (UK) and Italy. French companies have shown they are very able to compete in Turkey and many of them have been consistently successful in this market, including Renault and Peugeot-Citroën in the automotive sector, GDF-Suez, EDF, Areva, Air Liquide and Nexans in energy generation, petroleum and construction, Airbus in aerospace, Thalès in defence, Axa in insurance, BNP Paribas in banking, Yves Rocher, Decathlon and Sephora in consumer goods, Carrefour in distribution and Club Med and Accor in tourism.[8] However, much of the economic relationship between the two countries depends on public sector financing and public works. Many of the French products that depend on the private sector are high-value and expensive in terms of capital costs such as aircrafts or vehicles, which are also sectors where public institutions often own shares or can heavily influence purchases. As such, much of France's exports to Turkey depends on large one-off purchases by semi-public or entirely government owned companies, especially in transport, as is the case for Turkish Airlines and Türkiye Cumhuriyeti Devlet Demiryolları respectively, or government contracts such as the construction of electricity generation facilities and urban transport systems.[9] This has meant that French investment in Turkey has been relatively erratic year on year and susceptible to budgetary constraints and politically motivated decision making in both France and Turkey. Moreover, the amount of competition in these areas has increased starkly since the 1990s as evidenced by Russian and Chinese success in obtaining nuclear power development and high-speed rail contracts where France has traditionally been the main player.[10][11] This is in stark contrast to German investments which happen on much smaller scales but are considerably more numerous, with the number of German companies operating in Turkey reaching 6,400 compared to France's 400.[12][13]

A final, less significant potential blockage in French exports towards Turkey might be regulatory constraints on certain sectors where France has export potential, namely pharmaceutical products, whose import has been systematically over-regulated.[14] French exports to Turkey also suffer from a slightly higher rate of effectively applied weighted tariffs at 1.44% compared to the United Kingdom (0.38%), Germany (0.33%) and Italy (0.86%), although the importance of this is questionable considering the high-value of French products sold in Turkey.[15]

From the Turkish perspective, France is a considerably more significant export market representing the third largest in Europe and the fourth largest overall in 2014 at 4.7% of exports, whereas Turkey represents just 1.4% of France's.[16][17] The rate of Turkish exports to France has been steadily rising, following the rising rate of imports, at 3.3 billion euros in 2004 to 6 billion in 2014.[18] Turkey's main exports to France were vehicles, thanks to considerable French investment in that sector, followed by textiles, machine parts and home appliances in 2009.[19] As such the structure of its exports is considerably different from that of France's, relying essentially on French domestic demand, which has been the consistent mainstay of the French economy.[20]

Turkish investment in France is very weak, though this remains in line with the overall weakness of Turkish foreign investment. Turkey was only the twenty-ninth largest foreign investor in France in 2014, with less than one hundred Turkish companies operating in France.[21] Despite the predominance of industry in the Turkish domestic economy, most of its foreign investment is in the banking sector,[1] which might help explain the overwhelming weight of the Netherlands, Luxembourg and Malta in Turkish investment.

Despite, the above mentioned lack of Turkish investment in France, due to the nature of its exports, it seems unlikely there will be any major shift in its export capabilities towards France barring the risk of a supply side crisis in Turkey or global economic crisis. As such, the challenge for Turkish exports towards France in the near future will be diversification of supply, which goes hand-in-hand with the diversification of Turkish domestic production and increasing competitiveness through productivity gains. In the short term, the devaluation of the lira should make Turkish products more competitive in the French market, nevertheless, long term productivity gains require a significant restructuring of the economy and boosting education.[22] Moreover, political instability in Turkey has made foreign investors wary of investing over the past year, which will inevitably slow down economic diversification.[23] The variability of French exports and their dependence on the Turkish public sector means that French opportunities in Turkey depend largely on structural change within Turkey. The recent economic slowdown in Turkey has meant that public spending has had a greater role in generating growth, especially through infrastructure spending. This means there is much potential for French firms in the short and medium term. However, there are growing concerns about

[1]With the notable exception of Azerbaijan which benefits from an energy partnership with Turkey

Turkey's dependency on debt and its ability to repay its creditors in 2017, reflected in the downgrading of its bonds to “junk” status by Moody's in 2016.[24][25] The challenge for France's exports to Turkey in the long term is therefore to change the structure of its trade with Turkey to rely upon greater amounts of small and medium scale investments rather than mega-projects. In this respect, the European Commission (EC)’s proposal to modernise the Customs Union (CU) will undoubtedly make a significant contribution.[26]

Facilitating economic relations between France and Turkey requires both an optimisation of the current structure of trade in the short term and a transition towards greater parity between the two trade partners in the long term. When it comes to tariffs, the simplest and most traditional form of barriers to trade, the process of elimination of those remaining is largely dependent on EU institutions and Europe's general relationship with Turkey, which unfortunately is at an all-time low. Nevertheless, negotiations for accession into the EU are still moving forward, albeit very slowly, and it is not beyond the realm of political possibility that the proposed modernisation of the customs agreement goes ahead in a relatively short time considering the fragility of both the Turkish and European economies. Unfortunately however, eliminating regulatory barriers to trade, which France particularly suffers from, is currently clearly not high on the Turkish government's economic agenda. As such, currently, the most feasible proposal for diversification of French trade and investment in Turkey is to incentivise smaller French companies to invest in Turkey through tax-breaks, which the current government has repeatedly shown its willingness to do throughout its stay in power since 2002.[27] This would be both a lucrative opportunity for smaller, export driven French firms, which could capitalise on the high demand for western products and the association of France with high quality goods that is prevalent today throughout Turkey thanks to the young population's demand for western goods and historical links with France, and Turkey, especially if these incentives are localised in under-developed areas, reducing the overwhelming importance of Istanbul and the Marmara region in FDI terms and using the untapped potential of the rest of the country.[28]

Laying the groundwork for increased medium to long-term economic relations can be achieved in the short-term through a focus on cooperation in co-produced export oriented products. This is particularly relevant in sectors requiring high capital investments and government driven sectors. An excellent current example of this form of cooperation is the automotive sector wherein Turkey and France are inter-dependant in terms of parts produced and goods sold domestically and internationally and both have significant stakes in the industry, as is the case with Renault-Oyak, which has meant that automotive trade is the most significant part of bilateral trade between the two countries. There are many opportunities for expanding such forms of cooperation, especially in defence and infrastructure but also in more commercial enterprises such as banking. Turkey's defence sector is growing and becoming increasingly high-tech, which means its products have started to appeal more and more internationally.[29] This, coupled with the increasing demand for defence products, means that Franco-Turkish cooperation in this field, through the setting up of a common research and development fund, which can be used only in the case where both the French and Turkish governments request the same product and both French and Turkish companies are involved, can facilitate the export of said product to third countries as the perceived risks of first time adoption are lowered because two respectable military establishments have already adopted the product. Similar initiatives can be used in other sectors where first time adoption is seen as dangerous such as transportation. Moreover, such an initiative can be implemented at little to no cost, as it can be drawn from the existing research and development of the two countries, and has the added benefit of leading to greater product integration and trade harmonisation as well as using the talents of both countries in developing world class products, something which has shown itself to be very beneficial in the case of Airbus. As for the service sector, there is much untapped trading potential, particularly in banking products where Turkey is very advanced, which can be improved by simply boosting the exposure of both sectors to one another via either privately sponsored events or official visits.[30]

Long term cooperation depends greatly on making the most of the current political relationship between France and Turkey. The presence of French schools and French language courses at the university level is of course of great help for the long term prospects of economic relations. However, a more ambitious approach to the current political crises in Syria and the non-existent relations between Turkey and Armenia could benefit all parties involved. In the case of refugees, many of them, or their children will be the entrepreneurs of tomorrow, thus the financing of French language studies for refugees in Turkey could help reintroduce French influence in the Levant and increase the small scale trade and investment that is lacking between Turkey and France by creating a diaspora of French speaking Arabs in Turkey.

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