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Issue Brief

Türkiye–China Trade Dynamics and Automotive Sector Tariffs

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Summary

While Türkiye's protective measures in the automotive and steel sectors aim to nurture domestic industries, they also risk escalating trade tensions with major trading partners such as China. The ongoing WTO dispute with China and potential retaliatory measures from other affected countries could impact Türkiye's already stagnant economic growth.

China is Türkiye's topmost commercial partner within the Asian continent and third globally[1] after Russia and Germany. Bilateral trade flows surpassed US$ 48 billion during the 2023 fiscal year. As seen in Table 1, trade increased from US$ 25.91 billion in 2020 to a peak of US$ 48.35 billion in 2023, a notable 86.6 per cent growth. This significant increase likely reflected post-pandemic recovery and strengthening of economic ties between the two nations. The trade balance remains heavily skewed in China's favour, with Türkiye's imports significantly outweighing its exports.

Table 1: Türkiye–China Bilateral Trade

Year	Export	Import	Total Volume
2024*	2,255,898	29,468,249	31,724,147
2023	3,306,084	45,047,968	48,354,052
2022	3,281,335	41,354,561	44,635,896
2021	3,662,748	32,238,052	35,900,800
2020	2,865,866	23,041,354	25,907,220

* Data till August 2024. Data is in Thousand USD.
Source: Turkish Statistical Institute (TUIK), August 2024.

On 8 June 2024, the Turkish trade ministry announced that it would impose a 40 per cent additional tariff on imports of conventional and hybrid passenger vehicles from China effective from 7 July 2024 'in order to increase and protect the decreasing share of domestic production'.[2] The timing of the decision was significant considering that a high-level visit to China was undertaken by Turkish Foreign Minister Hakan Fidan from 3 to 5 June 2024. It was expected that some of the significant issues specifically relating to trade balance will be discussed and resolved. On the contrary, Türkiye implemented tariffs on Chinese car imports.

Moreover, on 20 September 2024, strict conditions were declared on the import of plug-in hybrid passenger vehicles, plug-in hybrid trucks and battery electric trucks from some countries.[3] It was specified that the Türkiye importers must have at least 20 authorised service shops in seven different regions of the country to import chargeable hybrid vehicles. Notably, European Union (EU) countries and Türkiye's free trade agreement partner countries are exempted from it. This decision will get enforced from 20 October 2024 and will majorly affect imports from China and

[1] Serdar Dincel, "**Türkiye, China Play Major Roles in Protecting Global Supply Chain: Turkish Foreign Minister**", *Anadolu Agency,* 3 June 2024.

[2] "**Türkiye Imposes Additional 40% Tariff on Chinese Vehicle Imports**", *Daily Sabah,* 9 June 2024.

[3] "**Communiqué Amending the Communiqué on the Import of Certain Electric Vehicles (Import: 2024/22)**", Executive and Administration Department, Official Gazette, Presidency of the Republic of Türkiye, 20 September 2024.

Japan. According to Erol Şahin, founder of EBS Danışmanlık consultancy, "all plug-in hybrid vehicles that will come from now on will be blocked, apart from those in stock already. Other hybrid cars are already subject to a high customs tax".[4]

China's Reactions

Chinese automakers, benefiting from government subsidies and engaging in price dumping, have gained a competitive edge that threatens to overwhelm domestic markets with vehicles potentially less compliant with environmental standards. This influx not only jeopardises local manufacturers but also poses risks to national climate objectives.[5] Therefore, Türkiye's tariff imposition indicates a preemptive measure to safeguard its economic interests amidst the evolving landscape of international automotive trade.

Predictably, China expressed strong opposition to Türkiye's decision to impose a 40 per cent additional tariff on imported Chinese vehicles. The Chinese Ministry of Commerce (MOFCOM) asserted that this move violated World Trade Organization (WTO) rules, particularly the principle of most-favored-nation treatment.[6] MOFCOM argued that Türkiye's action discriminates against Chinese products and negatively impacts businesses, consumers and the overall investment climate in Türkiye.

MOFCOM urged Türkiye to rescind the tariff immediately and indicated its willingness to take 'necessary measures' to protect Chinese companies' interests. Concurrently, the Chinese Foreign Ministry Spokesperson, Lin Jian, emphasised that this decision contradicted the positive trajectory of China–Türkiye bilateral relations and the benefits of their trade cooperation.[7]

On 8 October 2024, China filed a complaint against Türkiye at WTO over EV tariffs and import license measures. It termed Türkiye's additional tariffs and import license restrictions as discriminatory and in violation of WTO rules. It was also stated that China "will take all available means to safeguard the legitimate rights and interests of domestic industries".[8]

On 14 October 2024, Lü Daliang, spokesperson of the General Administration of Customs (GAC), said at a press conference that certain countries had targeted China's electric vehicles, lithium batteries and photovoltaic products, which he

[4] **"Türkiye Tightens Hybrid Car Imports As It Seeks Chinese Investment"**, *Daily Sabah,* 20 September 2024.

[5] Şeymanur Yönt, **"Türkiye, China, and Tariffs: Cooperation, Not Conflict, is the End Game"**, *TRT World,* 14 June 2024.

[6] **"China Urges Turkey to Immediately Remove Discriminatory Additional Tariff on Chinese Vehicles"**, *Global Times,* 14 June 2024.

[7] Ibid.

[8] **"China Files Request for WTO Consultation Over Turkey's EV Tariffs"**, *Global Times,* 8 October 2024.

termed as unfair, illegal and unreasonable protectionist practice.[9] Lü also stated that these items have not only enriched global supply and alleviated inflationary pressures but also made a massive contribution to global efforts in combating climate change and promoting green transformation.

Cui Dongshu, representing the China Passenger Car Association, has posited that Türkiye's decision to raise import duties on Chinese vehicles is primarily driven by macroeconomic factors and industrial policy considerations. According to Cui, Türkiye's substantial trade deficit and current economic challenges have motivated the country to seek additional fiscal revenue sources.[10] Furthermore, this tariff increase aligns with Türkiye's economic objective of fostering its domestic EV industry from the perceived competitive pressure exerted by Chinese manufacturers in this rapidly evolving market segment.

Cui Dongshu asserts that Türkiye's imposition of an additional 40 per cent tariff on Chinese vehicle imports is unlikely to significantly impact the Chinese automotive industry.[11] Cui argues that Chinese manufacturers maintain competitive advantages in production and technology, which may mitigate the tariff's effects. He suggests that the protectionist measure, aimed at supporting Türkiye's domestic auto industry and addressing its trade deficit, may not yield the anticipated benefits and could potentially result in increased costs for Turkish consumers.

Despite the tariff increase, Cui posits that Chinese automakers are well-positioned to overcome these challenges, citing their previous success in the Turkish market following a similar tariff hike in 2023.[12] He notes that Türkiye's high manufacturing costs and underdeveloped automotive supply chains contribute to the continued competitiveness of gasoline and electric Chinese vehicles in terms of value for Turkish consumers. Cui predicts that while the tariff may exert some cost pressure on Chinese companies and potentially slow their growth rate in Türkiye, the ultimate market outcomes will be determined by consumer preferences, with Chinese vehicles likely maintaining their appeal due to their perceived superior value proposition.

Chinese Investments in Türkiye

On 8 July 2024, China's BYD, the global leader in electric vehicle production, entered into an agreement with Türkiye's Industry and Technology Ministry for significant

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[9] Yin Yeping, **"Tariffs Targeting China's 'New Three' Products Unfair, Illegal and Unreasonable: Official"**, *Global Times,* 14 October 2024.

[10] **"China Urges Turkey to Immediately Remove Discriminatory Additional Tariff on Chinese Vehicles"**, no. 6.

[11] **"Turkey's Decision to Raise Import Duties on Chinese Cars is Protectionist, to Hurt its Customers: Industry Insider"**, *Global Times,* 11 June 2024.

[12] Ibid.

investment in the country.[13] The accord outlines plans for a US$ 1 billion investment encompassing a manufacturing facility with an annual capacity of 150,000 vehicles, alongside a mobility and R&D centre. Projected to commence operations by late 2026, this venture is anticipated to generate 5,000 direct employment opportunities within Türkiye. The collaboration, marked by the presence of BYD's Chairman and CEO Wang Chuanfu at the signing and a subsequent meeting with President Erdogan in Istanbul, signifies a notable development in Türkiye's automotive sector and its economic positioning in the global electric vehicle market.

Türkiye is also in talks with other China's companies, including Chery and state-owned SAIC Motor, which owns MG Motor. Türkiye is in advanced negotiations with Chery regarding a potential investment as part of Ankara's strategy to strengthen ties with Chinese automotive firms. The Turkish government has been offering significant incentives for electric and hybrid vehicle production investments, including tax benefits and land allocation, provided manufacturers meet specific production capacity requirements.[14] Türkiye, which already hosts production facilities for several major global automakers, aims to diversify its manufacturing base and expedite the transition to electric vehicle production through these partnerships with Chinese firms.

There is a notable surge in Chinese Foreign Direct Investment (FDI) in Türkiye following the latter's accession to the Belt and Road Initiative (BRI) in 2015. Chinese FDI increased from US$ 82 million pre-agreement to US$ 624 million the subsequent year, reaching a zenith of US$ 1.7 billion in 2022.[15] Notwithstanding this growth, China's FDI contribution remains relatively modest compared to other sources. The EU maintains a predominant position. Moreover, Asian counterparts such as Japan and Singapore surpass China's FDI levels, with investments of US$ 4.7 billion and US$ 11.39 billion respectively in 2022, underscoring the diverse and hierarchical nature of Türkiye's FDI landscape.

The economic challenges faced by Türkiye have prompted it to explore alternative financial sources beyond traditional Western institutions. This shift has led to an intensification of bilateral relations between China and Türkiye. Since 2016, Türkiye has emerged as a significant beneficiary of the Asian Infrastructure Investment Bank (AIIB), securing its position as the second-largest recipient of AIIB loans after India.[16] As of September 2024, the AIIB has sanctioned approximately US$ 4.7 billion for

[13] Gökhan Ergöçün, "**World's Largest Electric Vehicle Producer BYD to Build Factory in Türkiye**", *Anadolu Agency,* 9 July 2024.

[14] Huseyin Hayatsever, "**Turkey in Final Stages of Investment Talks with China Car Maker Chery, Official Says**", *Reuters,* 1 October 2024.

[15] Yalkun Uluyol, "**Partnership with Limits: China Turkey Relations in the Late AKP Era**", Heinrich-Böll-Stiftung, 20 March 2024.

[16] Ibid.

various projects in Türkiye,[17] underscoring the growing economic ties and Türkiye's economic pivot towards Asian financial institutions.

Turkish Automotive Industry

The Turkish automotive industry has recently witnessed significant developments, particularly concerning TOGG (Türkiye's Automobile Initiative Group), the country's first domestically-produced electric vehicle manufacturer. TOGG, established in 2018 through a collaborative effort of major Turkish industrial conglomerates and supported by government incentives,[18] has become a symbol of Türkiye's technological ambitions and industrial capabilities.

Recent leadership changes at TOGG in October 2024, including the appointment of Fuat Tosyali as Chairman of the Board, have been accompanied by denials of rumours suggesting the company's potential sale to Chinese or other foreign investors.[19] Instead, the new management has articulated a vision of substantial growth and global expansion. This stance is bolstered by TOGG's plans to introduce new models and initiate exports by 2025.

In the first eight months of 2024, TOGG demonstrated remarkable market performance, selling 14,849 units in Türkiye.[20] This sales figure not only positioned TOGG as the market leader but also exceeded the combined sales of six major international competitors, including prominent brands such as Tesla and BMW, which collectively sold 14,569 units. Tesla secured the second position with 4,552 vehicles sold, followed by KG Mobility at 3,192 units and BMW's X1 model at 1,836 units. TOGG's market dominance is particularly noteworthy in the context of Türkiye's overall electric vehicle market growth. The country experienced a substantial 94 per cent increase in electric car sales during this period, with total sales reaching 47,032 units.

This growth trajectory and TOGG's significant market share underscore the brand's strong reception in its domestic market and hint at the evolving landscape of Türkiye's automotive industry, particularly in the electric vehicle segment. The success of TOGG has apparently catalysed increased Chinese interest in Türkiye's automotive sector. This is evidenced by significant investment plans from companies like BYD, the world's largest electric vehicle producer, which has signed a deal to

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[17] **"Turkiye: Our Projects"**, Asian Infrastructure Investment Bank, October 2024.

[18] Aysu Bicer, **"Türkiye Rolls Out First Electric Car TOGG as Country Celebrates Republic Day"**, *Anadolu Agency,* 29 October 2022.

[19] **"Turkish EV Brand TOGG Dismisses Sale Rumors to China, Eyes Global Expansion"**, *Türkiye Today*, 7 October 2024.

[20] **"TOGG Leads Türkiye's Electric Vehicle Market with Record Sales"**, *Türkiye Today,* 5 September 2024.

establish a manufacturing facility in Türkiye. This development shows a nuanced interplay between domestic industrial policy, international trade dynamics and the global shift towards electric vehicles.

Conclusion

These developments collectively reflect Türkiye's approach to industrial policy, aiming to promote domestic technological capabilities while navigating the complexities of global trade and investment flows. The emphasis on electric vehicle production and the protection of key industries like steel demonstrate a multipronged strategy to enhance Türkiye's position in high-value manufacturing sectors.

Türkiye implemented anti-dumping duties on specific steel imports from China, Russia, India and Japan, on 11 October 2024. These tariffs, ranging from 6.10 per cent to 43.31 per cent of cost, insurance and freight prices, target approximately 4 million tons of product imports valued at US$ 2–2.2 billion.[21] The measure, initiated in response to appeals from domestic producers, aims to counteract unfair competition and protect local manufacturing. China faces the highest duties, ranging from 15 per cent to 43 per cent, while tariffs on imports from Russia, India and Japan vary between 6 per cent and 9 per cent.

It is notable that this decision was taken amid escalating global trade tensions, particularly between China and the EU and followed China's complaint to the WTO regarding Türkiye's import duties on Chinese electric vehicles. Industry experts anticipate that this move will boost capacity utilisation rates for domestic producers and potentially influence sentiment in other sectors.

Türkiye's recent economic decisions reveal a multilayered approach to economic development and bilateral relations. While protective measures in the automotive and steel sectors aim to nurture domestic industries, they also risk escalating trade tensions, particularly with China. The success of TOGG, incentives from AIIB and recent Chinese investment interest suggest that Türkiye's strategy may yield some positive results in terms of sectoral development and foreign investment attraction.

However, the long-term implications of these policies remains to be seen. Türkiye will have to carefully balance its protectionist measures with its commitments to international trade agreements and desire for foreign investment. The ongoing WTO dispute with China and potential retaliatory measures from affected countries could impact Türkiye's already stagnant economic growth. As the global automotive industry continues its shift towards electric vehicles, Türkiye's ability to navigate these intricate trade dynamics while boosting its domestic EV industry will be crucial.

[21] **"Turkey Imposes Duties on China, Russia, India, Japan Steel Imports"**, *Reuters,* 11 October 2024.

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