



Türkiye's Economic Relations with the Countries of the Regional Comprehensive Economic Partnership and India (RCEP+I):

Would the new development of the Indo-Pacific region open up new opportunities for the Turkish economy?

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1. Introduction:

US President Barack Obama emphasised that the Indo-Pacific would be the focus of US security and economic policy in his last term. This change in strategy was driven by two main reasons: One was to be able to stop China's rising global superpower and its growing economic and military power in the region. Second, the Indo-Pacific region is a bloc with strong economic dynamics and of major importance for the future international order. One of the main reasons for the increased interest in this region is the diversification, deepening and thematic expansion of relations with the countries of the region. Germany and the EU, alongside the United States and China, want to play a decisive and active role in helping to shape this dynamic region. In short, the developments in the Indo-Pacific region in the coming years will focus the attention of the world's public opinion and the media on the formation of these blocs and on the possible political-military and, above all, economic conflicts of interest.

Regarding Ankara's relations with the Indo-Pacific region, since 2010 Ankara has transformed its relations with six countries in the region into strategic partners: China, Japan, Indonesia, South Korea, Malaysia and Singapore. Then, between 2012 and 2017, Ankara expanded its diplomatic relations in the region. New embassies were opened in Naypyidaw, Phnom Penh, Bandar Seri Begawan and Vientiane. The moves brought the number of Ankara's diplomatic missions in the region to 15.

An important milestone in political and diplomatic relations between Turkey and the former Republic of China was the signing of a friendship agreement on April 4, 1934.6 Decades later, Turkey recognized the People's Republic of China (PRC) on August 5, 1971. 7 Relations between Turkey and the PRC advanced in the 1980s through the establishment of a consultation mechanism between both countries. Bilateral relations progressed into "strategic cooperation" in 2010. Remarkably, since 2010, Turkey's Grand National Assembly has passed 12 China-related laws aimed at improving cooperation with China in the

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areas of energy, trade, infrastructure, health, logistics, technology and culture, railway construction, BRI, and the construction of the Middle Corridor.

Ankara has been cooperating closely with the countries of the region in international platforms such as the United Nations, the G-20 and the MIKTA. Turkey joined the ASEAN Treaty of Amity and Cooperation in 2010 and joined the Asia Cooperation Dialogue (ACD) in, as well as actively participating in the Pacific Islands Forum (PIF) as a Dialogue Partner and the Shanghai Cooperation Organisation (SCO) as a Dialogue Partner. All these facts point to the fact that Ankara has a strong interest in improving its diplomatic relations with the Indo-Pacific region.

In recent years, Türkiye's bilateral trade with the Indo-Pacific region has increased, mainly with China remarkably. The total volume of trade with RCEP countries and India (RCEP+ I) has increased from USD 17 billion in 2004 to USD 320 billion in 2018-2022. Direct investment from the countries of the region to Türkiye had reached USD 20.0 billion at the end of 2022. Whereas Türkiye's investments in the RCEP+I countries only USD 763 million.

2. Basic Macroeconomic Indicators of RCEP Countries and India

The macroeconomic indicators clearly show that the RCEP+I countries have been classified into three groups according to their GDP: First group includes advanced and developed countries, which are large nations and members of the G20, such as China (2), Japan (3), South Korea (10), Australia (13), Indonesia (16), India (5); and Türkiye (20).

The second group consists of medium-sized but developed or semi developed countries, namely Thailand (24), Singapore (36), Philippines (37), Malaysia (38), Hong Kong (39), Vietnam (40) and New Zealand (49); and the third group is developing countries, Myanmar (80), Cambodia (107), Laos (108) and Brunei Darussalam (133). Remarkably, Brunei has the lowest population compared to other countries, but one of the highest per capita incomes in the Indo-Pacific region.

3. Türkiye's Trade Relations with RCEP countries and India

3.1. Trade Relations

Türkiye's total trade volume with RCEP+I amounted USD 320 billion in 2018-2022. Türkiye's main export partners in RCEP+I range from China and, at some distance, India, South Korea to and Japan. The total turnover of Türkiye's exports to the RCEP+I is USD 44.5 billion and the total imports of the RCEP+I are USD 275.6 billion, resulting in a huge trade deficit of around USD 231 billion in unfavored of Türkiye over the period 2018-2022.

Türkiye's main export partners in the Indo-Pacific are China (34.8%), India (13.8%), South Korea (11.3%), Australia (9.1%), Singapore (7.3) and Japan (6.0%). The share of other RCEP members is less than 5%: Indonesia (3.3%), Malaysia (4.6%), New Zealand (1.3%), Vietnam (2.7%), Philippines (1.9%), Brunei, Cambodia, Laos, Myanmar (0.0%).

In terms of Türkiye's imports from RCEP+I countries, China (49.6%) is Türkiye's main and leading import partner in RCEP, followed by India (13.7%), South Korea (12.6%) and Japan (7.5%) in 2018-2022. The share of other RCEP members is less than 5 %: Australia (1.9 %), Malaysia (4.8 %),

Vietnam (3.1 %), Thailand (2.8 %); the share of other RCEP countries in Turkish imports from the region ranges from (0.6 %) to (0.0 %).

Interestingly, the total amount of Türkiye's trade deficit with the following RCEP+I countries over the period 2018-2022 is USD 231 billion, distributed among the following countries: China (52.4%), India (13.5%), South Korea (12.5%) and Japan (7.6%). Türkiye has the highest trade deficit with China, followed by India, South Korea and Japan. A slight trade surplus in trade with Singapore in worth of USD 1.4 billion in 2018-2022.

3.2 Composition of exports to and imports from Türkiye to RCEP countries and India.

The most interesting feature of Türkiye's trade with the Indo- Pacific region is the sectoral breakdown of trade. Türkiye's main trading partners in the Indo-Pacific are China, India, South Korea, Singapore and Japan.

Composition of Exports to RCEP+I:

The most interesting feature of Türkiye's trade with the Indo-Pacific region lies in the breakdown of trade in production sectors in groups of Standard International Trade Classification (SITC).

The main products exported from Türkiye to Australia were SITC 84, 85 and 72, which mainly include manufacturing, high-tech products and iron and steel (36.2%).

SITC 25 (salt, sulphur, earths and stones, gypsum, lime and cement) and 26 (ores, slags and ashes) accounted for almost 54.2% of Türkiye's total exports to **China** in the same period. It is interesting to note that products (SITC 25 and SITC 26) account for about 46.0 % of all goods exported from Türkiye to China. The primary exports from Türkiye to China were marble and travertine, chromium, copper, lead, iron, natural borate, boron oxide, and boric acid.

The same picture emerges for Türkiye's trade with **Japan**. The main products exported to Japan are primary products, SITC 03 (fish and crustaceans, molluscs), SITC 19 (preparations of cereals, flour, starch or milk; confectionery) and SITC 72 (iron and steel), all three sectors accounting for 30% of exports to Japan.

Türkiye exports to **Singapore** SITC 27 (Mineral fuels, mineral oils and products of their distillation), SITC 72 (Iron and steel) and SITC 89 (Ships, boats and floating structures), three sectors that account for almost 58% of Turkey's exports to Singapore.

Türkiye's exports to **South Korea** were concentrated in SITC 30 (Pharmaceuticals), 72 Iron and steel and SITC 84 (Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof). These three sectors accounted for 54% of Türkiye's total exports to the region.

Finally, Türkiye exports three product groups in **India** , namely. SITC 15 (fats and oils of animal, vegetable or microbial origin and their fission products), SITC 84 (nuclear reactors, boilers, machinery and mechanical appliances) and SITC 25 (salt, sulphur, earths and stones, gypsum, lime and cement), which account for 38% of Türkiye's exports to India.

In short, the main products exported from Türkiye to China, Japan, South Korea and India mainly have low value added: e.g. primary products, natural resources, raw materials, iron and steel and

mineral ores. Although the export volume is still low, Türkiye exports SITC 84), which mainly include manufacturing and high-tech products, to Australia, South Korea and India. It is interesting to note that Türkiye exports iron and steel to Australia, Japan, Singapore and South Korea. At the same time, it imports iron and steel from South Korea and India.

Composition of Imports from RCEP and India:

The breakdown of Türkiye's top three imported products from RCEP+I in the period from 2018 to 2022. Looking at imports from **China** by commodity, the share in total imports from China of the two main groups of commodities, SITC 85 and 84, which mainly include manufacturing and high-tech products, was 49.2%.

We have the same import structure in import from **Japan** covering two sectors SITC 84, 85 and 87, their share in total import from the region was 65.3% in 2018-2022. Türkiye's import with **South Korea** and India reflects different picture: Türkiye imports from South Korea SITC 39 (Plastics and articles thereof), SITC 72 iron and steel, SITC 29 Organic chemicals. All three sectors together shared around 44% of Türkiye's import from South Korea. As far as **India** is concerned, Türkiye imports SITC 27 (Mineral fuels, mineral oils and products of their distillation), SITC 72 iron and steel, SITC 84 (Nuclear reactors, boilers, machinery and mechanical appliances).

Comparing export and import figures between Türkiye and RCEP+I, it becomes clear that trade between China, Japan, Singapore, South Korea and Türkiye is largely characterised by specialising in inter- trade relations. In other words, these countries export and import very different types of goods. Türkiye exports mainly agricultural commodities, minerals, iron and steel and labor-intensive goods, while it imports mainly capital-intensive high-tech products from China, Japan, South Korea and India. The trade relations between Türkiye and China, Japan, Singapore, South Korea and India are in many ways a mirror image of the intra- trade relations between the developed and the underdeveloped countries. Trade figures clearly show Turkey's asymmetric trade relations with these countries.

4. FOREIGN DIRECT INVESTMENTS TO TÜRKİYE FROM RCEP+I and FROM TÜRKİYE to RCEP+I

FDI inflows to Indo-Pacific totaled USD 662 billion in 2022, accounting for more than half of global FDI inflows. The countries that attracted the most investment to the continent in 2022 were China (USD 189.1 billion), Singapore (USD 141.2 billion), Hongkong (USD 117.7 billion), India (USD 49.4 billion). The countries with the highest investment in the region were China (USD 1.8 trillion), Hongkong (USD 1 trillion), the US (USD 661 billion), Japan (USD 516 billion) and Singapore (USD 440 billion)). The amount of credit extended by the banking system to these countries increased from 40 per cent to 58 per cent compared to 2008. Between 2015-21, China's direct investments in this region amounted to USD 5.5 billion, Japan's investments amounted to USD 4 billion and Korea's investments amounted to USD 2.9 billion.

Türkiye's the total FDI stock amounted to USD 192.5 billion in 2022 (about 21 % of GDP). European countries accounted for 73% of the inflows in Turkey, followed by "other Asia" (10.4%) and the North and South America with 5.0%.

Data from the Turkish Central Bank show that the majority of foreign investment goes to the financial sector (31.6 %), manufacturing (24.2 %) and energy (10.6 %), followed by ICT services (8.8 %), wholesale and retail trade (8.4 %) and transport and storage (4.7 %). In terms of stocks, the Netherlands leads with 15.7% of total outward investment, ahead of the United States (8.1%), the United Kingdom (7.5%) and the Gulf States (7.1%), mainly Qatar).

According to the Turkish Central Bank, the total stock of FDI from RCEP+I countries in at the end of 2022 was USD 20.0 billion and their share in total FDI flowing into Türkiye is 10.4% in the same year. The main investors are Singapore (57%), Japan (23.5%), China + Hong Kong (8.6%), South Korea (7.3%), Malaysia (2.5%), Australia and India (0.1%). Some 2818 companies from RCEP countries and India operate in Türkiye.

The main foreign investor in Türkiye from RCEP+I) countries is Singapore, with investments worth USD 11.4 billion in 2022. Singapore is followed by Japan, and at a distance by China+ Hong Kong and South Korea. Other RCEP countries have not attempted to invest in Türkiye.

In contrast, the total stock of investments by Turkish companies outside Türkiye in 2022 was USD 50.8 billion, of which almost 84.4% was invested in European countries and only 1.5% in "other Asian" countries. The total stock of Turkish investments in RCEP+I) amounted to USD 763 million, divided between Malaysia (34.7%), China + Hong Kong (20.7%), India (18.5%), Indonesia (13.3). Interestingly, Malaysia and Indonesia have ranked as two of the most attractive countries for Turkish investors in the region, followed by China, Hong Kong, India, and Vietnam.

5. Türkiye's Economic Relations with the European Union

There is no doubt that the EU is the largest and most important trading partner of Türkiye. Meanwhile, Türkiye is the EU's seventh largest trading partner. In 2022, it will account for 3.3% of the EU's total trade in goods with the world (imports and exports combined). The EU is by far Türkiye's largest merchandise import and export partner. In 2022, 26% of Türkiye's goods imports came from the EU and 41% of the country's goods exports went to the EU.

Total trade in goods between the EU and Türkiye in 2022 amounted to €198.1 billion (3.6% of the EU's total trade with the world). The EU's imports from Türkiye were worth €98.6 billion and were led by textiles (closely followed by transport equipment), base metals and articles), and machinery and appliances. The EU's exports to Türkiye totaled €99.6 billion. They were dominated by machinery and appliances (transport equipment), base metals and articles), and chemicals).

Total trade in services between the EU and Türkiye in 2021 amounted to €24.2 billion, representing 1.2% of the EU's total trade with the world in services. EU imports of services represented €11.4 billion and exports €12.8 billion, respectively making each side the other's 12th and 16th biggest trade partner for services in the world. Transport and travel services are EU's the most imported services from Türkiye, and transport and ICT services are the EU's most exported services to Türkiye.

6. Conclusion

It is obvious that Ankara has established intensive diplomatic and political relations with all countries in the -Indo-Pacific region, but its current economic relations underperform in terms of both trade and investment flows compared to other parts of the world economy (besides China and to some extent India, Japan and South Korea). The leading and advanced RCEP countries have a comparative advantage in trade with Türkiye. For example, Türkiye had a trade deficit of USD 231 billion in RCEP+I trade, half of which was with China.

As Türkiye seeks to deepen its economic ties and expand its market share in the Indo-Pacific, there is no doubt that the Turkish economy needs to transform from an export-oriented, low-cost manufacturing economy to an innovative economy that produces and exports high-tech products in order to compete effectively with the Chinese and European economies in the coming decades.

Türkiye needs to complete its economic integration into the European single market, in cooperation with European businesses and with the help of the modernisation of the customs union, in order to create an innovation-based economy. High-tech production will account for only 3.15% of Türkiye's exports in 2020. In order to produce high-tech goods and to emerge as an "industrial and transnational hub" in trade and production, as well as to be able to compete with RCEP+I, Turkey must first undertake a radical and comprehensive reform of its education system to create a high level of human capital, excellent educational institutions and well-equipped research centres. Then the creation of new institutional frameworks and reforms, as well as functioning of existing inclusive institutions in line with EU requirements and legislation. It is important to remember that each stage of development requires new strategies. Transitions are very challenging and it is a never-ending process.

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