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Customs Union for SMEs Project

Within the Customs Union, Competitiveness of SMEs in Turkey and EU Countries

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Türkiye - AB Gümrük Birliği Çerçevesinde Türkiye ve AB Ülkelerindeki KOBİ'lerin Rekabetçiliği

Within the Customs Union, Competitiveness of SMEs in Turkey and EU Countries

Orhan Turan
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BAŞKAN'DAN
From the PRESIDENT

Gümrük Birliği Modernizasyonunda Türk KOBİ Perspektifi Yaklaşımı

Türkiye'nin sürdürülebilir kalkınması için ekonomimizin rekabetçilik gücünü artırmamız için KOBİ perspektifli politikaların ve işbirliklerinin geliştirilmesi büyük önem kazanıyor. Ülkemizin en büyük ticaret ortağı ve uluslararası yatırım kaynağı olan Avrupa Birliği (AB) ile entegrasyon sürecinin, geçtiğimiz 25 senede rekabetçilik ve yatırım ortamımıza sağladığı çok önemli katkılar var. Türkiye'nin AB yolculuğu; ihracat başta olmak üzere, teknoloji, turizm, çevre, tüketici, çalışan hakları ve sosyal hakların yanı sıra; insan hakları ve sivil toplum alanına uzanan ilerlemelerde çarpan etkisi yarattı.

Mevcut şartlarda, Türkiye'nin Gümrük Birliği'nin (GB) güncellenmesi ve güçlendirilmesi yoluyla, AB'ye ekonomik entegrasyonunun derinleşmesinin, olağan, kısa vadeli bir vizyondan ziyade, her iki taraf için de uzun vadeli bir stratejik hedef olarak değerlendirilmesi gerekiyor. Mevcut GB; hizmet ekonomisi, dijital dönüşüm, yeni nesil ekonomik anlaşmaların genişleyen kapsamı gibi 21. yüzyılın küresel ekonomi ve ticaret dinamiklerine yanıt vermekten uzaktır.

The Modernization of the Customs Union from Turkish SME Perspective

It is very important to form policies and collaborations with the SME perspective in order to increase the competitiveness of our economy and for Turkey's sustainable development. The integration process with the European Union (EU) - our country's biggest trade partner and source of foreign investment – has contributed significantly to the competitiveness and investment atmosphere in the last 25 years. Turkey's journey to the EU created a multiplier effect in many areas such as export, technology, tourism, environment, consumer and employee rights, social rights, as well as human rights and civil society.

The deepening of economical integration to the EU should be considered as a long-term strategic goal via the modernization and the strengthening of the Customs Union (CU) for both parties, rather than an average, short-term vision. The current CU is far away from responding to the global economy and trade dynamics of the 21st century; such as the service economy, digital transformation, and the broad scope of new-generation economic agreements.

21. yüzyılın güçlü, dinamik ve yenilikçi KOBİ’lerinin, içe dönük ve bağlantı potansiyeli tam anlamıyla değerlendirilememiş bir Avrupa’da gelişmesi mümkün değildir. GB’nin 21. yüzyılın zorlu küresel ekonomi ve ticaret iklimi doğrultusunda modernleşmesi; daha da güçlü bir yatırım ve ticaret ilişkisi sağlayacak; iş yaratma, kapsayıcı büyüme ve sürdürülebilir kalkınmada kritik rolü üstlenen Türkiye ve AB’deki KOBİ’ler için çeşitli fırsatlar yaratacaktır.

GB’nin mevcut durumda eksik olan hizmetleri, tarım sektörü ile kamu alımlarını kapsaması; uygun ve etkili anlaşmazlık çözüm mekanizmalarını sağlaması için modernizasyonu gerekmektedir. Güncelleme her iki taraftaki iş dünyasının hizmet ve diğer sektörlerde yeni pazarlara erişme kapasitelerini artıracak; rekabetçilik başta olmak üzere ihracat yetkinliklerini geliştirecek; ticari ilişkilerin derinleşmesini sağlayacak ve KOBİ’lerin küresel düzeyde daha etkili desteklenmesine imkân tanıyacaktır. Türkiye ve AB’deki KOBİ’lerin rekabetçiliğine odaklanan, ülkemizin GB sürecinde çözüme kavuşturulması gereken konular ile KOBİ perspektifi yaklaşımına vurgu yaptığımız rapor, sürece katkı sağlayacak inancındayız.

Saygılarımızla

It is not possible for strong, dynamic and innovative SMEs of the 21st century to improve in an inward-oriented Europe where the connection potential is not valorized properly. The modernization of the CU in line with the challenging global economy and trade atmosphere of the 21st century will enable a much stronger investment and trade relations, and create a variety of opportunities for the SMEs in Turkey and the EU which play a critical role in job creation, inclusive growth, and sustainable development.

The modernization of the CU is necessary for the inclusion of services sector, agricultural sector, and public procurement as well as to provide proper and effective dispute settlement mechanisms. The modernization will increase the potential to access new markets in services and other sectors for the business world of both sides, improve their competitiveness and export competence, enable the deepening of trade relations and contribute to the support of SMEs in the global context more effectively. We believe our report focusing on the competitiveness of Turkish and European SMEs and emphasizing the SME perspective as well as the issues need to be adressed in the CU process will contribute to the modernization process.

Regards

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YÖNETİCİ ÖZETİ

Türkiye Ülke Raporu

AB ve Türkiye arasında imzalanan Gümrük Birliği Anlaşması 1996 yılında yürürlüğe girdi. Serbest Ticaret Anlaşması (STA) ile tam bir Gümrük Birliği (GB) Anlaşması arasında karma bir yapıya sahip olan bu anlaşma, sanayi ürünlerinde ticaretin serbestleştirilmesini içerirken hizmet sektörünü ve belirli ürünlerde karşılıklı imtiyazlar haricinde geleneksel tarım ürünlerini kapsam dışında tutar. Anlaşma, genel itibariyle her iki tarafın refah seviyesini artırmıştır: İkili ticaret artmış, ithalat gümrük vergilerinin düşürülmesi neticesinde Türk sanayisinde verimlilik artışı sağlanmış, ticaret yapan şirketlerde istihdam artmış ve şirketler büyümeye gitmiş, teknik düzenlemeler ve gümrük reformları sayesinde Türkiye'de kaliteli bir altyapı gelişimi gerçekleşmiştir.

Ancak şimdiye kadar Gümrük Birliği tam bir entegrasyona, yani tam AB üyeliğine, dönüşmese de daha derin bir ekonomik entegrasyona dönüşmüş olmalıydı. 24 yıllık süreç içerisinde anlaşmada hala uyuşmazlıklar, iletişim eksikliği ve tartışmalı noktalarda politik blokaj söz konusu. Gümrük Birliği'ndeki birtakım asimetriler de iş ortamına ayrıca zarar veriyor.

Her ne kadar taraflar 2015 yılından itibaren Gümrük Birliği'nin güncellenmesi konusunda istekli olduklarını belirtseler de henüz bu bağlamda daha kapsamlı ve derin bir ekonomik entegrasyon stratejisi oluşturulmuş değil. Bu konudaki işbirliğine dair politik kaygıların da süreci yavaşlattığı hatta güncellemeyi engellediği söylenebilir.

Öte yandan hem Türkiye hem AB, üçüncü taraflarla STA'lar imzalamakta ve biraz önce bahsettiğimiz asimetrilere sebep olmaktalar. Yeni yapılan STA'larda KOBİ'ler özelinde başlıklara ve düzenlemelere yer verilmesi de

EXECUTIVE SUMMARY

Turkey Country Report

EU-Turkey Bilateral Preferential Trade Framework, also known as the Customs Union, came into effect in 1996. It is a hybrid agreement, between a free trade agreement (FTA) and a full customs union: It covers trade liberalization in manufacturing goods and excludes the services sector and primary agricultural products with bilateral concessions on certain products. The agreement had an overall welfare increasing impact on both sides: Bilateral trade increased, there were productivity gains in Turkish manufacturing through reduction in import tariffs, it increased firm employment and company size in companies that trade; it enabled quality infrastructure to develop further in Turkey with improvement in technical regulations and facilitation of customs reforms.

Yet by now, Customs Union should have evolved into a deeper economic integration, if not full integration, i.e. full EU membership. After 24 years of its initiation, there are areas of friction, lack of dialogue on certain aspects and a lot of political blockage on disputed areas. In the current implementation, it is in status quo and in some aspects; asymmetries created are hurting the business environment.

Both sides have shown willingness to update the CU since 2015; but these efforts are yet to transform into a comprehensive approach with a deeper economic integration strategy. Political aspects of the cooperation again seem to be slowing down or even blocking the updating of the agreement.

Meanwhile, both sides are engaging FTAs with third parties, creating some of the aforementioned asymmetries. What is of relevance for the scope of this study is that more and more FTAs include explicit provisions on bu çalışmanın kapsamına girmesi bakımından önem arz ediyor. Dünya Ticaret Örgütü verilerine göre KOBİ'lerden ayrıca bahsedilen başlıkların yer aldığı anlaşmaların sayısı 1990'ların sonu ila 2000'li yılların başından itibaren düzenli olarak artış göstermekte.[1] KOBİ'lerin uluslararası ticarete entegre olmaları giderek önem kazanıyor ve hem ulusal hem de uluslararası düzeyde siyasa yapım süreçlerinde etkili oluyor.

Yüksek gümrük vergileri ve tarife dışı engeller KOBİ'lerin ticaretteki payını azaltmakla kalmıyor, büyük şirketlere oranla ihracat hacimlerinin de daha fazla azalmasına neden oluyor.[2] Verimlilik, büyüklük ve ihracat performansı arasındaki pozitif korelasyonu düşündüğümüzde büyük şirketler daha fazla verimlilik sahibi oluyorlar ve yabancı pazarlara erişim büyük şirketler için daha kolay olduğundan ihracat yaparak büyümeye devam ediyorlar.[3] Ticaret anlaşmaları yalnızca gümrük vergilerini azalttığı ya da ortadan kaldırdığı için değil, aynı zamanda tarife dışı engellerin aşılmasında kolaylık sağladığı için de KOBİ'ler açısından önemli. Ticaret önündeki engellerin azalması, vergi muafiyeti, basitleştirilmiş teknik yükümlülükler ve gümrük prosedürleri, bilgiye ve dağıtım kanallarına erişim KOBİ'lerin ihracat kaynaklı giderlerinin azalmasına, büyük şirketlerle rekabet edebilmelerine ve ikili tedarik zincirlerine daha fazla dahil olabilmelerine olanak sağlıyor. Fırsat verildiği takdirde KOBİ'ler büyük şirketlere oranla ihtiyaçlara daha hızlı ve daha esnek cevap verebilirken yeni ihracat fırsatlarının yaratılmasında kritik role sahipler.

Bu nedenlerden ötürü KOBİ'lerin uluslararası iş dünyasında büyük şirketlerle eşit koşullarda performans gösterebilmek için kurallara dayalı ve şeffaf bir ticaret ortamı taleplerini yansıtan spesifik bölümlerin STA'larda yer alması aslında tesadüf sonucu olarak değerlendirilmemelidir.

1 Titievskaia J. and Zachariadis I., 'CETA Implementation: SMES and Regions in Focus', European Parliamentary Research Service, November 2019
2 World Trade Report 2016: Leveling the Trading Field for SMEs, World Trade Organization 2016, p. 8
3 World Trade Report 2016: Leveling the Trading Field for SMEs, World Trade Organization 2016, p. 74

SMEs. According to World Trade Organization figures, the number of agreements with explicit SME- related provisions has increased steadily since the late 1990s and early 2000s.[1] Facilitating SME integration in international trade is becoming increasingly important and it reflects broader changes in the policy agenda at the both national and international level.

Higher tariffs and non-tariff barriers reduce SME participation in trade as well as reducing volume of exports more than that of large firms.[2] Given the positive correlation between productivity, size, and export performance, the most productive firms are larger and they find it easier to access foreign markets and grow further by exporting.[3] Trade agreements are important for SMEs not only because they reduce or eliminate trade tariffs; but also because they help the SMEs overcome other non-tariff barriers. Reduced trade barriers, tariff elimination, simplified technical requirements and customs procedures, access to information and distribution channels help SMEs to lower export-related costs and allow them to compete with large companies as well as to participate more in bilateral supply chains. When given the opportunity, SMEs respond more swiftly and flexibly than larger firms do, and they are critical in creating new export opportunities. It is no coincidence that we are seeing specific chapters in FTAs, reflecting SMEs demand of a rules-based and transparent international trade so that they can perform in the international business arena on par with larger firms.

The task of updating the CU is a challenging one and it will require an upfront willingness on both sides to get into more dialogue and coordination; and improve conditions for further economic integration. There are almost 'aged' disputes and the literature so far, analyzed

1 Titievskaia J. and Zachariadis I., 'CETA Implementation: SMES and Regions in Focus', European Parliamentary Research Service, November 2019
2 World Trade Report 2016: Leveling the Trading Field for SMEs, World Trade Organization 2016, p. 8
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GB'nin güncelleştirilmesi zorlu bir süreç; iki tarafın da daha fazla diyalog kurmak, koordinasyon içinde ilerlemek ve ekonomik entegresyon koşullarını iyileştirmek için irade göstermesi gerekiyor. Neredeyse "yıllanmış" diyebileceğimiz anlaşmazlıklar söz konusu ve mevcut literatür de bu anlaşmazlıkları detaylı olarak ele alıyor. Müzakere sürecinde KOBİ perspektifinin de göz önünde bulundurulması ve KOBİ'lerin sürece dahil olmaları için gerekli siyasa önlemlerinin alınması kritik öneme sahip olacaktır. KOBİ perspektifi olmayan bir GB güncellemesi, yeni STA'ların gerisinde kalma ve anlamını yitirme riskiyle karşı karşıya kalır. Bu çalışmayla hedeflenen en önemli katkı GB modernizasyonu tartışmalarına Türk KOBİ perspektifinin getirilmesidir.

Bu amaçla Türkiye raporunun ilk bölümünde güncel GB'de çözüme kavuşturulması gereken tartışmalı konular ele alınmaktadır. Mevcut GB ile güncelleştirilmiş GB'nin ekonomik etkileri de konuyla ilgili daha önceki çalışmalar ışığında yine bu bölümde ele alınmaktadır. İkinci bölümde, geçmiş verilere ve analitik araştırmalara dayalı olarak Türkiye'de şirket ve verimlilik yapısının genel hatları ele alınmaktadır, zira bu şirket ve verimlilik yapısı GB'nin güncelleştirilmesinde KOBİ perspektifinin desteklenmesi ve STA'lar açısından önemlidir. Üçüncü bölümde tartışmalı konulara KOBİ perspektifinden bakış getirilerek nitel araştırma sonuçlarına göre KOBİ'lerin sunduğu çözüm önerileri işlenmektedir. Son bölümde ise önceki bölümlerde ele alınan analizler ve araştırma sonuçları ışığında siyasa önerileri listelenmektedir.

these disputed areas in detail. During the negotiations, it will be of critical importance to include the SME perspective in to the economic welfare generating impact of the CU and take respective policy measures to ensure their inclusion. Without an SME perspective, any CU updating effort will risk falling behind the new FTAs and losing its relevancy. Earmark targeted contribution of this report is bringing the Turkish SME perspective into the CU modernization discussions.

With this aim mind, the next chapter looks into the long-disputed areas within the CU, which will need to be ironed out in the modernized version. In the light of the previous research made on the subject, the economic impact of the current CU and modernized version is also further investigated again in this chapter. Chapter 2 looks into the basic features regarding the company and productivity structure in Turkey based on historic data and analytical research, as these characteristics will be important in supporting the SMEs in update of the CU and the foreign trade agreements in the future. Chapter 3 forms an SME perspective on the disputed areas and their solutions by analyzing qualitative survey results; and the final chapter lists policy recommendations based on the previous analytical chapters and these important survey results.

Slovakya Ülke Raporu

Çalışmanın Slovakya raporunda ise Slovak KOBİ'lerin ulusal ekonomi içerisindeki yeri, küresel ticaretteki payları ve AB Türkiye arasındaki Gümrük Birliği'nin Türkiye-Slovakya ikili ticaret ilişkisine etkileri ele alınmaktadır. Slovakya ile Türkiye arasında oldukça hareketli politik ve ekonomik ilişkiler olmasına rağmen bu bağlamda literatürde büyük bir eksiklik olması ise doldurulması gereken büyük bir araştırma boşluğu yaratmaktadır.

Slovakya'da iş ortamını destekleyici pek çok çalışma yapılmasına rağmen girişimci iş örgütü Slovakya İş Dünyası İttifakı'nın (Business Alliance of Slovakia) İş Dünyası Endeksi'nde de görüldüğü üzere iş insanları memnuniyetsizliklerini koruyor. Diğer AB üyesi ülkelerle kıyaslandığında Slovakya; karmaşık vergi ve gümrük sistemi, iş ilişkilerinde yeterli esneklik olmaması, düşük iş gücü hareketliliği ve üçüncü dünya ülkesi vatandaşlarının istihdamında uygulanan engellerden kaynaklanan emek piyasası sorunları nedeniyle mal piyasası verimliliğinde geride kalıyor.

Slovak işletmeler ayrıca kamu kurumlarının kalitesinden, mevzuatın getirdiği ağır yüklerden, hafif kalan hukuki yaptırımlardan, yargı ve polis bağımsızlığından ve hükümetin uzun vadeli ekonomi vizyonunun olmamasından şikayetçi. Bu nedenle Slovak İş Dünyası İttifakı, Slovakya'nın iş ortamını geliştiremediği ve hemen hemen yerinde saydığı bir "kayıp on yıl" geçirdiğini öne sürüyor. Dijitalleşmeden dolayı iş gücünün neredeyse %70'i risk altında olan Slovakya teknolojik gelişmeler karşısında OECD ülkeleri arasında en savunmasız ülkelerden; bu bağlamda da iş pazarı ve eğitim kritik konular olarak öne çıkıyor. Kalifiye iş gücü eksikliğinden dolayı şirketlerin %41'i yeni kontrat imzalamadıklarını beyan ediyorlar, bu durum özellikle yıllık cirosu 20.000 – 50.000 avro olan KOBİ'leri (%47.3) etkiliyor. Bu sorunların farkında olan Ekonomi Bakanlığı iş dünyasını ve özellikle KOBİ'leri destekleyici çalışmalar yürütüyor. KOBİ temsilcileriyle bir araya gelen Bakanlık girişimcilerin önünü

Slovakia Country Report

This study looks at the position of Slovak small and medium-sized enterprises (SMEs) in national economy, their engagement in global trade as well as impact of EU-Turkey Customs Union on mutual trade between Turkey and Slovakia. Despite vibrant political and economic relations between Slovakia and Turkey, there is a striking lack of literature on mutual relations, creating a large research gap to fill.

Although a lot of work has been done to support business environment in Slovakia, view of businessmen themselves continues to be grim, as can be seen for instance from the Index of Business Environment produced by entrepreneur association Business Alliance of Slovakia. Compared to other EU countries, Slovakia is lagging behind in effectiveness of goods market, which is hampered by complicated tax and customs system; labour market struggles with insufficient flexibility of labour relations, low mobility of workforce and high barriers for employment of third country foreigners.

Slovak businesses also complain about quality of public institutions, high regulatory burden, low levels of law enforcement, independence of judiciary and police as well as absence of long-term economic vision set by the government. Thus, Business Alliance of Slovakia claimed that Slovakia experienced a "lost decade" where it did not radically improve its business environment and stagnated on roughly the same level. As Slovakia is the most vulnerable among OECD countries when it comes to advent of new technologies - almost 70% of jobs in Slovakia are in danger due to digitization – labour market and education seem to be the most crucial problems. Due to lack of qualified workforce, 41% of businesses said they had to reject a new contract, specifically affecting SMEs with annual turnover between €50 000 and €20 000 (47.3%). Ministry of Economy is aware of these problems and therefore actively tıkayan bürokratik yükümlülükleri belirlemek için bir istişare süreci başlattı ve gerekli yasal değişikliklerle girişimcilerin verimliliklerini artırmayı hedefledi. Ne var ki, sürekli değişmekte olan bir ekonomi ortamında artık her sektörün daha fazla dijitalleşmeye ihtiyaç duyduğunu göz önüne alırsak Slovak KOBİ'lerin rekabetçiliğini artırmak için radikal reformlara ihtiyaç olacaktır. Dijital sektör, 2025 yılına kadar Slovakya milli GDP'sine 20.9 milyar avro katkı sağlama potansiyeliyle öne çıkan sektörlerden. Bu açıdan dijital sektör, Slovak ekonomisinde oldukça önemli ancak hassas olan otomotiv sektörünün yerini dahi alabilir.

Önemli derecede dış ticarete dayanan Slovak ekonomisi dünyanın en açık ekonomilerinden biri olmasına rağmen Slovak KOBİ'ler, AB içerisinde yeterince uluslararasılaştırılamayan KOBİ'ler arasında. Bunun nedeni olarak öne çıkan sorunlar ise karmaşık idari süreçler ve sınır ötesi anlaşmazlıkların çözümü olarak ifade ediliyor. Bu da gösteriyor ki Slovak KOBİ'ler AB sınırları ötesinde ticaret yaparken Avrupalı KOBİ'lere oranla rekabet gücü eksikliği, ilgi ya da yeterlilik eksikliği yaşıyor. Hatta, ticaret serbestliği ve diğer pazarlarla olan ilişkilere rağmen AB içerisinde ticaret yaparken de aynı eksikliklerle karşılaşıyor. Büyük şirketlerle karşılaştırıldığında Slovak KOBİ'ler hizmet sektörünün toplam ihracatında önemli büyüklükte paylara sahip: idari ve destek hizmetleri (%99.9), HORECA (Otel, restoran, kafe) hizmetleri (%99.9), finans ve sigorta hizmetleri (%98.4). İthalatta ise KOBİ'lerin büyük paya sahip olduğu sektörler; HORECA hizmetleri (%98.5), tarım, ormancılık ve balıkçılık (%98.4), inşaat (%94.4). Bu rakamlardan da anlaşıldığı üzere Slovak KOBİ'ler, henüz Gümrük Birliği'ne dahil olmayan sektörlerde ve iş alanlarında başı çekiyor. Dolayısıyla Gümrük Birliği'nin Slovakya'ya etkisinin ne olduğu ve modernizasyonunun neler getirebileceği sorusu yanıtlanması gereken bir soru olarak karşımıza çıkıyor.

Gümrük Birliği üzerine yapılan çalışmalara baktığımızda, etki analizinde 3 temel unsurun tekrarladığını görüyoruz: mal ticareti, hizmet

engaged in numerous activities supporting business environment and especially SMEs. It started regular consultations with representatives of SMEs with result to identify excessive bureaucratic duties that could be easily removed in legislative process and help entrepreneurs to run their businesses more efficiently. Nevertheless, radical reforms will be needed to make Slovak SMEs competitive in the changing economy requiring more and more digital skills across all sectors. Digital sector is one of the most perspective areas with potential to contribute to national GDP with €20.9 billion by 2025. In this way, it could also replace the current importance of automotive sector in Slovak economy, which in spite of its significance also poses a vulnerability.

Although Slovak economy is one of the most open in the world, crucially depending on foreign trade, Slovak SMEs are among the least internationalized in the EU, citing complicated administrative procedures and cross-border dispute settlement as main problems. This indicates that Slovak SMEs might lack either competitiveness, interest or capacities compared to their European counterparts when trading outside of the EU but even within the EU, which is striking especially given the degree of trade openness and dependence on other markets. Compared to large companies, Slovak SMEs have the most significant share on total exports in services sectors - administrative and support (99.9%); HORECA (99.9%); finance and insurance (98.4%). Regarding imports, SMEs dominate in sectors such as HORECA (98.5%); agriculture, forestry and fisheries (98.4%); and construction (94.4%). From these numbers it is evident that Slovak SMEs prevail in areas not yet covered by the Customs Union. It is therefore legitimate question to ask what impact did Customs Union have on Slovakia and what could its modernization bring.

Based on literature review of various studies on Customs Union, three main indicators were re-occurring in impact analyses: trade in goods, trade in services and foreign direct investments.

ticareti ve doğrudan yabancı yatırımlar. Son iki unsur Gümrük Birliği'nin kapsamına girmese de akademik çalışmalar, mal ticaretinin serbestleştirilmesiyle karşılıklı hizmet ticaretinde ve yatırımlarda olumlu etkiler yaşanabileceğine dikkat çekiyor. Bu raporda yapılan analizlerde farklı dönemlere ait mevcut verilere ve büyüme oranlarına bakıldı ve elde edilen sonuçlar 2004 (Slovakya'nın AB üyesi olduğu ve Gümrük Birliği'nin uygulanmaya başladığı yıl) ile 2017 yılları arasındaki toplam değer değişimi hesaplamaları, 2004-2017 Yıllık Bileşik Büyüme Oranı (CAGR) ve görsel trend fonksiyonları ile karşılaştırıldı. Neden-sonuç ilişkilerinin kurulması bu çalışmaya dahil edilmedi, ancak elde edilen sonuçlar ışığında Gümrük Birliği'nin uygulanması ile Slovak-Türk karşılıklı mal ve hizmet ticaretinde pozitif bir korelasyon olduğu görüldü. Öte yandan aynı korelasyon doğrudan yabancı yatırımlar için saptanmadı.

2013'te en yüksek değeri gören ikili ticari ilişkilerde gözle görülür bir düşüş yaşansa da genel trend olumlu bir şekilde seyrediyor ve ithalat değerleri ihracat değerlerini yakalamaya başlamış durumda. Bu da gösteriyor ki AB'ye girdikten sonraki sürecin başında Slovak ihracatçılar baskınken son yıllarda Türk ihracatçılar daha fazla aktif olmaya başladılar. Dolayısıyla Gümrük Birliği hem Slovakya hem Türkiye için bir kazan-kazan anlaşması. İki ülke arasında mal ticaret hacmi 2012 yılından itibaren 1,2-1,4 milyar avro arasında bir azalma gösterirken, Gümrük Birliği'nin modernizasyonu Slovak ve Türk işletmelere ne kazandırır sorusu öne çıkıyor. Ticaret serbestisinde yeni adımlar ve tarife dışı engellerin ortadan kaldırılması Slovak-Türk ticari ilişkilerine gereken ivmeyi kesinlikle kazandıracak; işletmeler, tüketiciler ve hükümetler de bundan fayda görecektir. Karşılıklı hizmet ticareti Slovakya'nın AB'ye girmesinden sonra hiç olmadığı kadar hızlı büyüme gösterdi, en azından 2012 yılına kadar. Mal ticareti ithalat ve ihracat rakamları düzenli bir büyüme seyrederken hizmet ticaret hacmi yavaş bir büyüme oranıyla çok daha düşük ve değişken seyretti. Gümrük Birliği'ne dahil olmayan hizmet sektörünün daha değişken ve öngörülemez

Although the latter two fall outside the scope of Customs Union, academic literature points to possibility of positive spillovers where liberalization of trade in goods might positively impact also mutual trade in services and investments. Analysis therefore looked at data and growth rates in various periods, for which data were available, and cross-checked the results also with calculations of total value change between 2004 (date of Slovakia's entry into the EU and application of Customs Union) and 2017, Compound Annual Growth Rate (CAGR) 2004-2017 and visual trend functions. Establishing causal relationships was out of the scope of the study but findings showed indications of positive correlations between the application of Customs Union and mutual Slovak-Turkish trade in goods and services, but not so much for FDI.

Although there is certain drop in mutual trade since the peak in 2013, the overall trend is positive and value of imports started to catch up with value of exports. This indicates that whereas the initial period after the entry into the EU was primarily dominated by Slovak exporters, over the recent years, Turkish exporters started to be more active as well. Customs Union thus seems to be a win-win situation for both Slovakia and Turkey. As mutual trade in goods has dwindled between €1.2 and €1.4 billion since 2012, it is a question what modernization of Customs Union could bring to Slovak and Turkish businesses. Further trade liberalization and doing away with all kinds of non-tariff barriers would definitely provide a much needed impetus to develop Slovak-Turkish trade relations even further to the benefit of businesses, consumers and both governments. Mutual trade in services was growing faster after Slovakia's entry into the EU than before, at least until 2012. While goods trade enjoyed more or less steady growth of total numbers, both in case of imports and exports, trade in services was much lower in volume and rising only slowly, with huge volatility. This might reflect the fact that services sector excluded from Customs şartlarda ticaret yapmak zorunda kalması ve mal ticaretinin aksine iş faaliyetlerinde kolaylaştırıcı bir ortama sahip olmaması bu durumun sebebi olarak sayılabilir. Gümrük Birliği ile doğrudan yabancı yatırımlar arasında ise böyle bir ilişkiye rastlanmıyor. Doğrudan yabancı yatırım konusunun nasıl ilerleyeceğini zaman gösterecek, ancak modernize edilen anlaşmaya ilgili başlıkların eklenmesi daha stabil ve elverişli bir yatırım ortamı sağlayacak ve karşılıklı yatırımların artmasına mutlaka katkı sağlayacaktır.

Bu çalışma da AB-Türkiye Gümrük Birliği yuvarlak masa toplantısı çıktılarına dayanarak KOBİ'ler düzeyinde ve Gümrük Birliği'nin modernizasyonu sürecine dair birtakım siyasa önerilerinde bulunmaktadır. Bürokratik yükümlülüklerin azaltılması, daha düşük oranlı ve basitleştirilmiş vergi sistemi (Slovakya, %49.7 oranıyla AB ve EFTA (Avrupa Serbest Ticaret Birliği) ülkeleri arasında vergi yükü en çok olan 10'uncu ülkedir) ve kullanıcı dostu e-devlet hizmetleri KOBİ'lere kolaylık sağlayacaktır. Öte yandan KOBİ'ler esnetilemeyen işgücü piyasası düzenlemeleriyle, apar topar çıkarılan yasalarla ve kamu ihalelerine girmek için gerekli olan kalifiye işgücü eksikliği ile boğuşuyor. Ayrıca, devletlerin de KOBİ'lerin ARGE ve inovasyon faaliyetlerini destekleyici verimli bir iş ortamı yaratması ve demiryollarının yavaşlığı, tehlikeli yollar ve otobanlarda tamamlanmamış bağlantı yolları gibi "geleneksel" endüstrilerin sorunlarını göz ardı etmemesi gerekiyor. Zira, bütün bu sorunlar dışarıya açılmaktansa yerel ve bölgesel pazarlarda faaliyet göstermeye odaklanan yerel KOBİ'ler için oldukça önemli.

Gümrük Birliği'nin olası modernizasyonu konusunda işletmeler karşılıklı mal ticaretinde tarife dışı engellerin ortadan kaldırılması ve yalnızca karşılıklı ticaret anlaşmalarında belirtilmiş olan sertifikaların gerekliliği çağrısında bulunuyor. Bunun yanı sıra hizmet ve diğer ticari sektörlerin de modernize edilecek olan anlaşmaya dahil edilmesi, doğrudan yabancı yatırımlar ve kamu ihalelerini kapsayan bölümlerin eklenmesi ve vizesiz seyahati engelleyen unsurların kaldırılması da desteklenen konu başlıkları arasındadır.

Union had to deal with more volatile and unpredictable environment not so conducive to business activities as in case of goods trade. When it comes to FDI, results seem to indicate no relationship between Customs Union and FDI development. It remains to be seen how FDI develops in the future, but inclusion of related provisions into modernized agreement would definitely help boost mutual investment levels by creating more favourable and stable investment environment.

The analysis comes with several general policy recommendations concerning SMEs and, based on the inputs from business roundtable on EU-Turkey Customs Union, also with specific policy recommendations related to modernization of Customs Union. Less bureaucratic duties, simplified tax system with lower rates (Slovakia has got the tenth highest tax burden among EU and EFTA countries reaching 49.7%) and more user-friendly e-government services would all help SMEs in the uncertain times ahead. Furthermore, SMEs fight with unflexible labor regulations, hastily adopted laws as well as lack of qualified workforce or hurdles for participating in public procurement. Moreover, state needs to establish effective environment to support their R&D&I activities, while not overseeing the problems relevant for "traditional" industries, such as slow railways, dangerous roads and incomplete network of highways. All of this is relevant for local SMEs that still continue to focus on local or regional markets rather than expanding further abroad.

Regarding future modernization of Customs Union, businesses called on elimination of non-tariff barriers in mutual trade in goods and requirement of only those certificates as set in mutual trade agreements. They also support inclusion of services and other economic sectors into modernized framework, inclusion of chapter on FDI or public procurement as well as removing obstacles to free movement of people.

Inauguration Ceremony, 21 August 2019.

Kick-off Meeting, 20 August 2019.

TURKEY COUNTRY REPORT

CHAPTER I: STATE AND IMPACT OF THE CUSTOMS UNION

Chapter I: State and Impact of the Customs Union

The bilateral trade framework between the EU and Turkey includes Customs Union in industrial goods and processed agricultural products, a Free Trade Agreement on coal and steel products, and a preferential regime for agricultural products.

The agreement came into effect at the beginning of 1996 and it has been viewed as a process that would open the door for Turkey's accession into the EU; and that view was verified when Turkey's official accession talks started in 2004. Yet, since then, the relation between the parties has been under the influence of domestic and bilateral political developments as well as international trade developments.

Over the years, the trade relation has been the victim of several political decisions despite the accession process. Asymmetrical nature of the CU coupled with the implementation system resulted in trade frictions, issues in IP protection, subsidies and import surveillance.[4] Many of the disputes remained unsettled again by political blockage system. Impact of the CU, which kept the bilateral trade relations between EU and Turkey larger than any other bilateral trade agreement, slowly decreased.

Especially recently, the Customs Union is becoming more outdated compared to free trade agreements that both sides are undertaking with third parties. The mandate to modernize the Customs Union, despite being demanded by the European Commission from the European Council, is still to be granted by the European Council.

Despite the state of relations between EU and Turkey, it is important to understand what the impact of the Customs Union has been on the Turkish economy and Turkey's SMEs and which areas need special attention once the negotiations starts.

Several researches have been conducted analyzing the impact and modernization of the CU with detailed implications on the over macroeconomic and sectoral figures. Of these recent researches, two analyze the impact in detail : For this report, we highlight the parts of the research that are relevant for SMEs.[5]

Quantifying the Impact of Customs Union

In the EU Commission report, through trend analysis, econometric gravity-model-based analysis, scenarios are analyzed regarding Turkey-EU trade relations. One of them is the case of removing the current CU agreement (or quantifying the impact of the CU agreement) and second one is the case of fully updating the CU agreement.

CU 'Levels the Playing Field for the SMEs' and Promotes Global Value Chains

According to the analysis, CU increases bilateral trade significantly and removing it would decrease Turkey's imports by 8.7 billion euros compared to 6 billion euros decrease in its exports; but the overall welfare and GDP impact toll is higher for Turkey through the decrease in value added share, labor market, capital stock and consumer prices.

Real GDP falls by 0.72% in Turkey, reflecting the rising trade costs and reduction in its degree of openness. The largest hit sectors in Turkey due to CU removal would be industrial goods (including motor vehicles, machinery & equipment) and textiles.

Even though specific calculations have not been made for SMEs, the reports conclude that

4 i. European Commission Report, p. 174

5 European Commission's 2016 report titled ' Study of the EU-Turkey Preferential Trade Framework, Including the Customs Union, and an Assessment of Its Possible Enhancement' and World Bank's 2014 Report titled 'Evaluation of the EU-Turkey Customs Union'

'CU improved matters for SMEs producing CU-eligible industrial products due to absence of rules of origin (RoO) requirements. CU helped level the playing field for SMEs vis-à-vis their larger competitors'.[6] Economic instability SMEs is also underlined. Since textiles, clothing and footwear sectors are largely comprised of SMEs in Turkey, it is commented that the CU favored these sectors.

Despite the findings of the EU Commission Report, the World Bank Report argues that CU

	Impact of Removing CU		Modernization of CU	
	Turkey	EU	Turkey	EU
Economic Welfare (Eur Mn)	-7.475	-1.627	12.522	5.388
GDP Volume Change (Eur Mn)	-6.078	-1.360	15.606	1.383
GDP Volume (% change)	-0,7	0,0	1,4	0,0
Exports of Goods and Services (% change)	-1,28	-0,03	3,2	0,05
Imports of Goods and Services (% change)	-2,59	-0,03	3,02	0,107
Trade Balance (Eur Mn)	2.888	-184	-2.739	-363
Capital Stock (% change)	-0,67	0,00	1,29	0,01
Source: EU Commission Report 2016, 2016 prices				

reducing the impact of the CU for Turkish did not cause a major shift in relative trade shares for Turkey because the EU had already opened its markets for Turkish exports of industrial goods long before the CU came into effect.[7] This line of thought discusses the importance of CU as eliminating trade costs and promoting intra-industry trade along global value chains along automobiles and clothing sectors.

Modernization of CU: Overall Economic Gain vs. Sectoral Winners and Big Losers

The modeling under the modernization of CU includes full elimination of the tariffs on bilateral goods, FTA covering agricultural goods, services. In this case, Turkey's GDP volume increases by 1.4%; but its trade balance worsens by 2.7 billion euros. This trade worsening is a result of both higher growth and non-tariff barrier reductions.

In the CU modernization case, industrial goods, textiles, clothing and footwear make the largest gains with the decrease in costs of inputs. Adopting EU's common external tariff for agriculture under the modernized CU would implicate a fall in Turkey's import protection for some products and farm employment. It would also mean implementing new EU rules on food safety, veterinary and photo sanitary issues.[8] Yet, there are large production decreases for Turkey's cereals and dairy sectors. Especially the dairy sector faces major restructuring in the face of highly competitive EU imports.[9] Processed food producers, fruit and vegetable producers both make significant export gains.

Despite net worsening in services trade balance, Turkey's service sectors increase value added share due to both improved market access conditions from the EU in terms of reduced uncertainty and from the general income effects generated by the modernization of the CU.[10] Trade, financial services, construction, transports, recreational services output increase due to domestic market income effects.

6 i. EU Commission Report p. 82
7 i. World Bank, p. 7
8 i. World Bank, p. ii
9 i. EU Commission, p.199
10 i. EU Commission, p. 187 and 189

Impact on Turkey's Trade (Eur Mn)	Impact of Removing CU		Modernization of CU	
	Bilateral Exports	Bilateral Imports	Bilateral Exports	Bilateral Imports
Other industrial goods	-3.642	-4.898	1.494	10.843
Textiles, clothing and footwear	-1.810	-416	1.034	853
Chemicals, rubber and platics	-570	-1.335	280	3.434
Vegetables and fruits	-194	-7	162	229
Other primary animal products	-2	-420	3	606
Cereals	2	-4	8	2.486
Dairy products	1	-52	94	1.315
Source: EU Commission Report 2016, 2016 prices				

Box 1: Which Scenario Is the Most Feasible for the Turkish Agriculture Sector?

Even though some EU FTA's with Chile, Morocco and South Africa includes primary products, CU with Turkey does not include primary agriculture. Still, Turkey has significant exports; but both sides restrict imports of certain products. While Turkey limits imports of beef and bovines from EU, EU side does not allow export of any animal products.

While the EU Commission Report reveals that under the liberalization of the primary products, cereal and dairy sector in Turkey would be under considerable amount of stress, the World Bank study analyzes the impact of four different scenarios:

1) A comprehensive FTA in which trade becomes duty and quota free
2) On top of the FTA, Turkey adopting a common external tariff
3) On the 2, Turkey adopting EU FTAs
4) Plus Turkish adoption of CAP

The scenario analysis points out that welfare gains would be the highest in scenario 3 with the decrease in consumer prices and improvement in terms of trade. Yet reductions in farm employment and reduced poverty in rural areas are also mentioned and improved productivity is proposed as a panacea.

As a result, the Report recommends 'further bilateral opening of agriculture in the context of a deeper FTA as the most feasible option, with possible concerns over adjustment in some agricultural sectors.[11]

11 i. World Bank, p. 67

Problematic Areas, Shortcomings, Urgencies for the Business World

Despite all the economic welfare and trade deepening impact, Customs Union falls short of the business community's needs and expectations on both sides. These shortcomings are causing the agreement to be less beneficial than it would normally have been and less useful pre-1996 plans; and they have been voiced by authorities of both sides and business circles.[12] From an SME perspective, some of these shortcomings are more damaging than others and these are revealed more in detail in chapter 4.

1) Restrictions on Trade of Goods: Despite the principle of liberalization of trade in goods, over the years non-tariff barriers and trade defense instruments have been used by both parties to limit trade. Road transport permits and EU visas for business travellers are also used to limit Turkey's goods trade with the EU.

2) Exclusion of Service Sector: The CU agreement does not include liberalization of services; but over the years this exclusion proved to be more problematic than originally envisaged; especially with the

12 In a report named 'A New Era for the Customs Union and the Business World, TÜSİAD by TÜSİAD, the authors listed the deepening of the Customs Union as liberalization of trade in goods and services, agriculture, public procurement, state aids, foreign trade policy and regulatory harmonization. In a report titled 'A Trade Strategy Fit for the 21st Century', Business Europe argues the following: 'An upgraded Customs Union needs to address existing barriers to trade and investment, define standards and regulations and establish an effective, depoliticized, dispute settlement mechanism. It should also be an instrument to promote the rule of law, accountability and transparency as well as sustainability. In the meantime, the European Commission should also address the current trade and investment concerns, including barriers in customs procedures.'

global value chains in which it is becoming more difficult to disentangle manufacturing from service activities.[13] Temporary movement of workers and business people as well as public procurement[14] negotiations are likely to be part of the inclusion of the service sector negotiations within the EU.

3) Exclusion of the Agricultural Sector: Higher levels of protection remained in the agricultural sector within the CU agreement, causing lower and stagnant levels of productivity within the sector. Even though, the above analysis looks into full liberalization of the agricultural sector, given the toll on specific sectors, inclusion of the sector into the CU can be achieved in several ways and phases, as suggested in chapter 4.

4) Suboptimal Trade Policy: In line with the Decision 1/95, Turkey aligns itself to the EU's common commercial policy against the third countries and it cannot apply an import tariff lower than the common external tariff (CET). When the EU lowers its taxes in line with foreign trade agreements with the third countries, Turkey automatically lowers its tax levels. Due to asymmetrical structure of the CU, Turkey has to accept EU's FTA with third countries, even when the third country is not willing to sign it with Turkey. Such asymmetrical structure creates big competitive disadvantages for Turkish companies, especially when the third country is a cost competitor from emerging economies, like North Africa and Latin America.[15] Trade deflection is often the result as origin controls cannot be made once a good enters the EU territory.[16]

5) Regulatory Harmonization and Settlement of Disputes: The overall CU framework is inadequate as the current institutional framework cannot address the disputes and frictions or it can ensure coordinate the bilateral development of commercial regulations. Especially for the private sector, it is important to move fast on settlement of commercial disputes; and the Association Council, which is a political body, proves to be an inefficient body for business-oriented and effective resolutions. Likewise, as is the case with any FTA nowadays, dynamic harmonization of commercial regulations is necessary in CU, especially for SMEs, which suffer more from information asymmetries.

13 Miroudot S., 'Services and Manufacturing in Global Value Chains: Is the Distinction Obsolete?', Asian Development Bank Institute, March 2019

14 Turkey aligned its public procurement law with the acquis in 2003; yet in annual progress reports, there are complaints from the EU side that the policies are being undermined with exclusions and exemptions brought to the law.

15 In recent years, the significant FTA's that the EU signed undermining the benefits of the Customs Union for Turkish companies, have been signed with Algeria, Mexico, South Africa, Colombia, Chile, Morocco.

16 According to the World Bank study cited above, Turkey's real income would increase as a result of finalizing non-compliant FTAs.

TURKEY COUNTRY REPORT

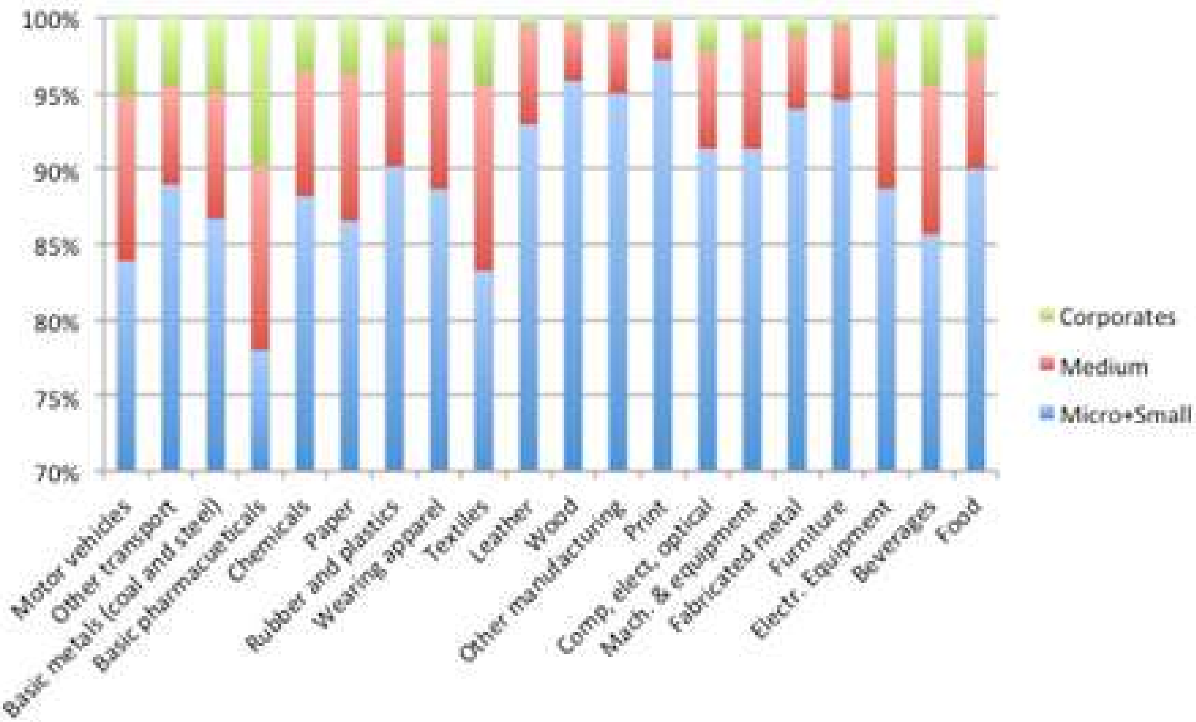
CHAPTER II: COMPANY STRUCTURE, PRODUCTIVITY AND TRADE IN TURKEY WITH A FOCUS ON SMES

Chapter II: Company Structure, Productivity and Trade in Turkey With a Focus on SMEs

In assessing the impact of the Customs Union (CU) on Turkish SMEs and its future direction, it is also important to take a snap photo of the state of the SMEs. While not all the trade structure of the SMEs can be attributed to the impact of the CU between EU and Turkey, it is a fact that CU affected the Turkish economy and its trade structure. Moreover, it is important to note the features of SMEs and how they can be supported in the update of the CU and the foreign trade agreements in the future. This chapter gives the basic features regarding the company structure in Turkey, based on historic data and analytical research.

1) It is Micro and Small-Sized Enterprise Economy; But Medium-Sized Ones Are Increasing Their Weight in Some Critical Sectors

The 99% of all companies in Turkey are SMEs. The ratio increases up to 99.6% in agriculture while it falls down slightly to 97.9% in both manufacturing and services.
Within manufacturing sector, micro and small size enterprises are approximately 90% of the total companies while 7.6% are medium-sized and 3% are big corporates. The highest weight of small and micro-sized companies is in fabricated metals, rubber & plastics, food, wood and printing. Medium-sized companies have above 10% weight in motor vehicles, basic pharmaceuticals, textiles, clothing and beverages while big-sized companies have above 5% weight in motor vehicles, other transport vehicles, basic metals and pharmaceuticals.



Source: Ministry of Trade, 2015

2) Turkish Economy Company Structure is Very Fragmented in Terms of Productivity

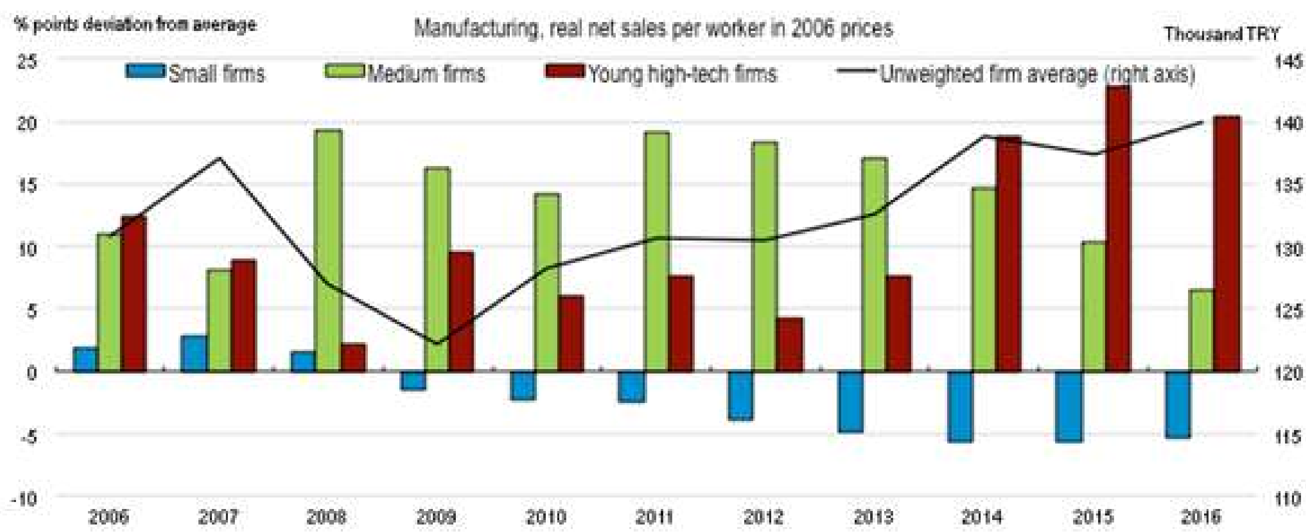
A recent OECD Survey on Turkey[17] lists the Turkish economy company structure based on data collected from several databases. In line with the export data, which reveals the increasing share of medium-sized enterprises in key exporting sectors, this report also underlines *'emergence of large numbers of successful medium-sized firms between low-productivity small informal businesses and state-of-the-art modern corporations'.*

OECD classifies the companies in Turkey into four categories:

Low productivity, largely informal small-sized firms

Main characteristics of small businesses, which have 50 or less employees, they are low productivity and largely informal companies. They are very sensitive to average wage levels and growth in sales is behind the growth in investments. Surprisingly only 22% have banking sector relations, but they trade credit relations with the customers or their suppliers. Their investment rates fell between 2006-2016. Within investments, automotive investments have a larger share rather than machinery & equipment investments.

17 OECD Economics Surveys: Turkey 2018, OECD Publishing Paris (https://doi.org/10.1787/eco_surveys-tur-2018-en)



Source: OECD/CBRT dataset on the basis of Enterprise Information System (EIS)

Medium-Sized Family Firms

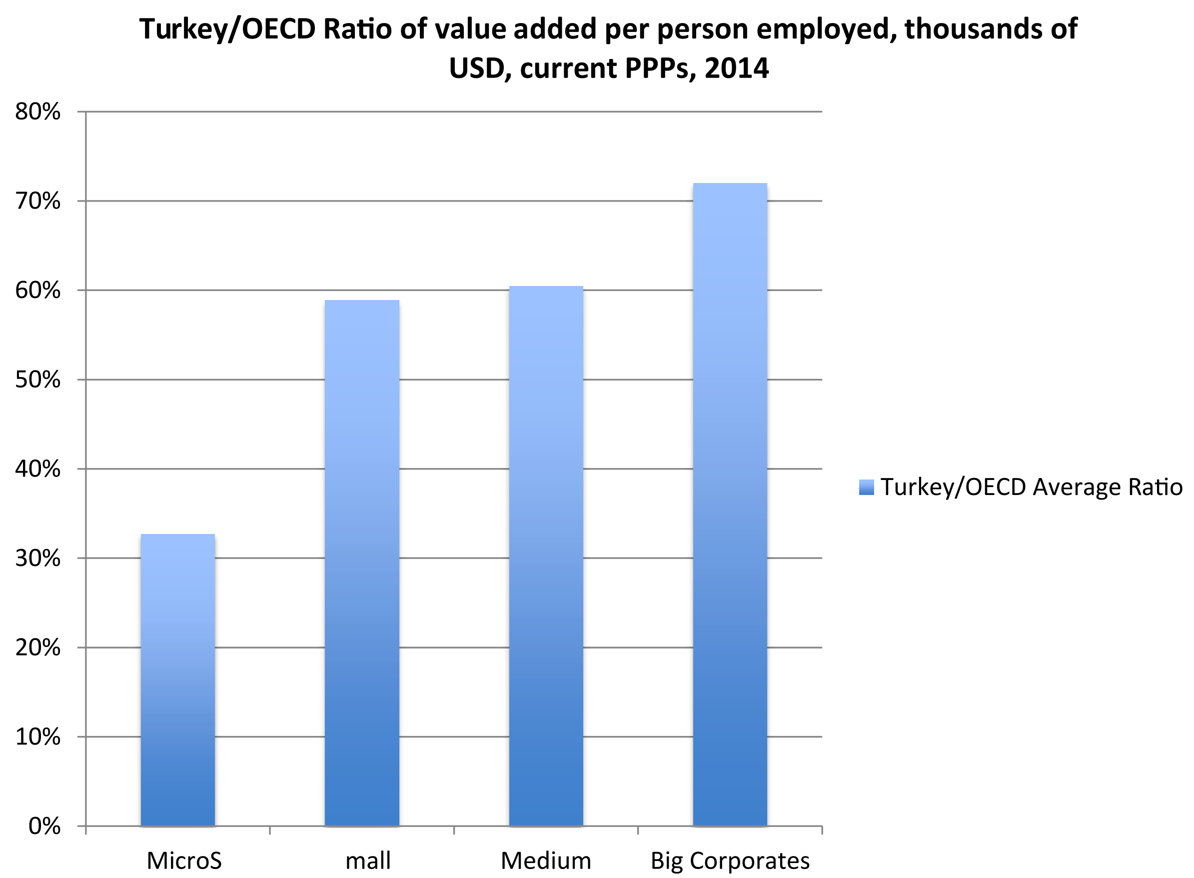
Medium-sized firms, on the other hand, have between 50-250 employees, and they are usually family-owned. They have had high growth rates in the past 10-15 years; but their declining cash flows restrict physical and knowledge-based investments. Their registration rates are higher compared to small firms; but there is still underreporting in employment, wage, sales and profits. Moreover, they provide limited financial transparency and communication with banks based on the private bilateral rather than published financial information. Within the OECD classification of company types, this group has the highest need for financial and legal tolerance; because it has the highest liability-rates within groups.

Large, Stockmarket Listed Firms

Large, stock listed corporates have more 250 employees. Even though these corporates are not labour intensive, their labour productivity rates are high. Both their taxes and employment costs are high. Machinery & equipment investment rates are higher compared to smaller companies and the overall investment rates have been on the rise since 2011. In line with the high investment rates, their FX liabilities are also high. R&D expenditures, innovation capacity and on-job labour training rates are higher compared to other groups.

Skilled start-ups

The last group is the skilled start-ups, which have been around for less than 5 years. They operate in sophisticated manufacturing and



Source: OECD (2017), Entrepreneurship at a Glance 2017.
http://dx.doi.org/10.1787/entrepreneur_aag-2017-en

service activities and their need for equity is high. They have high skilled employment and like the corporates, high levels of machinery & equipment investments and R&D expenditures. They also have high sensitivity to the legal and institutional framework.

3) Disparity in Labor Productivity Is Considerably Larger at Smaller Companies Compared to Bigger Companies

When compared with the OECD members, value added per employee in Turkish companies is the second lowest after Mexico in all company sizes; but the disparity is larger in micro enterprises. Micro enterprises average value added/employee is only 33% of the OECD average, 59% in small enterprises, 60% in medium-sized enterprises and 72% in larger corporates.

Low labor productivity and value added of the small firms brings about the conclusion that small firms are not able to drive demand for higher skills.

4) The Highest Contribution to Value Added Comes From the Big Corporates

In line with the low labor productivity figures in smaller companies, micro and small companies' contribution to value added is low (only 72% of the OECD average) compared to other OECD countries. As a result, 46% of the contribution to value added comes from the bigger corporates.

Contribution to Value Added According to Company Size
2014 or latest available year

		1-19	20-49	50-249	250+
Mexico	MEX	16.9	6.1	15.5	61.5
Turkey	TUR	20.2	12.8	20.8	46.1
Switzerland	CHE	20.4	12.5	24.9	42.1
Poland	POL	23.0	8.7	20.6	47.7
Germany	DEU	24.5	10.3	19.9	45.4
Czech Republic	CZE	24.5	9.3	21.1	45.1
Brazil	BRA	24.7	9.9	15.6	49.8
Hungary	HUN	25.9	9.8	18.6	45.6
United Kingdom	GBR	26.3	8.8	16.8	48.1
Slovak Republic	SVK	27.2	9.4	18.3	45.2
Austria	AUT	27.6	12.4	22.8	37.2
Denmark	DNK	28.8	11.6	19.4	40.2
Netherlands	NLD	29.1	10.9	24.0	36.0
France	FRA	29.4	10.2	15.5	45.0
Sweden	SWE	29.7	11.3	19.1	39.9
Ireland	IRL	30.1	7.4	12.5	50.0
Portugal	PRT	32.7	12.7	22.2	32.4
Spain	ESP	33.0	10.9	17.8	38.3
Israel	ISR	33.5	10.9	18.3	37.3
Italy	ITA	39.2	11.3	17.5	32.0
Greece	GRC	46.6	13.2	19.6	20.6

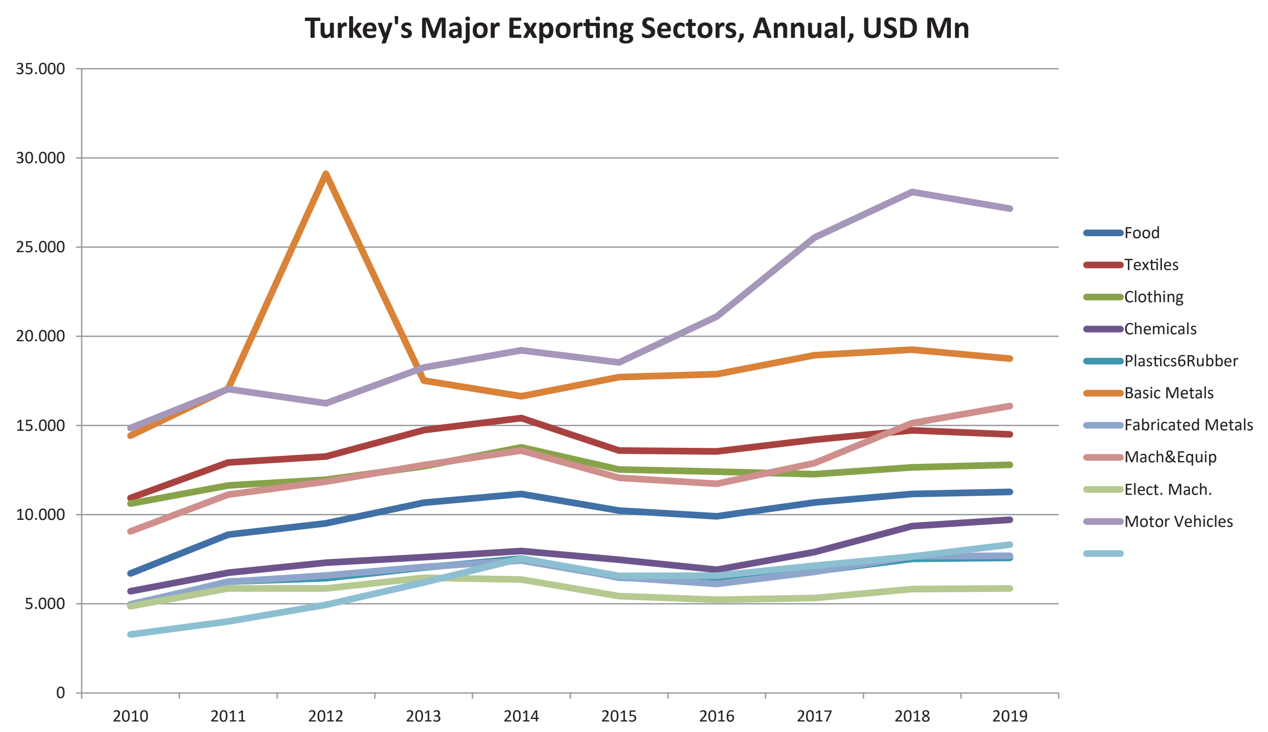
Source: OECD (2017), Entrepreneurship at a Glance 2017.
http://dx.doi.org/10.1787/entrepreneur_aag-2017-en.

5) Last 20 Years Trade Data Points Out to Clear Winners vs. Underperformers

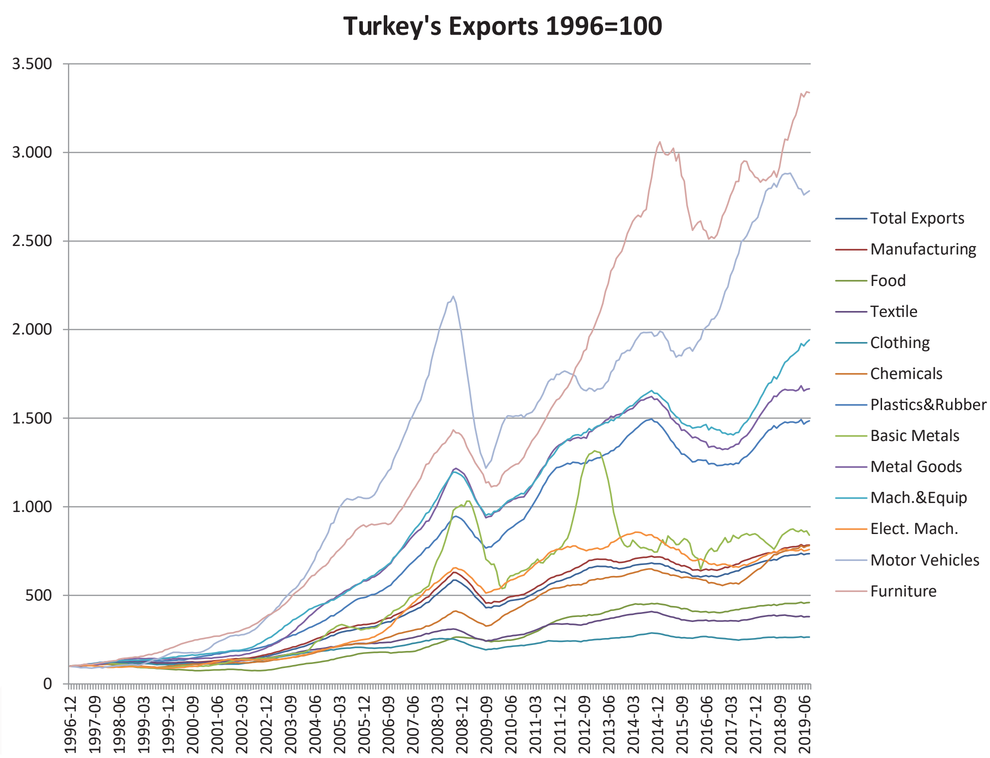
Turkey's biggest export sectors are motor vehicles, basic metals, machinery and equipment, textiles, clothing and food, which all export more than 10 billion dollars annually. Within these sectors, the pace of acceleration in motor vehicles and machinery & equipment was noteworthy in the past few years.

When looking at the export figures according to their pace of increase since the initiation of the Customs Union in 1996, the biggest increases in USD terms are in furniture, motor vehicles, machinery & equipment, metal goods, and plastics & rubber.

Looking at these two graphs together, motor vehicles and machinery& equipment sectors are the net export growth leaders of the past 23 years, while textile, clothing and food sectors underperformed Turkey's overall exports.

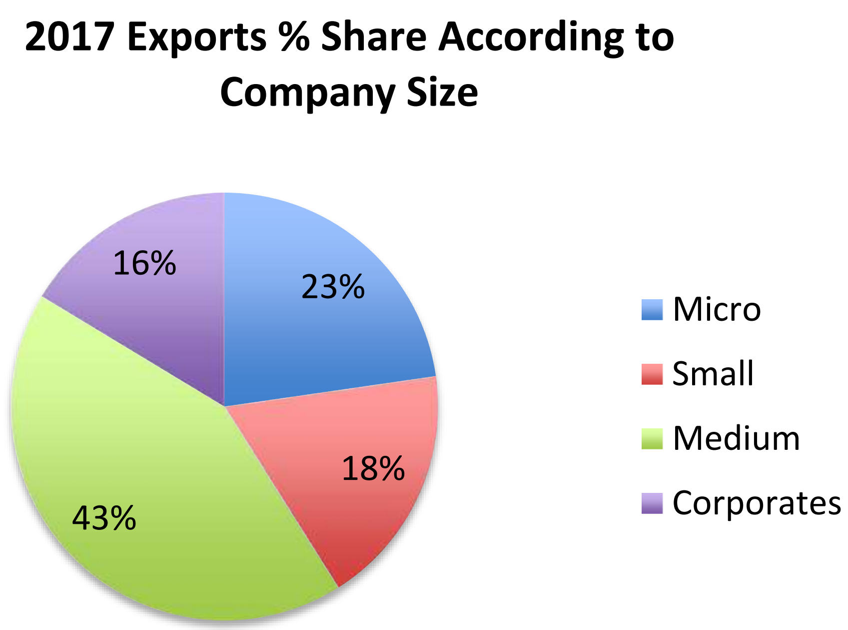


Source: Turkstat



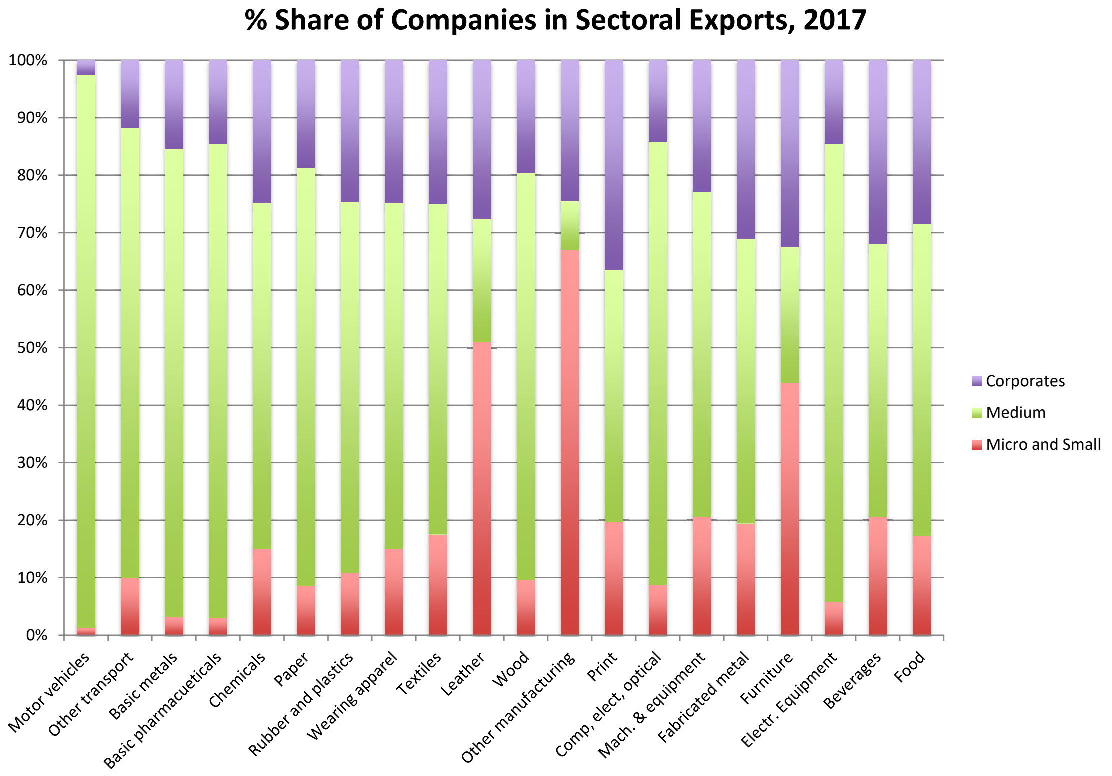
6) Medium-Sized Companies Are Moving the Export Sectors

Different from the official exports figures collected by customs declaration, Turkstat also collects data export data from companies, according to company size and sectors, including services. These figures show that 43% of the exports are made by medium-sized enterprises, followed by 23% micro-sized enterprises. Big corporates account for 16% of the total exports.



Especially within the manufacturing sector, majority of exporters are medium sized companies while majority of importers are bigger corporates. Medium sized companies especially dominate the exports in motor vehicles, other transport, basic metals, pharmaceuticals and electrical equipment. Micro and small-sized companies dominate in leather, other manufacturing and furniture sectors.

	Exports by Company Sizes, USD Bn, 2017					% Share in Sectoral Exports			
	Micro	Small	Medium	Corporates	Total	Micro	Small	Medium	Corporates
Agriculture	59.266	139.364	262.890	245.281	706.802	8%	20%	37%	35%
Mining	78.162	119.104	505.826	438.686	1.141.777	7%	10%	44%	38%
Manufacturing	3.202.988	7.530.504	57.578.067	15.260.140	83.571.703	4%	9%	69%	18%
Services	31.537.682	20.342.480	7.022.044	9.176.027	68.096.664	46%	30%	10%	13%
	Imports by Company Sizes USD Bn, 2017					% Share in Sectoral Imports			
Agriculture	107.506	119.727	109.697	93.581	431.419	25%	28%	25%	22%
Mining	29.812	33.841	196.980	689.328	950.950	3%	4%	21%	72%
Manufacturing	1.127.357	5.362.092	15.185.452	78.612.054	100.291.479	1%	5%	15%	78%
Services	19.949.474	22.727.648	25.382.543	50.226.266	118.438.811	17%	19%	21%	42%



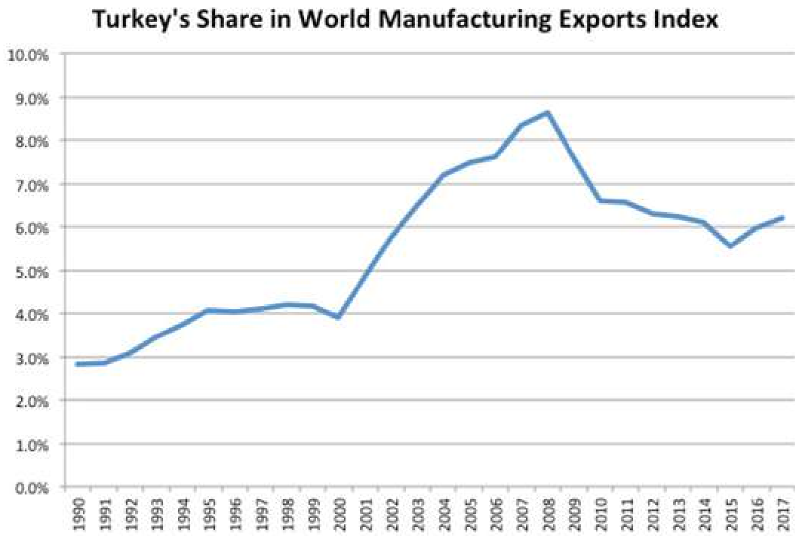
Source: Turkstat

These statistics are in line with the results of the EU Commissions Report,[18] which finds out that both the median employment of firms and the average size of new exporters entering the export market has been decreasing over time. These statistics suggest that the fixed costs associated with exporting have decreased over time.

7) Yet, Turkey's Overall Manufacturing Exports Have Stagnated in Comparative Terms

Turkey's manufacturing sector exports share in global manufacturing exports increased between 2000-2007 and peaked at 8.6% in 2008. With the global financial crisis, it fell down to 7.6% in 2009 and has been fluctuating between 5.6-6.6% since.

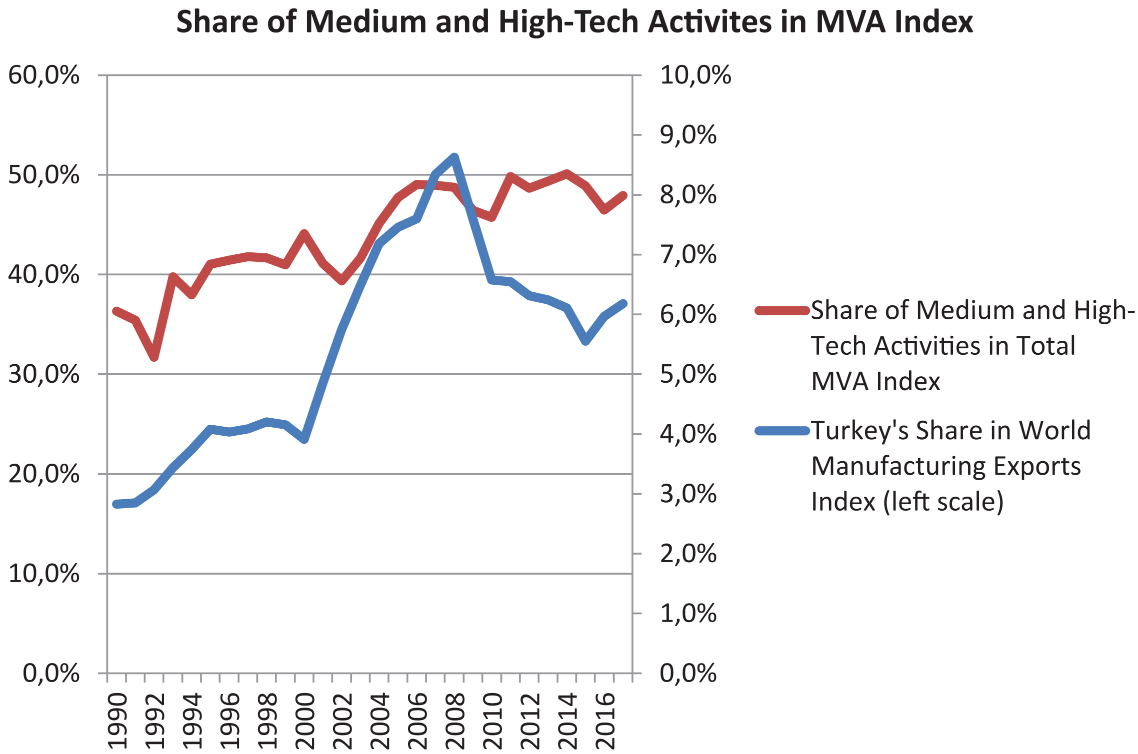
18 i. EU Commission, Figure 66.



Source: UNIDO Statistics Data Portal

8) Contribution of Medium and High-Tech Activities to Manufacturing Value Added Is Not Augmenting Since 2008

As one of the possible explanations of the decrease in Turkey's manufacturing export index can be the stagnation of share of medium and high tech activities in total manufacturing value added index in Turkey. Since the manufacturing export index share peaked in 2008, medium and high-tech activities concentration within the manufacturing index fluctuated between 45-50%.



Source: UNIDO Statistics Data Portal

9) Productivity Gaps Between the Sectors Exist

In a recent report[19] that looks into the relationship between firm productivity and economic growth in Turkey, the World Bank looks into the productivity gap of different sectors. Accordingly, there are some facts that could explain the stagnation in manufacturing exports, limited contribution of medium and high tech activities to value added, and the outperformance of some exporting sectors:

Potential Output and Competitiveness Gaps

- Potential output in Turkey has flattened out • Resources are shifting to low productivity sectors with weak development characteristics, even within manufacturing
- Turkey performs relatively well on connectedness; but it is only just above average on capabilities and is a middling country on competitiveness
- Biggest competitiveness gaps are in the areas of labor markets, innovation, financial sector and human capital

10) Overall Productivity Decrease Is Linked to Services Sector

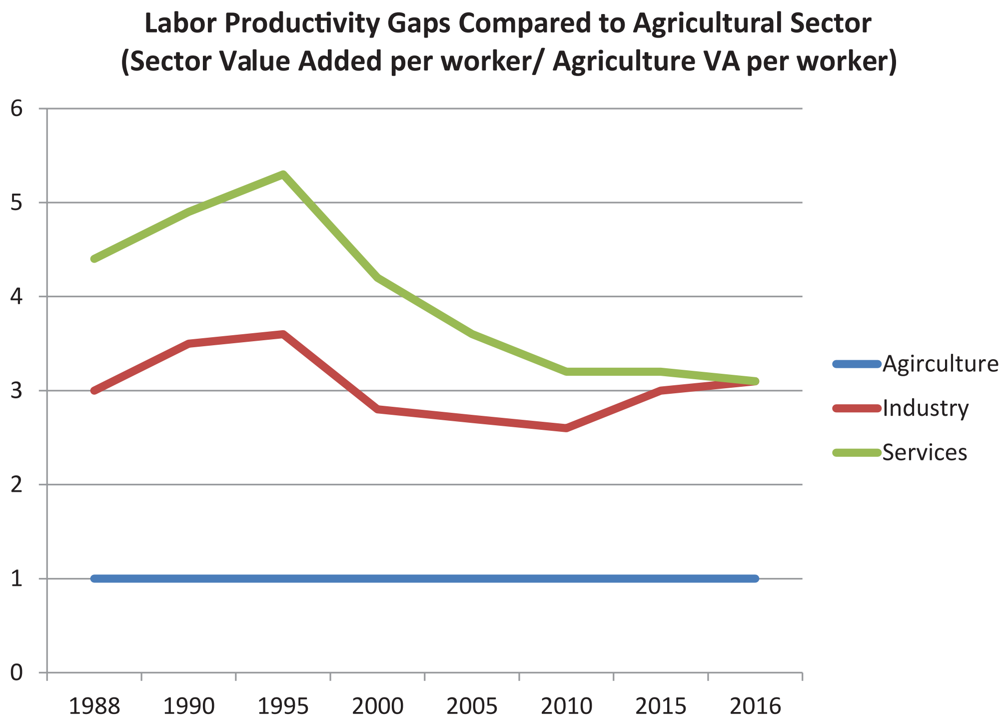
The services sector makes up more than 60% of the GDP and its share in GDP has been increasing over the years even though share in trade remained unchanged. The World Bank report[20] finds out that overtime labor productivity gap between agriculture and services in Turkey have declined whereas gap between agriculture and industry remained stable.

Authors explain this situation, with labor shifting from agriculture to services, even though productivity growth within services was relatively low, which lowered overall productivity of the services sector.

11) Growing Concentration of Employment in Low Skill Sectors Is Dragging the Economy Down

Labor shifting from agriculture to services mainly concentrate on low skill sectors that suffer from low real value added per worker, like retail, wholesale trade and hospitality services rather than critical sectors like transport, logistics, occupational and technical activities and ICT. Therefore additional labor in services is creating diminishing returns.
In line with the diminishing returns of labor productivity in the services sector, another study confirms that when traditional services activities such as transport, distribution and tourism are excluded in Turkey overall services exports, services like business, professional and financial services, contribute one of the lowest levels to overall exports compared to peers[21] and that sophistication of services exports fell continuously between 1996 and 2008.

19 ii. World Bank
20 ii. World Bank
21 i. World Bank, p. 67 and 71



Source: Country Economic Memorandum:
Firm Productivity and Economic Growth in Turkey, 2019, World Bank, p.12

Marginal Product of Labor (Period change in sector value added/Period change in sector employment)

	1990	1995	2000	2005	2010	2015	2016
Agirculture	-1,6	4,7	-5,7	-4,5	87,6	27,7	10,1
Industry	187,3	21,8	29,5	132,2	43,5	78,6	336,1
Services	50,9	50,3	43,8	62,6	36,6	49,2	23,7

Source: ii. World Bank

12) Tradable Sectors Linked to Global Value Chains Are More Productive

In line with the finding above that more medium-sized companies are exporting, World Bank Report also finds out that an increasing number of smaller firms are entering the merchandise export market, suggesting that the fixed costs associated with exporting have decreased over time. Yet, SMEs are not profiting equally from global integration.

SME's have not benefited equally from integration as absorptive capacity of firms matter in determining how much they gain from increased exposure to foreign intermediates or from the presence of multinationals upstream.[22]

The Report also concludes that productivity gains from reduced trade costs are higher for larger firms and firms with greater absorptive capacity and firms' productivity grows faster in export and import-intensive sectors when that intensity is linked to GVC participation:

- Manufacturing sectors that are more globally integrated and engage in more technologically intensive production have higher than average TFP levels. These are also the sectors that have benefited from

22 ii. World Bank, p. 59

foreign investment and exports: Motor vehicles, basic metals, transport equipment, chemicals, pharmaceutical, textile and wearing apparel.

• Sectors involved in the processing of agricultural products have lower than average productivity levels: Food and beverages

• Within firm productivity came from larger firms and firms engaged in external trade.

• Low productivity sectors all had a negative total factor productivity growth between 2010-2015.

	Total Productivity Index Value	Total Factor Productivity Growth (2010-2015)	Foreign Sales/Net Sales
Basic Pharmaceuticals	191	+	12%
Other Transport	184	+	59%
Basic Metals	140	0	28%
Rubber and Plastics	129	+	20%
Motor Vehicles	127	-	41%
Paper	127	+	20%
Wearing Apperal	125	+	36%
Chemicals	118	-	18%
Textiles	113	0	17%
Other Non-Metallic Products	113	0	12%
Other manufacturing	97	+	31%
Print and Recreational Media	89	+	8%
Wood	69	-	9%
Fabricated Metals	68	-	19%
Computers, Elect & Optical	65	-	45%
Machinery and Equipment	65	-	28%
Furniture	57	-	12%
Electrical Equipment	41	-	39%
Food	24	-	18%
Beverages	21	-	4%

Source: ii. World Bank p.43

Box 2: Correlation Between Company Size and Sectoral Productivity Exists in Smaller and Larger Companies

Based on the World Bank's total productivity index values for the sectors and the company size profiles in different sectors, we ran a simple correlation test between the two:

• Higher the % weight of SMEs within a sector, lower the productivity ranking of the sector

• Higher the % weight of large companies within a sector, higher the productivity ranking

• For medium-sized companies, the correlation is ambiguous; but for sectors that are below the average TFP of the manufacturing sector, higher the weight of medium-sized companies, lower the productivity ranking.

• These are in line with WB findings, which conclude that firm size is positively associated with higher TFP.

13) Exporting to High-Income Destinations Does Matter

A previous study[23] on export destinations and productivity finds out that export to high-income destinations has a positive effect on firm productivity levels and wages and unlike exporting to high-income destinations, exporting to low- income destinations does not result in significantly higher TFP and wages. It is specifically noted that exporting to the EU contributes significantly more to firm employment, wages, and especially productivity relative to exports to MENA.

23 Cebeci T., 'Impact of Export Destinations on Firm Performance', Policy Research Working Paper 6743, World Bank, 2014

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CHAPTER III: SURVEY RESULTS

Chapter III: Survey Results

In order to get a SME perspective regarding the modernization of the CU, we interviewed nine sector representatives from eight different sectors.[24] In these in-depth interviews, each participant was asked the following questions:

- What are the main problems within the current Customs Union for your sector?
- Are there any bottlenecks in your sector that the modernization of the Customs Union can help to overcome?
- What are the sectoral expectations from the modernization of the Customs Union?
- Are there any suggestions for the SMEs to benefit from the modernization of the Customs Union and increase their competitiveness?

This chapter summarizes the survey results of these in-depth interviews. Policy recommendations of the participants are included in the last chapter.

General Support for the Modernization of the Customs Union With A Few Caveats

All contributors support the modernization of the Customs Union, regardless of their sector. Yet, it is also acknowledged that current mechanisms within the CU does not meet the needs and demands of the business sector and in some cases hurt the overall SME competitiveness.

24 Ali Avcı (Cey Group President, Logistics Sector), Sefa Targıt (ASRAY President, Machine Manufacturing Sector), Faruk Ekinci (Ekinciler Holding President, Iron-Steel Sector), Haluk Erceber (TKSD President, Chemical Industry), Hüseyin Öztürk (Rapsodi Socks President, Textile/Ready-made Clothing Sector), Ozan Diren (Dimes General Manager and Partner, Beverage-Agriculture Sector), Selçuk Gülsün (PAGDER President, Plastics Sector), Serpil Veral (Sütaş Group Deputy Chairman, Dairy Sector) and Tuğrul Baran (LAV General Manager, Glass Sector).

Impact of Customs Union on the Economy and SMEs:

- Customs Union has resulted in smaller exporters to become medium sized: Scale economy to compete in the EU market, cost of complying with the EU standards, number of employees needed to run the export operation caused the smaller companies to become medium-sized.
- In order to compete with the EU companies, profit margin is kept lower in Turkey compared to the EU.
- With the Customs Union, technical legislation is in line with that of the EU. This has cleared the way for SMEs in several sectors and resulted in more foreign investment from EU countries to Turkey.
- Customs Union has made it possible for some of the sectors to be part of global value chain, making use of the economies of scale; but in order to be part of the global value chain and to be able to export to the EU market, these exporters (regardless of their sector) invest in R&D and product development.
- Even though most SME have limited technical capacity to export to the EU market, EU export market turned out to be more stable and reliable compared to other markets such as the Middle East.
- Turkey has a clear logistics advantage over neighbouring competitors. CU makes easier for SMEs become a part of manufacturing center of certain products.

Despite the advantages that CU has created for the SMEs, the need of CU modernization is based on four areas according to the sector representatives:

1) To benefit more from the global supply chain as SMEs:

2) To be able to move personnel in manufacturing related services within the EU

3) To be able to move goods without transportation quotas

4) To re-create favourable FDI environment and enable Turkey to become manufacturing cluster center for certain products[25]

According to the sector representatives, areas that need immediate amendments, changes and strategic planning within the modernization of CU are:

1) Inclusion of services into the CU agreement

2) Inclusion of Turkey in the negotiations of EU-FTA agreements with third countries

3) Removal of ground shipment quotas

4) Removal of visas for the business world

5) Share of information and databases when Turkey is requested to comply with EU sectoral regulations

6) A roadmap to gradually include agriculture into the Customs Union

Why Should the Services Sector Be Included in the CU?

There are two major areas that the survey participants mentioned regarding free movement of services within the EU: 1) Visa requirement for the manufacturing sector employees is causing setbacks in foreign trade in some industries as production and after-production services are becoming more integrated in global value chains:

> *"In Turkey, the machine manufacturing sector is mainly composed of SMEs. Since the 1995, with the Customs Union, we have harmonized our technical legislation with that of the EU. This has of course cleared the way for SMEs in our sector and resulted in* ***more foreign investment from EU countries to Turkey. However, without the visa liberalization foreign trade to EU is hindered.*** *We face difficulties when acquiring visas for company employees. As we are in the business of machine building, we also provide assembly, installation and maintenance services, requiring us to send the necessary personnel to the countries we export to.* ***We need the service sector included in the Customs Union, otherwise we cannot benefit from the Customs Union efficiently. This is a crucial barrier in our sector."***
>
> Sefa Targıt, ASRAY President

The second setback is regarding the quotas for road transport that the EU applies to the Turkish transportation companies. Within the CU, increasingly more Turkish companies rely on road transport for exports of goods; but EU has started releasing a limited number of road transport passes. As a result, the annual permits that the European Conference of European Ministers of Transport grant to Turkish companies expire long before the end of the year, limiting the exports of goods by road transport.

> "*Road transportation is the most practical way of transportation. However, it is expensive, because there are transportation quotas.* ***Our goods are allowed, but they do not allow the trucks carrying the goods cross the border.*** *Visa is another barrier in the Logistics sector. We have to apply for visa at least 2-3 weeks prior and we wait for additional 10 days to get the visa. How are we supposed to make good business if we lose so much time for* the visa?"
>
> Ali Avcı, Cey Group President

25 Chemicals, glass manufacturing, and machinary&equipment sector representatives both mentioned the importance of being a logistically close cluster to the EU market

FTAs with Third Countries Are Damaging the CU

Participants of several sectors mentioned the need to include Turkey in Free Trade Agreements negotiations with the Turkey; as they believe that FTA between the EU and other countries, such as MERCOSUR countries, Algeria are downsizing their business in the EU and it affects their sectors negatively. Participants from machinery & equipment, plastics industry, textile and ready-wear sectors stressed the damaging impact of the FTA for SME competitiveness. Yet overall, sector representatives are not opposed to EU or Turkey having FTAs with third countries:[26] If the third country agrees to make a parallel FTA with Turkey in line with agreements with the EU, it creates a win-win situation for all parties involved.[27]

"'The EU's FTAs with other countries have a negative impact in the textile and ready-wear sectors, despite the advantages Turkey has (closeness to the market, experience, communication, expertise and skilled labour). In a modernized agreement we should be able to eliminate these negative impacts.

In the modernized Customs Union the Parties should develop solution-creating mechanisms against possible problems that would result from the fact that Turkey does not participate in decision-making processes because it is not a Member State. Possible scenarios regarding that should be discussed as well."

Hüseyin Öztürk – Rapsodi Socks President

"Following the EU-South Korea FTA, Turkey also signed a Free Trade Agreement with South Korea and it had a positive impact on the exports. We can buy supplies from South Korea without paying 6.5% tax. The EU should involve Turkey to the agreements it signs. Turkey should act as a member of the Union minus the EU membership rights, it should have its seat at the table when the EU signs Free Trade Agreements with the third parties.[28]"

Selçuk Gülsün – PAGDER President

Settlement of Disputes and Regulatory Harmonisation

The current settlement of disputes mechanism within the CU is a major concern for the business community, because almost every sector suffered from the settlement of dispute procedures within the current operation of the CU. The sector representatives also believe that both sides should cooperate more regarding regulatory harmonisation in the form of information exchange and even consultation in different EU regulatory bodies.

"Modernization of the Customs Union could be useful especially it resolves the arbitration issue. For example, if there is a quota problem under current circumstances, the issue normally goes to the Council when there is a dispute; but once it goes to the Commission, it becomes a political dispute and remains unsettled. Arbitration should not be political, especially when there is CU involved between two parties."

Faruk Ekinci – Ekinciler Holding President

"We are a part of the Customs Union, but we are not a part of the ECHA (European

26 Turkey has a total of 20 FTAs and has been including services and investment chapters into these agreements. FTAs with Korea and Singapore includes services and investment provisions while negotiations are continuing with Japan, Mexico, and Peru to include services and investment chapters.

27 Sector representatives mentioned that following the EU-South Korea FTA, Turkey also signed a Free Trade Agreement with South Korea, which has had a positive impact on overall cost competitiveness and exports.

28 According to the World Bank Report, products where there is an EU-wide authorization body, pose particular challenges for the implementation of the CU (pharmaceuticals and chemicals). The REACH regulation (registration, evaluation, authorization and restriction of chemicals), impose different rules for each party and as a result Turkish chemical companies face higher implementation and operation costs than their EU counterpart. In order to accommodate the RECH regulation, a Turkish company needs a representative in the EU. In order to meet this need, REACH Global Services (RGS) was established. In line with this requirement, the Ministry for Environment in Turkey issued a bylaw, which foresaw registration and auditing of chemical substances. The Ministry suggests that the ECHA (European Chemicals Agency) shared information so that those enterprises that are already registered in the ECHA database would be registered directly in Turkey as well.

Chemicals Agency). The EU makes decision and we have to follow them. We should be included in the ECHA and have a say in the decision-making process. Moreover, ECHA should support us and share data within REACH (Registration, Evaluation, Authorisation and Restriction of Chemical Substances).”

Haluk Erceber- TKSD President

Why Should The Agriculture Sector Become Part of the Customs Union Gradually?

Survey participants from the agriculture agree that Turkish agricultural sector would be hit if it is to be included in the CU. There is consensus that productivity in the Turkish agricultural sector is very low compared to the EU and it will take time and strategically planned action policies to close the gap. Sector representatives believe that allocation efficiency is low in the agricultural sector and the lack of control mechanisms of incentive policies creates an adverse effect on productivity, hence on the competitiveness.

“We should see the Customs Union as a leverage to raise our own standards and enhance our own competitiveness first and each ministry should come up with its own action plan to reach the end goal, which is a competitive and productive Turkey that complies with the EU standards and is fully ready for the Customs Union.

We support the modernization of the Customs Union. We want the dairy sector to be included in the Agreement but with the condition that we would need 5-10 years of transition process for harmonisation purposes. During this period we would need EU incentives.”

Serpil Veral – Sütaş Group Deputy Chairman

“We need a roadmap to involve the Agriculture Sector in the Customs Union, starting with correcting the incentive system. There are export incentives regarding the Agriculture Sector in Turkey, which I predict in time, these incentives will be abolished bilaterally (EU-Turkey). The incentives’ mechanism should be reorganized in a way that the agricultural products such as the cherries, apples, and oranges are not exported but their value added versions are exported. The incentives should be implemented on the value added product. If we can have this incentive chain in export we can reach the EU standards and we can protect the competitiveness of the agriculture sector.”

Ozan Diren – Dimes General Manager&Partner

Other Barriers in SME Exports to the EU

Other than common problems regarding the operation of the Customs Union, sector representatives also mentioned certain SME specific problems in their overall export capacity:

- Cheap access to trade finance and lack of long-term funds like Germany’s Hermes Funds

- Lack of expertise and finance to follow up on legislation, relevant rules, and general information on Customs Union

- Lack of reliable information channels and administration channels where there is constant flow of information and regulatory change

- Illicit trade activities: Third country imports entering into Turkey via EU countries

- Closer protection of intellectual and property rights, copying Turkish products (glass sector)

TURKEY COUNTRY REPORT

CHAPTER IV: CONCLUSION AND POLICY RECOMMENDATIONS

Chapter IV: Conclusion and Policy Recommendations

Customs Union has served EU and Turkish economies and their SMEs since its initiation. Its benefits have varied between different sectors and company sizes, and effects of integration on productivity are far from being automatic and gains are distributed heterogeneously to different types of firms. [29] Overall, the data supports the fact that the integration within the CU benefitted the most the companies and sectors with the highest absorptive capacity.

Customs Union in its current form is being depreciated with both domestic and international political developments. CU is facing challenges from economic and political developments and it is lacking governance agility. Some of these challenges are EU-Turkey relation specific and some are related to overall state of international trade in the world. This depreciation is causing the CU to stay behind the needs of the business world and creating disadvantages for the Turkish side and especially for SMEs, which have traditionally higher barriers in international trade and are more adversely affected from the uncertainty and lack of transparency.

Stylized Facts on the Turkish Economy

Turkish economy has been traditionally a micro and small-sized enterprise economy; but recently medium-sized ones are increasing their weight in some critical sectors. Overall economy's company structure is very fragmented in terms of productivity and disparity in labor productivity is considerably larger at smaller companies compared to bigger companies.

The highest contribution to value added comes from the big corporates; and the last 20 years trade data points out to clear winners vs. underperformers: Medium-sized companies are moving the export sectors. Yet, Turkey's overall manufacturing exports have stagnated in comparative terms.

Linked to this stagnation, it is also observed that contribution of medium and high-tech activities to manufacturing value added is not augmenting since 2008. There is a huge productivity gap between the sectors as well and the overall productivity decrease is linked to services sector. Growing concentration of employment in low skill services sectors is dragging the economy down.

On the manufacturing side, we observe compared to non-tradable sectors, tradable sectors and sectors linked to global value chains are more productive; and correlation between company size and sectoral productivity exists. More importantly, export destinations also matter for productivity increase. Yet, linked to the overall productivity decrease in the economy studies also reveal that more productive firms are not able to increase their market share.

Survey Results Confirm and Support Urgent Need of Customs Union Upgrade

Interviewing sector representatives from nine different sectors, we have found anecdotal evidence that support the stylized facts listed in chapter 2: Overall there is strong support and need for the modernization of the Customs Union as the participants are aware of the benefits created for the SMEs with the reduction of trade barriers. With the CU, companies, which invested in R&D and product development were able to become more productive and export to the EU market. In some sectors, companies have become part of the global value chains.

29 Country Economic Memorandum: Firm Productivity and Economic Growth in Turkey', World Bank, 2019, p.55

Yet, despite the advantages, survey participants also acknowledged areas of difficulties within the CU, which are creating competitive disadvantages for the Turkish SMEs. These disadvantages were listed as exclusion of services and free movement of people, exclusion of Turkey in the negotiations of EU-FTA agreements with third countries, ground shipment quotas, lack of cooperation and share of information and databases when Turkey is requested to comply with EU sectoral regulations.

Policy Recommendations

These challenges will require joint efforts to overcome and modernization of CU seems to be an area where these efforts can be awarded with immediate returns. And yet, the general framework of the modernization of the CU will be affected by the state of a few important factors and updating negotiations should take into account these factors:

1) At the international level, the increasing importance and changing nature of bilateral FTAs

2) At the political level, direction to which EU and Turkey want to carry their partnership

3) At the national level, Turkey's economic policy choices in which it climbs in the economic ladder of development

While it is very hard to comment on the political future of the Turkey-EU relations, this report shows that due to changing nature of business environment, international trade relations and Turkey's own economic ladder of development, there are areas that should be tackled urgently in order to increase the economic welfare of both sides. Given the history of the relations between EU and Turkey, the advanced state of the CU at the time it was signed and the economic welfare it has brought to both sides, there is no economic rationale to explain why the CU should fall behind the modern day FTAs that both sides are engaging in.

While both parties' willingness to engage further in economic integration is important, this report outlined the Turkish business sectors' and especially SME priorities in modernization of the EU. Below are the policy recommendations drawn out of the research analyzed through the report and given by the sector representatives interviewed:

Turkey-EU Relations: 'Dialogue Dividend[30] Is the Key

- CU should be modernized on the basis of rule-based trade strategy that reflects the current and future needs of trade and investment.

- Problem-solving mechanisms should be adapted to the specificities of the relationship between EU and Turkey; and aim to make the CU work

- EU and Turkey should jointly develop solution-creating mechanisms against possible problems that would result from the fact that Turkey does not participate in decision-making processes because it is not a Member State

- More specifically, Turkey should participate in EU committees to improve bilateral dialogue between parties for the design of a common commercial policy.

- The solution should establish an effective, de-politicized, dispute settlement mechanism.

- The modernized CU version should address existing barriers to trade and investment, define standards and regulations; and address asymmetries in trade and investment conditions.

30 Evaluation of the EU-Turkey Customs Union', World Bank, 2014, p. 86

• Greater attention should be paid to implementation and monitoring.

• Implementation and monitoring stage should involve active participation of the both side institutions, and civil society with an important role for business.

• Parallel track negotiations with third countries should be ensured in third country FTAs.

• Service is becoming an indivisible feature of all trade agreements. Therefore, services should be included and service restrictions should not be allowed to hinder goods trade, as is the practice within the current CU implementation.

• The new CU documents should have a dedicated chapter on SMEs, which would ensure the application of the 'Think Small First' principles.

• Such modernization efforts should not ignore e-commerce and developing new rules on e-commerce. At the very least, the updated CU should establish a working group recommending both sides mechanisms to help SMEs overcome obstacles in e-commerce.

• In order to make sure that information regarding the working of CU is communicated, help desks and one-stop-shops for SMEs should be working effectively.

• Parties should be engaging proactively with trading partners to prevent the adoption of trade-distortive measures.

• Balanced and active participation of civil society including business should be ensured.

• Increasing services integration will increase productivity. In order to include services into the CU, a hybrid combination of a FTA and GATS may be considered.

• Agriculture, livestock and dairy sectors should be included into the EU under the condition of an EU-supported transition period and initially complying with the EU standards as a guideline first.

Increasing the Adaptive Capacity of Turkey's SMEs within the CU Is Also Crucial

• Areas where Turkey's SMEs lags EU best practices should be identified and SME export promotion programs should be developed.

• The upgraded agreement should include transparency obligations with proposed regulations to be reviewed, commented by SME consultations and input.

• Turkey has to increase the share of medium and high-tech activities within its sectors and its exports. SMES firm capabilities for technology adaptation, basic management training practices, deregulating and improving the quality of professional services should be strengthened.[31]

• Such strengthening effort should aim both deepening of industrial and manufacturing base with high-quality complementary services and strengthening links to local and international value chains.

• In order to better leverage export potential of SMEs, they should be supported in R&D and product development because SMEs that invest in those areas are the ones that can export to the EU market.

• For SMEs, in order to support connecting to multinationals, well-designed suppliers-development programs with monitoring and evaluation mechanisms should be developed.
• Negotiating rules that are coherent and

31 ii. World Bank, p.14

user-friendly, especially for small and medium- sized enterprises should be adapted. As in the case for the latest FTAs that the EU signed, the updated CU should include a chapter on SMEs with an aim of facilitating investment and trade.[32]

• In South-South trade agreements, SMEs are supported information platforms and product portfolio. For SMEs to benefit more efficiently from the Customs Union it would be beneficial if they were supported with joint fairs and joint sale rings.

• For more advanced companies, support to investment in research and development should be encouraged.

• There is scope to reduce protection in agriculture and increase integration of services; both of which would be productivity enhancing.

• FDI policy should be prioritized with an intention of including links to local suppliers and liberalization of foreign investment in the services sector.[33]

• Trade finance funds, like Germany's Hermes Funds, should be established for Turkish SME exporters

32 The FTA agreement between EU and Mercosur has a chapter on small and medium enterprises with four articles including general principles, information sharing and SME coordinators. While the information sharing includes detail on publicly accessible website for the follow-up of bilateral regulation changes and any information that can assist SMEs, SME coordinators are designated on both parties to ensure that SME needs are taken into account in the implementation of the FTA.

33 Country Economic Memorandum: Firm Productivity and Economic Growth in Turkey, 2019, World Bank, p. 22

Box 3: Examples of SME Provisions in CETA

After seven years of negotiations, EU and Canada signed Comprehensive Economic and Trade Agreement (CETA) and it come provisionally into force in September 2017. The CETA Joint Committee agreed a specific Recommendation in September 2018 to ensure that more small companies will benefit from the trade agreement. All the relevant information regarding CETA for both sides SMEs are clustered under a public website (https://ec.europa.eu/trade/policy/in-focus/ceta/smes-and-ceta/) and updated regularly.

There is no specific chapter on SMEs in the CETA. However, there are some provisions that mention SMEs:

• The chapter on electronic commerce mentions in the general provisions that the Parties recognize the importance of facilitating the use of electronic commerce by SMEs.

• The chapter on government procurement includes considering the promotion of coordinated activities to facilitate access for suppliers to procurement opportunities in the territory of each Party. These activities may include initiatives to facilitate access for SMEs.

• The provisions in the chapter on investment make it less costly for SMEs to engage in investment dispute resolution than what is currently the case under investment dispute settlement mechanisms of other trade agreements.

CETA includes:

• Specific provisions in the agreement on mediation - which do not exist outside EU agreements – are of particular relevance to SMEs as it represents a low cost option compared to full litigation. It encourages parties to a dispute to solve the issue amicably within 60 days rather than go through litigation. The possibility to have mediation is available at any time of the proceedings.

• Provisions allowing parties to hold consultation via videoconference that is an easy and low cost option of particular relevance for SMEs.

• Procedural deadlines make proceedings faster and reduce the costs for SMEs of the litigation.

• Possibility on request of an SME to submit claims to a single judge will make the proceedings faster and cheaper (instead of three judges).

Importantly, pursuant to the loser pays principle under CETA, a successful SME would have no costs to cover in a dispute settlement. Further, the EU and Canada can adopt supplementary rules introducing ceilings to costs SMEs would cover should they be unsuccessful in their claim.
In addition, SME issues can be raised in the various committees responsible for the implementation of the agreement.

Source: https://madb.europa.eu/madb/fta_canada_content.htm#sme_canada_aditional

SLOVAKIA COUNTRY REPORT

CHAPTER I: INTRODUCTION, LITERATURE REVIEW AND METHDOLOGY

CHAPTER I: Introduction, Literature Review and Methdology

Introduction

In spite of the recent setbacks in mutual relations between Turkey and the European Union (hereinafter "the EU"), Slovakia tries to keep amicable and vibrant relations with Turkey. In the EU-Turkey level, after the June 2018 Council conclusions, there has not been any progress on the EU accession negotiations or the modernisation of EU-Turkey Customs Union. (hereinafter "the Customs Union"),[34] Slovakia's official communication towards Ankara is much less confrontational. Slovak Minister of Foreign and European Affairs Miroslav Lajcak has repeatedly stated during his current tenure that there were no open questions between Slovakia and Turkey, that Slovakia supported the accession process of Turkey to the EU and appreciated Turkish efforts done in this regard.[35] Most recently, in addition to more than dozen already existing bilateral intergovernmental agreements in various sectors,[36] Slovak and Turkish ministers of Culture signed a Memorandum of Understanding on Cultural Cooperation from 2019 to 2023, which should lead to more intensive contact between cultural and artistic entities from both partner countries. Both ministers also discussed the possibility of further development of existing flight connections between Slovakia and Turkey,[37] which would surely further stimulate mutual interactions. All of this creates fertile environment for future political and business relations between these two countries.

In spite of the existing outstanding relations, Turkey does not seem to have a place on Slovakia's priority list that it would deserve. Although there is awareness about importance of business cooperation and strategic support, debate about economic questions is virtually absent (with exception of Turkish financial instability since summer 2018) and Turkey overall gets only limited space in public discourse. This goes not only for Slovakia but also for broader Visegrad Group (Hungary, Poland, Czech Republic and Slovakia).[38] The untapped cooperation potential presents numerous opportunities politically and commercially. Being the 17th largest economy globally, 8th in Europe[39] and taking into account its geographical proximity as well as cultural and historical ties to EU countries, Turkey should be a natural market for European and Slovak businesses, including small- and medium-sized ones (SMEs).

In light of the stalled accession process and debates on modernization of the Customs Union, this study should therefore shed more light on economic relations between one EU Member State, Slovakia, and Turkey. It also aims to boost virtually non-existent academic research on mutual Slovak-Turkish economic relations and stimulate future public and academic debates on the role of Slovakia in relations between EU and Turkey. Finally, it should also look at the business potential that modernized and enhanced Customs Union could mean for internationalization of Slovak SMEs. Thus, following study will firstly analyse the role of Slovak SMEs in the Slovak economy and the degree of their internationalization. Secondly, it will take a closer look at basic foreign trade indicators such as mutual trade in goods, services and foreign direct investment flows, working with assumption that Slovakia's accession to the EU in 2004, and start of application of the Customs Union for Slovakia, should have led to increased trade between the two countries. Discerning and eliminating all possible variables impacting trade between

34 Council of the European Union. "Council conclusions on Enlargement and Stabilisation and Association Process". 13
35 Yar, Lucia et al.. "Krajiny V4 a Turecko: Obchod riešia napriamo, hodnoty cez Brusel" [The V4 countries and Turkey: deal directly with business, values through Brussels].
36 Embassy of Slovak Republic in Turkey. "Economic Information about Territory: The Republic of Turkey." 7-8
37 SITA. "Kultúrne vzťahy Slovenska a Turecka budú intenzívnejšie" [The cultural relations of Slovakia and Turkey will be intensified].
38 Yar, Lucia et al.. "Krajiny V4 a Turecko: Obchod riešia napriamo, hodnoty cez Brusel" [The V4 countries and Turkey: deal directly with business, values through Brussels].
39 Embassy of Slovak Republic in Turkey. "Economic Information about Territory: The Republic of Turkey." 2

Slovakia and Turkey and singling out only those related to existence of Customs Union is out of the scope of this study. Rather, given the absence of abundant literature on Slovak-Turkish economic relations, this paper should serve as a stepping stone for further qualitative and quantitative research. Last but not least, as Turkey is gaining prominence in EU's foreign policy, conclusions from this study should be useful also for Slovak policy-makers in their future decision-making in Turkey-related issues.

Literature Review

Literature on EU-Turkey economic relations and impacts of the Customs Union is abundant. On quantitative side, one of the major works is the World Bank report "Evaluation of the EU-Turkey Customs Union", which quantified and compared impacts of Customs Union in relation to free trade agreement and found that Turkey's exports would have been 3-7.2% lower and EU exports to Turkey 4.2% lower if rules of origin were maintained in a restrictive manner.[40] Most recent comprehensive report is European Commission's 2016 Customs Union assessment that used analysis of trends, gravity model and counterfactual simulation with computable general equilibrium model. Both of them showed positive effects, including promotion of two-way goods trade (at least in early years) and strengthening of bilateral investments, although for instance services were not much affected. Both EU and Turkey benefited from increases in real output and expanding economic welfare. Report also found that imports of goods into the EU from Turkey that were covered by Bilateral Preferential Trade Framework (BPTF) increased more than non-covered goods. [41]

On qualitative side, in the light of renewed debate in recent years, German Marshall Fund in its paper warned against stopping Turkey's EU prospects and called on upgrading the 1995 Customs Union since it was essential that Turkey remained anchored close to EU and USA.[42] Other recent qualitative research and articles look at Customs Union as carrot and sticks in hands of the EU[43] or analyze what the modernized relationship needs to deliver results (e.g. inclusion of new areas such as services, agriculture, monitoring of state aid, functional dispute-settlement mechanism etc.).[44] Overall, this issue has been analysed from almost all possible angles.

However, looking specifically at Slovak-Turkish relations, lack of literature is striking. The only relevant more detailed overview is a document prepared by economic diplomats at Slovak Embassy in Turkey that provides key data about mutual economic relations and investment opportunities.[45] In addition, there are several news articles published by local Turkey expert, lecturer and journalist Lucia Yar but extensive thorough in-depth research on Slovak-Turkish relations is surprisingly absent. Given this obvious research gap, following paper should fill the void and lay ground for further quantitative and qualitative research in the future.

Methodology

Complementing the research on impacts of EU-Turkey Customs Union on Turkish businesses, main goal of this paper is twofold. Firstly, to look at role of Slovak SMEs in national economy and their experience with international expansion, especially after Slovakia became EU Member State in 2004. Subsequently, to analyse basic foreign trade indicators before and after Slovakia's entry

40 The World Bank. "Evaluation of the EU-Turkey Customs Union". i
41 European Commission. "Study of the EU-Turkey Bilateral Preferential Trade Framework, Including the Customs Union, and an Assessment of Its Possible Enhancement". 11-12, 34

42 The German Marshall Fund of the United States. "EU–Turkey Relations: Steering in Stormy Seas".
43 Eralp, Nilgün Arısan. "The Unique Nature of Modernizing the Customs Union".
44 Pierini, Marc. "Options for the EU-Turkey Relationship".
45 Embassy of Slovak Republic in Turkey. "Economic Information about Territory: The Republic of Turkey."

into the EU, also Customs Union, to see how bilateral trade between Slovakia and Turkey developed after this milestone and if there could be any correlation with benefits brought by existence of Customs Union. The goal is thus not to establish causalities – as even the European Commission's review report states, "identifying the BPTF's impact is complicated by the liberalization vis-à-vis third parties by both the EU and Turkey during this period, which eroded bilateral preferences considerably".[46] Therefore, the goal is rather to better understand the mutual economic relationship and demonstrate what a modernized Customs Union could mean also for Slovak SMEs. Finally, conclusions from this study should be useful also for Slovak policy-makers in their future decision-making on Turkey-related issues.

Part on Slovak SMEs will draw on existing literature and governmental reports, which provide quite comprehensive picture. Second part of this paper is methodologically more challenging since studies on impacts of Customs Union look at plethora of different variables. For instance, Keskin from Dokuz Eylul University chose foreign trade in goods, employment, growth and foreign direct investment (FDI) flows.[47] European Commission's review looked at variables such as industrial goods, FDI flows and stocks, trade in services, government procurement and many others.[48] So although the scope of Customs Union is currently limited to industrial goods and processed agricultural products (and the preferential agreement on coal and steel products),[49] excluding many other areas such as agriculture, services or public procurement,[50] these studies also look at variables outside of the Customs Union framework mainly due

46 European Commission. "Study of the EU-Turkey Bilateral Preferential Trade Framework, Including the Customs Union, and an Assessment of Its Possible Enhancement". 27
47 Keskin, Sadettin. "Impacts of Customs Union with the European Union to the Turkish Economy".
48 European Commission. "Study of the EU-Turkey Bilateral Preferential Trade Framework, Including the Customs Union, and an Assessment of Its Possible Enhancement".
49 European Commission. "Turkey : Customs Unions and preferential arrangements".
50 European Commission. "Turkey".

to proven correlations between them. For instance, there are "well-established correlations between services and goods trade, and between FDI links and headquarters services flows."[51] Similarly, there is an assumption that reduction of bilateral cost of trade in goods should lead to more intensive bilateral FDI flows.[52]

It is out of reach of this study to analyse all of these possible economic indicators. For the sake of simplicity, research hypotheses forming the skeleton of this analysis were selected based on three conclusions and variables from the European Commission's study that were subject to gravity modeling – trade in goods, services and FDI.[53] These are also the most obvious ones to quantify when evaluating economic relations between two countries.

Conclusion 1 - Goods: Trade in goods between the EU and Turkey experienced strong expansion. At least 1990-2000 period saw increased Turkey's imports from the EU and vice versa. Picture afterwards is mixed and the effect of Customs Union seem to be negative. However, from the perspective of improving welfare, Customs Union is positive for Turkey.[54] Exports and imports were also both steadily increasing over the last decade, hovering around €75 billion in 2018.[55]

Hypothesis 1 - Goods: Volume of mutual trade in goods between Slovakia and Turkey grew after Slovakia became Member State of the EU in 2004.

Conclusion 2 - Services: Turkey's services sector developed well during the BPTF period and Turkey became prominent services exporter with some exceptions (business and professional services).[56]

51 European Commission. "Study of the EU-Turkey Bilateral Preferential Trade Framework, Including the Customs Union, and an Assessment of Its Possible Enhancement". 42
52 Ibid. 45
53 Ibid. 66
54 Ibid. 66-67
55 Eurostat. "Turkey-EU - international trade in goods statistics"
56 European Commission. "Study of the EU-Turkey Bilateral Preferential Trade Framework, Including the Customs Union, and an Assessment of Its Possible Enhancement". 67

Hypothesis 2 - Services: Volume of mutual trade in services between Slovakia and Turkey grew after Slovakia became Member State of the EU in 2004.
Conclusion 3 - FDI: Overall, the results indicate that the BPTF had a strong positive impact on bilateral flows of FDI. This could be possibly related to the indirect effect of smoother access for industrial products manufactured in Turkey to the EU market and possibly also to the investment-facilitating effect of approximation of laws.[57]

Hypothesis 3 - FDI: Volume of bilateral Slovak-Turkish FDI flows grew after Slovakia became a member state of the EU in 2004.

Time frame selection is constrained by data availability. Analysis of period 1998 to 2016 is strived for where possible. In this way, one could compare period of seven years before Slovakia's entry into the EU (1998-2004) and after the entry (2005-2011), in addition to most recent years (2012-2016 / 2018). Main data sources were Statistical Office of Slovak Republic and National Bank of Slovakia that gather statistics on goods, services and FDI.

This leads us also to limitations of the study. Relevant statistical information might not always be collected or publicly accessible. Moreover, as indicated above, this paper does not provide comprehensive quantitative analysis excluding the impact of other factors than Customs Union on presented mutual trade data. Causal relations therefore cannot be established. Thus, this paper is rather supposed to fill the existing large research gap on Slovak-Turkish relations and point to avenues for further quantitative and qualitative research that would enhance our knowledge about Turkey as Slovakia's and EU's important political and economic ally.

57 Ibid. 69

SLOVAKIA COUNTRY REPORT

CHAPTER II: CURRENT STATE OF THE SLOVAK BUSINESS ENVIRONMENT

Chapter II: Current State of the Slovak Business Environment

Business Environment in Slovakia and Its Challenges

After the re-launch of Slovak Euro-Atlantic direction in 1998, the country has undergone several large reforms to attract foreign direct investments and achieve membership in NATO and the EU. Two government periods of PM Mikulas Dzurinda (1998-2006) removed the taboo of privatizing strategic state assets. After the dark period when Slovakia was also coined as "black hole of Europe",[58] marked by uncontrolled privatization and rule of law constantly broken, Slovak Government was in desperate need of cash. Restructuring and sale of state-run banks to foreign investors was one of the measures to get the necessary money immediately but also to hinder interference of state with the money of banks. In 2001, the shares sale in Slovenská sporiteľňa (SLSP), Všeobecná úverová banka (VÚB) banks and Slovenská poisťovňa (SP) insurance company were finalized. Moreover, privatization of several strategic enterprises such as gas, oil and electricity utilities SPP, Transpetrol or SE was initiated. Scrapping soft budgetary restrictions brought end to subsidizing certain pre-selected enterprises, National Anti-Corruption Program and several laws against corruption were passed, including law on freedom of access to information, law preventing the legalization of income generated by crime, public procurement law allowing third parties to monitor public tenders or Judicial Code introducing compulsory asset disclosures for judges.[59]

Alongside with reforms of social insurance system, pension system or healthcare, the complex tax system with plethora of various overlapping regulations was simplified. On 5 June 2003, Government adopted Concept of Tax Reform 2004-2006 prepared by Ministry of Finance. The main principles were justice, proportionality, neutrality, exclusion of double taxation, simplicity and efficiency. Due to frequent legislative changes, Slovak tax law became very difficult to navigate in with numerous exceptions or tax breaks. For instance, Income Tax Act contained at least 90 exceptions, 66 items were exempted from tax payment and there were up to 37 different tax rates.[60] Naturally, this caused confusion not only with local SMEs but was problematic for foreign investors as well. The underlying ideology was thus to focus on taxation of profit, property and consumption as well as move from direct to indirect taxes (VAT, concise tax), which were easier to collect. Government proposed introduction of flat tax with rate of 19% for both natural and legal persons as well as removal of as many exceptions as possible.[61] Furthermore, on 27 June 2003, Parliament adopted amendments to Act on Value Added Tax, which removed two VAT rates (basic (20%) and lowered (14%)) and imposed unified rate of 19%, which was one of the key pillars of tax reform, moving from direct to indirect taxes, and necessary prerequisite of lowering income tax. Government expected better enforcement, decreased tax administration costs as well as end of speculations trying to misuse different tax rates. Last but not least, single rate was also recommended by EU directives.[62]

All these measures helped Slovakia to attract foreign investments and made it to "tiger under Tatra mountains." From 1999 to 2000, FDI inflows more than quadrupled and despite a little setback in 2001, FDI continued to flow into the country with annual values between $2 billion and $5 billion until the global economic crisis hit in 2008/2009.[63] Annual GDP growth rate quickly recovered after the year 2000 and started to reach 5-10% annually, attacking 15% before the global crisis, as can be seen from the Figure 1 below. The economic miracle has become a reality.

58 Dzurinda, Mikuláš. "Slovakia, still the 'black hole' of Europe".
59 Szedély, Erik. "Foreign direct investment and corruption in post-communist context". 23

60 Zachar, Dušan. "Reformy na Slovensku 2003-2004" [Reforms in Slovakia 2003-2004]. 35
61 Zachar, Dušan. "Reformy na Slovensku 2003-2004" [Reforms in Slovakia 2003-2004]. 35
62 Zachar, Dušan. "Reformy na Slovensku 2003-2004" [Reforms in Slovakia 2003-2004]. 39-40
63 National Bank of Slovakia. "Foreign direct investments".

Figure 1: Slovakia's GDP Annual Growth Rate[64]

Currently, the immense growth rates from pre-crisis period are long gone. Growth of the economy was still solid even after the crisis but the future outlooks are uncertain. And although post-2006 governments, which were predominantly social-democratic and employee-focused, managed to implement some measures to facilitate life of businesses (e.g. online communication between state and companies through electronic mailboxes, card payments for e-Government services and accessibility of more and more services online, obligation of state authorities to get certain transcripts such as criminal record from internal databases instead of putting the duty on the citizen), the view of businessmen themselves seems to be grim, as can be seen from this Index of Business Environment put together by entrepreneur association Business Alliance of Slovakia.

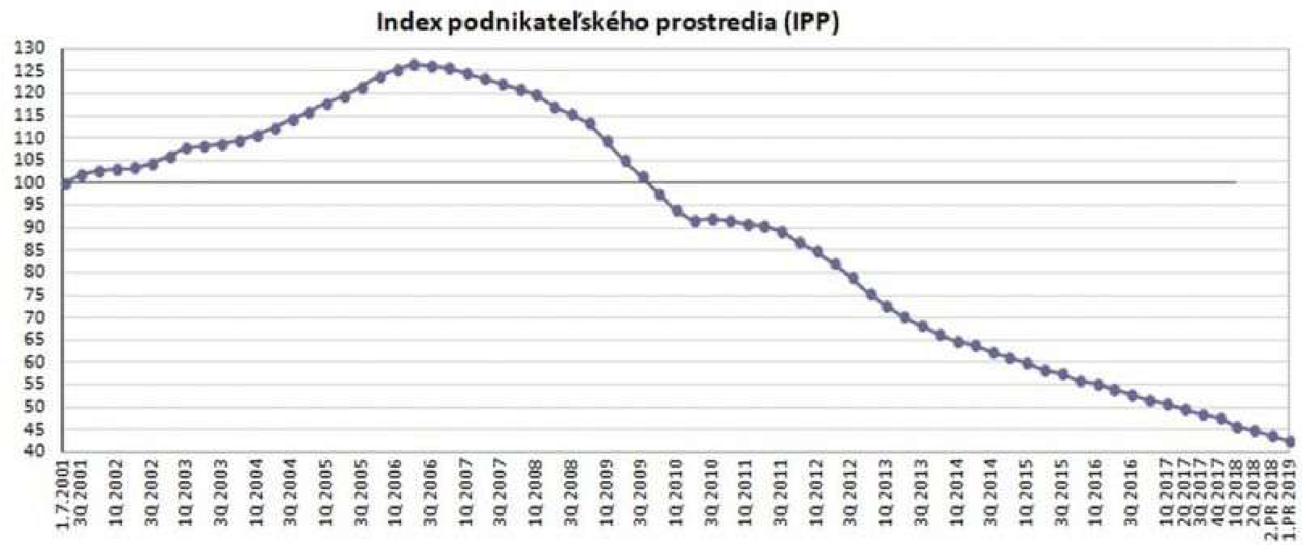

Figure 2: Index of Business Environment[65]

65 Trading Economics. "Slovakia GDP Annual Growth Rate".
65 Business Alliance of Slovakia. ""Podnikatelia sú nespokojní so stavom podnikateľského prostredia" [Entrepreneurs are dissatisfied with the state of the business environment].

Index of Business Environment is mapping opinions of businesses over time in Slovakia and giving them voice to comment on adopted legislation. Since 2006, the index has mostly been declining, indicating worsening perception of business environment. As the main barriers for doing business, Slovak companies, including SMEs, identified in 2019 primarily: rule of law and functioning courts (-6,14%), bureaucracy (-5,57%) and quality and availability of production inputs, labour force (-5,39%). Other indicators with worsened score compared to previous period included equality before the law (-4,78%), efficiency of state expenditures, access to state aid (-4,69%), clarity, usefulness and stability of legislation (-4,47%) and level of corruption of public authorities (-4,04%). Similarly, functioning of state institutions (e.g. tax offices) was again assessed negatively (-0,48%). However, businesses perceive some improvements in level of infrastructure, price stability, labour regulations as well as legislation concerning taxes, fees and investments. However, the overall index score of 42.69 points is far below the starting value of 100 points in 2001, i.e. businessmen are very negative towards their environment where they work. As Business Alliance of Slovakia stated, one of the reasons for negative perceptions is also "approach of political representation towards businesses, which is to a large degree confrontational and sometimes even deriding." Moreover, businesses are opposed to the way how fast is legislation adopted, how often are laws amended and that their legitimate interests are often overlooked. Moreover, they complain about the ongoing problem with lack of qualified workforce and increased administrative burden that leads to growing costs for companies.[66]

Unhappiness of businesses with current state of affairs is documented also by other rankings. Since 2003, Business Alliance of Slovakia has been an exclusive partner of World Economic Forum for its Global Competitiveness Report, where Slovakia placed on 42nd place in 2019, dropping one place downwards, thus ranking behind its neighbours Czechia (32nd place) and Poland (37th place). Changes of indicators were only minor in case of Slovakia. The country slightly improved on quality of infrastructure, use of ICT technologies, level of working skills and efficiency of labour market. On the other hand, Slovakia's score on population health, competitiveness, business climate and innovations deteriorated. Compared to other countries, Slovakia is the biggest laggard in three areas. Firstly, effectiveness of goods market is hampered by complicated tax and customs system, special tax regimes and subsidies harming competitive environment. Secondly, labour market struggles with insufficient flexibility of labour relations, low mobility of workforce and a high barriers for employment of third country foreigners. Thirdly, Slovakia struggles with quality of public institutions, specifically with high regulatory burden, low levels of law enforcement, independence of judiciary and police as well as long-term economic vision of government. Slovakia is falling far behind other countries on indicators such as cooperation between R&D subjects, creation of business clusters or maturity of purchasing behavior where consumers prefer lower prices to quality of products and services.[67]

Moreover, since 2010, Business Alliance of Slovakia combines four renowned global economic indices of World Economic Forum, World Bank, Heritage Foundation and Transparency International, eliminating their deficiencies and thus providing the most objective view on business environment in Slovakia compared to other countries. Overall, its main conclusion is that Slovakia experienced a "lost decade" where it did not radically improve its business environment and stagnated on roughly the same level, keeping with average in the EU and in the world, in spite of neighbouring countries experiencing faster improvements (with exception of Hungary):

66 Business Alliance of Slovakia. "Podnikatelia sú nespokojní so stavom podnikateľského prostredia" [Entrepreneurs are dissatisfied with business environment].

67 Business Alliance of Slovakia. "SR na 42. mieste v rebríčku konkurencieschopnosti" [SR ranked 42nd in the competitiveness ranking].

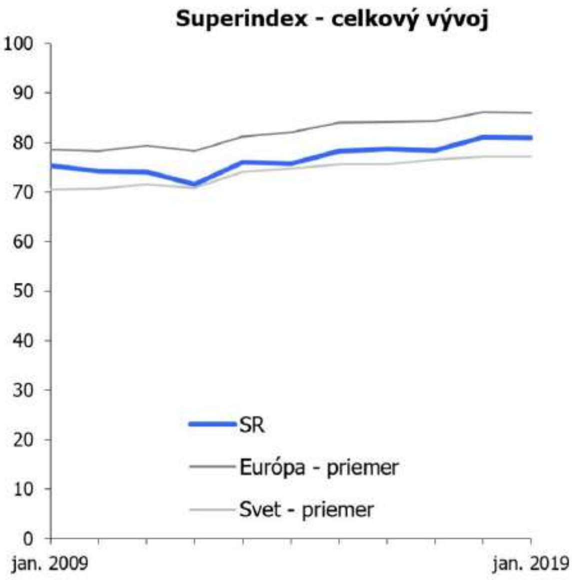

Figure 3: Superindex of Business Alliance of Slovakia[68]

Similar views are also taken by the largest employer association in Slovakia National Union of Employers, which in March 2019 cited the results of economic freedom ranking by Heritage Foundation, where Slovakia placed on 65th place, experiencing decline since 2015. Slovakia is thus significantly lagging behind all Visegrad countries as well as Austria. Czechia placed on 23rd place, Austria on 31st place, Poland on 46th place and even Hungary on 64th place. National Union of Employers considers this as a very worrying signal for both local entrepreneurs and potential investors. The cited deficiencies are very similar to findings echoed by Business Alliance of Slovakia - insufficient savings measures by government, inflexible labor market, low reform pace, high corruption and rule of law. National Union of Employers complained that Slovak Government adopted unsystematic measures increasing the overall burden of regulations, taxes and levies, especially with measures such as recreational/ tourism vouchers to be granted to employees by employers, increase in wage for night shifts and work during public holidays or increase in minimum wage. [69]

In spite of the cricitism, it cannot be said that Government would be unaware of current situation or would not care. Especially Ministry of Economy is engaged in numerous activities supporting business environment and especially SMEs. For instance, Slovak Business Agency specialized non-profit organization for the support of small and medium-sized enterprises established by Ministry of Economy of the Slovak Republic, Entrepreneurs Association of Slovakia and Slovak Association of Crafts, provides comprehensive support to SMEs on national, regional and local level. In addition to numerous conferences used for networking, it is running programme for educating, training and consulting people that would like to start their own business. Furthermore, it is providing microloans between €2,500 to €50,000 as well as venture capital through its National Holding Fund.[70]

Moreover, Ministry of Economy started regular consultations with representatives of SMEs with result to identify excessive bureacratic duties that could be easily removed in legislative process and help entrepreneurs to run their businesses more efficiently. On 6 February 2019, Slovak Government adopted already third package of anti-bureaucratic measures

68 Business Alliance of Slovakia. "Kvalita podnikateľského prostredia dlhodobo stagnuje" [Quality of the business environment stagnates in the long term].

69 National Union of Employers. "Slovensko na chvoste regiónu v hodnotení ekonomickej slobody" [Slovakia at the tail of the region in evaluation of economic freedom].

70 Slovak Business Agency. "About us".

focused on electronization of services related to setting up of business and opening shops and simplification of rules connected to getting construction or hygiene permits. For instance, Public Health Authority should publish on its website one single application form for making a shop/restaurant operational, eliminating requirement of putting forward unsubstantiated appendices. Ministry also aims to publish relevant legislation and documents for four most common types of shops/restaurants to facilitate preparations of future businesses, implement automatic registration of legal entities for income tax and tax identification number, or extend the types of documents (e.g. declarations by tax authority, Social Insurance Company or health insurance company about any arrears in payments), which the businessman will no longer have to get from the authorities by herself as the relevant office will be able to get them from state's internal databases.[71] In this vein, on 15 October 2019, Office of Deputy PM for Investments and Informatization published draft legislation including documents such as copy of birth certificate, residence certificate, citizen identification number (IČO) certificate or bankruptcy certificate into IT systems of public administration,[72] meaning that people will no longer have to run from one public office to another to get hard copies. The list will be further extended in the future. All in all, 31 measures should be implemented by the end of 2019 and amount to savings of €50 million annually by businesses.[73] Ministry of Economy is continuing in this activity and would like to see 4th package of anti-bureaucratic measures adopted by Government by the end of 2019.

However, without doubting about the benefits of these measures for SMEs, business environment is plagued by more structural problems. As was mentioned above, the most frequently mentioned ones are infrastructure, taxes and levies, education and training not matching market needs, and rule of law and corruption.

Infrastructure

It is a general belief that density and quality of road and rail infrastructure helps to improve employment in a given region. Official documents such as OECD Economic Surveys – Slovak Republic (2014) recommend improvement of national roads to support growth in less developed regions. Other studies focusing specifically on Slovakia also state that "unemployment rate depends on highway connections" or that "territory of Western and Northern Slovakia shows lower unemployment rate, which is certainly influenced by better constructed transport infrastructure compared to other parts of Slovakia". As National Bank of Slovakia concluded in its research, opening new stretches of high-quality roads can really have desirable effect on unemployment rate especially during good economic periods. However, in times of economic crises the positive impact weakens.[74] Similarly, Institute of Financial Policy at Ministry of Economy in its analysis concluded that speedway can decrease unemployment in a given county by 0.9 or 1.6 percentage points, with more impact in counties with higher unemployment rate. Nevertheless, according to their calculations the cost of construction would exceed the financial benefits state would get from those people that would get employed thanks to better infrastructure. Therefore, they claim that for instance high-quality education has got much bigger impact on unemployment than highways. Institute of Financial Policy does not advise to suspend all construction but it recommends to consider refurbishing or constructing ordinary one- or two-lane roads

71 Ministry of Economy of Slovak Republic. ""III. antibyrokratickı balícek opatrení" [III. anti-bureaucratic package of measures].

72 Slov-Lex. "LP/2019/708 Zákon, ktorım sa doplna zákon c. 177/2018 Z. z. o niektorıch opatreniach na znizovanie administratívnej zátaze vyuzívaním informacnıch systémov verejnej správy a o zmene a do plnení niektorıch zákonov (zákon proti byrokracii)" [LP / 2019/708 Act amending Act no. 177/2018 Z. z. on certain measures to reduce administrative burdens use of public administration information systems and about change and to fulfilling some laws (law against bureaucracy)].

73 Ministry of Economy of Slovak Republic. "III. antibyrokratickı balícek opatrení" [III. anti-bureaucratic package of measures].

74 Mičúch, Marek and Tvrz, Stanislav. "Aby nezamestnanost v okrese klesla, iba otvorit dialnicu nestací" [To reduce unemployment in the district, just opening the highway is not enough]. 4

in good quality, taken the traffic intensity in consideration. [75]

Nevertheless, impact of high-quality infrastructure cannot be underestimated - it is an important aspect in ease of doing business as entrepreneurs indicate in surveys. Many public officials and city mayors state as well that "where the highway ends, investors end as well". This is also the reason why many industrial parks that have been constructed across Slovakia during recent years remain half-empty. [76] Ministry of Transport is aware of this and does not want to relent in its effort. It insists that new infrastructure can decrease regional differences and that impact of highways has been growing especially in recent years when regions have been competing for new investors. [77]It is especially true for traditional industry sectors that the necessary road infrastructure helps moving goods more easily across the country and across Europe. Businessmen can more quickly get to business meetings in different regions, save time and use it for other productive activity. This is especially relevant for SMEs that are naturally active mostly on the local market. According to 2018 data, out of 559 841 active SMEs, only 30 509 SMEs (5.5%) were engaged in export activities and 91% of these exports went into the EU. This confirms the local ties of SMEs and creates a strong case for high-quality infrastructure.[78]

Education and Training

As analysts pointed out, roads are not enough. There can be no economic sustainable growth or equalization of regional differences without proper education and training. And data point out, that Slovakia is not doing as good as it should in this parameter. In the last international PISA tests from 2016, Slovak students scored far below OECD average and achieved worse results than three years before that in all three categories: mathematics, reading and natural sciences. Moreover, fall of Slovakia's score is much steeper than in other OECD countries and results got worse across all social groups. Historically, Slovakia also belonged among countries with relatively high impact of social background on study results. This is the problem especially pertaining to Roma minority population, whose completed educational training is approximately half of the majority population. [79]

Not only is the performance of young pupils worsening; businesses across sectors are often struggling with lack of qualified workforce and sometimes have to turn down new contracts simply because they do not have sufficient capacities. According to survey of ČSOB bank, 41% of businesses said they had to reject a new contract due to lack of workers. Most affected by this problem were SMEs with annual turnover between €50 000 and €20 000 (47.3%) and companies in Nitra (62%), Žilina (49%) and Košice (48%) region. Whereas companies in western part of the country struggle with lack of workforce as such, companies in the east have problems with lack of qualified workforce. In 2018, most available vacancies were registered in western regions of Bratislava, Trnava and Nitra and on average two out of three vacancies were targeting qualified workers, craftsmen or operators of machines.[80]

Another example is the sector of information and communication technologies (ICT). In this field, Slovakia is lacking currently 10 000 specialists and without sufficient measures done by the government, the gap between supply and demand could reach 20 000 specialists by 2020 and this can have significant negative

75 Odkladal, Martin. "Úradníci vyvracajú mýtus: niektoré diaľnice vôbec netreba" [Officers refute the myth: some highways not needed at all]..

76 Migaľ, Samuel. "Bez diaľnice nie je investor. Priemyselné parky zívajú prázdnotou" [Without a highway, there is no investor. Industrial parks yawning with emptiness].

77 Odkladal, Martin. "Úradníci vyvracajú mýtus: niektoré diaľnice vôbec netreba" [Officers refute the myth: some highways not needed at all].

78 Slovak Business Agency. "Malé a stredné podnikanie v číslach v roku 2018"[Small and medium business in numbers in 2018]. 78

79 Folentová, Veronika. "15-roční žiaci sa prepadli v matematike, čítaní aj prírodných vedách. V testovaní PISA sme opäť pod priemerom OECD" [15-year-olds fell both in mathematics, and natural sciences. We are again below average in PISA OECD].

80 Hlavačková, Zuzana. "Firmy odmietajú zákazky pre nedostatok pracovnej sily" [Companies reject orders for lacking workforce].

effect on competitiveness of Slovak economy and creation of new jobs. That is why IT Association of Slovakia (ITAS) is regularly urging government to increase financing of this sector, increase the number of ICT teachers and generally change the educational system to motivate youth to study technological, natural science and ICT study fields.[81] ITAS is therefore already now working on education and training of ICT specialists, renewing qualification of students that did not find job in the field they studied (lawyers, social science…) as well as trying to attract experts from abroad. Among its most known activities count for instance IT Fitness Test, which is an online test for public to test their level of ICT skills. 25 000 pupils, students, teachers and university lecturers filled out the test in 2019, which showed that Slovaks have surprisingly insufficient knowledge especially in office tools. It has also launched awareness-raising project "Kry-sa! 2019" about cybersecurity targeting vulnerable groups including SMEs. To attract workforce from abroad, ITAS with partners have also successfully launched dual Masters degree with Economic University in Kharkiv and are establishing cooperation with other universities in Ukraine. [82]

From all this evidence, it is clear that educational system will need a radical overhaul to meet the demand of SMEs and make them competitive in the changing economy requiring more and more digital skills across all sectors. On this way, it will not only be essential to increase expenditures for education but also to thoroughly monitor the value Slovakia gets from the invested money. Namely, in the period 2005-2013 Slovakia significantly increased expenditures per pupil in regional education (from $3 500 to $5 900) but PISA results worsened.[83] This raises questions where were the mistakes made and how to get real value for money to propel Slovakia towards knowledge economy.

Taxes, Levies, Labour

Another thing that businesses in Slovakia often complain about is the burden of taxes and levies. Although politicians tend to portray it lower than it is, the recent PwC study Paying Taxes 2019 paints a bit different picture. According to their calculations, Slovakia has got the tenth highest tax burden among EU and EFTA countries reaching 49.7% (labor tax and levies 39.7%, corporate income tax 9.09%, other taxes 0.8%), i.e. more than 10 percentage points higher than the EU-EFTA average of 39.3%. Moreover, it also surpasses the average of all 190 countries in the study that amounted to 40.4%. Slovakia also exceeded the EU-EFTA average in number of hours needed to complete tax duty, reaching 192 hours compared to 161 in EU/EFTA.[84]

In addition to tax burden, employers are also concerned with misuse of changes in labour legislation for political purposes. In March 2019, the largest employer association National Union of Employers (RUZ SR) strongly objected to proposals such as introduction of 5-week holidays for all, changes in levies or minimum wage without any prior consultation with employers. Too frequent changes in labour regulations, in their opinion, create legal instability, affect motivational systems and severely complicate long-term planning in companies. For instance, 5-week holiday would be unsustainable due to lack of workforce (deficit of at least 100,000 workers needed on the labour market) and additional costs that would entail overtime payments to current employees. Furthermore, transfer of 4% of levies from reserve fund to elederly insurance would mean growth of costs for employers - 28.5 percentage points in case of average wage in national economy. Employers have therefore

81 Slovak University of Technology. "ITAS: Nedostatok IT špecialistov ovplyvní konkurencieschopnosť [teraz.sk]"[ITAS: Lack of IT specialists will affect competitiveness [teraz.sk]].
82 ITAS. "Vzdelávanie"[Education].
83 Folentová, Veronika. "15-roční žiaci sa prepadli v matematike, čítaní aj prírodných vedách. V testovaní PISA sme opäť pod priemerom OECD" [15-year-olds fell both in mathematics, and natural sciences. We are again below average in PISA OECD].

84 PwC. "Štúdia Paying Taxes 2019: Pobaltské krajiny vedú rebríček v strednej a východnej Európe, Slovensko stratilo pozíciu lídra V4 v rebríčku" [Study Paying Taxes 2019: Baltic countries lead the ladder in Central and Eastern Europe, Slovakia lost its position as the leader of the V4 rankings].

been constantly calling on politicians to adopt such significant changes affecting business environment only with prior conversation with their representatives in umbrella organizations.[85]

Experts and businesses also propose numerous other measures to increase Slovakia's competitiveness in this indicator. Given the numbers above on division of tax burden, there is a very unequal distribution of tax burden between taxation of labour and taxation of company profit. Furthermore, these two aspects create up to 98% of the total tax burden. Additional lowering of taxes and levies and simplification of the entire tax system[86] would help Slovakia improve faster in the rankings such as the PwC one. Further suggestions include moving from direct to indirect taxes, introducing progressive taxation or raising property taxes, which are insignificant in Slovakia compared to other countries. Slovakia thus taxes the more well-off citizens comparably less than in other EU countries and this is compensated by higher taxes and levies on the side of employers. Decreasing state debt would also help as its rise (from 28.5% of GDP to 51.9% GDP in 2016) was one of the factors behind increasing tax burden.[87]

Another important determinant is electronization of tax administration.[88] On this point, Slovakia has done a lot in recent years, leading up to introduction of full-scale electronic evidence of sales during 2019, with cash registers being directly connected to servers of tax authorities. For businesses, this measure will lower the maintenance costs (no service organizations necessary) and save time - e.g. shop owners will no longer have to do daily financial closings and they can easily export data for purpose of filing VAT control report or tax declaration.[89] Experts are convinced that decreasing the burden of tax and levies and all these other measures could boost employment (companies now often prefer outsourcing), help economy, increase net salary of employees and also increase tax incomes of the state as people will have less incentives to avoid payment of taxes, either because of their lower rates or easier payment process.[90] For instance, only in evasion of VAT payment Slovakia belongs to the worst performing countries in the EU and the state could collect more than €900 million annually without increasing any tax rates.[91] Thus, electronization and ease of payment could be a significant driving force enabling lowering the burden of taxes and levies for employers in the future. As PwC noted, if implemented strategically, new technologies can bring a significant increase in efficiency of tax collection. However, technology itself will not bring improvements of tax systems - they have to be themselves simple, consistent, easily understood and well administered.[92]

Rule of Law

Problems in the process of seeking justice can be cited by business everywhere in the world. Lengthy judicial proceedings might dissuade companies from seeking redress and encourage fraudulent behaviour by certain businesses. The most comprehensive note of business woes has been formulated by American Chamber of Commerce in Slovakia, which has also

85 Republiková únia zamestnávateľov. "Zamestnávatelia sú znepokojení pokračujúcim zneužívaním pracovnej a sociálnej legislatívy" [Employers are concerned about the continued abuse of labor and social legislation].

86 PwC. "Štúdia Paying Taxes 2019: Pobaltské krajiny vedú rebríček v strednej a východnej Európe, Slovensko stratilo pozíciu lídra V4 v rebríčku" [Study Paying Taxes 2019: Baltic countries lead the ladder in Central and Eastern Europe, Slovakia lost its position as the leader of the V4 rankings].

87 Duchaj, Richard. "Slováci z platov odovzdávajú štátu čoraz viac. Aký vplyv na ekonomiku by malo nižšie zdanenie práce?" [Slovaks pay more and more to the state. What effect would a lower labor taxation have on the economy?].

88 PwC. "Štúdia Paying Taxes 2019: Pobaltské krajiny vedú rebríček v strednej a východnej Európe, Slovensko stratilo pozíciu lídra V4 v rebríčku" [Study Paying Taxes 2019: Baltic countries lead the ladder in Central and Eastern Europe, Slovakia lost its position as the leader of the V4 rankings].

89 Finančná správa SR. "eKasa (z ERP na ORP)"[EKasa (from ERP to ORP)].

90 Duchaj, Richard. "Slováci z platov odovzdávajú štátu čoraz viac. Aký vplyv na ekonomiku by malo nižšie zdanenie práce?" [Slovaks pay more to the state. Would the economy be affected by lower labor taxation?].

91 Lehuta, Michal. "Ako to, že dane máme zároveň vysoké aj nízke" [How come taxes are both high and low].

92 PwC. "Štúdia Paying Taxes 2019: Pobaltské krajiny vedú rebríček v strednej a východnej Európe, Slovensko stratilo pozíciu lídra V4 v rebríčku" [Study Paying Taxes 2019: Baltic countries lead the ladder in Central and Eastern Europe, Slovakia lost its position as the leader of the V4 rankings].

coordinated the so-called Rule of Law Initiative. This initiative collects employer associations and trade chambers supporting more predictable legislation, fight against corruption and more efficient justice, which are key attributes of functioning rule of law essential for maintaining economic and social development in Slovakia. Although strengthening the rule of law was declared as top priority of Government of Slovak Republic, the reality is according to employers still different.[93]

In a July 2019 declaration of the initiative, its participants therefore voiced several demands. Participants highlighted ongoing breaches of the principle of transparency of legislation - for instance, amendments to Act on Election Campaign were adopted within 24 hours without any public discussion. What is more, this was not a single case and several other laws with impact on business environment (recreational vouchers, public procurement rules, social and tax measures...) were subject to same methods. Furthermore, busineses complained about functioning justice. The selection of new Constitutional Court judges by Parliament became politicized and took longer than expected, endangering its functioning and dealing blow to trustworthiness of public institutions in the eyes of both domestic businessmen and foreign investors.[94]

In another declaration from October 2019[95], initiative focused on participation of SMEs in public procurement. In relation to amendments considered in draft Public Procurement Act, employer associations and trade chambers requested mandatory publishing of low value public procurement contracts, which would not only lead to transparent use of public resources and fair competition but also facilitated participation of SMEs, which could more easily submit bids to public procurement tenders.

93 Republiková únia zamestnávateľov. "Deklarácie verzus realita o posilňovaní právneho štátu" [Declarations versus reality about strengthening the rule of law].
94 Rule of Law Initiative. "Deklarácie verzus realita o posilňovaní právne-ho štátu" [Declarations versus reality about strengthening the rule of law].
95 Rule of Law Initiative. "News - 9.10.2019".

Current limits for low value contracts are €70 000 for goods and services, €180 000 for construction works and €260 000 for hotel, cultural and social services. This means that procuring entities can quite simply select the supplier, e.g. through direct negotiating procedure after the market analysis. Thus, SMEs can only hope that they would be approached by the procuring entity and that they offer would be successful. Already when the threshold was increased for the first time from €20 000 to €50 000, SMEs noticed significant drop in the number of published tenders and various analyses confirm that for instance municipalities try to push the contract values below the required threshold to avoid complicated public procurement procedures - in 2016, 85% of public contracts did not surpass the limit for construction works and 67% the limit for goods and services. Business representatives therefore call on ex ante publishing of low value tenders as well, which would facilitate participation of SMEs in public procurement and improve competitive environment.

Case Study: Automotive Sector

Automotive sector forms the backbone of Slovak economy, to the degree that national economy is largely dependent on it. Slovakia has got the highest share of employment in automotive industry on total production from all EU countries - 15.4%.[96] At the end of 2017, 129 000 people were employed directly by three car producers and Tier 1 suppliers and 250 000 people in total were employed directly and indirectly by the automotive industry.[97] Furthermore, share of vehicle production on total industrial production reached 46.8% and automotive industry contributed to total industrial export of Slovakia with 35%. Moreover, Slovakia has got 198 cars produced per 1 000 inhabitants, which is the highest number globally.[98] It is already now

96 Žáková, Katarína. "Slovensko je na 1. mieste v rebríčku v počte pracujúcich v automobilovom priemysle" [Slovakia is number one in the rankings automotive workers].
97 SARIO. "Automotive Sector in Slovakia". 2
98 Žáková, Katarína. "Slovensko je na 1. mieste v rebríčku v počte

among the 20 largest car manufacturers with production of more than one million vehicles annually. This is expected to increase to 1 350 000 cars by 2020, bringing the number of cars produced per 1 000 inhabitants to 249.[99] With recent opening of Jaguar Land Rover production lines, complementing the already existing manufacturing facilities of Volkswagen, PSA Peugeot Citroën and Kia Motors, this dependence is likely to increase further.

As pointed out above, the automotive industry is not just about big brands but their presence is particularly relevant for SMEs as well. The sector namely creates need for large network of suppliers of production inputs across various industries - ranging from plastics, chemicals, iron, steel, aluminium and composite materials to electrical, mechanical, design engineering and even textile industry. The whole automotive ecosystem in Slovakia thus consists of more than 350 automotive suppliers contributing to flexibility of supply networks,[100] many of which are SMEs contributing to employment and development in Slovak regions. In industry sector, SMEs share of total sales amounted to 33.4%, which is one percentage point less than in 2017 but representing an increase in absolute values from €32 billion to €33.4 billion year-on-year, which constitutes a growth of 4.4%.[101] Moreover, in 2018, industry remained the most significant sector where value added is created by SMEs, reaching 25.5%, followed by trade (23.1%) and commercial services (21.3%).[102] In this regard, it is important to note that dynamics of value added creation by SMEs is accelerating - it reached a year-on-year growth rate of 11%, which is the highest over the last eight years reaching total level of value added produced by SMEs of €24.2 billion. Micro enterprises were especially excelling when their value added increased by 17.7% to almost €9 billion. Total share of SMEs on produced value added in non-financial sectors reached 54.6% in 2018, which is the highest rate in six years.[103] This creates ground for optimism that industrial SMEs in Slovakia can be innovative and competitive also in automotive sector.

However, healthy development of SMEs in this sector can be jeopardized by several factors. One of them is labour productivity. The influx of automotive investors to Slovakia in early 2000's was caused, in addition to conducive political environment, tax cuts, investment aid or convenient geographical location, primarily by competitive wages. As the minimum wage has been increasing over recent years and entry of new car manufacturers caused natural pressure on wage levels, Slovakia will now have to compensate investors with other benefits to make them stay in the country. One of them is labour productivity, which mirrors competitiveness and economic performance. However, in case of Slovak SMEs, this is not a strong advantage. In 2016, labour productivity (measured as volume of value added created per one employed person) of SMEs in Slovakia was on the level of €17 800 - sixth worst result in the EU and far behind the EU28 average of €42 300. This means that on average, SMEs in EU countries have got almost two and half times higher productivity than SMEs in Slovakia.[104]

Another threat for thriving automotive industry with competitive SMEs is lack of qualified workforce. 87% of employers in automotive consider the lack of qualified workers "alarming" and only 8% of suppliers think that graduates from schools are ready to use the knowledge in real-life applications.[105] Already by 2020, the industry will need 14 000 new employees, of which 2 000 with university education and 12 000 with high school education.[106] Therefore, Automotive Industry

pracujúcich v automobilovom priemysle" [Slovakia is number one in the rankings automotive workers].

99 SARIO. "Automotive Sector in Slovakia". 3

100 SARIO. "Automotive Sector in Slovakia". 6

101 Slovak Business Agency. "Malé a stredné podnikanie v číslach v roku 2018"[Small and Medium Business in Figures in year 2018].. 78

102 Slovak Business Agency. "Malé a stredné podnikanie v číslach v roku 2018"[Small and Medium Business in Figures in year 2018].. 71

103 Slovak Business Agency. "Malé a stredné podnikanie v číslach v roku 2018"[Small and Medium Business in Figures in year 2018]. 71

104 Slovak Business Agency. "Malé a stredné podnikanie v číslach v roku 2018"[Small and Medium Business in Figures in year 2018]. 73

105 Automotive Industry Union of Slovak Republic. "Udržateľnosť konkurencieschopnosti automobilového priemyslu na Slovensku je našim základným cieľom" [Sustainability of automotive competitiveness industry in Slovakia is our basic goal]

106 TASR. "MATUŠEK: Situácia s pracovníkmi v automobilovom

Union of Slovak Republic (ZAP SR) would like to have 12 000 dual vocational students by 2020, re-qualify 5 000 people annually and shorten the time needed to employ employees from third countries.[107] However, the optimistic estimates are that only 3 000 high school students will start their training. Thus, the rest has to be covered through re-qualification courses or labor mobility. This is another stumbling block as employing worker from a third country can take six to ten months, whereas automotive employers would like to achieve max. one month.[108] All of this creates significant problems to companies based in Slovakia. Moreover, as jobs in automotive are constantly being replaced by robots, the least qualified workforce risks losing their jobs – estimates say that up to 65% of employees in Slovakia could possibly lose their jobs due to automation.[109]

Another issue are innovations and R&D in automotive industry. If Slovakia wants to move from being "assembly hall" to higher added value activities, it will have to create conducive conditions for transfer of R&D centres from headquarters of automotive companies to local production facilities. In this regard, ZAP SR appointed new vice-president to create conditions for development of new technologies and products.[110] In the past, it has also called on following the developed economies in their tranfer to Smart Industry 4.0 to ensure competitiveness of automotive industry in Slovakia as well as implementing action plan and Research and Innovation Strategy RIS3, fully using available EU funds to support research activities. Furthermore, functioning system of connecting theoretical R&D centres with practical application in production is crucial.[111] There are already some first case studies, such as ADIENT (R&D or seat systems), ZKW Slovakia (innovation of lighting systems), Yanfeng (engineering centre for interiors systems) or INA SCHAEFFLER (development of rolling and ball bearings)[112] but more needs to be done. This creates both opportunity and threat for Slovak SMEs – if they can manage to attract educated workforce with competitive salaries, they can easily vie for R&D contracts from large pool of companies and even attract relocation of entire automotive R&D centres from Western Europe, Japan or South Korea. However, this is again dependent on effective cooperation with the state that creates framework conditions for educational system. All in all, challenges like labour productivity, trained personnel and support of innovations are common to almost all sectors of economy. But given the importance of automotive sector for Slovak GDP, their solution in this area is becoming of utmost importance.

Case Study: ICT Sector

Maybe less important than automotive, but also ICT belongs to one of the key sectors of Slovak economy - generating 6% of GDP, directly employing 35 000 specialists (67 000 job opportunities if counting also indirect jobs) and producing the highest added value with perspective of growth in next 15-20 years[113] - value added per employee of top 100 ICT companies with highest revenue surpasses €70.000.[114] Furthermore, ICT sector generates 8.6% of all income taxes paid by legal entities[115] and contributes with 4.03% to Slovakia's GDP.[116]

priemysle je kritická" [MATUŠEK: Situation with automotive workers industry is critical].

107 Automotive Industry Union of Slovak Republic. "Udržateľnosť konkurencieschopnosti automobilového priemyslu na Slovensku je našim základným cieľom" [Sustainability of automotive competitiveness industry in Slovakia is our basic goal]

108 TASR. "MATUŠEK: Situácia s pracovníkmi v automobilovom priemysle je kritická" [MATUŠEK: Situation with automotive workers industry is critical].

109 Schmögnerová, Brigita. "Ako von z ekonomickej recesie?" [How to get out of the economic recession?]

110 Automotive Industry Union of Slovak Republic. "Udržateľnosť konkurencieschopnosti automobilového priemyslu na Slovensku je našim základným cieľom" [Sustainability of automotive competitiveness industry in Slovakia is our basic goal]

111 Automotive Industry Union of Slovak Republic. "Na Slovensku sa vyrobil 10 miliónty automobil. Na udržanie rastu potrebujeme výraznú podporu zo strany vlády" [10 million cars were produced in Slovakia. We need strong government support to sustain growth].

112 SARIO. "Automotive Sector in Slovakia". 12

113 Slovak University of Technology. "ITAS: Nedostatok IT špecialistov ovplyvní konkurencieschopnosť [teraz.sk]" [ITAS: Lack of IT specialists will affect competitiveness [teraz.sk]].

114 SARIO. "Information & Communications Technology Sector in SLOVAKIA". 2

115 SARIO. "ICT".

116 SARIO. "Information & Communications Technology Sector in SLOVAKIA". 2

Given its territorial size, ICT ecosystem in Slovakia is quite vibrant and evenly distributed across the country, which can play a significant role in evening out regional differences in the future as the sector is less dependent on traditional infrastructure such as rails and roads. Based on the Global Competitiveness Report, Slovakia is the best in ICT adoption among Visegrad Group countries (Poland, Czechia, Hungary, Slovakia).[117] ICT investors can benefit from multi-lingual skilled workforce, which can easily adapt to various cultures. 88% of Slovaks can namely speak one other foreign language. Moreover, there are seven ICT faculties at six Slovak universities with 10 387 students enrolled in ICT study fields and 2 855 graduates leaving university every year. It is also important to note, that although salaries are above the national average, they are still competitive compared to countries in Western Europe and even in Central European region.[118] This is one of the reasons why Slovakia managed to attract a lot of investors from abroad establishing their shared services centres in the country (AT&T, Dell, IBM...) but also to nourish local innovative ICT companies, which became global players (ESET, Sygic, Pixel Federation...). Moreover, the ICT ecosystem is complemented by professional associations and clusters enabling mingling between private sector and academia in almost every corner of the country, ranging from IT Association of Slovakia in the West, through ICT cluster and Central European Institute of Technology (CEIT) in Žilina, Central Slovakia, up to Košice IT Valley in the east.[119]

Potential of ICT sector and work of local innovative SMEs in Slovakia is huge. According to Digital Challengers report of McKinsey, traditional sources of growth are weakening, productivity is lagging behind the rest of the EU and unemployment is relatively low with average working hours per employee above EU average. However, if Slovakia focuses on policies supporting the digital sector, size of Slovak digital economy could grow from €4.8 billion to €20.9 billion by 2025, constituting 17% of total national GDP. McKinsey also highlights Slovakia's good starting position for growth, such as growing economy, low labour costs, high-quality and available digital infrastructure, relatively large volume and quality of ICT and STEM talents as well as vivid and growing digital ecosystem.[120] If these optimistic scenarios are fulfilled, ICT sector could in the future replace the position of automotive in importance for national economy if car manufacturers move their factories eastwards. However, as mentioned above, Slovakia has got to seize these opportunities otherwise it risks serious consequences. OECD estimates state that one third of jobs is threatened by digitalization and one third is already largely affected. This means that almost 70% of jobs in Slovakia are in danger due to development of technology - the highest rate within OECD. This is due to the fact that Slovak economy is still predominantly focused on low added value products (assembly of cars and electronics), one quarter of population lacks proper digital literacy and, as mentioned above, there is acute lack of qualified workforce for demands of ICT sector.[121]

And how are local SMEs prepared for this transition? Number of SMEs in high-tech sectors of the economy[122] continued growing in 2018. 23 238 active SMEs were registered in these innovative sectors at the end of 2018, representing year-on-year increase of 6.7%. Majority of them, 93.7%, was active in high-tech services, whereas the rest focused on work in high-tech sectors of industrial production. In spite of the lower growth rate in 2018, the number of SMEs in high-tech sectors almost doubled since 2008, showing very positive development. This is in contrast to non-high-tech sectors of industrial production and

117 SARIO. "Information & Communications Technology Sector in SLOVAKIA". 2
118 SARIO. "Information & Communications Technology Sector in SLOVAKIA". 2-4
119 SARIO. "ICT".
120 McKinsey. "The rise of Digital Challengers: Perspective on Slovakia".
121 TASR. "Slovensko je krajina najviac ohrozená automatizáciou" [Slovakia is the country most at risk of automation].
122 SK NACE categories 21, 26, 30.3, 59, 60, 61, 62, 63, 72

services, where number of SMEs has been slightly stagnating. Although still low in numbers, share of high-tech SMEs on total number of SMEs increased from 3% in 2009 to 5.3% in 2018. Most of the SMEs are on medium-low technological level but during the last decade, we can see increasing share of SMEs on highest technological level and on the other hand, decreasing share of companies with low technological level. Similarly, among Slovak SMEs there is increasing share of companies in high-tech knowledge-intensive services and other knowledge-intensive services in contrast to services that are not knowledge intensive (ratio 40:60 in 2018 compared to 31:69 in 2009). These are all positive developments showing that Slovak SMEs are progressing and dealing with more advanced activities. Nevertheless, when it comes to comparison with other EU countries, Slovakia is still on the tail with 5.4% of businesses active in high-tech sectors. Countries like the UK, Netherlands or Denmark top the list with 15.9%, 14.6% and 11% respectively. Moreover, in 2017, revenues of SMEs in high-tech sectors decreased by 8.9% to €3.9 billion and their share of total revenues of all companies in high-tech sectors dropped by 2.6 percentage points to 32.6%. Also, the share of employment of SMEs in high-tech sectors compared to large companies decreased by 1.2 p.p. to 55.9% with SMEs employing 40 400 employees in high-tech sectors (out of 72 300 employees in total).[123]

However, what is more worrying is the continuing decreasing trend of innovation activity of Slovak SMEs (based on 2016 Community Innovation Survey). In 2016, only 29% of SMEs were undertaking innovative activities, whereas the share was 33.4% of SMEs in 2010. Innovation activity of Slovak SMEs does not show any signs of improvement in comparison with other EU countries either as on average every second SME in the EU is conducting innovations (i.e. 49.5%). Only Hungary, Poland, Bulgaria and Romania scored worse results. In the industry sector, 30.3% of SMEs were innovative whereas in services sector the number was only 27.5%.[124] Slovak SMEs could also better benefit from modern ICT technologies to make their processes, customer outreach and sales more efficient. Although use of PC, internet and even own website is quite commonplace, only 31.6% of small businesses and 28.2% of medium-sized businesses used their website for online orders or booking. Status of online orders is followed through own website only by 10.6% of small and 14.3% of medium-sized businesses; social networks in the company were used by 27.9% of small and 38.7% of medium-sized businesses. Furthermore, only 13.7% small companies and 23.6% medium-sized ones were selling its products via internet. This is again on the lower end of EU-rankings below the EU average of 17% (Slovak SMEs reached 13%). Finally, when it comes to R&D, Slovak SMEs belong among EU countries with lowest performance in R&D activities. Share of SME R&D expenses on total GDP reaches only 0.14%, whereas the share in Finland, for instance, is 0.59%. Only Latvia and Romania are performing worse.[125] Thus, although there is a big potential to leverage technologies for further growth, Slovakia and especially its SMEs have not yet fully embraced this opportunity.

Current Customs and VAT Issues[126]

National law in customs area is primarily influenced by the developments on the EU level, which are quite turbulent and the customs regulations are undergoing constant legislative changes. The most fundamental piece of EU legislation is the Regulation (EU) No. 952/2013 laying down the Union Customs Code, complemented by Delegated Regulation (EU) 2015/2446 as regards detailed rules concerning

123 Slovak Business Agency. "Malé a stredné podnikanie v číslach v roku 2018"[Small and Medium Business in Figures in 2018] 82-88

124 Slovak Business Agency. "Malé a stredné podnikanie v číslach v roku 2018"[Small and Medium Business in Figures in 2018]. 89-90

125 Slovak Business Agency. "Malé a stredné podnikanie v číslach v roku 2018"[Small and Medium Business in Figures in 2018]. 91-93, 96

126 If not indicated otherwise, content of this part is based on the main messages from business breakfast of French-Slovak Chamber of Commerce on "News in Customs Law", which took place on 23 October 2019 in Bratislava, Slovakia

certain provisions of the Union Customs Code and Implementing Regulation (EU) 2015/2447 laying down detailed rules for implementing certain provisions of Regulation (EU) No. 952/2013. On national level, this EU regulations are complemented by the Customs Act No. 199/2004 Coll. with related executive decree No. 161/2016. Coll. together with Act No. 35/2019 Coll. on Financial Administration.

From the EU level, national legislation will be primarily influenced by the proposal for a Directive amending Directive 2006/112/EC as regards rates of value added tax, which is currently in the legislative process, and related technical regulations. The whole overhaul of EU VAT system requires significant changes - of 408 articles in the VAT Directive, around 200 will need to be adapted.[127] The goal is to create future EU VAT system resilient to fraud. One novelty in current EU customs and tax legislation is introduction of the status of approved economic operator (AEO) in addition to customs area also to tax area. These AEOs are to be certified as reliable tax subject in the entire EU, enjoying numeous advantages in customs and tax procedures such as less controls or preferential treatment. This should all simplify doing business for honest entrepreneurs. The main requirements of receiving this status include clean criminal tax record, financial solvency, keeping of sufficient trade/transport records enabling adequate customs controls, as well as practical norms of professional competency (companies should employ or have outsourced persons with customs regulations training). Businesses can thus get specific benefits from compliance with regulations.

Another big topic EU is pushing forward is electronization and use of digital systems with main focus to speed up customs procedures through digital tools. Based on changes to Union Customs Code entering into force in 2019, European Commission will prepare annual reports on developments in introduction of electronic systems in Member States. European Parliament and Council of the EU will then assess the progress in development of electronic systems. Member States will be obliged to send interim progress reports to the Commission twice a year, declaring the progress made. This is one of the tools how to put pressure on Member States to make their customs operations more efficient. In the end, it is also in the EU interest as 75% of customs revenues go to the EU and only one quarter is left to Member States to ensure effective customs collection. However, it will be also businesses that can benefit from quicker reception or expedition of their goods.

As mentioned above, the main goal of the EU's radical overhaul of tax system is creation of final VAT system for trading within EU, which would counteract fraud and use mechanism of rapid response. In principle, VAT payer should be the supplier of goods, charging the VAT of country of destination, unless the buyer is a certified entity (trusted subject). Thus, where the customer is a Certified Taxable Person, acquirer of the goods will be liable for VAT. [128]

Finally, one of the most recent changes in tax and customs area concerns low value consignments, based on entering into force of amendments to Delegated Regulation (EU) 2015/2446 on 25 July 2019. As of 1 January 2021, goods with value up to €150 can be declared with a new simple customs declaration requiring three times less data than a standard declaration. Followingly, existing VAT exemption for goods up to €22 will be scrapped but for VAT to be levied, all imports into the EU will have to be declared with electronic customs declaration. Given the growing volume of trade and especially the number of low-value consignments imported into the EU, IT systems can no longer handle the processing of a standard customs declaration per consignment. These changes will therefore mitigate the impact of this growing volumes and make life easier for both customs authorities and traders.

127 European Commission. "Fair Taxation: Commission proposes final technical measures to create a future fraud-proof EU VAT system".

128 European Commission. "Fair Taxation: Commission proposes final technical measures to create a future fraud-proof EU VAT system".

SLOVAKIA COUNTRY REPORT

CHAPTER III: SLOVAK SMES AND THE EU

Chapter III: Slovak SMEs and the EU

SMEs in Slovakia and Their Internationalization

Similarly to many other countries, Slovak SMEs form the backbone of national economy, accounting for 99.9% of businesses, providing employment to 73% of active workforce and contributing with 55% on creation of value added. Moreover, 97% of SMEs have less than 10 employees.[129] In 2018, total number of Slovak SMEs decreased by 1.3% y-o-y to 559 841, which was caused mainly by decrease in number of self-employed persons (by 5.2% y-o-y), although other SME categories grew in quantity (4.9% y-o-y). Nevertheless, still the majority of SMEs (59%) are legally self-employed natural persons (303 960) and only 41% are legal entities (229 464).[130]

It is also important to note that Slovakia belongs to one of the most open economies globally, mainly due to limited size of internal market that naturally forces companies to look for new markets abroad.[131] According to World Bank data, value of trade as percentage of GDP reached 192% in 2018, which ranked Slovak economy 4th most open in the EU and 7th most open globally. Openness had an increasing trend since 1999 (99.4%) through Slovakia's entry into EU in 2004 (140.2) up to 2018 when it reached highest levels in history.[132]

Moreover, over the last three years Slovakia has been ranking on top in World Bank's Doing Business ranking on the indicator "Trading across borders", which captures time and costs of logistical processes related to imports and exports of goods. One of the main reasons for this are significant reforms facilitating cross-border trade, such as electronic submission of customs declarations. Slovakia is therefore also one of the best among EU countries. [133]

However, in spite of this openness and favourable environment for cross-border trade, Slovak SMEs are struggling with expansion abroad. Although SMEs tend to be more flexible and adaptable to customers' needs than large companies, they are also more sensitive to trade barriers impacts that block their expansion.[134] This might explain their preference for the internal EU market. 91.2% of exports of Slovak SMEs go to the EU (€16.5 bn) and only 8.8% outside of the EU (€1.6 bn).[135]

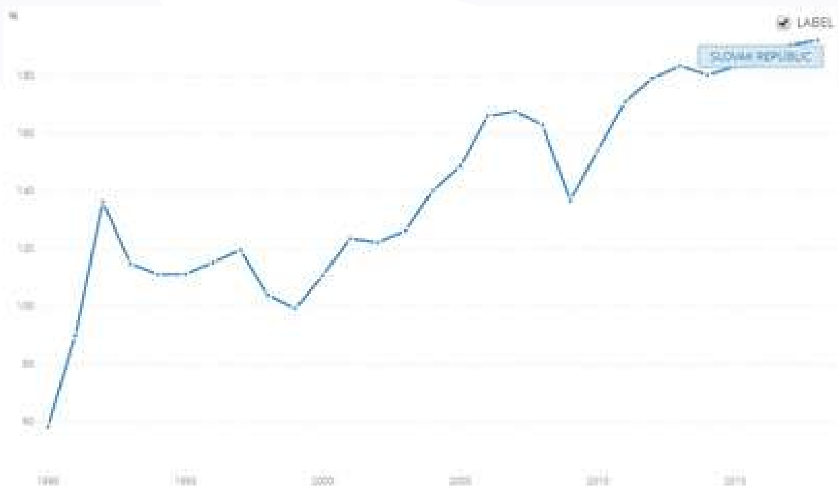

Figure 4: Trend of increasing openness of Slovak economy (Trade (% of GDP)) from 1990-2018[136]

130 Slovak Business Agency. "Malé a stredné podnikanie v číslach v roku 2018"[Small and medium business in numbers in 2018]. 7
131 Ibid. 10-12
132 Slovak Business Agency. "Regulácia internacionalizácie z pohľadu postavenia MSP v EÚ a SR"[Regulating internationalization from the perspective of SMEs in the EU and the Slovak Republic]. 15
133 The World Bank. "Trade (% of GDP)".
134 Slovak Business Agency. "Regulácia internacionalizácie z pohľadu postavenia MSP v EÚ a SR". 34-35
135 Slovak Business Agency. "Regulácia internacionalizácie z pohľadu postavenia MSP v EÚ a SR". 60
135 Ibid. 16
136 The World Bank. "Trade (% of GDP)". .

Problems of Slovak SMEs are also visible from different metric. Looking at share split of SMEs and large companies in country's total imports and exports both from/to the EU and from/to third countries, Slovak SMEs can be considered real laggards in their internationalization compared to SMEs from other EU Member States. Slovak SMEs are responsible only for 17% of Slovak imports from outside of the EU, whereas the rest is accounted for by large Slovak companies.[137] This is the lowest share among EU countries. Similarly, Slovak SMEs account for only around 15.4% of Slovak exports outside of the EU and thus are also on the very tail of European countries.[138] However, picture is quite grim also in case of trade with other EU countries. Share of Slovak SMEs on total Slovak imports from the EU is a bit above 40%[139] and in case of exports to the EU it is 28.3% in comparison to large Slovak companies.[140] Slovak SMEs thus ranked 4th from the bottom and 2nd from the bottom respectively. On the export indicator, only French SMEs were worse but their incentives to export might be lower given the much bigger size of French domestic market. This indicates that Slovak SMEs might lack either competitiveness, interest or capacities compared to their European counterparts when trading outside of the EU but even within the EU, which is striking especially given the degree of trade openness and dependence on other markets. According to 2017 representative survey conducted by Slovak Business Agency among local SMEs, 44.3% considers current conditions for engaging in foreign trade more positively than negatively and more than half of them exported abroad, primarily to the EU. Nevertheless, still, 44.1% has not engaged in export activities and striking 37.9% SMEs did not even consider exporting. The most cited obstacles being lack of financial support for foreign trade and insufficient information.[141] This is partly in line with obstacles voiced in the 2015 Eurobarometer survey, where as biggest obstacles for Slovak SMEs were identified high financial investments (43%), complicated administrative procedures (45%), cross-border dispute settlement (45%) and high supply costs (41%).[142]

137 Slovak Business Agency. "Regulácia internacionalizácie z pohľadu postavenia MSP v EÚ a SR". 60
138 Ibid. 12
139 Ibid. 14
140 Ibid. 11
141 Ibid. 65-66
142 Ibid. 61

Potential of Customs Union Modernization for Slovak SMEs

From the numbers above it is clear that Slovak SMEs have a lot to catch up with in their internationalization. Modernization of Customs Union between the EU and Turkey and ergo facilitation of mutual trade could boost the appetite of Slovak SMEs to export to Turkey.

Looking at statistics, there is actually a lot at stake for Slovakia. Turkey is namely the 5th largest export partner for Slovak SMEs among countries outside of the EU, ranking behind USA, Ukraine, Russia and Switzerland. Exports are worth €92 million and account for 5.7% of all extra-EU Slovak SME exports.[143] Moreover, contrasted with large companies, Slovak SMEs have the most significant share on total exports in services sectors - administrative and support (99.9%); HORECA (99.9%); finance and insurance (98.4%).[144] Looking at division of exports between SMEs and large companies in Slovakia based on commodities, Slovak SMEs have above 75% share on total exports in plant products (94.4%), animal feedstock (80.5%) and wood and wood products (76.7%).[145] Regarding imports, SMEs dominate in sectors such as HORECA (98.5%); agriculture, forestry and fisheries (98.4%); and construction (94.4%). In case of import of commodities, Slovak SMEs prevail over large companies in food products (65.3%); shoe and apparel (64.9%); and plant products (63.1%).[146] From these numbers it is evident that Slovak SMEs have competitive edge in exports over large companies in sectors such as services or agriculture – i.e. areas not covered by the Customs Union yet. If Slovak Government wants to support Slovak SMEs as it regularly declares, modernization of Customs Union will be in their interest. It would not only incorporate sectors where Slovak SMEs prevail but it would also do away with many of the obstacles identified by SMEs as an obstacle to their expansion abroad – administrative procedures, dispute settlement or supply costs.

143 Ibid. 18
144 Ibid. 19
145 Ibid. 21
146 Ibid. 28-29

TURKEY COUNTRY REPORT

CHAPTER IV: SLOVAK-TURKISH ECONOMIC RELATIONS

Chapter IV: Slovak-Turkish Economic Relations

Brief Overview

As stated in the introduction, Slovak-Turkish relations are very good with no outstanding issues. Since Slovakia's accession to the EU, mutual trade relations have been aided by several intergovernmental agreements, such as agreements on international road passenger and freight transport (11 December 2014), on economic cooperation (16 March 2007), on legal cooperation in civil and trade matters (11 November 2004), on mutual aid in customs question (17 November 2000) or on mutual investment protection (12 October 2009).[147] Moreover, on 20 August 2014 both governments signed in Ankara special Memorandum of Understanding and Cooperation in Energy Sector where Slovakia offered its experts and experience from construction and operation of nuclear, heat and hydro power plants as well as from research and innovations in energy sector. Slovak companies on the other hand benefit from access to governmental tenders in gas and energy sector, construction of heat and hydro power plants or reconstruction of original equipment.[148]

Favorable mutual political relations contributed also to the good business environment, with trade expanding over the recent years. Currently, there are 39 companies in Turkey with Slovak capital, predominantly in automotive sector, tourism, wholesale, immovable property and energy. On the other hand, there are 36 Turkish companies in Slovakia in textile industry, services, automotive, HORECA and processing industry, with total value of investments of €3.28 million.[149] Customs Union between the EU and Turkey should have facilitated mutual trade between Turkish companies and businesses in EU Member States, mainly due to elimination of tariffs and regulatory convergence. However, Slovakia noted as well as other EU countries that Turkey started erecting various barriers to trade prolonging and complicating customs procedures in spite of existence of standardized EUR 1 and ATR customs documents that sometimes have to be accompanied by additional certificates in case of specific products, such as veterinary or phytosanitary certificates.[150]

Following parts will look at mutual trade in goods, services and FDI flows between Slovakia and Turkey after Slovakia's accession to the EU (and before 2004 where data are available) to assess the trends and look at how existence of Customs Union might have affected mutual relations. In this way, it will lay ground for further research, especially in econometrics, that could separate various influences and more specifically quantify the impact of Customs Union on Slovak-Turkish trade and investments. As mentioned above, although only goods are currently covered by the Customs Union, there is academic evidence of positive spillovers on services and investments as well.

Mutual Trade in Goods

As seen from the graph below, mutual trade between Slovakia and Turkey expanded rapidly after entry of Slovakia into the EU, although the growing trend was evident during the years preceding accession. Whereas imports from Turkey grew only slowly, Slovak exports skyrocketed after Slovakia's entry into the EU and almost quadrupled from €206 million in 2004 to around €734 million. Hence also the total trade enjoyed rapid expansion and grew from €378 million in 2004 to €1.25 billion in 2017. Annual growth rates despite some turbulences stayed in positive values, with more significant declines only in 2009, 2011, 2014

147 Embassy of Slovak Republic in Turkey. "Economic Information about Territory: The Republic of Turkey." 7
148 Ibid. 10
149 Ibid. 8
150 Ibid. 13-14

and 2017. However, mutual trade has always managed to overcome these periods and rebounded to growth. Thus, although there is certain drop in mutual trade since the peak in 2013 (when imports reached almost €386 million, exports nearly €1 billion and total trade almost €1.4 billion), the overall trend is positive and value of imports start to catch up with value of exports. This indicates that whereas the initial period after the entry into the EU was primarily dominated by Slovak exporters, over the recent years, Turkish exporters started to be more active as well. Customs Union thus seems to be a win-win situation for both Slovakia and Turkey, although, as mentioned before, precise quantification of its impacts is out of scope of this study.

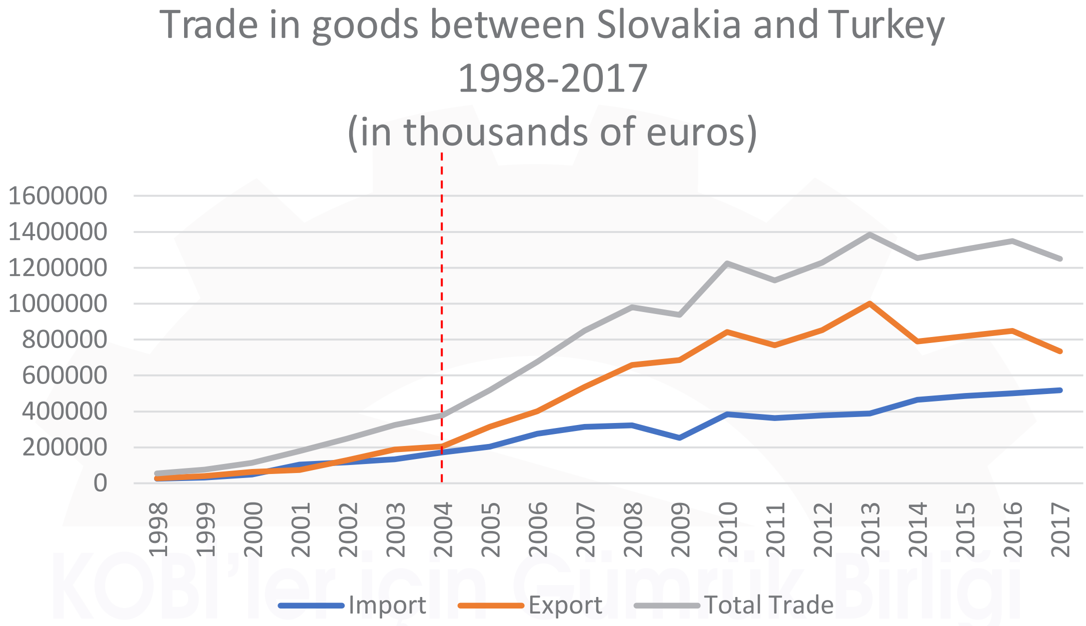

Figure 5: Trade between Slovakia and Turkey 1998-2017 (in thousands of euros)[151]

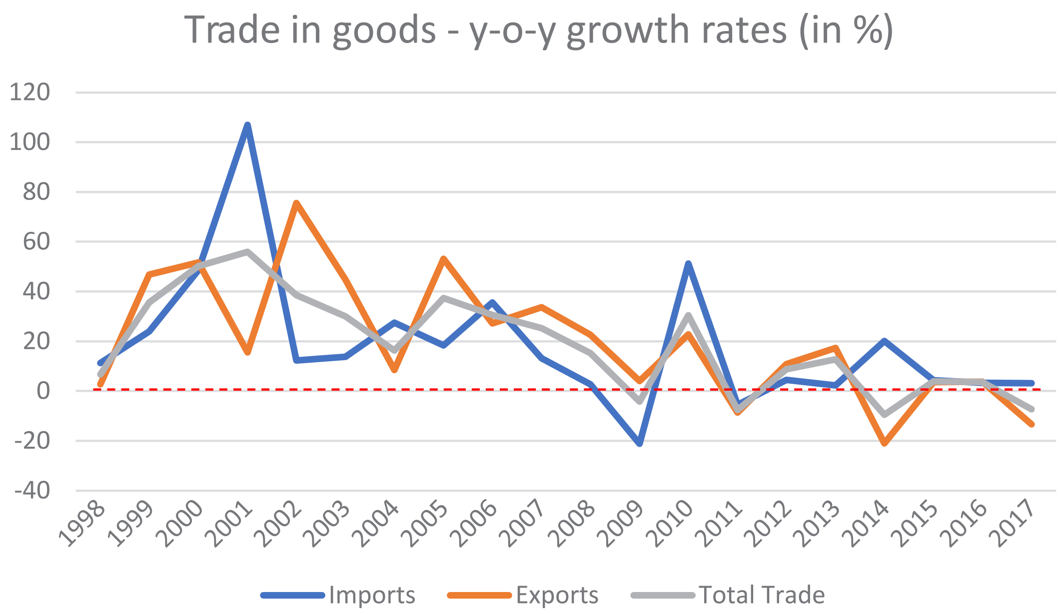

Figure 6: Trade in goods - y-o-y growth rates (in %)[152]

152 Statistical Office of Slovak Republic. "Structure of Foreign Trade selected by countries (FOB-FOB) [zo2006rs]".
152 Statistical Office of Slovak Republic. "Structure of Foreign Trade selected by countries (FOB-FOB) [zo2006rs]".

Slightly different picture than the one visible from the graph above can be seen when we look more closely on average annual growth rates over seven years-periods before Slovakia's accession to the EU, after the accession and the last six years.[153] However, the positive developments cannot be contested.

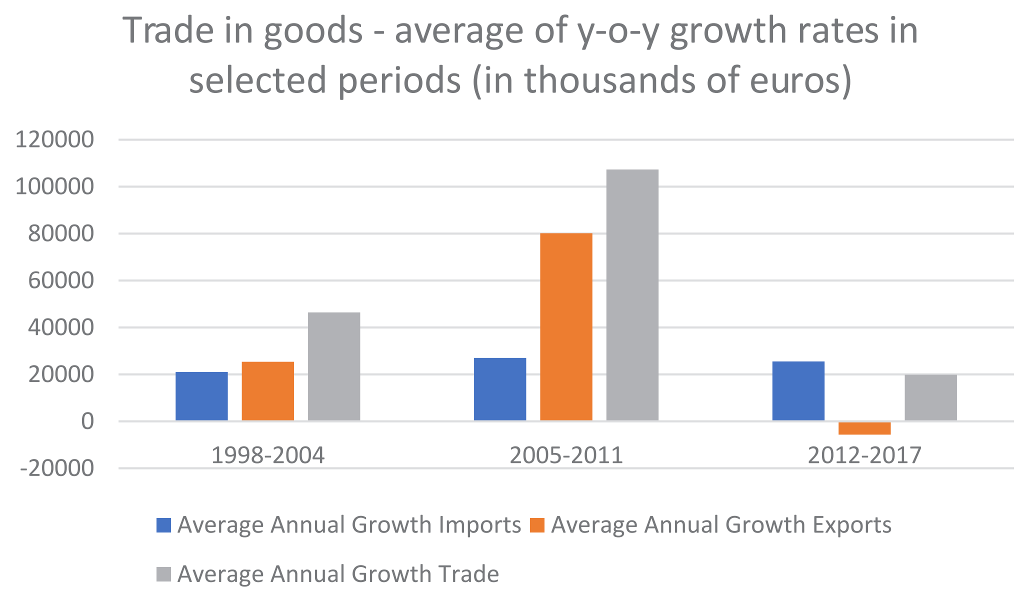

Figure 7: Trade - average of y-o-y growth rates in selected periods (in thousands of euros)[154]

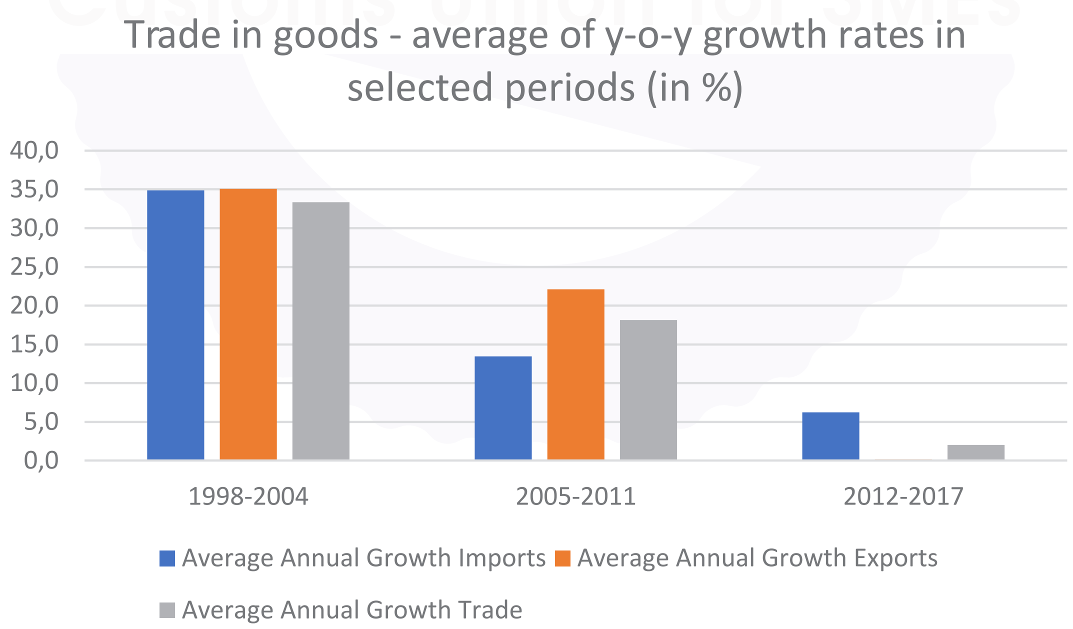

Figure 8: Trade - average of y-o-y growth rates in selected periods (in %)[155]

156 Looking at median values showed more or less the same picture as average, therefore it is omitted in this case from the analysis
154 Statistical Office of Slovak Republic. "Structure of Foreign Trade selected by countries (FOB-FOB) [zo2006rs]".
155 Statistical Office of Slovak Republic. "Structure of Foreign Trade selected by countries (FOB-FOB) [zo2006rs]".

In total numbers, average annual year-on-year growth of mutual trade exploded comparing seven years before Slovakia's entry into the EU and after the entry, primarily driven by Slovak exports to Turkey. Whereas from 1998 to 2004 mutual trade grew on average by only €46 million annually, 2005-2011 period saw average annual growth of more than €107 million. Average exports growth rates increased from more than €25 million annually to slightly above €80 million, with average import growth rates experiencing only very modest growth. Trend seemed to reverse in recent years. Steadily rising Turkish imports into Slovakia are starting to catch up with decreasing exports (exports even decreased below 2011 levels) and this rapid drop in Slovak exports also affected the average annual growth rates of trade. Graph showing average percentage changes in growth rates just reflects the mutual trade development – as mutual trade was almost non-existent in 1998 and started expanding, annual changes in exports and imports were high. When higher values of trade were reached in 2004, percentage changes were not so dramatic anymore although looking at the total values shows us immense growth after 2004. 2012-2017 is marked by very low percentage changes, reflecting the trade developments. As mutual trade in goods has dwindled between €1.2 and €1.4 billion since 2012, it is a legitimate question to ask what modernization of Customs Union could bring to Slovak and Turkish businesses. Further trade liberalization and doing away with all kinds of non-tariff barriers would definitely provide a much needed impetus to develop Slovak-Turkish trade relations even further to the benefit of businesses, consumers and both governments.

Mutual trade in services

Mutual trade in services enjoyed less rapid expansion as trade in goods but we can still talk about some growth, which might indicate positive spillovers from goods sector. Whereas in 2000, mutual trade was around €4.4 million, it grew to €9.4 million at the time of Slovakia's entry into the EU. Since then, both exports and imports were rising steadily until 2012, when exports reached €45.6 million and imports €38.6 million. Since that point in time, import of services from Turkey declined a bit before recovering in 2016, whereas exports of Slovak services sector grew sharply after 2012, although it suffered decline afterwards and returned to 2012-levels in 2017. Specific trends are therefore difficult to discern as in the recent period the mutual trade enjoys rises and falls from year to year.

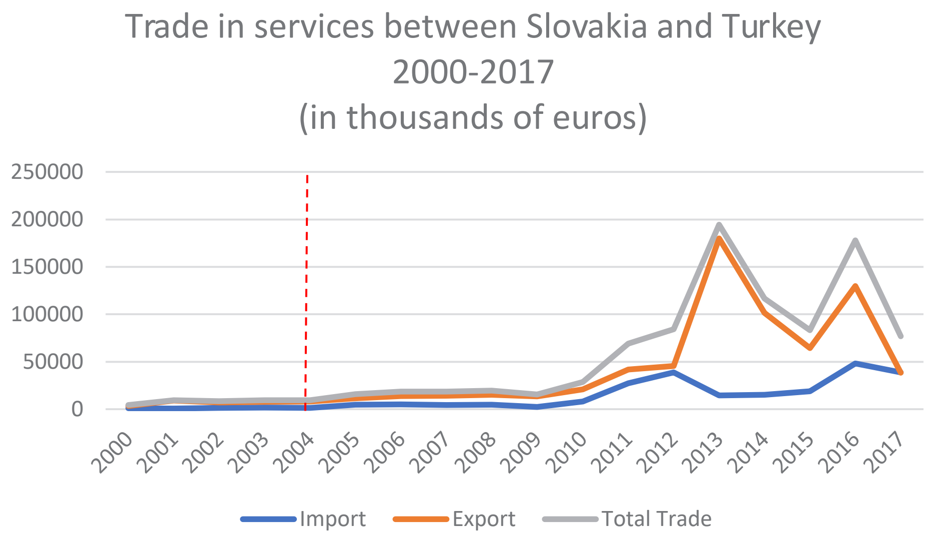

Figure 9: Trade in services between Slovakia and Turkey 2000-2017 (in thousands of euros)[156]

156 National Bank of Slovakia. "Bilateral trade in services between Slovakia and Turkey (2000-2017)".

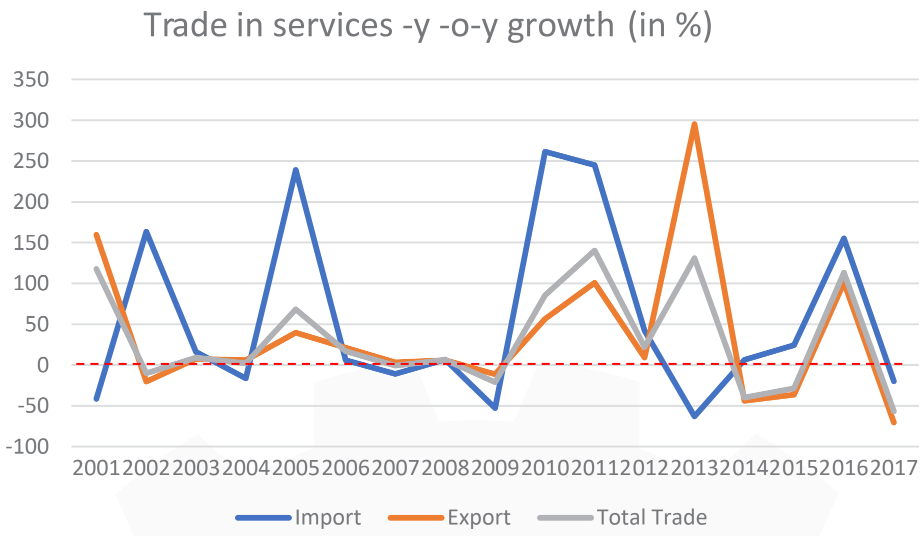

Figure 10: Trade in services - y-o-y growth rates (in %)[157]

157 National Bank of Slovakia. "Bilateral trade in services between Slovakia and Turkey (2000-2017)".

Nevertheless, looking away from annual fluctuations and focusing at average growth rates, one can see that mutual trade in services was growing faster after Slovakia's entry into the EU than before, at least until 2012. Recent years have been marked by plummeting numbers but it is a too short period to say whether it is just a short-term drop or long-term decline. Whereas average y-o-y growth of total trade during four years before the entry into the EU was €1.3 million, during four years after it was already €2.5 million, reaching €16.2 million in 2009-2012 period. Average annual growth of imports from Turkey was €112 000 before 2004 and €818 000 and €8.5 million in the following two four-year periods. Finally, exports grew on average by €1.2 million annually before Slovakia's entry into the EU and by €1.7 million and by €7.7 million in 2005-2008 and 2009-2012 respectively.

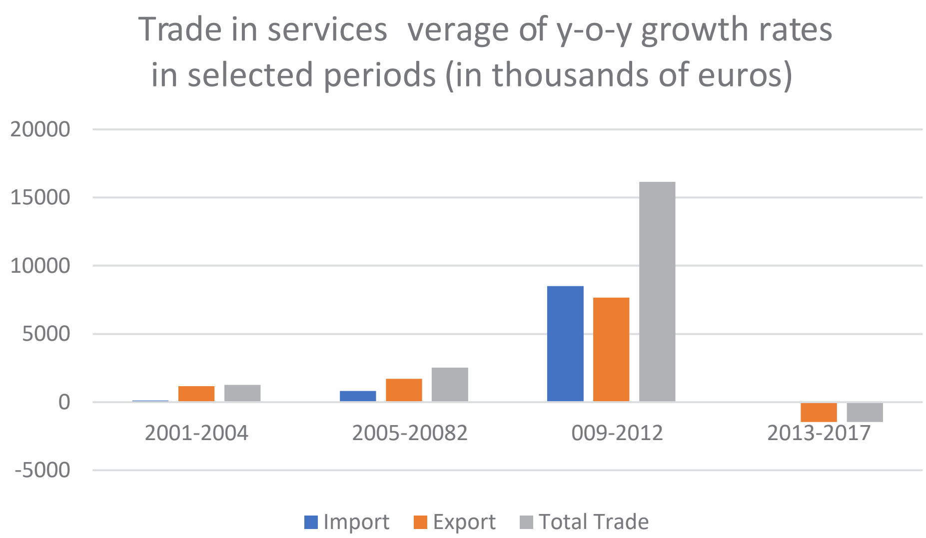

Figure 11: Trade in services - average of y-o-y growth rates in selected periods (in thousands of euros)[158]

158 National Bank of Slovakia. "Bilateral trade in services between Slovakia and Turkey (2000-2017)".

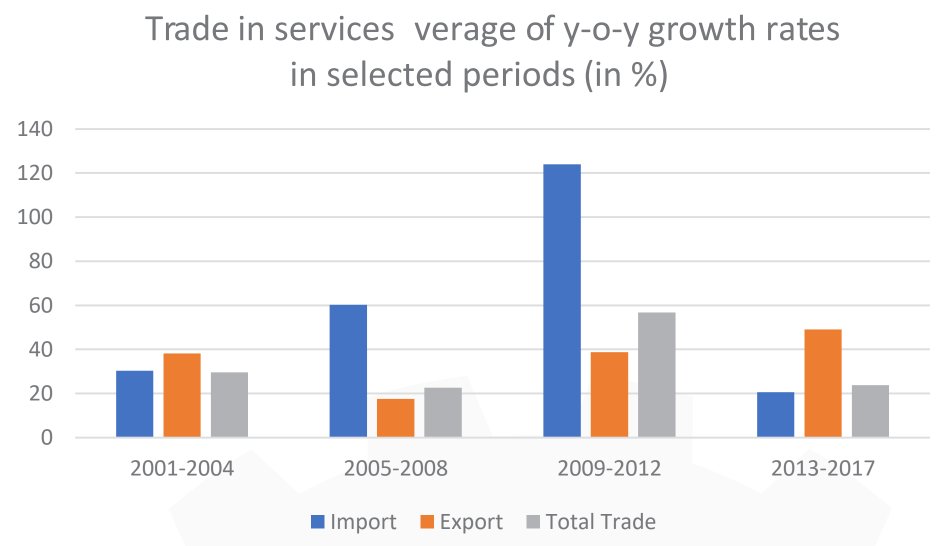

Figure 12: Trade in services - average of y-o-y growth rates in selected periods (in %)[159]

159 National Bank of Slovakia. "Bilateral trade in services between Slovakia and Turkey (2000-2017)".

However, overall, one can observe a significant difference between mutual trade in goods and in services. While goods trade enjoyed more or less steady growth of total numbers, both in case of imports and exports, trade in services was much lower in volume and rising only slowly, with huge volatility. This might reflect the fact that services sector excluded from Customs Union had to deal with more volatile and unpredictable environment not so conducive to business activities as in case of goods trade.

Bilateral FDI Stocks and Flows

Another suitable indicator of mutual trade relations is analysis of FDI. Here, the picture is uneven and trends are not easily discernible. Turkish FDI stocks in Slovakia have been insignificant with exception of 2008, when they reached €137 million. For the remaining period, they have been negative or did not surpass €9.1 million. Slovak FDI in Turkey was non-existent until 2011, when it slightly surpassed €28 million. Between 2012 and 2017, Slovak FDI stocks in Turkey held steady levels between €118 million and €137 million.

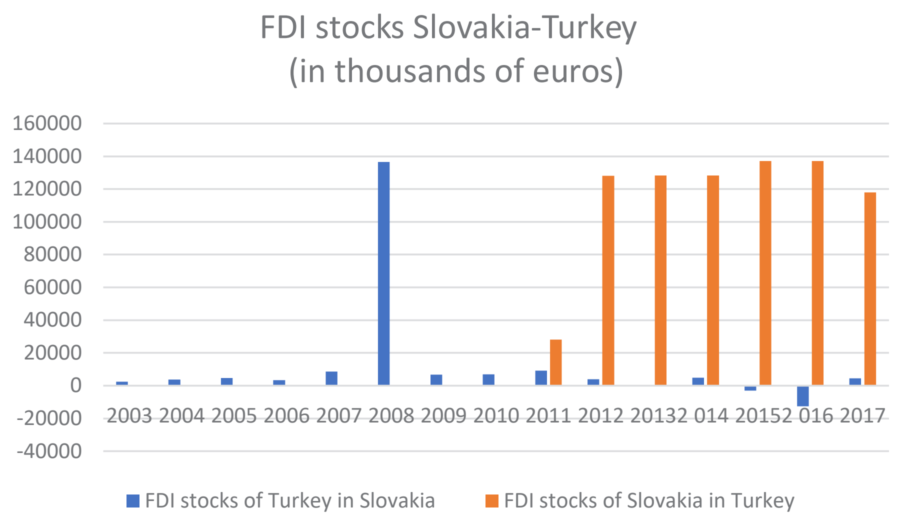

Figure 13: FDI stocks Slovakia - Turkey (in thousands of euros)[160]

160 National Bank of Slovakia. "Foreign direct investments". Data for FDI stocks of Slovakia in Turkey are confidential for 2014 and 2016. For analytical purposes, the same value as in the preceding year 2013 and 2015 was used.

Analyzing FDI flows offers similar picture. Turkey invested in Slovakia around €1.3 million in 2005, i.e. one year after Slovakia's entry into the EU, followed by FDI of €1 million and €3.5 million in 2006 and 2007 respectively. After drop to negative values in global crisis years 2008-2010, FDI inflows to Slovakia recovered in 2011 to €3.5 million, but subsequent years saw unstable values varying from year to year. Similarly to picture of FDI stocks, FDI flows from Slovakia to Turkey were at 0-levels until 2010 and dropped to negative values in 2011. Since then, developments were quite positive and annual FDI outflows to Turkey reached its peak in 2015 with value of almost €22 million

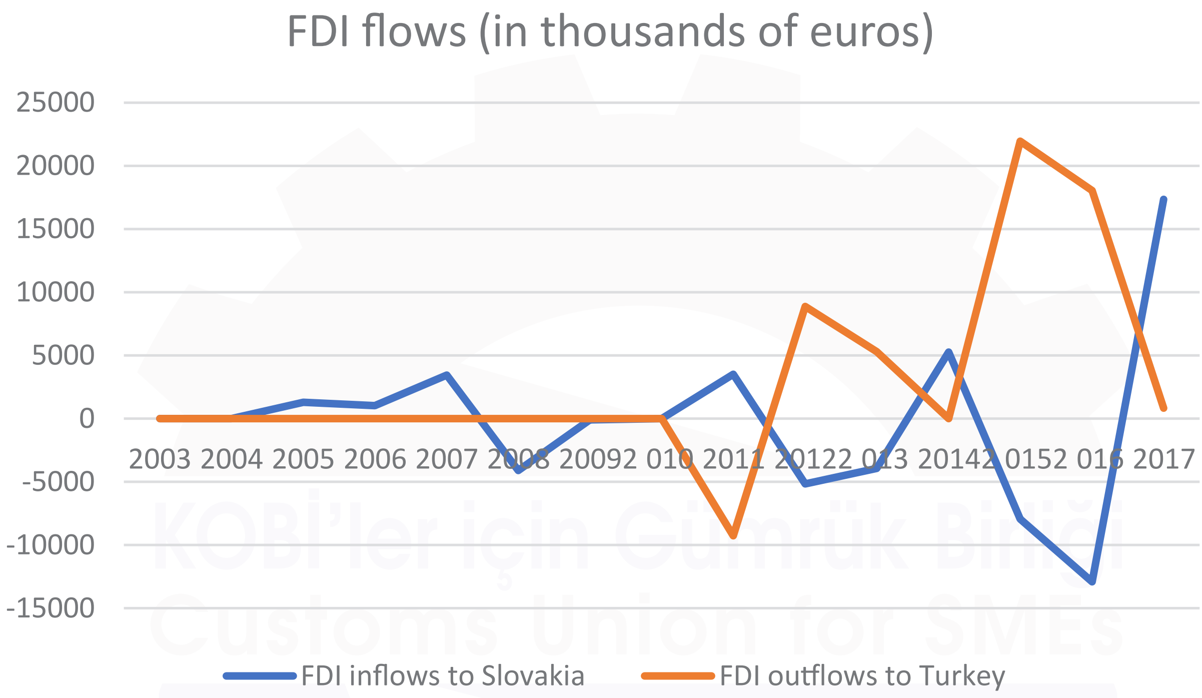

Figure 14: FDI flows (in thousands of euros)[161]

Considering these numbers, it therefore looks that positive impact of EU-Turkey Customs Union on FDI did not have much impact on FDI stocks and flows between Slovakia and Turkey. Turkish FDI stocks in Slovakia remain low during the whole analysed period, indicating that the country might not be the most attractive destination for Turkish investors. Secondly, Slovak FDI properly started taking off only in 2012, several years after provisions of EU-Turkey Customs Union came into effect for Slovakia. It remains to be seen how FDI develops in the future, but inclusion of related provisions into modernized agreement would definitely help boost mutual investment levels by creating more favourable and stable investment environment.

Conclusions on Slovak-Turkish Trade Development

Graphs and numbers presented above indicate some of the following preliminary trends visible from mutual trade, that can be related to our working hypotheses.

Hypothesis 1 - Goods: Volume of mutual trade in goods between Slovakia and Turkey grew after Slovakia became Member State of the EU in 2004.

162 National Bank of Slovakia. "Foreign direct investments". 2014 data for FDI outflows to Turkey were confidential. Value 0 was used for analytical purposes.

Conclusion 1 - Goods: Trade in goods between Slovakia and Turkey has been increasing in total numbers since 2004. This was driven primarily by Slovak exports to Turkey, although in recent years, mutual trade balance gap started closing down.

Hypothesis 2 - Services: Volume of mutual trade in services between Slovakia and Turkey grew after Slovakia became Member State of the EU in 2004.

Conclusion 2 - Services: Trade in services in total numbers was increasing only slightly since 2004 and experienced several ups and downs since 2011. Nevertheless, it is currently at higher levels than in 2004.

Hypothesis 3 - FDI: Volume of bilateral Slovak-Turkish FDI flows grew after Slovakia became Member State of the EU in 2004.

Conclusion 3 - FDI: Turkish FDI stocks in Slovakia remain at very low levels. FDI stocks of Slovakia in Turkey started to grow first in 2011. It is difficult to discern any clear strong trends in FDI inflows and outflows.

To cross-check these findings, this study will also look at additional metrics to determine whether the mutual trade was really growing after the start of application of Customs Union, ergo whether there could be also causality between growing trade between Slovakia and Turkey and Customs Union. In an ideal case, it would be useful to compare equally long time periods before 2004 and after 2004. However, given the lack of data in case of some indicators, following part will look at developments from 2004 to 2017 in terms of growth, compound annual growth rate (CAGR) and linear functions of trade in goods, services and FDI.

Growth 2004 vs. 2017

Levels of mutual trade and FDI in 2004 and 2017 were following (in thousands of euros):

	Year 2004	Year 2017	Change (value)	Change (%)
Trade in goods	377 848 1	248 090	**870 242**	**230%**
Exports to Turkey	205 921	733 840	527 919	256%
Imports from Turkey	171 927	514 250	342 323	199%
Trade in services	9 442	76 914	**67 472**	**715%**
Exports to Turkey	8 085	38 286	30 201	374%
Imports from Turkey	1 357	38 627	37 270	2746%
Turkish FDI stock in Slovakia	3 808	4 572	**764**	**20%**
Slovak FDI stock in Turkey	0	117 948	**117 948**	**n/a**

Table 1: Comparison of mutual trade and FDI values in 2004 and 2017[162]

162 Based on data from Statistical Office of Slovak Republic and National Bank of Slovakia used above

Confirming conclusion 1, trade in goods increased by more than €870 million, where this change was accounted for primarily by Slovak exports (increase of €528 million versus increase of €342 million in imports from Turkey). Thus, overall, trade in goods increased by 230% between 2004 and 2017. Slovak exports to Turkey grew by 256% and Slovak imports from Turkey increased by 199%.

In total numbers, trade in services did not increase as much as trade in goods – it grew only by €67 million. Turkish exports of services to Slovakia nevertheless slightly outstripped Slovak exports to Turkey in their growth (€37 million versus €30 million). Percentage change is much higher given the low value at the starting point – total mutual trade grew by 715%, with Slovak services export changing by 374% and import by 2746%. Therefore, there is the indication that positive benefits of increased trade in goods spilled over also to services sector, in line with existing literature. Customs Union therefore might have had positive indirect effects also on trade in services, benefitting Turkish service exporters even more than Slovak ones.

According to conclusion 3, there were no significant impacts on mutual FDI. As seen from the table above, Turkish FDI stock in Slovakia increased by only €764 000 (20%). Slovak FDI in Turkey grew from nothing to almost €118 million but as mentioned above, the growth started first in 2011 and it is therefore unlikely to be related to the start of application of Customs Union. Nevertheless, in case there were some positive benefits, Slovak investors benefitted more than Turkish ones as total Slovak FDI in Turkey is significantly higher than vice versa.

Compound Annual Growth Rate (CAGR) 2004-2017

Compound annual growth rate (CAGR) expresses mean annual growth rate over a selected period of time longer than a year,[163] i.e. growth rate if the growth had happened at a steady pace. CAGR for trade in goods, trade in services and mutual FDI stocks in both countries are as follows:

163 Investopedia. "Compound Annual Growth Rate: What You Should Know".

	Year 2004	Year 2017	Change (value)	Change (%)	CAGR 2004-2017
Trade in goods	377 848	1 248 090	**870 242**	**230%**	**10.09%**
Exports to Turkey	205 921	733 840	527 919	256%	10.13%
Imports from Turkey	171 927	514 250	342 323	199%	10.03%
Trade in services	9 442	76 914	**67 472**	**715%**	**16.32%**
Exports to Turkey	8 085	38 286	30 201	374%	12.20%
Imports from Turkey	1 357	38 627	37 270	2746%	25.41%
Turkish FDI stock in Slovakia	3 808	4 572	**764**	**20%**	**4.51%**
Slovak FDI stock in Turkey	0	117 948	**117 948**	**n/a**	**n/a**

Table 2: CAGR of mutual trade and FDI values (2004-2017)[164]

164 Based on data from Statistical Office of Slovak Republic and National Bank of Slovakia used above

CAGR shows that trade in goods grew by 10.09% annually, with exports to Turkey and imports from Turkey growing at very similar rate (10.13% and 10.03% annually). Mutual trade in service grew on average annually even faster than trade in goods – 16.32%. Services exports grew by 12.20% and services imports by 25.41%, which are both higher scores than trade in goods. CAGR also confirms statements above that growth in FDI is insignificant.

Trend Functions of Trade and FDI Development

Looking at exponential (and in case of FDI linear) trend functions related to development of mutual trade in goods, services and FDI reveals following picture:

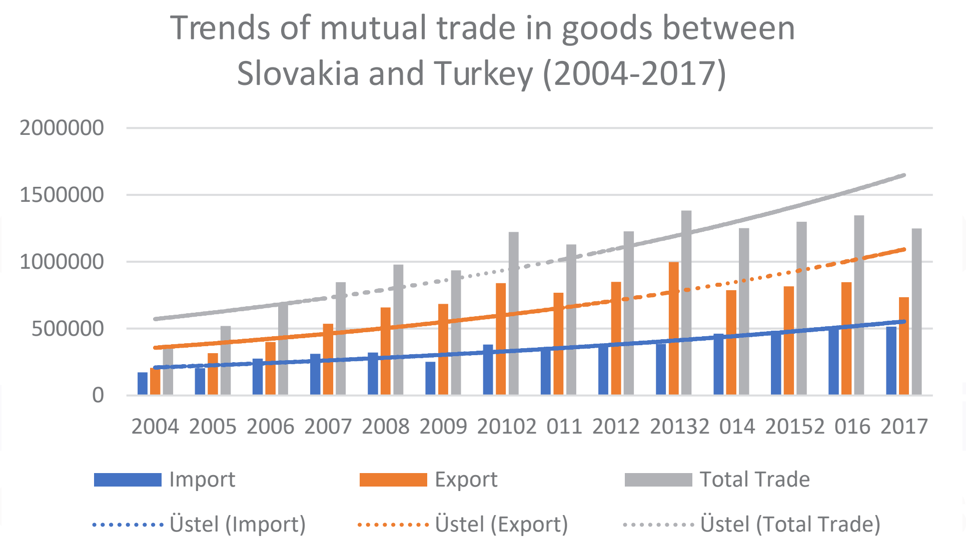

Figure 15: Trends of mutual trade in goods between Slovakia and Turkey (2004-2017)[165]

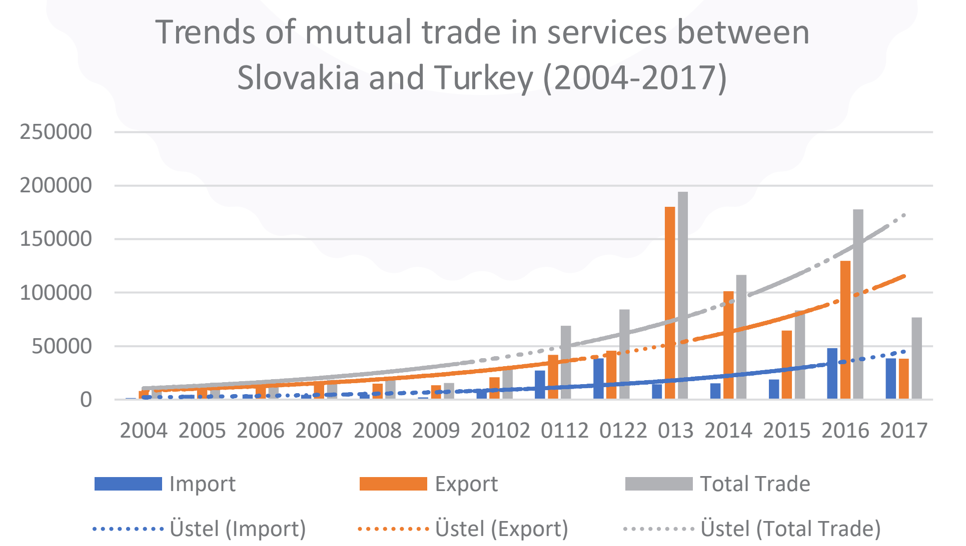

Figure 16: Trends of mutual trade in services between Slovakia and Turkey (2004-2017)[166]

166 Statistical Office of Slovak Republic. "Structure of Foreign Trade selected by countries (FOB-FOB) [zo2006rs]".
166 National Bank of Slovakia. "Bilateral trade in services between Slovakia and Turkey (2000-2017)".

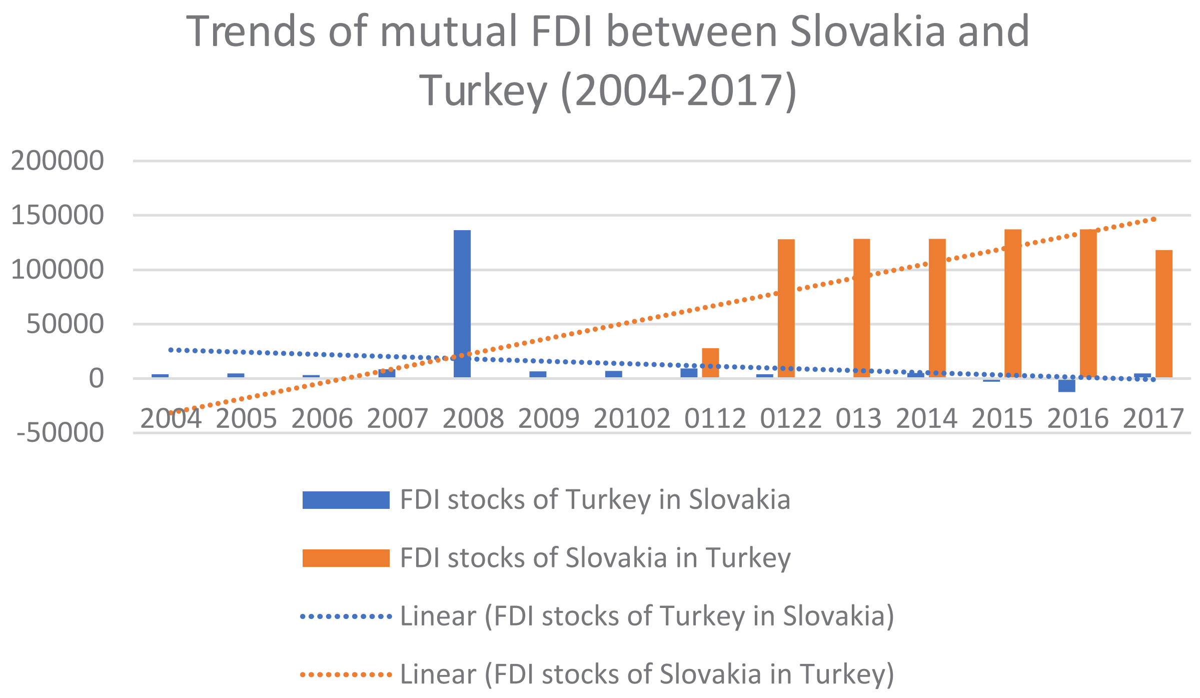

Figure 17: Trends of mutual FDI between Slovakia and Turkey (2004-2017)[167]

These trends are more or less in line with results of CAGR calculations. We can see positive growth of trade in goods and services, with the latter growing on average a bit faster (steeper) although the former is dominant when we look at growth of total numbers. FDI stocks of Turkey in Slovakia show a slightly declining trend whereas the ones of Slovakia in Turkey a rising trend but the results are skewed by the outlier on Turkish side and zero values until 2011 on Slovak side, making it impossible to come with any reasonable conclusions.

From all these tables and graphs above, several final conclusions can be drawn, which should be subject to further verification in future research:

- Mutual trade in goods enjoyed steady and solid growth in both absolute values and percentages. There is therefore likelihood of certain degree of causality with existence of Customs Union
- Trade in services was annually growing on average at faster rate than trade in goods but not so much in absolute values. Compared to goods trade, growth was also less even and more turbulent from year to year. In spite of this, growth of mutual trade in services is a nice surprise given its exclusion from Customs Union provisions. The question remains what the growth rates could have been like if services had been included into the EU-Turkey Customs Union.
- Positive growth in mutual trade in goods and services failed to materialize in mutual foreign direct investments although steady levels of Slovak FDI stocks in Turkey over recent years provide hope that mutual levels of investments could rise in the future. Inclusion of FDI chapter into modernized Customs Union would definitely help this hope to materialize.

167 National Bank of Slovakia. "Foreign direct investments".

SLOVAKIA COUNTRY REPORT

CHAPTER V: CONCLUSIONS

Chapter V: Conclusions

Stakeholder views on trade relations between Slovakia, Turkey and the EU were collected primarily during business roundtable organized on 8 October 2019 in Bratislava, Slovakia. Participants generally welcomed the positive impacts Customs Union has already brought. Businesses especially appreciated e.g. the elimination of customs rates, which enabled e.g. to import clothes and fashion apparel much cheaper and contributed to prosperity of businesses in this sector. Overall, it can be said that Slovak SMEs active in trade with Turkey would welcome further simplification of trade and any common uniform norms that would make bilateral trade and doing business easier. Regarding potential problems and recommendations connected to EU-Turkey Customs Union, key takeaways are as follows:

• Lengthy customs procedures: Some businesses still have to pay VAT in cash when receiving goods at customs point, thus running between customs and local post office and having to deal with large amounts of cash, which is time consuming and potentially risky. This is more of a national level issue but ease of payment of various taxes and fees are definitely burden for SMEs on both sides.

• Non-tarrif barriers at customs related to Certificate of Non-Preferential Origin: Goods in free circulation on the territory of parties to Customs Union are freed from import duties, using ATR.1 document for tariff-free imports. However, at the end of 2018, Turkish customs authorities have implemented a non-tariff barrier requiring all EU imports of goods to be accompanied not only by ATR.1 but also by Certificate of Non-Preferential Origin (at least in case of clothes and machinery). This is complicating the work of EU exporters and also of national bodies authorized to issue this certificate (Slovak Trade and Industry Chamber – SOPK – in Slovakia) as they have not been sufficiently informed about this measure and its legal basis

• Lack of investment information: Turkey and its potential is still unknown as investment destination and more information is needed on both sides. There should be more knowledge and information exchange between Turkish and Slovak public authorities and businesses

• Existence of protective tariffs: There are still hidden fees and tariffs that hamper mutual trade

• Visa liberalization: To move people, and especially qualified workforce, seamlessly across borders the question of visa liberalization is on the table. Businesses working both in the EU and Turkey would hugely benefit from the possibility to easily relocate their workforce where it is currently needed the most.

• Government procurement: Turkish companies have problems participating in government tenders in the EU – common and, most importantly, enforcable rules would bring more competition in government procurements and create new business opportunities for Turkish and European companies

• Inclusion of new prospective areas: Participants of the roundtable would welcome extension of existing Cutoms Union framework with new sectors. One of the areas with high growth potential are social media and data science. Around 50 million Turks out of 82 million are younger than 30 years and that is one of the factors why Turkey is 3rd/4th largest social media user in the world. Thus, these conditions and potential future inclusion of services and data into the modernized Customs Union creates great potential for cooperation and mutual economic growth.

Policy Recommendations

Taking into account current characteristics and performance of Slovak SMEs as well as trends visible from analysis of Slovak-Turkish bilateral trade in goods, services and FDI, several policy challenges are lying ahead. In order to help Slovak SMEs succeed in international trade, including in trade with Turkey, there are numerous measures that could be considered. In addition to domestic policies, which would increase competitiveness of local SMEs, Slovak policy makers should also actively engage and drive forward the push for modernization of EU-Turkey Customs Union, so that Slovak SMEs could fully benefit from the untapped potential of the Turkish market. Several specific recommendations can be therefore drawn from the analysis above with regards to approach to effective support of SMEs on national level as well as support of SMEs in the EU-Turkey Customs Union modernization process.

General Policy Recommendations Concerning SMEs

1) Decrease the bureaucratic burden of SMEs: Continue implementing structural measures reducing bureaucracy and digitizing administrative procedures. With uncertain economic times ahead, SMEs will need to use efficiently all their resources at their disposal

2) Simplify system of taxes and levies, consider reducing rate where possible: This will leave SMEs with more time and money left for investments. Effectiveness of goods market is namely hampered by complicated tax and customs system, special tax regimes and subsidies harming competitive environment. Slovakia has got the tenth highest tax burden among EU and EFTA countries reaching 49.7%.

3) E-government: Further digitization of tax administration and e-Government services is necessary. Communication between businesses and state should be digital and state should not require any information and documents from businesses that it already has in its databases. All of this will save SMEs time.

4) Make labour regulation more flexible and fit for digital age as well as employment of people from other countries: Labor market struggles with insufficient flexibility of labor relations, low mobility of workforce and high barriers for employment of third country foreigners. 47.3% of SMEs with annual turnover between €50 000 and €20 000 said they had to reject contract offers due to lack of workforce.

5) Reform educational system: Slovak economy is based on industry. The future of work will require better knowledge of modern technologies and STEM. Slovakia will therefore need a radical overhaul of educational system to prepare future workforce fit for the demands of employers. If Slovakia focuses on policies supporting the digital sector, size of Slovak digital economy could grow from €4.8 billion to €20.9 billion by 2025

6) Continue strengthening rule of law and predictable legislation: SMEs complain about low levels of law enforcement or independence of judiciary and police. Effective enforcement of rules are key for businesses to have trust in the system they operate in as well as to attract foreign investors. New laws with significant economic impact cannot be hastily adopted without prior discussion with business representatives.

7) Help participation of SMEs in public procurement: Business representatives call on ex ante publishing of low value tenders, which would facilitate participation of

SMEs in public procurement and improve competitive environment.

8) Support R&D&I: In 2016, only 29% of SMEs were undertaking innovative activities. Companies wishing to do research and innovate their products and processes must therefore have access to sufficient financial support, which should not be administratively difficult to get. Otherwise we cannot expect SMEs to be willing to jump over bureaucratic hurdles. Slovakia is already now falling far behind other countries on indicators such as innovations or cooperation between R&D subjects – the whole support system thus has to be smart and efficient. Innovations would also help Slovak SMEs to improve their labour productivity, which is one of the worst in the EU.

9) Speed up construction of transport infrastructure: Only 5.5% of SMEs were engaged in export activities and 91% of exports went into the EU. This confirms local/regional ties of Slovak SMEs. Therefore, proper roads and railways enabling fast and safe transport is essential for effectiveness of their business.

Policy Recommendations Related to Modernization of the Customs Union

1) Support further elimination of non-tariff barriers in mutual trade in goods: Requirement of additional import certificates without legal basis complicates trade on both sides. Trade has to be based on clear and enforceable rules

2) Support comprehensive inclusion of services and other economic sectors: Compared to large companies, Slovak SMEs have the most significant share on total exports in services sectors - administrative and support (99.9%); HORECA (99.9%); finance and insurance (98.4%). Regarding imports, SMEs dominate in sectors such as HORECA (98.5%); agriculture, forestry and fisheries (98.4%); and construction (94.4%). In case of import of commodities, Slovak SMEs prevail over large companies most significantly in food products (65.3%). From these numbers it is evident that Slovak SMEs prevail in areas not covered by the Customs Union yet. Moreover, there are areas such as social media and data science where mutual cooperation could bring further growth

3) Push for introduction of chapter on FDI: Positive spillover effects from Customs Union failed to materialize in increased FDI, at least in direction from Turkey to Slovakia. Clearer common rules and more information could help attracting investors on both sides.

4) Push for introduction of chapter on public procurement: If SMEs on both sides had chance to participate in open and competitive government tenders, this would bring more competition in government procurements and create new business opportunities. Clear and enforced rules are essential in this regard.

5) Solve visa issues: Free movement of people is a prerequisite for thriving businesses in one economic area. Facilitating transfer of workers between EU and Turkey by eliminating visa requirements would help businesses and take the administrative burden away from public servants issuing visas as well

Conclusions

In spite of many positive developments Slovak businesses are not happy with current state of business environment. Bureaucracy, high tax and levy burden, lack of qualified workforce or constantly changing legislation are one of the main problems cited by companies in Slovakia. These problems can also be one of the reasons why Slovak SMEs are among the least internationalized in the EU, as their capacities are eaten up by bureaucracy. This is relevant also in relation to EU-Turkey Customs Union. Despite their low level of internationalization, Slovak SMEs can be one of the biggest winners of modernized Customs Union since they dominate in sectors not covered by existing agreement – namely services or agriculture. It should therefore be also in Slovakia's interests to advocate for modernization of Customs Union on EU-level. From the data analysis of mutual Slovak-Turkish trade, several final conclusions can be drawn, which should be subject to further verification in future research:

- Mutual trade in goods enjoyed steady and solid growth in both absolute values and percentages. There is therefore likelihood of certain degree of causality with existence of Customs Union

- Trade in services was annually growing on average at faster rate than trade in goods but not so much in absolute values. Compared to goods trade, growth was also less even and more turbulent from year to year. In spite of this, growth of mutual trade in services is a nice surprise given its exclusion from Customs Union provision. The question remains what the growth rates could have been like if services had been included into the EU-Turkey Customs Union.

- Positive growth in mutual trade in goods and services failed to materialize in mutual foreign direct investments although steady levels of Slovak FDI stocks in Turkey over recent years provide hope that mutual levels of investments could rise in the future. Inclusion of FDI chapter into modernized Customs Union would definitely help this hope to materialize.

This confirms that even a small country like Slovakia benefits from existence of Customs Union. It remains to be seen what the future holds for mutual trade relations between Turkey and the EU. However, as has been proven many times before, free trade leads to better allocation of resources and prosperity. There is a lot at stake for Slovak, Turkish and European businesses. Policy-makers should therefore adopt ambitious and long-term vision regarding the future modernization of EU-Turkey Customs Union so that both sides can draw economic benefits and boost prosperity of their people.

Türkiye - AB Gümrük Birliği Çerçevesinde Türkiye ve AB Ülkelerindeki KOBİ Rekabetçiliği

Within the Customs Union, Competitiveness of SMEs in Turkey and EU Countries

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TURKEY COUNTRY REPORT

ANNEX I - TURKEY STUDY VISIT REPORTS

ANNEX I - TURKEY STUDY VISIT REPORTS

Study Visit Report: Ali Avcı

Interviewee: Ali Avcı

Sector: Logistics

Date: 3 September 2019

Location: Digital Transformation Center

Within the scope of the "Customs Union for SMEs" Project, we interviewed Mr. Ali Avcı who is representing the Logistics Sector. Born in 1956, Ali Avcı is the President of CeyGroup, a group that provides services in fields of transportation, storage, storehouse, container terminal, port services, and clearance. CeyGroup also invests in combined transportation, international port management and environmental services. Mr. Avcı attends conferences organized by universities and relevant organizations both as a lecturer and as an active participant. He has membership in several business organizations such as Turkish Enterprise and Business Confederation (TÜRKONFED), and Turkish Industry and Business Association (TÜSİAD). He is currently the President of Federation of Sectoral Associations (SEDEFED). We asked Mr. Ali Avcı;

- what the main problems are within the current Customs Union for the Logistics Sector,

- if there were any bottlenecks in the Logistics Sector resulting from the lack of modernization of the Customs Union,

- what they expect from the modernization of the Customs Union,

- if he had any suggestions on how to benefit from this process and increase the competitiveness of SMEs.

Below, we present Mr. Ali Avcı's response: "In the 1970s and 1980s Bulgarians were leading the road transport in the region. Today, Turks are leading the road transport. To give you an overview, we first encountered problems with the tariffs at the borders. We found an alternative solution to this and via intermodal transportation we would ship the trucks to Italy and from Italy the goods would travel to ther final destination, for example to Germany, the Netherlands, etc. After a while we encountered problems there too. We came up with new solutions to emerging problems and have come this far. Currently, road transportation is the most practical way of transportation. However, it is expensive, because there are tariffs. Another problem is that our goods are allowed but they don't allow the trucks carrying the goods cross the border. Visa is another barrier in the Logistics sector. We have to apply for visa at least 2-3 weeks prior and we wait for additional 10 days to get the visa. How are we supposed to make good business if we lose so much time for the visa?

90% of the equipments and machines we use in the Logistics sector are exported from the EU countries. Prices we apply at harbours are competitive prices. When transporting goods to EU countries from Turkey, we have a railway crossing all the way from Turkey to Germany. We have advantages in marine, road and railway transport. We are not very active in terms of e-trade, but we are also not bad at airline transport. The quality of our services are much better because we transport in time, under favorable conditions and economically. We do business with low profit and low cost; our profit margin is lower. We are also leading the sector in terms of fleet, flexibility, storage and storehouse.

In Turkey, the Logistics Sector consists of both small, and medium sized enterprises, but there are more medium-sized enterprises than small-sized enterprises in our sector. Some of the small-sized enterprises faded out as a result of increase in scale and monopolization. Another reason for the small percentage of small-sized enterrises is that their product standards are not compatible with EU standards. To comply with the EU standards, they should be prompt, they should employ more people and make no compromises on the job. The deepening of Customs Union results in a transition from small-sized to medium-sized enterprises.
What needs to be done for SMEs in the Logistics sector within the Customs Union is that we need transportation without restrictions. We need facilitating measurements, abolition of quotas, improvement in visa procedures and in tariffs (free movement of both goods and services, visa liberalization, etc.) Transport of services should be facilitated as well. If such improvements are made, the Logistics sector can reach to its capacity and the SMEs will benefit from the Customs Union more effectively.

SMEs should also be able to follow up on legislations from both sides. They should have access to the most recent and relevant rules, legislation changes, and information on the Customs Union. SMEs should work with expert in order to access relevant information, but they don't know any experts to work with, how can they find the right person? We need reliable information channels and administration channels where there is constant flow of information.

In terms of investments, we do not have any restrictions and can invest in Europe, start a business in Europe, invest in partnerships, and open franchises in Europe.
As the SMEs in Logistics Sector, we are in favor of the modernzation of Customs Union and we ask for services to be included, as well as for solutions to the above-mentioned problems."

Study Visit Report: Sefa Targıt

Interviewee: Sefa Targıt

Sector: Machine Manufacturing

Date: 10 September 2019

Location: Digital Transformation Center

Within the scope of the "Customs Union for SMEs" Project, we interviewed Mr. Sefa Targıt who is representing the Machine Manufacturing Sector. Having graduated from the Faculty of Mechanical Engineering from Istanbul Technical University, Mr. Targıt worked in the construction sector after his graduation and since 1992 he has been manufacturing elevator components in ASRAY. He is both Company Partner to and the Director General of ASRAY. Mr. Targıt has memberships in several business organizations such as the Turkish Enterprise and Business Confederation (TÜRKONFED), and the Federation of Sectoral Associations (SEDEFED).

We asked Mr. Sefa Targıt;

- what the main problems are within the current Customs Union for the Machine Manufacturing Sector,
- if there were any bottlenecks in the Machine Manufacturing Sector resulting from the lack of modernization of the Customs Union,
- what they expect from the modernization of the Customs Union,
- if he had any suggestions on how to benefit from this process and increase the competitiveness of SMEs.

Below, we present Mr. Sefa Targıt's response: "In Turkey, the Machine Manufacturing sector is mainly composed of SMEs.

Since the 1995, with the Customs Union, we have harmonized our technical legislation with that of the EU. This has of course cleared the way for SMEs in our sector and resulted in more foreign investment from EU countries to Turkey. However, without the visa liberalization foreign trade to EU is hindered. We face difficulties when acquiring visa for company employees. As we are in the business of machine we also provide mounting services, maintenance services, etc., which means we need to send the necessary personeel to the countries we export to. We need the service sector included in the Customs Union, otherwise we cannot benefit from the Customs Union efficiently. This is a crucial barrier in our sector.

The very same problem also causes SMEs in our sector to fall behind on becoming high-tech companies. Because we have difficulties in sending our employees abroad either for technical services or for networking purposes (fairs, etc.) there is less information exchange, less examples of practices seen, less chances to see different technologies used in the business.
The current Customs Union is a 25-years-old agreement and it does not (and cannot) meet our needs today. If the services were included in the Customs Union, we would benefit more from the global supply chain as SMEs.
Other barriers important barriers causing SMEs not to be able to export more are; access to finance (for example, in Germany there are Hermes credits, whereas in Turkey we do not such credits available), lack of sustainable and cheap enegy resources and lack of trade finance. We should also mention that the Free Trade Agreements between the EU and other countries, such as MERCUSOR countries, are downsizing our business in the EU and it affects our sector negatively.As the SMEs in Machine Manufacting Sector, we are in favor of the modernzation of Customs Union and we ask for services to be included, as well as for solutions to the above-mentioned barriers."

Study Visit Report: Selçuk Gülsün

Interviewee: Selçuk Gülsün

Sector: Plastics Sector

Date: 13 September 2019

Location: Tisan Engineering Plastics

Within the scope of the "Customs Union for SMEs" Project, we interviewed Mr. Selçuk Gülsün who is a representative of the Plastics Sector from Tisan Engineering Plastics. Having graduated from the department of economics at Uludağ University, Mr. Gülsün worked in the compound and high tech plastics sector since 2001 in Tisan as a Deputy General Manager and an executive board member. He is also the chairsperson of Plastics Industrialists Association, (PAGDER). Mr. Gülsün has

memberships in several business organizations in various capacities such as Plastics Industrialists Association (PLASFED), Housewares Federation (EVFED).
We asked Selçuk Gülsün the following questions:

- what the main problems are within the current Customs Union for the Plastics Sector,

- if there were any bottlenecks in the Plastics Sector resulting from the lack of modernization of the Customs Union,

- what they expect from the modernization of the Customs Union,

- if he had any suggestions on how to benefit from this process and increase the competitiveness of SMEs.

Below are the Selçuk Gülsün's responses in mixed order:

"Plastics sector goes back to 1950s in Turkey while Tisan goes back to 1974. Since PETKİM, Turkey has not made enough investments and today it has become dependent on outside raw material sources. This dependency is 85-88 %.
In addition to that, another problem in Turkey is the lack of integrated plants and the lack of advancement in the chemistry part of the business. We support the modernization of the Customs Union. The current Agreement needs to be improved because it does not meet our needs. When buying supplies from the Middle East we pay 6.5% tax because of the Customs Union. Same rules should apply to the EU (tbc). Important sectors should have privileges.
Following the EU-South Korea FTA, Turkey also signed a Free Trade Agreement with South Korea which has had a positive impact on the export. We can buy supplies from South Korea without paying 6.5% tax. The EU should involve Turkey to the agreements it signs.
Turkey should act as a member of the Union minus the EU membership rights, it should have its seat at the table when the EU signs Free Trade Agreements with the 3rd World Countries."

Study Visit Report: Ozan Diren

Interviewee: Ozan Diren

Sector: Beverage-Agriculture

Date: 16 September 2019

Location: Phone Interview

Within the scope of the "Customs Union for SMEs" Project, we interviewed Mr. Ozan Diren who is representing the Beverage-Agriculture Sector. Ozan Diren leads Turkey's first local-capital fruit juice and a one of Turkey's leading beverage brands, DİMES.
Diren started working for DİMES in university years, taking responsibilities at every level and in every corporate department. Meanwhile he pursued his academic training, graduating from İTÜ as an Industrial Engineer, prior to receiving a post graduate Marketing diploma from the University of Hartford. Later, he completed Finance advanced specialization program at İstanbul University's Institute of Corporate Economics.

Parallel to the corporate vision and the development competitive environment, Ozan Diren spearheaded the formation of Nobel Pazarlama Ltd. within the DİMES group, and he has become the company's first General Manager. In 2011, Diren is appointed as DİMES CEO.

Apart from TÜRKONFED, Ozan Diren is a Board Member in MEYED and he is involved at ŞÜD, TGDF, TÜSİAD, ASÜD and SETBİR.

We asked Mr. Ozan Diren;

- what the main problems are within the current Customs Union for the Food Sector,

- if there are any bottlenecks in the Food Sector resulting from the lack of modernization of the Customs Union,
- what the sector expects from the

modernization of the Customs Union,

• if he had any suggestions on how to benefit from this process and increase the competitiveness of SMEs.

Below, we present Mr. Ozan Diren's response: "There are export incentives regarding the Agriculture Sector in Turkey, which I predict in time these incentives will be abolished bilaterally (EU-Turkey). Regarding this issue, we, as the Juice Industry, have a position: The incentives given directly to farmers could be implemented on the product they sell to the industry. This would be an important advantage. The incentives' mechanism could be reorganized in a way that the agricultural products such as the cherries, apples, oranges are not exported but their value added versions are exported. The incentives should be implemented on the value added product. If we can have this incentive chain in export we can reach the EU standards and we can protect the competitiveness of the agriculture sector.

We need a modification in the incentives' mechanism: The farmer sells his product to a company where the product will be processed. The company provides the farmer with a producer receipt and the farmer can receive direct incentive per product he sold. Within this system the farmer is registered and follows the necessary product regulations, he gets incentives but he is also forced to be registered in the Farmer Registration System (ÇKS). The companies within that system are also registered and comply with the necessary standards and procedures, so when they enter the export market the image of Turkey is protected, the companies operate in quality.

We need to give the incentives to the farmers upon the products they sell to companies which will process these products and then export to the EU. We don't need incentives to export oranges, but we need incentives to produce and export orange juice. We support the selling process while we define the seller and the buyer. This mechanism is applied in the Dairy Sector, but not in the Beverage Sector."
Pelin Dilek Yenigün: "Why is the Dairy Sector is defined to be the most inefficient and is expected to create the highest foreign trade deficit?"

"That results from a different issue. Our dairy sales to the EU require dispensation because of brucella issue in our farms. The majority of the milk we sell to the EU today (Pınar, etc.) is processed in the EU. We cannot carry the milk we have here to the EU, it needs to be processed there. When we pasturize the milk the brucella doesnot exist anymore but the EU does not recognize that. If this problem can be solved, we can expect a substantial increase in dairy export. Here the government can start implementing a program which will inform the farmers on how to fight against brucella and other diseases. If we give 10 liras incentive to milk producers, we can give 15 liras incentive to those who produce milk that complies with the EU standars.

On the other hand, there are some controlled markets (kontrollü piyasalar). Sugar is one of the most important markets regarding that. The liberalization in the EU is now completed. Sugar's cost per ton has dropped to $400 in the EU, whereas this amount is $1.100 in Turkey. This results from the fact that in Turkey it is a controlled market, but in the EU it is a liberal market. This is in our disadvantage in terms of competitiveness. We either liberalize the sugar market, or we need a long-term exportation solution; it can be incentives, or the government can introduce quotas to sugar companies. The incentives are distributed to wrong channels.

We need a roadmap to involve the Agriculture Sector in the Customs Union."

Study Visit Report: Hüseyin Öztürk

Interviewee: Hüseyin Öztürk

Sector: Textile/Ready-made Clothing Sector
Date: 16 September 2019

Location: Rapsodi Socks and Textile Industry

Trade Co. Ltd./Beylikdüzü, Istanbul Within the scope of the "Customs Union for SMEs" Project, we interviewed Mr. Hüseyin Öztürk who is representing the Textile/Ready-made Clothing Sector. Hüseyin Öztürk was born in Kars in 1965 and after 1982 he entered the socks sector in the family business since 1982 and until 2004 he started to produce socks and yarn.

Production and import-export continued in his own company which he established in 2004. As of 2006, Hüseyin Öztürk, which has also added the Rapsodi brand, continues its activities in the sector of socks as a producer, importer and exporter. Many civil society organizations, founder and executive served as Ozturk, Hosiery Manufacturers Association is the only umbrella organization of the hosiery industry in Turkey Society (ETS) since 2012 in June in conjunction with the presidential Fashion and Apparel Federation (TMHGF) doing Presidency.

We asked Mr. Hüseyin Öztürk;

- what the main problems are within the current Customs Union for the Textile Sector,
- if there were any bottlenecks in the Textile Sector resulting from the lack of modernization of the Customs Union,
- what they expect from the modernization of the Customs Union,
- if he had any suggestions on how to benefit from this process and increase the competitiveness of SMEs.

Below, we present Mr. Hüseyin Öztürk's response:

"When the Customs Union between the EU and Turkey was signed and the Agreement entered into force, the Textile Sector was affected negatively in the beginning but we managed the process fast and increased our competitiveness. In 1995, our sector's export valued \$8.3 billion (\$6.2 billion Ready-made Clothing, \$2.1 billion Textile). The EU's share in our export was 64%, the share of textile and ready-made clothing sector in overall export was 43%.

Today, the EU's overall export values \$2,2 trillion and Turkey's share in that is 3.8 % with \$84.3 billion. The EU's overall export in Ready-made Clothing values \$104 billion and Turkey's share in that is 11.5% with \$12 billion. The EU's overall export in Textile values \$21 billion and Turkey's share in that is 17.9% with \$3.7 billion. Turkey is the EU's third largest supplier in Ready-made Clothing after China and Bangladesh. Turkey is the EU's second largest supplier in Textile after China. As of the end of 2018, 71% of our \$17.6 billion-worth Ready-made Clothing export goes to the EU countries and 40% of our $8.5 billion-worth Textile export goes to the EU countries.

These numbers suggest that since the customs walls between the EU and Turkey have been lifted in 1995, our Textile and Ready-made Clothing Sector has strongly increased its competitiveness and capacity.

However, when our advantages in closeness to the market, experience, communication, expertise and skilled labour are considered, Turkey's share in the EU market is not enough. In the Ready-made Clothing Sector, the investment value is low, the employment and added value in export are high, it is a local sector with 100% domestic capital and it is the number 1 sector with the highest foreign trade surplus. Hence, the Sector should be considered as the most strategic sector in the modernization of the Customs Union.
Our biggest obstacle is the floating exchange rate which results in losses in sales. We need fixed rates for our business. We don't have quota problems or visa issues, but because of the floating exchange rate there is price pressure.

We support the Modernization of the Customs Union and not a Free Trade Agreement between the parties. A Free Trade Agreement with the EU would put us in a 3rd World Country position and eliminate the advantages a Modernized Customs Union would provide us with. We should protect the advantages we have under the current Customs Union and maximize them under a Modernized Customs Union. The EU's FTAs with other countries have a negative impact in our Sector despite the advantages Turkey has (closeness to the market, experience, communication, expertise and skilled labour). In a modernized agreement we should be able to eliminate these negative impacts.

In the modernized Customs Union the Parties should develop solution-creating mechanisms against possible problems that would result from the fact that Turkey does not participate in decision-making processes because it is not a Member State. Possible scenarios regarding that should be discussed as well."

Study Visit Report: Tuğrul Baran

Interviewee: Tuğrul Baran

Sector: Glass

Date: 17 September 2019

Location: Phone Interview

Within the scope of the "Customs Union for SMEs" Project, we interviewed Mr. Tuğrul Baran who is representing the Glass Sector. Born in in Kütahya in 1973, Tuğrul Baran took his BA degree from Istanbul Technical University Electrical Engineering Department.
Baran, who started to work as Electrical Engineer at LAV brand that produces glasses for home, took charge in many departments such as production and sales. Since 2012, he continues his position as General Manager. He studied on Quality Management Systems, Production and Care Management, Sales and Marketing Strategies actively and he has position as Board Member of TÜRKONFED, KALDER, KOSBİAD; works at TOBB Glass Products Industry Council and 1st OSB Entrepreneurship Board.

We asked Mr. Tuğrul Baran;

- what the main problems are within the current Customs Union for the Glass Sector,
- if there were any bottlenecks in the Glass Sector resulting from the lack of modernization of the Customs Union,
- what they expect from the modernization of the Customs Union,
- if he had any suggestions on how to benefit from this process and increase the

competitiveness of SMEs.

Below, we present Mr. Tuğrul Baran's response: "Turkish glass companies are one of the biggest producers: Paşabahçe ranks as the 3rd biggest glass company in the world and LAV ranks as the 5th biggest. One of the problems we face currently is that by the second half of the year transportation quotas start to diminish and finding ground shipment to Europe becomes challenging. Hence, we cannot sell as many products as we could because of the quota. We expect the elimination of the quotas in ground shipment.

We also face illicit trade practices by some household electrical appliances companies (Tefal, etc.). Some of these companies produce the products in China, then the product enter Europe, for example Romania, and gets tagged there and then it enters Turkey. Such illicit trade practices should be eliminated.

Let me tell you another story: The biggest business fair in our sector takes place in Frankfurt. 2-3 years ago we reported and had a Saudi Arabian glass company's fairground shut down because we saw that they imitated our patented products. A year later, we saw that a Greek glass company did the same thing and imitated our patented products. We reported the situation to the poliçe again and because it was an EU-member state they sent policeman in plain clothes and the Greek company was only given a warning and asked to remove the products from their fairground. Intellectual and industrial property rights should be protected whether with the modernization of the Customs Union, or through some other platform.

Turkey and Mexico has started Free Trade Agreement talks, however Mexico is having cold feet because they already have an FTA with the EU. On the other hand, Turkey is exporting to Mexico as a third world country and we pay 15% tax. Turkey should be included in the FTAs the EU signs with third world countries.

In the Glass Sector, most of the SME managers/owners have limited education, they lack sufficient foreign language skills, they want to enter the EU market and export but they cannot transform their enterprises and comply with the necessary standards to exist in the European market. Even though they do not know how to find their way to the EU market, since the Customs Union most of the SMEs want to be part of the EU market which is more stable and reliable compared to other markets such as the Middle East. For SMEs to benefit more efficiently from the Customs Union it would be beneficial if they were supported with joint fairs(ortak fuarlar) and joint sale rings (ortak satış teşkilatları). I can give an example from Brazil-China regarding this point: The two countries established a platform and Chinese SMEs supported by the Chinese Government create a portfolio and establish companies in Brazil and sell their products.

We also look at the manufacturig costs of European companies ans see that they cannot grow in size, some of them change hands and some of them gets sold. In addition to that, Turkey has the Customs Union and logistics advantage compared to its competitors in Iran and Egypt. With these factors combined, Turkey is the right place for the EU and can become the glass manufacturing centre in the EU market. We should encourage more investments to achieve this goal."

- Elimination of the ground shipment quotas.

- EU should include Turkey to its FTAs signed with third world countries.

Study Visit Report: Serpil Veral

Interviewee: Serpil Veral

Sector: Dairy

Date: 20 September 2019

Location: Sütaş Headquarters, Dudullu

Within the scope of the "Customs Union for SMEs" Project, we interviewed Mrs. Serpil Veral who is representing the Dairy Sector.

Serpil Veral serves as the Deputy Chairman of the Board of Directors of Sütaş Inc., the leading brand in milk and milk products sector in Turkey. Serpil Veral received her Bachelor's degree in Food Engineering from Ege University. In 1988, she started working at Sütaş Süt Ürünleri A.Ş. as food engineer and until 2005 she served consecutively as Production Manager, Quality Assurance Coordinator and Director for Production. In 2005, she led the setting up, optimisation and reengineering of Human Resources, IT and other management systems in line with Sütaş Group's vision, mission and restructuring strategies.

Serpil Veral served as the General Manager of Sütaş Süt Ürünleri A.Ş. between 2010-2016. Serpil Veral, the Deputy Chairman of the Board of Directors of Sütaş Inc., is a member of Turkish Industry and Business Association (TUSIAD), Corporate Governance Association of Turkey (TKYD), Turkish Milk, Meat, Food Industrialists and Manufacturers Association (SETBIR) and Turkish Quality Assocation (KALDER).

We asked Mrs. Serpil Veral;

- what the main problems are within the current Customs Union for the Dairy Sector,
- if there were any bottlenecks in the Dairy Sector resulting from the lack of modernization of the Customs Union,
- what they expect from the modernization of the Customs Union,
- if she had any suggestions on how to benefit from this process and increase the competitiveness of SMEs.

Below, we present Mrs. Serpil Veral's response: "The dairy sector is not included within the current Customs Union. We export Kashar cheese to the EU under a limited quota and the EU exports us Cheddar cheese and butter in return.

Today, the agriculture and livestock sectors are not ready for the Customs Union. There is a waste of resources in productivity and a lack of qualified labour force in Turkey. The reason why Turkey has not benefitted from the Customs Union as much as the EU is because the policies and regulations in Turkey were left uncontrolled. We are behind regarding technological advances and we are behind regarding quality management systems. Allocation efficiency is low and the lack of control mechanisms of incentive policies creates an adverse effect on productivity, hence on the competitiveness.

Where do the government incentives go? Are they used for the right purposes? What else is needed beyond the incentives for productivity and competitiveness? These are the questions that the government should ask itself and check regularly.

Whether we are in the Customs Union or not, we should regard the EU standards first as our guideline for improving our sector, for improving the quality of our products. We failed to make an action plan. We want to enter the EU market, we want a modernized Customs Union, but our milk quality stays below the EU standards, we lack raw material, we lack qualified labour force, we lack awareness, etc. In order to show people that they can make money from livestock breeding we (Sütaş) went to Anatolia and established facilities, we trained the countrymen on livestock breeding and raised their awareness, we supported the young people from these villages who studied on livestock breeding and offered them traineeships. In the meantime, we saw that the animals weren't fed properly. We then focused on that issue and established feed factories. We sold our feed to the countrymen we bought the milk from. Hence, we enhanced the quality of our milk.

What I am trying to say is that the issue is to show the right model to the people and raise awareness. Despite all our efforts, we still import feed. If the government supports us, talk to the countrymen and say these are the rules and you have to abide by them, we can be more productive. We do not produce technology either. If we were to enter the Customs Union now, we would be very much challenged.

As the dairy sector, we support the modernization of the Customs Union and say no to Free Trade Agreement because it will be a huge set back for Turkey. We want the dairy sector to be included in the Agreement but with the condition that we would need 5-10 years of transition process for harmonisation purposes. During this period we would need EU incentives. Since our sector depends on the agriculture and livetock sectors we first need those sectors to be included in the Agreement and the standards enhanced by the EU regulations. Then we should talk about the dairy sector, because without the good quality in milk, without the feed raw material, without efficiency in agriculture and livestock breeding there can be no competitive dairy sector.

We should see the Customs Union as a leverage to raise our own standards and enhance our own competitiveness first and each ministry should come up with its own action plan to reach the end goal which is a competitive and productive Turkey that complies with the EU standards and is fully ready for the Customs Union.

Key points:

- Supervision of incentives,
- Agriculture, livestock and dairy sectors to be included under the condition of an EU-supported transition period,
- Action plan(s),
- Raising awareness,
- Showing the right model to the people, educating from the root,
- Government-private sector cooperation,
- EU standards (Customs Union) as a guideline first.

Study Visit Report: Faruk Ekinci

Interviewee: Faruk Ekinci

Sector: Iron-Steel

Date: 20 September 2019

Location: Ekinciler Holding, Maslak/Sarıyer

Within the scope of the "Customs Union for SMEs" Project, we interviewed Mr. Faruk Ekinci who is representing the Iron-Steel Sector.

On 1949, Faruk Ekinci was born in Ceyhan, Adana. He completed his primary, secondary and high school education within Ceyhan and Adana. He graduated from Yildiz Technical University's civil engineering department. On 1972, he started as a rolling mill manager in Karabuk, Turkey. On 1983, he became the general manager of Ekinciler Demir ve Celik Sanayi A.S., and then continued as the coordinator of Investment and Planning department. On 1986, he worked as the general manager of Ekco Ind. Inc., which was located in New York. After returning to Turkey on 1991, he became the chairman of the board of Ekinciler. He is still working as the partner chairman of the board in Ekinciler. In addition, he not only is the vice president of DASIFED, but also a member of civil associations like TUSIAD and TESEV.

We asked Mr. Faruk Ekinci;

- what the main problems are within the current Customs Union for the Iron-Steel Sector,

- if there were any bottlenecks in the Iron-Steel Sector resulting from the lack of modernization of the Customs Union,

- what they expect from the modernization of the Customs Union,

- if he had any suggestions on how to benefit from this process and increase the competitiveness of SMEs.

Below, we present Mr. Faruk Ekinci's response: "Within the Customs Union, our sector does not have a quota problem. However, we can say that Turkey cannot benefit from the Agreement as much as it should. Turkey's share in the EU's Iron-Steel market is 5%, while the EU's share in Turkey's Iron-Steel market is 30%. The EU now has diminished this percentage to 3% and Turkey has not counteracted on that yet.

- The EU exports damping products to Turkey. (AB, Türkiye'ye dampingli ürünler sokuyor.)

- Turkey's policies regarding this issue are bad.

- If you ask me what the CU has contributed to Turkey, my answer would be quality. Certificates given in Turkey are accredited. As a result of increased quality the productivity increased as well.

- Enterprises in our sector are very big. Each has around 400-500 employees. Even in rolling mills(haddehane) there are 150 employees.

- The sector does not produce value added products and the reason of that is Turkey's industrial policies are weak. At the same time, we are trying to produce products with low capacity. Profitability is low. Manufacturers cannot make investments.

- There is a huge amount of informality (kayıtdışılık) in the sector and it is encouraged because there is no auditing.

- There is no EU capital in the sector.

- Modernization of the Customs Union could be useful for our sector regarding the arbitration issue. For example, if there is a quota problem under current circumstances we normally go to the Commission when there is a dispute. Hence, it becomes a political dispute and gets a veto. Arbitration should not be political.

- For a long time there has been no incentives for the Iron-Steel sector in Turkey.

Study Visit Report: Haluk Erceber and Elif Özman Pusat

Interviewee: Haluk Erceber and Elif Özman Pusat

Sector: Chemical Industry

Date: 27 September 2019

Location: TKSD Headquarter, Kozyatağı, Kadıköy

Within the scope of the "Customs Union for SMEs" Project, we interviewed Mr. Haluk Erceber and Mrs. Elif Özman Pusat who are representing the Chemical Industry.

Born in 1957 in Istanbul, Haluk Erceber studied Chemical Engineering in Istanbul Technical University and started his career in Organik Kimya San. ve Tic. A.Ş. where he served as Chief of Production and Vice Factory Manager. Between 1989-97 Mr. Erceber worked at Turk Hoechst Chemicals Division as Production Manager. During this time, he attended factory management, occupational safety and R&D trainings in Frankfurt. In July 1997 he was appointed as the Organik Kimya Factory Manager, in 2010 he added Facility and Engineering Manager to his titles. Mr. Erceber is the Founding President of Chemport Kimya Sanayicileri Derneği, serves as member of the TOBB Chemical Industry Council, and he is the President of Turkish Chemical Manufacturers Association. He also serves as Board Member at the Federation of Industrial Associations (SEDEFED).

We asked Mr. Haluk Erceber and Mrs. Elif Özman Pusat;

- what the main problems are within the current Customs Union for the Chemical Industry,

- if there were any bottlenecks in the Chemical Industry resulting from the lack of modernization of the Customs Union,

- what they expect from the modernization of the Customs Union,

- if they had any suggestions on how to benefit from this process and increase the competitiveness of SMEs.

Below, we present Mr. Haluk Erceber and Mrs. Elif Özman Pusat's responses:

"96-7% of the chemical industry is made up of SMEs. When we say Chemical Industry in Turkey we include Pure Chemicals and Raw Material (temel kimya ve ham madde), Pharmaceuticals (ilaç), and Plastics, but the EU does not list Plastics under the Chemical Industry and they list Pharmaceuticals as "Chemical Industry including Pharmaceuticals". We have 85 members 20% of which are among the top 1000 industrial enterprises. Most of our members import raw materials and produce here. Chemical Industry is dependent on importation. At the end of the year we expect 36% turnover. 65% of the foreign trade deficit comes from this sector. Normally, importation decreases at times of economic crisis, but it does not happen so in the Chemical Industry because otherwise our sector cannot manufacture.

One of the impacts of the Customs Union between Turkey and the EU was that in 2008, a new EU regulation named "REACH" into force. It required enterprises in our sector to register which chemicals they were using and the amount of these chemicals they were using, while banning the use of harmful chemicals. That regulation meant that if you are bringing a product into the EU market you would have to register. The EU would inform you of banned chamicals or harmful chemicals you use and guide enterprises to R&D for alternative production. One downside of this regulation was the cost of registering for a product which led some enterprises to not export to the EU market.

During Turkey's membership process to the EU, the EU required Turkey to accommodate the REACH regulation. If you are a Turkish company, you would need a representative in the EU. In order to meet this need, REACH Global Services (RGS) was established. In line with this requirement, the Ministry for Environment issued a bylaw (KKD Yönetmeliği) which foresaw registration and auditing of chemical substances. The Ministry also suggested that the ECHA (European Chemicals Agency) shared information so that those enterprises that are already registered in the ECHA database would be registered directly in Turkey as well.

We are a part of the Customs Union, but we are not a part of the ECHA. The EU makes decision and we have to follw them. We should be included in the ECHA and have a say in the decision-making process. Moreover, ECHA shouls support us and share data.

Export unit price is around $1 and total amount of Chemicals import is $38 billion.

Would the Customs Union solve the productivity problem? First of all, we do not have clustering system in the sector, that's why we founded Chemport. There is 12% loss in productivity. You produce here and sell your product far away. Bridge toll and transportation expenses alone cost $700.000. This is a huge amount of loss. Whereas, for example, in Holland the land and the infrastructure is ready for the manufacturer, utility expenses are far less compared to Turkey. In order to solve raise our productivity rate we need clustering.
On the other hand, the SMEs in this sector cannot expand because they don't have R&D, they do not sell as much, and their production capacity is little. The Customs Union can be valuable for increasing the competitiveness, but we don't know if it can also help with the establishment of clustering system. We can also use the Customs Union as a guideline to develop a vision for Turkey."

Study Visit Report: Ahmet Kurt

Interviewee: Ahmet Kurt

Sector: Telecommunication / GSM

Date: 25 September 2019

Location: OSİAD, Ankara

Within the scope of the "Customs Union for SMEs" Project, we interviewed Mr. Ahmet Kurt who is representing the Telecommunication

/ GSM Sector. Mr. Kurt started his career as a Central Technician in 1976 at Ankara Telephone Headquarters. He was appointed Chief Technician in 1978. He graduated from the Gazi Education Institute Physics Chemistry Biology Department in 1982. In 1983 he started to refer to NETAŞ as a Maintenance Technician for PBX systems. In 1984 he was appointed to the Ankara Regional Directorate of Turk NETAS. With the privatization of NETAŞ IN in 1998, he started trading life in 1998 by establishing Ankara NETMON with 15 partners. In 2009 he was elected to the OSIAD Board of Directors. He was brought to OSİAD as Vice President in 2011, to OSIAD President in 2015.

Currently Mr. Kurt is the Chairman of the board of directors of Ankara NETMON A.Ş., former Chairman and currently member of Ostim Industrialists' Association of Business People (OSIAD) and has Ankara University Technology development center Advisory membership. He also carries out the duties of the University Industry Business Association platform membership.

We asked Mr. Ahmet Kurt;

- what the main problems are within the current Customs Union for the Telecommunication/GSM Sector,

- if there were any bottlenecks in the Telecommunication/GSM Sector resulting from the lack of modernization of the Customs Union,

- what they expect from the modernization of the Customs Union,

- if he had any suggestions on how to benefit from this process and increase the competitiveness of SMEs.

Below, we present Mr. Ahmet Kurt's response: "Telecommunication/GSM Sector falls under the Information and Communications Sector. The Customs Union, as you know, covers trade in industrial goods and excludes primary agriculture, services and public procurement; which means the Telecommunication/GSM Sector is not included in the agreement.

It is very crucial to involve services in the modernized agreement. In case of a modernization where services will be included there will be an increase in export to the EU as well as an increase in production. Whereas if the CU is regulated as an FTA between the parties, Turkey's export to the EU will decline.

Furthermore, it would mean a great setback for the trade relation between two countries.
In the OSTİM area, where we also work, there are 15.600 companies. 90% of them have 1-10 employees. There is lack of R&D, lack of resources, product development processes take longer and it is hard to compete with the rest of the world. Such problems face by SMEs in this sector need to be addressed for sure.

On the other hand, Turkey's telecommunication sector, in general, has competitive and successful big firms that even challenge worldwide big telecommunication/GSM companies despite these challenges. We are currently involved in a 5G Project and we are developing a domestic and national GSM network in Turkey, whose 90% of network is monopolized by Huawei. There are 16 companies, universities, public institutions involved in this project. We are also investing in regional development and we have clustering system which is very successful.

Turkey has the potential to do good business and we have the will to make good business with the EU. The first step for our sector would be to include the services sector and when doing so business people, universities and other stakeholders should be consulted."

Study Visit Report: Enver Öztürkmen

Interviewee: Enver Öztürkmen

Sector: Textile

Date: 13 November 2019

Location: Istanbul

Within the scope of the "Customs Union for SMEs" Project, we interviewed Mr. Enver Öztürkmen who is representing the Textile Sector. Mr. Enver Öztürkmen is the President of Güneydoğu Sanayi ve İş Dünyası Federasyonu (GÜNSİFED), an NGO that brings business people from the Southeast Region of Turkey together. We asked Mr. Enver Öztürkmen;

- what the main problems are within the current Customs Union for the Textile Sector,
- if there were any bottlenecks in the Textile Sector resulting from the lack of modernization of the Customs Union,
- what they expect from the modernization of the Customs Union,
- if he had any suggestions on how to benefit from this process and increase the competitiveness of SMEs.

Below, we present Mr. Enver Öztürkmen's response:

"For businesses in Gaziantep, whether they be in the textile sector or any other sector in the region, most of the exported goods go to Middle East because our geographical location enables us to have good trade relations with neighbouring countries. However, Gaziantep is one of the fastest growing cities of Turkey and as a culture, gastronomy and trade center located on the Silk Road, Gaziantep has become a trade bridge between the West and the East. It is the 6th biggest exporting city in Turkey with around $8 billion export value to 189 countries and it has an even greater potential.

Most of the companies are family businesses and SMEs. The modernization of the Customs Union could increase the competitiveness and promote e-trade, digitalization, registered work force, knowledge and experience sharing, etc. We have the labour, we have the raw material but we also need a vision, and idea about how to use this material and we should learn to produce common mind. Customs Union could set guidelines for our sector and businesses on how to improve businesses.

We support the modernization of Customs Union not only for trade purposes but also in order to take a step closer to the EU. The relations between the two parties have had its ups and downs mostly for political reasons, the accession of Turkey has not been on the agenda of neither of the parties, the EU has moved away from its intentions of having good relations with Turkey as much as Turkey, etc.

On the other hand, the modernization of the Customs Union can ignite the good relations, or at least the intention to have good relations, and it can give a fresh impetus to both sides.
Visa liberalization is a very important yet still awaiting issue the Turkish citizens have been promised, the tariffs and quota restrictions need to be revized and non-tariff barriers should be eliminated. The FTAs the EU signs

with 3rd countries most of the time works for the disadvantage of us and regarding that the EU should include Turkey in these FTAs it signs."

Study Visit Report: Yusuf Yılmaz

Interviewee: Yusuf Yılmaz

Sector: Machine Manufacturing

Date: 15 November 2019

Location: Hatay

Within the scope of the "Customs Union for SMEs" Project, we interviewed Mr. Yusuf Yılmaz who is representing the Machine Manufacturing Sector. Mr. Yılmaz is the General Manager of Onfiltre, President of Akdeniz Tüccar ve Sanayici İş Adamları Derneği (ATSİAD) and board member of İskenderun Chamber of Commerce and Industry.

ONFİL Filter has important value between leading Manufacturer Companies in Turkey. The company started its production activities in Iskenderun in 1996. Its main products are Oil, Fuel, Cabin, Hydraulic and Air Filters for heavy equipments, trucks, passenger cars, earthmoving and agricultural applications. It exports its products around 35 countries in worldwide and has 30 domestic dealers in Turkey.
We asked Mr. Yusuf Yılmaz;

- what the main problems are within the current Customs Union for the Machine Manufacturing Sector,
- if there were any bottlenecks in the Machine Manufacturing Sector resulting from the lack of modernization of the Customs Union,
- what they expect from the modernization of the Customs Union,
- if he had any suggestions on how to benefit from this process and increase the competitiveness of SMEs.

Below, we present Mr. Yusuf Yılmaz's response: "SMEs are dominant in our sector, hence any regulation that would benefit the sector would benefit the SMEs. Visa liberalization is one of the problems that comes to mind regarding the CU. Travelling to EU countries cost a lot and visa procedures take a long time which results in inefficiency.

For SMEs, knowledge-sharing and capacity building are important. There should be specific chapter for SMEs where such issues are addressed. They lack market knowledge, struggle accessing trade regulations' information and high technology, they lack qualified labour, etc. We need capacity building practices for SMEs to increase their competitiveness.

Service sector should be included in the modernized CU, because today when you sell an industrial product you also sell its service, such as the installment and maintenance of that product. You can no longer separate the service sector from machine manufacturing sector. The FTAs the EU signs with 3rd countries also affects our business negatively and we expect that Turkey has its seat when these agreements are talked and signed. The CU entered into force 25 years ago and unfortunately we cannot expect it to meet the needs and demands of the business world. An updated CU agreement could strengthen both the economic and the political relations."

SLOVAKIA COUNTRY REPORT

ANNEX II - SLOVAKIA STUDY VISIT REPORTS

ANNEX I - TURKEY STUDY VISIT REPORTS

Study Visit Report: Business Alliance of Slovakia

Business Alliance of Slovakia (BAS) is a professional association representing selected entrepreneurs and employers operating throughout Slovakia. It is established on principles of ethics, transparency, consistency, solidarity and legitimacy in business. The main objective of BAS is the improvement of formal and informal business environment rules in Slovakia within the broader context of society development. The Alliance underscores that a business-friendly environment is an imperative for boosting economic activities and thus the growth of prosperity of the country. At the same time, the Alliance is aware that along with the new laws and other regulatory measures the inner approach of entrepreneurs must change as well and therefore BAS underlines transparency and ethical behaviour as one of the main tenets of healthy business environment.

TÜRKONFED's delegation met with President of BAS Mr. Ivan Kosalko. BAS was founded on 15 November 2001 by the Centre for Economic Development and the Institute for Economic and Social Reforms (INEKO). Unique merger of profit and non-profit sector guaranteed that intellectual capacities of the non-governmental organisations together with practical experience of business sector was used to achieve major business reforms in Slovakia, which made the country a very attractive investment destination before the global economic crisis. The main feature of BAS activities is that they do not follow individual interests of businesses or branches, but interests of the business sector as a whole, with the principal aim to improve the conditions of doing business for everybody who operates on the market. In this endeavour, BAS regularly engages in several activities. In addition to ad hoc press releases and statements for media regarding current state of business environment in the country, BAS continuously works on systematic mapping of business environment in Slovakia. Since 2001, BAS has been issuing a unique Index of Business Environment, mapping opinions of businesses over time in Slovakia and giving them voice to comment on adopted legislation. Since 2006, the index has mostly been declining, indicating worsening perception of business environment. As the main barriers for doing business, Slovak companies, including SMEs, identified efficient use of state expenses, access to state aid, bureaucracy, rule of law and stability of legislation. In second half of 2018, however, businesses appreciated improvement in accessibility of production inputs and workforce as well as functioning of state institutions. Nevertheless, lack of qualified workforce in vocational jobs or increased administration burdening company budgets still remain a problem for Slovak businesses.

Furthermore, since 2003 BAS has been an exclusive partner of World Economic Forum for its Global Competitiveness Report, where Slovakia placed on 42nd place in 2019, dropping one place downwards. Moreover, since 2010, BAS combines four renowned global economic indices of World Economic Forum, World Bank, Heritage Foundation and Transparency International, eliminating their deficiencies and thus providing the most objective view on business environment in Slovakia compared to other countries. Overall, its main conclusion is that Slovakia experienced a "lost decade" where it did not radically improve its business environment and stagnated on roughly the same level. BAS also conducts and publishes specific surveys and commentaries on current topics (e.g. related to tourism vouchers, minimum wage, profit regulation in retail), thus providing an almost instant feedback of business environment to government representatives on their current legislative intentions.

Finally, regarding Customs Union, as with any trade liberalization, BAS welcomes every activity, which could lead to more frictionless trade and new business opportunities for both Slovak and Turkish SMEs.

Study Visit Report: FIPRA Slovakia

FIPRA Slovakia is a leading public affairs and government relations consultancy that helps clients solve their problems, achieve their goals and protect their interests with tailor-made, creative and effective public affairs strategies. Building on almost three decades of experience in government relations, public policy and strategic consulting, FIPRA Slovakia is the only agency in Slovakia focusing exclusively on public affairs. With its knowledge of local political and business environment, FIPRA Slovakia often acts as the first point of contact for international investors entering Slovak market in regulated sectors of economy. Company is member of global network of public affairs advisors FIPRA, which covers EU policies in Brussels and local regulatory environments in more than 50 countries worldwide. Given its close contacts with both Brussels and Bratislava, FIPRA Slovakia has got a thorough knowledge about impact of EU legislation on local business environment TÜRKONFED's delegation introduced its main activities and role in relation to Turkish SMEs. It has also presented current challenges faced by SMEs in Turkey in various sectors as well as impact modernized Customs Union could have on Turkish businesses.

FIPRA Slovakia presented TÜRKONFED with legislative process in Slovakia and interaction between EU-level and national legislation. Although there are discussions about it, it is generally believed that 70-80% of legislation adopted in national parliaments of EU Member States actually comes from Brussels. Even though it is difficult to set a specific number, without any doubts, Slovak businesses are hugely affected by legislation co-created in Brussels. In this setting, it is therefore more than before important to effectively voice Slovakia's opinions in the EU. Businesses and especially SMEs should be aware of it and have access to channels on national level that can subsequently defend their opinions on EU-level. For instance, National Union of Employers (RUZ) acts as umbrella organization in Slovakia for several national business federations, and it is member of Business Europe, representing business interests in Brussels.

Many businesses perceive the EU-legislation negatively, considering it as bureaucratic and burdensome imposing numerous new duties, but, on the other hand, it creates unified conditions for every company on the EU Single Market. Nevertheless, what often creates problem for businesses in Slovakia in relation to EU directives is the phenomenon of "gold-plating", which simply means that national law transposing EU directive adds additional duties and requirements that were not part of original EU legislation. Slovak public sector is aware of this problem and therefore every new regulation is subject to Regulatory Impact Assessment (RIA). RIA analyses inter alia impact on business environment and specifically on SMEs, where gold-plating is one of the aspects looked at.

TÜRKONFED talked to FIPRA Slovakia also about Customs Union modernization. Low levels of internationalization of Slovak SMEs could pose a challenge in case of further opening of markets - business surveys in Slovakia showed that more than 44% of SMEs has not exported and almost 40% did not even consider exporting. However, given the large degree of openness of Slovak economy and its dependence on foreign trade, modernized Customs Union between the EU and Turkey could benefit Slovak economy in the future.

Study Visit Report: SOITRON

With history dating back to 1991, SOITRON is now a leading Slovak ICT company with subsidiaries in seven countries, including Czechia, Bulgaria, Romania, Turkey, Great Britain and Poland. SOITRON is now among market leaders in Slovakia in provision of complex IT infrastructure services, using hardware and software of first-class vendors.

Meeting was conducted with SOITRON CEO Ondrej Smolar as well as M&A Director Peter Hornak. Mr. Smolar introduced the activities of the company, which are based on three pillars: 1) international system integration; 2) managed outsourcing services (for clients such as HP, AT&T or IBM); and 3) special solutions (IoT, security operation centres, AI, bots and automation, mobile systems). When implementing innovative solutions in the fields of infrastructure, unified communications, contact centres, security or network services, SOITRON is certified to use hardware and software of world class companies such as CISCO, Microsoft, IBM, Avaya or hp.

Entering Turkish market was part of SOITRON's international expansion strategy. Becoming international was a strategic decision of the company since, on one hand, Slovakia is a very small market, and on the other hand, SOITRON also wanted to offer its employees international career development possibilities and deliver high-quality innovative and internationally competitive products. SOITRON bought majority in local Turkish company in Istanbul and Ankara 6 years ago and later acquired one more local company. The idea was to combine know-how of a local company and that of SOITRON. Currently, most of its customers in Turkey are from private sector (well-established cooperation and projects with Turkish telecom operators) but SOITRON is also strengthening salesforce in public services sector with goal of enlarging its hardware and software business also in this area. Furthermore, it is partnering with local development centre on R&D activities, thus bringing also higher added value activities to Turkish economy. One of research projects SOITRON is working on, for instance, is related to Internet of Things and predictive maintenance to limit production outages during manufacturing process in factories.

When entering Turkish market, SOITRON contacted the international hardware and software vendors it cooperates with to gain more information about local IT market. After identifying suitable company for partnership, it engaged local legal advisors for the acquisition process. Generally, Mr. Smolar evaluated the whole negotiations process as a very positive experience with very clear and open communication and without any problems solving contentious issues. As the main challenge of doing business in the EU and Turkey, Mr. Smolar mentioned moving workforce across borders, especially as SOITRON focuses on outsourcing services. The whole process is administratively demanding but luckily, Slovak Embassy in Ankara has been helpful in solving visa issues. Second issue is a lack of qualified workforce in ICT sector as there is a lot of demand and not so many resources. However, he mentioned the situation was still better in Turkey than in Slovakia, which struggles with insufficient number of ICT professionals. In addition to this, TÜRKONFED's delegation discussed with SOITRON current macroeconomic situation, including stabilized inflation rate and expected renewed growth driven by internal consumption. It introduced TÜRKONFED's structure and role in offering networking, capacity development and business development. SOITRON has also presented its unique project of intelligent police car, which was launched in Bulgaria, and which equips police cars with video recording, license plate recognition, real-time messaging and collaboration with dispatch service, ID control or fine management. SOITRON writes the software itself, what makes the platform easy to adapt and customize according to customer's needs.

Study Visit Report: Vladimír Vaňo

Vladimir Vano is one of the most respected macroeconomists in Slovakia. He is alumnus of Wirtschaftsuniversität Wien and Carlson School of Management, attending courses at Graduate School of Management of St. Petersburg State University (Russia), Sun Yat-Sen University (China) and Indian School of Business .His overseas professional experience comes from internships with economic think-tank NGO in Washington, D.C. and with the global headquarter of Merrill Lynch in New York City in 2001. Vladimir Vano's experience with Central European economic development began in the 1990's with Deloitte&Touche. In 1999, he entered the financial sector as research assistant to the Chief Economist of Slovak branch of ING and later continued as Head of Research with Treasury Division of Slovenska sporitelna, external advisor for monetary affairs to the Deputy Prime Minister and Minister of Finance of the Slovak Republic or Chief Analyst and Head of CEE Research Competence Center of SBERBANK Slovensko. He is regular columnist and commentator on regional and global financial markets.

TÜRKONFED and PAS met with Mr. Vaňo, talking about TÜRKONFED's role, activities for members as well as macroeconomic and business developments in Turkey, primarily from the viewpoint of SMEs. Mr. Vaňo was particularly interested in current economic situation regarding inflation, value and stability of Turkish lira as well as prospects for future economic growth given the stagnation over recent years.

Regarding EU-Turkey relations, Mr. Vaňo underlined that although Turkey is often overlooked among China and India in the discourse about future global economic powerhouses, it already is a global economy and player to reckon with. He highlighted that Turkey is already now the 13th largest country looking at the GDP indicator adjusted for purchasing power parity and it is experiencing positive demographic developments with population expected to exceed 100 million citizens by 2040. It is a significant investor abroad and, in contrary to general misconceptions, it is a country whose economy is based primarily on services and industry – only 9% consists of agriculture. Adding all these things up, Turkey is already now a global player and this has to be taken into account by the EU. Slovakia should also be aware of this economic strength when it is dealing with Turkey. Turkey has been NATO member since 1952, is one of the 20 founding members of the OECD and member of G20. Thus, Turkey has integrated into Euro-Atlantic structures long before Slovakia did. Although only 0.6% of all Slovak exports go to Turkey, the mutual trade in goods between Turkey and Slovakia has been steadily growing over last two decades and there are good prospects for it to continue. Modernized Customs Union between the EU and Turkey and thus inclusion of new sectors and areas such as services or public procurement could sustain the positive developments in Slovak-Turkish trade. Doing away with existing non-tariff barriers in the modernization process would certainly help EU SMEs to export more. On the other hand, clearer set of rules could also increase the attractiveness of Slovakia for Turkish exporters and investors, which could use Slovakia's EU membership and suitable geographic location as their gateway to Europe.

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