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# The micro evolution of trade and turnover in Turkey under the global crisis

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We provide evidence on the effects of the 2009 crisis on Turkish manufacturing. The exploration of firm and firm-product extensive and intensive margins confirms the prevalence of the latter in the fall of export sales and discloses the former's relevance in the dramatic import contraction. The analysis of firm and product heterogeneity reveals that productivity drove the negative evolution of the export intensive margin to such an extent that it significantly affected trade extensive margins and *postponable* goods were the most affected products. In addition, the foreign demand shock suffered by exporters propagated to their import demand. Interestingly, we show that the crisis hit produced exports less than the carry-along ones and that the domestic market cushioned the downturn effects especially for larger firms. This hints at the importance of domestic counter-cyclical policies.

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## 1. Introduction

The recent global financial and economic downturn has become one of the main topics in academic debate. The initial financial sector downturn propagated to the real economy and, in particular, the drop in global trade in the first quarter of 2009 was about 30% on average compared to the previous year (WTO, 2010). The emerging academic consensus is that credit constraints were not the main issue[1]

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[1] On the contrary, Chor and Manova (2012) find with U.S. data that credit conditions were an important channel through which the crisis affected trade volumes.

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(Eaton et al., 2011a; Levchenko et al., 2010; Mora and Powers, 2009) and that the great trade collapse was mostly caused by a demand shock, driven by the evolution of commodity prices and the fall in the demand for *postponable* goods (Baldwin, 2009).

Among the explanations of the global crisis, the role played by international vertical linkages has received great attention. Firms involved in supply chains should show greater resilience due to the high costs of disrupting long-term relationships (Altomonte and Ottaviano, 2009). At the same time, though, they contributed to the immediate transmission of the downturn in demand from the largest importers (the US, the EU and Japan) to the more peripheral suppliers. International networks of firms may thus have importantly favoured shock propagation across the world. Despite the fact that idiosyncratic shocks at the firm level may importantly determine aggregate dynamics (Gabaix, 2011), only a limited number of studies have dealt with the trade effects of the global recession at firm level.

We thus aim at shedding light on the micro-dynamics that shape the evolution of macro phenomena by providing firm and firm-product level evidence on the crisis impact on trade intensive and extensive margins in the Turkish economy. We especially intend to dissect the role of firm size, efficiency and international exposure in driving the country's response to the recent downturn.

Larger and more productive firms may be less affected by credit restrictions (Greenaway et al., 2007; Muûls, 2008; Manova, 2013) and should be more resilient when facing tougher competition (Melitz and Ottaviano, 2008) and external shocks. At the same time, however, they could be more exposed to the demand slump due to the concentration of their sales in the most severely hit markets (Bricongne et al., 2012) and goods. Exiting the export market may however be rather costly for larger and more efficient firms (Melitz, 2003; Bernard et al., 2003; Arkolakis, 2010; Eaton et al., 2011b) and therefore they might decide to shed only the lowest-competence varieties from their export/product mix and to focus on their core products (Nocke and Yeaple, 2006; Eckel and Neary, 2010; Bernard et al., 2011b; Mayer et al., 2011). A product extensive margin adjustment should therefore be observed. Also, under uncertainty, large firms may contract their orders and nevertheless maintain their sales by making use of their larger inventory (Alessandria et al., 2010). This could be followed by a drop especially in the product level extensive margin, as larger inventories allow for the interruption of several marginal inputs' purchases.

The inspection of firms' international involvement allows us to understand whether international supply chains favoured crisis propagation or, on the contrary, helped to cushion the external shock. We can expect the positive impact of importing on exporting shown in the literature (Muûls and Pisu, 2009; Aristei et al., 2013; Lo Turco and Maggioni, 2013) to be even more important in a crisis: when the export market shrinks, cheaper/higher quality inputs may help to preserve competitiveness in the foreign market. However, an opposite result could emerge if foreign suppliers shut down their operations and domestic firms find no domestic substitutes for the missing imported inputs. Also, the fall in firms' exports may propagate to their imports. By the same token, despite the fact that intra-group financial resources may cushion adverse upcoming credit conditions (Kolasa et al., 2010; Alfaro and Chen, 2012), foreign firms' deep international involvement may above all expose them to the economic downturn originating in foreign markets.

The role that firm size, efficiency and international activity had in shaping the trade effects of the crisis is therefore ambiguous and calls for an empirical investigation. Also, as the crisis hit trade more than domestic sales, the impact of firm and product heterogeneity on the intensive and extensive margins of overall firm turnover is worthy of investigation. We aim to highlight whether the pattern of export sales drove the evolution of overall sales or, on the contrary, in the light of domestic counter-cyclical fiscal policy interventions (Misch and Seymen, 2012), domestic sales cushioned the adverse effects of the negative international context. Previous evidence has shown that large firms account for a great part of the export collapse, while foreign firms appear to be generally more resilient[2] (Wagner, 2012; Bricongne et al., 2012; Aisen et al., 2012; Alfaro and Chen, 2012; Kolasa et al., 2010). Compared to this literature we provide some original contributions.

[2] On the contrary, Behrens et al. (2012) for Belgium and Godart et al. (2011) for Ireland find no difference between foreign and domestic firms in trade growth and exit rates, respectively.

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