



NEW ZEALAND
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Türkiye: a global manufacturing hub

MARKET INTELLIGENCE REPORT

Summary

Prepared by the New Zealand Embassy in Ankara.

- Like other markets around the world, Türkiye is facing the impacts of the global economic slowdown, on top of its own economic challenges in recent years. Nonetheless, its manufacturing sector has remained strong and contributed significantly to the country's economic growth. The sector has also successfully bounced back from the devastating 6 February earthquakes, further demonstrating its resilience.
- Türkiye's manufacturing sector has the capacity to manufacture a vast range of products and is highly integrated in global value chains. International businesses are collaborating with Turkish companies, contracting local manufacturers and establishing their own factories. Multinationals are using Türkiye to implement new technologies in production processes. Along with Mexico and Vietnam, Türkiye is becoming an attractive manufacturing hub for businesses looking to diversify from traditional manufacturing locations, such as China.
- A G20 economy with impressive manufacturing capability and infrastructure, and a prime geographical location for New Zealand's key markets, Türkiye is a manufacturing hub worth consideration by New Zealand exporters looking offshore. This report highlights both opportunities and challenges to provide a balanced picture for New Zealand companies.

Report

Manufacturing has long been a cornerstone of Türkiye's economy. A top 20 market for manufacturing output since the 1970s, Türkiye jumped to twelfth place in 2021. In 2022, manufacturing generated 19 percent of GDP and 18 percent of jobs in the country.

Türkiye's geographical location has made it a popular transportation hub between Europe, Africa, the Middle East and Asia. As a hub for sea and air shipping with its own domestic logistics network, goods can be transported by sea, air, road or rail to most destinations quickly, making it a perfect location for inclusion in global supply chain architecture.

Türkiye is a significant and well-established global manufacturer and supplier of a wide range of products including textiles, automobiles and machinery (more on each below). The technology, textile, and industrial machinery manufacturing subsectors, in particular, provide potential opportunities for New Zealand companies looking for an international manufacturing hub close to major markets, especially the European Union and the United Kingdom.

Türkiye has topped the list of countries with a strong environment for manufacturing in recent years, with a pro-business environment, and supportive tax policies and infrastructure. In 2020, Türkiye was ranked 33rd in the World Bank's Ease of Doing Business Index. Türkiye has established 325 "organised industrial zones", manufacturing hubs that offer suitable infrastructure, waste disposal systems and logistics incentives to encourage manufacturing. Türkiye also has 93 "technoparks", where ICT companies, start-ups and incubators are concentrated and can make use of government subsidies. Varying degrees of tax breaks, financial, technical and labour support (depending on the location of investment and focus sector) add additional incentives for foreign companies.

There can be challenges operating in Türkiye, including regulatory requirements relating to import licences and high customs duties, and regular changes in the regulatory environment; although these have been less of an issue for companies interested in manufacturing in Türkiye for export to third markets. In 2022, Türkiye was ranked in the Transparency International corruption indicators as 101 out of 176 countries.

Despite Türkiye's current economic challenges, including high inflation and significant devaluation of the Turkish Lira, the manufacturing sector has performed well and contributed to GDP growth. In November 2022, for the first time since the pandemic, the Turkish manufacturing sector recorded an annual contraction of 1.3 percent. Despite this, the value of manufacturing exports reached an all-time high of USD 185.9 billion, which accounted for 73.1 percent of Türkiye's total exports in 2022. The cost of manufacturing in Türkiye also remains highly competitive.

Like other exporting markets, Türkiye is being impacted by the global economic slowdown, which will be an ongoing challenge. With inflation contributing to significant cost increases for producers, including a 400 percent increase in electricity costs in 2022 (somewhat negated for international companies by the significant devaluation of the Turkish currency), economic vulnerabilities do need to be considered.

Following the 6 February earthquakes centred in the southeast – an area the size of the North Island, which had accounted for eleven percent of industrial production – manufacturing capacity immediately dropped. Production fell 8.2 percent in February and a steep drop in exports was observed in March and April. However, rapid recovery following the earthquake saw Türkiye’s manufacturing sector show significant signs of recovery in May, including increased output, new orders and an increase in exports. As of September, international companies are largely reporting a return to normal.

A hub for exports to Europe

Almost half of Türkiye’s exports are destined for the European Union (EU), with which Türkiye has a partial customs union. The EU-Türkiye Customs Union covers trade in industrial goods (but does not cover agricultural goods, except certain processed agricultural products) and applies a common external tariff for industrial imports from third markets. This means that once a product is in free circulation in either the EU or Türkiye, it can move between those markets without additional duties. This, along with Türkiye’s proximity to Europe, makes Türkiye a valuable manufacturing hub for products ultimately destined for the EU, as well as the UK (which now has its own FTA with Türkiye).

The EU- Türkiye Customs Union also requires Türkiye to align (as far as possible) with EU law in areas related to the Customs Union, such as customs legislation, the removal of technical barriers to trade, intellectual property and competition rules.

Adapting to change: a shift to reducing carbon emissions and focusing on high tech

Over a third of Türkiye’s exports in the manufacturing sector are tech products, including high-tech products (three percent). Türkiye’s Industry and Technology Strategy 2023 aims to improve high tech, including through government investment of USD 1-1.5 billion in digital transformation of industry. A key objective is to increase high tech manufacturing and exports.

Like in other markets, Türkiye’s manufacturers are working toward carbon emissions reduction, driven by local and international rules. The EU’s carbon-border adjustment mechanism, in particular, is driving measures to reduce footprints given the EU is a major destination market of goods produced in Türkiye. Turkish companies (which regularly

adjust to harmonisation with EU standards) that the Embassy spoke with saw this change as an opportunity for growth. Higher standards of sustainability and a lower carbon footprint were seen as a positive change but also an opportunity to gain a larger share of demand in markets looking for higher value, sustainable products.

Manufacturing sector examples

Textiles and apparel

- Manufacturing of textiles and apparel is a key component of Türkiye's manufacturing sector, contributing to 16 percent of Türkiye's exports in 2021 (worth USD18.3 billion). Many global textile companies either have manufacturing facilities in Türkiye or work with local companies to manufacture textiles. Türkiye produces nearly four percent of clothing globally and is the sixth largest global supplier. Over 70 percent of exports head to the EU, in particular Germany, Spain, the UK and the Netherlands, but the US, Iraq and Israel are also big importers of textiles and apparel.
- The textile and apparel sector has quickly adapted to growing environmental standards and norms by investing in improving transparency, sustainability and traceability, and implementing international sustainability standards such as OEKO-TEX and GOTS. Much of this is driven by eco-friendly requirements and norms in the EU (Türkiye is the EU's third largest apparel supplier).

Automotive industry

- Türkiye is the fourth and thirteenth largest automotive producer in Europe and the world, respectively. In 2021, 1.3 million vehicles were produced in Türkiye – predominantly small-engine passenger cars but a quarter of vehicles produced are commercial vehicles. Global brands have invested over USD16 billion in the Turkish automotive industry since 2000. According to Türkiye's investment office, 30 of the top 50 global vehicle brands have production facilities in Türkiye, including Toyota, Renault, Fiat Chrysler, Honda, Mercedes, Ford and Hyundai.
- Türkiye is also a hub for research and development in the automotive sector, driven by the presence of large international companies and government incentives for investment in R&D (including tax breaks and financial support). Ford, the biggest automotive manufacturer in Türkiye, has its third largest R&D centre in Türkiye.
- The production of Türkiye's own electric "national vehicle", TOGG, has resulted in significant clusters of battery manufacturing for electric cars, which are supported by the governments technopark incentives.

Machinery

- Machinery is Türkiye's fourth largest export industry, making up ten percent of Turkish exports, worth USD19 billion; a key driver behind Türkiye's manufacturing ecosystem. Key export markets are Germany, the UK, France and Italy. At the same

- time, machinery imports are Türkiye's second biggest import (11.4 percent of all imports), with China the top supplier.
- There are over 17,000 local and international companies operating in machinery manufacturing; some of the prominent international companies include Daikin, Hoover and Mitsubishi. The large number of engineers, low labour costs, reliable energy supply and logistical advantages due to geographic location have driven this investment.

Opportunities and challenges for New Zealand companies

New Zealand companies are already benefiting from the Turkish manufacturing sector. Over 20 companies are either exporting to Turkish manufacturers or using Turkish manufacturing as part of their supply chains to export to third markets under their own branding. This includes manufacturing of whitegoods, carpets, vehicles and vehicle parts, vessels and sails.

Despite the economic challenges that Türkiye currently faces, there are strong opportunities for New Zealand businesses looking for a manufacturing location offshore. Given its geographic location, harmonisation with EU standards, highly-regarded manufacturing capabilities including infrastructure and technologically-advanced machinery, a skilled labour force, diverse manufacturing and renewable energy capability, Türkiye has significant potential as a partner. The rapid revival of the manufacturing sector following the earthquakes earlier this year also demonstrated the resilience of the sector to significant shocks.

Like other markets, Türkiye is facing rising prices of energy and other inputs due to inflation, and will likely see costs increase as production shifts to low emission, sustainable practices. The dramatic drop in the value of the Turkish Lira, however, has helped to counter costs for international businesses operating in Türkiye. Nonetheless, Türkiye remains highly competitive in terms of cost of manufacturing, especially when taking into consideration that the manufacturing sector is well-established and highly regarded, with rapid speed-to-market.

There can be challenges doing business in Türkiye, including regulatory issues and bureaucracy hurdles but the government has tried to reduce these challenges in the manufacturing space as they seek to attract international companies. Turkish business culture, like business culture in other markets New Zealand exports to, encourages a physical presence and strong relationships, which the NZTE Istanbul office can support for NZTE customers. Strong relationships with Turkish partners – established through NZTE connections – has been beneficial for New Zealand companies already operating in Türkiye.

NZTE sees significant potential for New Zealand businesses considering Türkiye for manufacturing. Over the last five years, NZTE Istanbul has been supporting New Zealand companies to establish manufacturing in Türkiye, including finding production partners for the manufacture of agritech, machinery, appliances, carpet and textiles. Around half of the products manufactured in Türkiye are industrial and machinery components. Products manufactured in Türkiye for New Zealand companies have been exported to the United States, Australia, the EU, UK, Japan, South Korea and other markets.

Manufacturing in Türkiye has also opened up opportunities for New Zealand companies to export to less-established third markets using Turkish connections, including to Azerbaijan, Georgia, Turkmenistan, Iraq, Chad and Niger.

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