



IZMIR CHAMBER OF COMMERCE

TURKEY-UNITED STATES TRADE RELATIONS:

- LEATHER SECTOR
- JEWELRY SECTOR
- AUTOMOTIVE PARTS SECTOR

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Introduction

This report analyzes trade between the United States of America and Turkey in three sectors: leather, jewelry and automotive parts. This report attempts to determine Turkey's ability to increase its exports in each of the given sectors, specifically to the United States. By looking into the general history of trade between these two countries, as well as the U.S. imports and Turkish exports in each sector, possible outcomes for the future are concluded. From these conclusions it can be determined in what sectors Turkey should export more goods to America with minimal risk; as well as which sectors Turkey should avoid relying on America for growth in the given sector.

Background Information

The history of trade between the United States and Turkey has been very strong. The two nations have been under a general trade and tariff agreement since 1985 and trading levels between the two have increased significantly since then.

After a trade decline in 2001, the bilateral trade flow has consistently increased. In 2001, the bilateral flow value was \$6.16 billion USD. In 2006, this amount had increased to \$11.1 billion USD, which was also a raise of 17% from the year before. This has made the U.S., according to the CIA World Fact Book in 2007, the fourth largest country Turkey exports to, accounting for 5.9% of all Turkish exports. They trail Germany (11.4%), UK (8.0%) and Italy (7.9%), but are the largest importers of Turkish goods outside the EU.

A large reason for these impressive trade statistics is because the United States has included Turkey as a country that can benefit from its Generalized System of Preferences (GSP) program. This program is designed to promote economic growth that provides duty-free entry for more than 4,650 products from 143 designated beneficiary countries and territories. Of these products under GSP; leather, jewelry, and automotive parts all qualify for these duty-free benefits. According to the U.S. Department of Commerce, jewelry and auto parts are also among the top imports under the GSP program accounting for 17.2% and 7.7% of the \$26 trillion total imports the United States sees under GSP, respectively.

There have been good and bad times between the countries in the past, but these have only moderately affected trade. According to the Turkish Embassy, the United States has always been a major trading partner to Turkey. As described in the Turkey-U.S. Economic Partnership Commission Action Plan as recently as May 25, 2007, delegates from both countries have agreed to work together to remove bilateral trade barriers and expand U.S.-Turkish trade and investment.

The relationship going into the future between the two countries is perfectly described in a statement by U.S. Officials saying, "It is a relationship characterized by strong bonds of friendship, alliance, mutual trust and unity of vision."

Leather Sector

Turkish Leather Exports

Turkish exporting is a very promising business, with overall exports reaching record highs in 2006 at \$85.7 billion USD, \$1.7 billion above the target goal for that year. The value of Turkish exports has continued to grow from year to year as the goal for exports in 2007 has been increased to \$100 billion USD. As of March 13, three months into the year, exports are up 25.82% from the same time last year. According to the Turkish Weekly, 88.94% of the total exports in May were from the manufacturing sector, which includes leather products. Specifically speaking of the leather sector, 33% of Turkish exports are to either France or the U.S.A.

Looking at the Turkish leather exports, Turkey is becoming less dependent on the sector compared to Turkish exporting as a whole (this can be seen on the table below). Despite this, the number of leather exports was at an all-time high in 2003 and continues to be growing today.

LEATHER EXPORT AND SHARES IN TURKEY TOTAL			
UNIT: 1000 \$US			
ANNUAL	LEATHER AND LEATHER ARTICLES' EXPORT	TURKEY'S TOTAL GENERAL EXPORT	LEATHER'S SHARE %
1997	723.810	26.261.072	2,8
1998	662.737	26.973.978	2,5
1999	507.809	26.587.225	1,9
2000	563.693	27.774.906	2,0
2001	622.689	31.334.216	2,0
2002	644.509	36.059.000	1,8
2003	738.972	46.877.598	1,6

Source: Undersecretariat of Foreign Trade / April 2004 Exports realized through shuttle trade are excluded

In post-2003 data, Turkish exports of leather grew 9.1% six months into 2004 compared to the same time the year before. Turkey is now a strong competitor in the international market place as leather exports are continuously growing. The country also has the second largest capacity in the world, behind China. Turkey holds 1,500-2,000 companies in the leather industry and employing 25,000 to 30,000 people, according to the Turkish Leather Industry. More specific and up-to-date statistics are shown on the next page, which show how the rich history in this sector has positively affected trade of these products today.

United States Leather Imports

When it comes to importing leather, the United States is among the top in the world. As of 2005, the International Trade Center placed the United States fourth in monetary value of imported leather in the world. The table below shows, by country, how much leather apparel the U.S. has imported in the last ten years. Only the top 6 exporting countries in this sector are shown on the table, including Turkey (fifth largest).

U.S. Imports for Leather Apparel (in \$1000 USD)

Country	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Percent Change 2005 - 2006
China	600,275	646,094	597,610	660,968	1,193,607	1,258,233	1,081,745	1,061,383	916,917	801,419	714,060	-10.9%
Italy	32,740	38,563	45,796	52,102	86,349	108,275	88,592	86,204	75,367	67,386	67,080	-0.5%
Pakistan	55,783	63,592	69,231	56,141	70,332	66,620	67,349	59,941	47,143	41,160	46,132	12.1%
India	64,822	66,155	52,325	48,174	128,867	129,421	77,379	69,792	68,873	50,131	43,019	-14.2%
Turkey	2,336	3,829	9,699	13,367	22,707	24,861	21,797	21,499	13,070	13,879	16,836	21.3%
France	4,705	4,899	6,399	8,141	13,705	14,251	13,057	11,978	10,468	9,137	8,507	-6.9%

Source: U.S. Department of Commerce and U.S. International Trade Commission

Percentage changes between years help put large numbers into perspective of which countries are growing and which are not. After a general decrease in the overall number of leather products the U.S. was importing from 2001-2004, Turkey has had the strongest revival of the top countries exporting leather to the United States. As shown on the last column in the table, Turkey's increase from 2005-2006 alone was 21.3%. Since the revival of the Turkish leather industry in America from 2004-2006, leather apparel exports from Turkey have increased 28.8%. During that same time-frame, no other country shown on the graph has had a positive percentage change. This recovery from a significantly lower U.S. leather imports in 2004 could be early signs of a promising future in the sector for Turkey.

Leather Sector between the U.S. and Turkey

Exporting leather to the United States is nothing new for Turkey, as the table below represents. It shows how much leather the United States imports from Turkey every year since 2002. Generally, the U.S. is importing more leather every year from Turkey. Although there was one year of decreases in 2004, as mentioned earlier, it was followed by two years of record increases within the sector.

United States Leather Imports from Turkey

Year	2002	2003	2004	2005	2006
\$US	1,305,000	1,665,000	1,230,000	2,746,000	3,597,000

Source: Tradestats Express-U.S. National Trade Data

Today Turkey has high value and high quality products in leather garments which have won recognition all around the world. As a symbol of quality of production, Turkish leather garments will most likely carry a higher share in the world markets in the future, according to turkishleather.com. Even as the leather sector becomes less important for Turkey's overall export numbers, it continues to grow and prosper. As the United States continues to import

more leather from Turkey and around the world, Turkey should be able to rely on its leather industry more heavily. At the same time, judging from past statistics, this could make for a comfortably larger growth in Turkish exports not only to the United States but around the world. All of this comes at a fairly minimal risk.

The Izmir Chamber of Commerce alone currently has 80 exporters of leather, mostly small to medium sized companies, which could strongly benefit from the opportunities presented in the United States that would help the local community grow and develop in the long-run.

Jewelry Sector

Turkish Exports of Jewelry

Another thriving sector for Turkish exports to the United States is the jewelry sector. The Turkish Jewelry business has experienced exponential growth since the early 1990's despite: an economic crisis from 1994-1998; a severe earthquake in 1999; a severe drop in the exchange rate of the Turkish Lira in 2001; and criticism in the business for making low-cost versions of popular Italian designs. Since 2002, Turkish jewelers have been able to custom-manufacture quickly and are developing a recognizable Turkish style that has been important to growth in the industry, as stated by JCK's High Volume Jeweler, a publication providing coverage and analysis in jewelry retail sales. Despite these criticisms and disasters, the Turkish jewelry industry is the most productive in the country when speaking in terms of capital efficiency.

This stability and growth in unstable times is what has made Turkish Jewelry exports #11 in the world in terms of money (numbers on the table below). Of these exports, the North American market purchased the most jewelry from Turkey.

Turkey's Jewelry Exports (Total)

Year	2001	2002	2003	2004	2005
\$US	445,581,000	560,747,000	727,200,000	964,573,000	1,170,304,000

Source: International Trade Center

Another key to the Turkish Jewelry market is tourism, which was been down in the late 1990's and early 2000's mostly due to problems in neighboring countries. According to BBC World News, tourism fell in 2002 and 2003 because the threat of war in neighboring Iraq, but is now growing and expecting to be one of Turkey's strengths. Today, tourism is the second largest source of national revenue behind foreign affairs; and even when negatively affected in 2002, tourism accounted for a quarter of Turkey's exports. With increases in tourism that are expected in the future, jewelry exports should also increase.

United States Jewelry Imports

The total U.S. imports from all sectors in Turkey reached a record high at \$5.36 billion USD in 2006. Of these total imports, many are through the beneficiary GSP program explained earlier, including jewelry. Jewelry is the second largest import under the GSP program for the United States, behind petroleum.

When looking at the jewelry imports in the United States, they continue to increase from around the world every year (statistics shown below). Also in 2006, imports from this sector for the United States reached \$11 billion USD.

United States Jewelry Imports (Total)

Year	2001	2002	2003	2004	2005
\$US	6,358,697,000	7,220,778,000	7,614,529,000	8,667,450,000	9,858,147,000

Source: International Trade Center

The table below shows which countries the United States is importing the most jewelry from. India, China, Thailand and Italy lead this statistic by very large margins. A significant thing to realize in this table is that the top three exporting countries (India, China, and Thailand) all have had huge gains in the last three years, specifically from 2004 to 2006. At the same time, U.S. jewelry imports from Turkey have decreased. That combined with an unstable past in the sector may provide reasons to believe that the competition is currently too much for Turkey to compete strongly with the top countries in this sector.

U.S. Top 7 Jewelry Importing Countries (In 1,000 \$USD)

Country	1998	1999	2000	2001	2002	2003	2004	2005	2006
India	443,538	561,23	672,988	576,626	875,958	1,190,831	1,491,287	1,762,041	2,415,046
China	129,366	195,742	302,637	395,43	566,686	748,89	922,052	1,089,001	1,280,756
Thailand	376,971	500,698	632,859	659,202	684,93	779,418	887,501	906,638	1,065,673
Italy	1,456,766	1,482,322	1,489,469	1,384,365	1,509,631	1,205,901	1,001,757	934,891	918,721
Hong Kong	405,174	499,287	589,364	460,894	517,329	450,015	475,519	488,876	508,611
Mexico	170,767	177,062	169,67	168,816	158,044	152,759	272,897	438,51	416,426
Turkey	162,965	181,495	230,091	198,576	197,992	248,532	369,318	405,598	359,935

Source: U.S. Department of Commerce and U.S. International Trade Commission

Jewelry Sector between the U.S. and Turkey

Although Turkey is exporting much more jewelry to the United States than it did 5 years ago, jewelry exports are still down from 2005 by about \$100 million USD. According to the International Business Times, the overall demand for the jewelry sector fell 17% last year and will likely fall again in 2007. Much of this, as stated in the Turkish Daily News, is due to high and volatile world gold prices which chopped demand from consumers and wholesalers.

United States Jewelry Imports from Turkey

Year	2001	2002	2003	2004	2005	2006
\$US	199,597,000	198,608,000	249,602,000	371,539,000	470,573,000	361,826,000

Source: U.S. Department of Commerce

Despite these setbacks, Turkish jewelry exports to the United States have grown \$304 million USD since 1996, ranking it as the fourth largest monetary growth in that time. This is still very much behind the top three countries growing in jewelry exports to the U.S. which are: India (\$2.1 billion USD-about 7 times larger), China (\$2 billion USD-about 6 ½ times larger) and Thailand (\$735 million USD-about 2 ½ times larger).

Although Turkey has seen substantial growth, the overall sector around the world is not in the best position right now. If demand for gold goes down, there won't be enough buyers for the exports that Turkey has available. This could lead to a surplus of Turkish jewelry. There is also

an unstable past of exporting jewelry to the United States from Turkey. There have been two decreases in exports in the past 5 years, which shows that it might happen again in the near future. Although the industry has made a lot of progress from where it was just 5 years ago, it seems to be more volatile than leather, and there is some risk if Turkey were going to depend on the jewelry sector for its growth.

The Izmir Chamber of Commerce currently has 31 jewelry exporters that could possibly benefit from exporting more to the United States. It would be my advice to be cautious before exporting larger amounts in this sector to the U.S.

Automotive Parts

Turkish Exports of Automotive Parts

Turkey is in an excellent position, both in physical location and in the industry as a whole, to be among the best in the world exporting automotive spare parts. Turkey is the automotive center of the Middle East with an automotive parts production value of \$5.3 billion USD. Turkey also has a \$3.0 billion export value in this sector. The following table shows the labor costs advantages Turkey has compared to other prominent regions in the sector. Despite the lower cost of employment, qualifications and efficiencies in Turkey remain comparable to other countries in the U.S. and the EU. This skilled, cheap labor and relative absence of productivity constraints attracts many foreign manufacturers to Turkey, according to the United Nations Industrial Development Organization.

Automotive Labor Costs (2004)

Country	Cost/Hour (USD)
Western Europe	\$25
U.S.A	\$20
South Korea	\$12
Turkey	\$8
Eastern Europe	\$6
India	\$1.50
China	\$1.00

Source: Robert Werner, Columbia Business School

There are many strengths and advantages in this sector for Turkey. As stated by the Foreign Economic Relations Board, these include:

- Capacity suitable for economies of scale
- Diversified product portfolio
- Qualified and relatively cheap labor
- Strategic geographical position and the only country in its region to have established a well advanced automotive industry
- International quality management systems are implemented and Turkey is in compliance with international technical regulations
- Turkey continuously invests in technology
- More export experience every year
- The industry in Turkey can manufacture all auto parts except spark plugs

With all of these strengths in the Turkish automotive parts sector, the McKinsey Global Institute also reported that in 2003 productivity rates were 91% of U.S. levels. They could be more, but specific barriers keep it from moving substantially higher to its potential of 127% of U.S. levels. It is also reported that success in this sector could lead to an 8% per annum growth and the creation of 170,000 new jobs by 2015. The total number of automotive parts and accessories exports from Turkey is on the table below, showing a large growth since 2002.

Turkish Exports of Vehicle Parts

Year	2001	2002	2003	2004	2005	2006
\$USD	28,215	24,334	27,072	53,262	77,104	87,442

Source: International Trade Center

United States Imports of Automotive Parts

The U.S. imports large amounts of automotive parts every year. In 2005 they imported \$92.2 billion worth, up 309% since 1991. According to the International Trade Commission, the highest levels of imports in this sector were from brakes and tires. The U.S.'s largest increases in this sector from 1995-2004 came from the following: a quadrupling of wheel imports, steering and suspension components tripled, and the brakes and tires imports doubled.

U.S. Imports of Automotive Parts (In \$1000 USD)

	Canada (1st)	Mexico (2nd)	Japan (3rd)	Turkey (24th)	Total (World)
2001	8,637,315	4,617,507	6,624,098	28,215	26,444,410
2002	9,720,522	5,223,009	6,825,795	24,334	29,346,611
2003	10,608,084	5,594,955	7,263,407	27,072	32,367,931
2004	11,190,316	6,625,479	8,891,095	53,262	37,37,474
2005	11,886,264	7,778,774	9,232,989	77,104	41,320,257
2006	11,336,363	9,183,614	8,716,150	87,442	43,171,828

Source: International Trade Center

Although the U.S. is importing large amounts of automotive parts, most of its imports come from Canada, Mexico and Japan; respectively. These three countries account for over \$30 billion of imports in this sector; well the U.S. only imports about \$3 billion from the next largest country (Germany). This shows how much the U.S. relies on its two neighboring North American countries, and also how much less they rely on European countries, including Turkey in this sector. Of the top ten countries they import automotive parts from, only three are in Europe. With \$87 million worth of exports to the U.S. in this sector, Turkey ranks 24th on this list compared to other countries. Specific statistics can be seen above.

Automotive Parts Sector between the U.S. and Turkey

Although the statistics may point to a promising future between the United States and Turkey in this sector, the amount the U.S. relies on Turkish automotive parts is very small. There are many things that could hinder Turkey's growth in this sector within the U.S. economy, as well. The United States Agency for International Development says some of these problems for growth include:

- Different vehicle models between the countries

- Leading vehicle manufacturers in Turkey aren't even present in the USA. Examples: Fiat and Peugeot.
- Vehicle production in Canada and Mexico compliment production in USA
- Turkey's vehicle production is mostly European oriented
- Turkey is not an attractive sourcing location for the U.S. market
- Turkey is not a natural match for U.S. market
 - Location and cultural differences
 - Takes longer to ship items to the U.S. then to Europe

With these complications in the automotive parts sector, it would make more sense for Turkey to focus on exporting their parts to European countries and the surrounding areas. Not only is it cheaper, but the demand for Turkish auto parts are very high within its own region. As mentioned earlier, Turkey also has more productivity potential than it is currently using. Turkey should be focusing on maximizing its potential in its own region before anything else. If the demand for their own region decreases or is met, then it should focus on exporting parts to other places around the world; first of all it should look to more parts of Europe. This should only happen after demand falls, but currently the demand in the Middle East and existing European partners is sufficient enough to increase Turkish exports in the sector, without having to concentrate on the United States as the main source of automotive parts exports.

According to the Izmir Chamber of Commerce Website, there are 478 member firms that manufacture and export automobile spare parts.

Conclusions

Overall, everything points to a promising future for Turkish exporting companies. The big question is: what sectors will gain the most and in which regions of the world will this happen? This report has analyzed the leather, jewelry, and automotive parts sectors in an attempt to predict possible futures in each sector. From research on the internet, newspapers, and other government documents; outlooks into each sector have been evaluated.

The leather sector looks to be a strong sector which offers a lot of opportunities of exporting to the United States. With a steady past of increases in exports to the United States, it can be viewed as the best option of the three sectors that were investigated. Unlike the jewelry sector, which is fairly volatile to demand changes, the leather sector has room for consistent growth in the future. Past statistics show that this is likely as the number of exports to the United States in this sector has steadily increased since 2001. The numbers of exports are smaller than the jewelry sector, but this may allow for more growth in the already growing leather sector.

The jewelry sector has made improvements over time and grown to rates never reached before in Turkey. Despite this, the overall world demand for gold is down and this has affected Turkish jewelry exports to the United States recently causing them to decrease. This is at the same time that the top 3 countries in this sector are growing more rapidly than ever before.

The world demand and competition are working against Turkey in the jewelry industry as it started far behind other exporting countries and is getting farther behind due to conditions in the global market. Turkish exporters could see gains in this market, but it comes at a risk that may show periodic losses instead.

The automotive parts sector may look like the best option when focusing on the statistics, but upon further observation it may not be the best solution for Turkey-U.S. trade. The many complications brought up earlier lead to questions about America's need for Turkish automotive parts. Although there is possibility in the sector, it would be in Turkey's best interest to focus on its own region; doing this will lead to a larger growth in the sector as there is a greater demand for their products in Europe and around the Middle East. This will also allow Turkey to use their technology to its full potential well gaining experience in the sector at the same time. This will lead to increased productivity rates and eventually higher amounts of exports around the world, possibly opening the door for record amount of exports to the United States in the future, within the sector.

Of the three sectors researched, leather should be the focus point of Turkish exports to the United States because of its demand, stability and growth. Jewelry could be prosperous, but with a fluctuating industry it would be more risky to rely on the sector as a whole; and the automotive parts industry is promising, but should focus on European and Middle Eastern countries for its growth in Turkey before expanding and exporting more to the United States.

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