

Canada-Turkey Trade and Investment Relations

Turkey, by its history, its geography, and its cultural heritage has always been a crossroad of change and innovation. Over recent years, while its East European neighbours in the region have worked to overcome the legacy of communism, Turkey's entrepreneurial spirit has continued to assert itself despite the hardship created by difficult economic conditions.

This environment, characterized by high inflation rates, successive devaluations and banking crises has been overcome by the resilience and imagination of Turkey's entrepreneurs. Today's Turkey is once more at a crossroad as it has engaged in substantive structural reforms aimed at enabling the country to prosper and succeed in a globalized economy. If successfully implemented, these measures should allow the country to achieve its potential and become an engine of economic growth and prosperity in the region. The thrust of these reforms is intended to foster macro-economic stability which is essential to provide the predictability needed for capital investments to take place and to attract foreign direct investment.

While Turkey already has a Customs Union with the European Union (EU), its candidacy to join the EU is providing additional impetus to its modernization and reform efforts.

Continued deregulation, a growing and dynamic private sector, and a skilled labour force are generating optimism about the Turkish economy. In fact, over the last two decades, Turkey has experienced the highest growth rate of any Organization for Economic Cooperation and Development (OECD) country, averaging 5.2 percent annually.

The economy has shown signs of recovery from the recession of 2001. Gross National Product grew by 8.8 percent in the second quarter of 2002 and inflation stood at 37

percent in September, down from 68.5 percent at the start of the year. According to the OECD, real growth should be close to 4 percent in 2002 and 3.6 percent and 4.3 percent in 2003-2004.

Perhaps the most significant development in recent years is the country's Customs Union Agreement with the European Union, signed in 1996. Goods can now move freely between the EU and Turkey without customs duties or quotas. While the Customs Union gives preferential access to European markets, general tariffs on Canadian and other third-country imports have also been reduced. In effect, most Canadian products and services, which were competitive before the Customs Union, have remained competitive and, in many areas, gained market share.

Exports/Imports

Canada-Turkey trade has nearly tripled in the last decade, reaching \$497 million in 2001, and is an important component of Canada's growing commercial interests in this region. In 2001, Canadian exports to Turkey totalled \$172 million, a 33-percent drop from 2000, due to economic conditions in Turkey. As these conditions continue to improve, however, the value and range of Canada's exports are expected to rise. The bulk of Canada's exports to Turkey are commodities (coal, wood pulp, newsprint, iron ore, pulses, wheat) and manufactured products such as electrical goods, telecommunications equipment, and aircraft-related equipment.

In 2001, imports from Turkey increased some 7.5 percent from 2000 to \$315 million. Canadian imports are primarily Turkey's traditional exports: rolled steel and steel bars, raisins, woven fabrics, other textile products and ceramics.

Opportunities for Canadian companies are promising in sectors such as infrastructure development, telecommunications, transportation, energy, industrial upgrades, health, tourism, mining, construction, and aerospace and defence. While the public sector will continue to be a major source of demand for large-scale projects, Turkey's dynamic private sector is emerging as one of the main drivers for trade between Canada and Turkey.

Agreements key to trade and investment growth

With the signing of the Memorandum of Understanding (MOU) on Bilateral Cooperation in

the Energy Sector between Canada and Turkey in 1998, considerable potential was created for a substantial increase in Canadian exports of consulting engineering and infrastructure construction services to Turkey. One of the most visible Canadian exports in this area has been the Ankara Metro Project, constructed by SNC-Lavalin and Bombardier/UTDC.

Negotiations continue on finalizing a Framework MOU, designed to provide a structural basis for Canada-Turkey bilateral relations. The signing of this document will demonstrate Canadian confidence in Turkey as it pursues its economic reform program. As well, Canada and Turkey have been negotiating a Double Taxation Agreement for some time.

In Montreal, on June 16, 2002, Canada and Turkey signed two agreements to promote bilateral trade and investment. The first document involved the business councils of the two countries and the second was between the Canadian Manufacturers & Exporters and the Union of Chambers of Commerce, Industry, Commodity Exchanges and Maritime Chambers of Commerce of Turkey.

In anticipation of growing commercial relations between the two countries, a number of Canadian companies, large and small, have established strong trade and investment ties with Turkey.

Much of the Canadian business community's interest will be focused on the 10-15 million Turkish consumers in the major urban centres of Western Turkey, namely Istanbul, Ankara and Izmir, the majority of whom are below the age of 30 and aspire to a lifestyle and standard of living similar to Western Europe.

Investment

One of the main objectives outlined in the economic reform program announced by Turkey's new government is the opening up of the country's economy to foreign investors. The emphasis Turkey is giving to foreign investment promises considerable potential for Canadian business interests in all areas of the Turkish economy.

Canada is the 14th-largest investor in Turkey, with investments totalling \$409.7 million (US\$262.4 million). Five Canadian investments make up a major portion of this figure: Four Seasons Hotels in Istanbul; Eldorado Gold in Usak; Inmet Mining in Rize; OZ Optics in Izmir; and the Norte/NIETAS joint venture in Istanbul.

New Turkish Government Launches Economic Revitalization Plan

Turkey's newly elected AK Party (AKP) brings renewed energy and determination to resolve Turkey's economic ills and set the country firmly on the path of increased integration with Europe.

There is widespread optimism regarding the AKP, the first majority government in Turkey in over 10 years, as it continues to provide reassuring messages on its economic program and commitment to International Monetary Fund-backed reforms, designed to set the foundation for strong sustainable economic growth. The formation of a moderate cabinet, including a young and dynamic economy minister, has had a beneficial effect on market indicators. On November 18, 2002, the Turkish Lira reached its highest value against the U.S. dollar in over four months. Business groups have praised the new government's positions, while macro-economic indicators continue to follow positive trends started under the former economic minister.

AKP has also put forward an ambitious one-year economic revitalization plan. Immediate actions include consolidating public spending in a single Treasury account and starting extensive tax reform. Other planned measures include accelerating privatization, encouraging foreign direct investment and revitalizing key sectors like manufacturing and agriculture. By the end of 2003, the AKP plan aims at full privatization of mining and energy management, as well as a redefinition of the transportation sector.

Turkish companies are also showing increased interest in Canada as an investment location. One such investment is by the Turkish company Arbel Pulse, Grain Industry and Trade S. A. Arbel, which operates the largest pulse

processing plant in the world, and is the majority shareholder of the recently completed 25,000-square-foot, \$5.2-million lentil processing/splitting plant by **Saskcan Pulse Trading** in Regina.



Fast Facts

General

Capital: Ankara
Total Area: 780,576 km²
Population: 69.3 million; urban 73%, rural 27% (2002)
Currency: Turkish Lira; C\$1 = 989,200 (November 2002)

Economic

GDP: US\$148.2 billion (2001)
GNP per capita: US\$2160 (2001)
GNP real growth rate: +4.1% (est. 2002)
Inflation: 37% (2001)
Unemployment Rate: 11.8% (2002)
Total Foreign Investment: US\$26.3 billion (2001)

Total Canadian Investment: US\$262.4 million (2002)

Trade

Total Turkish Exports: US\$31.3 billion (2001)
Total Turkish Imports: US\$41.4 billion (2001)

Source: Baltic, Central European and Eastern Mediterranean Division (REC) Division, DFAIT

