



Istanbul Conference of Economics and Finance, ICEF 2015, 22-23 October 2015, Istanbul, Turkey

Determining Factors of Turkey's Export Performance: An Empirical Analysis

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Abstract

Turkey has witnessed a rapid development in exports sectors over the last decades. Using annual data for 1980-2010 period we have examined the determinants of Turkey's export performance. Results of the analysis reveal that demand for export increases when domestic currency remains depreciated. According to estimations, export supply is positively related to the domestic relative price of exports whereas domestic demand affects export supply negatively. Foreign direct investment and external income level turned out insignificant. Turkey's export performance has been positively affected from economic crisis in 2001, which motivated the searches for new markets and hence exports expansion.

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Peer-review under responsibility of the Organizing Committee of ICEF 2015.

Keywords: Export demand, export supply, economic crisis, Turkey.

1. Introduction

Over the last decade significant changes have been witnessed in Turkey's external relations both in terms of economic and political issues. Important events such as Customs Union Agreement with the EU in 1996, the economic crisis happened at the end of 2000 and early 2001, and the EU's decision to start accession talks with Turkey in December 2004, gave momentum to the process of integration of the Turkish economy into the world economy. Effects of these events can be traced on the current figures on foreign trade, foreign direct investments and other international capital flows (İzmen & Yılmaz, 2009). The relatively stable political environment and proactive policies of the government over the last decade may have been contributed to this process.

Since the onset of the liberalization period in early 1980s, Turkey has been suffered from persistent trade deficit. Having not abundant natural resources, physical capital and human capital resources the trade deficit became a major bottleneck for the country's macroeconomic stability. In past decades the trade deficit accumulated over time

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and frequently ended up with a crisis. In order to stimulate export performance and to transform the production structure and product mix a series of measures were taken (İzmen & Yılmaz, 2009). That transformation also coincides with the searches of new destinations for exports goods. Expansion into African markets, which are not traditional targets for Turkish export firms, can be regarded as a result of these efforts. TEPAV (2000) reports that, although Turkey lost pace in competitiveness in the recent years it made a great breakthrough with respect to the adaptation to new and emerging markets.

In light of the growing awareness about the importance of exports in the overall economy of Turkey and in view of recent impressive export performance of Turkey, it would be interesting to study the export performance of Turkey and analyze the possible determinants of this trade expansion and find out whether it has motivated by demand side or supply side factors.

Partly following an approach similar to Sharma (2003), which investigated the determinants of India's export performance in a simultaneous equation framework, this paper aims to examine the factors that have contributed to Turkey's export performance during the last three decades, with a special interest on the demand and supply side factors separately in a time series analysis domain.

The paper is organized as follows: Following the introduction in Section 1, a brief review of Turkish exports sector is presented in Section 2. In the following Section 3, a brief literature review is given and times series model is designed and subsequently estimated. The paper concludes in Section 4.

2. A Glimpse to Turkey's Export Performance

Turkey's export has experienced high growth rates since 2001, which is well above its historical average. As Aydın et al., 2007 reported, the average yearly growth rate of exports reached to 22.9 percent in the 2001-2009 period whereas it was 11.2 percent between 1948 and 2000. Historically, the evolution of Turkey's exports can be decomposed into five consecutive periods: i) the first period in which the protective policy was adopted in foreign trade (early 1930s till 1960s); ii) the period of import substitution policy (1960s and 1970s); iii) the period of financial liberalization and export subsidy policy in order to promote export (1980s); iv) capital account liberalization episode (1990s); and v) the period in which floating exchange regime has been adopted (2001 onwards) (Aydın et al., 2007: 3). Şahinbeyoğlu & Ulaşan (1998) also discriminate five sub-periods with somewhat different time intervals. It will be more informative to looking closer to these distinct periods.

2.1. First period: Pre-1980

Despite the adoption of relatively liberal economic policy in the early years of the Republic, since the new liberal economic policy could not met the expectations, search for suitable policies took place soon. Due to the reasons such as lack of significant entrepreneurial class, adequate infrastructure and fluctuations in the international markets a state-dominated economic development policy has been implemented since 1930. Hence, Turkey followed an inward oriented development strategy called import substitutional industrialization policy up to 1980. This developmental strategy was applied more intensively during the planned economy throughout 1960s and 1970s. Actually, this strategy was successful in its first phase and substitution of consumer goods was achieved. But in the second phase (i.e. 1970s), substitution of intermediate and capital goods was aimed while the economy experienced several external and internal shocks (Şahinbeyoğlu & Ulaşan, 1998: 2). But in contrast to expectations import substitution policy resulted in gradually increasing trade deficits. Political instability and ideological clashes worsened the economic environment. Eventually, trade and current account deficits reached a record level towards the end of 1970s. Economic indicators deteriorated rapidly and the economy faced a heavy economic crisis.

2.2. Second period: 1980 – 1988

Following the severe crisis in the late 1970s, Turkey's foreign trade was liberalized with the acceptance of the structural reforms program in 1980 which is known as "January 24 decisions". The program was supported by major international institutions including the World Bank and IMF, and aimed at to provide free market mechanism conditions in Turkey. To this end, the promotion for exports and the liberalization of imports were adopted as major

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