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Automotive Sector: The Main Booster Of Turkish Economy

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Background of Turkish Automotive Industry

Turkish automotive industry history dates back to 1920s. [Koç Holding] ventured the first automotive sector business in Turkey when the founder, Vehbi Koç, became a Ford retailer in 1929. That was the only activity in the industry until [Koç Holding] started the production of 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 initial attempt later expanded to other foreign companies involving Renault, Ford and Fiat to enter Turkish market after 80’s.

Turkey started economic liberalization policy in 1980 and implemented market reforms throughout the decade. Even though Turkey initiated the liberalization policy, there were still obstacles for import due to export tariffs and barriers. These difficulties were overcome with the sign of Customs Union agreement in 1995. Agreement on Customs Union required the elimination of some tariffs and taxes and Turkey turned into a regional and global player in the industry.

> **Turkey wants to boost vehicle and parts production to become world’s 10th largest economy by 2023**

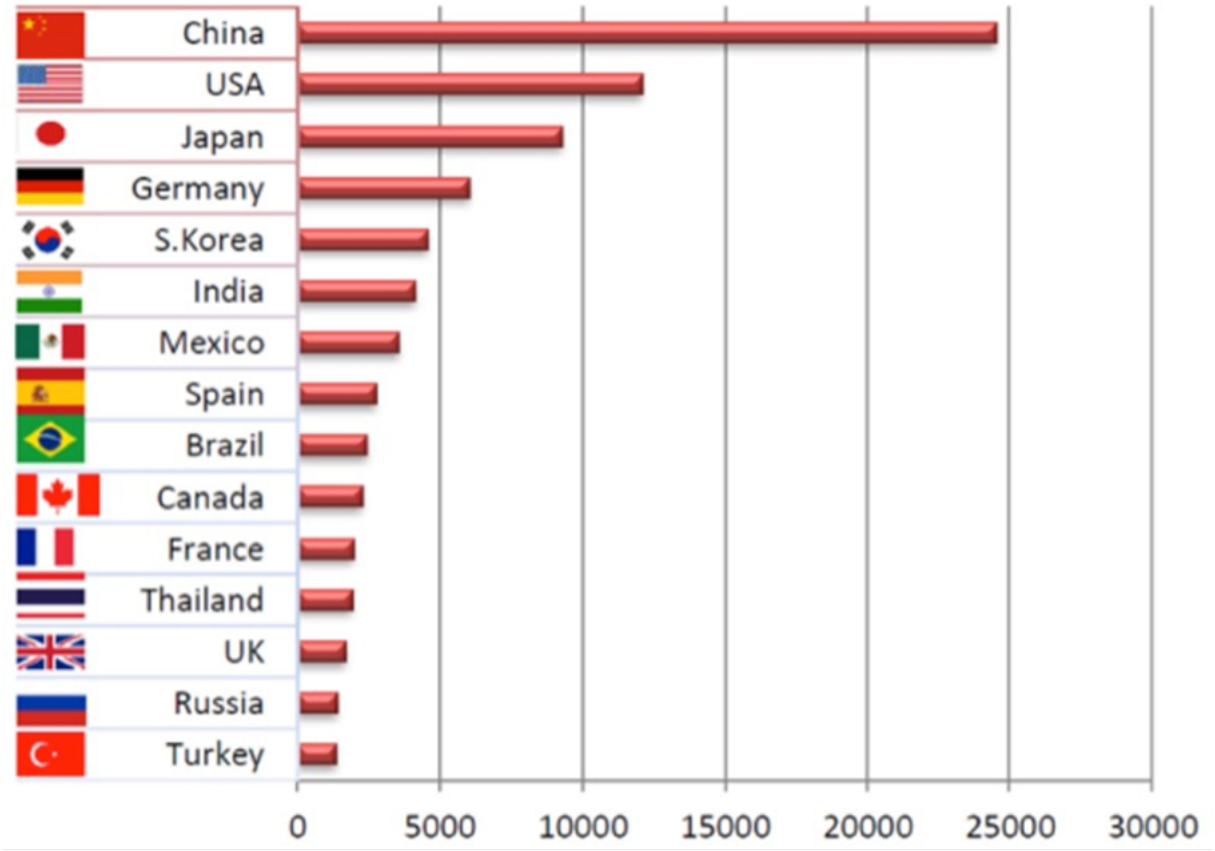
Growth of the Sector

Throughout the years Turkey promoted its automotive industry, now Turkey wants to boost vehicle and parts production to become world's 10th 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, with an estimated value of $75 billion. Turkey also aims to strengthen its national auto industry by producing a national car brand by 2020, a target that has become an important part of government's industrial policy. While that's an ambitious objective, the sector has enjoyed growing exports in 2015.

Recent Developments in The Industry

Major automotive industry players in Turkey faced with long-lasting strikes in 2015. The unrest started in the second quarter of the year (May 2015) in a main industry operator in Bursa city and spread to other companies. Within days the strike had escalated, expanding to all the other major factories in Turkey, causing 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 labor movements in May 2015, according to the **[Investment Support and Promotion Agency]** of the Prime Ministry, Turkey broke industry records. 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%** compared with 2014, marking two new records for Turkey's automotive industry. According to **[Automotive Industrialists' Association (OSD)]**, this improvement is the first fruit 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 by 20%.



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

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 open to 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 increased the [**new minimum wage**] as of January 2016, which decreased Turkey's advantage of being low-cost labor country. Soaring wages and new working conditions resulted as a burden for employers. This situation has implications on the negotiations of collective bargaining agreements with unions as disagreements and disputes. The disagreements between employers, unions and employees could result in falling behind Eastern European countries and not competing with them while Turkey is aiming to become one of 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 a 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 booster of the Turkish economy by combining the increasing domestic demand and export opportunities.

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