Beyond Planning and Liberalization: Foreign Trade and Industrial Development in Turkey

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1   Introduction

What drives countries to engage in trade with each other the most? The international trade literature has provided many answers to this long-standing question. Technology (i.e. specialization) and factor endowment differences, the economic size of countries, and geographical and industrial proximity, among many other factors, together with institutional-social features, are described as the most important components of trade share of gross domestic product (GDP). The industrial and institutional basis in a country and the rules set-up are accordingly described as significant out of the many possible explanations for cross-country income-level differences and the level of bilateral trade. For the case of Turkey, many studies, including those by Babacan (2011) and Civan et al. (2013),

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have sought an answer to the recent performance in the country's trade volume. In this chapter, we aim to examine the strong relation, whether cyclical or countercyclical, between industrialization and foreign trade regime/set-up in the case of Turkey.

Turkish industrialization efforts have been strongly related to its bilateral ties to European economies for more than 500 years. Having played a significant role in the economic history of Europe, Turkey's openness towards West and East has long defined its domestic industry, as reflected in resource allocation, modes of production, real wages, and return to capital.

For the entire twentieth century, especially after the customs union agreement signed in 1995, the country's longstanding relationship with the European economies (its largest economic partners) has provided a quality ladder for Turkish export sectors while favourable global economic conditions with relatively low-cost financing in the mid-2000s opened up new spaces for business expansion and specialization. Since the global financial crisis of 2008, despite the contraction in world demand, export sectors have managed to navigate the unchartered waters thanks to diversification in terms of goods and partner countries. Table 1 shows the rising share of Asian countries, including the Middle Eastern economies despite regional turmoil during the last six years, while EU-28 countries continue to hold the majority share of Turkey's total export volume.

Turkey's recent diplomacy efforts to gain further influence in and around its region are strongly connected to its foreign trade diversification in terms of partner and source countries. Among many other scholarly works, what Civan et al. (2013) suggest is that Turkey's newly adopted foreign policy orientation towards fostering diplomatic relations through established missions increases trade with other countries. Strengthening the Middle East and North Africa (MENA)'s trade and investment ties with Turkey is not only an option but a win–win strategy and a real opportunity for the diversification of MENA's exports basket, according to Alaya and Mezghani (2013: 13).

As Babacan (2011: 147) states, Turkey's emerging trade destinations provide a relative advantage for the smaller size entrepreneurs owing to their firm size while yielding significant amounts of positive externalities

Table 1 Turkey's annual exports by country group (2011–2016)

Million USD	2011	% Share	2012	% Share	2013	% Share	2014	% Share	2015	% Share	2016	% Share	% Change
Total exports	**134,907**	**100.0**	**152,462**	**100.0**	**151,803**	**100.0**	**157,610**	**100.0**	**143,839**	**100.0**	**142,530**	**100.0**	**–0.9**
EU countries (28)	62,589	46.4	59,398	39.0	63,040	41.5	68,514	43.5	63,998	44.5	68,344	48.0	6.8
Free zones in Turkey	2,545	1.9	2,295	1.5	2,413	1.6	2,270	1.4	1,907	1.3	1,822	1.3	–4.5
Other countries	69,773	51.7	90,768	59.5	86,350	56.9	86,826	55.1	77,934	54.2	72,364	50.8	–7.1
Other European countries	12,735	9.4	14,167	9.3	14,214	9.4	15,184	9.6	14,141	9.8	9,736	6.8	–31.1
African countries	10,334	7.7	13,357	8.8	14,146	9.3	13,754	8.7	12,449	8.7	11,406	8.0	–8.4
North Africa	6,701	5.0	9,444	6.2	10,042	6.6	9,758	6.2	8,527	5.9	7,755	5.4	–9.1
Other Africa	3,633	2.7	3,913	2.6	4,104	2.7	3,996	2.5	3,922	2.7	3,651	2.6	–6.9
American countries	7,926	5.9	9,623	6.3	9,711	6.4	10,083	6.4	9,225	6.4	9,345	6.6	1.3
North America	5,459	4.0	6,663	4.4	6,580	4.3	7,292	4.6	7,067	4.9	7,404	5.2	4.8
Central America	626	0.5	770	0.5	1,004	0.7	938	0.6	849	0.6	846	0.6	–0.3
South America	1,840	1.4	2,191	1.4	2,127	1.4	1,852	1.2	1,310	0.9	1,095	0.8	–16.4
Asian countries	38,134	28.3	53,026	34.8	47,591	31.4	46,974	29.8	41,393	28.8	40,988	28.8	–1.0
Near and Middle Eastern countries	27,935	20.7	42,451	27.8	35,575	23.4	35,384	22.5	31,086	21.6	31,304	22.0	0.7

(continued)

Table 1 (continued)

Million USD	2011	% Share	2012	% Share	2013	% Share	2014	% Share	2015	% Share	2016	% Share	% Change
Other Asian countries	10,199	7.6	10,575	6.9	12,017	7.9	11,591	7.4	10,307	7.2	9,684	6.8	−6.0
Australia and New Zealand	481	0.4	490	0.3	538	0.4	600	0.4	619	0.4	736	0.5	18.8
Other countries	164	0.1	105	0.1	149	0.1	231	0.1	106	0.1	152	0.1	43.9
Selected country groups													
OECD countries	67,114	49.7	66,290	43.5	68,684	45.2	76,675	48.6	75,368	52.4	77,420	54.3	2.7
EFTA	1,887	1.4	2,601	1.7	1,662	1.1	3,795	2.4	6,202	4.3	3,267	2.3	−47.3
Blacksea Economic Cooperation	17,768	13.2	18,791	12.3	20,368	13.4	19,687	12.5	14,590	10.1	13,078	9.2	−10.4
Economic Cooperation Organization	9,292	6.9	16,563	10.9	11,898	7.8	11,717	7.4	9,567	6.7	9,603	6.7	0.4
Commonwealth of Independent States	13,377	9.9	15,075	9.9	16,924	11.1	15,616	9.9	10,569	7.3	7,750	5.4	−26.7
Turkic Republics	5,040	3.7	5,841	3.8	6,908	4.6	7,108	4.5	5,290	3.7	3,992	2.8	−24.5
Organization of Islamic Conference	37,325	27.7	55,218	36.2	49,371	32.5	48,625	30.9	42,738	29.7	41,232	28.9	−3.5
D−8 Organization for Economic Cooperation	–	–	–	–	8,790	–	8,574	5.4	8,156	5.7	9,127	6.4	11.9

Source: TurkStat

for the conglomerates in their increased bilateral economic ties as well. In return, export sectors are now more capable of product and market diversification than ever. At a rather slow pace, the content factor in Turkish industrial production and exports is developing in favour of mostly middle but also higher technology over the last couple of decades.

In parallel to other success stories from infrastructure to construction, Turkey's trade volume has shown a significant increase during the last couple decades, under AK Party governments. Considering the technology factor in exports, the stability in export performance in terms of its volume over the years, terms of trade, and relative wage issues due to a reallocation of resources, one might conclude that Turkey's current course of navigating in an increasingly unstable economic environment across the world has reached its limits. Despite facing relatively stable terms of trade levels over the last decade, the volatility in the exchange rate (the Turkish lira first appreciated and then depreciated significantly within the same decade) has produced relatively unfavourable results with exports. Within the G-20 countries, Turkey seems to be one of the most stable in its terms of trade ratio, while oil-rich Russia and primary-sector-strong Indonesia face the largest declines (Table 2).

Intergovernmental relations pave the way for exporters to reach new markets while a comprehensive trade strategy is still far from implementation. Turkish exporters are still highly dependent on state policies, and the possible agency problems might hinder further economic development as bureaucratic and administrative quality is the key to success in such a framework. Despite the recent rise in Turkey's trade performance, we may conclude that it is too early to suggest an 'axis shift' in the modes of production and the relative roles of small and middle-sized enterprises (SMEs) versus conglomerates (Babacan 2011: 148).

Based on the trend over the last decade, we could argue that Turkey continues to promote new development in terms of its foreign trade, according to Babacan (2011: 148). Its significant dependence on imports of intermediate goods and the lack of a proper research and development (R&D) strategy, however, are among the factors that hinder more rapid economic growth in the country. In the meantime, Turkey needs to develop a long-term strategic trade plan to address current weaknesses in

Table 2 G-20 countries' terms of trade (2002–2016)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Australia	54.3	58.4	64	70.9	76	80.3	86.4	82.9	100	100.4	90.7	87.4	78.2	70.2	
Canada	84.3	89	93	96.2	97.2	100.2	104.5	95	100	103.4	101.8	101.8	100.4	93.5	91.7
France	102.1	102.1	101.2	99.8	98.3	99.5	98.8	101.4	100	97.6	97.3	98.4	99.6	102.7	103.5
Germany	101.4	102.6	102.8	101	99.4	99.5	97.9	102.4	100	97.3	97.1	98.2	99.5	102	103.6
Indonesia	110.1	112.3	111.2	109.4	115.5	111.1	99.7	101.8	100	102	96.7	93	94	94.4	
Italy	104.8	106.5	105.5	102.2	99.1	100.1	98	104.2	100	97.4	95.9	97.4	100	102.3	104.9
Japan	134.1	130	124.5	116.6	108.4	104.1	94.5	106.1	100	92.4	91.3	90.4	89.9	97.9	
Korea	117.2	115.3	112	107.9	103.2	103.1	96.1	99.8	100	95.5	95.3	97.3	98.1	106.1	
Mexico	94	92.9	92.6	95.5	98.6	99.6	103	98.8	100	99.9	100.1	100.9	99.4	95.9	
OECD - Total	102.1	102.2	102	101.1	100.3	100.5	97.9	100.7	100	97.9	97.5	98.2	98.3	100.4	
Russia	63.1	67.3	78	90.1	99.9	103.4	119.6	83.9	100	120.8	123.8	116.6	111.5	84.7	71.1
South Africa	76.1	79.3	80.8	82.1	86.2	88.8	89.6	94.4	100	104.3	102.9	97.4	95.6		
Turkey	101.1	104.4	106.8	106.3	101.6	103.4	100.3	102.3	100	92.7	91.9	94.1	93.9	95.9	
United Kingdom	101	102.2	102.7	102	101.1	100.4	97	98.7	100	99	99.3	101.5	103.1	103.8	103.9
United States	106.9	105.4	104.2	102.5	101.8	101.6	96.2	101.5	100	98.8	99.1	100.1	100.4	103.5	

Source: OECD

the production, marketing, and other segments of its trade structure (Babacan 2011: 148).

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, and as a result, Turkey produces products with low value added (Babacan 2011: 155). At this point, a discussion arises on the possibility of reindustrialization following the rise of the services sector, making it predominate both in terms of GDP share and Turkey's export content. We argue that Turkey faces new opportunities ahead given its industrial, financial, and institutional capacity to cope with various challenges over the last decade. Table 3 indicates a sort of stagnation in terms of industrial upgrade, except construction (from 5.13 per cent in 2002 up to 9.25 per cent in 2015). Thus, factor mobility among sectors is affected by relative wages and returns owing to the declining or increasing share of sectors in the GDP value added.

2   A Tale of Industrialization and Deindustrialization in Turkey

From the 1920s to the 1950s, Turkey adopted industrial plans targeting state-led industrialization. Plans represented narrower industrial policy tools and were technically not economic plans because they lacked the wider economic scope of the post-war economic plans in France and Holland, with their macroeconomic targets or forecasts (Yülek 2015: 21–22). In the meantime, foreign trade and integration into the world economy were limited owing to international crises, terms of trade differences, and the changing nature of domestic politics, which in turn fostered Turkey's efforts at industrialization via five-year development plans initiated first in 1934.

Taking a foreign trade perspective, Baysan and Blitzer (1991: 288–290) categorize Turkey's foreign trade between 1950 and 1984 into four distinct subperiods. The first subperiod of 1950–1962 is referred to as *ad hoc* nationalism, whereas the second subperiod of 1963–1973 is considered planned industrialization characterized by central planning and import

Table 3 Sectoral share as value added in Turkey's GDP (%) (2002–2015)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Agriculture, Forestry, and Fishing	11.634	11.278	10.781	10.598	9.332	8.484	8.407	9.116	10.266	9.362	8.784	7.677	7.451	7.824
Industry including energy	22.75	23.06	22.64	22.59	22.64	22.19	21.79	20.67	21.05	22.47	21.86	22.41	22.72	22.42
Manufacturing	19.16	19.54	19.39	19.36	19.52	18.98	18.3	16.99	17.18	18.73	17.99	18.54	18.99	18.97
Services	60.48	60.38	60.46	60.43	60.82	61.66	62.12	63.91	61.75	60.02	60.88	60.71	60.67	60.5
Construction	5.13	5.28	6.11	6.39	7.22	7.66	7.68	6.3	6.93	8.15	8.48	9.2	9.16	9.25

Source: OECD

substitutive foreign trade policies. The third subperiod is described as one of external shock and domestic turmoil; it covers the years 1974–1979. The subperiod of 1979–1984 is known as a time of economic liberalization that saw extensive measures of openness in all aspects.

Discussion around whether the economic liberalization period after the 1980s was successful or not in terms of export performance mostly yields a positive answer, as Baysan and Blitzer (1991: 391) assert, stating that the growth of manufactured exports in particular was impressive in that period. Thus, one could easily draw the conclusion that deindustrialization in Turkey mostly coincides with periods of political and macro-economic instability and uncertainty. The 1990s, therefore, would be best described as a lost decade during which industry faced both declines in its share of GDP and total exports. Manufacturing, however, continues to have the predominant share (around 75 per cent) of industrial exports, at least giving some hope for the future with regard to an upgrade in Turkish industry. Table 4 gives the essence of Turkey's industrial breakdown in terms of sectors from 1997 to 2016, which points to manufacturing as the stronghold, while the others are relatively stable in terms of share of exports.

For most of the 2000s, industrial production in Turkey also enjoyed an increasingly favourable domestic and world economic environment. Easier and less costly access to finance could be counted among the factors leading the currently stagnant industrial capacity. Increases in industrial output were based on dramatic increases in imports, thereby yielding a deteriorating current account balance.

Aydın et al. (2007: 48–49) show that even though Turkish exports underwent a transformation after the 2001 banking crisis, Turkey is still short of building any comparative advantage in these new commodities. The rising industries of the post-crisis (2001 banking crisis included) period are considered to be relatively more capital- and high-technology-intensive commodities compared to the popular industries of the 1980s and 1990s. These new industries also have high intra-industry trade. The classification of exports in terms of factor intensity reveals that concentration occurs in high-technology products around the world. Although the share of R&D-intensive product exports was below the world and emerg-

Table 4 Sectoral breakdown of Turkey's exports (% of total)

Sector	1997	2011	2012	2013	2014	2015	2016
Agriculture, Forestry, and Fishing	29.69393	11.32569	10.49027	11.68575	11.89447	12.12759	11.82672
Mining	5.38399	9202541	8.999786	8.86169	7.925127	6.893093	5.921741
Manufacturing	64.76178	77.94259	71.33259	76.67416	77.34	75.15002	75.77687
Other	0.160292	1.5291781	9.177352	2.778402	2.840401	5.829299	6.474669

Source: Turkish Statistical Institute (TurkStat)

ing market averages, Turkey ranked first in growth of R&D product exports among the emerging market economies in the 2001–2004 period.

Both measures of country concentration ratios, weighted spread of Turkish exports by country and share of top 10 and 20 countries in total exports, indicate an increasing trend in country concentration of Turkish exports. Analysis of exports shows that the high import dependence of overall Turkish exports is not exceptional. Indeed, the import dependency of exports is higher in new EU members as well. Sectoral analysis shows that the import dependency rate increased much faster in Turkish manufacturing sectors, particularly in motor vehicles and electrical machinery and apparatus sectors (Aydın et al. 2007: 48).

The issues of industrialization, deindustrialization, and probability of reindustrialization are quite similar to both the developed and developing countries under the G-20 umbrella. Most recent data indicate that with a few exceptions, import share of gross exports for the G-20 countries has been on the rise in the last decade (Table 5).

The latest shift towards the services sector in Turkish exports has many explanations as it does the solution offers to revitalize industrial production. So-called deindustrialization in Turkey could be a legitimate argument after a brief look at the total share of manufacturing in GDP, gross export volume, and employment composition in the country. The question is how to deal with the structural causes of deindustrialization, like education and technological progress through innovation. Trade policy in coordination with all actors could meet some of the needs in connection with reindustrialization and the direction of the country in its modes of production for different sectors. Spillover effects might play a positive role in fostering the value-added component of Turkish exports, given an improved institutional setting to coordinate efforts by government, private investors, capital and labour owners, and bureaucracy.

3   Setting the Stage: Foreign Trade for Industrial Development

Spatial economics, cluster analysis and gravity models, based on location theory might provide an understanding to the effects of different parameters on trade volume. Isard (1954) for instance states that the influence

Table 5 G-20 countries' import share of gross exports (%) (2002–2014)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Argentina	8.25	9.5	12.32	13.27	13.59	13.76	14.84	11.95	13	14.07	13.14	13.07	12.45
Australia	15.04	12.46	11.86	11.97	13.28	13.45	13.52	12.78	12.77	13.91	13.86	14	14.69
Brazil	12.94	12.57	12.71	11.7	11.63	11.75	12.5	10.14	10.53	10.72	11.73	12.42	12.42
Canada	25.33	23.37	23.89	23.43	22.85	22.36	22.91	22.38	23.46	23.56	24.55	23.86	23.26
China (People's Republic of)	36.71	38.7	38.16	37.37	36.18	34.17	31.67	30.75	31.94	32.11	31.15	30.85	29.35
France	21.93	21.21	22.22	23.39	24.97	25.29	24.68	21.54	23.67	25.01	25.9	25.81	26.27
Germany	18.7	18.97	19.58	21.29	23.31	24.18	24.67	21.78	23.25	25.62	26.03	25.78	25.35
India	12.68	13.33	15.75	17.45	19.5	19.08	22.53	20.91	22.25	24.03	23.39	22.3	20.98
Indonesia	14.63	14.22	16.14	16.15	14.65	14.1	14.61	11.08	11.08	11.98	11.55	11.57	12
Italy	19.15	19.18	20.26	22.01	24.35	25.08	25.68	21.12	24.85	26.41	26.64	25.77	25.36
Japan	7.98	8.24	9.09	11.09	13.22	14.54	15.71	11.18	12.69	14.7	14.8	16.92	18.19
Korea	27.33	30.69	32.39	32.97	34.45	35.4	41.64	37.45	39.16	41.63	41.86	39.43	37.84
Mexico	33.29	33.42	34.37	33	33.45	33.75	32.7	33.51	34.44	31.69	33	33.08	33.5
Russia	16.24	16.57	14.01	13.03	13.31	13.01	13.83	12.64	13.03	13.65	13.54	14	13.65
Saudi Arabia	3.82	3.67	3.6	3.74	4.7	4.51	4.52	4.61	3.9	3.31	2.78	3.19	3.55
South Africa	20.3	17.84	18.9	19.44	21.56	21.65	23.74	18.78	17.94	19.51	19.83	20.92	20.67
Turkey	18.33	19.59	21.13	20.88	23.26	24.13	24.9	21.54	22.6	25.68	24.06	22.25	21.79
United Kingdom	16.86	16.6	16.91	17.02	17.54	17.96	19.34	18.75	21	22.93	23.95	23.21	21.87
United States	11.08	11.57	12.34	13.01	13.76	14.02	15.54	11.54	13.38	14.97	15.52	15.27	15.28

Source: OECD

and an explicit consideration of distance is important as a variable in trade analysis. Agglomeration theory and trade theory both make use of distance as a key element driving cost and demand functions respectively. A more assertive result of his work is his conclusion that a general and comprehensive location theory and a general and comprehensive trade theory are one and the same (Isard 1954: 319).

Chenery (1961: 47) suggests that the commodities that need to be produced and traded cannot be determined by a simple ranking procedure along the lines of comparative advantage owing to the interdependence of sectors. The importance attached to balanced growth and its relation to trade balance on the other hand might differ in accordance with countries' experiences with export markets, foreign exchange reserves, and borrowing capacity (Chenery 1961: 46).

Countries' investment decisions and economic policymaking processes also need to be aligned with their business environment (i.e. clusters, specialization, export markets, institutional quality, regulations) in order to develop their unique strengths, as stated by Porter (2009). Clusters and diversification are argued to be complementary and non-contradictory (Rosenfeld 1997: 21), which suggests successful clusters could both generate specialization and considerable social capital to extend companies' competencies into new markets or products. Therefore, business clusters that yield dynamic economic gains are complete systems with local production facilities along with local social structures.

The development of a robust export industry could lead to better business clusters, which in turn would pave the way to the emergence of other subsectors via backward and forward linkages. A variety of intermediate goods produced on larger scales is expected to create positive externalities in an economy. Whether based on neoclassical assumptions of competitive markets or Dixit–Stiglitz type imperfect markets with monopolistic competition, theories of international trade and spatial economics that envision industrial clustering should include a guiding principle or at least a strategic industrial policymaking component in it (Babacan 2015: 54). Empirical evidence suggests that income differentials between some nations and others are widening over time despite the dominant growth theories with assumptions of economic convergence. Industrial agglomeration across regional or national entities therefore provides a neat

explanation for such a divergence. Along with interindustry trade, the intra-industry level of trade is another determining factor in the regional concentration of certain industries (Babacan 2015: 56).

Agglomeration and clustering to enjoy economies-of-scale effects and interindustry and intra-industry spillovers all enhance a country's competitiveness. An external factor that has a significant impact on industrialization through trade is the level of integration with world markets. Terms of trade shocks as well as exchange rate volatility are among many other challenges that export industries have to face. There is, however, mixed evidence regarding the role of foreign trade engagement in industrial development for different groups of countries. Mevel et al. (2016) for instance indicate that reindustrialization in the case of North African countries could be triggered via free trade agreements at the regional or inter-regional scale. In addition to these arguments, the removal of barriers to trade and to foreign direct investment (FDI) are complementary in boosting total factor productivity levels (Ahn et al. 2016: 6).

Counterfactual evidence from recent research by Johnson and Noguera (2016: 2) suggests that the ratio of value added to gross exports was reduced by 10 per cent between 1970 and 2009, while the ratio of value added declined by 20 per cent in manufacturing but increased in non-manufacturing sectors. Impacting factors are being a fast-growing economy, engaging in regional trade agreements, and trading with neighbouring countries as partners. With the removal of trade frictions, Johnson and Noguera (2016: 21) say, the service industry and agricultural products exports seem to benefit while manufacturing industries suffer losses.

All in all, foreign trade regimes are important to the industrial make-up of a country. Foreign trade regimes, according to Bhagwati (1978: 192), may influence growth not only through their direct impact on growth but also the quality of entrepreneurship and degree of innovativeness and technical change. Bhagwati (1978: 198) asserts that unequal opportunities arise from a basic, unequal distribution of wealth and status, and that, whether the foreign trade regime is Phase II (continued reliance on quantitative restrictions in trade) or Phase IV (the effective exchange rate for exports comes closer to the effective exchange rate for

imports), the inequalities of access by small-scale and underprivileged enterprises will persist and only their outward manifestation will change.

In a broad sense, Anne Krueger (1974) argues that the impact of foreign trade regime is reflected, not in the income differences between capital and labour owners in a broad sense, but rather within these categories in Turkey.

Bhagwati (1978: 192–194) argues that if developing countries going through a five-phase liberalization process as indicated by the World Bank should finalize the process as a Phase II country with automatic protection of domestic industry to foster domestic entrepreneurship, then it might lead to a rentier state, lower-quality institutions, and overall inefficient resource allocation. As a follow-up to the intuition behind Krueger and Bhagwati's arguments in favour of trade liberalization that leads to import-substitutive industries having to face external competition, Rodrik (1992: 100) puts forward the argument that benefits from liberalization are enhanced by markets, which become or remain imperfect. Domestic firms' output expands under imperfect market conditions, and one possible channel to such a scenario is so-called industry-rationalization theory, which relies on relatively unhindered entry and exit of firms into affected industries. The Turkish case, in this sense, could fit well into Rodrik's arguments.

Turkey has managed to diversify its export markets and manufactured goods in the exporting industries during the last quarter century. However, the technology content of exports remains limited, as indicated by various studies since the 2000s. Turkey's mid-technology share has shown an increase from some 19 per cent of the total in 1990 up to 39 per cent by 2010, while the high-technology component has shown little improvement compared to 1990 and a serious decline since year 2000, from 9 to 5 per cent by 2010. Figure 1 shows a steady rise in the per-kilogram value (in USD) of Turkish exports, an almost 40 per cent increase over the last decade.

In parallel, Fig. 2 implies around a 70 per cent rise in Turkey's share of total world exports within the last 15 years. Provided by Turkish Exporters Assembly's (TIM) 2016 report on export development, evidence from the share of Turkish exports of GDP over the last 15 years suggests that the share of total commodity and service exports declined from 25.1 per
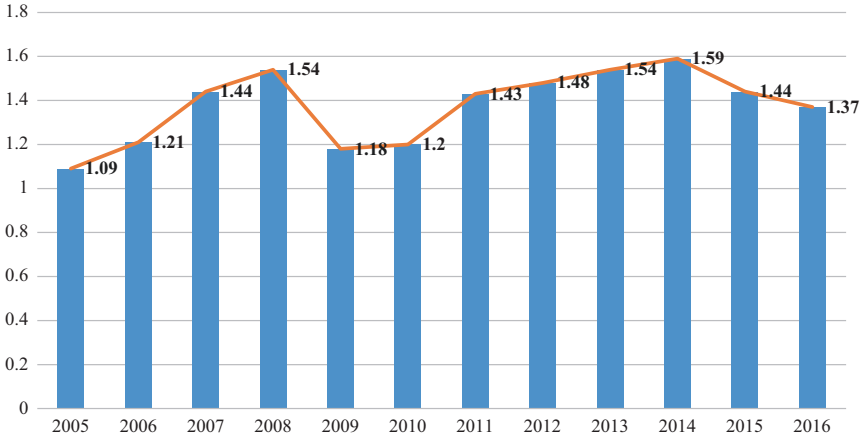
Fig. 1   Turkey's exports per kilogram (in USD) (Source: TurkStat, Turkish Exporters Assembly (TIM))
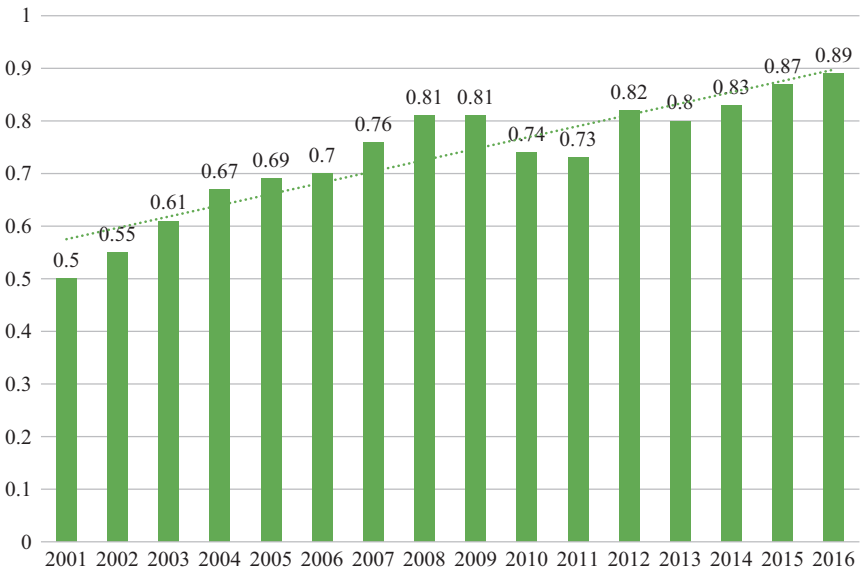
Fig. 2   World share of Turkey's exports (%) (2001–2016) (Source: TradeMap (via TIM))

cent in 2001 down to 21.9 per cent by 2016. In the meantime, the share of commodity exports of just GDP remains steady at around 17.5 per cent (both in 2001 and 2016), reaching a peak at 18.5 per cent in 2012. Combined with the value added by exporting sectors in the Turkish manufacturing sector, these data show that Turkey has somewhat of a comparative advantage in producing and exporting in some commodities, while in others, such as agricultural products like hazelnuts or tobacco, it should utilize factor endowments or take advantage of terms of trade differences. Table 6 shows little change in the share of capital goods from Turkey's exports, an insignificant decline in intermediate goods, and a significant rise in consumption goods. These data alone signal stagnation in industrial growth in terms of export content.

Foreign trade policies thus focus on increasing the share of Turkish exports worldwide, horizontally and vertically integrated sectors to yield efficiency in production chains, a hike in value added through technology and innovation, better coordination among parties including lobbying groups, and increased public awareness for competitiveness.

4 Collective Action in Governing the Commons: Reindustrialization and Trade

Industrialization is the key to sustainable economic growth, as suggested by European history as well as late-industrialized countries such as Japan. As Rowthorn and Wells (1987: 75) underline, the importance of industrialization, regardless of a country's trade structures or whether it specializes in non-manufacturing or manufacturing, is such that successful industrialization enables a country to reconcile two important objectives: higher per-capita domestic demand for manufactures and maintaining external balances.

Theoretically, there are vast differences between industrialized and developed countries' experiences with economic planning in a wide range of highly centralized and controlled to strategically guided models in the

Table 6 Turkey's annual exports by BEC (2011–2016)

Category	2011	2012	2013	2014	2015	2016	USD in Millions % Change
Capital goods	**14,192**	**13,734**	**15,592**	**16,107**	**15,392**	**15,891**	**3.2**
Capital goods - (except transport equipment)	7,745	8,125	8,939	9,229	8,499	8,186	−3.7
Transport equipment, industrial	6,447	5,608	6,653	6,878	6,893	7,706	11.8
Intermediate goods	**67,942**	**82,656**	**74,817**	**75,171**	**68,433**	**66,890**	**−2.3**
Food and beverages, primary, mainly for industry	4,031	4,204	5,058	4,719	3,761	3,665	−2.5
Food and beverages, processed, mainly for industry	45,718	59,141	49,773	50,214	47,347	46,449	−1.9
Fuels and lubricants, primary	132	237	252	235	182	139	−23.5
Parts and accessories of capital goods	4,432	4,508	5,028	5,253	4,535	4,299	−5.2
Parts and accessories of transport equipment	7,988	8,164	9,009	9,288	8,595	8,927	3.9
Other, primary, mainly for industry	209	289	352	294	239	384	60.5
Other, processed, mainly for industry	1,832	1,831	1,891	1,696	1,618	1,791	10.6

Table 6 (continued)

Category	2011	2012	2013	2014	2015	2016	USD in Millions % Change
Fuels and lubricants, processed	3,601	4,282	3,454	3,473	2,155	1,236	−42.7
Consumption goods	**52,219**	**55,556**	**60,732**	**65,088**	**59,146**	**58,877**	**−0.5**
Passenger motor cars	6,485	6,069	6,856	7,255	6,899	8,355	21.1
Durable	10,465	12,460	13,318	14,984	13,130	12,807	−2.5
Semi-durable	13,069	13,434	14,775	15,946	14,626	14,650	0.2
Non-durable consumption goods	7,878	8,406	9,344	9,998	8,694	8,564	−1.5
Food and beverages, primary	5,512	5,390	5,784	6,297	6,185	5,690	−8.0
Food and beverages, processed	5,893	6,486	7,501	8,125	7,407	6,925	−6.5
Gasoline	2,616	3,026	2,837	2,300	2,058	1,721	−16.4
Non-industrial transport equipment	301	284	317	183	147	166	13.1
Other	**555**	**516**	**661**	**1,243**	**869**	**871**	**0.3**
Total	**134,907**	**152,462**	**151,803**	**157,610**	**143,839**	**142,530**	**−0.9**

Source: TurkStat
Broad Economic Categories is among the World Trade Organization's (WTO) classification of goods

post-Second World War period. Following the long nineteenth century of rapid industrialization, Britain, for instance, witnessed a period of deindustrialization during the 1950s. Though referring to this experience 'negative deindustrialization', Rowthorn and Wells (1987: 248) conclude that even if it happened to be a 'positive' event, deindustrialization would be inevitable.

Industrial policy aimed at changing the industrial structure and inducing employment towards industry is a medium- to long-term effort by its very nature and thus involves planning (Yülek 2015: 21). The dilemma that governments face regarding their strategic orientation towards industrial policy resembles that of planning decisions and the extent of market interventions, Yülek (2015: 21) also points out. At the crossroads for upgrading its industrial base and joining the club of 'high-income' countries, Turkey has a lot to learn from previous experiences that developed countries faced in the 1980s and 1990s.

The underlying argument in the cases of most developed countries is that, whether they are highly centralized as in France or strategically guided as in Japan and Sweden or shaped by market-oriented planning as in the US and UK, they become 'mature' after a long period of industrialization. Rowthorn and Wells (1987: 245–46) give three potential explanations for the decline in the UK's manufacturing employment: the *net failure effect*, the *maturity effect*, and the *specialization effect*. The first refers to poor economic performance of the manufacturing industry in terms of creating jobs, whereas the second effect relates to unavoidable job losses due to the economy's relative level of maturity, and the third is related to the structural change in foreign trade and its impact on manufacturing employment.

As Krugman (1988: 2) points out, the massive capital inflows to the USA in the l980s had as their counterpart a substantial reallocation of resources out of US tradeable sectors, with employment and capacity falling sharply in many export- and import-competing industries. This 'deindustrialization' in the USA had as its counterpart a corresponding growth of capacity abroad.

In popular discussions of the failure of US trade to turn around more quickly, a common theme is that uncertainty has inhibited the adjustment process – that both US and foreign firms have been reluctant to shift resources, both because they have viewed the strong dollar as likely to return and because in an uncertain environment they have adopted a general 'wait-and-see' attitude (Krugman 1988: 2). There is now widespread concern that the sluggish response of trade flows to the exchange rate, brought about in part by past exchange rate volatility, will lead to

further future volatility because the declining dollar will now have to 'overshoot' its long-run level in order to persuade US firms to invest in the 'reindustrialization' that is now needed.

On the one hand, the reindustrialization issue is about trade policy owing to its significant and direct impact on resource allocation, real effective exchange rates, and relative wages in an economy. It is, however, like heads or tails with the institutional setting and industrial policy design. The proponents of 'reindustrialization' in the USA, for instance, called upon central bodies to formulate new policies via new institutions to revive the country's industrial base, as was the case with Reconstruction Finance Corporation (RFC) during the New Deal or the Japanese Ministry of International Trade and Industry (MITI). Bailing out traditional or old industries as well as cities, for instance, was long discussed among the proponents of reindustrialization in order to reverse the economy's growing tendency towards service sectors. This call for partial planning or policy coordination oriented towards the reindustrialization of the country with 'a second industrial revolution', however, also failed (Babacan 2015: 53).

'Industrial policy, often referred to as "reindustrialization" or "revitalization", should aim at transferring resources from declining industries into growing industries", replied Adlai Stevenson, former chairman of the Subcommittee on Industrial Policy and Productivity for the Senate Democratic Task Force on the American Economy, in an interview to the question on the definition of industrial policy. All in all, the main idea put forward by Stevenson and Bartel (1981: 41–42) is that an industrial policy should focus on adjustment financing, not bailouts; distinguish cyclically unemployed from structurally unemployed and favour the latter; and could have a better chance at working at the regional level, not national. Last but not least, Stevenson and Bartel (1981: 43) proposed an independent institution to provide funds/other needs for industrial development and begin with a radical restructuring of basic or essential industries.

A voice critical of the proposals surrounding a central administrative body to plan or design a national industrial policy during the 1980s was that of Miller (then chairman of the Federal Trade Commission) et al. (1984: 37), who called it ineffective and a cure worse than the perceived

disease, owing to the overall design of the political system in the USA. The remedy, accordingly, is economic and political liberalism. Eizenstat (1984: 49–50) in his reply to Miller's article proposed a council on industrial competitiveness that would be designed as a forum composed of representatives from business, government, labour, and the general public. Better coordination of microeconomic policies among different government bodies as well as the alignment of policy choices between social groups via such a formal mechanism was expected to eliminate any source of information asymmetry as well.

Citing Etzioni's three distinct possible policy options on reindustrialization in the US economy during the 1980s, Norton (1986: 33) stated that the Reagan administration's choice had insufficiently targeted supply-side economics that in turn yielded more consumption, not investment. This policy option was then followed by semi-targeted reindustrialization with an idea of releasing resources to the private sector but channelling them to infrastructure and capital sectors.

Specialization in intermediate goods production that are widely tradable could then lead to better utilization of industrial capacity at home while creating an economy that was competitive worldwide. Public procurement could assist countries in acquiring capabilities in key industrial sectors, as argued by Yülek (2015: 22), and in turn could increase the international competitiveness of firms and, hence, the economy (Yülek 2015: 22).

Aysan and Hacıhasanoğlu (2007) find that manufacturing exports are negatively related to unit labour costs. Decomposing the unit labour cost into its two components also shows that an improvement in productivity increases exports, while an increase in nominal wages decreases it. The results also imply that the nominal wage is an important factor in declining sectors, while productivity is a stimulus in rising sectors.

Focusing on exchange rate volatility and its impact on resource allocation and relative earnings, Krugman (1988: 21) claims that the range of real exchange variation is wider in an uncertain world and that a large exchange rate movement that leads to deindustrialization must be offset by a subsequent overshooting in the opposite direction. Corresponding to the identification of the uncertainty problem put forward by Krugman (1988), yet differing in its recipe for the case of Turkey, Ünal (2016: 87)

suggests that Turkey target the exchange rate under a new institutional setting, while on the fiscal side it should keep the nominal wage growth rate under the productivity growth rate in non-tradable goods.

Lin (2012: 115–6) calls for rethinking of structural economics in a new framework, which he recommends organizing around four ideas. The first is the economy's factor endowments and their structure (relative abundance of natural resources, labour, and human and physical capital), where they are subject to change over time. At different phases of economic development, the optimal structure of the economy should be different as well, according to Lin. Second, the industrial structure in an economy should be taken as endogenous and refer to a point on a spectrum of development from an agrarian economy to a high-income industrialized economy. Thus, Lin (2012: 116) states that industrial upgrading and infrastructure improvement in a developing country should not necessarily refer to those in high-income countries. Third, the market remains the fundamental mechanism for effective resource allocation, and industrial diversification, upgrading, and corresponding improvements in soft and hard infrastructure are essential to produce a dynamic process of economic development. Fourth, Lin argues that agglomeration and clustering are crucial in terms of reducing transaction costs in any given industry, making it globally competitive, owing to the increased level of specialization in production.

With regard to Lin's (2012) arguments, one structural issue closely linked to the labour market in Turkey is education, particularly vocational education. Though the Turkish educational system has come a long way in the last 15 years in terms of infrastructure, the transformation of the fixed capital investment into high educational quality as a critical component for going above and beyond the middle-income economy, is expected to take some time. Returns on education, productivity issues, teacher and instructor quality, and wage standards are all parts of this discussion. Higher education (i.e. universities) is yet another component of the larger issue of human capital. A stunning piece on the importance of vocational education in the reindustrialization of the US economy by Etzioni (1981: 9) states that (a) vocational education is not best served when it is run in institutions dominated by general educators, especially if those educators are not supportive of job education, (b) more

interaction is needed between those generating jobs and those who provide vocational education, and (c) it does not follow that places of employment should provide more vocational education; they might tend to be too focused on job training rather than a well-rounded education. This concept of switching the responsibility of training from schools to places of employment has a particularly negative implication for small businesses that cannot afford to offer training or whose employees must have a variety of skills instead of training limited to one specific area. Turkey should take bold steps to reassess its education policy in a comprehensive way that embraces labour market components.

5   Conclusion

Over the last quarter century, many countries have witnessed what is called deindustrialization, which mainly manifests itself as a declining share of manufacturing employment in the total employment picture. Despite the heterogeneity in its underlying causes, such as changes in productivity levels over time, deindustrialization is still a common phenomenon across countries. As Tregenna (2011: 19) puts it rightly, reindustrialization after deindustrialization requires greater effort compared to what is required for earlier industrialization. Decisive and effective industrial policy is crucial for successful reindustrialization, and ties to foreign trade policies should predominate in its institutional design as well as implementation. This chapter represents an attempt to provide insight into the structural relationship between foreign trade and industrialization efforts in the case of Turkey.

Turkey was among the best-performing developed and developing economies in terms of exports in the 2000s. The country witnessed improvements both in number of competitive products and in the share of such products in its gross exports. With an increase in middle- and high-technology components in its exports, Turkey should now introduce new products to world markets through R&D activities and innovation-led growth strategies that further enhance industrial upgrades to expand into various sectors.

Aydın et al. (2007: 49) conclude that none of shocks in 1994, 1998, and 2001 had a path-breaking impact, though the shock in 2001 did have a level-shifting impact on the import elasticity of export supply. As a result, it seems the import elasticity of exports increased by about 50 per cent from 1987 to 2006. Some sectors have been successful at integrating into world markets, especially following the Turkey–EU customs union agreement, which enables them to expand their export market share by producing for the external market during turbulent periods. High import dependence and low real effective exchange rate elasticity shield them from the detrimental effects of real appreciation of the Turkish lira (Aydın et al. 2007: 49).

Another argument regarding the importance of reindustrialization based on efficiency-led and technology-driven production is from the perspective of a middle-income trap. As Yağcı (2017: 97–98) asserts, industrial activity and manufacturing constitute a major challenge in avoiding the middle-income trap and achieving sustainable economic and social development in Turkey.

A broad array of factors cause countries to enter and become stuck in an alleged middle-income trap. Engel and Taglioni (2017: 124) discuss these factors, which include macroeconomic and microeconomic factors related to industrial structure, trade profile, demographics, income distribution, macroeconomic management, and the quality of institutions.

For East Asian countries, an empirical study that focused on the middle-income trap and presented a vast literature review on the middle-income trap was conducted by Kumagai (2015: 18), who suggests that it is necessary to develop an industry on the backbone of labour-intensive primary goods production that enables an upgrade to capital goods production. While this is essential and true of most middle-income countries, certainly it is not enough for overcoming this so-called trap. An international trade perspective that enhances the network and, thus, spillovers between countries that are relatively equivalent in level of industrialization would yield positive results, as stated by Kumagai (2015: 18), who concluded that the industrial upgrading process through the backward linkage from consumption goods to capital goods, parts, and components is more successful in non-trapped higher-income countries. For trapped countries, he argues, there is a tendency to depend on the

export of primary commodities, and industrialization would appear to be driven by forward linkages to processed goods. This narrow industrial base is thus a possible cause of the middle-income trap (Kumagai 2015: 18).

Yağcı (2017: 106) stresses that Turkey must prioritize industrialization as a key policy option in order to achieve the status of developing state, and he proposes traversing the middle-income trap via reindustrialization. The findings of a research paper by Meçik and Afşar (2015: 106) on deindustrialization processes in OECD countries indicate that industrial employment is positively correlated with per-capita income levels, fixed capital, and FDI inflows.

Engel and Taglioni (2017: 125) provide several recommendations borrowed from country experiences with avoiding the middle-income trap primarily have to do with structural, industrial, and trade policies as well as social policy. Macroprudential policies for avoiding sudden stops as well as regulating private-sector activities play a significant role. Measures taken for regional integration and developing knowledge network externalities are also important for spillovers on both the individual and institutional level. Labour markets should be flexible enough to enable skilled workers to move up within the value chain from low-value-added sectors to higher-value-added ones. Differentiation between state-owned companies and private ones as well as product and factor markets in order to achieve higher levels of technology for industrial upgrade through newly developed industries is also essential.

Gür et al. (2017: 151) propose a comprehensive approach to industrial transformation that would increase Turkey's competitiveness in the world. Their approach incorporates education, technology, and industry perspectives. The complementary element in such an approach would be efficient coordination among state institutions. In that regard, Yeldan and Yıldırım (2015: 84) stress that development is not only specialization in the same set of products but innovating and developing new products while defining the role of the state as an active entrepreneur not a sole Walrasian middleman or an invisible arbitrator. Therefore, the design of investment incentives for the purpose of attracting FDI as well as domestic entrepreneurs is critical to avoid the middle-income trap.

Turkey must do more to attract greater foreign capital in high-technology-factor-intensive and high-skilled-labour-intensive strategic sectors such as health, finance, education, and manufacturing. To accomplish that, it should create a strategic roadmap for upgrading its industrial and financial ecosystems. Dynamic and international scale economies and their sources are also crucial to understand in order to improve Turkey's capacity to create a national ecosystem of industry composed of tradable intermediate goods where external economies involve the diffusion of knowledge, as stated by Helpman and Krugman (1986: 38). Such external economies stemming from a diffusion of knowledge, technology and innovation, or learning by doing (i.e. experience) are usually the result of economies of scale in intermediate goods production.

To sum up, in the case of Turkey, Lin's (2012: 215) arguments on the middle-income trap could be useful. He defines such a trap as a country's inability to continue on the path of industrial upgrading, which then results in stagnation of per-capita income compared to world leaders. Lin (2012: 220) further argues that income stagnation in low- and middle-income countries reflects a failure in designing and implementing strategies for dynamic structural transformation. Turkey is at a crossroads in finding the optimal level of state intervention and guidance in industrial transformation for maximizing benefits from trade spillovers. As stated so well by Kutlay (2011: 85), the limits of a functionalist political economy in Turkey could concisely be referred to as industrial capacity in terms of competitiveness, state–business and business-to-business interactions, and social coherence in terms of the design of policy, both domestic and foreign.

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