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Whither an Axis Shift: A Perspective from Turkey's Foreign Trade

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ABSTRACT

Our analysis will discuss Turkey's changing direction, if any, in terms of its trade orientation. This paper argues that Turkey's trade sector has maintained its long-standing direction towards the major European Union (EU) member countries with only minor setbacks, while new dimensions in bilateral trade have emerged not only due to Turkey's changing foreign policy considerations but also global economic transformations. Moreover, this paper argues that Turkey's trade partners are subject to these changes, as the epicentre of the global economy shifts, i.e. to the East. In the first section, a brief introduction with regards to Turkey's foreign trade under the AK Party's administration -since 2002 will be provided. The second section will discuss the scope of regional and worldwide changes in trade patterns and analyze the recent shift in Turkey's trade orientation in the context of Asia's economic and political rise in early 21st century. The Third section will focus on the role of political dynamics in Turkey's trade sector and structural issues.

The traditional advice given to the prince in the Ottoman Empire (late fifteenth century) was:

“Look with favor on the merchants in the land; always care for them; let no one harass them; let no one order them about; for through their trading, the land becomes prosperous and by their wares, cheapness (or inexpensive-ness) abounds in the world.”¹

Turkish economy has been subject to a variety of analyses, based on different perspectives. Depending on the analytical tools employed, however, the scope of and the inferences from the analyses change dramatically. Based on an assessment of Turkey's new foreign policy orientation through its foreign trade performance, this paper is focused on the specific arguments around trade policies and takes on a political economy perspective. The period of 2002-2008 under the AK Party's administration is regarded as a significant landmark in

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Turkey's changing foreign trade structure also fits the new global economic trends that began in the 1990s

terms of Turkey's foreign policy as well as its trade orientation. A new multi-dimensional approach grounded in a theoretical background re-defining the country's position as a central power -rather

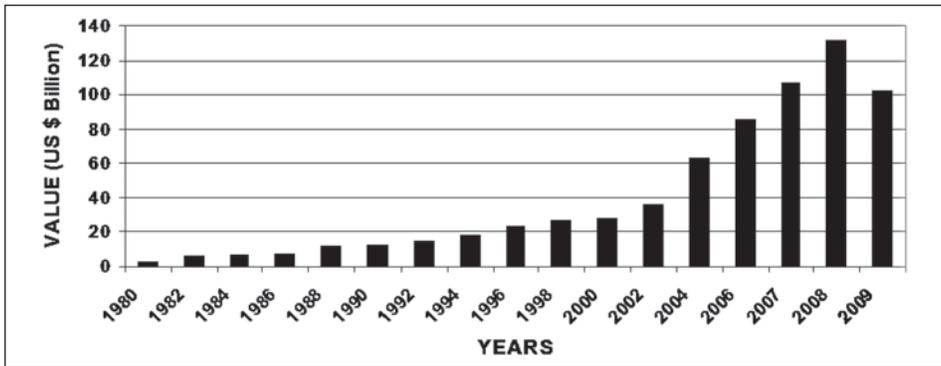
than peripheral- power thrust Turkey into a new era. The country has engaged in new bilateral relationships, strongly motivated by economic and commercial demands in the last decade, particularly during the AK Party's term.

Along with many other aspects, Turkey's increasing economic performance manifested itself in the continuous surge in the volume of its export which reached 36 billion US Dollars in 2002, 47.3 billion US Dollars in 2003, 63.2 billion US Dollars in 2004, 73.5 billion US Dollars, and 85.5 billion US Dollars by 2006. During the period of 2004-2006, the AK Party government undertook the Exports Strategic Plan, which was a roadmap for Turkey's new export orientation as well as rising targets. The Plan targeted a total export volume of 75 billion US Dollars by the end of 2006, which it exceeded by more than 10 billion. Turkey ranked 22nd in terms of exports during the period of 2004-2006, compared to its previous position of 25th in 2002, according to the World Trade Organization statistics.²

Exports witnessed robust growth rates, with 25.3 percent in 2007 and 23.1 percent in 2008. Therefore, the total volume of Turkey's exports reached 107.2 billion US Dollars and 132 billion US Dollars in 2007 and 2008, consecutively. The share of industrial sector exports was 115.2 billion US Dollars as of 2008. The main export destination for Turkey in 2008 remained by far the EU-27, as the exports to the EU members reached 63.4 billion US Dollars, with an increase of 4.9 percent and a share of 48 percent out of the total. Due to the global financial crisis that erupted in 2008, however, Turkey's main export markets as well as the world economy as a whole were negatively affected, so the total export volume decreased by a significant 22.6 percent. The total export volume dropped down to 102.1 billion US Dollars in 2009, as shown in Figure 1 below. Nevertheless, it was still above the previously targeted 98.5 billion, envisioned by the Mid-term Economic Program (2010-2012). Exports to the EU-27 countries faced a sharp decline of 25.8 percent in 2009, dropping to 47 billion US Dollars. However, two significant developments emerged within the second half of the decade. Turkey's exports to the Middle East -especially to the Gulf Cooperation Council (GCC) - and African countries witnessed dramatic increases. The share of African economies as a

destination for Turkey's exports, for instance, witnessed a strong increase of 12.3 percent, reaching 10.2 billion US Dollars in 2009, where trade volume in almost all main export destinations fell drastically.³

Figure 1. Turkey's Trade Volume by Years, 1980-2009



Source: Undersecretariat for Foreign Trade, 2009

This analysis argues that the basic motivation behind Turkey's emergence as a 'rising star' is foremost its economic, rather than political, cultural or religious orientation. "A major shift in the Turkish economy occurred in the 1980s with the adoption of neo-liberal economic policies. Despite several crises, the Turkish economy has developed to a considerable degree, making it the 16th largest in the world (in terms of total GDP by 2010). Turkey's vibrant economy and the raising democratic standards (i.e. recent constitutional amendments) in the EU negotiation process have increased its soft power in the region and made it particularly attractive for reformers."⁴

The argument of Turkey's so-called "axis shift" appears to fit Turkey's changing foreign trade scheme because the number of new export destinations and the significant rise in Turkey's bilateral trade volume with Latin American, African and Mid-eastern countries as well as China illustrate this new orientation. However, Turkey's changing foreign trade structure also fits the new global economic trends that began in the 1990s. A simple while careful analysis of the world merchandise trade and Turkey's export-import dynamics in the last decade show a considerable overlap. This is particularly true when it comes to the emergence of the East in the early 21st century as a new economic player and trade partner on the world scene. The exponential growth in Turkey's economic figures needs to be placed in this context and qualified. The globally favorable investments, capital flows, and trade climate for emerging economies alongside Turkey's politically

stable domestic environment are arguably major contributing factors to Turkey's robust economic performance. The increasing structural efficiencies and the low-cost margins coupled with product and market differentiation strategies are also some of the components behind the rapid expansion witnessed through bilateral and multilateral trade. Record-high amounts of foreign direct investment (FDIs) are considered as other sources of economic growth, which attained 84 billion US Dollars during the period of 2002-2009, including mergers & acquisitions as well as privatization revenues.⁵

With its strong economic development over the decade, Turkey has become the focus of global interests, including major events such as the IMF-World Bank Annual Meetings in October 2009, globally important energy projects like the Nabucco gas pipeline, and strategically significant issues such as the Iranian nuclear standoff. In addition, Turkey's regional significance is also on the rise as it is heavily involved in mediating Mideast peace efforts, resolving Balkan disputes, and attenuating rivalries in the Caucasus region. Trade, or in more general terms, business has been one of the driving forces of increased Turkish attractiveness in its region, particularly the Middle East. Turkey's prolonged desire for becoming a full EU member and its harmonization efforts with the EU *acquis* led to extensive political, judicial, and economic reforms in the last decade.

From the far east to the west, the baiting 'axis shift' debate hovers around Turkey's political re-orientation as "the questions being asked are whether Ankara is turning its back on the West and drawing closer to the East. This is described as a "shift of axis" and there is even talk of Turkey joining a Eurasian Union along with Russia, China and other regional countries, or finding its moorings as leader of an Islamic bloc in the Middle East and Central Asia."⁶ The 'axis shift' argument taken up by the traditional elite's new rhetoric claims that the AK Party government has moved the country away from its prolonged axis –which is by definition 'the West.' A very recent snapshot on the discussions around Turkey's new orientation or axis, however, rightly describes the 'axis shift' arguments as a simple form of political blackmail that is aimed at putting down Turkey's new foreign policy makers.⁷ This study also shares the view that this axis shift debate is highly manipulative, as it lacks i) a proper definition of the 'axis shift'; ii) the necessary conditions for the fulfillment of a real axis shift; and iii) a definition of Turkey's present axis and the counter axes along with the necessities of sustaining an axis.⁸ Based on these three basic deficiencies of the ongoing debate around Turkey's shifting axis, the paper attempts to find evidence either "For" or "Against" the axis shift argument on the grounds of Turkey's evolving nature of foreign trade.

'Axis Shift' Debate and the Unbearable Lightness of its Reasoning

This study asserts that the ongoing 'axis shift' debate is at the very least groundless, provided Turkey's multi-dimensional and multi-layer foreign policy setup, implemented effectively during the AK Party's ruling term. The axis shift debate is not neutral and possesses a hidden negative connotation, as it carries with it an accusation that Turkey intends an expansion into new regions, as "those who accuse Turkey of changing axis confuse the transformation of global politics with that of values and (ideological) trends. And this is where the question of axis shift is perceived as a threat and there is a ringing of alarm bells. But Turkey is simply continuing the broad trends and values begun in 1839 during the period of the Tanzimat (Reorganization) reforms,"⁹ according to moderate observers. Whether Turkey's current policies are a continuation of the Tanzimat reforms or not, Turkey's new orientation both at home and overseas deserves a more profound analysis. The frontiers of limitations of an axis shift, however, are not well defined and the arguments around it are based on perceptions rather than realities. Therefore, a robust definition for the term should be introduced for each epistemological and actual domain that would legitimize the ongoing debate. Since our analysis takes Turkey's foreign trade as the central perspective, however, the subsequent arguments regarding the debate will be put forward accordingly. It is certain that the 'axis shift' debate is multi-dimensional, as it has political, historical, military and security, strategic, economic, and cultural aspects. The paper's reading of the debate is, however, built upon the question of whether there is an axis shift on economic and specifically foreign trade grounds. Therefore, the descriptive economic data provided throughout the paper in the subsequent sections aims at providing an insight to the changing nature of the global economy as well as Turkey's foreign trade orientation and (in the last section) its lack of proper strategies in the long-term. Other aspects of the debate will intentionally be left to the experts. This section will take a quick look at the rise of the Eastern economies at the dawn of the 21st century while analyzing Turkey's position with reference to its trade relations in the last decade.

A Global Axis Shift: The Rise of the East

Global economic relations have considerably changed in favor of the Eastern countries or in more general terms the emerging market economies over the last couple decades (i.e. the 90s and 2000s). The share of developing countries –or emerging market economies- has consistently increased both in terms of financial-capital inflows as well as trade-commodity flows. A quick look provides the necessary insight on the issue as observed in the course of world merchandise trade, based on the World Trade Organization (WTO) statistics. As Russia and

‘The rise of the East’ is gradually becoming a factual rather than a perceptual phenomenon where Turkey is re-positioning itself accordingly

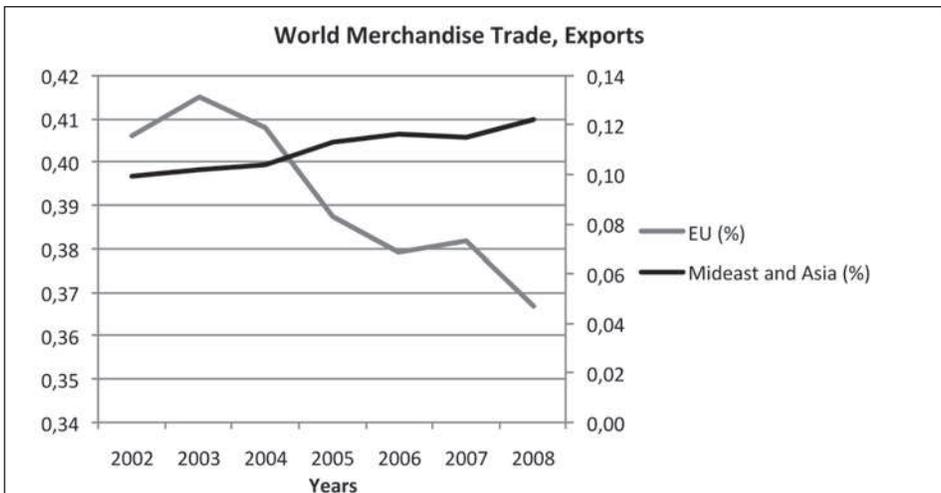
China, two giants of the world commodity trade, have intensively engaged in the WTO meetings in the last decade with the latter already being a member since 2001, they still constitute a major part in world’s trade as well as investments.

The so-called BRIC (Brazil-Russia-India

and China) countries, the ASEAN+3 countries (Indonesia, Malaysia, Philippines, Thailand, Singapore, Brunei, Vietnam, Laos, Myanmar, Cambodia plus China, Japan, and South Korea), and the developing economies within the G-20 group are the rising stars of the global economy in the post-2008 financial crisis period and of the new global economic system. Despite the comparatively low levels of capital and FDI stocks or world trade shares, compared to the EU-27 and North American Free Trade Agreement (NAFTA) economies, the Eastern powers emerged as the representatives of a multi-polar global economy.¹⁰ To provide an understanding of the great potential born by the recent giants of the world economy, China’s non-financial FDI outflows –not inflows- reached 48 billion US Dollars in 2009 alone, according to the UN’s 2010 World Investment Report. China’s total outbound FDI stock is expected to hit some 500 billion US Dollars as of 2013, according to Chinese authorities.¹¹

For a meaningful comparison in the case of Turkey (i.e. the axis shift debate), the above and below figures (Figure 2 and Figure 3) provide a depiction of the

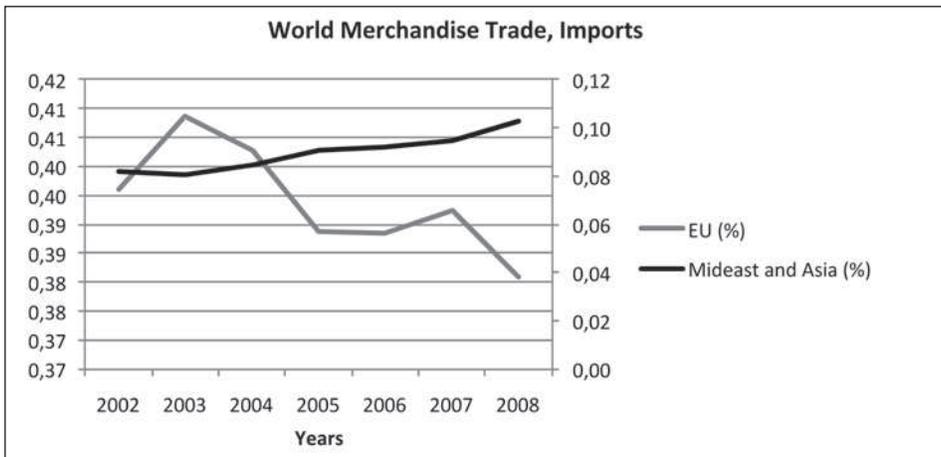
Figure 2. World Merchandise Trade Shares (Exports), 2002-2008



Source: World Trade Organization, 2009

evolving shares of the EU-27 countries (including intra-EU trade) and the Asian economies, including Middle Eastern countries. Accordingly, the total share of the EU-27 block in world merchandise trade is steadily declining over the period of 2002-2008, from 41 percent down to 37 percent in exports and from 40 percent down to 38 percent in imports. Meanwhile, the share of Asian exports witnessed an increase from 10 percent up to 12 percent while imports were up from 8 percent to 10 percent.¹² Therefore, if the term is applicable, it is quite evident that a slow but gradual 'axis shift' towards the East is in place on a global scale.

Figure 3. World Merchandise Trade Shares (Imports), 2002-2008



Source: World Trade Organization, 2009

It should be no surprise to see the declining trend continue in the total trade share of the EU countries coupled with the rising share of Asian economies as of today, particularly given the financial crisis of 2008. Capital flows to the US and the EU markets have significantly slowed down while the inter-trade volume among the developed nations (i.e. the G-7 members) was hit considerably over the last couple years. In addition, global FDI figures imply that the developed economies, such as the US and the UK, were severely affected by the crisis as total FDIs declined by 68 percent and 85 percent, respectively in 2009. Overall drop in the FDI flows to the 20 developed nations reached 54 percent while the 34 emerging market economies suffered from a 40 percent decline in the FDI flows in 2009, due to the crisis. The aforementioned 54 countries account for more than 90 percent of the world's total FDI flows –which witnessed some 49 percent decrease in 2009.¹³ Recent data that provides a projection for the mid-term also suggests that China is expected to surpass all G-7 members, except the US as of 2015, in terms

of its economic size.¹⁴ The IMF's World Economic Outlook (WEO) 2010 report also suggests that the Emerging and Developing Economies' stake in world trade has increased from a total volume of 3.2 trillion US Dollars (approx.) up to around 11.8 trillion US Dollars in 2010. During the same period, however, IMF data suggests that the total trade volume of advanced economies witnessed an increase from 9.5 trillion US Dollars in 2002 up to 18.2 trillion US Dollars in 2010.¹⁵

All in all, 'the rise of the East' is gradually becoming a factual rather than a perceptual phenomenon where Turkey is re-positioning itself accordingly. The emerging and developing economies mostly located in the East are also increasingly the financiers of world economic growth. The IMF data projects the total debt stock in the US to attain 110.7 percent of the total GDP while it is expected to be 89.3 percent for the Euro zone in 2015. The same data indicates expected current account deficits of advanced economies to reach around 274.4 billion US Dollars in 2015 while emerging and developing economies are expected to run a surplus of 763.8 billion US Dollars in 2015.¹⁶

Other indicators such as savings and investment numbers are also providing a strong indication of emerging economies' increasing role in the global economy. Net FDI and portfolio investment flows are also suggestive of the developing economies' robust performance regarding their attractiveness for global capital movements. According to the most recent estimates, savings rate (as portion of the total GDP) for the emerging economies will be reach 33.8 percent, during the period of 2012-2015, while the investment ratio will hit 32 percent in the same period. Meantime the savings and investment ratios will stand at 19.7 percent and 20.1 percent, respectively.¹⁷

Turkey's Eastward Shifting Axis: Integration or Penetration?

For more than half a century, Turkey's traditional trading markets include the EU, Russia, the US, and parts of the Middle East. The EU has the highest share due to its market size in terms of geography, population (i.e. demand) as well as its GDP. Increased involvement in bilateral trade with the European Union (EU) economies implies that Turkey's export sector needs to maintain its competitiveness while being regionally oriented westward. Trade between Europe and Turkey has blossomed, especially after Turkey's accession to the EU Customs Union at the end of 1995. Total trade volume hit 81 billion Euros (104 billion US Dollars) in 2009. However, the Customs Union agreement was signed without concluding a free trade agreement. Therefore, Turkey still suffers certain losses due to the lack of a Free Trade Agreement (FTA) or because it is not a full member of the EU.

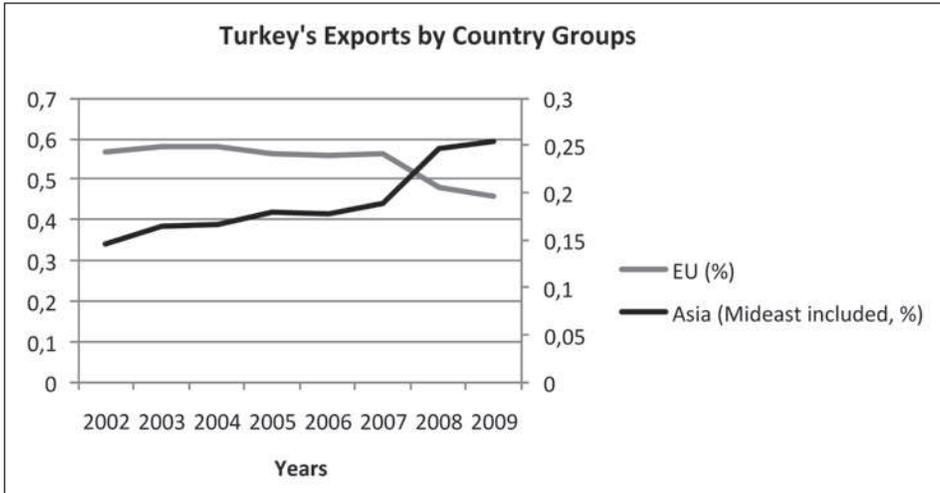
This has led Turks to increasingly question the current status of EU-Turkey trade, despite the free trade of certain goods and preferential access to the EU markets, since “this relationship remains overly complex and discriminatory toward Turkey in two respects. First, as a precondition of joining the customs union (CU), Turkey was required to adopt the EU’s existing FTAs with partner countries, including the European Free Trade Area. However, arrangements between the EU and third countries since 1995 automatically extend to Turkey, even though Ankara is excluded from the decision-making process. Second, Turkish markets are automatically opened to these third countries under the customs union agreement, but Turkey is not automatically granted reciprocity by the third country. Reciprocity depends on Brussels’ goodwill and willingness to include a ‘Turkish clause’ in their final agreement. This arrangement is unsatisfactory. Turkish commercial policy has essentially been seconded to Brussels without any gain in voting rights. Trading away its sovereignty might be a price worth paying if EU membership was assured, but membership is not assured. Therefore, the EU should adopt a full and comprehensive FTA with Turkey to replace the customs union agreement.”¹⁸

A new wave of free trade agreements with neighboring countries is expected to take place, as stated in the EU’s 2007 Market Access Strategy. Under such terms, Turkey expects to be included in an expanded FTA scheme, such as the Euro-Mediterranean Free Trade Area (EMFTA), as a current member of the Union for the Mediterranean. Sectors previously excluded from the EU-Turkish Customs Union, including agriculture should therefore be included under such an FTA. Although the US is relatively a staunch supporter of Turkey’s EU bid to become a full member, the US still gains from Turkey’s advanced ties with the EU as a recent analysis puts it: “A bold and comprehensive FTA with Turkey could set a precedent for achieving greater volumes of trade than the EU Customs Union and would create an enduring basis for EU-Turkish integration separate from the highly politicized question of EU membership. Establishing an FTA with Turkey in place of the customs union should not remove the prospect of EU membership for Turkey. Nor should the EU withdraw its financial aid to Turkey as designated under the Instrument for Pre-Accession Assistance. However, if Turkey is ultimately denied EU membership, Ankara will still be in a position to benefit from

The share of EU markets in terms of Turkish exports declined significantly from 56 percent in 2002, down to 46 percent in 2009 while Asia’s share increased from 14 percent up to 25 percent during that period

an enduring trading relationship with the EU and its Mediterranean partners. If Turkey's accession to the EU remains as unlikely as it appears today, Europe needs a fallback position to ensure that Turkey still has a reason to maintain good relations."¹⁹

Figure 4. Turkey's Trading Partners (Export Shares), 2002-2009



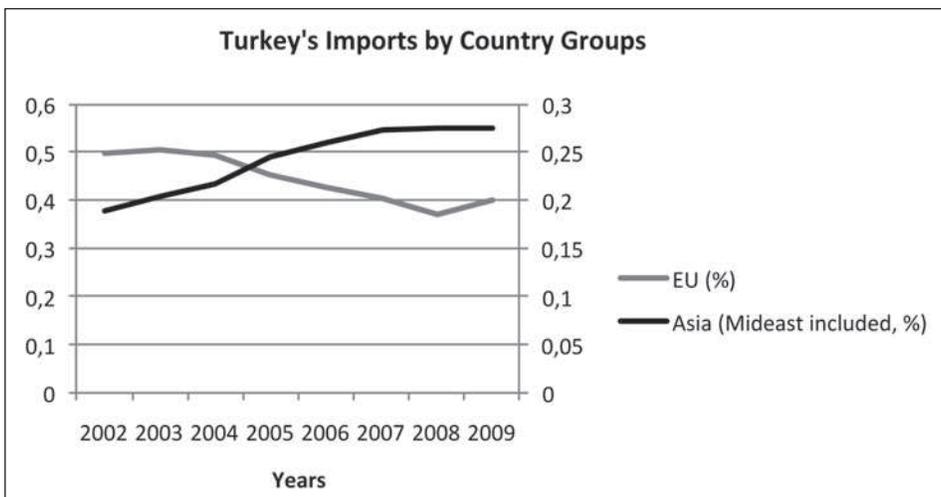
Source: TurkStat, 2009

Turkey's trade with the EU-27 block has been consistently subject to limited declines over the period of 2002-2009 in terms of its share in total, as observed in the figures above and below. This phenomenon is partly due to the above-mentioned problems over the customs union agreement and Turkey's prolonged quest for joining the 'club' as a full-member while the EU's most weighty members, like Germany and France, are still resistant to Turkey's inclusion. It is crystal clear that the customs union in practice for instance has not yielded a long-run 'trade creation' in terms of percentage change but rather a 'trade diversion' on behalf of Turkey.²⁰ The recent comparative shift in Turkey's trade with its neighboring countries and 'clubs' has also to do with the globally rising performance of the East, as stated in the previous sub-section. In addition, "the share of the EU-27 group in the Turkish exports declined from 48 percent down to 46 percent between 2008 and 2009, which is considered as a setback in Turkey's traditional trade markets and an indicator of both a shift of axis in the EU markets and Turkish exports, by some circles. Accordingly, a recent global shift away from the EU-27 block to the rest of the world is taking place in terms of multi-national firm operations, investments and capital and commodity flows during the crisis period of 2008-2009."²¹ Turkey however missed the opportunity of both increasing its exports to the EU

members in a period of declining intra-EU trade figures while taking advantage of outbound capital and commodity flows as it attracted significant amounts of FDIs and boosted its trade volume over the last decade.

According to the relevant figures above and below (Figure 4 and Figure 5), Turkey's trade with the Asian economies, including the Mideast countries, is constantly rising while there is a gradual decline observed in the trade with EU-27 during the period of 2002-2009, despite the slight correction for the imports from the EU in 2009. The share of EU markets in terms of Turkish exports declined significantly from 56 percent in 2002, down to 46 percent in 2009 while Asia's share increased from 14 percent up to 25 percent during that period. For the imports, EU's share declined from roughly 50 percent down to 40 percent over the period of 2002-2009 while the share of Asian countries surged from around 19 percent in 2002 up to 27 percent in 2009.

Figure 5. Turkey's Trading Partners (Import Shares), 2002-2009



Source: TurkStat, 2009

Another significant development in Turkish trade is observed in the relative changes in the shares of Turkey's domestic regions in the context of its total trade volume. Turkey's South-Eastern Anatolian and Mediterranean regions as well as the Eastern Anatolian region gained comparative advantages in the period of 2002-2009 where a significant overall increase was witnessed (see Table 7). Cross-border trade also made a substantial contribution to the recent increase in trade activities in the Southeastern provinces, thanks to the visa-free travel regimes and reduced bureaucracy since 2002. Turkey's recently improving ties with Middle

Eastern and North African countries as well as Russia and other Eastern economies are in part due to the overall development in the Turkish trade sector's performance and also in part due to the EU-Turkey political issues (including the visa disputes). Therefore, it is still too early to speak about an axis shift, as the EU-27 block will remain the main trading partner for Turkey for the foreseeable future, even if its full-membership bid fails to produce the successful outcome Turkey has been working towards achieving in the next decade.

Turkey has successfully managed to increase its total trade volume as well as the diversity of its destinations in the period of 2002-2009 while the main axis of its foreign trade partners remained unchanged. The figures from OECD –provided in the Table 1 below- imply that Turkish trade has witnessed a significant decline almost in all fronts, except the group of African countries, during the recent global financial downturn. However, during the whole period of 2002-2009, the weight of the EU-27 countries has seen a relative decline while the rest of the world accounts for an increasing share of Turkey's total trade in terms of percentages. That alone does not indicate a shift of axis but rather the effective utilization of potential markets, i.e. in Africa.

Table 1. Turkey's Trade by OECD Country Group Classification, 2002-2009

Commodity		TOTAL : ALL COMMODITIES							
Measure		Value							
Partner Country		Non-OECD Middle East							
Year		2002	2003	2004	2005	2006	2007	2008	2009
Turkey	Imports	2.973.381.628	4.058.675.297	5.142.629.246	7.391.304.798	9.882.727.705	12.022.006.674	16.172.652.698	8.555.032.577
	Exports	3.044.249.105	4.994.251.381	7.311.204.161	9.384.325.752	10.212.501.535	13.387.571.248	22.764.206.638	17.044.450.897
		Non-OECD Europe							
Year		2002	2003	2004	2005	2006	2007	2008	2009
Turkey	Imports	6.292.870.977	8.910.152.283	15.002.495.324	19.909.831.816	24.321.942.310	32.251.938.308	42.426.426.801	26.246.662.767
	Exports	3.416.147.517	4.717.983.160	6.458.500.877	8.909.045.600	10.104.708.716	14.704.606.532	18.595.921.534	10.799.603.338
		Non-OECD Asia							
Year		2002	2003	2004	2005	2006	2007	2008	2009
Turkey	Imports	4.347.710.412	6.800.740.288	10.685.776.221	14.562.104.929	19.570.319.489	26.204.205.042	31.423.130.026	23.976.148.454
	Exports	1.837.373.696	2.604.207.255	2.876.844.506	3.484.783.784	4.625.754.726	6.522.064.571	9.136.845.456	8.380.388.624
		Africa							
Year		2002	2003	2004	2005	2006	2007	2008	2009
Turkey	Imports	2.645.626.702	3.338.423.713	4.820.378.449	7.310.071.557	9.201.103.248	8.963.654.487	9.274.636.228	6.801.430.479
	Exports	1.681.889.607	2.128.558.625	2.966.951.499	3.947.918.791	5.164.916.713	6.634.272.034	10.305.278.566	11.047.279.020
		Gulf Arabian Countries							
Year		2002	2003	2004	2005	2006	2007	2008	2009
Turkey	Imports	945.034.029	1.236.140.430	1.946.715.251	2.671.130.551	3.150.213.118	3.819.537.709	5.681.334.107	3.623.242.242
	Exports	1.316.638.172	2.662.478.304	4.317.060.606	5.958.886.002	6.423.611.529	8.886.651.989	16.537.993.251	10.895.287.280
		European Union (27 countries)							
Year		2002	2003	2004	2005	2006	2007	2008	2009
Turkey	Imports	25.665.900.973	35.174.568.438	48.134.238.894	52.740.736.597	59.440.725.139	68.672.148.929	74.853.199.438	56.613.483.041
	Exports	20.480.357.216	27.716.389.332	37.036.420.410	47.119.474.801	48.821.113.660	61.330.770.409	64.450.875.539	47.763.892.794

Source: OECD Statistical Database, 2010

The above table provides insight on Turkey's commodity trade, which clearly indicates a decline both in Middle Eastern and European trade volumes during the recent crisis period (2008-2009) while during times of the world trade

booms (2002-2007) there was an increase. Significant determinants of an 'axis shift' should have also revealed themselves in terms of services and labor flows. Although the latter is still far from being accomplished in today's world, the first is increasingly developing, particularly with the EU. As underlined in the previous sections, Turkey's service industry has strong ties with its European counterparts, in telecommunications, tourism, and finance. Therefore, bilateral trade in services which reached 46.5 billion US Dollars in 2008, mostly with the EU members is yet another indicator of a broadening axis, rather than an 'axis shift'.²²

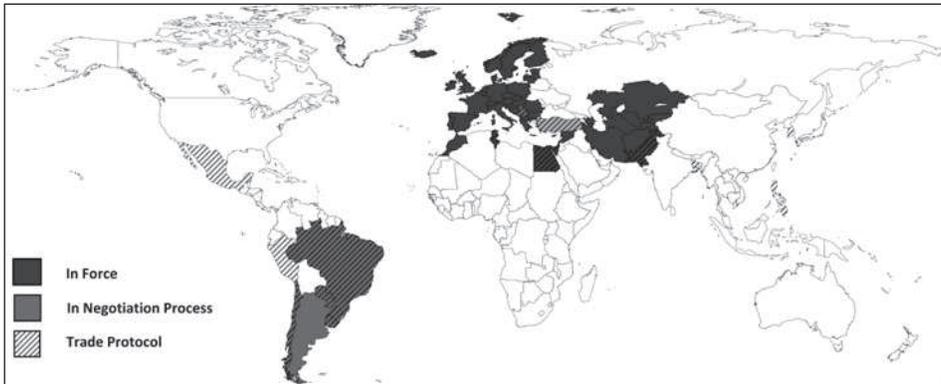
Trade Booms and Busts: Signs of an 'Axis Shift'?

Turkey has witnessed periods of trade booms and busts for decades. However, all are associated with periods of political stability or instability which had their corollary economic repercussions. In this section, the theoretical foundation of Turkey's so-called axis shift from a trade perspective is questioned. Empirical evidence and recent data are employed in the analysis when necessary. Relevant links between the recent political orientation and its economic consequences will also be reflected under the following sub-sections. The increasing influence of Turkey's new diplomatic assertion in its region is argued to be coupled with deepening economic ties manifesting itself in the number of free trade agreements, visa-free travel agreements, and even in new flight routes between Turkey and its partners. Turkey's increasing relations with its neighbors will be analyzed first through the 'gravity equation' tool in the new trade theory which focuses on the geographic as well as cultural proximity of countries engaging in bilateral trade. The second sub-section will underline the important transition of the political and diplomatic dimensions into the economic dimension. Finally, last sub-section will discuss the lack of a long-term economic strategy to maximize Turkey's foreign trade potential with its neighbors as well as its other trading partners.

Turkey's FTAs and the New Gravity Equation

Gravity (equation) models are considerably new to the theory of international trade though they have been in use for more than a decade now. In general, new trade theory takes economic size, geography or rather proximity, culture, common language or borders and other such issues into account in order to estimate the role of trade in cross-country growth forecasts. In the case of Turkey, the FTAs created more than the customs union with the EU, as they are increasingly effective in diversifying and magnifying Turkish exports. The table below and the map provide an insight into Turkey's new trade dimensions, taking the common elements in bilateral relations into account.

Map 1. Turkey's Free Trade Agreements (FTAs; based on WTO Data)



Source: Undersecretariat for Foreign Trade, March 2009

Turkey's new trading partners are not only in the Greater Middle East but also in Latin America, Asia and North America as well as Africa as shown in the above Map 1. It depicts the countries that Turkey has engaged with in terms of FTAs. Although common language (as seen in bilateral relations with Central Asian and Caucasian countries), cultural heritage and ties (observed in Middle Eastern, Caucasian, and Balkan regions), and shared borders (in all cases) are important elements of the rapprochement to the aforementioned regions, Turkey has managed to establish a widespread network of bilateral trade relations even with very distant (both geographically and culturally) countries via governmental and private initiatives since 2002. The history of the preferential trade agreements signed by Turkey, however, dates back to before the first FTA was established with the European Free Trade Association (EFTA) –represented by Austria, Finland, Switzerland, Iceland, Liechtenstein, Norway, and Sweden in 1992. Since then, Turkey has realized more than a dozen of FTAs (excluding the customs union agreements) with varying countries as indicated in Table 2 below.

While establishing FTAs and RTAs throughout different regions in the world, Turkey has managed to establish visa-free travel regimes at all levels with more than a dozen countries within the last decade. Countries that Turkey signed mutual visa-free travel agreements on different levels or visa holder-status include: Tajikistan (2003 and 2009); Uzbekistan (2003); Romania (2004); Guatemala (2004); Venezuela (2005); Paraguay (2006); Colombia (2006); Latvia (2006); Vietnam (2007); Kuwait (2007); Afghanistan (2007); Montenegro (2008); India (2008); UAE (2008); Kosovo (2009); Djibouti (2009); Syria (2009); Pakistan (2009); Albania (2009); Kenya (2009); Qatar (2009); Libya (2009); Jordan (2009);

Table 2. Turkey's Free Trade Agreements (FTAs) and Regional Trade Agreements (RTAs)

Free Trade Agreements				
Country	Type	Agreement	Date of Signature	Date of entry into force
EFTA		CU	1991	1992
EC		CU	1995	1996
Israel	Bilateral	FTA	1996	1997
FYR Macedonia	Bilateral	FTA	1999	2000
Bosnia and Herzegovina	Bilateral	FTA	2002	2003
Croatia	Bilateral	FTA	2002	2003
Tunisia	Bilateral	FTA	2004	2005
Palestine	Bilateral	FTA	2004	2005
Morocco	Bilateral	FTA	2005	2006
Egypt	Bilateral	FTA	2005	2007
Syria	Bilateral	FTA	2006	2007
Albania	Bilateral	FTA	2006	2008
Georgia	Bilateral	FTA	2007	2008
Montenegro	Bilateral	FTA	2008	2009
Serbia	Bilateral	FTA	2009	2010
Chile	Bilateral	FTA	2009	--- in progress
Jordan	Bilateral	FTA	2009	--- in progress
Regional Trade Agreements*				
* Protocol on Trade Negotiations (PTN) and Economic Cooperation Organization (ECO)				
Countries	Type	Agreement	Date of Signature	Date of entry into force
Bangladesh- Brazil- Chile-Egypt- Israel- Korea- Mexico- Pakistan- Paraguay- Peru- Philippines- Serbia- Tunisia- Uruguay	Plurilateral	RTA	1971	1973
Afghanistan- Azerbaijan- Iran- Kazakhstan- Kyrgyz Republic- Pakistan- Tajikistan- Turkmenistan- Uzbekistan	Plurilateral	RTA	1992	1992

Source: World Trade Organization (WTO) and Turkish Undersecretariat for Foreign Trade, 2009

Azerbaijan (2009); Lebanon (2010); Tanzania (2010); Cameroon (2010); Russia (2010); Serbia (2010); Portugal (2010); and Greece (2010).²³ One could assess the reach and diversity of Turkey's new foreign policy and thus trade relations via established free trade agreements, new flight routes, and visa agreements which indicate a multi-polar geographic orientation rather than a clear-cut axis shift. In addition, the Turkish Undersecretariat for Foreign Trade documents reveal that the government is in negotiations to finalize the establishment of FTAs with Lebanon, the GCC countries, Ukraine, MERCOSUR countries, Libya, Mauritius, Seychelles, and Faroe Islands while initiating talks with Mexico, Algeria, South African Customs Union, ASEAN, South Africa, ANDEAN, India and 36 countries under Africa Caribbean Pacific Group of States (ACP).²⁴ Therefore, the relatively unexploited nature of Turkey's bilateral trade with the aforementioned countries or groups offers a unique opportunity to rapidly develop further economic and

commercial ties. This list of countries, on its own, is irrefutable evidence that the argument for an axis shift is weak and it has much more to do with providing some insight into Turkey's future vision of diversifying its trade destinations.

The role of 'gravity equation' becomes crucial when the location, size, and diversity of the newly established FTAs or other forms of bilateral trade relations are taken into account. Recent studies on the impact of trade on cross-country income growth rates have been investigating alternative instruments for trade. For instance, a pioneering work in the trade-growth literature provides geographical instruments for countries' overall trade based on the standard gravity equation.²⁵ The distance between countries that have bilateral trade and the country sizes are used as instruments which are seemingly unrelated to any other factor affecting their income levels, respectively. While using one of the instruments, however, one should control the other since they are negatively correlated. Constructing an instrumental variable for trade and estimating the effects on income suggest that the trade share may not have a positive significant effect on income growth while in some cases trade variables have insignificant positive or again insignificant negative coefficients. In general, however, using geographical variables as instruments for both bilateral and international trade alone could be said to eliminate statistically relevant problems issues but it does not always provide satisfactory results in explaining the effects of trade on income.

The Role of Politics on Turkey's Trade Policy

At the dawn of 21st century, Turkey has become increasingly a global actor while still revealing that its capacities are mostly regional and it possesses internal weaknesses. Nevertheless, many argue, more powerful than a decade ago, Turkey has emerged as a key member in international organizations, including the United Nations Security Council, Organization of the Islamic Conference (OIC), the OECD, even in the International Monetary Fund (IMF), and the World Bank. The latter two, however, should be read under the context of the increasing influence of emerging market economies altogether. Along with the increasing weight in the IMF and the World Bank Group, Turkey's G-20 membership (1999) also becomes more critical and operational nowadays, thanks to the gradually evolving nature of the global economy and governance since 2008.²⁶

Regarding Turkey's relations with and its position in the Middle East particularly, Foreign Minister Ahmet Davutoglu underlined the importance of paying attention to the region at least in terms of its potential strategic assets while showing efforts to put the pieces together in the 'geo-economically torn apart' Mid-eastern

countries.²⁷ On economic ties with the European Union (EU), Turkey's foreign policy chief stresses that due to the uncertainties regarding the future track of Turkey's EU membership processes, the country should formulate a new development strategy based not only on its domestic potential but also to support the potential opportunities originating from its geographic location.²⁸ In an assessment of the foreign policy developments of 2007, Davutoglu asserted that Turkey's diverse regional composition or unique central position gives her a capacity to maneuver in several regions simultaneously, which in turn creates an area of influence in its immediate environs.²⁹ The five pillars of Turkey's new foreign policy vision have been delineated as follows: i) balance between security and democracy; ii) 'zero problem policy toward Turkey's neighbors'; iii) development of relations with neighboring and distant regions; iv) adherence to a multi-dimensional foreign policy; and v) rhythmic diplomacy. Within the framework of these five pillars, Davutoglu refers to the role of individuals, corporations, and civil organizations as complementary in the pursuit of Turkey's foreign policy.³⁰ Diplomatic efforts for increasing regional political and economic stability included mediation in the indirect peace talks between Israel and Syria, diplomatic engagement in Iraqi politics, and the mediation of nuclear talks between Iran and the P5+1 countries (five permanent members of the UN Security Council, EU and Germany) together with Brazil. Turkey's pursuit for stability on the domestic, regional, and global fronts is accompanied by its increasing economic presence in its own region and the world.

Turkey is asserting its new geo-strategic position through a series of policies and instruments within the theoretical cadre of strategic engagement accompanied by practical and often tactical moves to enhance regional and bilateral diplomatic and economic relations. An emerging business group, TUSKON, which is largely comprised of exporters, has been actively engaged in African and East Asian markets while another business group, the Independent Industrialists and Businessmen's Association (MUSIAD) is in search for increased cooperation with the Gulf countries. In the meantime, Turkey's oldest business group, the Turkish Industrialists and Businessmen's Association (TUSIAD), continues to actively lobby for the eventual EU membership of the country. Given such a diversified composition of efforts to promote Turkey's global position, one should also note the dramatic rise in the number of direct or indirect flight routes of the national flagship carrier, Turkish Airlines (THY), since 2002. Between 2002 and 2010, the distribution of the newly opened routes is also informative, as 14 out of the total 58 new routes are to European cities, while 18 routes are to Asia. THY meantime has opened 14 flight routes to the Middle Eastern and North African cities, along

with eight new routes in Africa.³¹ Businessmen are now easily traveling and conducting business with their counterparts via direct flights to the capitals of Africa, Asia, and Europe.

Turkey's increased economic influence in its region manifested itself in the volume of trade with neighboring countries, as observed in Turkish-Iranian bilateral trade figures (up from 1.2 billion US Dollars in 2002 to around 5.4 billion US Dollars in 2009); Turkish-Russian bilateral trade figures (up from 5.1 billion US Dollars in 2002 to 22.7 billion US Dollars in 2009) and Turkish-Syrian bilateral trade figures (up from 773 million US Dollars in 2002 to 1.8 billion US Dollars in 2009), despite the negative effects of the recent global financial crisis.³² Similarly, the total trade volume with the Latin American and Caribbean countries rose from 735 million US Dollars in 2002 to more than 4 billion US Dollars as of 2008. As the study aimed to demonstrate, all of the figures illustrated are practical indicators reflecting Turkey's changing foreign policy structure from an international trade perspective.

Economists often argue that political outcomes or the type of the state can effectively create an 'efficient' trade policy scheme. The interplay of economic/commercial actors in a country or at the global level has a significant result on potential trade games and even trade wars.³³ The relationship between trade and growth and their impact on income distribution within and across countries has been intensively discussed in a vast body of literature. The relative changes in the income levels among different business groups or industrial segments in Turkey also result from the interplay between politics and trade policies.

In shaping a country's trade policy, the size of its domestic market, the variety of its products (i.e. amount of capital or intermediate goods), and geographic proximity are among several important elements. Trade laws and the efficiency in doing business are other components to impede or speed up the country's trade performance. As politics are important in shaping trade policies, the latter is also effective on income creation and redistribution mechanisms.³⁴ Trade policies are usually correlated with other factors related to income (growth), for instance, the adoption of free market trade policies as is the case with Turkey in the 1980s, as in other developing countries, brought about subsequent policy measures such as financial liberalization. The aim of this paper is, however, to isolate the rest of the factors other than trade that would explain Turkey's current economic policies. Therefore, the recent developments on the political scene and its reflections on trade policy will be at the focus of this analysis. Since the early '90s, the emerging business groups can be described as the economic face of Turkey's changing polit-

ical environment. Despite the continuing role of TUSIAD in the political sphere, MUSIAD and export unions such as the Turkish Exporters' Assembly (TIM) or formations like TUSKON in recent years are increasingly effective in shaping the country's trade policies. Traditional conglomerates mostly represented under TUSIAD are mostly clustered in automotive, chemicals and metals, construction and energy, finance and pharmaceutical industries while relatively smaller size firms –mostly represented in MUSIAD- operate in textiles, retail, consumer electronics and food sectors.

Turkey's emerging trade destinations provide a relative advantage for the smaller size entrepreneurs due to their firm size while yielding significant amounts of positive externalities for the conglomerates in their increased bilateral economic ties as well. Turkey's new trade orientation or re-balancing act has been, therefore, beneficial to all parties at the domestic level while providing cyclical results –beside Africa- at the international level. The latter argument is evident in Turkey's significant losses in European, North American, Asian and Middle Eastern –including Gulf countries- bilateral trade volumes (see Table 5 and Table 6).

Despite the increasing trade volume with its neighbors in recent years, Turkey has not adopted a well-structured long-term export strategy though its new pro-active foreign policy aims at creating regional economic zones. An ad hoc rather than a systematic approach is embraced in trade policy while the role of aforementioned business groups earns increasing weight. The inter-governmental relations pave the way for exporter to reach new markets while a comprehensive trade strategy is still far from being implemented. Turkish exporters are still highly dependent on state policies and the possible agency problems might hinder further economic development as bureaucratic and administrative quality are key to success in such a framework. Despite the recent rise in Turkey's trade performance, we may conclude, it is too early to suggest an 'axis shift' in the modes of production and the relative roles of small and middle sized entrepreneurs (SMEs) versus conglomerates. TUSIAD in that sense continues to be the leading club both in terms of its total trade volume and the value-added.

Prospects for Turkish Trade in a Changing Global Economy

Due to the structural comparative advantage and the country's increasing competitiveness, Turkey is expected to remain as one of the foremost trading partners for the EU countries. It is quite natural for a pivotal state like Turkey to develop new ties with the global economies' rising stars and its neighboring

Turkey's recent rise, based on its rapid economic growth, is reinforced by its strong ties to the EU, as it obligates Turkish exporters to function with a high level of standards

countries due to several reasons: increasing economic power (GDPs etc.), dynamic population (driving the demand), and common ties (i.e. geography, history, religion and culture). Therefore, an axis shift debate becomes obsolete when studying the facts and once the negative and skeptical perceptions over

Turkey's new foreign (trade) policy are removed. Such a debate reveals the remnants of the old compartmentalizing mentality of the Cold War in the minds of Turkey's Western allies.

The traditional Western perception of the 'East' once again seems to have emerged in the recent 'axis shift' debates without any solid basis. In the wake of changing global economic setup with the rise of G-20 specifically, it would be quite normal to see Turkey becoming a regional player as well as an actor in the newly shaping global economic structure. Based on the trend over the last decade, we could argue that Turkey continues to promote new development in terms of its foreign trade. This trend could continue for the foreseeable future given the political stability within the country combined with favorable global economic conditions, particularly for the developing economies. The significant dependence over the import of intermediate goods and the lack of a proper R&D strategy, however, are among the factors which hinder a more rapid economic growth in the country. In the meantime, Turkey needs to develop a long-term trade policy strategy plan to address the current weaknesses in its production, marketing, and other segments of its trade structure.

The differences in the rate of economic growth are often observed to depend on the relative sizes of the countries under the endogenous growth models –which imply that positive gains or increasing returns of scale are possible provided that endogenous factors are driving the rate of growth among countries. Therefore, increasing the size of a country leads to expanding the variety in intermediate goods and results in efficiency gains in production of the final goods. This increased diversity in exported goods is found to have a positive effect on trade volumes and thus growth rates, as shown in numerous empirical works. Another implication is the decreasing fixed costs of innovative new intermediate inputs. This is the cause of a permanent increase in the output due to a larger country size. Therefore, we may conclude that Turkey's trade with its neighbors and other short-distance partners will yield relatively bigger gains for itself. However, it is all directly linked

Table 3. Turkey's Export Structure, 2000-2009 (in terms of BEC)

BREAKDOWN OF EXPORTS BY BEC (*)	Million US Dollars									
	ANNUAL									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
CAPITAL GOODS	2.176	2.658	2.790	4.344	6.531	7.998	9.423	13.755	16.725	11.118
Capital goods (Except transportations vehicles)	1.020	1.220	1.338	1.942	2.752	3.407	4.083	5.599	6.884	5.814
Transportation vehicles incidental to industry	1.156	1.439	1.452	2.402	3.779	4.591	5.341	8.156	9.842	5.304
INTERMEDIATE GOODS	11.565	13.369	14.657	18.494	25.946	30.290	37.788	49.403	67.734	49.711
Unprocessed materials incidental to industry	1.003	941	950	1.198	1.478	1.711	2.269	2.803	3.206	2.637
Processed materials incidental to industry	8.049	9.493	10.474	12.879	18.661	20.673	25.706	32.699	47.184	35.162
Unprocessed fuels and oils	6	7	5	4	2	15	2	6	82	102
Parts of investment goods	576	653	727	974	1.358	1.734	2.237	3.168	3.713	2.923
Parts of transportation vehicles	1.209	1.557	1.799	2.453	3.093	3.734	4.561	6.162	6.943	4.951
Unprocessed materials of food and beverages	257	244	140	120	78	180	278	182	138	255
Processed materials of food and beverages	247	203	237	351	475	738	653	853	1.324	1.144
Processed fuels and oils	217	271	325	515	800	1.505	2.082	3.530	5.144	2.538
CONSUMPTION GOODS	13.987	15.262	18.465	24.125	30.502	34.835	37.790	43.696	47.077	40.740
Otomobiles	629	973	1.298	2.197	3.934	4.373	5.645	6.840	7.474	6.087
Resistant consumption goods	2.057	2.195	3.275	4.351	6.003	6.906	7.583	8.556	8.948	7.864
Semi-resistant consumption goods	5.736	5.955	7.215	8.843	9.832	10.308	10.507	12.443	12.519	10.654
Non-resistant consumption goods	2.919	2.861	3.403	4.408	5.193	5.837	6.180	6.834	7.135	6.355
Unprocessed of food and beverages	1.365	1.662	1.649	2.033	2.576	3.239	3.293	3.813	4.226	4.389
Processed of food and beverages	1.156	1.415	1.227	1.777	2.252	2.929	2.970	3.484	4.210	3.880
Gasoline	96	157	355	450	618	1.098	1.420	1.553	2.253	1.234
Transportation vehicles not incidental to industry	29	43	43	66	95	145	191	174	312	276
OTHERS	47	46	147	289	189	354	533	418	491	559
TOTAL	27.775	31.334	36.059	47.253	63.167	73.476	85.535	107.272	132.027	102.128
<i>(*) Table based on World Trade Organization (WTO) / BEC definition.</i>										

Source: TurkStat, 2009

to a comprehensive industrial and commercial policy design, which will provide substantial productivity increases in the long-run. The size or scale effect and productivity increase would not have the same impact in cases where policies do not matter. It is, however, crucial for Turkey to maintain a robust and continuous productivity increase that would guarantee competitiveness.

The endogenous growth models referred above also imply that with knowledge spillovers, trade increases the growth rates. In that sense, Turkey's trade with a wider set of countries will benefit all parties in many aspects. Table 3 and Table 4 provide a clear understanding of the lack of a sustainable export-oriented growth strategy as the export and import shares of intermediate goods –which are crucial for final production-, are hardly correlated. In 2009 only, the amount of intermediate goods imported (99.5 billion US Dollars) is almost as much as Turkey's total

Table 4. Turkey's Import Structure, 2000-2009 (in terms of BEC)

BREAKDOWN OF IMPORTS BY BEC (*)	Million US Dollars									
	ANNUAL									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
CAPITAL GOODS	11.365	6.940	8.400	11.326	17.397	20.363	23.348	27.054	28.021	21.462
Capital goods (Except transportations vehicles)	9.264	5.882	7.571	9.823	13.494	17.120	19.634	23.366	23.256	18.384
Transportation vehicles incidental to industry	2.101	1.058	828	1.503	3.904	3.243	3.682	3.688	4.765	3.078
INTERMEDIATE GOODS	36.010	30.301	37.656	49.735	67.549	81.868	99.605	123.640	151.747	99.482
Unprocessed materials incidental to industry	2.784	2.037	2.957	4.290	5.776	6.027	7.319	10.038	13.692	7.985
Processed materials incidental to industry	16.099	13.884	18.032	24.105	33.407	39.549	46.476	58.891	65.680	43.483
Unprocessed fuels and oils	4.835	4.181	4.957	5.718	7.329	14.699	19.772	22.830	32.259	17.772
Parts of investment goods	3.944	3.161	4.168	4.840	6.432	6.747	7.622	9.087	9.445	8.292
Parts of transportation vehicles	3.160	2.468	2.704	3.942	6.544	7.427	8.682	10.455	11.264	7.839
Unprocessed materials of food and beverages	519	301	532	957	944	866	779	1.685	3.154	2.074
Processed materials of food and beverages	333	299	400	525	624	762	950	858	1.742	1.206
Processed fuels and oils	4.336	3.969	3.906	5.356	6.492	5.791	7.955	9.796	14.511	10.831
CONSUMPTION GOODS	6.928	3.813	4.898	7.813	12.100	13.975	16.116	18.694	21.489	19.288
Otomobiles	2.596	587	813	2.220	4.214	4.296	4.269	4.747	4.552	4.265
Resistant consumption goods	1.126	632	687	917	1.440	1.839	2.295	3.027	3.531	2.619
Semi-resistant consumption goods	932	723	869	1.265	1.911	2.506	3.247	3.914	4.808	4.090
Non-resistant consumption goods	1.371	1.317	1.739	2.355	3.184	3.415	3.725	4.359	5.301	4.949
Unprocessed of food and beverages	178	115	127	119	149	270	316	403	753	595
Processed of food and beverages	317	239	300	404	528	645	755	954	1.121	1.003
Gasoline	344	166	329	494	556	712	1.084	1.172	1.306	1.190
Transportation vehicles not incidental to industry	66	35	34	39	119	292	411	118	117	577
OTHERS	199	344	600	466	493	567	508	675	707	666
TOTAL	54.503	41.399	51.554	69.340	97.540	116.774	139.577	170.063	201.964	140.899

(*) Table based on World Trade Organization (WTO) / BEC definition.

Source: TurkStat, 2009

exports (102.1 billion US Dollars). Another way to look at Turkey's performance in terms of a structural breakthrough is to assess the technology component or share in export goods. In both terms, Turkey is far from producing value-added items that would increase efficiency as well as overall economic infrastructure.

Turkey's recent rise, based on its rapid economic growth, is reinforced by its strong ties to the EU, as it obligates Turkish exporters to function with a high level of standards. Positioned at the top of the quality ladder, the EU markets drive the export sector to become more competitive by increasing the quality of commodities and services while maintaining competitive price levels. With its unique geographic advantage, supported by a dynamic population and a significantly large market size as well as improving human and physical capital stock, Turkey is also becoming an indispensable partner of European trade. As depicted in Table 5,

Table 5. Major Trade Partners of the EU-27

Leading Partner Countries of the EU27 in Merchandise Trade											
(excluding intra-EU trade)											
The Major EU Trader Partners											
EU Imports+EU Exports	2009		2008		2007		2006		2005		
	Rank.	Mio euro	Rank.	Mio euro	Rank.	Mio euro	Rank.	Mio euro	Rank.	Mio euro	
Extra EU27:		2.294.713		2.874.764		2.673.942		2.512.887		2.232.289	
USA	1	364.278,6	1	436.895,5	1	443.215,3	1	444.691,0	1	416.194,4	
China	2	296.312,5	2	326.349,8	2	304.591,5	2	258.726,3	2	212.152,5	
Russia	3	180.990,1	3	282.788,8	3	233.595,7	3	213.244,1	3	169.287,5	
Switzerland	4	162.313,4	4	178.332,6	4	169.794,6	4	159.429,0	4	149.162,6	
Norway	5	106.343,6	5	139.689,8	6	120.212,5	6	117.664,8	6	101.054,0	
Japan	6	91.819,9	6	117.340,3	5	122.191,8	5	122.281,6	5	117.813,2	
Turkey	7	79.951,4	7	100.125,4	7	99.650,8	7	91.757,8	7	80.706,9	
South Korea	8	53.547,6	8	65.132,2	8	66.153,5	8	63.678,4	8	54.676,7	
India	9	52.894,8	10	61.084,8	9	56.076,3	9	47.006,0	10	40.408,6	
Brazil	10	47.223,1	9	62.244,3	10	54.132,2	11	44.972,3	11	40.181,0	
Canada	11	40.208,1	11	49.939,0	11	49.169,6	10	46.451,7	9	41.277,6	
Singapore	12	35.019,3	17	38.175,5	14	39.012,0	14	38.980,9	14	35.864,5	
Algeria	13	32.009,6	12	43.621,7	21	31.835,7	16	34.123,3	17	31.380,5	
South Africa	14	31.025,5	14	42.583,8	12	41.391,8	15	38.426,1	16	34.940,7	
Saudi Arabia	15	30.493,5	13	43.263,9	15	38.561,7	12	41.001,5	12	38.183,5	
Australia	16	29.874,6	19	36.372,9	17	34.516,5	18	32.519,1	19	30.321,4	
Hong Kong	17	29.173,9	22	32.609,8	20	31.880,5	17	33.798,3	18	31.154,9	
U.A.Emirates	18	28.880,4	18	37.591,3	19	32.956,3	19	31.035,2	15	35.417,9	
Taiwan	19	27.515,7	20	35.669,0	13	39.363,1	13	39.934,0	13	37.168,0	
Libyan Arab Jamahiriya	20	26.464,1	15	40.883,8	22	31.559,1	20	29.744,0	23	23.403,0	
Mexico	21	25.731,7	21	35.655,2	18	33.083,6	21	29.693,3	20	26.082,3	
Leading Client and Supplier Countries of the EU27 in Merchandise Trade (value %)											
(2009, excluding intra-EU trade)											
The Major EU Import Partners			The Major EU Export Partners				The Major EU Trader Partners				
Rank.	EU Imports from	Mio euro	% world	Rank.	EU Exports to	Mio euro	% world	Rank.	Imports+Exports	Mio euro	% world
	Extra EU27:	1.199.545	100,0		Extra EU27:	1.095.168	100,0		Extra EU27:	2.294.713	100,0
1	China	214.657	17,9	1	USA	204.574	18,7	1	USA	364.279	15,9
2	USA	159.705	13,3	2	Switzerland	88.557	8,1	2	China	296.313	12,9
3	Russia	115.392	9,6	3	China	81.656	7,5	3	Russia	180.990	7,9
4	Switzerland	73.756	6,1	4	Russia	65.598	6,0	4	Switzerland	162.313	7,1
5	Norway	68.748	5,7	5	Turkey	43.864	4,0	5	Norway	106.344	4,6
6	Japan	55.849	4,7	6	Norway	37.596	3,4	6	Japan	91.820	4,0
7	Turkey	36.088	3,0	7	Japan	35.971	3,3	7	Turkey	79.951	3,5
8	South Korea	32.027	2,7	8	India	27.511	2,5	8	South Korea	53.548	2,3
9	Brazil	25.656	2,1	9	U.A.Emirates	25.086	2,3	9	India	52.895	2,3
10	India	25.384	2,1	10	Canada	22.436	2,0	10	Brazil	47.223	2,1
11	Libyan Arab J	19.996	1,7	11	Australia	21.796	2,0	11	Canada	40.208	1,8
12	Canada	17.772	1,5	12	Brazil	21.567	2,0	12	Singapore	35.019	1,5
13	Taiwan	17.510	1,5	13	South Korea	21.520	2,0	13	Algeria	32.010	1,4
14	Algeria	17.356	1,4	14	Singapore	20.431	1,9	14	South Africa	31.026	1,4
15	South Africa	14.926	1,2	15	Hong Kong	19.627	1,8	15	Saudi Arabia	30.494	1,3
16	Malaysia	14.697	1,2	16	Saudi Arabia	19.505	1,8	16	Australia	29.875	1,3
17	Singapore	14.588	1,2	17	South Africa	16.099	1,5	17	Hong Kong	29.174	1,3
18	Thailand	14.289	1,2	18	Mexico	15.856	1,4	18	U.A.Emirates	28.880	1,3
19	Indonesia	11.657	1,0	19	Algeria	14.654	1,3	19	Taiwan	27.516	1,2
20	Saudi Arabia	10.989	0,9	20	Ukraine	13.898	1,3	20	Libyan Arab J	26.464	1,2

Source: European Commission (EC), 2010

Table 6. Turkey's Trade with Selected Countries, 2008-2009

	Exports			Imports			Total Trade Volume		
	2009	2008	% Change	2009	2008	% Change	2009	2008	% Change
Total	102 128 447	132 027 196	-22,6	140 898 982	201 963 574	-30,2	243 027 429	333 990 770	-27,2
Country									
France	6 209 126	6 617 511	-6,2	7 090 739	9 022 015	-21,4	13 299 865	15 639 526	-15,0
Netherlands	2 123 632	3 143 835	-32,5	2 542 976	3 056 340	-16,8	4 666 608	6 200 175	-24,7
Germany	9 788 182	12 951 755	-24,4	14 096 716	18 687 197	-24,6	23 884 898	31 638 952	-24,5
Italy	5 891 523	7 818 988	-24,7	7 673 203	11 011 526	-30,3	13 564 726	18 830 515	-28,0
UK	5 917 960	8 158 669	-27,5	3 473 313	5 324 034	-34,8	9 391 274	13 482 703	-30,3
Greece	1 634 076	2 429 968	-32,8	1 129 521	1 150 715	-1,8	2 763 596	3 580 683	-22,8
Spain	2 823 700	4 047 267	-30,2	3 776 812	4 548 182	-17,0	6 600 512	8 595 449	-23,2
Belgium	1 796 305	2 122 434	-15,4	2 371 496	3 150 747	-24,7	4 167 801	5 273 181	-21,0
Switzerland	3 931 736	2 856 787	37,6	1 999 374	5 588 439	-64,2	5 931 110	8 445 225	-29,8
Poland	1 320 982	1 586 772	-16,8	1 817 084	1 977 852	-8,1	3 138 066	3 564 623	-12,0
Romania	2 215 171	3 987 476	-44,4	2 257 934	3 547 820	-36,4	4 473 106	7 535 296	-40,6
Bulgaria	1 387 710	2 151 534	-35,5	1 116 899	1 840 008	-39,3	2 504 609	3 991 542	-37,3
Ukraine	1 033 418	2 187 675	-52,8	3 155 831	6 106 325	-48,3	4 189 249	8 294 000	-49,5
Russia	3 201 979	6 483 004	-50,6	19 447 835	31 364 477	-38,0	22 649 814	37 847 480	-40,2
Georgia	746 022	997 844	-25,2	285 486	525 041	-45,6	1 031 508	1 522 885	-32,3
Azerbaijan	1 399 494	1 667 469	-16,1	752 780	928 421	-18,9	2 152 273	2 595 890	-17,1
Kazakhstan	633 534	890 568	-28,9	1 348 753	2 331 992	-42,2	1 982 287	3 222 561	-38,5
Turkmenistan	945 020	662 933	42,6	327 559	389 305	-15,9	1 272 579	1 052 238	20,9
Morocco	600 574	957 769	-37,3	234 729	360 520	-34,9	835 303	1 318 288	-36,6
Algeria	1 781 751	1 613 644	10,4	2 028 115	3 262 176	-37,8	3 809 866	4 875 820	-21,9
Tunisia	647 075	778 098	-16,8	234 980	365 381	-35,7	882 055	1 143 480	-22,9
Libya	1 799 251	1 074 288	67,5	402 568	336 325	19,7	2 201 819	1 410 613	56,1
Egypt	2 618 573	1 426 450	83,6	641 482	942 817	-32,0	3 260 055	2 369 266	37,6
Nigeria	257 717	280 527	-8,1	604 675	521 916	15,9	862 392	802 443	7,5
Ethiopia	229 023	163 777	39,8	35 115	39 304	-10,7	264 138	203 081	30,1
Kenya	70 623	233 052	-69,7	5 813	12 575	-53,8	76 435	245 627	-68,9
South Africa	866 721	1 238 632	-30,0	1 103 313	1 502 492	-26,6	1 970 034	2 741 124	-28,1
US	3 225 150	4 299 941	-25,0	8 568 819	11 975 929	-28,4	11 793 969	16 275 870	-27,5
Canada	338 289	501 428	-32,5	937 365	1 428 000	-34,4	1 275 654	1 929 428	-33,9
Brazil	388 136	318 027	22,0	1 105 890	1 423 868	-22,3	1 494 026	1 741 895	-14,2
Lebanon	686 454	665 055	3,2	108 800	178 781	-39,1	795 254	843 835	-5,8
Syria	1 424 611	1 115 013	27,8	327 681	639 213	-48,7	1 752 292	1 754 225	-0,1
Iraq	5 123 486	3 916 685	30,8	952 262	1 320 923	-27,9	6 075 748	5 237 608	16,0
Iran	2 024 761	2 029 760	-0,2	3 405 841	8 199 689	-58,5	5 430 602	10 229 449	-46,9
Israel	1 528 370	1 935 235	-21,0	1 070 112	1 447 919	-26,1	2 598 482	3 383 154	-23,2
Jordan	455 298	460 738	-1,2	20 354	25 289	-19,5	475 652	486 027	-2,1
Saudi Arabia	1 770 957	2 201 875	-19,6	1 686 712	3 322 389	-49,2	3 457 669	5 524 264	-37,4
Kuwait	211 293	493 035	-57,1	184 219	80 638	128,5	395 512	573 674	-31,1
Bahrain	113 712	308 223	-63,1	24 289	95 516	-74,6	138 001	403 740	-65,8
Qatar	289 362	1 074 013	-73,1	85 652	159 353	-46,2	375 015	1 233 366	-69,6
UAE	2 898 579	7 975 400	-63,7	667 857	691 202	-3,4	3 566 436	8 666 602	-58,8
India	411 165	542 730	-24,2	1 893 265	2 457 908	-23,0	2 304 430	3 000 638	-23,2
Thailand	132 299	100 300	31,9	957 136	1 473 405	-35,0	1 089 435	1 573 705	-30,8
Indonesia	250 618	284 426	-11,9	1 017 888	1 408 895	-27,8	1 268 506	1 693 321	-25,1
Malaysia	139 970	98 224	42,5	960 937	1 512 361	-36,5	1 100 906	1 610 585	-31,6
Singapore	348 006	793 092	-56,1	202 473	241 255	-16,1	550 479	1 034 347	-46,8
China	1 599 115	1 437 204	11,3	12 676 466	15 658 210	-19,0	14 275 581	17 095 414	-16,5
South Korea	234 800	271 254	-13,4	3 118 199	4 091 711	-23,8	3 353 030	4 362 966	-23,1
Japan	232 860	330 462	-29,5	2 781 952	4 026 764	-30,9	3 014 812	4 357 226	-30,8
Taiwan	130 142	97 448	33,6	1 342 382	1 683 904	-20,3	1 472 525	1 781 352	-17,3
Australia	304 915	367 316	-17,0	619 534	827 273	-25,1	924 449	1 194 589	-22,6

Source: Undersecretariat for Foreign Trade, 2009

Turkey's position among EU-27's trade partners is almost unchanged over the period of 2005-2009, as it ranks 7th in the whole five-year period, which could be read as another rejection of the axis shift arguments.

Turkey's trade is dominated by the traditionally advantageous export industries, such as textiles, machinery, chemicals, plastics, metals and automotive subsidiaries. This is true not only for trade with the EU-member countries but also the newly engaged markets. However, for Turkey to ensure a sustainable future for its exports - it is crucial that it make a significant shift towards high-technology intensive products. As observed in Table 3, 4 and 5, the structural breakthrough for the export sector is vital for a sustainable path to maintain long-run growth. The export sector should strive to reach a significant level of quality and creativity in terms of marketing power as well as productive and innovative capabilities in order to meet its full potential. The recent global financial turmoil can be used as an experimental case for our study since it revealed the structural weaknesses of Turkey's export sector and its high level of dependency to imported goods. During the period of 2008-2009, Turkey's trade with its traditional partners such as EU-27, North America, Russia, China, and the Middle East as well as many other markets shrank dramatically, as observed in Table 6. The only exception to this general rule came from certain North African and Central Asian markets.

Turkey's export sector should, therefore, learn how to advance in terms of technological capacities as well as marketing power. Turkey is not the dominant power or the leader as an exporter in the new markets it has extended its arms across the globe. Therefore, Turkey needs a comprehensive strategy that takes geographical, cultural and social as well as technological and economic (i.e. efficiency) aspects into account, which will pave the way to succeed in the long-term. Turkey's recent foreign policy orientation towards its region and the world could facilitate the creation of positive externalities. However, Turkey's failure to design a profound economic strategy might lead to an alignment of interests of the policy-makers and the business circles in the short-run. The rent-seeking business groups that aim to maximize profits and the current export-oriented regime fostered by the government will run counter to the need for generating

Turkey's recent initiatives and relative orientation towards the East does not only stem from its own policy choices but also reflects an indispensable necessity due to the evolving nature of the world political and economic makeup

Turkey's new trade destinations and relations have helped to alleviate the negative impact of the global financial crisis of 2008

the necessary technological and innovative infrastructure the Turkish economy requires to position itself on the world trade stage as a permanent and powerful actor. Unfortunately, this has already manifested itself by Turkey's low level of investment in technology and registered

patents. The lack of value-added in most of the sectors also leads to a higher current account deficit, which is an additional constraint to Turkey's path towards long-term sustainable growth.

Conclusion

Turkey is emerging as a pivotal state with its vibrant economy and increasingly stable domestic political scene in the first decade of the 21st century. The present paper provides an insightful while critical understanding of the evolving nature of the debates hovering over Turkey's new foreign policy structure through Turkey's perspective of foreign trade from 2002 to 2010. A detailed and careful analysis reveals that the so-called 'axis shift' debate becomes obsolete once factual economic indicators are demonstrated and analyzed. From the number of flights overseas to the mutual visa-exemption agreements, and the establishment of cross-border commercial ties; all are indicators of Turkey's changing trade environment.

Turkey's recent initiatives and relative orientation towards the East does not only stem from its own policy choices but also reflects an indispensable necessity due to the evolving nature of the world political and economic makeup. Therefore, this analysis puts forward the argument that Turkey does not fit into an 'axis shift' debate. The term that would best coin the recent developments might be an 'expansionary axis' or a new 'creative axis'. The ongoing trend in Turkey's recent foreign policy and, therefore, foreign trade rapprochement with the East in broad terms, seems to have entered into a new phase that could be irreversible. However, the current global trends would need to prevail in the medium and long-term.

Nonetheless, Turkey's new trade destinations and relations have helped to alleviate the negative impact of the global financial crisis of 2008. Although Turkey's GDP shrank by 4.7 percent and its total trade volume significantly dropped by around 27 percent on annual basis,³⁵ Turkey has managed to avoid a long-term recession as its economy is expected to grow at a rate of above 7 percent in 2010³⁶ and the total trade volume is estimated to dramatically recover. However, the negative counterpart is Turkey's widening current account deficit, of which its trade

deficit is a major factor. As Turkey's trade volume increases, so does its deficit, due to structural issues as stated in the previous sections. Therefore, a sustainable trade scheme should incorporate a solution to remedy the structural deficit problem, which stems from the mode of production and low levels of technology, thus Turkey produces products with a weak value-added.

Since the current trade deficit is unsustainable in the long-run, Turkey's recently discovered trade relations, which usually yield trade surpluses are of crucial importance to achieve a balanced path to foreign trade. Such a structural break would only have long-term positive contribution to the aggregate economy. As long as Turkey's engagement with the European markets on economic grounds and the EU on the political continues, the current level of bilateral trade with the EU-27 club will get closer to reaching its full potential, as it contributes greatly to Turkey's economic growth. The relatively less-utilized markets, however, provide a broad set of opportunities in terms of its 'value-added' in foreign trade. Given the lack of a proper structure for its trade with the EU and the current imbalances in bilateral trade with countries such as China, Turkey's elusive quest for new trade partners and regions is indispensable.

Appendix

Table 7. Turkey's Exports-Imports by Domestic Regions, 2002-2009 (w/ # of firms)

Exports																
\$ Million	NUMBER OF EXPORTER FIRMS									EXPORT VALUE						
	ANNUAL									ANNUAL						
	2002	2003	2004	2005	2006	2007	2008	2009	2002	2003	2004	2005	2006	2007	2008	2009
MEDITERRANEAN	2.042	2.327	2.531	2.847	3.009	3.217	3.294	3.391	1.406	2.086	2.740	3.037	3.537	4.410	5.558	4.803
EASTERN ANATOLIA	296	397	518	606	638	586	663	789	157	225	348	575	621	855	1.080	1.460
AGEHAN	4.216	4.784	5.277	5.442	5.635	6.199	5.825	5.637	4.112	5.193	6.423	7.325	8.560	10.365	12.238	9.615
SOUTH EASTERN ANATOLIA	718	844	966	1.129	1.203	1.367	1.349	1.522	866	943	1.457	1.986	2.205	2.960	3.990	3.833
CENTRAL ANATOLIA	3.080	3.425	3.964	4.378	4.630	5.026	5.318	5.567	2.254	2.927	3.516	4.191	5.429	6.847	8.444	7.556
BLACK SEA	756	820	792	852	853	1.011	1.109	1.125	750	872	1.418	2.086	1.971	2.512	3.332	2.606
MARMARA	20.570	22.990	25.384	26.884	28.211	30.939	30.595	30.555	26.635	35.007	47.265	54.277	63.212	79.323	97.337	72.594
TOTAL	31.719	35.587	39.492	42.138	44.159	48.265	48.143	48.586	36.059	47.253	63.167	73.876	85.535	107.272	132.027	102.128
Imports																
\$ Million	NUMBER OF IMPORTER FIRMS									IMPORT VALUE						
	ANNUAL									ANNUAL						
	2002	2003	2004	2005	2006	2007	2008	2009	2002	2003	2004	2005	2006	2007	2008	2009
MEDITERRANEAN	1.857	2.051	2.463	2.805	2.801	3.129	3.145	2.920	1.563	2.027	2.867	3.573	4.546	6.497	7.769	6.133
EASTERN ANATOLIA	293	306	375	373	368	386	376	373	70	126	117	173	223	297	235	227
AGEHAN	3.947	4.372	4.842	5.062	5.418	5.934	5.797	5.600	2.999	4.250	5.805	6.409	7.412	9.506	11.262	8.467
SOUTH EASTERN ANATOLIA	965	1.098	1.296	1.249	1.238	1.461	1.395	1.346	762	1.152	1.514	1.805	2.128	2.629	3.186	2.837
CENTRAL ANATOLIA	4.741	5.121	5.937	6.383	6.771	7.991	7.350	7.144	2.248	2.728	3.845	4.185	16.176	19.586	26.365	18.878
BLACK SEA	706	821	960	1.028	1.005	1.103	1.037	984	783	1.164	1.690	2.317	2.725	2.820	3.988	2.598
MARMARA	26.533	29.561	32.186	34.367	36.164	39.498	38.684	38.648	38.129	52.894	76.707	90.382	106.364	128.729	149.158	107.159
TOTAL	39.042	43.330	48.059	51.287	53.765	58.902	57.784	55.015	51.554	69.340	97.540	116.774	139.576	170.063	201.964	140.899

Source: Undersecretariat for Foreign Trade, 2009

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