

# Foreign Trade, Political Economy of Reforms and Protectionism

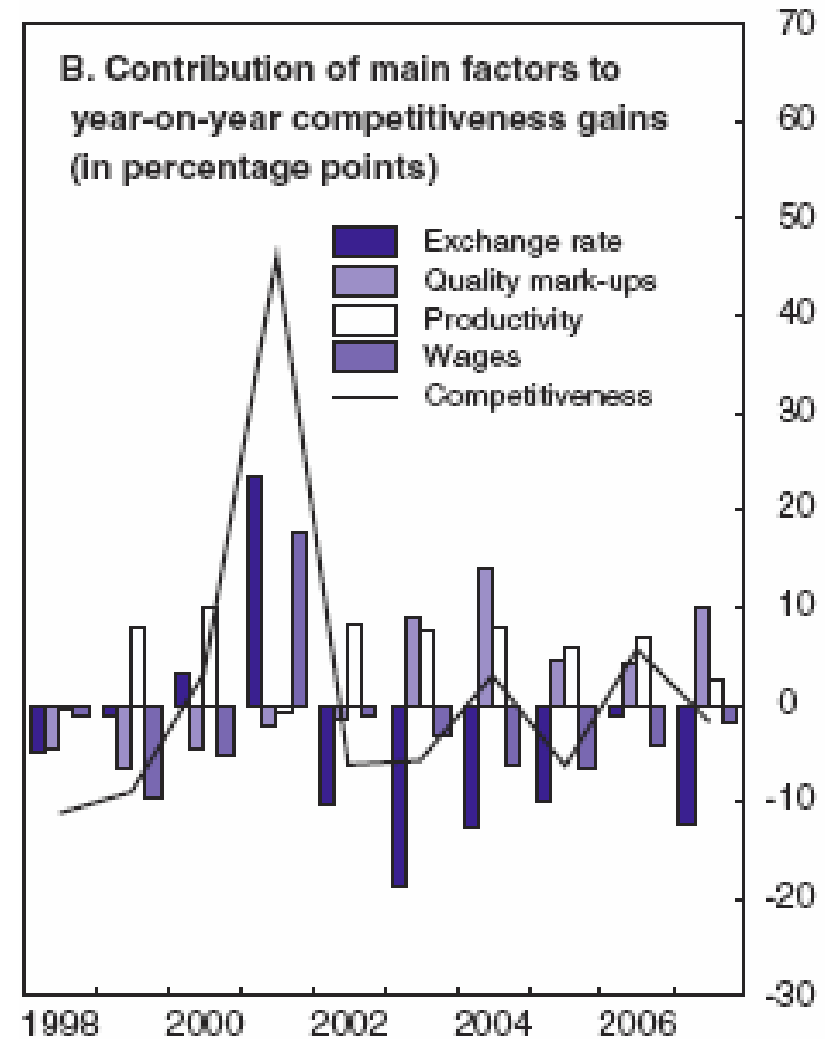
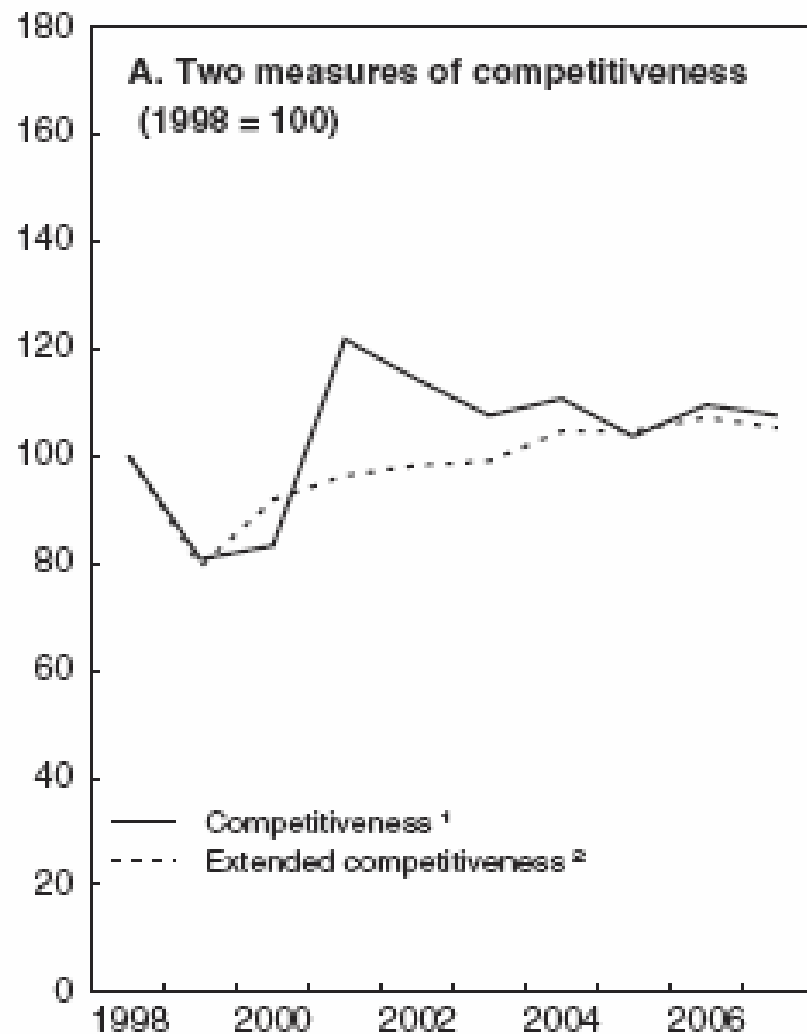
Dr. Ümit İzmen, 12 June 2009, EAF

# Trade liberalisation: No significant shift

Export/Import Ratio (1950-2007)

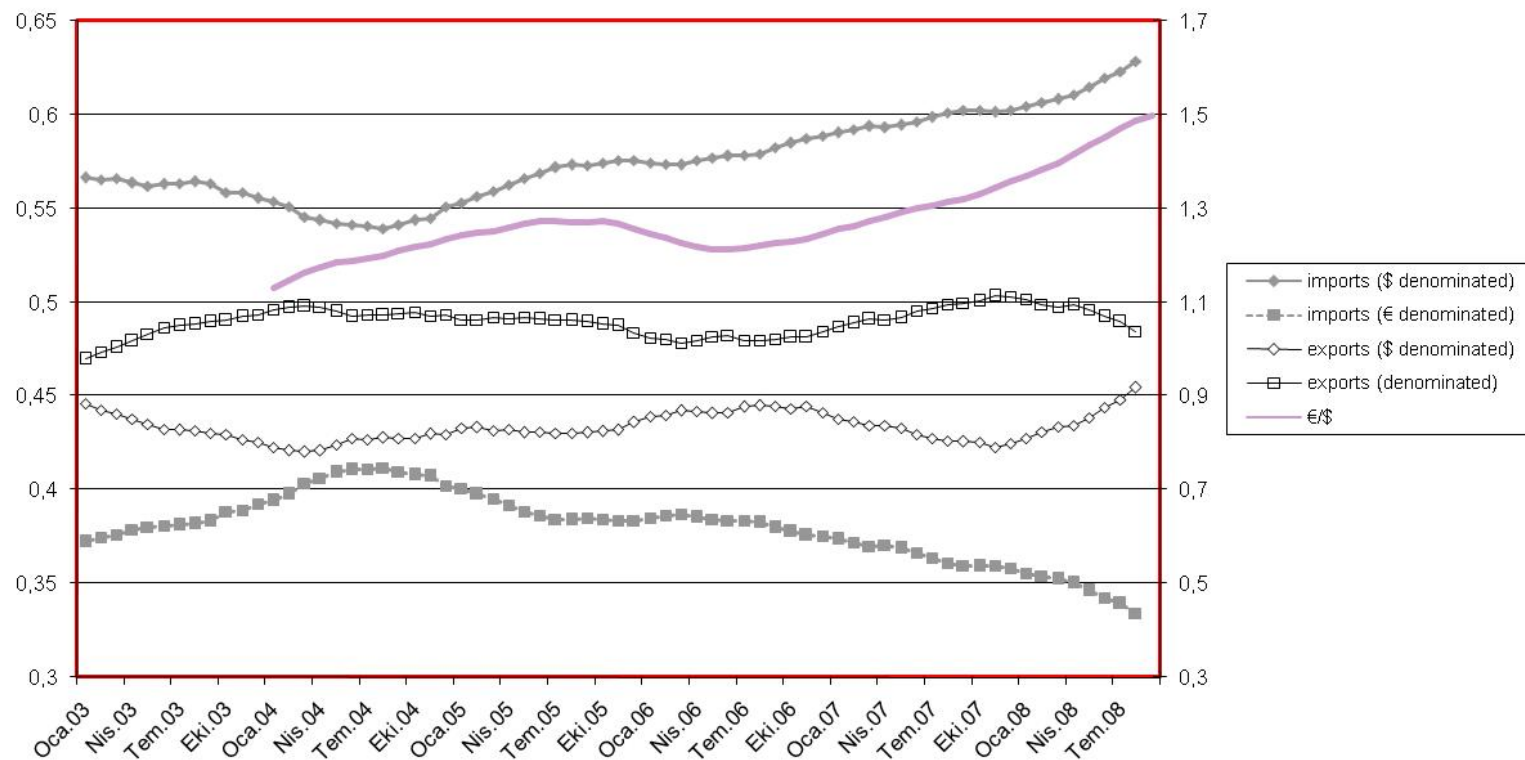


# Turkish Industry's competitiveness were already stagnating



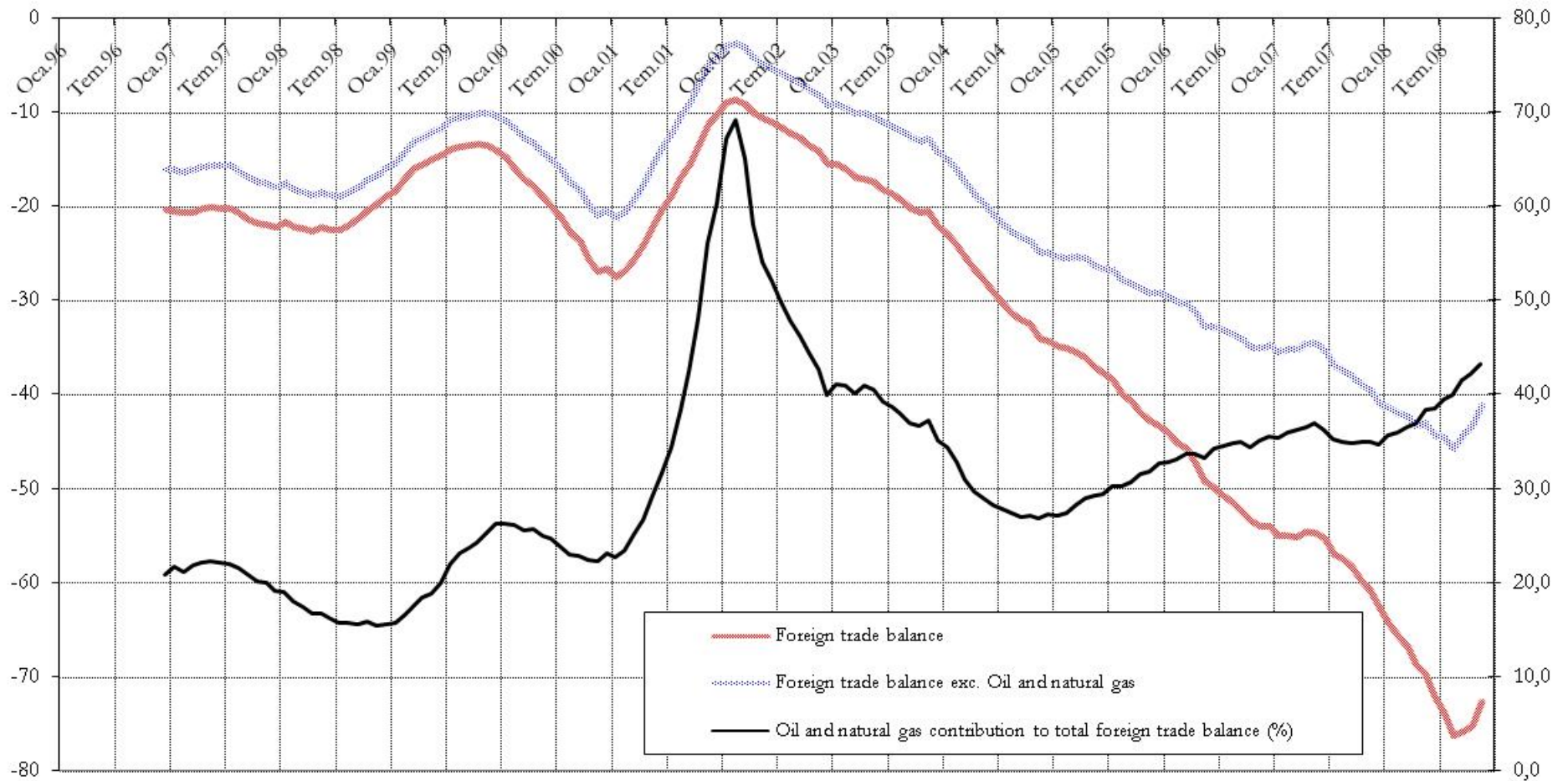
# Parity effect: exports shift easily between \$ and €

**EXPORTS AND IMPORTS**  
(By type of currency, % share, 12 months moving average)



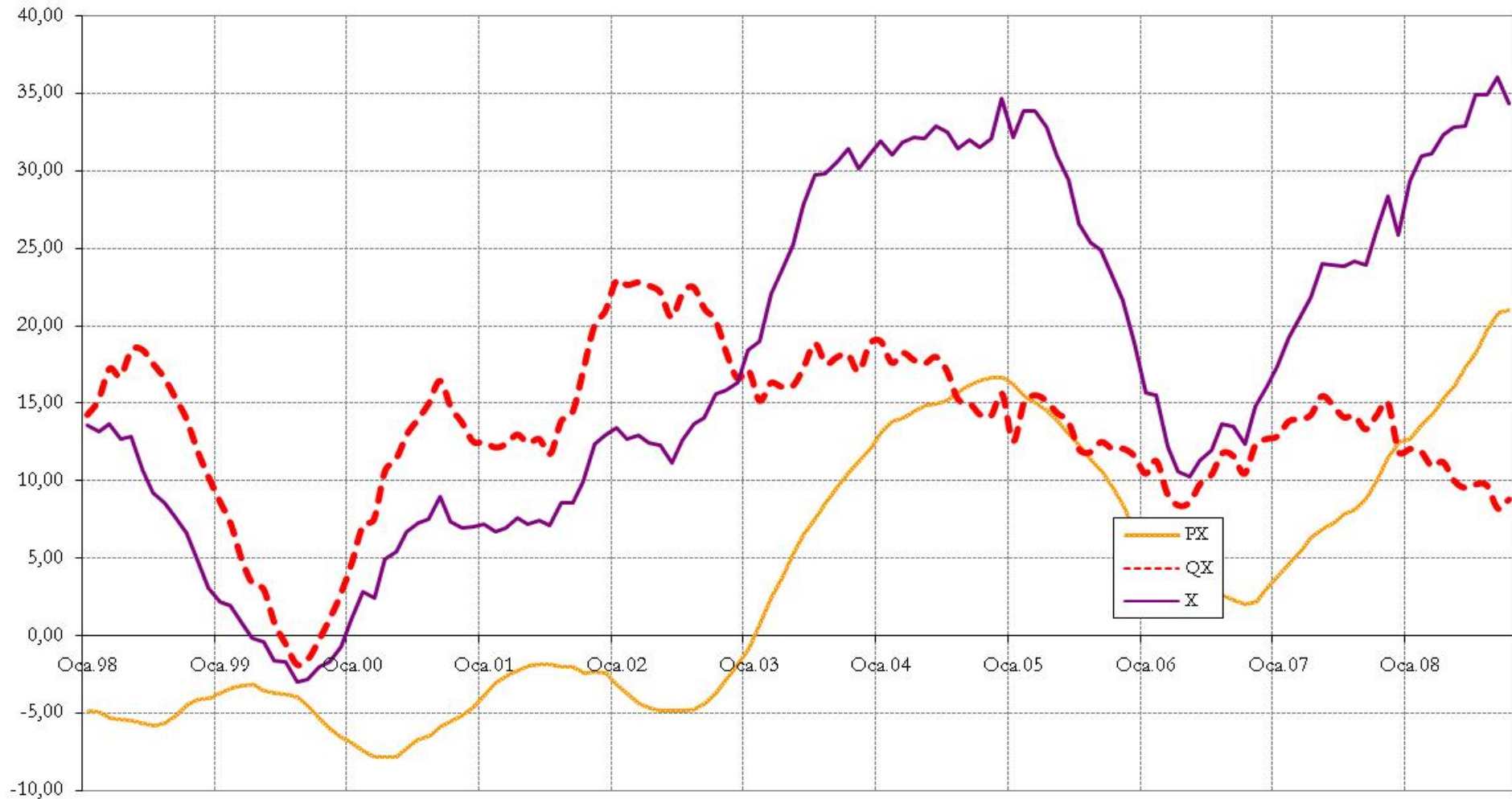
# Energy Bill responsible nearly half of the trade deficit

The Energy Bill and the Trade Balance  
(million \$)

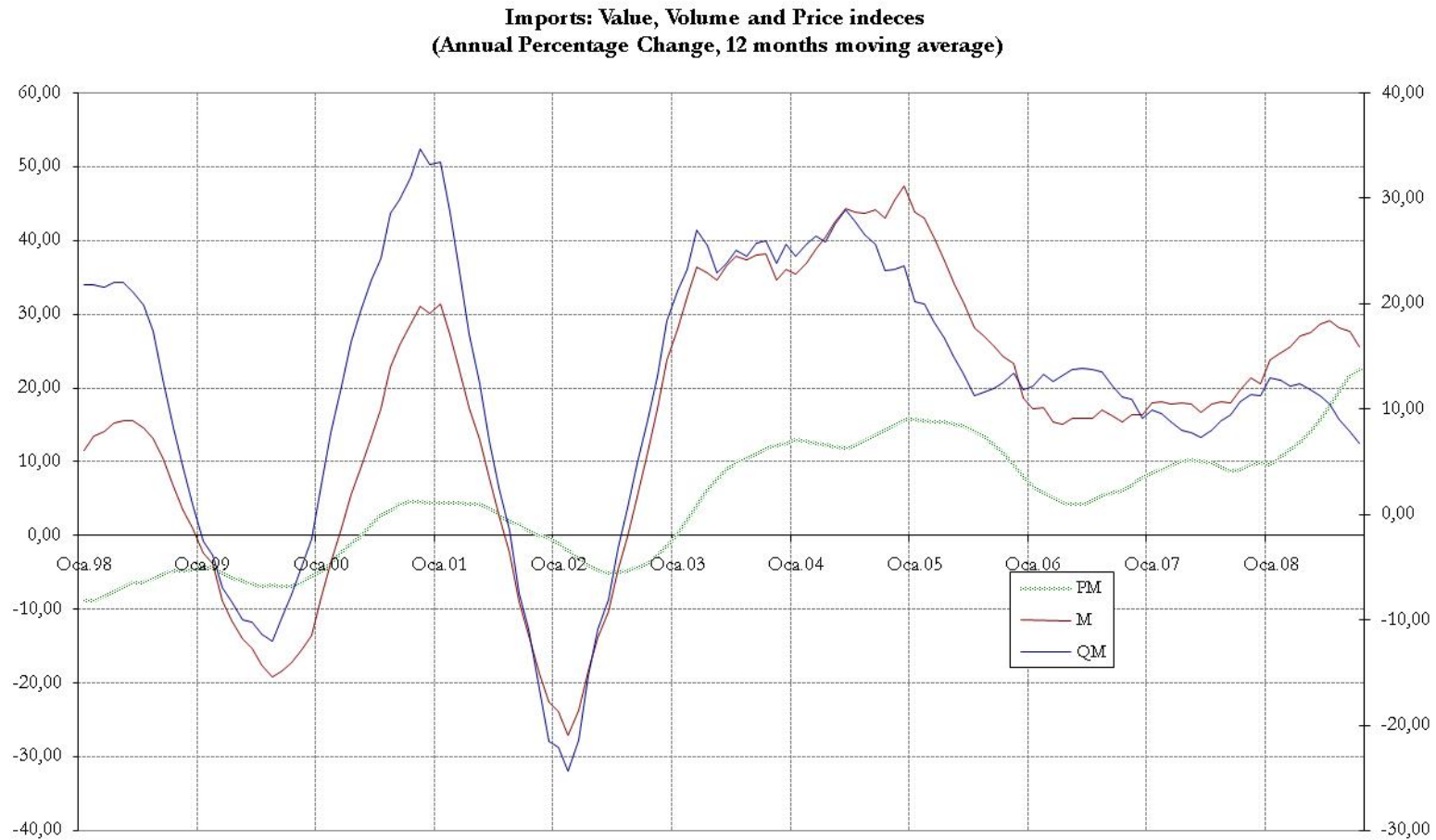


# Exports have been increasing because of price effect

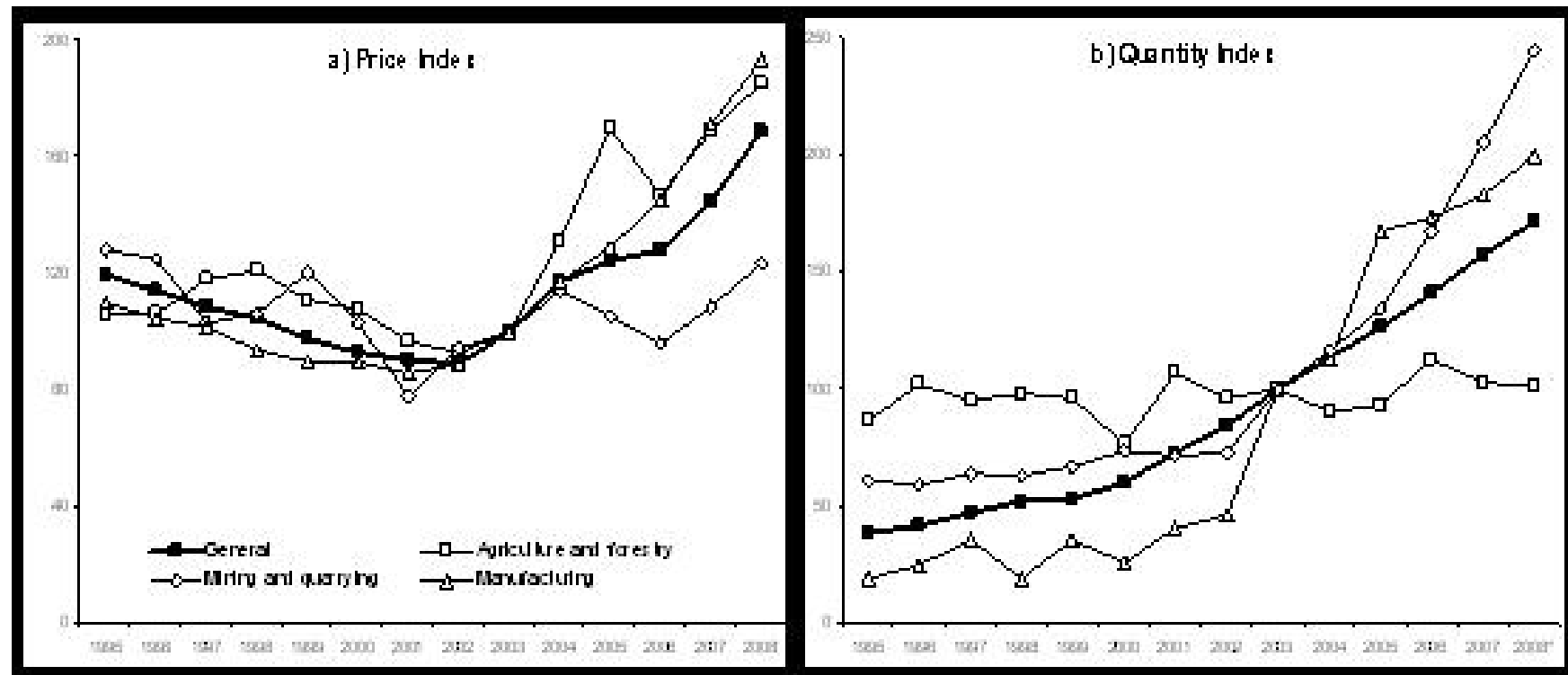
Exports Value, Volume and Price indexes  
(Annual Percentage Change, 12 months moving average)



# Import demand was on a downward trend while import prices were rising



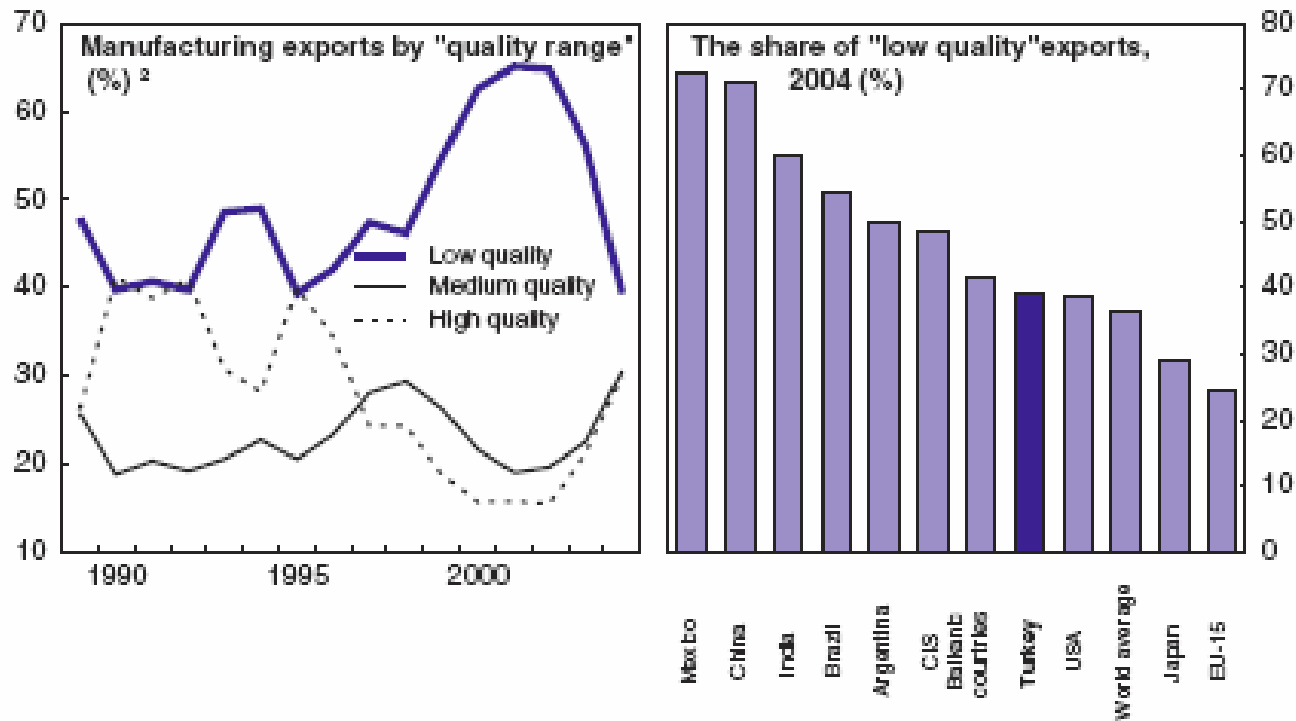
# Export Price and Quantity Indices





# Quality of exports improved significantly

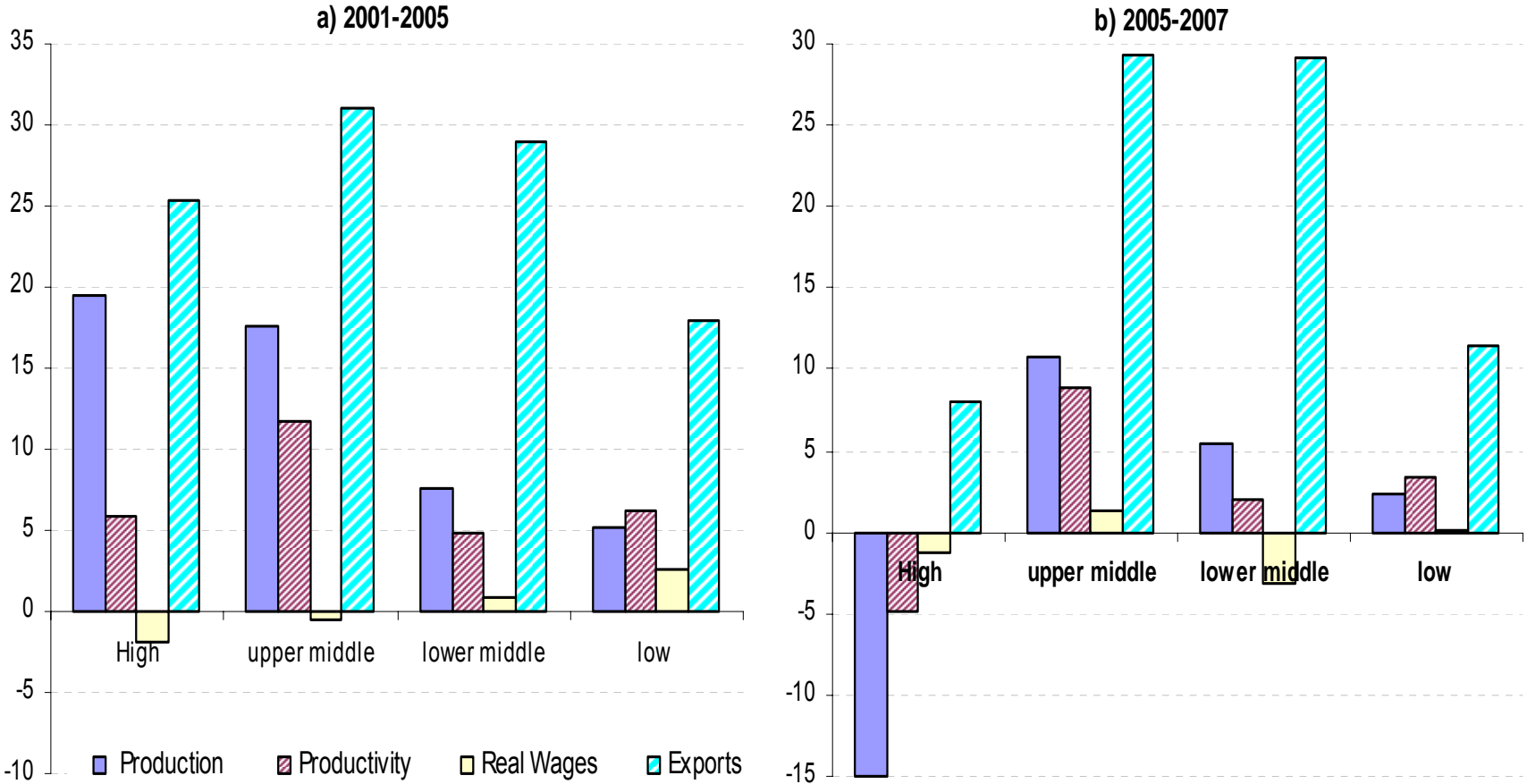
B. The quality of exports has improved significantly



2. As a proxy for quality, "world unit values" (UV) are computed. For each product and each year, UVs are categorised as "medium quality" = [Average UV -25%, Average UV +25%], "low quality" = [Minimum, Average UV -25%] or "high quality" = [Average UV +25%, Maximum].

# Performance of Sectors Grouped According to Technology Intensity

(Compounded Annual Average Change)



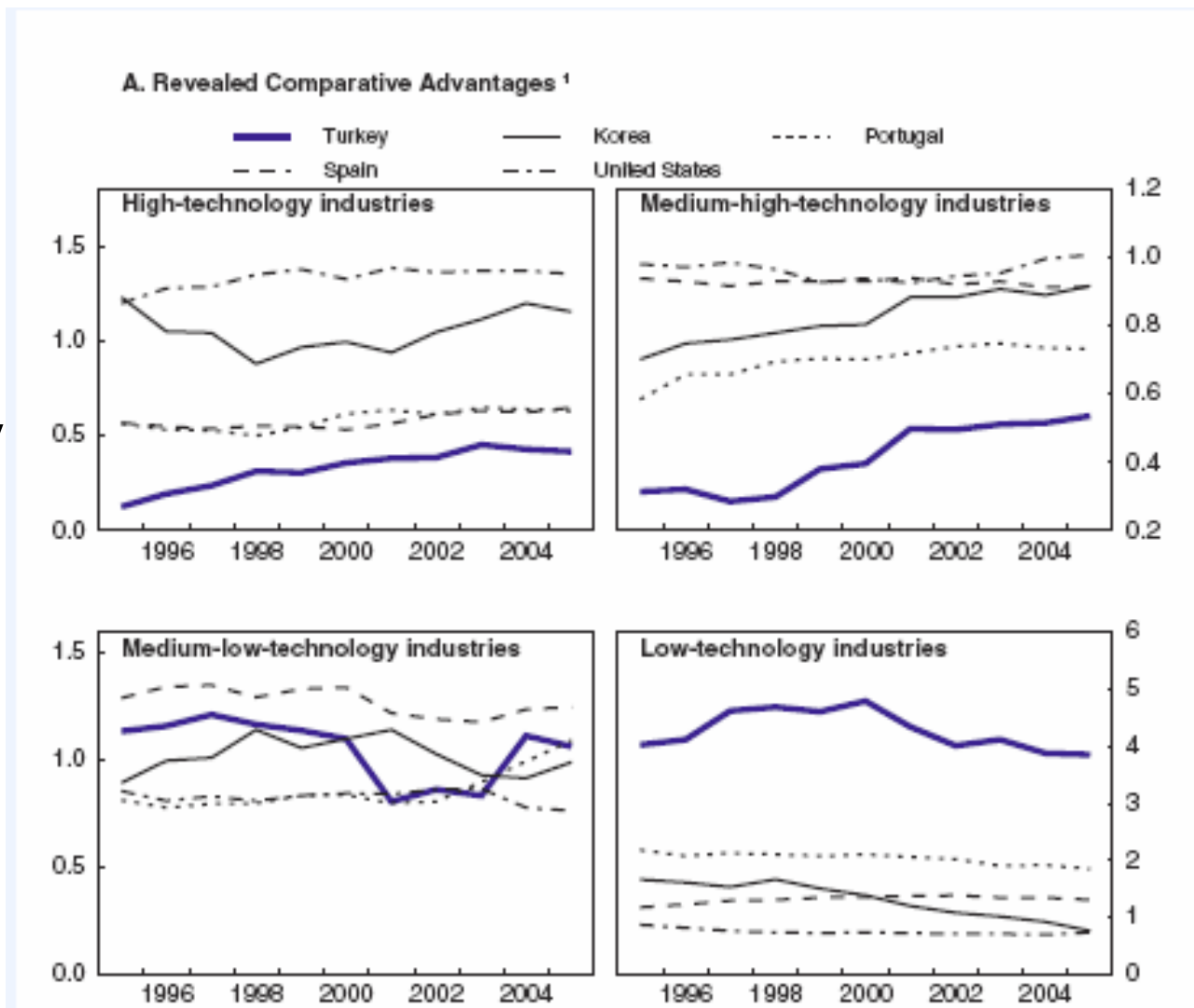
## Selected Indicators of Turkish Manufacturing Industry

(Compounded Annual Percentage Change)

	1997-2007	1997-2001	2001-2005	2005-2007
<b>Production Index</b>				
<b>High</b>	4.97	2.47	19.46	-14.95
<b>upper middle</b>	6.58	-5.21	17.51	10.84
<b>lower middle</b>	3.31	-1.74	7.50	5.47
<b>low</b>	5.67	7.98	5.10	2.31
<b>Productivity Per Hour Worked</b>				
<b>High</b>	3.60	5.76	5.93	-4.91
<b>upper middle</b>	5.74	-1.32	11.69	8.80
<b>lower middle</b>	3.97	4.11	4.84	1.97
<b>low</b>	9.09	15.01	6.29	3.39
<b>Real Wages Per Hour Worked</b>				
<b>High</b>	-1.64	-1.57	-1.91	-1.22
<b>upper middle</b>	-0.20	-0.68	-0.47	1.30
<b>lower middle</b>	1.04	3.47	0.79	-3.19
<b>low</b>	0.44	-1.43	2.54	0.07
<b>Exports</b>				
<b>High</b>	21.35	24.58	25.30	7.99
<b>upper middle</b>	23.61	14.03	30.99	29.36
<b>lower middle</b>	19.50	6.51	28.96	29.19
<b>low</b>	9.27	0.28	17.89	11.46

Source: Turkstat and authors' calculations.

High and medium technology industries performed better

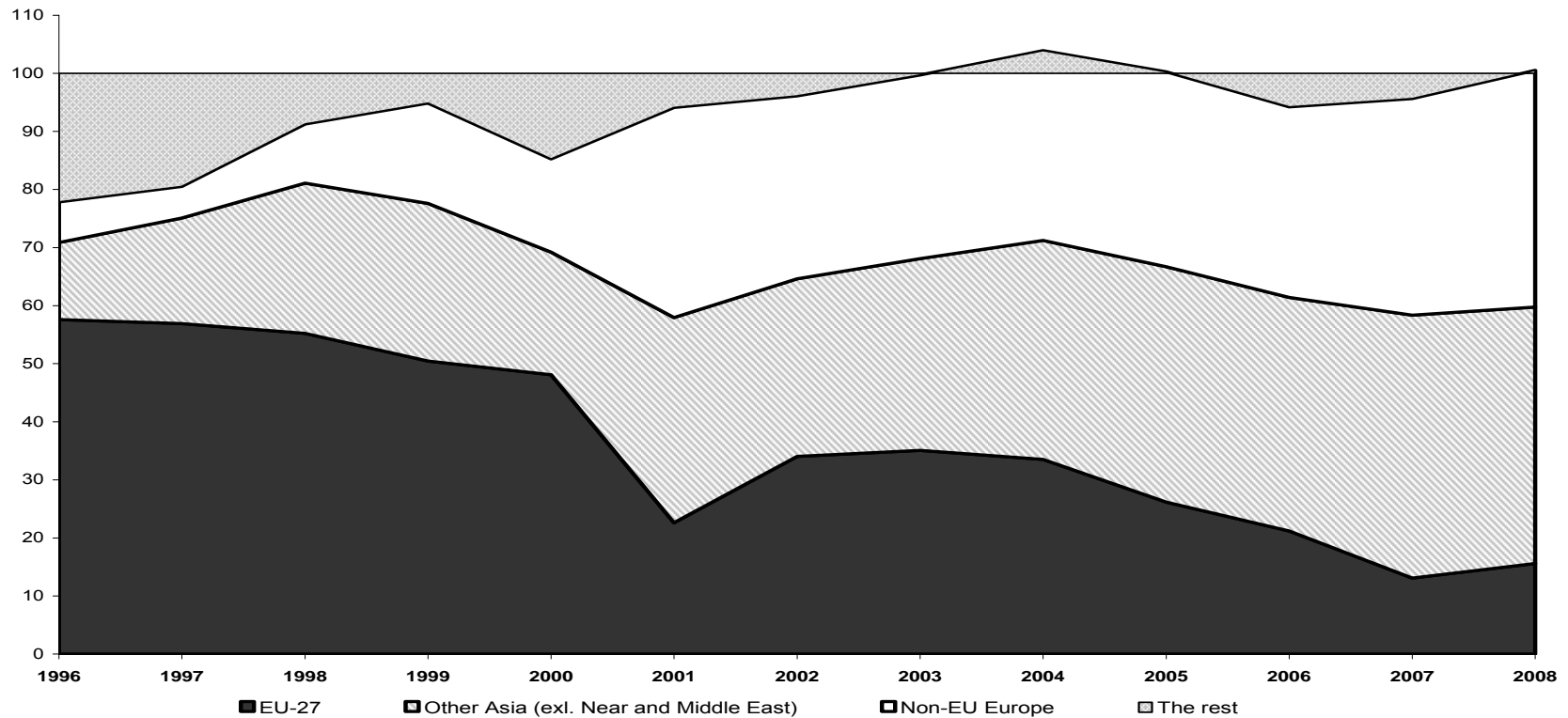


1. The revealed comparative advantage indicator proposed by Vollrath (1991) has been compiled for each country versus the total OECD. It is defined as  $RCA = [(X_{ij}/X_{it})/(X_{nj}/X_{nt})] / [(M_{ij}/M_{it})/(M_{nj}/M_{nt})]$  with  $X$  = exports,  $M$  = imports.  $i$  = country,  $j$  = manufacturing industry classified by technology level,  $n$  = all OECD countries and  $t$  = all manufacturing industries. When RCA is greater than 1 then the country has a relative comparative advantage for the product  $j$ .

# The crisis

- Exports lower by 13 billion dollars in 6 months
- Imports lower by 30 billion dollars in 6 months
- TL depreciated by 20% against € and 25% against \$
- Although exports decrease by a rate of 20%-35% per month, there are exemptions:
  - Exports from certain provinces grew rapidly
  - Exports to neighboring countries grew rapidly

# Major Trade Partner Groups' Contribution to Trade Deficit (%)



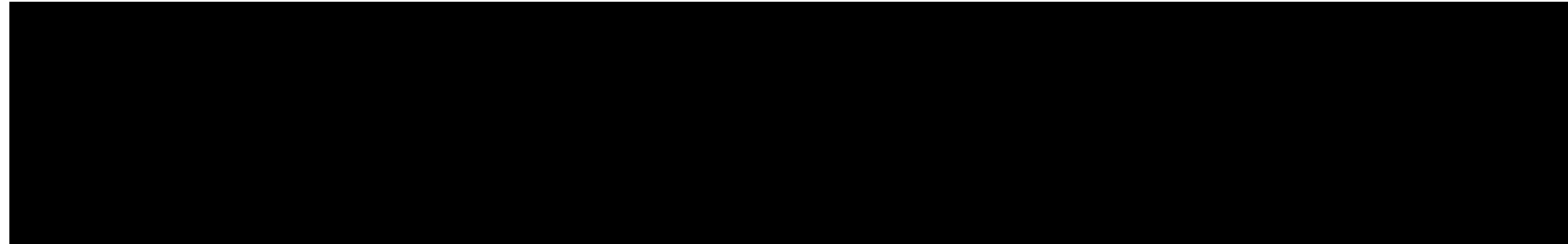
# Exports to non-EU grew rapidly

- The share of EU decreased to 48% from 56%.
- The share of Near and Middle East rose to 19% from 14%.
- In the first four months of the year exports rose by 68.2% to this group which includes egypt, Afganistan,Iraq, Bangladesh, Algeria, Yemen, Turkmenistan, Libia, Syria, Lebanon,
- Exports to UAE rose by 146% in 2008, making it the nineth biggest export destination. BAE ranked as second biggest export market as of February





# New export centers grew by exporting to new and rapidly growing export destinations



<b>Big export destinations : exports of 1 billion and above</b>	<b>Dynamic export destinations : export increases of 1 billion and above</b>
Germany	UAE
United Kingdom	Switzerland
USA	Russia
Italy	Iraq
France	Germany
Spain	France
Holland	Romania
Russia	Italy
Iraq	Egypt
Israel	Saudi Arabia
Romania	United Kingdom
Belgium	Azerbaijan
Greece	Iran
UAE	Ukraine
	Algeria

# No clustering of export sectors for the new export centers

Exports Industries	Out of 16 most dynamic provinces*
<b>Dynamic Industries</b>	5 <i>Osmaniye, Çankırı, Tunceli, Kırklareli, Sivas</i>
<b>Traditional Industries</b>	6 <i>Adıyaman, Urfa, Erzincan, Hakkari, Kırıkkale, Kırşehir</i>
<b>Dynamic &amp; Traditional Industries</b>	3 <i>arabük, Mardin, Kastamonu</i>
<b>Other Industries</b>	2 <i>Muş, Ardahan</i>

<b>Big exporter sectors : exports of 4 billion and above</b>	<b>Dynamic exporter sectors : export increases of 4 billion and above</b>
ready wear and clothing	iron and non-iron metals
automobiles	automobiles
iron and non-iron metals	ready wear and clothing
Electrical appl, machinery and ITC	Chemistry and chemical products
Chemistry and chemical products	Electrical appl, machinery and ITC
Textile and textile raw materials	machinery and spare parts
	Textile and textile raw materials

Turkey differs from BRIICS in terms of the drivers of reform: foreign factor is important, business favor liberalisation, more dependent on foreign trade

The Political Economy of Trade-Policy Reforms in BRIICS countries

	<i>Crisis- induced liberalisation</i>	<i>Interests</i>	<i>Ideas (Washington Consensus)</i>	<i>Institutions</i>
<b>Brazil</b>	Brazil Yes (1988/89-94). Political and economic system-change	Diverse. Mixed preferences. Export-oriented business better mobilised, especially agriculture	Strong in macroeconomic policy, weaker in liberalisation/structural reforms	Democratic politics. Federal system. Strong trade-policy capacity. MEA lead. Weak involvement of MOF except in crisis
<b>India</b>	Yes (1991-93). Political continuity	Diverse. Mixed preferences. Business gradually more open-economy oriented, especially IT services	Ditto	Multi-party coalition politics. Federal system. Strong trade-policy capacity. MOCI lead. Weak involvement of MOF except in crisis.
<b>China</b>	No. Gradual reform. Political continuity	Mixed preferences. MNEs lobby effectively to contain protectionism	Strong across macro and microeconomic policy, weaker in structural reforms. Industrial-policy intervention mixed in. Overall policy pragmatism	Authoritarian politics. Strong trade-policy capacity. Centralised decision-making. MOFCOM lead
<b>Indonesia</b>	Yes (1966-68, mid 1980s, 1998). Political system-change 1998	Diverse. Mixed preferences. Export-oriented lobbies relatively weak. More influence for unions and NGOs after Asian crisis	Strong in macroeconomic policy (Berkeley Mafia), weaker in liberalisation/structural reforms	Democracies politics since 1998. Decentralisation to provinces. Weak trade-policy capacity. Institutional instability and policy-making divisions after Asian crisis
<b>South Africa</b>	Yes (mid 1990s), Political and economic system-change 1998	Diverse. Mixed preferences. Open-economy business muted. Protection-seeking firms, unions and NGOs more vocal	Ditto. Partial more industrial policy intervention now more popular	Democracies politics. Decision making centralised in Executive. Shallow trade-policy capacity. DTI lead. Little MOF involvement
<b>Russia</b>	Yes (1990s), Political and economic system-change. More authoritarian politics and partial reform reversal since 2003/4	Energy interests very strong. Symbiotic links with the state. Monopolistic/oligopolistic markets. The new nomenclatura	Ditto. Partial liberalisation reversal and more industrial policy intervention	Authoritarian democracy under Putin. Recentralised decision-making. Shallow trade policy capacity
<b>Turkey</b>	Yes (1980s), Political and economic system-change in 1980. Import liberalisation after 1984. Capital account liberalisation in 1989. CU in 1996. EU membership process	Diverse. Mixed preferences. Business gradually more open economy oriented after CU. Increased influence of finance and services.	Only after the 2001 crisis. Strong in macroeconomic policy, weaker in microeconomic reforms	Treasury and the CB were the main drivers. overriding protectionist inclined ministries for trade and industry

# No strong protectionist values among business...

<b>Association,</b>	Basifed, President of BASIFED,	İçasifed, President of İÇASİFED	Member of Mersin SİAD	İgeme	DASİFED, President of DASİFED, Member of the Board of TÜRKONFED
<b>City</b>	İzmir	Ankara,	Mersin,	Türkiye	Adana,
<b>Sector</b>	Jewelry	Metal Industry	Cool House Production		Construction
<b>transcription code</b>	11	13	9	18	15
<b>Number of employees</b>	35-40				150
<b>Tariff increases</b>	Against	Against	occasioanaly	wish it could be applied	occasioanaly
<b>Restrictive import licensing</b>	Against	Against	wish it could be applied	Quotas are also impossible to be applied.	occasioanaly
<b>Subsidies dependent on Export Performance</b>	doesn't help	doesn't help	doesn't help	doesn't help	slightly in favor of
<b>Subsidies aimed at encouraging the usage of domestic goods instead of imported goods</b>	doesn't help	only PR campaigns	priority among equals	Free trade is the best	slightly in favor of
<b>State Aid</b>	support sector specific incentives	in favor	institutionalise fair competition environment	institutionalise fair competition environment	in favor
<b>Antidumping Actions</b>		beneficial and effective.		beneficial and effective. Should be used more	beneficial and effective.
<b>Discriminatory Government Procurement</b>	Against	beneficial but not utilised fully	Against	Yes if quality is okey	Yes if quality and technology is okey
<b>Protectionism masked as environmentalism</b>	should be in line with EU.	should be in line with EU.	Eco-friendly production techniques should be encouraged.	should be encouraged but too costly	Eco-friendly production techniques should be encouraged.
<b>Financial sector protectionism</b>	No need for special treatment	No need for special treatment	No need for special treatment	No need for special treatment	No need for special treatment
<b>Resource nationalism</b>	Giving subsidies is not right	local producers should be favored	local producers should be favored	local producers should be favored	local producers should be favored with a flexible system

# ...especially in the more developed regions.

<b>Association,</b>	MAKSİFED, President of MAKSİFED	Aksiad, ANKARA	Dasifed, Member of the Board of DASİFED	ESIAD, Vice President of TÜRKONFED	Vice President of TÜRKONFED	Dosiad, Member of the Board of DOĞÜNSİFED and TÜRKONFED, President of DOSİAD
<b>City</b>	Bursa,	ANKARA	Mersin,	İZMİR,	Çorum,	Diyarbakır,
<b>Sector</b>	Plastic	Furniture	Construction Industry	Auditing	Ceramic, Health products	Textile, Construction,
<b>transcription code</b>	17	7	10		19	14
<b>Number of employees</b>	100	750			450	500-700
<b>Tariff increases</b>	Against	Against	Against	Against	Against	occasioanly
<b>Restrictive import licensing</b>	Against	Against	Against	Against	Imposing quota is not possible	occasioanly
<b>Subsidies dependent on Export Performance</b>	doesn't help	doesn't help	doesn't help	doesn't help	in favor	in favor
<b>Subsidies aimed at encouraging the usage of domestic goods instead of imported goods</b>	only PR campaigns	doesn't help	slightly in favor of	doesn't help	doesn't help	in favor
<b>State Aid</b>	institutionalise fair competition environment	institutionalise fair competition environment	for regional development	support sector specific incentives	in favor of a detailed region-sector spesific system	in favor of a detailed region-sector spesific system
<b>Antidumping Actions</b>	not very effective.	not very effective.	no idea		beneficial and effective. Should be used more	no idea
<b>Discriminatory Government Procurement</b>	Yes if quality and technology is okey	not very effective.	agianst	agianst	Yes if not overpriced.	quality-price ratio is important
<b>Protectionism masked as environmentalism</b>	Eco-friendly production techniques should be encouraged.	not very effective because of implementation problems	shouldn't be exaggerated.	should be in line with EU.	Eco-friendly production techniques should be encouraged.	Renewable energy should be encouraged.
<b>Financial sector protectionism</b>	No need for special treatment	No need for special treatment	No need for special treatment	No need for special treatment	No need for special treatment	yes but banks should also support real sector
<b>Resource nationalism</b>	local producers should be favored	special concern for agriculture	political considerations distort the system	subsidies is not the right	domestic producers should be preferred.	domestic producers should be preferred.

# Recommended mechanisms by the business sector

- specific bank serving to SMEs
- Eximbank credits should be increased and long-term export credits should be given
- In order to export the goods there should be some subsidies. temporary subsidies have a crucial role. Subsidies should act to balance the subsidies offered by other countries. They should be in line with the rules of global competition.
- SMEs should be institutionalized.
- Government subsidies accelerated. Exporters want more Eximbank credits,
- R&D supports, office, marketing and storage supports.
- Credible Exporter records to speed up the procedures.
- During crisis times, exporters should be supported more.
- tax advantages.
- employment and energy costs should be reduced.
- Investment Promotion Agency should be more active.
- warning on tit-a tat protectionism.
- R&D incentives should be given
- Mergers and joint ventures with foreigners should be supported via tax advantages and special incentives.
- Transportation facilities should be increased