

## Automotive Sector: The Main Booster of Turkish Economy

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*This is the third part of the “Turkey Investor Brief” series prepared by StratejiCo. If you would like to get a more comprehensive brief, [please get in touch with our team.](#)*

### 1. Short History of Turkish Automotive Industry

Turkish automotive industry history dates back to 1920'ies. Koç Holding ventured the first automotive sector attempt when the founder, Vehbi Koç, became a Ford retailer in 1929. That was the only activity in the industry until Koç Holding initiated to produce *Anadol* brand in 1966. Koç Otosan Company which was an assembly of Ford used Ford and other international companies' technologies to produce *Anadol* in Turkey. This initiation sphered other foreign companies involving Renault, Ford and Fiat to enter Turkish market after 80'ies.

Turkey started economic liberalization policy in 1980, which allowed foreign investors come into local market. Even though Turkey initiated liberalization policy, there were still obstacles in front of exportation due to export tariffs and barriers. These difficulties were overcome with the sign of Custom Union agreement in 1995. Agreement on Custom Union required the elimination of some tariffs and taxes and altered this situation, and Turkey turned into a regional and worldwide industry participant.

[Resource: Turkey Automotive Industry: Driven to Grow](#)

***Turkey wants to boost vehicle and parts production to become world's 10<sup>th</sup> largest economy by 2023***

### 2. Growth of the Sector

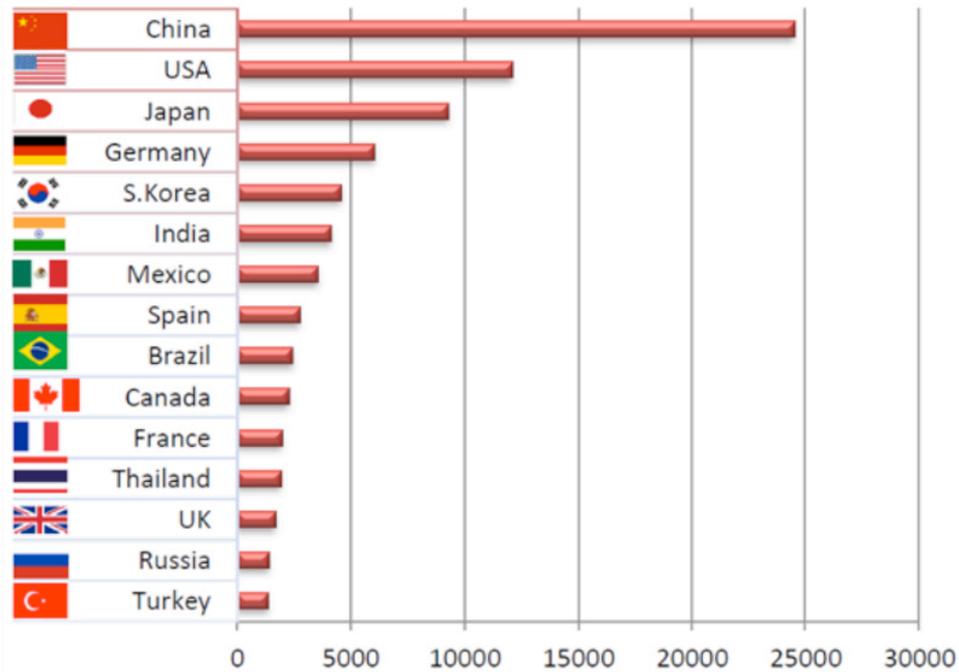
After the years Turkey promoted its automotive industry, now Turkey wants to boost vehicle and parts production to become world's 10<sup>th</sup> largest economy by 2023. Turkey aims to produce 4 million vehicles and export 3 million of it in 2023, which would vault into the top list of auto and parts producing countries. The automotive industry, which is one of main drivers for local economy, by 2023 would have to export parts and vehicles worth an estimated \$75 billion. While that's an ambitious objective, the sector has enjoyed growing exports in 2015.

Turkey also aims to strengthen its national auto industry by producing its own national car brand by 2020. Even though Turkey has no national car brand, it is quite familiar with automotive industry, and now Turkey seems serious about becoming a strong player in the market with its own local car brand.

### 3. Recent Developments in The Industry

Major automotive industry players in Turkey faced with long-lasting strikes launched by workers in 2015. The wildcat action started in the second quarter of the year (May 2015) in a main industry operator in Bursa city and spread over other companies. Within days the strike had escalated, expanding to all the other major factories bringing car production in Turkey to a standstill at a loss of **\$70** million a day.

Although the future did not seem so bright for the manufacturers and Turkish economy due to wrecked strike in May 2015, according to the [Investment Support and Promotion Agency](#) of the prime ministry, with **992,000** vehicles produced in Turkey reaching export markets, industry broke records in both production and exports in 2015 with annual production capacity hitting 1.7 million vehicles. Production went up by **16%** while exports went up by **12%** over the preceding year, marking two new records for Turkey's automotive industry. According to [Automotive Industrialists' Association](#) (OSD), this improvement is the first fruits of investments realized in previous years. Thanks to [R&D](#) (research and development) and investment incentives realized in the past two years the industry increased its capacity 20 percent.



Turkey was 15th biggest automotive producer in the world and the 5th in Europe in 2015.

## 4. Challenges of The Sector

### R&D

The automotive industry is an immeasurably significant and strategic sector for Turkey because of its high added value, employment opportunities and competitive structure. At this point the industry is obviously responsible for triggering new research and developments. While this picture depicts that R&D is an inevitably crucial factor in gaining high technological performance, in Turkey R&D ratio for automotive industry stands unfortunately below 1%.

### New Minimum Wage

After a government-established commission determined the new minimum wage, Turkey turned into a country in which labor costs are not cheap anymore. Raised wages and new working conditions resulted as a burden on employers' shoulders. This situation rebounds on the negotiations of collective bargaining agreements with unions as disagreements and disputes. These disputes and disagreements between employers, unions and employees could result in staying behind Eastern European countries and cannot compete with them while Turkey is aiming to be among the top automotive industry players. Regarding the coming year, a majority of the companies in the sector will renew their CBAs, and probably will be faced similar concerns mentioned above.

### Conclusion

In the last few decades, the Turkish automotive industry has become an important driving force behind Turkey's export-oriented economic success. Even though there are difficulties regarding the R&D and employee uneasiness, we expect that automotive industry will keep on its improvement and be one of the main drivers of the Turkish economy by combining the large potential of domestic growth with Turkey's established export opportunities.