

# On the Changes of the Composition of Turkey's External Trade with Major EU Trading Partners in 1996 – 2017

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## Summary

The significant role of the external trade for an economy is incontestable. External trade not only helps for capital accumulation within the industrialization of an economy but also generates employment. Furthermore, external trade which reflects the national production of an economy speeds up the transfer and the usage of the new technology and might increase the foreign exchange supply which is necessary for the balance of payments. Last but not least, external trade serves for enhancing political and diplomatic relations between countries.

Along with the incontestable importance of increasing the volume of trade, trade composition and export diversification are as significant as the quantity for an economy. Classical trade theory as well as Heckscher-Ohlin theory that explain the gains from international trade by the static comparative advantage under perfect competition are far from conceiving today's tangibles and the assumption of trade as an engine of growth deals with short-run economic growth. These weaknesses might be reinforced with a differentiation of trade composition and export diversification. Such a structural change on

the external trade composition might then positively affect long-run economic growth.

Regarding Turkey's external trade, European Union has been the main trading partner of Turkey since the entering into force of the Association Agreement. The Association Agreement which aims the full membership of Turkey to the European Union foresees a Customs Union for industrial commodities. The Customs Union between the parties has been constructed upon three different stages, namely the Preparatory Stage, the Transitional Stage and the Final Stage. The Final Stage which reflects the readiness of the parties for the well-functioning of the Customs Union started in 1996.

The aim of this paper is to analyze the changes in the composition of trade between Turkey and the major European Union trading partners and to evaluate the changes by taking into consideration 1996 and 2017. The conclusions of this paper give us the opportunity to discuss the actual as well as potential trade composition and export diversification of Turkey at the Final Stage of the Customs Union and might lead to further studies which examine the relationship between export diversification and long-run economic growth.

**Key words:** External Trade of Turkey, Turkey and European Union, Trade Composition of Turkey, Turkey and European Union Customs Union.

**JEL codes:** F13, F15.

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## I. The Role of External Trade for an Economy

In today's world, we are all aware of the increasing importance of international transactions and their widening scope on daily basis. International transactions mainly refer to the international/external trade and international capital movements. In this paper, international trade and its significant role for an economy are taken into consideration, while the examination of the role of international capital movements is to be the object of another study.

Actually, external trade serves an economy via different channels. The first channel is the economic growth channel. Starting with Adam Smith, the theory of international trade and the theory of economic growth has been regarded within two interlinked branches of economics. It was believed by the *classics* that international trade positively affects the economic growth within an economy. Nevertheless, these two theories were examined autonomously by the neo-classics. However, since the 1960s the theory of international trade and the theory of economic growth have been merged again with the contribution of the new theories and models (Afonso, 2001, p. 2-9).

The second channel is the one of economic development. External trade is an influential enabler of economic development via increased economic growth. External trade helps to integrate the developing countries within global markets and provides a strategic path for the flow of capital and technology which in turn increases productivity as a whole.

On the other hand, external trade affects the national income of an economy via income channel. External trade may increase the economy's income generating facilities via *vent for surplus*<sup>1</sup> (UNCTAD, 2014, p. 3).

<sup>1</sup> Accessing to international markets creates a vent for surplus to an economy enabling the economy to use the resources more efficiently that were previously unused or underused due to insufficient domestic demand.

The classical, neo-classical and Heckscher-Ohlin theory of international trade analyze the effect of trade on production depending on the assumption of full employment. However, full employment cannot be attained in most of the developing countries. Myint (1958) argues that unemployment represents a potential production supply that exceeds domestic demand in the developing countries. According to his argument, international trade can provide a *vent for surplus* that is a larger market and accordingly boosts a country's output and employment. Myint explains that *vent for surplus* is a more reasonable explanation of the motives of countries to engage in trade, while comparative advantage enables us to understand the types of goods which are subject to trade (Appleyard, Field, Cobb, 2010, p. 422).

The third channel in which the external trade serves an economy is through the positive economies of scale which is actually related with Myint's *vent for surplus* assumption. External trade leads to an increase in the production scale due to meet the rising foreign demand. Thus, the exporting sectors/firms could enjoy the positive economies of scale, producing on a larger scale and have a decrease in their average costs.

The fourth channel is the balance of payments channel. The balance of payments is a summary statement in which in principle, all the transactions of the residents of a nation with the residents of all other nations are recorded during a particular period of time, usually a calendar year. The main aim of the balance of payments is to provide information about a nation's international position and to help it design its monetary, fiscal and international trade policies. Balance of payments information is also an important indicator not only for banks, firms and individuals but also for foreign investors (Salvatore, 2011, p. 434).

International trade is the main sub-account which is recorded under the Current Account of the balance of payments. In most of the

countries, the main reason for the balance of payments deficit is the international trade imbalance and the insufficient capital inflow. Thus, increasing foreign exchange supply via exports has been a fundamental goal for all open economies. Nevertheless, it should be noted that restricting imports and subsidizing exports should not be the way to increase foreign exchange supply, considering this reduces competitiveness and leads to the misuse of the resources diverting the national production from the commodities in which the nation has a comparative advantage to the commodities of comparative disadvantage.

The fifth channel is the technology transfer channel of the external trade. The positive effects of the international trade on the transfer and usage of the new technologies have been elaborated by the post-Heckscher-Ohlin theories. Among the Post-Heckscher-Ohlin theories or, as generally referred to, the new international trade theories, the Technological Gap Model sketched by Posner (1961) and the Product Cycle Model fully developed by Vernon (1966) analyze the effects of technology on the international trade. Both Models draw on the assumption that technological differences are the basis of nations' comparative advantage.

External trade not only serves an economy but also helps enhance political and diplomatic relations between countries. Countries can utilize external trade as an effective instrument to settle political and diplomatic relations. The establishment of today's European Union (EU) is a very good example in this respect. As it is well known, the European Coal and Steel Community (ECSC) established in 1952 by the six founding members gave birth to today's EU. The main idea behind the ECSC was to resolve the prolonged political dispute between Germany and France and to prevent a possible new war among the European countries. Although the main aim was political and diplomatic, the instrument was an economic one. The founding members

of the ECSC decided to establish a *common market*<sup>2</sup>. The functioning of the ECSC paved the way to the establishment of the European Economic Community (EEC) in 1957. These two supranational organizations not only prevented new political conflicts but also were transformed into a dominant economic block, namely the EU.

## II. The Importance of Trade Composition and Export Diversification for an Economy

The theory of international trade has been evolving since the conception of Adam Smith's theory of absolute advantage. The father of the classical trade theory explained international trade via specialization and the labor theory of value. Then, David Ricardo with his theory of comparative advantage, improved the theory of absolute advantage. The classical trade theory as well as the neo-classical trade theory rest on the simplifying assumptions of perfect competition, immobility of factors of production, product homogeneity, constant costs of production, same level of technology, among other factors which are no longer relevant in the contemporary international trade environment. Thus, new trade theories have dismissed such unrealistic assumptions and tend to embrace the importance of input trade (Jones, 2000), the effects of transportation and institutional costs (Venables, 2001), the reality of knowledge transfer among trading partners (Grossman and Helpman, 1991), increasing role of monopolistic competition (Krugman, 1979) and impacts of technological differences (Ruffin, 1999).

The role of international trade on economic growth has always enjoyed considerable attention in the literature of economics. The

<sup>2</sup> Common market is a type of economic integration in which there are free movement of goods, services, labor and capital among the member countries. The free movement of labor and capital represents a higher level of economic integration and a further reduction in national sovereignty in economic policies.

idea that international trade is the *engine of growth* dates back to Adam Smith's theory of absolute advantage. However, until the 1980s, most of the developing economies implemented protectionist policies or in other words, import-substitution industrialization in line with the ideas of Prebisch (1950) and Singer (1950). In 1980s, then they began to look for alternative economic policies and developed export-oriented industrialization strategies and thus economic literature introduced studies on the relations between trade openness and economic growth.

Although there has been extensive literature on the impact of export expansion, trade orientation and export composition on economic growth<sup>3</sup>, only a minor body of research has examined the links between export diversification and long-run economic growth. The leading literature on this relatively new research area comprise the works of de Piñeres and Ferrantino (1997), Al-Marhubi (2000), Ferranti, et. al (2002), Herzer and Nowak-Lehmann (2004), Herzer and Nowak-Lehmann (2006).

In theory, export diversification accelerates economic growth. *Horizontal export diversification*, or increasing the number of export sectors, could preclude dependence on a number of traditional sectors which might be subject to price instabilities. Such instabilities and fluctuations in export earnings could easily hamper economic growth (Dawe, 1996). Thus, export diversification could be an effective instrument in diminishing the possible negative effects and support not only long-term economic growth but also sustainable economic development.

Apart from horizontal export diversification, *vertical export diversification* which means transforming the exports of an economy from primary to manufactured commodities, would also contribute to long-term economic growth. This assumption is based on the Singer-

Prebisch thesis. According to this thesis, vertical export diversification might help attain the stability of export earnings if there is a deterioration in the terms of trade of an economy that exports primary commodities. Nevertheless, it should be kept in mind that the Singer-Prebisch thesis explains the positive effects of vertical export diversification on short-run economic growth via increased terms of trade. The role of vertical export diversification on the long-run economic growth is examined by the endogenous growth theory that takes into account the positive economies of scale and dynamic spillover effects (De Piñeres and Ferrantino, 2000).

### III. A Brief Overview of the Turkey-EU Trade Relations

The relations between Turkey and the EU date back to the 1950s. Turkey applied for an association partnership to the newly established EEC in July 1959. The EEC welcomed Turkey's application and the parties agreed upon the Ankara Agreement on 12 September 1963. The Ankara Agreement which entered into force on 1 September 1964 foresees a Customs Union for the industrial goods between the parties. The Ankara Agreement envisaged three stages for the completion of the Customs Union, namely the Preparatory Stage, the Transitional Stage and the Final Stage.

The Preparatory Stage, which was designed to prepare the parties to the responsibilities of the Customs Union, started in 1964 and ended at the end of 1972. At the end of the Preparatory Stage, the EU unilaterally abolished the trade restrictions on Turkish exports except textiles which were the main products within the total exports of Turkey or in which Turkey had enjoyed a comparative advantage at that time.

The Transitional Stage which was launched in 1973 envisaged the completion and functioning of the Customs Union by its end. During this stage, Turkey abolished the

<sup>3</sup> For a detailed review on the literature, see Edwards, 1993.

trade restrictions on the imports from the EU and adopted the common customs tariff of the EU towards the third countries that are out of the Customs Union. Apart from the Customs Union issues, Turkey applied for full membership of the EU in 1987 but the decision was postponed until the completion of the Customs Union. The application for full membership in 1987 was considered as an early and extemporaneous initiative.

The Final Stage started in 1996 with the establishment of the Customs Union. The launch of the Final Stage increased the expectations of Turkey for entering into the EU as a full member on equal footing. Essentially, Article 28 of the Ankara Agreement gives Turkey the right to accede to the EU as a full member. Article 28 of the Agreement states that, as soon as the operation this agreement advanced far enough to justify envisaging full acceptance by Turkey of the obligations arising out of Treaty establishing the Community, the contracting parties shall examine the possibility of the accession of Turkey to the Community. Eventually, Turkey acquired the candidacy status for full membership with the Helsinki Presidency Conclusions in December 1999. As planned, the accession negotiations opened on 3 October 2005 and are under way.

#### IV. External Trade of Turkey with the Major EU Trading Partners: 1996, 2017

Western European countries have invariably been Turkey's major inspiration with regard to its economic and social development and prosperity. After the end of the Second World War, Turkey designated its international relations together with its Western Allies. However, Turkey has started to develop political, economic and strategic relations with its neighbors from Middle East, the Balkans, and the Caucasus and even from Africa since the end of the Cold War. In 2000s, Turkey reanimated its relations with the Arab League, the Non-Aligned Movement, the Gulf Cooperation Organization and African organizations (Özkan, Akgün, 2010, 526).

This part of the paper examines Turkey's external trade with the EU. In this section, figures have been prepared based on the data provided by the Turkish Statistical Institute (TUIK). First the overall trade balance and the share of the EU within the total external trade of Turkey are given. Also the external trade of Turkey with the major EU trading partners is presented with a special emphasis on trade composition and export diversification.

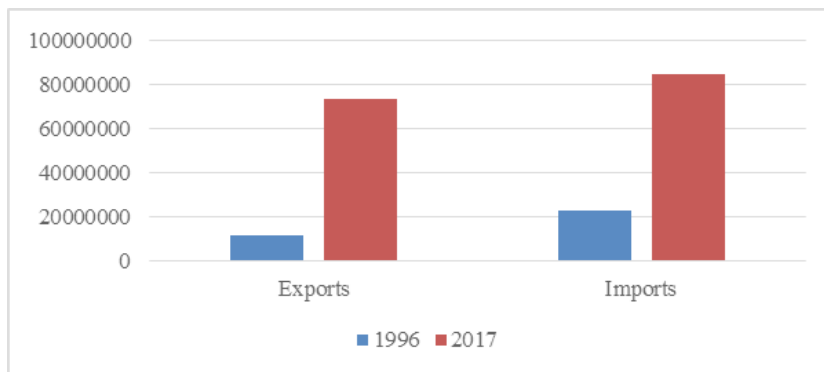


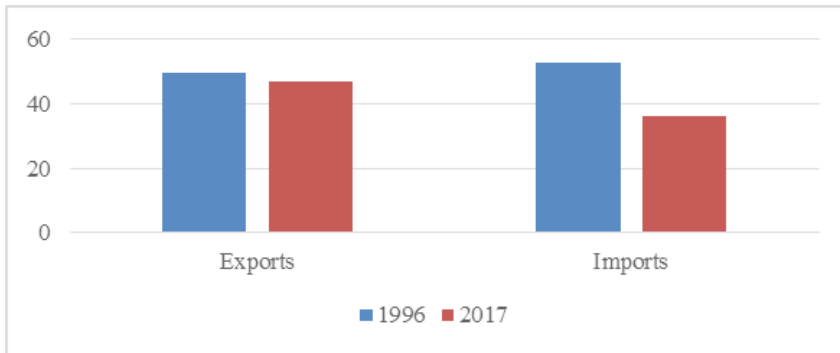
Figure 3.1: Trade Balance of Turkey with the EU: 1996, 2017 (dollar-000)

According to the Figure 3.1, total external trade of Turkey with the EU almost quintupled in 2017. Turkey's exports jumped from 11.5

billion to almost 74 billion dollars, while imports saw an increase from 23 billion to 85 billion dollar. Turkey had a trade deficit with the EU

both in 1996 and 2017. However, the deficit was relatively smaller in 2017. In 1996, Turkey imported twice as much as it exported, while in 2017 the ratio was apparently low. Hence it could be admitted that the Customs Union

between Turkey and the EU effectively served to increase the volume of bilateral trade. An evaluation on the changes at the composition of external trade of Turkey is also important for an overall assessment of the Customs Union.



**Figure 3.2:** Share of the EU in the External Trade of Turkey: 1996, 2017 (%)

As the Figure 3.2 shows, the share of Turkish exports to the EU had almost reached 50 percent in 1996 and then fell to 47 percent in 2017. There was a more marked decrease in Turkey's imports from the EU. The share of the EU within the total imports of Turkey stood at 53 percent in 1996 and then dropped to 36,4 percent in 2017. Two main inter-related reasons could possibly explain this decrease in both exports and imports. The first reason might be the global financial crisis of 2008. Global financial crisis affected the EU and decreased its GDP. Such a decrease in GDP and consumption have a negative effect on Turkish exports to the EU. Consequently, Turkey began to search for new markets and engaged in reviving its economic relations with other economic blocks and countries. Nevertheless, these attempts to diversify the economic as well as political relations have not changed the main trading partner for Turkey, namely the EU.

On the other hand, the decrease in EU's share within Turkey's imports could be

attributed to the growing demand for energy. Energy imports constituted almost 15 percent of Turkey's total imports in 2017, while they were a mere 3 percent in 1996. Given that Turkey's major trading partners in energy imports are not the EU member states, such a decrease might not be very surprising. Despite the diminishing share in 2010s, the EU has remained the major trading partner of Turkey.

The EU has been the main trading partner of Turkey for years, yet Germany, United Kingdom, France and Italy have the biggest shares within the external trade of Turkey with the EU. According to the Figure 3.3, in 1996 Turkish exports to Germany stood at 45 percent while imports has a share of 34 percent within the bilateral Turkey-EU trade. Italy follows Germany with a share of 13 percent in exports and 19 percent in imports. The United Kingdom has a share of 11 percent both in exports and imports, and France has a share of 9 percent and 12 percent, respectively.

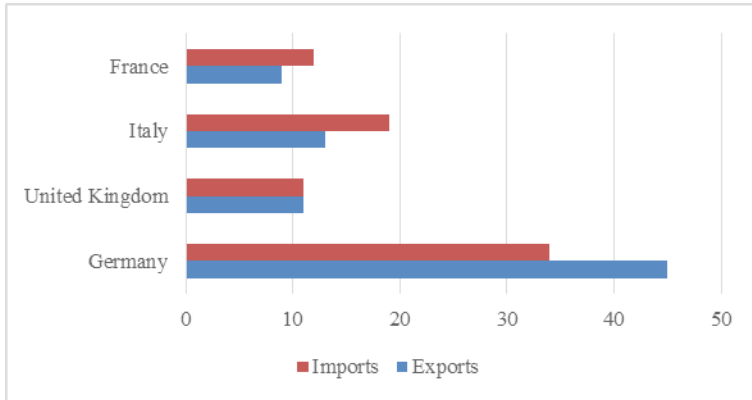


Figure 3.3: Share of the Major EU Trading Partners within the External Trade of Turkey with the EU: 1996, (%)

On the other hand, when Figure 3.4 is examined, it is understood that the share of Germany, the leading trading partner of Turkey among the EU member states is decreased within the external trade of Turkey with the EU in 2017. Exports of Turkey to Germany within the total exports of Turkey to the EU declined to 20 percent in 2017 that was 45 percent in 1996 while the imports decreased from 34 percent to 25 percent. On the other hand, the share of exports of Turkey to Italy decreased from 13 percent to 11,5 percent

while the share of imports decreased from 19 percent to 13,3 percent. The share of exports to France stood still at 9 percent but the share of imports decreased from 12 percent to 9,5 percent. The most gripping data comes from the United Kingdom: Exports of Turkey to the United Kingdom within the total exports of Turkey to the EU increased from 11 percent to 13 percent while the imports decreased from 11 percent to 7,7 percent. This data designates a trade surplus of Turkey with the United Kingdom.

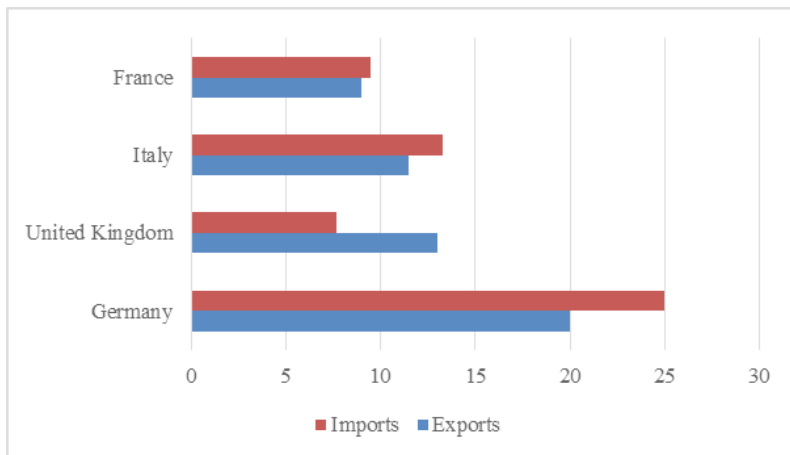


Figure 3.4: Share of the Major EU Trading Partners within the External Trade of Turkey with the EU: 2017, (%)

After pointing out the major EU trading partner countries of Turkey in 1996 which was the first year of the Final Stage of the

Customs Union with the EU and in 2017, the changes within the composition of trade are examined for each of them.

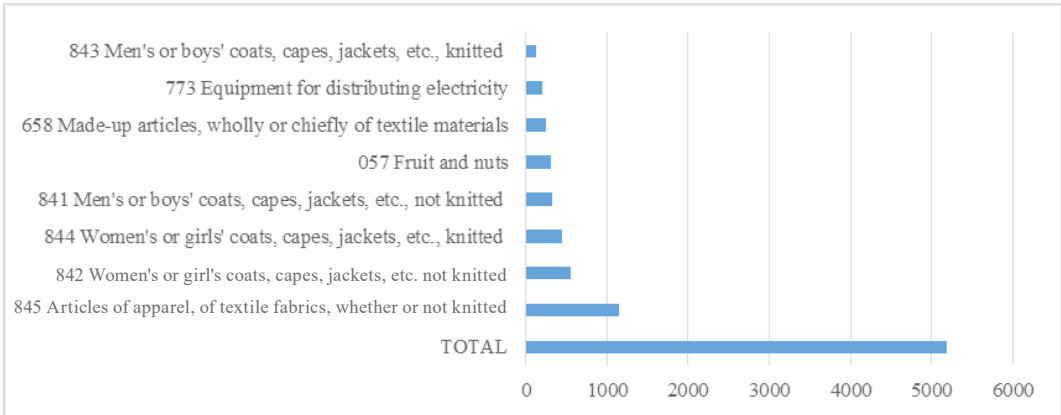


Figure 3.5: Exports of Turkey to Germany (SITC Rev. 3): 1996 (million dollar)

The previous examinations designate Germany as the leading EU trading partner of Turkey both in 1996 and 2017. Thus, the analysis starts with Germany. According to the Figure 3.5, Turkey was exporting mainly textile and fruit and nuts to Germany in 1996. What becomes evident from the Figure 3.6 is that Turkey's exports to Germany diversified. The data expose a horizontal export diversification.

Although the leading exporting commodities are still from the Articles of Apparel, of Textile Fabrics, commodities from Road Vehicles, Electrical Machinery, Power Generating Machinery and Equipment constitute the other main exported items in 2017. This data displays that Turkey has begun to produce and export higher value added commodities when compared with its exports in 1996.

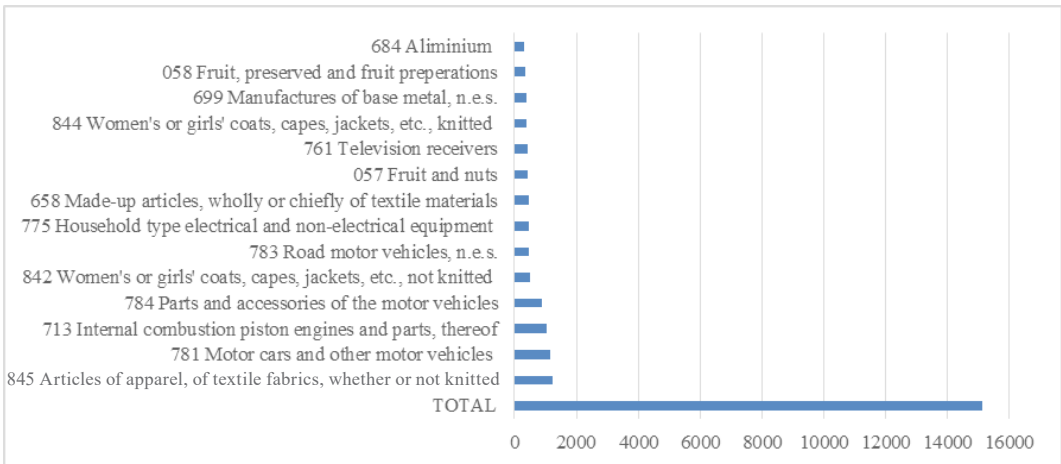


Figure 3.6: Exports of Turkey to Germany (SITC Rev. 3): 2017 (million dollar)

Regarding the imports of Turkey from Germany, Turkey was importing mainly Textile and Leather Machinery, Motor Cars and Other Motor Vehicles and Other Machinery and Equipment in 1996. According to the Figure 3.8, imports of Motor Cars and Other

Motor Vehicles, Parts and Accessories of the Motor Vehicles and Internal Combustion Piston Engines and Parts, thereof constitute the biggest shares within the total imports of Turkey from Germany in 2017.



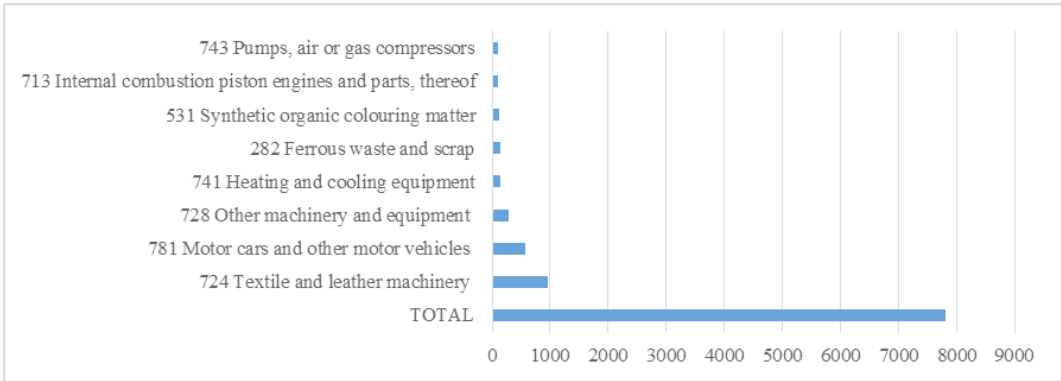


Figure 3.7: Imports of Turkey from Germany (SITC Rev. 3): 1996 (million dollar)

When the composition of exports to and imports from Germany in 2017 are taken into consideration as a whole, it is found out that there are *intra-industry trade*<sup>4</sup> in Motor Cars and Other Motor Vehicles, Parts and Accessories of the Motor Vehicles and Internal Combustion Piston Engines and Parts, thereof. *Intra-industry trade* refers to a

two-way trade in the same industry or in the differentiated commodities. A large portion of the output of the developed economies today involves differentiated commodities. Intra-industry trade arises in order to take advantage of positive economies of scale in production and thus lower average production costs (Salvatore, 2007, p. 179).

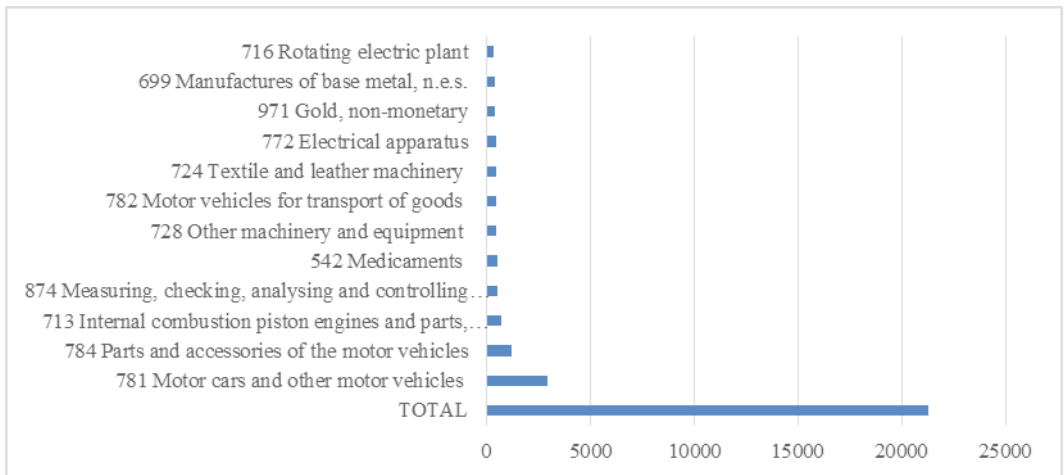


Figure 3.8: Imports of Turkey from Germany (SITC Rev. 3): 2017 (million dollar)

Apart from Germany, external trade of Turkey with United Kingdom deserves special analytical attention. According to Figure 3.9, Turkey exported mainly Fruit and Nuts, Articles of Apparel, of Textile Fabrics and Textile Yarns

and Related Products to the United Kingdom in 1996. The export composition of Turkey with the United Kingdom, which much resembled with Germany, represents an economy mostly depended on primary commodities in 1996.

<sup>4</sup> The measurement of intra-industry trade relies on an industrialization classification system that categorizes commodities into different categories (Krugman, Obstfeld, Melitz, 2012, p. 199). The level of intra-industry trade is measured by the intra-industry

$$\frac{|X - M|}{X + M}$$

trade index (T) that is  $T = 1 - \frac{|X - M|}{X + M}$ .

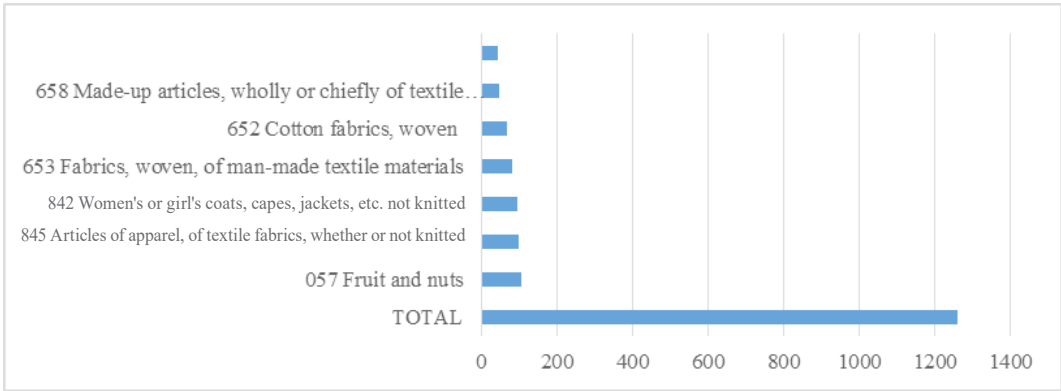


Figure 3.9: Exports of Turkey to the United Kingdom (SITC Rev. 3): 1996 (million dollar)

Figure 3.10 reveals that the export composition of Turkey to the United Kingdom substantially changed in 2017. The main exported commodities of Turkey were the Road Vehicles, Electrical Machinery, Television Receivers. However, Textiles and Clothing

retained their importance within the exports of Turkey to the United Kingdom. These findings expose a horizontal export diversification. It should be noted that the resemblance of the export composition with Germany continued in 2017.

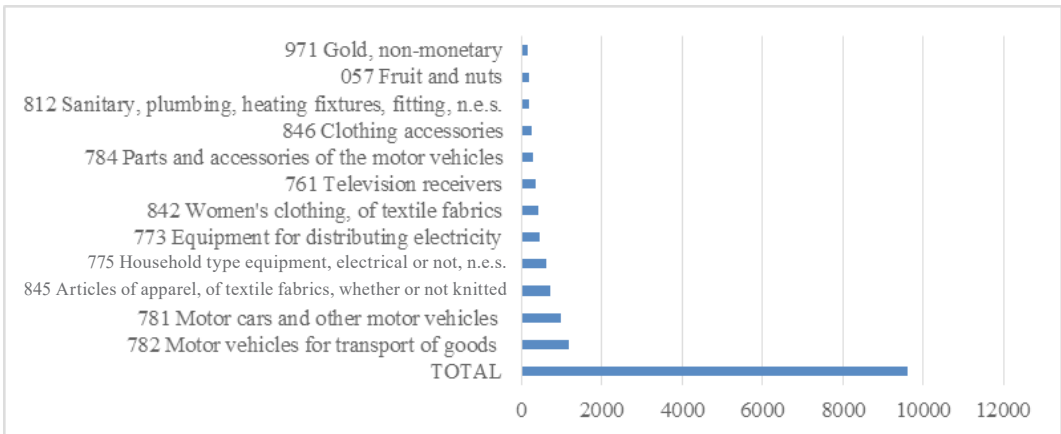


Figure 3.10: Exports of Turkey to the United Kingdom (SITC Rev. 3): 2017 (million dollar)

Regarding the imports of Turkey from the United Kingdom in 1996, the main imported commodity was the Internal Combustion Piston Engines and Parts. The following imported commodities were the Parts and Accessories of the Motor Vehicles and Aircraft and Associated Equipment. Actually, these imported commodities were the main components of the Turkish manufacturing

industry at the edge of the Customs Union. It should further be noted that Internal Combustion Piston Engines and Parts constitute the integral part of almost all the motor vehicles. The considerable share of the imports of Internal Combustion Piston Engines and Parts justifies Turkey's starting up to specialize in the production and export of the Motor Vehicles.

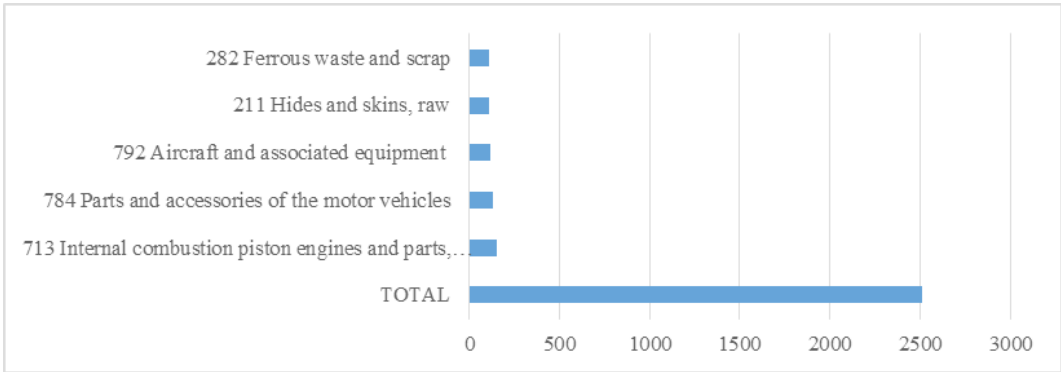


Figure 3.11: Imports of Turkey from the United Kingdom (SITC Rev. 3): 1996 (million dollar)

According to Figure 3.12, the main imported commodity from the United Kingdom was still the Internal Combustion Piston Engines and Parts in 2017. Apart from Internal Combustion Piston Engines and Parts and Motor Vehicles, import composition of Turkey from the United Kingdom largely changed. Ferrous Waste and Scrap became the second leading imported commodity in 2017 which was also one of

the main imported commodities in 1996. Medicaments and Ships, Boats and Floating Structures followed the leading imported commodities. When the composition of exports to and imports from the United Kingdom in 2017 are taken into consideration as a whole, it is understood that there was *intra-industry trade* in Motor Cars and Other Motor Vehicles.

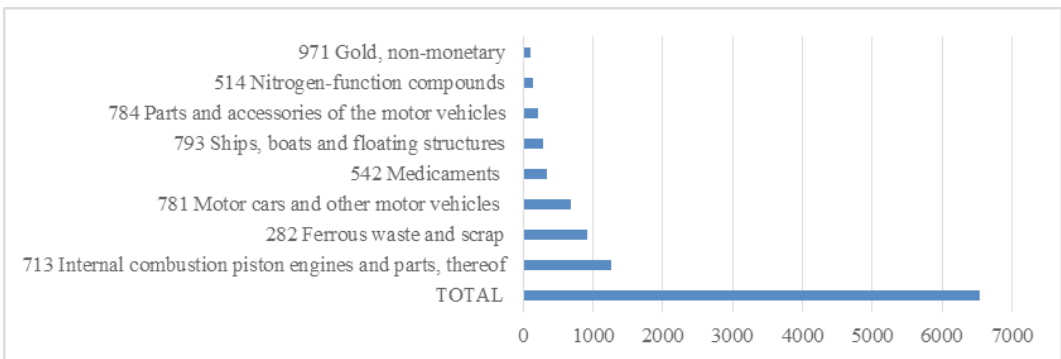


Figure 3.12: Imports of Turkey from the United Kingdom (SITC Rev. 3): 2017 (million dollar)

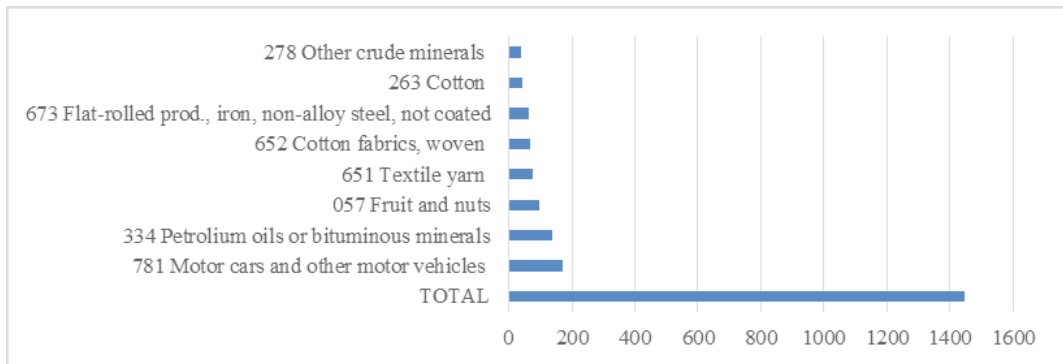
Before going through to analyze the external trade composition of Turkey with Italy and France, a conclusion about the importance of Iron and Steel trade for Turkey seems appropriate. Turkey has been importing Ferrous Waste and Scrap and exporting Iron and Steel Bars, Rods, Angles, Shapes and Sections, Tubes, Pipes and Hollow Profiles, Fittings, Iron and Steel. Turkey's leading Ferrous Waste and Scrap import partner have been the United States and the United Kingdom for years.

Iron and steel industry is one of the driving engines of the Turkish economy. Some basic information about the industry would be sufficient at that point. In 2017, 37.5 million ton of raw steel was produced in Turkey. Of this 37.5 million ton, 25.9 million tone was extracted from the imported ferrous waste and scrap by the iron and steel factories (Uras, 2018). Since Turkey does not have iron ores, the country has to import either ferrous waste or ingots and primary forms.

## Articles

According to the TUIK data, the United Kingdom which was the second main partner of Turkey in Ferrous Waste and Scrap imports in 2017 constituted the fourth main partner, following the Netherlands, the United States and Germany in 1996. Depending on the data, the United Kingdom has been increasing its share and importance within the external trade of Turkey with the EU.

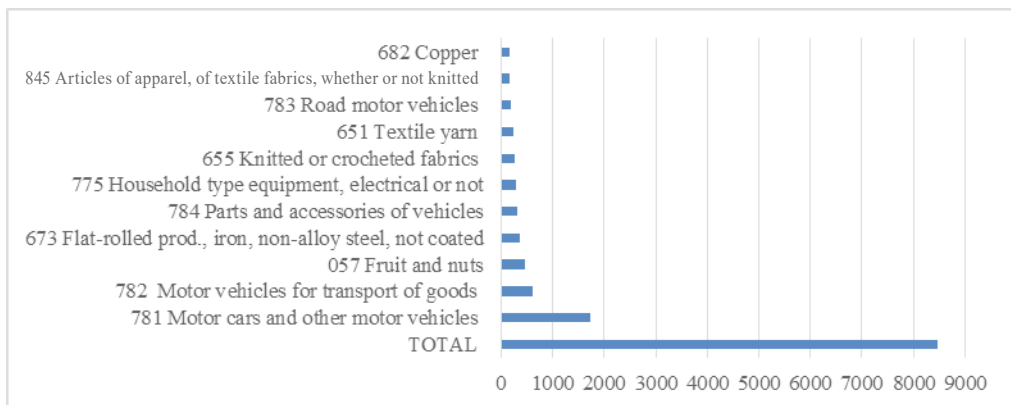
Following Germany and the United Kingdom, Italy remains the third main trading partner of Turkey among the EU member states both in 1996 and 2017. According to Figure 3.13, Turkey exported mainly Motor Cars and Other Motor Vehicles, Petroleum oils or Bituminous Minerals, Fruit and Nuts, Textile Yarn, Cotton Fabrics, Woven and Cotton. Apart from the first two commodity groups, Turkey was exporting primary goods to Italy in 1996.



**Figure 3.13:** Exports of Turkey to Italy (SITC Rev. 3): 1996 (million dollar)

When it comes to 2017, Motor Cars and Other Motor Vehicles was still the main exported commodity. However, it is apparent that there was a vertical export diversification in Road Vehicles commodity group since the second, fifth and ninth main exported commodities were from this commodity group. Fruit and Nuts exports stood still as the third main exported commodity. Flat-Rolled Products of Iron, Non-Alloy Steel, Not Coated became the fourth

main exported commodity which was sixth in 1996. Apart from Textile Yarn, Turkey began to export Knitted or Crocheted Fabrics and Articles of Apparel, of Textile Fabrics, Whether or Not Knitted. Such a development displays a vertical export diversification for Turkey. Regarding the exports of Turkey to Italy in 2017 as a whole, it is clear that horizontal as well as vertical export diversification were successfully implemented.



**Figure 3.14:** Exports of Turkey to Italy (SITC Rev. 3): 2017 (million dollar)

Articles

Regarding the imports of Turkey from Italy, the main imports were Textile and Leather Machinery, Other Machinery for Particular Industries, Parts and Accessories of the Motor Vehicles and Heating and Cooling Equipment in 1996. These main imported commodities expose the readiness of the Turkish economy

for a large scale transformation through industrialization. On the other part, there seems inter-industry trade between Turkey and Italy since the exported and imported commodities were mainly from different industries.

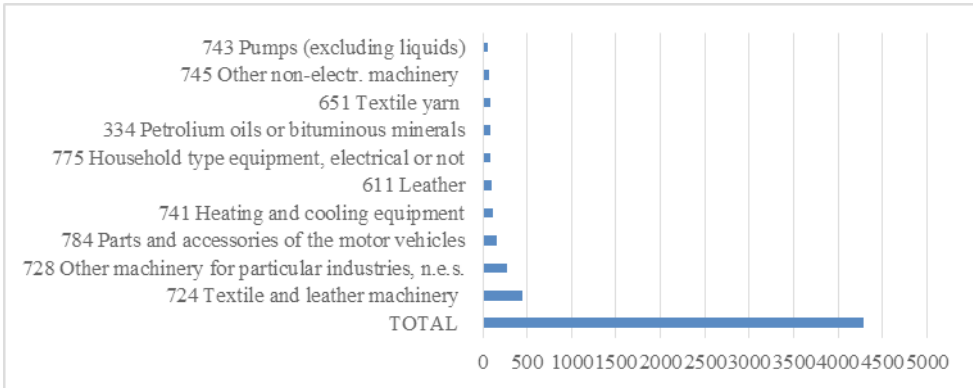


Figure 3.15: Imports of Turkey from Italy (SITC Rev. 3): 1996 (million dollar)

According to the Figure 3.16, Turkey's main imported commodities from Italy were Parts and Accessories of the Motor Vehicles, Petroleum Oils or Bituminous Minerals, Ships, Boats and Floating Structures and Internal Combustion Piston Engines and Parts, thereof in 2017. Apart from Parts and Accessories of the Motor Vehicles imports which constituted

the third main imported commodity in 1996, Turkey's import composition was changed compared with 1996. The change was mostly in favor of the Machinery and Transport Equipment. In other words, the share of the Machinery and Transport Equipment importation increased within the total imports of Turkey from Italy in 2017.

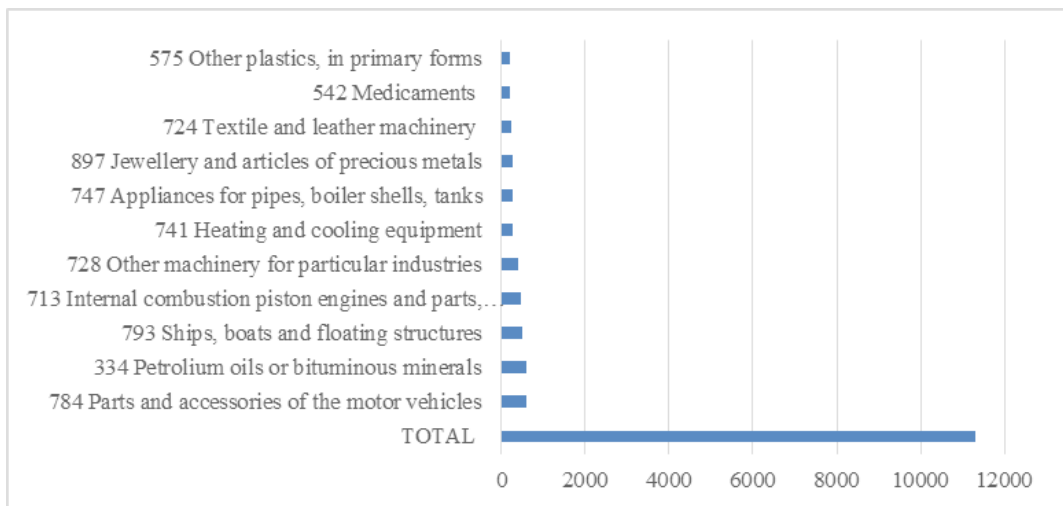


Figure 3.16: Imports of Turkey from Italy (SITC Rev. 3): 2017 (million dollar)

## Articles

When the external trade of Turkey with Italy in 2017 is concerned as a whole, there seems intra-industry trade in Machinery and Transport Equipment industry. Depending on the Figures and data, Turkey manufactures and exports Motor Cars and Other Motor Vehicles using the imported inputs under the Parts and Accessories of the Motor Vehicles.

France constituted the fourth main trading partner of Turkey among the EU member

states both in 1996 and 2017. When the Figure 3.17 is examined, it is understood that Turkey exported mainly Articles of Apparel and Clothing Accessories and Textile Yarn and Related Products to France in 1996. Once again, these main exported commodities display the specialization of Turkish economy on the textile industry at the starting up of the Final Stage of the Customs Union.

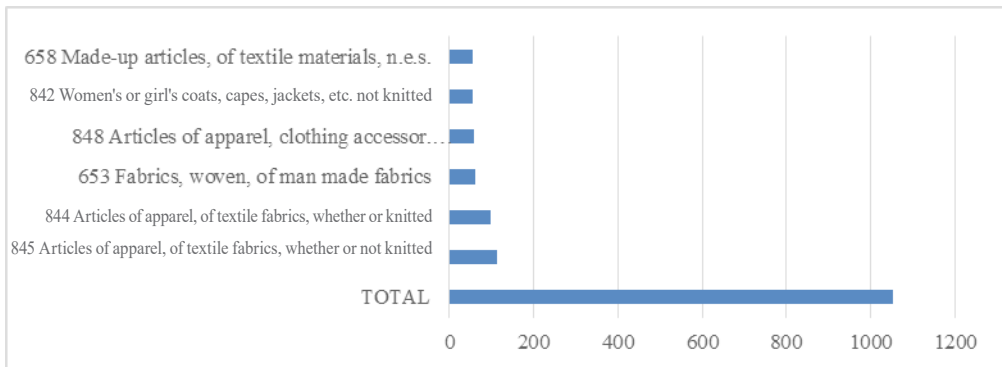


Figure 3.17: Exports of Turkey to France (SITC Rev. 3): 1996 (million dollar)

Export composition of Turkey to France substantially changed in 2017. According to the Figure 3.18, the main exported commodity of Turkey to France was Motor Cars and Other Motor Vehicles. Actually, the following main exported commodities were almost from the Road Vehicles group. Apart from them, Household Type Equipment, Electrical or not,

Articles of Apparel, of Textile Fabrics, whether or not Knitted, Fruit and Nuts, Television Receivers were the following main exported commodities. Exports of Articles of Apparel and Clothing Accessories lagged behind. It is apparent that export diversification was fully achieved with France in 2017.

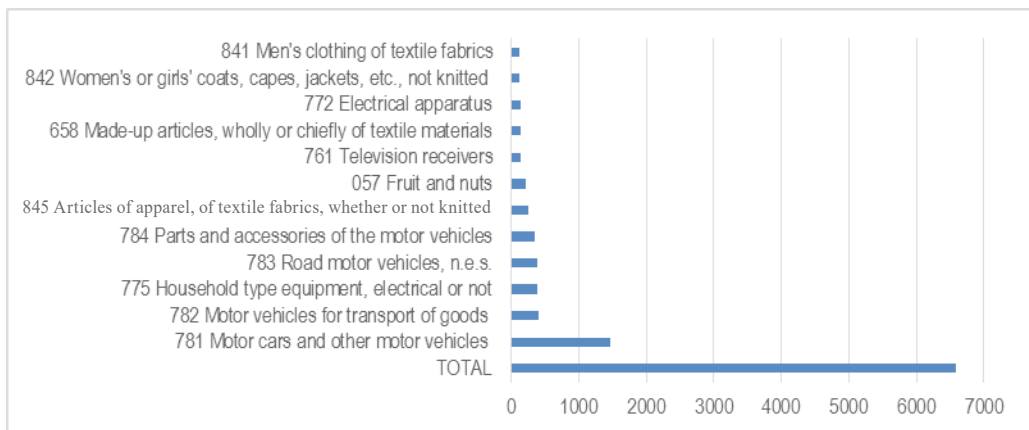


Figure 3.18: Exports of Turkey to France (SITC Rev. 3): 2017 (million dollar)

The last data examination is on the imports of Turkey from France. According to the Figure 3.19, Turkey's main imported commodity was Aircraft and Associated Equipment, Spacecraft in 1996. Sugar, Molasses and Honey, Textile and Leather Machinery, Tubes, Pipes and Hollow Profiles, Fittings, Iron and Steel and Parts and

Accessories of the Motor Vehicles were the other leading imports. Undoubtedly the most surprising imported commodity was Sugar, Molasses and Honey for Turkey which is famous with her sugar beet and grape production. That's most probably because of a bad harvest time peculiar to 1996.

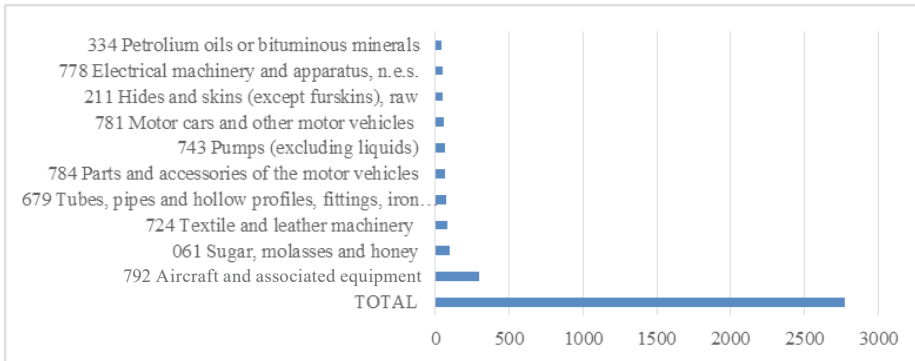


Figure 3.19: Imports of Turkey from France (SITC Rev. 3): 1996 (million dollar)

The Figure 3.20 exhibits that the main imported commodity was not changed in 2017. It was still Aircraft and Associated Equipment, Spacecraft. However, the following main imported commodities were significantly altered. Parts and Accessories of the Motor Vehicles and Motor Cars and Other Motor Vehicles imports constituted the second and third

leading imports of Turkey in 2017, respectively. Actually, the leading share of the Parts and Accessories of the Motor Vehicles justifies Turkey's enhanced specialization on the Motor Vehicles industry. When the export data of 2017 is compared with the import data as a whole, it transpires that there was intra-industry trade within the Road Vehicles commodity group.

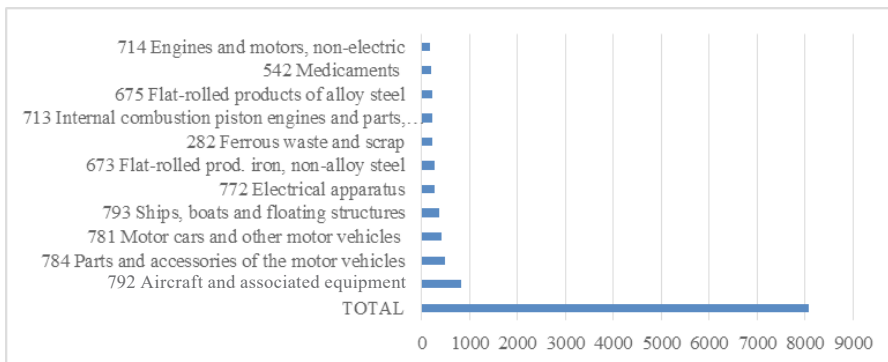


Figure 3.20: Imports of Turkey from France (SITC Rev. 3): 2017 (million dollar)

### Conclusion

Since the ancient times, international trade has been the major factor determining both economic life and ensuring political

influence. In the past, a country's external trade was the fundamental determinant of its wealth and power. However, sufficiency of international trade on the overall well-being and standard of living of a country has been

an incontestable fact today. External trade serves the economy via economic growth channel, economic development channel, income channel, balance of payments channel and technology transfer channel. Apart from the positive effects for the economy, external trade also helps to implement stable political and diplomatic relations with the partner countries. Today's EU is an adequate example of a peaceful integration with the effective implementation of economic integration via enhanced external trade among the member countries.

Early trade theories including Heckscher-Ohlin theory which accepted the idea of trade as an engine of growth based on comparative advantage under perfect competition is far from explaining today's international trade based mostly on positive economies of scale under imperfect competition. An economy with a trade composition differentiation and export diversification could positively affect its long-run economic growth. Even though there have been various studies on the effects of export expansion, trade orientation and export composition on the economic growth, studies on the role of trade composition differentiation and export diversification is still limited.

When external trade of Turkey is concerned, the EU has been constituting its main trading partner for years. Since the Association Agreement, referred to Ankara Agreement foresees a Customs Union between Turkey and the EU on industrial commodities, the EU Common Market has comprised the main marketplace for Turkish exports. In spite of minor declines within the total external trade, the EU has kept its importance and share for Turkish exports and imports since the entering into force of the Association Agreement in 1964. The data analyzed proved that the EU was the major trading partner both in 1996, which was the first year of the Final Stage of the Customs Union, and in 2017 which was the year the latest data available.

Among the EU Member States, Germany, the United Kingdom, Italy and France were the major EU trading partners of Turkey. Turkey's external trade composition with its major EU

trading partners were analyzed so as to see whether there has been any differentiation and diversification. Moreover, this external trade analysis gave the opportunity to check the availability of *intra-industry trade* which the new trade models depending on positive economies of scale postulate.

An overall conclusion of the analysis is that Turkey exported relatively more manufactured commodities than primary commodities in 2017 to her major EU trading partners. In other words, Turkey has begun to produce and export higher value added commodities when compared with her exports in 1996. There were horizontal as well as vertical export diversification in 2017 with all the four major EU trading partners. Another substantial finding is the existence of *intra-industry trade* within some industries which are postulated by the new trade models.

More specific elaboration justifies that there was vertical export diversification mostly in Road Vehicles and Knitted or Crocheted Fabrics and Articles of Apparel, of Textile Fabrics, Whether or Not Knitted in 2017. On the other hand, horizontal export diversification accrued mostly in Road Vehicles, Electrical Machinery, Power Generating Machinery and Equipment. Another outcome of this more specific elaboration points out that *intra-industry trade* arose mostly in Motor Cars and Other Motor Vehicles, Parts and Accessories of the Motor Vehicles in 2017.

Last but not least, external trade of Turkey with the United Kingdom deserves special attention for three exclusive and inter-related reasons. The first is that the United Kingdom is the only country among Turkey's major EU trading partners with which Turkey has a trade surplus. The second reason pertains to Ferrous Waste and Scrap imports. As indicated within the text, Turkey has been importing Ferrous Waste and Scrap and exporting Iron and Steel Bars, Rods, Angles, Shapes and Sections, Tubes, Pipes and Hollow Profiles, Fittings, Iron and Steel to various countries. The United Kingdom has been Turkey's leading Ferrous Waste and Scrap import partner along with the United States. Here comes the strategic



question of the direction of the trade relations between Turkey and the United Kingdom after Brexit. What will the new road map for the bilateral relations possibly be? The probable answers of these questions constitute the third reason of the specific importance of the external trade of Turkey with the United Kingdom.

On a final note, this study and its findings are likely to pave the way to further studies which examine the relationship between export diversification and long-term economic growth, given that the literature on this topic is still relatively scarce.

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