

Trading Places: How Turkey Can Join the Rich, Using Trade Policy

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Abstract: *The aim of Turkey's 2023 Vision Project, which coincides with the hundredth anniversary of the founding of the Republic of Turkey, is to bring the Turkish economy into the ranks of high-income countries. To reach this goal, strategies have been drawn up with a focus on the mid- and long-term future of the economy. However, the current state of affairs indicates that the Turkish economy has fallen into the middle income trap, and the key to breaking free of that is reconfiguring a model of growth that focuses on production. In light of that situation, the aim of the study is to provide a discussion of the trade policies and strategies that could be used to realize an effective model of economic growth.*

Keywords: *Middle Income Trap, Economic Growth, Foreign Trade Policies, Turkey*

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Introduction

The aim of Turkey's 2023 Vision Project, which coincides with the hundredth anniversary of the founding of the Republic of Turkey, is to bring the Turkish economy into the ranks of high-income countries. To reach this goal, strategies have been drawn up with a focus on the mid- and long-term future of the economy. The Vision 2023 Project encapsulates a number of desired outcomes, the most notable of which include raising per capita income to \$25.000, increasing annual exports to \$500 billion, and driving unemployment down to 5%. However, there are doubts that the Turkish economy, which has been affected by the stagnation in the global economy in recent years, will be able to achieve these goals. For this reason, the strategies that will be employed are of utmost importance.

In the last decade, rapid changes have occurred in the economic and political balance of the world, and these transformations have had a significant impact on the plans being drawn up by the Turkish government. Therefore, it is essential to carry out dynamic analyses of the mid- and long-term plans being drafted, and keep close track of the process as it unfolds. While macroeconomic data indicates that there have been improvements in the Turkish economy in the last decade, it is clear that solutions have not yet been found for some structural problems. The precautionary measures that were implemented following the economic crisis of 2001 resulted in major improvements for such indicators as inflation, the budget deficit and public debt, and subsequently the economy grew. Nonetheless, not all of the desired results could be achieved as regards the current deficit, foreign borrowing, and unemployment. The fundamental issue underlying these significant structural problems was a lack of growth based on stability and production.¹

The Turkish economy needs to be shaped around a model of growth that is geared toward mid- and long-term plans and the solution of structural problems. If Turkey is going to join the ranks of high-income countries, there must be an increase in efficient production. The current state of affairs indicate that the Turkish economy has fallen into the middle income trap, and the key to breaking free of that is reconfiguring a model of growth that focuses on production.

For years, development plans have been drawn up in the formulation of the country's mid- and long-term goals. The 10th Development Plan, drafted in accordance with the government's aims for the year 2023, offers some clues about the underpinnings of the current strategy of growth. Some critical aspects of that strategy include increasing efficiency and savings, developing the work and investment climate, improving the effectiveness of the labor market, and stimulating private investment.² Although not explicitly stated, the goals of the plan are obvious. However, no clear strategy has been offered up that will make it possible to achieve these goals. What is needed is a model of growth which is centered on trade and the policies of trade, and the main focus of this study is to discuss how that can be realized. So first of all what we need is a detailed account of the relationship between growth and trade.

For years, researchers and academicians have taken up the example of various countries to examine the underlying reasons for economic growth. Those supporting factors have been identified as the accumulation of capital (both physical and human), trade, trade openness, market structure, demography, geography, government policies, and institutional structures.³ With the rapidity of global economic developments that occurred in the latter half of the twentieth century, there has been an increase in the number of theoretical and empirical studies that have been carried out. If we take into account the framework of theory, it is notable that in the 1950s the primary focus was on issues such as total factor productivity, foreign investments, financial development, and human capital. After the 1980s, there was a revolutionary transformation in which the focus shifted toward trade, structural reforms, and institutional and geographic conditions.⁴ In terms of empirical studies, we can see that initially, they were carried out for a limited number of countries but with the development of methods based on econometric and mathematical models, the scope of countries broadened as theoretical structures were put to test. Thus, making it possible to obtain more reliable results as regards the underlying reasons for economic growth.

As noted above, after the 1980s trade emerged as a leading factor for economic growth. In particular, empirical studies gained momentum in those years, and at the same time there was intensified focus on issues such as the connection between trade and economic growth and the causal relationship between these two variables, the static and dynamic effects of trade on economic growth, and the channels through which those effects are realized.⁵ Of course, differing results were achieved based on the sets of data and methods that were used. Nonetheless, the literature on this issue clearly indicates that there is a connection between trade and economic growth.

Research into that connection has revealed the impact of the liberalization of trade on the growth of the economy. Sach and Warner (1995)⁶ used data from 1970-89 to examine the effects of global integration on economic growth and came to the conclusion that the liberalization of trade accelerated economic convergence, especially in developing countries. Similar results were obtained in a study by Frankel et al. (1996)⁷ which attempted to predict the effects of policies of trade on economic growth. It was found that in ten countries in Asia that were undergoing rapid economic growth, trade openness generally further drove that trend. In an expanded study utilizing a data set for 150 countries, Frankel and Romer (1999)⁸ found that trade increased income in analyses of within-country and cross-country trade. Dollar and Kraay (2001)⁹, whose influential studies have examined the connections between trade, economic growth, and poverty, identified a strong positive relationship between trade and the growth of the economy. Wacziarg and Welch (2008)¹⁰ took up the study published in 1995 by Sach and Warner, and by revising their data and regressions, found that the implementation of policies of trade liberalization resulted in an average annual growth rate that was 1.5% higher than before. Additionally, they claimed that trade liberalization impacts economic growth via the accumulation of physical capital. In a more contemporary study, Didier and Pinat (2013)¹¹ focused on the main characteristics of trade relations and examined the mechanisms of trade that affect economic growth. In their findings, they emphasized the importance of products and trade partners, especially in the case of developing countries.

A study by Rodriguez and Rodrik (1999)¹² which revisits the research carried out by Dollar (1992)¹³, Sach and Warner (1995)¹⁴, and Edwards (1998)¹⁵ provides the most powerful critique of the studies mentioned above. Rodriguez and Rodrik found that there were certain limitations as regards the methodologies and presentation of data in these studies, and they identified weaknesses as well. Their study concluded that there was very little proof indicating that trade openness has a significant impact on economic growth.

In the final analysis, despite such doubts about the existence of a strong and positive relationship between trade and economic growth, striking empirical results point to the existence of a connection in terms of statistical and economic significance. For that reason, while there are numerous determinants which impact economic growth, one of them stands out from the others, and that is trade. In short, trade is the most significant variable for growth in the economy.

The core literature examining the relationship between trade and economic growth for Turkish economy can be grouped into two main categories. In the first group, the relationship is empirically explored from various aspects.¹⁶ According to empirical results, it is widely accepted that there is a significant and positive relationship between trade and economic growth. In the second group, more specifically, studies focus on the growth and trade effects of Customs Union Agreement between Turkey and the EU.¹⁷

In this study, available options are qualitatively analyzed in the formulation of strategies that will bring the realization of Turkey's mid- and long term goals. Therefore, it differs crucially from previous research, as it will enrich the literature by discussing Turkey's trade policy under alternative scenarios.

The main argument of this study is that a model of growth based on policies of trade must be implemented in Turkey so that the economy can be extracted from the middle income trap. In light of that situation, the aim of the study is to provide a discussion of the trade policies and strategies that could be used to realize an effective model of economic growth.

The research questions that will guide this study are as follows:

- a. In light of global developments impacting trade, economics and politics, as well as projections for the future, what are the main factors that will guide Turkey's trade policies?
- b. Taking these factors into account those factors, how should Turkey play its cards? What other alternatives are there?
- c. What should be included in trade policies that can bring about a shift in Turkey's model of economic growth?

To answer these questions, the second part of this study will offer a discussion of driving forces behind the global developments in economics, trade and politics that have had an impact on Turkish economy. In light of these factors that have played such a key role in the Turkish economy, the third section will propose an alternative courses of action. The fourth section will investigate policies of trade that will make it possible for the Turkish economy to be on par with other high-income countries, and the conclusion will offer suggestions for policies that will pave the way forward.

Driving Factors

Mid- and long-term strategic plans must be drawn up if Turkey is to boost its economy to the point that it can be ranked as high-income. In that regard, the forces that impact or have the potential to impact both Turkey and the world at large must be taken into account, and those can be referred to as driving factors.

If we look at the developments that have occurred in the last fifteen years on a global scale, it becomes clear that there have been major transformations in terms of economy, trade, and politics. It is possible to shed light on changes in the economy and trade with numerical data, and by looking at international relations we can see how political developments are closely interconnected with trade and the economy as a whole.

Economic Developments

The most prominent development that has occurred in the economy in recent years has been a shift in centers of production. In the early 2000s, 57.2% of production was carried out by developed economies and 42.7% of it took place in countries with developing economies. In 2014, the situation had reversed; 42.8% of production occurred in developed countries and 57% of it was being carried out in countries with developing economies. During this transformation, the global percentages of production changed dramatically. By 2014, the United States, which had been producing 21% of the world's goods, was now producing 16% of them. The same held true for the European Union, whose share of production dropped from 23.9% to 17%, and Japan's share dropped from 6.6% to 4.4%. In contrast, developing countries in Asia witnessed major increases in production. By 2014, India's global share of production had increased from 4.4% to 6.8% and China's share leapt from 7.4% to 16.3%.¹⁸

Developing countries in Asia, which was becoming known as the "factory of the world," had begun attracting multinational corporations and as a consequence investments began to increase in particular, there was an intensification of foreign direct investments in the region which were geared towards production.¹⁹

Around the world, and especially in developing countries, trends of rapid economic development have led to significant decreases in levels of poverty. In 2014, approximately a billion people living in developing regions were brought above the poverty line, one of the intended outcomes of the Millennium Development Goals of the United Nations.²⁰ At the same time, however, it is an undisputable fact that there has been an increase in the inequality of the distribution of wealth. According to a report prepared by Oxfam for the 2014 World Economic

Forum, 1% of the world's wealthiest individuals have amassed a fortune equaling 110 trillion dollars, nearly half of the world's total wealth.²¹

In the 2000s, the most tumultuous economic development was the global financial crisis of 2008. The most striking feature of the crisis was that it started in the United States, a prominent developed country, as a reflection of flawed practices implemented in the financial system. The crisis brought about large-scale financial fragility in the US, and in economic circles it was compared to the Great Depression of the 1930s.²² Because global financial markets are interconnected and the US dollar is a global currency, the effects of the crisis quickly spread to other countries around the world. Clearly, the global economic structure still hasn't recovered and economic indicators have not been as positive as expected. All of these developments have been described by researchers and scholars as a fiasco brought on by traditional economic analyses.²³ This is further corroborated by the fact that no one foresaw the crisis and that the economic policies implemented during the crisis proved to be rather ineffective. As a result of the crisis, the orthodox policies implemented in the world economy began to be greeted with skepticism and people set about trying to find alternative solutions.

The rapid increase in the world population and problems related to the need for natural resources have begun to be increasingly debated in the field of economics. Additionally, in recent years, natural disasters caused by climate change have prompted governments to take joint precautions and implement policies that take greater account of such issues. At the same time, this situation has led to the more efficient use of existing resources and efforts to discover alternative resources as well. Developing countries have begun to play a more important role in global production and this has subsequently shifted the global balance as regards energy, which is crucial for the production of goods. As a primary consequence of this situation, imbalances of demand have been reflected in changes in prices and market volatility. In turn, those countries which are in possession of energy resources have more control over market power. In the 2000s, a significant development occurred in the field of energy as OPEC countries, along with Russia, China and countries in Central Asia, took to the world stage as major actors. In fact, these developments created a multipolar world system. On the other hand, some countries, such as European countries, which do not have enough resources to meet their own energy needs, have been quite vulnerable to geopolitical developments and price volatility, and therefore have to import energy.²⁴ However, the most important development for the world economy and the US in particular has been the discovery of shale gas and the production of oil. In the next fifteen years, this has the potential to play a role in bringing about changes in the current balance of energy trade.

Trade

An important development in global trade in recent years has been its rapid advancement, which has occurred without significant growth. As seen in Table 1, although there were significant decreases in world production and trade as the result of the crisis of 2008, trade still managed to increase to an extent that surpassed production. The main reasons underlying this phenomenon were decreases in costs brought about by technological developments and the expansion of global supply chains.²⁵

**Table 1: Volume of World Merchandise exports and GDP
(annual percentage change)**

| | 2000-2005 | 2005-2010 | 2010-2014 |
|----------------|-----------|-----------|-----------|
| Exports | 6,5 | 4,8 | 6 |
| GDP | 3 | 2,5 | 2,9 |

Source: IMF, World Economic Outlook Database October 2015

Another crucial factor is the fact that developing countries started to take on a greater share in world trade. In the year 2000, developing countries had a share of 31.9% of the world trade in goods, and by 2014 that figure had increased to 44.8%. In contrast, developed countries' share of world trade had dropped from 65.7% to 51%. Another effect of that situation was that there was a trend in which north-north trade was decreasing and south-south trade was increasing.²⁶

Undoubtedly the removal of obstacles to trade has played an important role in the way that trade has increased more rapidly than world production. The GATT instituted regulations that made it possible to eliminate tariff and non-tariff barriers to trade. In the 2000s, particularly in developing countries, the increased implementation of policies of trade liberalization also reduced the number of barriers to trade. Another factor was the fact that China became a member of the World Trade Organization (WTO) in 2001, which had a major impact on global markets. The reduction of barriers to trade opened the way for opportunities to access new markets, especially for developing countries, and this brought about an increase in global trade.

In recent times, the most important development in terms of world trade has been a questioning of the contributions of the WTO. The WTO, which was founded in 1995, took the place of the GATT. Its goal was to create a broadened multilateral system of trade that encompassed the entire world, and subsequently new implementations were introduced as regards intellectual property rights and the service sectors. Additionally, dispute settlement mechanisms were developed to help solve problems between countries. However, the Doha Development Round, which commenced in 2001 but failed to arrive at a successful conclusion, opened the way for a questioning of the effectiveness of the WTO.²⁷ This questioning of the WTO, which had major impacts on the world economy as it has developed from World War II to the present day, would have a determining effect on the times to come.

Regardless of how far back we can trace the history of regional trade agreements, the most influential developments in trade arose in the aftermath of World War II. Analyses of that three-wave process indicate that the main actors were Europe, North America, and Asia.²⁸ In recent times, however, the main center of regionalization has shifted towards Asia. In terms of numerical data, it is notable that in 1990 there were 70 preferential trade agreements in existence around the world, but by 2014 that figure had risen to 379.²⁹

Political Developments

The rapid changes that occurred in the economic and trade balance of the world starting in the 21st century have naturally impacted international relations. Increases in prosperity levels in developing countries have pushed debates about the reshaping and effects of the global system onto the agenda. As discussed above, the crisis of 2008 led to a questioning of the United States' hegemonic power. In turn, this paved the way for the emergence of new political actors, and developing countries took to the stage as well. In short, there was a shift towards a multipolar world and in the process these developments brought forth a new set of questions and problems. Will conflicts increase in a multipolar world? Do developing countries have the means to shape the global system? What policies will Western economies implement to win back their old hegemony? As in the past, these questions will yet again be formulated in light of probable developments in the economy and trade. For that reason, detailed examinations of projections about the future will make it easier to answer these questions.

Future Projections

We can better understand countries' strategies for the future by looking into the prominent aspects of recent developments, as discussed above. This section will examine future projections that will help us grasp how global economic and trade developments will unfold and provide an analysis of those elements that will play a key role in the shaping of trends.

Various organizations have carried out detailed studies that facilitate the creation of projections for global developments, and the primary resources for such an endeavor include those generated by the WTO, the World Bank, the UNCTAD, the UN, and the OECD. While the IMF also produces projections, they are generally of a mid-term nature, so they are not included in this discussion. The studies carried out by the other organizations mentioned above, however, will make it possible for us to better understand the variables that will come into play up until the year 2030.

Table 2 presents the future projections of all of those organizations. It should be noted, however, that there are two factors that will determine how we can make use of those projections. First of all, some of the variables in the projections are of a more predictable nature while others are marked by ambiguity. Therefore, as we come up with future strategies, we must base them on more predictable variables. Secondly, determining the common points of projections will further strengthen our analysis.

The main variables that are used in this study can be listed as follows: economic growth, trade, demographics, population, the movement of capital, technology, natural resources, and organizations. Those variables which have the highest forecast power are growth, trade, demographics, and population. In contrast, it is much more difficult to forecast changes in technology, natural resources, and organizations.

Table: 2 Economic and Social Prospects

| WTO | Low Scenario | High Scenario |
|--------------------------|--|---|
| GDP Growth | Developing Countries : Annual average growth rates between 2012-2035 will be %3 | Developing Countries : Annual average growth rates between 2012-2035 will be %7 |
| | Developed Countries : Annual average growth rates between 2012-2035 will be %1,5 | Developed Countries : Annual average growth rates between 2012-2035 will be %2,25 |
| Exports | Developing Countries : Annual average growth rates between 2012-2035 will be less than %1 | Developing Countries : Annual average growth rates between 2012-2035 will be approximately %8,5 |
| | Developed Countries : Annual average growth rates between 2012-2035 will be over %2 | Developed Countries : Annual average growth rates between 2012-2035 will be over %4,5 |
| Demography | World population will be 8.3 billion by 2030 | |
| Energy/Natural Resources | Particularly in developing countries, energy prices affecting average annual GDP growth by up to a fifth of a per cent, for instance in China and India. High-energy prices can thus cost up to almost 4 per cent of GDP in 2035 in these countries. The opposite is true for main exporters, where lower prices could reduce annual growth by over onethird of a per cent, leading to a more than 7 per cent lower GDP in 2035. | |
| OECD | | |
| Growth | Global GDP growth is projected to slow from annual average rate of 3,6% between 2014-2030 to 2,7% from 2030-2060. | |
| Exports | Exports from non-OECD countries rising from 35% of world exports in 2012 to 56% in 2060. | |
| Climate change | Emissions of greenhouse gases are expected to double between 2010 and 2060. Such a development would affect economic output, possibly lowering global GDP by 1.5 % in 2060. | |
| Income Inequality | Earning inequalities may rise by more than 30 % in the OECD area and by roughly 20% in other G20 economies until 2060 | |
| Fiscal Discipline | Fiscal requirements to stabilise debt ratios at 60% levels in the context of rising pension, health and education spending pressures are estimated to be over 7% of GDP for the average OECD country by 2060. | |

| | | |
|---------------------------------|---|---|
| Current Account Balance | Global current account imbalances may rise in the medium term unless bold fiscal and structural reforms are pursued. | |
| World Bank | Gradual Scnerio | Rapid Scenario |
| Growth | The average per capita income of the developing world will rise from about 8 percent of that in high income countries in 2010 to about 16 percent by 2030. During the next two decades, average world economic growth will be 2.6 % per year. The contribution of developing countries to global growth will rise from 73 percent around 2015 to 87 percent by 2030. The developing world's growth will average an annual rate of 4.8 % | The gap between the developing and developed country groups is smaller: an average citizen of what is now a developing country will, by 2030, earn 19 percent of the income of an average citizen of a high-income country. During the next two decades, average world economic growth will be 3 % per year. Developing countries' contribution to global growth will reach 93% in 2030. The developing world's growth will average an annual rate of 5.5 % |
| Saving / Investment | As a result of growth, demography and financial development effects, developing countries average saving rate will decline to 32% in 2030 from a peak of 34% in 2014. While the saving rate for high income economies will fall from 20 percent to 16 percent over the same period. Global investment will expand at a rate in line with overall output, amounting to \$26.7 trillion (in 2010 dollars, or more than a quarter of the global output of \$105 trillion) by 2030. | Global saving will be \$27 trillion. In this rapid convergence scenario, aggregate investment in developing countries will also rise by \$2.7 trillion (in 2010 dollars) compared with the gradual convergence scenario, while investment in high-income countries will fall by about \$1 trillion relative to the gradual convergence outcome. Overall, the global investment rate rises slightly, although it remains around 23%. |
| Population | The global population will be 8,5 billion by 2030. The shares of regions in the global population will be high income countries (%15), East Asia and Pasific (%25), South Asia (%26), Sub-Saharan Africa (%14). | |
| UN | | |
| Population | The global population will reach 8.4 billion by 2030. Most densely populated regions will be Asia (%58) and Africa (%19) | |
| Ageing | In 2030 Europe will be the oldest world region. For high level fertility, median age will be Europe (43), Northern America (38), Ocenia (33), Latin America and Caribbean (32), Asia (33), Africa (20). For low level fertility Europe (46), Northern America (42), Latin America and Caribbean (36), Ocenia (36), Asia (37), Africa (22) | |
| Level of urbanization by region | In 2030, Northern America (% 84), Europe(%77), Asia (%56), Latin America and Caribbean (%83), Africa (%48), Ocenia (%71) | |
| Working age and Labor Force | In 2030, total dependency ratio will be higher in every case in more developed regions. For high level fertility, Europe (%66), North America (%70), Ocenia (%66,3), Asia (%54). For low level fertility, Europe (%54), Northern America (%57), Ocenia (%53), Asia (%41) | |
| UNCTAD | Scenario A | Scenario B |
| Growth | World GDP growth rate is expected higher than 6%. The regional rates are as Developed economies (%4), Africa (%8), East, South and South East Asia exc. China and India (%6) by 2030. | World GDP growth rate is expected higher than 4%. The regional rates are as Developed economies (%2), Africa (%4.5), East, South and South East Asia exc. China and India (%4) by 2030. |

| | | |
|------------------------------------|---|--|
| Private Consumption and Investment | World average annual growth of private consumption between 2013 and 2030 is expected to be 5.5%. For developed economies this rate is expected to be 3.2%, while highest records are expected for Asia region 6% for the same period. World average annual growth of private investment between 2013 and 2030 is expected to be 5.2%, in Asia this rate is expected 6.2%. | World average annual growth of private consumption between 2013 and 2030 is expected to be 4%. For developed economies this rate is expected to be 2% for the same period. World average annual growth of private investment between 2013 and 2030 is expected to be 3.9%, in Asia this rate is expected 4.3%. |
|------------------------------------|---|--|

Source: Organized by author

When we look at the figures of economic growth in terms of those variables which have higher forecast power, it appears that developing countries will continue to grow at a rapid rate and it is likely that countries in Asia will catch up with their developed counterparts. The same holds true for trade as well. Figures for exports suggest that developing countries' share of world exports will surpass that of developed countries. Likewise, the figures for growth and trade point to a situation in which prosperity and economic power is shifting from the west to the east.³⁰

It is notable that analyses of future projections reveal that much emphasis has been placed on changes in populations and demographics. Estimations suggest that by the year 2030, the world population will be approximately 8.3 billion. The key issues at hand, therefore, are population distribution and demographic characteristics.³¹ Countries which are likely to have the greatest population growth are India, China, sub-Saharan Africa and Latin America. While the populations of Europe and Japan are shrinking, those of North America and Australia appear to be remaining stable thanks to immigration.

The demographic shifts that are likely to be heavily impacted by global economic developments are age, gender, education levels, income levels, and urbanization. The age forecasts of the UN suggest that Europe will have the highest age in 2030, at an average of 44.7, while Africa will have the youngest population, with an average age of 21.3.³² Based on the figures of the UN, it can be surmised that countries with ageing populations will be confronted with major problems in terms of economic growth and the paying out of retirement funds. A young population carries potential in terms of labor force, but production needs more than a youthful population. The determining element in this regard is education; countries that have younger and better educated populations have what it takes to grow more quickly.

A look at the recent past reveals that the determining factor behind the economic growth of China and India can be traced to the countries' young populations. That trend will begin to reverse, however, around the year 2025. China's population in particular is rapidly ageing and that will be reflected in figures relating to consumption and savings. In contrast to the trend of the last ten years, figures of growth will take a downturn. Another issue pertaining to the ageing of the population is the segment of society that is of working age. The working age population of China will reach its peak before the year 2020, and from that point forward it will rapidly decline. India, however, presents a different case altogether. The working age population of India will continue to increase until the year 2050, and hence India will undergo a longer period of growth than China.³³

The phenomenon of urbanization, which is prompted by industrialization, will accelerate in the upcoming years. By 2030, over 50% of the population in all regions of the world will live in urban areas, and Asia and Africa will witness the most rapid urbanization.³⁴ Infrastructure investments relating to urbanization, consumption, and mechanisms of need for natural resources have a direct impact on national economies. For that reason, urbanization is a primary driver for global developments in the economy and trade.

Aside from these issues, a central demographic change that is indicative of global developments is the rapid growth of the middle income class. In 2009, the middle class population of the world was approximately 1.8 billion; it is expected that by 2020 that figure will increase to roughly 3.2 billion and then to 4.9 billion in 2030. This would suggest that by the year 2030

nearly half of the world's population will be in the middle income class. Projections suggest that the rapid increase of the middle income class will occur particularly in the Asia-Pacific region. This situation will bring about fertile ground for two main outcomes: an increase in consumption and an acceleration of movements for democracy, both of which involve changes that are closely related to geopolitical transformations and the world economy and trade.

The variables that have been discussed thus far are of the more forecastable type. However, it is also necessary to analyze the impacts of less predictable factors on global developments as they have played important roles in the past. One of the foremost of these is the movement of capital. Regardless of the extent to which projections indicate that capital is rapidly flowing from developed to developing countries, there will be no change in the fact that the majority of capital will ultimately remain in developed countries. Another important point is the deepening of financial markets around the world and the consequent positive reflections of this on global markets. The last issue at hand is capital stock per worker which is a central aspect of efficiency. However, it is projected that even China, which in this regard is expected to show the most rapid progress, has only managed to secure a quarter of what the US has achieved.³⁵ In addition, increases in the capita stock per worker may have impacts on wages. In turn, wage disparities may decrease, thus reducing the competitiveness of developing countries.³⁶

Another important variable in projections is an increase in the need for natural resources. With increases in the population and production, food, water, and energy become primary areas of concern, as do their management and procurement. The need for food and water is becoming increasingly important, especially in light of the fact that around the world the majority of people are settling in greater concentrations in cities and hence the population density of rural areas is decreasing. Nonetheless, technological developments have increased productivity, making it possible to meet the needs of the majority of people. Increases in the prices of food, however, have led to volatility in world markets, and this can be dangerously exacerbated by social conflicts.

Energy is one of the most important needs in terms of natural resources, and it is one of the primary factors affecting mid- and long-term global developments as regards decreases in supply and the discovery of new sources. In the last ten years, there has been a dramatic increase in demand for energy and as a consequence there has been greater impetus to find new sources of energy. At the same time, the fact that the use of energy resources is an underlying factor in climate change has opened the way for technologies that will not harm the environment. An increase in investments in the field of renewable energy and, more importantly, the discovery of shale gas and oil in the US have arisen as parallel developments. This shift has led to the emergence of new actors and prompted those that had previously been involved in energy to reconsider their position in the field. In the next fifteen years, it is likely that the US, China, Russia and Central Asia will have various impacts on global markets through new technologies and the discovery of new sources of energy. Projections suggest that by the year 2030, the US will be an exporter of energy.³⁷ Because of the existence of inexpensive energy, the US has the potential to become a center of investments and assume the position of a competitor in energy-intensive fields of industry.

Over the next fifteen years, technological developments will drive forward digitalization and facilitate access to data, and as the result of cost reductions, economies and companies will become more efficient. It is noteworthy that by 2030 the US and EU will likely increase total factor productivity within a range of 1%-2%, while in China the existing high level of total factor productivity will decrease. Although China and India have shown progress as regards TFP, they still lag behind the US, EU, and Japan.

The effects of potential changes in the economy, populations, demographics, natural resources, the movement of capital, and technology will be reflected on international organizations. As economic clout and prosperity shift from the west to the east, international organizations such as the IMF, World Bank, World Trade Organization, and NATO, all of which were founded upon the initiative of countries in the west, will likely witness changes in both their

management structure and efficiency.³⁸ On the other hand, it is expected that the organizations and institutions of developing countries, the structures of which have already started coming into existence, will come into prominence.

What Are Turkey's Alternatives?

In the previous section, recent developments in global economics, trade, and politics were discussed and an evaluation was made of variables which exhibit high potential to have mid- and long-term effects. As emphasized earlier, Turkey cannot draw up plans or take action independently of those developments. Therefore, the advantages and disadvantages of plans of action must be clearly stipulated and the available options must be analyzed in the formulation of strategies that will bring about the realization of Turkey's mid- and long-term goals. This section will examine the alternatives that are available to Turkey in light of the global developments that have been occurring.

It is possible for Turkey to achieve its goal of joining the ranks of high-income countries if it can maintain an environment of stability and produce higher figures of growth. Thus, there needs to be a revision of the existing model of growth. The Turkish economy is now integrated into the world economy, and in such a setting of intense economic interdependence, Turkey cannot simply sit back and wait to arrive at its goal. So, as Turkey strives to achieve its aims, with which countries and regions should it establish close relationships and connections? What are the alternatives?

The key elements that will shape the available options are developments in the economy, trade, and politics. For this reason, utilizing the concept of the growth pole, which was first used in micro analyses and later adapted to macro analyses, will bolster the study at hand. As used here, the term refers to how the growth of one country spreads out and spurs on the growth of others.³⁹ The mechanism that facilitates networks and externalities which trigger growth is trade. It has been well-established that trade partners are crucial in the economic growth of countries. For that reason, analyses should be carried out as regards both main trade partners and advancements in trade with countries and regions which are recognized as global growth poles.

After World War II, the US emerged as a global leader in terms of economic strength, which in turn translated into political power. An indicator of this was the high share of world production and trade held by the US, Japan and countries in Europe took advantage of economic externalities through their economic and trade connections with the US and began increasing their own share of world production and trade. As a result, they took on the role of growth poles in their respective regions. However, as discussed earlier, the 21st century has witnessed rapid shifts in the balance of the economy. This began with the shift of power and prosperity from the west to the east, and the economic crisis of 2008 intensified this process. The conditions of today are embedded in a world that is multipolar in terms of the economy, trade, and politics.⁴⁰ As the share of world production and trade held by Western economies and Japan dwindles, the share held by developing countries, especially in Asia, increases, leading to a shift in the balance of power. In the past, the US, EU, and Japan represented a three-pronged growth pole, but China has now supplanted Japan in that equation. Furthermore, other countries have emerged which could become growth poles in the future.

At present, the options for Turkey regarding potential growth poles can be enumerated as the US, EU, Russia, and China. The criteria used to determine these options is the volume of trade Turkey carries out with those countries. As regards the determining role to be played by Asian countries, especially China, both historical and geographical conditions have placed limitations on Turkey's relations with Asian countries.

The figures in Table 3 indicate that from the year 2000 onwards Turkey carried out most of its import and export trade with EU countries. In light of the data pertaining to Turkey's foreign trade, two main conclusions can be drawn. First, regardless of any downward trends in

Turkey's foreign trade, the share of EU countries in such trade is quite high. Second, the role played by Russia and China in Turkey's trade is increasing.

Trade relations between Turkey and the EU have not remained limited to imports and exports, as indicated by increases in the movement of capital. After the implementation of economic reforms in 2002, trust in the Turkish economy increased and hence Turkey began attracting more and more investments. Turkey's strong trade relations with the EU have had an impact on the growth of the Turkish economy. In short, the EU has become a growth pole for Turkey, but there are doubts about whether this can be maintained in the mid- and long-term.

Table 3: Turkey Exports and Imports by Country Group (Share in Total %)

| Exports | | | | | Imports | | | | |
|----------------|------|------|------|------|----------------|------|------|------|------|
| Country | 2000 | 2005 | 2010 | 2014 | Country | 2000 | 2005 | 2010 | 2014 |
| Germany | 18,6 | 12,9 | 10,1 | 9,7 | Russia | 7,1 | 11,1 | 11,6 | 10,5 |
| Iraq | - | 3,7 | 5,3 | 6,8 | China | 2,5 | 5,9 | 9,3 | 10,3 |
| United Kingdom | 7,3 | 8,1 | 6,4 | 6,3 | Germany | 13,2 | 11,7 | 9,5 | 9,2 |
| Russia | 2,3 | 3,2 | 4,1 | 3,8 | Italy | 7,9 | 6,5 | 5,5 | 5,0 |
| Italy | 6,4 | 7,6 | 5,7 | 4,5 | USA | 7,2 | 4,6 | 6,6 | 5,3 |
| France | 5,9 | 5,2 | 5,3 | 4,1 | Iran | 1,5 | 3,0 | 4,1 | 4,1 |
| USA | 11,3 | 6,7 | 3,3 | 3,9 | Switzerland | 1,6 | 3,5 | 1,7 | 2,0 |
| UAE | 1,1 | 2,3 | 2,9 | 3,0 | France | 6,5 | 5,0 | 4,4 | 3,3 |
| Spain | 2,6 | 4,1 | 3,1 | 3,0 | Spain | 3,1 | 3,0 | 2,6 | 2,5 |
| Iran | 0,8 | 1,2 | 2,7 | 2,4 | India | 0,8 | 1,1 | 1,8 | 2,9 |
| China | 0,3 | 0,7 | 2,0 | 1,8 | United Kingdom | 5,0 | 4,0 | 2,5 | 2,4 |
| Netherlands | 3,1 | 3,4 | 2,2 | 2,2 | South Korea | 2,2 | 3,0 | 2,6 | 3,1 |
| Egypt | 1,4 | 0,9 | 2,0 | 2,1 | UAE | 0,1 | 0,2 | 0,4 | 1,3 |
| Saudi Arabia | 1,4 | 1,3 | 1,9 | 1,9 | Ukraine | 1,8 | 2,3 | 2,1 | 1,8 |
| Azerbaijan | 0,8 | 0,7 | 1,4 | 1,8 | Greece | 0,8 | 0,6 | 0,8 | 1,7 |

Source: Turkish Statistical Institute

It is clear that despite the precautions taken by the EU following the crisis of 2008, the European economy still hasn't recovered. There are concerns because even in Germany, the strongest economy in the EU, figures for growth have plummeted, and these concerns have been compounded by the fact that countries such as Italy, Spain, and Greece, which have been hounded by deficit problems, unemployment, and government debt, have not initiated structural reforms.⁴¹ All mid- and long-term projections indicate that the EU's world share in production and trade will rapidly decline. A major variable in this regard is the sweeping decrease in the populations of EU countries, as it will lead to a weakening of the labor market. In addition, the ageing of the population will have a negative impact on savings and investments, and at the same time it will place even greater strain on the public budget due to the payout of retirement funds. As the EU struggles with its own increasingly troubling problems, questions arise as to whether or not it can serve as a growth pole for Turkey.

Table 3 indicates that the volume of trade between the US and Turkey is not particularly worthy of mention, and it is clear that the relations between the two countries are focused more on the level of geopolitical issues. It is likely, however, that this situation will change in the future. Underlying issues that could precipitate this change include variables such as access to natural resources (including deposits of shale gas and oil recently discovered in the US), commodity prices, and competitiveness, as well as the effects of shifts in the global balance. In recent years, increases in the production of shale gas and oil have greatly reduced the amount of energy that the US imports, and it is expected that in the future the US will become an exporter of energy. This will have various impacts on global markets. The most prominent of the changes that could ensue would be the appreciation of the dollar, fluctuations in the price of energy, and increases in competitiveness made possible by the use of inexpensive sources of energy.⁴² Regardless of the uncertainty surrounding the capacity of new sources of energy and changes in technologies, projections suggest that the US will bounce back from the crisis of 2008 and quickly reassert its global clout. In this way, there are two alternatives for the US. This preeminence in the field of energy could either be used to stabilize global energy markets or be directed towards the self-

interests of the country. In general, the statements and assessments of top-level administrators in the US are suggestive of an ambiguous political direction. On the one hand, there is talk of a politics of ensuring that the new sources will be made available to the world as a whole with the aim of stabilizing energy markets, but on the other hand they may be used just to support US allies.⁴³

US trade policy, which we could say has entered a new phase, is another factor that has the potential to change the global balance. The Transatlantic Trade and Investment Partnership (TTIP) and the Trans-Pacific Partnership (TPP) are mega-regional agreements which could have the power to affect developments in global trade. In 2013, the EU commission recommended the launching of negotiations for the TTIP, the goal of which is increase transatlantic trade and investments and at the same time harmonize North American and European industry standards.⁴⁴ However, the talks have bogged down and progress has been slow. The agreement is clearly a strategic move for the US because the EU shows no sign of becoming a growing, developing market in the near future; following the crisis of 2008, the EU has experienced economic fluctuations and been unable to correct its macroeconomic indicators. The EU has also been plagued by geopolitical instability, as evidenced by the standoff with Russia over Ukraine. That crisis, together with the EU's reliance on Russian natural gas and oil, has further complicated matters. This trade agreement is a new means for the US to support Europe, just as the US introduced support programs and precautionary measures intended to ensure the development of European countries following World War II.⁴⁵ The US has placed importance on this strategy for the reason that it will protect the place of western democracy in the global balance of power and at the same time ensure the perpetuation of global institutions.

Talks concerning the Trans-Pacific Partnership gained pace in 2009 as 11 Asian countries joined in, and they are quickly moving ahead. The timing of the agreement, however, is notable, as are the members who were selected for membership. Discussions concerning the agreement started in parallel with the discovery of new sources of energy in the US, and China, which is the most important actor in Asia, was not included in the proposed list of members. If the agreement goes into effect, the US will acquire access to additional trade and investments opportunities with Asian countries, which represent one of the largest markets in existence. Furthermore, the low cost of energy in the US will boost its relative supremacy. Consumption, which is expected to increase based on the growth in populations and burgeoning the middle income class, will drive up demand for US products. Thanks to this market, the US will acquire greater economic strength and it will take on an even greater role as a global actor. Shifting our focus towards Asia, we can see that China has had a powerful impact on the development of other Asian countries and this has driven up production. The fact that China is a growth pole in the region has, in fact, further increased its own productiveness. With the signing of the TPP, the US will have the potential to push China out as the regional growth pole and take on that role for itself. In the process, the isolation of China will further facilitate the position of the US as a global power. However, factors such as China's increasing military might and a potentially nuclear-armed North Korea will exacerbate tensions in the region, creating an uncomfortable position for the US.

Turkey's relations with US policies are also tied into the Transatlantic agreement. Regardless of the fact that the benefits of the agreement will primarily be reaped by countries in the EU, Turkey will also be able to take advantage of them via the EU-Turkey Customs Union. Another option would be the acceleration of Turkey's accession talks with the EU and the full realization of membership, which could bring about major gains for Turkey. In contrast to the EU's faltering financial situation, the Turkish economy is quite dynamic. For that reason, the shift of trade and investment opportunities to Turkey will make it easier for the Turkish government to reach its goals.

Another alternative for Turkey is Russia, which has been rapidly expanding trade and investment partnerships in the region. As indicated in Table 3, in the last 15 years there has been a steady increase in imports and exports between Turkey and Russia. The fact that Russia has been accorded a place among BRICS countries and that in recent times such countries have begun dominating over their respective regions as growth poles will have an impact on Turkey's

policies. Turkish-Russian relations are moving forward based on economic ties and the trade in energy.⁴⁶ On the other hand, Turkey's foreign policy has also been a factor in the unfolding of relations between the two countries. During the Arab Spring, Turkey's new foreign policy of "zero problems with neighbors" led to tensions with Russia. As Turkey attempted to take on a leading role in the region, problems quickly emerged as the differing policies of the US, Russia, Turkey and Iran came into conflict. Within the framework of Turkey's strategic partnership with the US, Turkey took up the initiative to help spread democracy in Arab countries and engage in peace-making efforts in the region. The most pressing matter at hand, however, was Turkey's planned project to pipe oil and natural gas to Europe from the Caucasus and Central Asia. If realized, that project has the potential to unseat Russia as the hegemonic power controlling the flow of energy in the region. Another problematic issue for Russia was that Turkey has linguistic, historical, and cultural ties to the Caucasus and countries in Central Asia, and further complicating matters for Russia is the fact that the majority of the population in the region is Muslim. As a result, it is likely that there will be economic and geopolitical conflicts of interest between Turkey and Russia. Furthermore, Turkey's membership in NATO is another factor driving a wedge between the two countries.

In order for Turkey to achieve its economic goals, the most clear-cut alternatives that could be taken into consideration are the EU, US, and Russia. However, some researchers and academicians have looked into the effects of the Arab Spring and Turkey's recent foreign policy which is increasingly based on taking on the role of a regional leader in the Middle East. Turkey has been held up as a role model for other countries in the Middle East because it is a predominantly Muslim country with a secular system of governance, and in the last ten years it has chalked up economic gains. It has been suggested that Turkey's role in the region as a leader would be rational as peace-making efforts continue in the Middle East and attempts are made to bring about more democratic understandings of governance.⁴⁷ But on this point, some matters need to be taken into careful consideration. One of the most pressing issues at hand is the existence of sectarian conflicts and ongoing terrorism. Turkey's policy of "zero problems with neighbors," which has further secured economic and trade relations with some countries in the region, made it possible in some cases to strengthen diplomatic ties.⁴⁸ However, the Arab Spring destabilized the region and Turkey consequently suffered in the process, especially as regards the economy and trade. There are numerous obstacles to stability in the Middle East, and in the long term those will make it unfeasible for Turkey to secure economic advantages in the region.

A Road Map for Turkey's Trade Policies

The future projections and scenarios of international organizations also include suggestions about policies, the most prominent of which concern growth based on proactive policies and domestic dynamics.⁴⁹ However, such approaches may not be appropriate for Turkey. Through a shift in its trade policies, Turkey has the potential to take on a new position of increased production, but this will only be possible through active foreign trade policies. Growth simply based on domestic demand will not be enough to transform Turkey's economy. Indeed, over the past 50 years, low and fragile growth performance of Turkish economy can be a satisfactory evidence.

It would not be an exaggeration to say that the last 10 to 15 years of Turkey's macroeconomic performance are confidence-inspiring. However, the upcoming years will be marked by Turkey's foreseeable advantages and disadvantages.

The most important gains that Turkey has made in terms of trade, economic growth, and increases in prosperity pertain to its relations with the EU. After the signing of the Customs Union in 1996, sweeping changes occurred in Turkey's structures of production and trade.⁵⁰ Additionally, Turkey was brought into processes of learning by doing as regards exports through increases in capital flows. The majority of import trade is currently carried out with the EU, and this has facilitated transfers of technology. The economy, which has become increasingly competitive, has at the same time caught up with world standards of quality, and this in turn has increased confidence in the Turkish economy. At this point the main strategy is, as mentioned

before, to become a member of the EU and also a partner of Transatlantic Trade and Investment Partnership.

Turkey has certain advantages that have the potential to impact products geared towards industry, processes of production, and the variety of products pertaining to foreign trade in a manner that parallels global developments. Among the foremost of these are the characteristics of Turkey's population and demographics, projections for which can be seen in Table 4. On this point, two sets of data are significant. Firstly, the average age in Turkey is much lower than in Europe and the US, and projections indicate that that this trend will continue into the future. Secondly, the working-age population (15-64 years of age) is quite high. These both demonstrate the advantages of labor power in the Turkish economy. However, an uneducated labor force is an unskilled labor force, and around the world unskilled labor has the highest rates of unemployment. Turkey has been making major strides forward in education, and continuing efforts are underway to intensify the usage of information technologies. This is the most important step in ensuring that Turkey's existing labor force is better equipped and hence able to realize its potential. As a result, the second strategy is increasing efficiency of labor force.

Table 4: Turkey Population and Demographic Data

| | 2010 | 2015 | 2020 | 2025 | 2030 |
|---|------|------|------|------|------|
| Total Population (million) | 72,3 | 78,6 | 82,2 | 84,8 | 87,7 |
| Median Age | 28,2 | 29,8 | 31,6 | 33,5 | 35,2 |
| Total dependency Ratio (%) | 51 | 48,5 | 47,4 | 47,4 | 48,2 |
| Annual rate of population change (%) | 1,3 | 1,2 | 0,9 | 0,8 | 0,7 |
| Percentage of Population Aged 15-64 (%) | 66,3 | 67,3 | 67,8 | 67,8 | 67,5 |

Source: UN, World Population Prospects, 2015 Revision

Infrastructure investments represent another advantage for Turkey. Such investments, which are primarily carried out in the form of public investments, are the most important factor in the development of trade activities. According to the logistics performance index prepared by the World Bank, in 2007 Turkey was ranked 34th and by 2010 had moved up to 30th.⁵¹ Particularly notable in the index calculations is infrastructure quality as pertains to transportation, trade and customs. In this regard, Turkey has ranked ahead of a number of EU countries. So, the third strategy is to transform and utilize the comparative advantages as a consequence of infrastructure quality leading new international trade flows.

The biggest problem that Turkey has faced regarding economic growth and trade has been insufficient capital investments. Particularly in terms of foreign direct investments, developing countries have not been able to realize their potential, as infrastructure and labor productivity have remained in the background. In 2013, the ratio of injections of foreign direct investments to GDP in developing countries was 2.8%, but in Turkey that figure was 1.5%, which is paltry in comparison to countries in Asia. It should also be noted that in terms of both stock and flow, increases in the usage of FDI impact various dimensions of production and trade. However, insufficient savings are the primary reason behind low levels of physical investments. In Turkey, the average ratio of savings is 13%, which is far behind that of Asian countries at nearly 30%, and it is striking that patterns of saving in Asia are spread across all income groups. Increasing savings to desired levels will on the one hand help boost investments and on the other hand facilitate solving the problem of the current account deficit.

In the last 15 years, Turkey has achieved high figures of growth, but the problem of unemployment has not been solved. As of 2014, unemployment stood at approximately 9-10%, which does not bode well for the future.⁵² As the population grows and on average becomes younger with each passing year, more employment opportunities need to be created.

In the last 15 years, the figures for Turkey's foreign trade have risen dramatically. In 2000, merchandise exports stood at 30.9 billion dollars, and that figure rose to 168.9 billion in

2014. Imports rose from 52.8 billion dollars in 2000 to 232.5 billion in 2014. By 2014, the total volume of foreign trade had risen to 401.4 billion dollars. In 2000, the foreign trade openness ratio was 31%, and by 2014 that had risen to 50%.⁵³

In terms of export structure, the export of agricultural and mining products remained limited after the year 2000, while there was a notable increase in manufactured products, especially intermediate goods and investment goods.⁵⁴ The average rate of the increase in manufacturing exports for the years 2000-2014 was 13.8%, while that of investment goods was 17.8%. If we take a closer look at distribution in the manufacturing industry, we see that the share of manufactured goods in mid-low and mid-high groups has increased.⁵⁵ This situation points to an increase in both technology-intensive production labor efficiency. However, in comparison to other developing countries, there have not been sufficient developments in that regard.

There are two notable issues in terms of imports. Firstly, the large amount of imported intermediary goods point to a state of affairs in which exports are heavily reliant on imports. Secondly, Turkey imports much of its energy. As a result, Turkey's exports are susceptible to global developments. In particular, volatility in the price of energy has the potential to negatively impact the balance of foreign trade and the current deficit. At the same time, changes in foreign trade have an impact on exports vis-a-vis imports.

As mentioned in previous sections of this study, the rising trend in the production and trade of services at the global scale is following a parallel path in Turkey. Between 2000 and 2014, the average annual increase in the export of services was 8.4%.⁵⁶ The export of services is twice that of their import. If we look at the sub-sectors, we can see that the primary services are those related to transport, construction, tourism, insurance, and finance.⁵⁷ For the mid- and long-term projections, the main factor driving international trade is middle income group and its consumption trends. In this vein, Turkey's trade policies should be centered on the key strategy supporting and subsidizing important service sectors. All in all, Turkey needs to create new inclusive political and economic institutions to adopt all trade policy strategies.⁵⁸

Conclusion

Turkey, which has become increasingly bound up with global developments in the economy, trade, and politics, has set itself the goal of joining the ranks of high-income countries by the year 2023. In order to achieve that aim, a trend of growth based on efficiency, effectiveness, and stability is needed. That's why this study has emphasized the fact that Turkey's model of growth needs to be changed and argued that trade and trade policies must be the triggering elements of that model.

This study offers up two main conclusions which in turn can be used to formulate suggestions for policy. First, an active worldwide policy of trade needs to be implemented in a way that will maximize Turkey's interests in the economy, trade, and politics. Mid- to long-term projections suggest that conflicts of interest will be on the rise at the global level. The continuation of terrorism in the Middle East and tensions in Turkey's relations with Russia and Iran will demand that Turkey expend even greater efforts in defending its economic interests in the region. At the same time, Turkey must closely follow the EU's deteriorating role as a global actor, as it may be able to use its dynamic structure and increasing efficiency in production to turn the crisis in Europe into an advantage. Beyond that, there are two actors that will play a determining role in how the future unfolds: China and the US. It is predicted that China will continue to be the "world's factory." At the same time, increases in income and the growth of the middle income class are transforming China into a large market and increasing its influence as a global actor. Developments with resounding consequences are occurring in the US as well, especially as regards the discovery of shale gas and oil; extraction of those natural resources are transforming the US into an attractive center for investments in the mid- and long-term, increasing its competitiveness, and may well lead to the reinstatement of its role as an influential global actor. Additionally, mega-regional agreements, including the TTIP and TPP, which the US

is pushing as a means to limit China's economic and political power, will have various impacts around the world. So if Turkey is to achieve its goals for 2023, there are some key issues that must be addressed: Turkey must boost its active economic and trade relations and networks, take on a more prominent role in the global supply chain, and increase technology-based production.

The second conclusion is that Turkey needs to change its export structure, and it is crucial that there be strategic public support in this regard. In that process, Turkey's dynamic structure should be used to increase its share in world trade in the mid- and long-term. A development that will have resounding consequences for the future is the large-scale worldwide expansion of the middle income class, as this will result in the expansion of global markets. That's why it is imperative that Turkey use its advantages to the fullest and play its cards right. Production for export should focus on products geared toward high and mid-high markets. Furthermore, Turkey should respond to global increases in demand for consumer goods with products that have high added value. Additionally, the services sector is key because it has the potential to set Turkey apart in the global market. In recent years, Turkey has gained much experience and increased its efficiency in transport, construction, insurance and finance, and policies should be developed that will encourage production and trade in the sector of services. Measures should be taken to meet the need for qualified personnel and increase the use of advanced technologies. That will make it possible for Turkey to offer services with high added value and have a greater share in the field of services in the global supply chain.

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Appendix I

Table 1: FDI Flows and Stocks

| FDI Stocks (percentage of total world FDI stocks) | | | | | FDI Stocks (percentage of GDP) | | | | |
|--|------|------|------|------|---------------------------------|------|------|------|------|
| | 2000 | 2005 | 2010 | 2014 | | 2000 | 2005 | 2010 | 2014 |
| Developing economies | 23,6 | 24,0 | 31,1 | 33,7 | Developing economies | 24,2 | 24,7 | 30,3 | 31,1 |
| Transition economies | 0,8 | 2,3 | 3,7 | 2,9 | Transition economies | 15,3 | 24,3 | 34,6 | 27,7 |
| Developed economies | 75,6 | 73,6 | 65,2 | 63,3 | Developed economies | 21,3 | 23,1 | 30,6 | 34,2 |
| EU28 (European Union) | 31,3 | 38,7 | 36,3 | 31,5 | EU28 (European Union) | 24,4 | 29,7 | 41,9 | 41,9 |
| G8 | 57,6 | 49,0 | 38,2 | 41,0 | G8 | 18,4 | 18,6 | 21,8 | 26,9 |
| G20 | 67,8 | 61,6 | 55,0 | 57,6 | G20 | 18,1 | 18,2 | 21,4 | 23,9 |
| FDI Inflows (percentage of total world FDI stocks) | | | | | FDI Inflows (percentage of GDP) | | | | |
| | 2000 | 2005 | 2010 | 2014 | | 2000 | 2005 | 2010 | 2014 |
| Developing economies | 17,0 | 35,6 | 43,7 | 55,5 | Developing economies | 3,5 | 3,0 | 3,0 | 2,6 |
| Transition economies | 0,4 | 3,4 | 5,6 | 3,9 | Transition economies | 1,5 | 3,0 | 3,6 | 1,8 |
| Developed economies | 82,5 | 61,0 | 50,7 | 40,6 | Developed economies | 4,4 | 1,6 | 1,6 | 1,1 |
| EU28 (European Union) | 50,4 | 48,5 | 27 | 21 | EU28 (European Union) | 7,8 | 3,1 | 2,1 | 1,4 |
| G8 | 55,2 | 47,1 | 31,3 | 22 | G8 | 3,4 | 1,5 | 1,2 | 0,7 |
| G20 | 64,7 | 63 | 56,1 | 51,7 | G20 | 3,3 | 1,6 | 1,5 | 1,1 |

Source: UNCTADSTAT, Foreign Direct Investment Inward Flows and Stock, <http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx>

Table 2 Composition of Turkey's Foreign Trade

| Composition of Exports | | | |
|------------------------|---------------|----------------------|-------------------|
| Year | Agriculture | Mining and quarrying | Manufacturing |
| 2000 | 6,1% | 1,4% | 91,9% |
| 2005 | 4,7% | 1,1% | 93,7% |
| 2010 | 4,5% | 2,4% | 92,6% |
| 2014 | 3,9% | 2,2% | 93,5% |
| Year | Capital goods | Intermediate goods | Consumption goods |
| 2000 | 7,8% | 41,6% | 50,4% |
| 2005 | 10,9% | 41,2% | 47,4% |
| 2010 | 10,3% | 49,5% | 39,8% |
| 2014 | 10,1% | 48,1% | 41,1% |
| Composition of Imports | | | |
| Year | Agriculture | Mining and quarrying | Manufacturing |
| 2000 | 3,9% | 13,0% | 81,1% |
| 2005 | 2,4% | 14,0% | 80,7% |
| 2010 | 3,5% | 14,0% | 78,3% |
| 2014 | 3,5% | 15,4% | 77,4% |
| Year | Capital goods | Intermediate goods | Consumption goods |
| 2000 | 20,9% | 66,1% | 12,7% |
| 2005 | 17,4% | 70,1% | 12,0% |
| 2010 | 15,5% | 70,8% | 13,3% |
| 2014 | 14,6% | 73,4% | 11,9% |

Source: Turkish Statistical Institute

Appendix II

Table 3: Turkey Economic Indicators (2000-2014)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|-------------------------------------|------|------|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| CURRENT ACCOUNT /GDP (%) | -3,7 | 1,9 | -0,3 | -2,5 | -3,6 | -4,4 | -6 | -5,8 | -5,5 | -2 | -6,2 | -9,7 | -6,2 | -7,9 | -5,8 |
| EXPORTS OF GOODS (Billion \$) | 30,9 | 34,8 | 40,7 | 52,5 | 68,8 | 78,5 | 93,8 | 115,4 | 140,9 | 109,7 | 121,0 | 142,4 | 161,9 | 161,8 | 168,9 |
| IMPORTS OF GOODS (Billion \$) | 52,9 | 38,1 | 47,1 | 65,9 | 91,3 | 111,4 | 134,7 | 162,2 | 193,8 | 134,5 | 177,3 | 231,6 | 227,3 | 241,7 | 232,5 |
| GDP (Billion \$) | 266 | 196 | 232 | 303 | 392 | 482 | 529 | 646 | 730 | 614 | 731 | 774 | 788 | 823 | 798 |
| GDP PER CAPITA (Current prices, \$) | 4149 | 3008 | 3521 | 4538 | 5802 | 7053 | 7638 | 9213 | 10282 | 8528 | 10001 | 10437 | 10490 | 10821 | 10381 |
| GROWTH RATE (%) | 6,8 | -5,7 | 6,2 | 5,3 | 9,4 | 8,4 | 6,9 | 4,7 | 0,7 | -4,8 | 9,2 | 8,8 | 2,1 | 4,2 | 2,9 |
| UNEMPLOYMENT RATE (%) | 6,5 | 8,4 | 10,3 | 10,5 | 10,8 | 10,6 | 10,2 | 10,3 | 11 | 14 | 11,9 | 9,8 | 9,2 | 9,7 | 9,9 |

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Source: Turkish Statistical Institute

Table 4: Manufacturing Goods by Value Added (%)

| | 2000 | 2005 | 2010 | 2013 |
|----------|-------|-------|-------|-------|
| Low | 47,1% | 36,2% | 30,2% | 32,1% |
| Mid-low | 18,4% | 23,5% | 28,5% | 27,8% |
| Mid-high | 22,4% | 29,3% | 31,7% | 31,3% |
| High | 4,0% | 4,7% | 2,2% | 2,0% |

Source: Turkish Statistical Institute

Table 5 Turkey Export Annual Growth by Composition of Goods (%)

| Year | Manufacturing | Capital goods | Intermediate goods |
|---------|---------------|---------------|--------------------|
| 2000 | 6,6 | 19,5 | 6,5 |
| 2001 | 13,2 | 22,2 | 15,6 |
| 2002 | 18,6 | 5,0 | 9,6 |
| 2003 | 41,1 | 55,7 | 26,2 |
| 2004 | 31,5 | 50,3 | 40,3 |
| 2005 | 9,1 | 22,5 | 16,7 |
| 2006 | 16,2 | 17,8 | 24,8 |
| 2007 | 25,3 | 46,0 | 30,7 |
| 2008 | 23,3 | 21,6 | 37,1 |
| 2009 | -22,6 | -33,5 | -26,6 |
| 2010 | 10,2 | 5,9 | 13,4 |
| 2011 | 17,8 | 20,6 | 20,5 |
| 2012 | 13,7 | -3,2 | 21,7 |
| 2013 | -1,3 | 13,5 | -9,5 |
| 2014 | 4,0 | 3,3 | 0,4 |
| Average | 13,8 | 17,8 | 15,2 |

Source: Turkish Statistical Institute

Table:6 Composition of Service Exports (%)

| Year | Transportation | Tourism | Construction | Finance and Insurance |
|------|----------------|---------|--------------|-----------------------|
| 2000 | 15% | 39% | 5% | 2% |
| 2001 | 19% | 53% | 4% | 2% |
| 2002 | 20% | 60% | 6% | 2% |
| 2003 | 12% | 74% | 4% | 2% |
| 2004 | 14% | 71% | 3% | 1% |
| 2005 | 18% | 69% | 3% | 1% |
| 2006 | 19% | 67% | 3% | 3% |
| 2007 | 22% | 65% | 3% | 3% |
| 2008 | 22% | 63% | 3% | 4% |
| 2009 | 23% | 65% | 3% | 3% |
| 2010 | 26% | 62% | 2% | 3% |
| 2011 | 27% | 62% | 2% | 3% |
| 2012 | 29% | 59% | 2% | 3% |
| 2013 | 28% | 60% | 1% | 4% |
| 2014 | 28% | 60% | 2% | 4% |

Source: Turkish Statistical Institute