

## Chapter 15

# Structural Shifts and Patterns in Turkey's Foreign Trade

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### ABSTRACT

*Foreign trade has been a principal tool of the economic policies implemented in Turkey since the foundation of the Republic in 1923. In parallel with the significant developments in the national and global economies, several structural transformations occurred in foreign trade patterns and policies of Turkey. Political approaches varied from strictly protectionist trade regimes to semi-open models and free trade regimes. Previously implemented protectionist trade policies were abandoned in the 1980s for the current open economic policy based on export-led growth model. All these facts led to drastic changes in the composition of goods subject to both Turkey's exports and imports. This chapter examines the fundamental shifts and changes in Turkey's foreign trade by reviewing historical developments, and specifies the existing structural problems in Turkey's foreign trade by analyzing detailed trade data.*

### INTRODUCTION

Turkey is an emerging economy with strong and dynamic links to global economy. Trade openness ratio was approximately 55% in 2017 (World Bank, 2019). However, this ratio was around 10% before 1980. This fact alone indicates a major shift in Turkish economy by means of trade policy. As noted in the related literature, the pace of economic transformation via trade is faster in developing countries than advanced economies (Krugman, 1995; Saygılı and Saygılı, 2010). When Turkey's international trade indicators are examined, various trends become obvious such as significant changes in the composition of exports and imports. Moreover, Turkey is a member of the WTO, a member of the Customs Union of the EU and signed many other free trade agreements with third countries. Such international agreements have considerably shaped the framework of international trade patterns and have narrowed the area for the design and implementation of an independent national foreign trade policy for Turkey and other developing countries.

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## ***Structural Shifts and Patterns in Turkey's Foreign Trade***

This study aims to review the historical development of Turkey's foreign trade policies and reveal the origins of the current problems related to trade which hinder the country's growth and development process.

In this context, firstly a chronological presentation of major national and international phenomena is going to be summarized in the first section in order to sort out the determinants of structural shifts in trade patterns.

Then in the second section, detailed trade data on sector and sub-sector level are going to be analyzed in order to comprehend the current situation of trade structures of Turkey. The data covers the time spanning from 1980 to 2017.

Lastly, major findings about the current problems of Turkey's foreign trade and an evaluation on the country's prevailing trade policy are going to be reviewed in concluding remarks.

## **A HISTORICAL OUTLINE OF TURKEY'S FOREIGN TRADE POLICIES**

### **1923-1979 Period: From the Foundation of the Republic to Open Economy Era**

Considering the historical course of foreign trade in Turkey, both significant trends in the global economic environment and different national policies implemented by the government has shaped various periods and determined clear distinctions among them. The first of these periods was 1923-1929, which began with the proclamation of the Republic of Turkey and ended in 1929, the year when the binding provisions of the Treaty of Lausanne over the foreign trade policy ended.

The main objective of the foreign trade policy in the first years following the establishment of the Republic of Turkey was to strengthen the national capital. On the other hand, the fact that the Lausanne Treaty had restricted the protection of customs duties in foreign trade until 1929, there was a limited area for a protectionist trade policy. Moreover, the Great Depression, which started in 1929, has been a formidable factor that prevented the formation of an independent foreign trade policy in the first years of the young Republic (Özkale and Kalaylıca, 2008).

To be more specific, customs policy was the main problem of the economy. A trade agreement signed as an addition to the Lausanne Treaty froze all customs tariffs and economic policies of Turkey, cancelled the ban of imports and exports and prevented new ones to be issued with some exceptions for five years. Furthermore, consumption taxes on the imported goods were prevented, except for the goods of state monopolies. All these provisions were decreasing Turkey's gains from customs taxes and preventing the implementation of an effective policy to protect national industry from foreign competition. As a matter of fact, the protection degree provided by the tariffs for the national economy in Lausanne remained at 12.9% (Boratav, 2013).

The mentioned trade agreement only allowed for higher prices in goods which are produced by state monopolies. In this case, a way out of Lausanne's restrictive provisions on tariffs and customs duties was to obtain the state monopoly of the production or importation of some goods and services. Thus, in the first years of the republic, with the support of the sovereign approach of nurturing domestic capital accumulation, monopoly status was transferred to the local and foreign companies and thus, these companies gained high profits by benefiting from the monopoly provided by the state.

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