

COMMERCE 3.0: A SPRINGBOARD FOR TURKEY'S SMALL BUSINESSES TO THE GLOBAL ECONOMY

2014



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INTRODUCTION

Turkey has a track record of successful economic and structural transformation. Reforms in the 1980s created a modern economy and gave trade a central role. This saw Turkey transformed into a competitive export nation, first, of textiles and clothing, then automotive, and more recently of metals, machinery and plastics. Trade as a share of GDP has grown from 15.7% in 1980 to 49% in 2013,¹ and Turkey's competitiveness has increased from a global market share of 0,55% to 0,82% over the last ten year.

We are now on the brink of a next great transformation, and again it is about trade. But this time it is led by a new breed of entrepreneurs, who are cleverly leveraging the Internet and digital services. Small, internationally-minded Turkish firms are using services such as eBay Marketplaces and PayPal payment solutions to ensure their local businesses can reach customers all over the world.

Exporting has been and still is complicated, and therefore traditionally dominated by a few and large multinationals. Indeed, a recent study by World Bank notes – and warns – that Turkey's strong export growth has been driven exclusively by large firms.² With this report, we want to challenge that fact and show how small and medium-sized enterprises (SMEs) can indeed become successful exporters along side the long established ones, and thus help diversify and strengthen the Turkish economy.

The research presented in this report reveals that the very majority of the Turkish firms, leveraging eBay and PayPal for their operations, use these services as a springboard to customers in foreign markets. As a clear sign of the power of technology-enabled trade, Turkish firms using the eBay Marketplace serve customers in on average 34 different countries. This can be contrasted with the average of four markets that traditional exporters reach.

At eBay Inc., we are working tirelessly to continue to develop technology that can foster the growth of this new entrepreneurial class of traders. The type of technology-enabled marketplace that eBay and PayPal are contributing to is proving far more inclusive than the traditional marketplace. Firms from all over Turkey are able to attract and serve customers domestically as well as internationally, companies new to the business of exporting can compete with the long-established ones, and entrepreneurs can test and try out customer demand without large investments.

We are therefore very excited about the future. As technology, trade, and entrepreneurship continue to converge there will be tremendous socio-economic benefits. A small merchant in Turkey now has the opportunity to sell products and services to customers around the world and bring the revenue from those transactions back to the local community. Turkey could see its future export growth driven also by this new breed of dynamic SMEs.

¹ See World Bank open data: merchandise trade.

² World Bank (2014a)

EXECUTIVE SUMMARY

Global trade is undergoing fundamental changes. Through online networks and digital services, small businesses are able to reach beyond a local consumer base and access global markets like never before.

Commerce 3.0 is the term we use to describe this coming together of online and offline worlds and the merging of local and global markets.

And Turkish entrepreneurs take part in this trade revolution. They are leveraging innovative tools and solutions to build successful global operations.

This report sheds light on how Turkish firms use eBay and PayPal as their springboard to customers in as many as 175 different countries. The report draws on a detailed analysis of data on eBay and PayPal transactions conducted by firms based in Turkey. A detailed description of the data sources can be found at the end of this report.

The research result presented in this report tells us that the Internet, technology and innovation together create a truly global marketplace where also smaller sized, less experienced and remotely located firms can enter, grow and compete along side the larger and more experienced ones. Indeed, our research shows how eBay and PayPal link Turkish entrepreneurs to international markets and provide unparalleled opportunities for small businesses wherever in Turkey they are based.

However, despite these positive trends, some barriers to technology-enabled trade remain, in particular for the small firms which are the major beneficiaries of it. This report therefore concludes with a discussion on such trade impediments that are particularly relevant for Turkey.

We invite you to read about an emerging new type of global trade, unleashed by innovation and inclusive to firms of all sizes and all across Turkey.


SNAPSHOT OF KEY FINDINGS:



84% of the Turkish firms using PayPal sell to customers in foreign markets

Traditional exporters typically reach

3 markets



The Internet and technology together allow entrepreneurs to overcome barriers that traditionally hold back exporting




Clothes, Shoes and Accessories dominate exports
The top selling product category for Turkish eBay firms in 2013



In the technology-enabled marketplace for eBay, firms reach on average


34 different markets

Geographical distance matters approximately


65% less for trade over the eBay marketplace



eBay and PayPal make the world "flatter". Geographic distance has almost no effect on trade volume.




Newcomers in technology-enabled trade are able to grow faster and gain a larger share of sales than traditional trade



Newcomers account for 26% of all exporters made through eBay by Turkish firms and

33% of all PayPal transactions




There is no statistical effect of distance on exports when **eBay or PayPal** are used.



The largest 5% of Turkish **eBay and PayPal** firms account for

34% and 39% of exports respectively



With experience from trading comes a better understanding of **markets and customers demand**



Turkey-based eBay firms initially increase the number of categories they trade in but, as they grow, they begin to specialise




The technology-enabled marketplace allows individuals to set up and run a business from anywhere

RECOMMENDATIONS THAT CAN HELP:


Ensure reliable postal service continues



Transparent laws and regulations



Improve electronic custom processes



Improve freedom on the net



eBay firms serve customers from **77** of Turkey's **81** regions

PayPal users are located in **72** of all 81 Turkish provinces



INNOVATION IN TURKEY



84% of the **Turkish firms**
using PayPal sell to customers
in foreign markets



Clothes, Shoes and Accessories
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The top selling product category
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As will be described in this report, through our eBay and PayPal platforms, we can see that Turkish firms are part of a movement of small businesses shaping a new type of global trade.

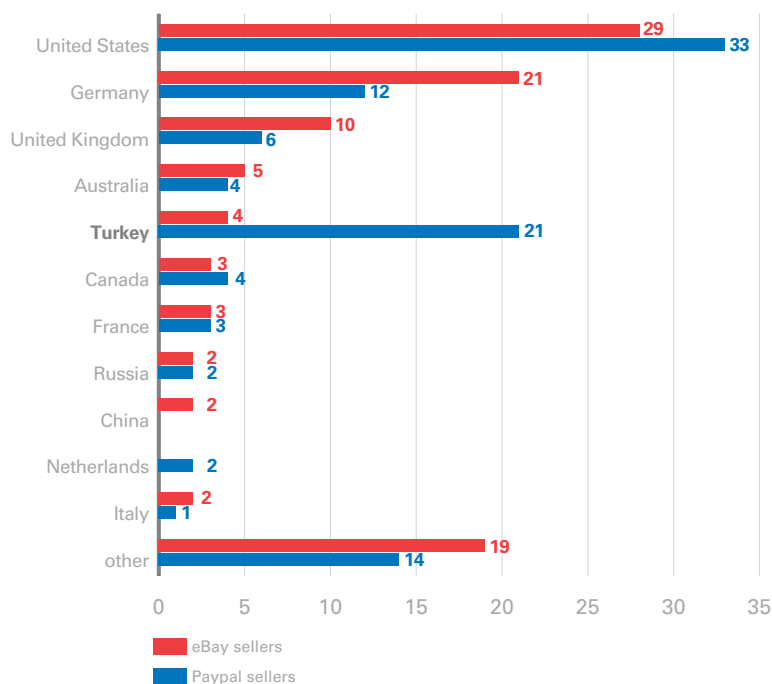
Working with economists at Sidley Austin LLP, we have analyzed a large dataset covering anonymized transactions by firms based in Turkey and using eBay or PayPal (see section Data Sources at the end of this report). We have narrowed our research to those firms with transactions of at least USD 10,000 annual over eBay or PayPal in order to capture business retailers. We will refer to those sellers and users as “eBay firms” and “PayPal firms”.

This report describes how practically all those firms are building international, if not global, businesses. Strikingly, 84% of the Turkish firms using PayPal sell to customers in foreign markets.

The main destination markets for the Turkish firms using eBay and/or PayPal are the US, the UK, Germany and Australia.

Turkish eBay firms are selling a wide range of different products to their foreign customers. The top-selling product categories in 2013 were jewellery & watches, collectables, coins and antiques.

FIGURE 1: MAIN DESTINATION MARKETS FOR EBAY SELLERS AND PAYPAL USERS IN TURKEY



Source: eBay data for 2013. The chart shows the ten main destinations for Turkey eBay sellers. (PayPal) were considered. PayPal data for 2013. The chart shows the ten main source countries for money received by Turkish PayPal users.

FIGURE 2: MAIN PRODUCT CATEGORIES FOR EXPORTS

RANK	EBAY EXPORTS
1	Clothes, Shoes & Accessories
2	Jewellery & Watches
3	Collectables
4	Auto parts
5	Antiques
6	Home furnishings
7	Hobbies and crafts
8	Consumer electronic – other
9	Computing
10	Musical instruments

Source: Own calculations based on eBay data from 2013.

HELPING TURKISH ENTREPRENEURS REACH GLOBAL MARKETS

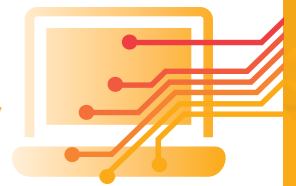
Traditional exporters
typically reach

3
markets



The Internet
and technology
together

allow entrepreneurs to
overcome barriers that
traditionally hold back exporting



In the technology-enabled
marketplace for eBay,
firms reach on average

34 different markets

Our research shows how Turkish firms use eBay and PayPal to engage in a new and very different type of trade.

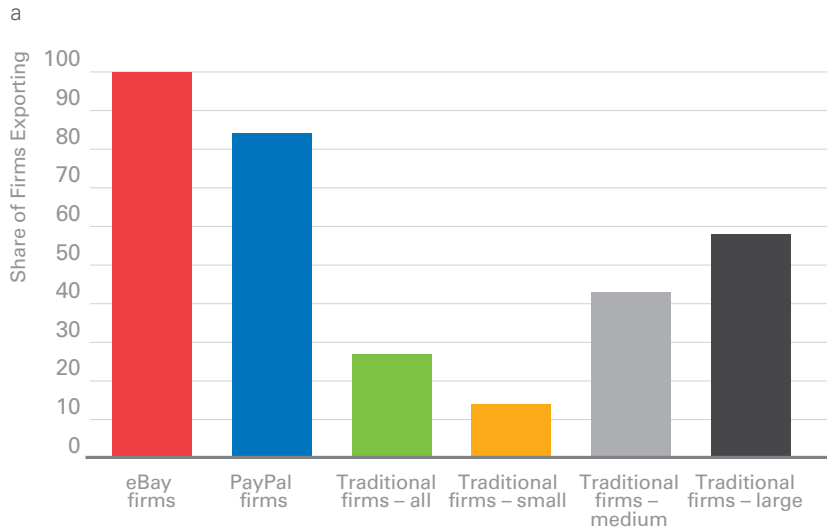
Most traditional firms do not export. This has consistently been shown across time, countries, and academic literature. Typically, far less than 50% of firms export, and it can even be less than 10%.³ For example, research has shown that only 4% of US firms export.⁴

This is no different in Turkey, even though Turkey for centuries has had a very export-oriented economy and is centrally located between three continents. Results from a World Bank survey conducted in 2008 among firms in Turkey show that about 27% of traditional firms export.⁵ When broken down by firm size – measured by the number of employees – the survey confirms that very large firms export more frequently, but even among firms with 100 or more employees, only 58% export.

Exporting is a rare activity and especially so for SMEs. Among the Turkish firms surveyed by World Bank, no more than 14% of small sized firms (with 5–9 employees) exported. This is similar to other studies, for example a report by Industry Canada indicates that in 2011, only 10.4% of Canadian SMEs exported.⁶

However, our research shows that exporting need not be the privilege of large companies. In Turkey, 84% of PayPal firms and 100% of eBay firms engage in exporting to multiple markets. This shows how the Internet and technology together make an effective springboard to international markets allowing entrepreneurs to overcome the barriers that traditionally hold back exporting. Clearly, internationally-minded entrepreneurs turn to technology-powered services to reach customers.

FIGURE 3: SHARE OF EBAY SELLERS AND TURKISH FIRMS THAT EXPORT



Source: Own calculations based on eBay and PayPal data from 2013, and results from the World Bank Enterprise Survey for Turkey (World Bank, 2012b, latest data from 2008). eBay and PayPal firms (i.e. those with annual sales or receipts of at least USD 10,000) are represented by the green and blue bars on the left of the chart. For traditional Turkish firms (in red bars on the right of the chart), the size categories refer to firms with less than 20 employees (“small”), 20–99 employees (“medium”) and 100 or more employees (“large”). The figures for traditional firms refer to direct exporters, defined as those firms who directly export at least 1% of their sales.

³ Such figures depend a lot on whether data includes all firms, or only large ones. Among large firms, the share that exports is usually larger, but usually still well below 50%.

⁴ See Bernard et al. (2007) for the US and Eaton et al. (2009) for France. Mayer et al. (2007) report higher shares of firms exporting in other European markets, but based on a less comprehensive set of data that excludes many small firms. One should be careful comparing these shares across countries because figures for different countries are normally based on different types of data. Less comprehensive datasets that do not include the large number of small firms typically show higher shares of firms exporting.

⁵ The survey also contains shares of firms exporting indirectly (e.g., through intermediaries). If one includes those indirect exports, then the share increases to 37% (see World Bank (2012b)).

⁶ See Industry Canada (August 2013).

Traditional exporters typically reach only a small number of destinations. For example, a comprehensive analysis by the World Bank among exporters in more than 40 countries⁷ has shown that exporters serve on average around three markets. Belgium is the single country in which the average exporter reaches more than five markets (7 markets).

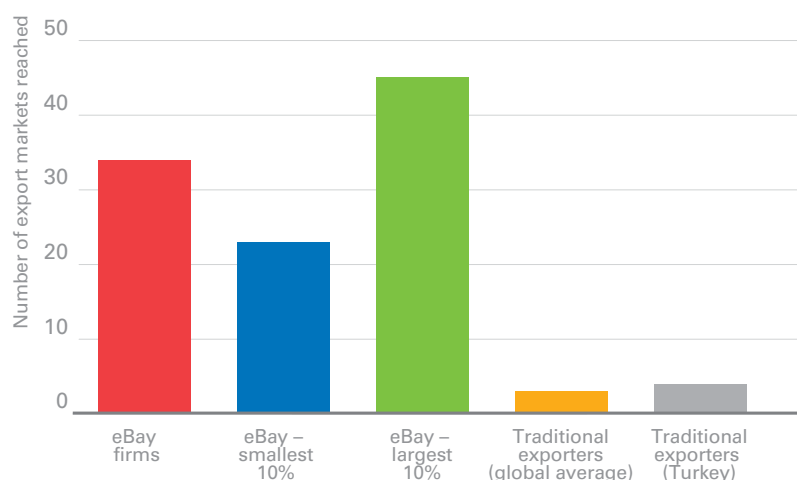
The World Bank analysis shows that exporters based in Turkey reach on average four different markets, somewhat above the average of three found among the 40 countries.

The situation in the technology-enabled marketplace is remarkably different. For eBay, we find the firms to reach on average 34 different markets. The most international ones managed to sell to customers in 93 different markets. In other words, on average those eBay firms in Turkey reach almost ten times as many markets as traditional exporters in Turkey.

Even the smallest among those eBay firms reach many more international markets than traditional firms in Turkey, despite the fact that they certainly export much less in terms of volume and value than traditional exporters.

These astonishing results confirm that the Internet, technology and innovation create an environment where also micro-sized and SMEs can join in exporting.

FIGURE 4: **AVERAGE NUMBER OF MARKETS REACHED**



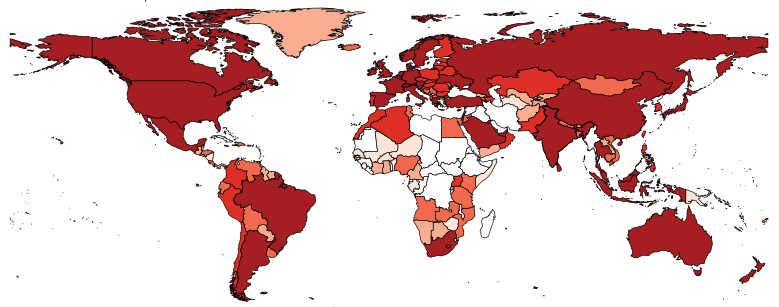
Source: Own calculations based on eBay data from 2013. The green bars depict the eBay firms forming part of our dataset, i.e. those with annual sales of US\$ 10'000 or more. The chart further distinguishes between the smallest and largest 10% of those eBay firms.

⁷ See World Bank (2012b).

Almost the whole world comes within reach for technology-enabled firms. In 2013, the Turkish eBay firms shipped products to 175 different foreign markets. And the PayPal firms received funds from a total of 103 different foreign markets.

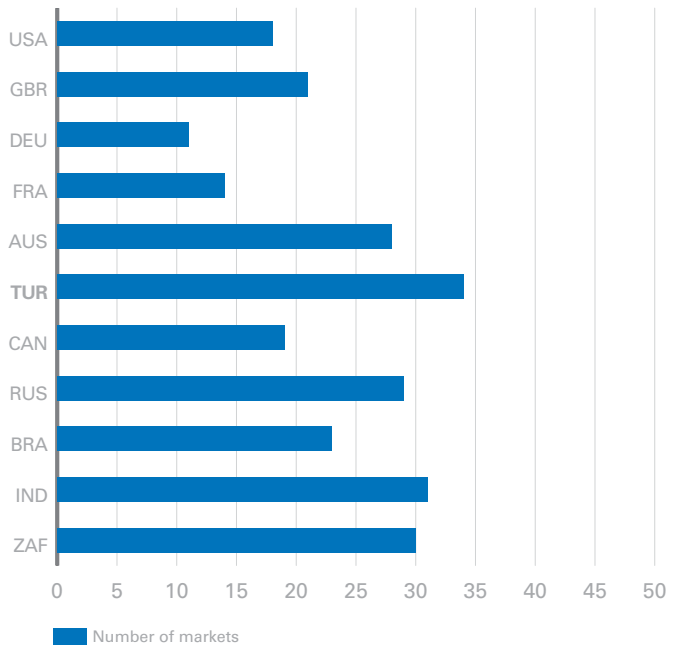
And in comparison with technology-enabled firms in other countries, Turkish eBay sellers stand proud in their ability to serve customers in multiple-destinations.

FIGURE 5: DESTINATIONS REACHED BY TURKISH EBAY SELLERS



Source: eBay data for 2013 (only firms with sales exceeding USD 10,000 annually on eBay). Exports range from dark red (high export volume) to light red (low export volume). Countries with no reported eBay exports from Turkey appear white on the map.

FIGURE 6: NUMBER OF MARKETS REACHED BY EBAY FIRMS ACROSS COUNTRIES



Source: Own compilation of eBay data.

MAKING THE WORLD 'FLAT' FOR TURKISH ENTREPRENEURS

eBay and PayPal

make the world "flatter".
Geographic distance has almost no
effect on trade volume.

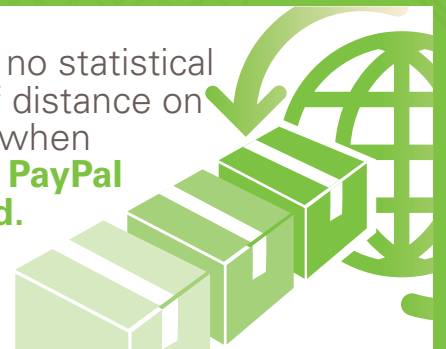


Geographical distance
matters approximately

65% less for
trade over the eBay
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There is no statistical
effect of distance on
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are used.



The Internet and services such as eBay and PayPal connect entrepreneurs and consumers all over the globe. Together, they make the world “flatter.”⁸

An empirical method to test whether the adoption of new technology indeed “shrinks” the world is the so-called gravity regression model. This model tests the degree to which geographic distance between trading countries reduces the volume of trade.⁹

Economists have found that the trade-reducing effect of distance on traditional trade has been surprisingly stable over time.¹⁰ But recent research¹¹ shows that technology-enabled trade flows behave in a very different way than traditional trade.

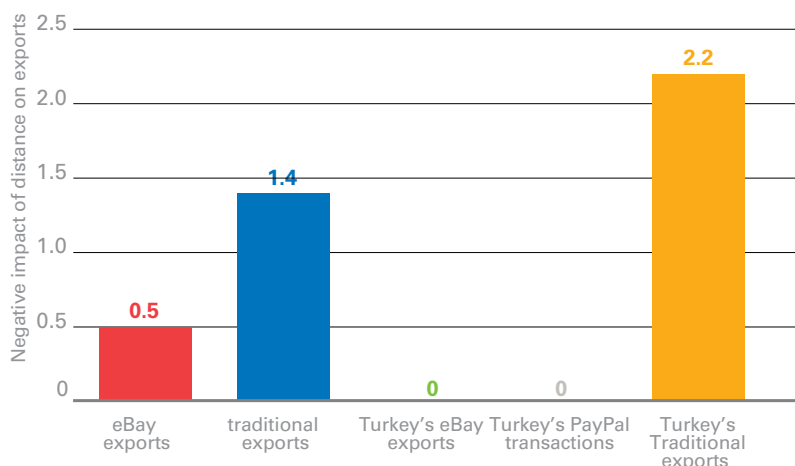
In a study based on a global set of cross-border transactions on eBay, economists have shown that the trade-reducing effect of distance for online commerce is much smaller compared to the effect on traditional trade between the same countries, over the same time horizon, and for highly similar product categories.

At a global level, geographical distance matter approximately 65% less for trade over the eBay marketplace compared to over the traditional marketplace (i.e. 5% compared to 14% as shown by the table below).

Using the statistical method described above, we compare the impact that distance has on Turkish exports – both traditional exports, and exporting enabled by eBay or PayPal. We find that distance hampers traditional trade more than what can be found globally – a 10% increase in distance reduces exports by 22%. In contrast, there is no statistically significant effect of distance on exports when eBay or PayPal are used. This is a clear sign that technology-powered services have become springboards for internationally-minded entrepreneurs to global markets and customers.

Trade over eBay and PayPal platforms relies much less than traditional trade on historically grown trade relationships between countries. eBay and PayPal also help to increase trust between buyers and sellers in ways that are not feasible in traditional commerce.

FIGURE 7: GLOBAL TRADE-REDUCING EFFECT OF DISTANCE



Note: The chart illustrates the results of a so-called “gravity regression”, in which the effect of geographical distance on trade flows is empirically tested. The two bars on the left illustrate the distance effect on global trade (eBay and traditional trade), and are taken from Lendle et al. (2012). The three bars on the right show findings for Turkish exports only, and for both eBay and PayPal. The results can be interpreted as the percentage decrease in trade for a 10% increase in geographic distance between two markets. For example, for Turkish traditional exports, an increase in distance between a buyer and a seller by 10% reduces the level of cross-border transactions by 22%, whereas for eBay trade, the decrease in cross-border trade for the same distance increase is not statistically significant from zero. “Traditional exports” through eBay refers to a subset of all exports, namely those for products similar to the ones traded on eBay.

⁸ The hypothesis that the world becomes “flat”, i.e., fully interconnected, gained prominence by Thomas L. Friedman’s 2005 bestseller “The World is Flat.”

⁹ The term “distance” is a proxy for many types of transaction costs that impede trade between market participants: cross-border costs (e.g., transportation costs, trade barriers, and communication issues), institutional costs (e.g., different legal systems across countries), information asymmetries and matching costs, and issues of trust and enforcement.

¹⁰ Whether the distance effect has decreased over time or not has been subject to debate in the academic literature, but it distance certainly remains an important explanatory factor for traditional trade flows. See Head and Mayer (2013) for a recent paper summarizing the current status of research using the gravity regression.


¹¹ See Lendle et al. (2012).

UNLOCKING OPPORTUNITIES


Newcomers in technology-enabled trade are able to grow faster and gain a larger share of sales than traditional trade



Newcomers account for **26%** of all exporters made through eBay by Turkish firms and **33%** of all PayPal transactions



The largest 5% of Turkish eBay and PayPal firms account for ... **34% and 39%** of exports respectively



Traditional trade is dominated by a small number of very large and long-established firms.¹² For example, in most countries around 60–90% of all exports are conducted by the 5% largest exporters.¹³ Similarly, most exports are conducted by firms that are long-established exporters – with newcomers typically accounting for only 5% of overall sales.

This is not to say that entry by new firms will never occur, that newcomers never become large, or that large firms never disappear. Yet, it appears that the traditional export environment is particularly challenging for small businesses. This is also the case in Turkey where the strong export growth the last decade has been driven by a small number of large firms.¹⁴

Previous research on eBay has shown that technology-enabled trade is different in several important ways.¹⁵ Newcomers are able to grow faster and gain a larger share of sales than in traditional trade, and the largest players are by no means dominating the entire market as much as we witness for traditional commerce.¹⁶

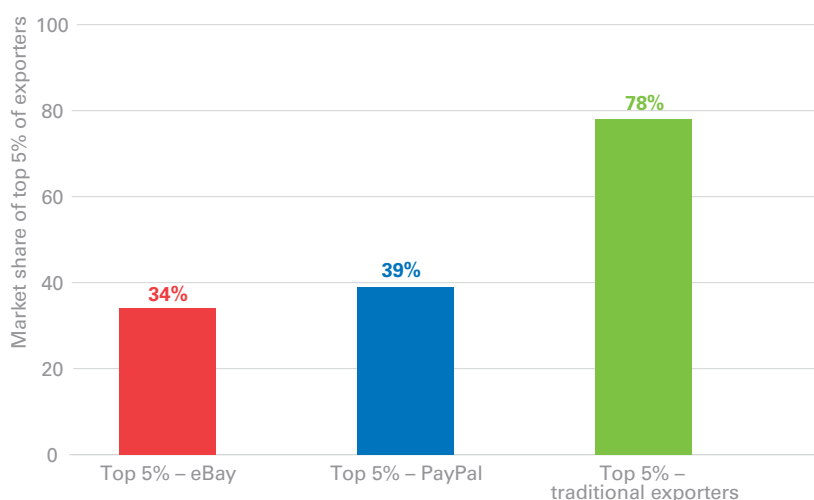
We can now show that this is also the case for technology-enabled firms in Turkey, and herein lies an opportunity to boost export participation by Turkish SMEs.

First, exporting need not be dominated by a few superstars. As the figure below shows, the largest 5% of Turkish eBay and PayPal firms account for 34% and 39% of exports respectively. In contrast, the largest 5% of Turkish traditional exporters account for as much as 78% of exports.

This tells us that technology and online platforms unlock opportunities for small and large firms alike.

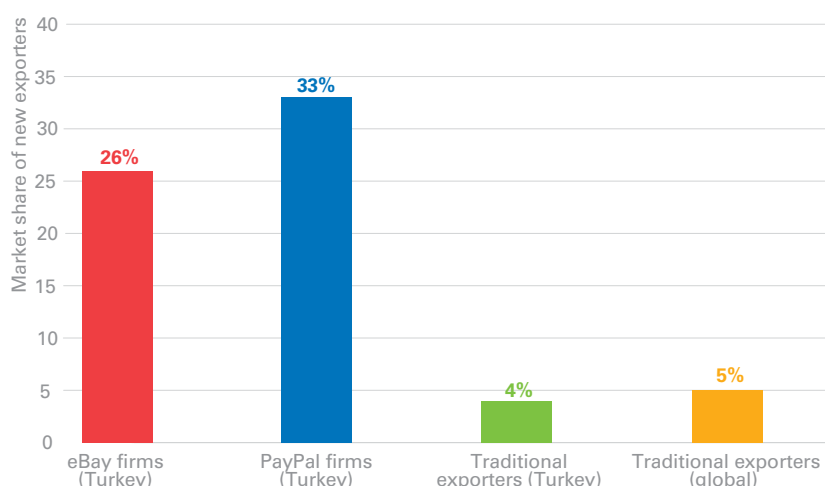
Second, exporting need not be closed to newcomers. Newcomers – defined as those firms that did not export in the previous year – account for 26% of all exporters made through eBay by Turkish firms and 33% of all PayPal transactions. In contrast, traditional newcomers account for only 4% of Turkey's exports.

FIGURE 8: MARKET SHARE OF 5% LARGEST EXPORTERS AND PAYPAL USERS



Source: eBay and PayPal data for 2013 (sellers with more than USD 10,000 in annual sales on eBay / via PayPal) and World Bank data for traditional exporters (World Bank, 2012a, using data from 2010).

FIGURE 9: MARKET SHARE OF NEW EXPORTERS



Source: This chart compares the market share of “new” exporters, as between eBay and traditional exporters. The market share of “newcomers” is defined as follows: All sales of sellers with more than USD 10,000 annually on eBay in 2013 are considered. Among those sales, all sales made by those sellers who sold less than US\$ 10’000 in 2012 or nothing at all are considered sales by “newcomers”. For PayPal, an equivalent definition is used. Similarly, we consider all sales and not only exports, which makes little difference since most sales are exported. The market shares of “new” traditional exporters (Turkey and global average) are taken from World Bank (2012a).

¹² See, for example, Mayer et al. (2007).

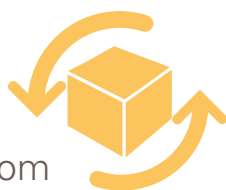
¹³ Calculations made using data provided by World Bank (2012a).

¹⁴ World Bank (2014a).

¹⁵ See previous studies conducted on behalf of eBay (2013a, 2013b, 2014a and 2014b).

¹⁶ Ibid.

LEARNING BY EXPORTING



With experience from trading comes a better understanding of **markets and customers demand**

Turkey-based eBay firms initially increase the number of categories they trade in but, as they grow, they begin to specialise



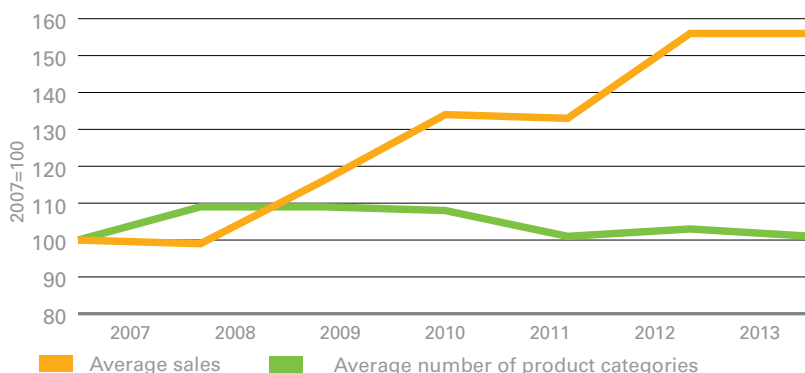
Trade literature has traditionally held that firms have to become more productive before they export. The International Study Group on Export and Productivity concluded in 2008, for example, that “there is evidence in favour of self-selection of more productive firms into export markets, but nearly no evidence in favour of the learning-by-exporting hypothesis”¹⁷.

Our research results turn that conclusion on its head, and supports recent suggestions that exporting can indeed boost productivity.¹⁸ We show that also small and inexperienced Turkish entrepreneurs take advantage of the fact that technology lowers barriers to accessing global markets. In fact, that is a very condition for their successful growth.

Technology-enabled firms specialise as they grow. With experience from trading comes a better understanding of markets and customer demand. Studying Turkey-based eBay firms over time, we find that initially they increase the number of product categories they trade but as they grow they come to specialise and perfect their business. They then continue to grow not by selling higher numbers of different product categories but through higher sales per product category.

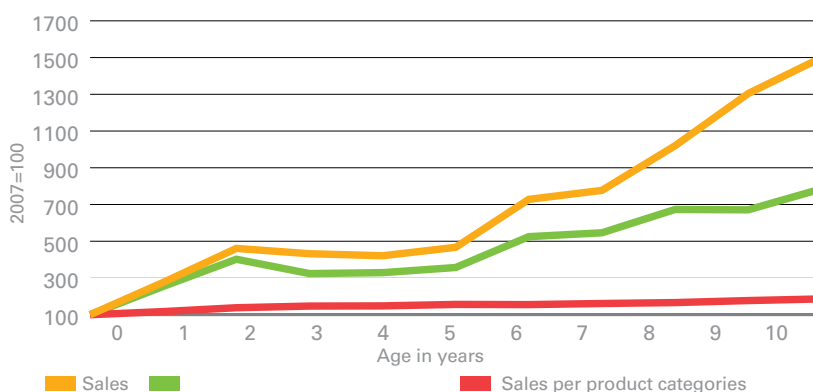
The technology-enabled marketplace encourages learning as well as growing by exporting. And herein lies a great opportunity to address the “relatively poor export performance of Turkey’s SMEs” as identified by the World Bank. Turkey’s strong export growth is driven by a small number of large firms that are pulling away from the majority of exporting and domestic firms. To ensure continued growth as well as upgrading of Turkey’s trade, we need to empower small firms to become dynamic, sustainable mid-sized exporters.¹⁹

FIGURE 10: LEARNING EFFECT OVERTIME ON EBAY



Source: This chart illustrates learning and specialisation on eBay. It shows the average sales and the average number of different product categories sold over time by eBay users that have continuously operated out of Turkey since 2007 (figures are indexed to 100 in 2007). It can be seen that their sales increase significantly over time (by on average 50-60%), whereas the number of different product categories that they focus on first increases and then – as sellers specialise in what works best for them – shrinks over time. The chart is based on calculations using data for Turkey-based eBay sellers that operated throughout 2007-2013 and that made sales of at least US\$ 1’000 in 2007 (note that a lower threshold than the usual US\$ 10’000 is used here).

FIGURE 11: LEARNING EFFECT BY “AGE” ON EBAY



Source: This chart is a second illustration for how learning and specialisation occurs on eBay. It shows the average sales, the average number of different product categories sold, and “sales per product category” by “age” of a seller. “Age” is calculated based on the year the user registered with eBay. This allows us to follow Turkey-based eBay sellers over time, from their first year of usage. Figures are indexed to 100 for sellers of age zero. “Older” sellers have much higher sales than “younger” sellers, whereas the number of different product categories increases much less with “age”. This again indicates that sellers specialise in what they are best in over time. The chart is based on calculations using sales by all Turkey-based sellers in 2007-2013 and is based on their registration year. We have included all sellers, including the smallest ones, because sellers typically start with small sales volumes in the first years of their existence.

17 See ISGEP (2008).
 18 Ciuriak (2013, working paper).
 19 World Bank (2014)

CASE STUDY



THE INTERNET FUELS SMALL BUSINESS IN ISTANBUL, TURKEY

Ferit Göksen was born and raised in Kayseri, Turkey. He relocated to Istanbul to obtain his MBA from Marmara University, where he increasingly became interested in the world of international trade and development. In 2001, after obtaining his degree, he remained in Istanbul where he and his partner began selling different items only through the eBay platform. In 2004 he took his technology skills and combined them with his partner's traditional business skills and together they founded GSC Tekstil. "After a few years, we wanted to focus on a specific product. We noticed there was a market for yarn, and we decided to give it." Today the business successfully uses the power and breadth of the Internet marketplace to sell yarn products.

EMPLOYEES



The company employs between 15 and 20 people. "It's great to be able to give 20 different families in my community a job," explains Ferit.

INTERNET PRESENCE



Yarn Paradise has two websites: www.yarn-paradise.com and www.iceyarns.com and also sells products on ebay.com

PAYMENTS



Without PayPal, Ferit's business would be in a tough position when it comes to payments.

PayPal allows Ferit to list of the items in US dollars, but customers can easily pay in their currency while PayPal seamlessly converts the transaction to US dollars. It's safe and secure and about 95–96% of payments are transacted through PayPal, even though Yarn Paradise accepts credit cards.

CROSS BORDER TRADE



98% of the company's sales are outside of Turkey. While that was not the original intention, the Internet organically allowed Ferit to reach customers all over the world. About 35–36% of sales are to the United States and the rest are divided between

other European countries and Asia. "Yarn Paradise has sold to almost every country in the world including Norway, France, Germany, the UK, Denmark, Sweden, Canada, Australia, Malaysia, New Zealand, Thailand, Trinidad, Ecuador, Egypt, Haiti and many more. Sometimes I have never even heard of the country in my life, until I get ready to ship the product," states Ferit. Yarn Paradise uses companies like DHL and UPS to help with shipping and logistics. While most transactions are quick and seamless, there are some problems in countries where online commerce is still new. The biggest issue for Yarn Paradise is customs and customs duties. Buyers are often surprised by them and this creates a bad customer experience.

MAKING TRADE INCLUSIVE



The technology-enabled marketplace allows individuals to set up and run a business from anywhere

eBay firms serve customers from

77 of Turkey's

81 regions

PayPal users are located in

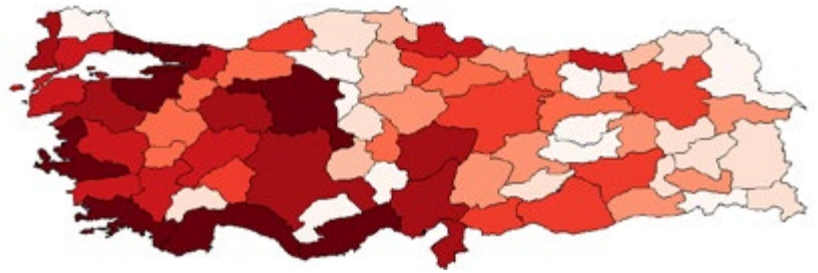
72 of all **81** Turkish provinces

The technology-enabled marketplace allows individuals to set up and run a business from anywhere, irrespective and independently of where the potential customers may be found. Entrepreneurs from remote areas can with the use of global online networks and digital services access and serve both domestic and world markets.

Indeed, eBay and PayPal firms can be found across Turkey. eBay firms serve customers domestically and internationally from 77 of Turkey's 81 regions and PayPal users located in 72 of all 81 Turkish provinces.

eBay and PayPal are used all over Turkey, including in remote parts of the country. The combination of the Internet, technology and innovation not only allows consumers in remote locations to purchase a wide selection of products, but it also enables entrepreneurs from such locations to reach and serve customers across the globe.

FIGURE 12: **DISTRIBUTION OF EBAY SELLERS WITHIN TURKEY**



Source: Calculations based on eBay data for 2013. Regions in dark red have the highest density of eBay sellers, those in light red have the lowest density and those in white have no eBay sellers. All sellers are considered.

BRINGING DOWN TRADE BARRIERS

RECOMMENDATIONS THAT CAN HELP:



**Ensure
reliable**
postal service
continues



Transparent
laws and regulations



**Improve
electronic**
custom
processes



**Improve
freedom** on
the net

So far, our report has analysed how the Internet, technology and innovation together empower firms in Turkey of all sizes and levels of maturity to go global and to grow local businesses.

The eBay and PayPal firms our data covers appear to operate in an almost flat world. Compared to traditional firms, they are much more inclined to export and they reach many more markets.

Despite such positive trends, there remain barriers for in particular small businesses using the Internet and digital services as their springboard to engage in global trade as a means to grow sustainable local businesses.

The internationalisation of SMEs is most often looked at from the point of view of Global Value Chains with participation in global trade discussed in terms of global networks of suppliers and buyers and assessed in terms of the competence of SMEs relative to other trade actors.

In light of the very different trade patterns our research has uncovered, we suggest there is an alternative way of approaching SME internationalisation. We believe it makes sense to discuss world trade in terms of an emerging global network of services and conditions, and to assess trade policy in terms of the capacity of these services and conditions to empower firms.

SMEs can be empowered to trade internationally not only by integrating or affiliating with large multinationals but also by leveraging and customizing (1) the Internet, (2) the services that run on the Internet, and (3) logistics.

1. Internet

Turkey ranks 27 of 131 countries in the “Connectedness Index” developed by McKinsey Global Institute.²⁰ This index measures the global economic interconnections between countries and companies by assessing the global flows of goods, services, finance, people, data and communication.

The Internet is a key enabler of interconnections between countries and companies. It is therefore of relevance that a recent report by Dalberg²¹ finds that the contribution of the Internet to Turkey’s GDP is only around 1%, compared to about 3.5% for countries that show up higher on the Connectedness Index, such as the US, UK, and South Korea.

The importance of the Internet to the Turkey economy is recognised by the Draft Information Society Strategy and Action Plan 2014-2018 prepared by the Ministry of Development. Currently, the Internet usage rate is 43,2% in Turkey while broadband access per household is 49,1%. The aim of the Draft Strategy and Action Plan is to reach 75% Internet usage rate and 75% broadband access rate by the year 2018.

The Dalberg report points to transparency – clarity of laws and regulations – as one key attribute of Internet openness. To achieve the goals of an economy connected and supported by the Internet, we therefore recommend that the Turkish Government:

1. Ensures that regulatory and enforcement procedures are:
 - Open for contribution from all related stakeholders
 - Based on the analysis of necessary needs, risks and evidence
 - Consistent across all authorities and entities within the administration
 - Complemented by regular education of employees of public organizations and the members of the judicial system
2. Enacts the Draft Law on the Regulation of E-Commerce, currently pending before the General Assembly of the Turkish Parliament. The enactment of this draft law will help secure a more transparent and predictable environment for all actors in technology-enabled trade and commerce.

²⁰ See McKinsey Global Institute (April 2014).

²¹ See Dalberg (March 2014).

2. Services

Online and mobile payments is a service which runs on top of the internet. The ability to pay and get paid securely and conveniently is a key factor to the success and inclusiveness of technology-enabled trade.

The newly published MasterCard Mobile Payments Readiness Index places Turkey on position 27 out of 34 markets in terms of how prepared a country is to adopt mobile payments and what remains to be done for increased uptake. Turkey received an adoption score of 28,8 where a score of 60 indicates that a market has reached the stage at which mobile devices account for an appreciable share of the payments mix.

Noteworthy, Turkey lags behind on consumer readiness (i.e. consumers' familiarity with, willingness to use and current usage of mobile payments) as well on the aptness of the regulatory system. This should be considered in the light of the estimation by Dalberg that Turkey's score on the "freedom on the net" is considerably lower than for those more connected countries where the Internet plays a greater part in the economy.

Indeed, some policies remain in Turkey that negatively impact on the provision and adoption of data related businesses, such as those in the area of financial and payments services.

First, data localisation has become a problematic issue with Turkish e-money regulations requiring local IT systems infrastructure. Article 23 of the E-Money Law²² stipulates that payment institutions and electronic money institutions shall have their IT systems (including infrastructure, hardware and software) in Turkey.

E-money institutions that want to operate in Turkey are therefore prevented from taking advantage of cost efficient and practical solutions whereby their IT systems reside outside of the country.²³ The situation is similar in banking legislation: providers with servers outside of the country are in practice prohibited from offering cloud based financial services in Turkey.

Second, Turkey is considered as a non-secure third country for data transfers pursuant to EU regulation on data protection because Turkey lacks a binding framework law on personal data and privacy. The implications are huge. No EU country transfers data to Turkey, affecting the provision of services dependent on data processing and/or transfers. It also severely restraints the exporting of IT services from Turkey to foreign countries as well as foreign operations by Turkish firms. Call centers; cloud, financial and health services; the airline transportation and telecommunication sectors are all areas that are highly affected.

In order to progress the reach and adoption of Internet services, such as payments, by Turkish businesses and citizens we recommend that the Turkish Government:

1. Remove the localization requirements to create a competitive environment that SME's may benefit from
2. Enact the Draft Law on Protection of Personal Data

3. Logistics

For technology-enabled firms to successfully build operations – and similarly for consumers to benefit from e-commerce – a key requirement is excellent postal services. For international transactions, the quality of the entire shipping process from the seller, across the border, and to the seller matters. This includes customs procedures in the exporting and importing market.

Access to reliable postal services appears to be relatively good in Turkey. Evidence for this can be taken from the World Bank's Logistics Performance Index (LPI)²⁴, which compares the performance of countries on areas such as customs procedures, overall logistics quality and "tracking and tracing".

Turkey performs reasonably well according to this index. In 2014, Turkey ranked 30th among the 160 countries surveyed.

²² N°6493 on Payment and Security Settlement Systems, Payment Services and Electronic Money Institutions dated 27 June 2013.

²³ See also the Communiqué regarding the Management and Audit of the Information Systems of Payment Institutions and Electronic Money Institutions

²⁴ See World Bank (2014). Details can be found at <http://lpi.worldbank.org/>.

FIGURE 13W: **TURKEY'S LOGISTICS PERFORMANCE IN COMPARISON**

COUNTRY	OVERALL LPI RANK	CUSTOMS	INFRASTRUCTURE	INTERNATIONAL SHIPMENTS	LOGISTICS QUALITY AND COMPETENCE	TRACKING AND TRACING	TIMELINES
Germany	1	2	1	4	3	1	4
Netherlands	2	4	3	11	2	6	6
Belgium	3	11	8	2	4	4	2
United Kingdom	4	5	6	12	5	5	7
United States	9	16	5	26	7	2	14
Japan	10	14	7	19	11	9	10
Canada	12	20	10	23	10	8	11
Hong Kong	15	17	14	14	13	13	18
United Arab Emirates	27	25	21	43	31	24	32
China	28	38	23	22	35	29	36
Turkey	30	34	27	48	22	19	41
Poland	31	32	46	24	33	27	15
Romania	40	59	64	36	43	34	27
Bulgaria	47	64	53	37	55	76	24
Mexico	50	70	50	46	47	55	46
Indonesia	53	55	56	74	41	58	50
Egypt	62	57	60	77	58	43	99
Brazil	65	94	54	81	50	62	61
Nigeria	75	117	83	107	85	51	57
Russia Federation	90	133	77	102	80	79	84

Source: World Bank (2014). Results shown here summarize the latest Logistics Performance Index (LPI) for 2014; the cells report the rank for selected countries among 160 surveyed countries. The country with the lowest overall rank was Somalia (not shown).

24 See World Bank (2014). Details can be found at <http://lpi.worldbank.org/>.

Turkey's performance in the logistics sector is similar to many other emerging markets, such as UAE, China or Poland. However, Turkey still lags behind Western Europe, North America and Japan, and performs less well in the category "international shipments."

There is thus room for further improvements in Turkey to the benefit of small businesses and consumers as well as the "traditional" economy. Concrete measures that should be taken immediately include electronic customs processes and portals for information about customs and related legislative obligations in export markets. We also encourage the relevant Government ministry to take the lead in encouraging practical and aggregated solutions to returns.

Another example of a barrier to technology-enabled trade is high duties and fees applied to low-value shipments. Typically, customs authorities do not collect import duties and VAT on low-value shipments below a certain threshold – often called a "low-value thresholds" (LVT). LVTs make a lot of sense because the cost of collection taxes on such small consignments often exceeds the revenue, creates administrative work for all parties and adds extra costs in the way of fees.

Turkey applies a very low LVT by international standard. Currently, the LVT is set at EUR 75 (around TRY 214). However, to that comes an additional tax for imports valued between EUR 75 and 1500: 18% will be applied if the shipment is directly from EU countries and 20% if the shipment is from other countries.

The World Bank has argued that the tax collection costs for Turkey for such low-value items may be higher than the tax itself.²⁵

Turkish technology-enabled firms face the barrier of low LVTs in destination markets. But a low LVT in Turkey also affects their ability to serve foreign customers. Firms that wish to successfully sell abroad must grant buyers the possibility to easily return products in case they do not fulfil their expectations. In that case, items would be re-imported and thus subject to the same problems that Turkish consumers face when buying from abroad.

Increasing the LVT in Turkey would make it easier for Turkish consumers to shop globally and it would facilitate exports by Turkish sellers as handling returned shipments becomes easier. Moreover, higher LVTs in other markets would certainly benefit Turkish exporters even more. Turkey could, for example, try to seek commitments on higher LVTs by its trading partners in its negotiations of various free-trade agreements.

This report has demonstrated that many eBay sellers in Turkey do manage to successfully ship products to a large number of countries, despite existing barriers in Turkey and in destination markets. However, the overall level of such sales could certainly be significantly higher. To that end we recommend:

1. Further improvements in logistics performance, in particular for international shipments through electronic customs processes and documentation, information portals, and supporting effective solutions to foreign returns.
2. Raising LVT and pursuing commitments on higher LVTs in bilateral and multilateral trade negotiations
3. Removal of the importation tax and of the general prohibition on importing mobile phones and cosmetic products

²⁵ See World Bank (2014), p. 49.

CONCLUSION

New technologies such as those provided by eBay and PayPal offer tremendous opportunities for entrepreneurs in Turkey. Bridging geographical distance, they empower SMEs in Turkey to reach almost any market in the world.

Using data from eBay and PayPal, this report offers a glimpse of what is possible: Turkish firms building and sustaining local operations by serving customers around the world. These firms are leveraging services such as eBay and PayPal to learn and grow by exporting.

It is possible to break with the trend Turkey has seen over the last decade where a few and large firms dominate exporting and small firms perform poorly. Turkish entrepreneurs empowered by technology and the Internet can and do excel internationally.

To realise the full potential of the convergence of the Internet, technology and trade, we need to act now to:

1. Strengthen the power of the Internet to support the Turkish economy and connectedness by enacting the draft law on e-commerce as well as increasing the openness, transparency and quality of regulatory and enforcement procedures.
2. Facilitate for the provision as well as exportation of data-based services by removing localisation requirements and adopting the draft law on personal data protection
3. Further develop logistic services so that they meet the needs of internationally-minded Turkish small businesses, raise the Low Value Threshold, and remove importation restrictions and taxes.

DATA SOURCES

The analytical results shown in this paper are based on an anonymous dataset of eBay sellers and PayPal users (recipients) based in Turkey. The data contains information about their sales, number of transactions, destination countries, product categories, location (by postal code) and several other indicators. For the most part, the analysis was done by considering only those eBay sellers with annual sales of at least US\$ 10'000 (around TRY 25'300 in 2013), and users of PayPal receiving the same amounts per year. To allow for comparisons with the "traditional" world, i.e., traditional companies, we have used a number of sources, including World Bank databases, academic papers and news articles, all of which are based on similar data, but for traditional firms or exporters in Turkey.

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