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Assessing Recent Turkey's Foreign Trade Performance

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Abstract. Turkey's foreign trade performance compare with its own past and with its major trading partners increased significantly over the last decade. This increase seems related to the growth trend of exports by geographical destinations. Recent global financial and economic crises and worsening geo-political environment challenged Turkey's foreign trade as well. Turkey's foreign trade increased nearly by 3-fold through exporting the risky countries since 2003. The aim of this article is to examine Turkey's foreign trade by focusing on increased exposures of export destinations for the period of 2003–2013. In this study, export destinations' rating are used to calculate export exposure. The results suggest that finding new markets especially in neighbor and least developed countries caused new risks for Turkey, increasing export exposure. This exposure can be seen in the deterioration of sovereign rating of export destinations, from A+/A to BBB. This seems to suggest that even though Turkey have increased foreign trade with the new markets, this exposure should be covered by well-designed policies as Turkey suffers from foreign trade deficit continuously. Turkey should attempt on policy reform which would increase its competitiveness in export markets and products and thus enable it to increase its ranking in the World trade..

Keywords. Foreign trade, Export exposure, Sovereign rating.

JEL. O52, F1, G24.

1. Introduction

The recent and current considerable economic performance of Turkey as well as the forecast for coming years has increased global interest in Turkey. These include globally important energy projects like the Nabucco gas pipeline, and strategically significant issues such as the Iranian nuclear (Babacan, 2011). Additionally, Turkey is attaining a visible role and heavily involving in the process of the regional peace efforts. Due to its strong economic development achieved since 2003 and geographical position, Turkey has re-emerged as important power at both regional and global levels. And one of the main driving forces of increased Turkey's attractiveness in the region is its foreign trade activities.

Turkey's foreign trade performance compared with its own past and its major trading partners increased significantly over the last decade. This increase seems related to the growth trend of exports by geographical destinations. Recent global financial and economic crises and worsening geo-political environment challenged Turkey's foreign trade as well. Turkey's foreign trade increased nearly by 3-fold

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for the period of 2003–2013. However, Turkey suffers from foreign trade deficit continuously and there are few periods that are differentiating in aspect of policies to tackle with this fact. For the last decade, Turkey has applied ground–breaking policies and thus its foreign trade increased significantly. Despite this huge effort, Turkey’s ranking in the World trade is not changed. That seems to suggest that Turkey’s success is to catch the expansion wave of World economy, lasting for 10 years. Additionally, finding new markets caused new risks, increasing export exposure. This can be seen deteriorating of sovereign rating of export destination countries. There are papers that investigate Turkey’s foreign trade, such as İzmen & Yılmaz (2009), but based on our knowledge this paper is the first attempt to analyze Turkey’s foreign trade by focusing on the relationships between export destinations and export exposures.

Turkey has changed economic development strategy from an import substitution to an export–oriented growth strategy and began to implement trade liberalization policies since 1980s (Cambazoğlu & Karaalp, 2012). Its trade structure is mainly a continuation of the new trade policies that was started on January 24, 1980. These decisions initiated a transition process from a closed economy to an open and more liberal economy. In terms of trade, import activities were liberalized and export activities were encouraged with some measures like tax decrease, low–interest credits and custom dispensation to manufacturer exporters. Statist trade policies applied before 1980, except for a few and short–term periods (Hepatkan, 2007). Due to international expansion, Turkey’s exports and imports boomed during 1980s, but both export and import growth rates slowed during the interim period (1990s) (Aydın, Saygılı & Saygılı, 2007).

Turkey has some historical breaking points in its history. The year of 1983, after the Military Coup, was crucial to transform to open society. This period lasted up to 1993 and called Özal Period. During this period, a lot of incentive was set up to promote foreign trade activities. From a political perspective, the 1990s were a turbulent decade for Turkey. After 10–year of political turmoil and macroeconomic instability triggered by recurring structural problems in 2001, Turkey suffered the most severe economic crisis in its history (Gros & Selçuki, 2013). The next one was the Coalitions Period between 1993 and 2003, which ended by financial crises. Foreign trade activities were fluctuated and highly affected by the crisis. The final and continues period is the Justice and Development (AKParty) period since 2003. During this period Turkish economy has not experienced any financial crises domestically and even not affected much from the recent global financial and economic crises. The economic performance of Turkey in AKParty period was quite impressive, as its Gross Domestic Product (GDP), tripled in the period, increased from US\$ 305 billion in 2003 to US\$ 820 billion in 2013 (IMF, 2014).

Turkish economy grew at average rates of around 5% over the last decade, fluctuating between a low of around–4.8% in 2009 and a high of around 9.4% and 9.2% in 2004 and 2010, respectively. Such significant improvements in Turkish economy have registered it on the World economic scale as an exceptional emerging economy, ranked as the 17th largest economy in the World and the 6th largest economy when compared with the EU (European Union) countries, according to GDP figures (at Purchasing Power Parity) in 2013 (IMF, 2014). However, in 2009, the economic growth rate of Turkey dropped by around 4.8%, while that of developed countries, such as Japan and Germany, dropped by nearly 6% and that of the southern engines, such as China and India grew by 9.1% and 7.6%, respectively (World Bank, 2014a). The strong economic performance of Turkish economy has also boosted its foreign trade. Such as, its exports increased from US\$ 47 billion in 2003 to US\$ 152 billion in 2013. The significant growth of

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foreign trade has added new export destinations from Latin Americas and Africa to South and Middle East countries.

The rest of the paper is organized as follows: Section 2 describes the current patterns of Turkey's foreign trade performance. Section 3 analyzes the Turkey's top trading partners focusing on export destinations and export exposures. Section 4 concludes the paper with policy implications.

2. Foreign Trade Performance

Foreign trade is recognized as one of the most significant determinants of economic development of a country. The current international trade dynamics are leading to important changes in the structure of global trade. According to the Akin & Köse (2008); Evenett (2007) and Athukorala & Yamashita (2006), among others, some specific emerging economies are playing an important roles and are leading to important changes in the structure of global trade with the current trade dynamics. The foreign trade of a country consists of the inward and the outward movements of goods and services, which results into outflow and inflow of foreign exchange. The primary objective of foreign trade is to increase production and raise the standard of living of its people. If a country is deficient in some of the resources, it has to import those goods to satisfy the rising expectations of the people with the improvement in their economic conditions. These imports have to be paid for foreign exchange (Kantar et. al, 2011).

Turkish economy has undergone major changes in foreign trade since the adoption of neo-liberal economic policies after early 1980s. Despite a number of economic crises and political instability, Turkey has managed to grow its economy over the years, making it the 17th largest economy in terms of total GDP by 2010 and is now often cited as one of the best-performing emerging economies in the World (Gros & Selçuki, 2013).

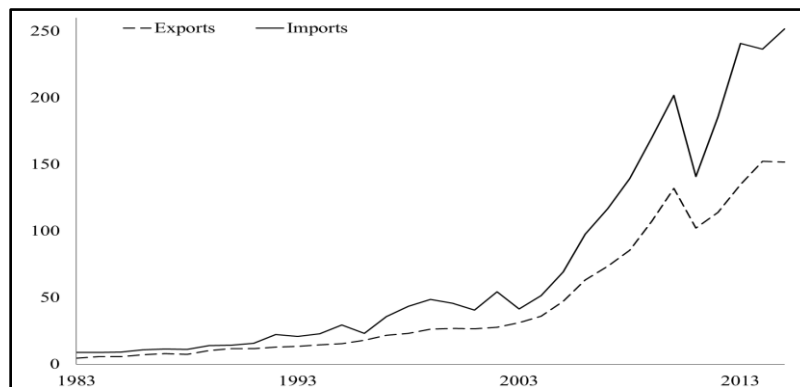


Figure 1. Turkey's Foreign Trade Performance, 1983–2013 (US\$ in billions)

Source: Turkish Statistical Institute (TurkStat), 2014.

The strong economic performance of Turkish economy has boosted both exports and imports. Its exports and imports witnessed strong growth rates over the last decades. According to Figure 1, imports are more dominant than exports in Turkey's foreign trade. For instance, for the entire period, Turkey's total exports increased from US\$ 5.7 billion to US\$ 151.9 billion accounting for 26.5 times, while total imports increased from US\$ 9.2 billion to US\$ 251.7 billion, accounting for 27.2 times. Additionally, the growth rate in exports and imports is quite unstable and asymmetric.

The important and considerable case that needs to be taken into account is that when long-term performance of Turkish exports and imports are analyzed, it can be

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seen that efforts to increase exports are successful only to a certain degree and Turkey continuously suffers from foreign trade deficit. This is line with İzmen & Yılmaz (2009) who states that Turkey's trade deficit with the rest of the World accumulates over time and often results in a crisis, which reduces imports of the country and therefore reduces the trade deficit automatically. Looking ahead, the improvements in the trade balance will mainly depend on Turkey's ability to boost exports. With demand from EU likely subdued in the short-term to mid-term, one way to do so is by diversifying into new fast growing export markets. Efforts in this direction are already underway. Turkish exporters have increasingly got into the new markets in the Near East and Middle East, Asia, Africa and Americas. In terms of regional destination of Turkey's exports, EU is the largest destinations of Turkey's exports, followed by Near East, Middle East, Asia, Africa, and then Americas. The EU receives 41.5% of Turkey's exports, which is followed by Near East and Middle East with 23.4% (TurkStat, 2014).

In terms of technology components of foreign trade, Turkey's specialization is in low to medium technology products and hence likely to face low cost competition even in the new markets (Özlale & Cunedioğlu, 2011). Turkey is still not producing value-added products that would increase efficiency and thus its competition with the new markets. For instance, Turkey's exports are generally consist of low value-added while its imports mainly consist of high value-added products. Therefore, a sustainable patterns of foreign trade should incorporate a solutions to the trade deficit problem. First of all, Turkey should increase value-added products. Thus, it is important for Turkey to make a shift from low-tech products to high-tech intensive products. High-tech intensive products will increase Turkey's competitiveness in the new markets and therefore would help to reduce the trade deficit problem. Another way to solve the trade deficit problem is export diversification, which is already underway. The recent significant growth in Turkey's foreign trade has been accompanied by a change in its direction of trade through searching for the new markets in the Near East, Middle East, Asia, Africa and Americas. Turkey recently has managed to maintain and accelerate its trade ties with the new markets through bilateral trade relations.

The other parameter is the import dependency. Turkey's exports are heavily depends on imports. For instance, the final import/export ratio is around 60.4% (TurkStat, 2014), which means that when Turkey imports two units of goods, one unit of it consumed domestically and the other unit is reproduced and exported. Moreover, Turkey's national industries are highly relied on imports of intermediate goods and energy. It is evident that most of Turkey's export products face with little competition in the World trade. The important and considerable case that need to be taken into account is that Turkey needs to reduce its import dependency through increasing local production and diversifying import destinations.

On the other hand, the strong economic performance has not significantly changed the Turkey's position in the World GDP ranking, which is an indication of the largest economies in terms of GDP. Turkey has managed to increase its position in the World GDP ranking from 20th in 2003 to 17th in 2004 and stayed in the same position over ten years, except 2011. This shows that in 2004, Turkey surpass other countries in terms of GDP, indicating the country's performance. In general, Turkey's recent economic performance and thus its economic success is to catch the expansion wave of World economy for the period of 2003–2013.

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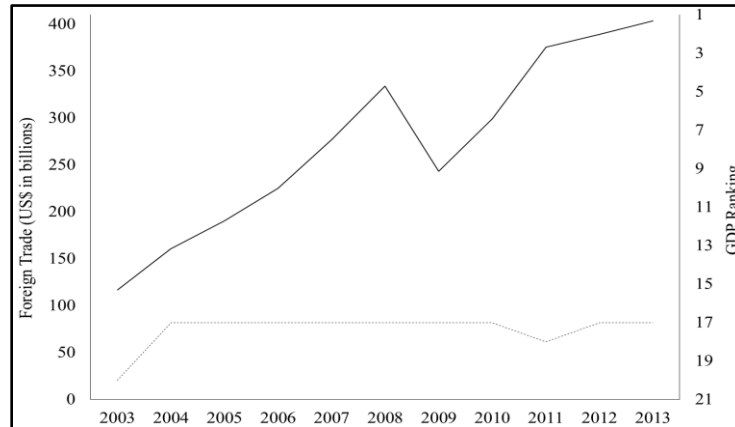


Figure 2. Turkey's Foreign Trade and Its Position in the World GDP Ranking, 2003–2013
Source: IMF *World Economic Outlook*, 2014.

3. Diversification and Export Exposure

In particular, the recent global financial and economic crisis, recession in EU has made compulsory to perform of Turkey's export diversification on the basis of market. At the same time, value-added problem in the foreign trade (relatively low value-added exports and high value-added imports of the products), as a result, deterioration in foreign trade rates and increase in current account deficit has made Turkey's export diversification on the basis of product necessary (Erkan, 2014). Export diversification can be defined as the change in the mix of current export products of the country and composition of exporting country (Samen, 2010). In short, export diversification is spreading too many sectors and countries of the country's export. The main objective of export diversification is to reduce risk by expanding portfolio on the basis of product and market (Goldfarb, 2006).

Most of Turkey's exports are the manufactured goods. One of the most significant characteristics of the manufacturing industry is its dependence on imported intermediary goods. The high dependence of exports on imported intermediate inputs implies that exchange rate movements might have less of an impact on the trade deficit than before because depreciation will also increase the cost of imported intermediate inputs. Turkey's external trade has been quite dynamic, but the specialization seems to remain in low-tech to medium-tech products. Moreover, the value added contained in Turkish merchandise exports is quite low (Gros & Selçuki, 2013).

Table 1. Turkey's Foreign Trade by Product, 2003–2013 (US\$ in billions)

Products	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Export by Goods											
Investment	4.3	6.5	8.0	9.4	13.8	16.7	11.1	11.8	14.2	13.7	15.6
Intermediate	18.5	25.9	30.3	37.8	49.4	67.7	49.7	56.4	67.9	82.7	74.8
Consumption	24.1	30.5	34.8	37.8	43.7	47.1	40.7	45.3	52.2	55.6	60.8
Others	0.3	0.2	0.4	0.5	0.4	0.5	0.6	0.4	0.6	0.5	0.7
Import by Goods											
Investment	-11.3	-17.4	-20.4	-23.3	-27.1	-28.0	-21.5	-28.8	-37.3	-33.9	-36.8
Intermediate	-49.7	-67.5	-81.9	-99.6	-123.6	-151.7	-99.5	-131.4	-173.1	-174.9	183.8
Consumption	-7.8	-12.1	-14.0	-16.1	-18.7	-21.5	-19.3	-24.7	-29.7	-26.7	-30.4
Others	-0.5	-0.5	0.6	0.5	0.7	0.7	0.7	0.5	0.7	1.0	0.7
Deficit by Goods											
Investment	-7.0	-10.9	-12.4	-13.9	-13.3	-11.3	-10.3	-17.0	-23.1	-20.2	-21.2

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Intermediate	-31.2	-41.6	-51.6	-61.8	-74.2	-84.0	-49.8	-75.1	-105.2	-92.3	-	109.0
Consumption	16.3	18.4	20.9	21.7	25.0	25.6	21.4	20.6	22.5	28.9		30.3
Others	-0.2	-0.3	0.9	1.0	1.1	1.2	1.2	1.0	1.3	1.5		1.3

Source: TurkStat, 2014.

Another factor that may contribute to a limited responsiveness of total imports to improvements in competitiveness in the short to medium term is Turkey's large dependence on energy imports. Dependence on energy and in particular fossil-fuel imports at least partly reflects fundamental factors such as a lack of natural resources and high energy imports may therefore be a manifestation of a comparative disadvantage (OECD, 2012). Accordingly, Turkish's foreign trade performance is analyzed by product groups, and the result reveals that Turkey is heavily importer of intermediate goods. As seen in Table 1, Turkey imports mostly investment and intermediate goods and exports consumption goods, representing low value-added goods.

From another perspective, Turkey is faced increasing sovereign risk of export destinations to promote export activities and export volumes. This is given in Figure 3, which shows the weighted average of sovereign rating of all Turkey's exports countries. It shows that in 2003, the weighted average of sovereign rating of Turkey's export destinations were between A+ and A, but it gradually decreases thereafter. For instance, the weighted average of sovereign rating of exporting destinations decreases to A in 2007, BBB+ in 2011, and approximately BBB by the end of 2013.

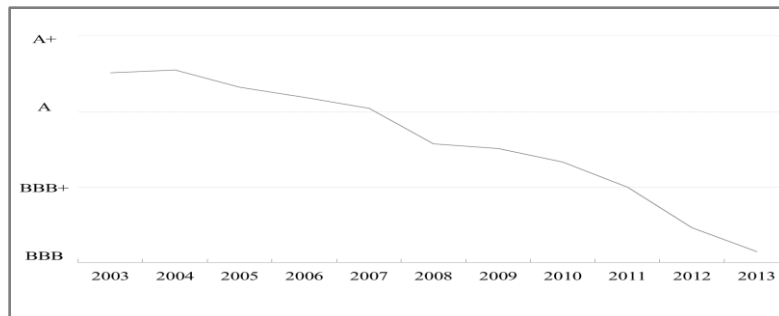


Figure 3. Sovereign Rating of Turkey's Export Destinations, 2003–2013

Source: IMF *World Economic Outlook*, 2014.

From Figure 3, it is clear that the efforts of promoting export activities through export diversification increased risk factors. The reasons that exposed Turkey to face increasing sovereign risk of export destinations would be the following. The first one is changing export markets from EU to Middle East and Africa. Turkey try to find new markets to increase export volume, but mainly undeveloped and politically unstable countries (e.g. Somalia, Sudan). The second one is changing of down grading rating of traditional export partners due to financial crises (e.g. Greece, Spain). The final one is the escalating of geo-political risks of neighbor – naturally export – countries (e.g. Syria, Iraq, and Ukraine). Increased exposure in export destinations can be tackled with a well-designed export credit scheme.

TurkEximbank is in charge of granting credits for exporting companies. Turk Eximbank supports exporters, export-oriented manufacturers, overseas investors and companies engaged in foreign currency earning services with short, medium and long-term cash and non-cash credit programs. Moreover, export receivables are discounted in order to increase export volume and to ease access into new and target markets through the promotion of sales on deferred payment conditions

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(Turk Eximbank, 2014). Unfortunately, the credit scheme of Turk Eximbank depends heavily on bank's letter of credits. At the end of 2013, 95% of all export credits (Turk Eximbank, 2014) assigned by Turk Eximbank is collateralized mostly by bank's letter of guarantee and there is no way to grand for export credit without bank's letter of guarantee. There are two dimensions. The first one is that banks are enable to direct the way of exporting activities and take the control of initiative by granting or not letter of credit lines for export companies. The second one is that all export exposure is covered by banks and the credit burdenis transferred to banking sector. Additionally, Turk Eximbank's credit policy is to grant credit for some export companies enabling to deliverthe bank's letter of guarantee, not to support all exporting companies in need of credit. In brief, financially strong export companies get the low-cost credit and invest in high-return assets, to benefit the price arbitrage.

The other characteristic of Turkey's foreign trade is currency dependency. Turkey's main export currencies are Euroand US \$ with 48% and 45% shares in cumulative, besides them port currencies are also the same Euro and US \$ with 34% and 61% shares in cumulative, respectively. However the main deficit currencyis in US\$ which represents 88% share. Over the last decade, Turkey has slogged to finance its imports by devaluation and high-interestrates. Briefly, financial crises were caused mostly by currency efficiencies. Turkey mainly exports in cashagainst goods while imports in advanced payments which means that the exported countries are dominant to define the trading conditionsand them ported countries also set the conditions. In both perspectives, Turkey has a limited affect to define its foreign trade rule sand payment preferences.

A positive supply shock during the ten years may explain part of the improvement in economic performance. The natural indicator is the terms of trade data. Turkey is a resource poor country; it is a net importer of energy and has limited prime agricultural land. Therefore, the country is adversely affected by a rapid rise in commodity and energy prices, as occurred during the last decade (Akat & Yazgan, 2012). However, the recent developments on commodity and energy prices however have positive impact on the country's economy. This is in line with the report of World Bank (2014b), noted that as the level of energy deficit is 6% of Turkey's GDP, which accounts for 58 percent of its foreign trade deficit, falling energy prices would have a positive significant impact on Turkey's economyin 2015.

4. Conclusion

This paper investigates Turkey's foreign trade by focusing on increased exposures of its export destinations over the last decade. Thesovereign rating of export destinations' rating are used to calculate the export exposure. The results suggest that finding new markets especially in neighboring and least developed countries caused new risks for Turkey, increasing export exposure. This exposure can be seen in the deterioration of sovereign rating of export destination countries, such as from A+/A to BBB. This seems to suggest that even though Turkey have increased its foreign trade with the new markets, this exposure should be covered by well-designed policy reforms such as export credit schemes, Turk Eximbank credits.

There are value-added problem in Turkey's foreign trade as well. It is still not producing value-added products that would increase efficiency and thus its competition with the new markets. A sustainable patterns of foreign trade should incorporate a solutions to the trade deficit problem.In order to correct the foreign trade imbalances, Turkey should attempt on policy reform which would increase its

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competitiveness in export markets and export products and thus enable it to increase its ranking in the World trade.

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