

# Sector Analysis Series no. 2

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## Solution for Current Account Deficit in Agriculture



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# Solution for Current Account Deficit in Agriculture

**Contrary to the added value of agriculture in Turkey, imports and exports follow a negative course.**

Regardless of the level of development of the country, the impact of agricultural production on the economy is so important that it cannot be denied. Agriculture gained higher importance after World War II due to shortages. After the war, policies were aimed to develop the reforms in the sector. Those policies have increased the share of the agricultural sector within the GNP by ensuring that agriculture creates a distinct value in the growth of a country's economy. Increased production of agricultural products in the 1940s continued to gain momentum in the 1960s during which it was referred to as the 'Green Revolution.' After the 1970s, developed and developing countries (especially European countries) accomplished a level of agricultural prosperity. This led to increased activity in sectors such as industry and services, which saw the share of agriculture in GNP fall to its current level. Today, the share of agriculture in high-income countries is 1.5 percent, while in high-middle-income countries this proportion is 7.3 percent.

Despite the decrease in the proportion of agriculture in economic growth, the sector continues to maintain its importance both in developed and developing countries. In Turkey, this ratio is around 7 percent as it is in the high-middle income countries. On the other hand, thanks to the added value of \$ 60.9 billion in the country's economy, the agricultural sector is one of the core building blocks of the economy.

## **Alternative markets for agricultural exports should be found**

Upon examination of the import and export data from the Ministry of Agriculture and Livestock, there has been a trade deficit of nearly Turkish Lira (TL) 5 billion each year in the agricultural sector since 2012. Although this debt declined to TL 3 billion last year, it seems it will reach its former level by the end of 2016.

Taking products' import and export data into consideration, striking results are achieved. In particular, while the revenue from hazelnut, which is primarily made through exports, has decreased by more than TL 2 billion. The total amount of export of sunflower seed oil, tomatoes, and lemons have declined by TL 500 million each, totaling to TL 1.5 billion. The primary cause of the decline in lemon and tomato can be attributed to the plane crisis experienced with Russia. Russia, which is the main importer in both cases, blocked the entry of Turkish products after the political crisis by imposing an embargo. Failure to create alternative markets for products that cannot be exported has led to a decline in exports.

In the imported products, cotton, soybean and sunflower oil are foreground. Despite imports from these products totaling TL 7 billion, imports of soya bean jam and sunflower oil have fallen. Due to a decrease in imports of these products compared to last year, 1.5 billion TL has been saved.

On the other hand, Turkey, which had enough export ratios to play a decisive role in cotton prices in the 90's, has not been able to supply adequate resources for increasing textile production in the domestic market and has turned to cotton imports. Thus, cotton imports rose to TL 3 billion annually and has increased the foreign trade deficit.

### **National agriculture project promises hope**

Another issue that needs to be examined is the changes that have taken place in the Agricultural Producer Price Index (PPI) data obtained from TURKSTAT. In 2014 and 2015, the agricultural producer price index, which has increased by an average of 10 percent compared to same month in previous year (2014), is also rising at a sustainable rate by the year 2016. Inflation has been adversely affected due to an increase in agricultural product input prices in the last two years, and the government is making new developments in this area.

National Agriculture project, a new support initiative by the government, is antagonistic as a project that is designed to balance both inflation and agricultural foreign trade. It is aimed at supporting 19 catchment areas that can be traced by the project and it is expected to have a positive impacted if implemented successfully. Among these products, as mentioned above, there are products such as cotton, soybean oil and sunflower oil which are imported intensively.

### **Agricultural inputs and their effects**

The agriculture sector, which supplies food, textile, tobacco, alcoholic beverages and many other areas, is a big asset for the country's economy. Due to this, it is vital for the country to detect and prevent incidents that could harm the sector. Agricultural fertilizers, seeds, and pesticides are among the leading potential costs of agriculture. The price increases and negativities that can be experienced in the mentioned production materials will directly twist the belly of the farmer. Local producers have low protection against import markets because of high agricultural input and diesel costs. Although the policies in this regard are import-substitute, wholesalers and consumers often sympathize with the cheaper products - regardless of where they are produced.

### **Employment in agriculture**

Within the Turkish economy, the number of sectors that provide essential inputs from agriculture is high. In addition to this, the production of agricultural raw materials with added value created in the country creates an arrangement for the input costs and on the other hand it constitutes a source of income for many citizens in the process of collecting,

processing and consuming agricultural products. When we look at the labor force data released by TURKSTAT in May of the current year, it is stated that 19.9% of those employed in Turkey work in the agriculture sector. Given the employment created by agriculture, mechanization experienced in the sector seems to be a cause of the decrease in intra-sectoral employment, although it is important regarding yield from the soil.

### **Efficient use of agricultural lands**

Another issue that concerns agriculture in Turkey is the total arable land. Turkey, in the context of natural conditions, provides farmers with vast farming areas. Arable land in Turkey is approximately 38.5 million hectares. According to the OECD data, the arable land of Turkey in 2013 is over 20 times that of the Netherlands, which is a European country where agricultural technology is used at a high level. The efficient use of farmland in Turkey, where the high-tech methods are limited in agriculture, is a decisive factor for the country.

Last year, Turkey's average 'added value per employee' in the agricultural sector was three times lower than the European Union's average. At the same time, Turkey's existing arable land size is even higher than that of France (which ranks first among EU countries). These two situations show a great contradiction within themselves. Turkey will be able to compete in the agricultural sector with itself and with EU countries if it combines the numerical size it possesses regarding land and labor with the necessary technological breakthroughs.

### **Conclusion**

Importance should be given to increasing agricultural production and exports in Turkey where four seasons are experienced. It is necessary to be caught in the shortest time in the sector to say that "Turkey is a self-sufficient country in an agricultural sense" that has been clichéd since the 1950s and to say that Turkey is an entirely independent agricultural exporter.

The development of strategies for the export of agricultural products to meet the cost of agricultural imports will affect many different sectors of economic life. As these strategies and plans are being developed, it is necessary to focus on the increasing domestic demand for agricultural products, the increase in input prices, employment rates, technological developments (mechanization).

According to the OECD, when the productivity of agriculture is evaluated regarding employees, there is only a 4-fold difference between the Netherlands and Turkey in 1980, but by 2015 this difference has increased by eight times. In the distribution of national income according to the sector, functions such as production, marketing strategies, productivity and machine use of the Netherlands, which have similar statistics to Turkey, should be carefully examined. It will be possible for Turkey to have sufficient access to contemporary technological facilities.

As the technological developments in the agriculture sector are mostly experienced by mechanization, it is natural that the loss of employment in the sector should be met naturally. But besides this, sector workers should not be left to their fate, and strategies should be developed in which employees are employed in the industry and service sectors.