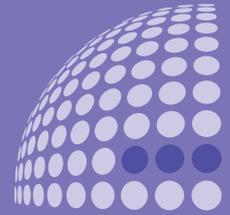


# SETA Policy Report



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

Mehmet Babacan



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## ABSTRACT

The ongoing debate on Turkey's so-called axis shift could well be analyzed through a foreign trade perspective. Therefore, our analysis will discuss Turkey's changing direction, if any, in terms of its trade orientation, i.e. trading partners, relative trade shares and changes in import-export volumes, and domestic structural changes in trading goods with regards to the global shifts in world trade. Foreign trade by itself does not possess full explanatory power in defining country-wide, regional or global economic orientation while international investments and financial movements have equally significant importance in that regard. Still, it accounts for an important portion of defining a country's economic performance and orientation. Whether measured by total trade volume or exports only, the role of foreign trade in growth is evident for many countries. Changing patterns or direction in Turkey's exports and imports could therefore serve as a well-qualified parameter in order to assess the so-called shift in the country's orientation. With that regards, a more competitive and stronger industrial sector along with an increasingly effective commercial service sector indicate an upgrade in the foreign trade structure of countries. A more diversified trading pattern both in terms of goods and destinations is also elusive for an open economy.

For Turkey, in particular, the strength of the export sector is observed to gain much from the increasing efficiency in the modes of production as well as diversified trade zones and countries within the last decade while still bearing the prolonged structural problems inherited from the early Republican era. Structural issues such as import dependency in intermediate goods or lack of quality of labor in key sectors due to the deficiencies in human capital will not take the center stage as the key point highlighted in this study is that Turkey has adapted a new multi-dimensional approach in foreign trade while remaining within the boundaries of the global paradigm in post-Washington consensus period.

The report underlines the fact that Turkish trade sector has maintained its long-standing direction towards the major European Union (EU) member countries with only minor setbacks while new dimensions in bilateral trade have emerged not only due to the changing foreign policy considerations in Turkey but also the turn of the tide in global economy within the last decade. Several indicators such as the worldwide expansion of Turkish Airlines operations or the visa-free travel to numerous countries which have connected new Turkish business elite to the rest of the world under the Justice and Development Party's (AK Party) term depict the new face of Turkey's foreign trade policy clearly. All in all, the report argues that Turkey's trade partners are subject to change as the whole global economy shifts, i.e. to the East.

In the first section, a brief introduction to modern Turkey's foreign trade in a historical perspective will be provided. The second section will analyze the changing structure in the country's foreign policy with special reference to foreign trade in the last decade, particularly during the AK Party's ruling term (2002-2010), regarding the aforementioned dimensions. Third section will discuss the scope of regional and worldwide changes in trade patterns and analyze the recent shift in Turkey's trade orientation under the light of Asian economic and political rise in early 21st century.

# WHITHER AXIS SHIFT: A PERSPECTIVE FROM TURKEY'S FOREIGN TRADE

## 1. INTRODUCTION

Turkish economy has gone under variety of analyses, based on different perspectives. Depending on the analytical tools employed however, the scope of and the inferences from the analyses change dramatically. This study aims at building its arguments on the changing structure of Turkey's foreign trade while pointing out the structural continuities since the early Republican era at first. Rather than providing a complete historical perspective here, a brief introduction to the history of modern Turkey's trial with foreign trade finds itself a place for the sake of the analysis. Each decade since the proclamation of the Republic will be subject to a quick review with regards to the foreign trade perspective and performance of the "state" in general rather than the "businessmen" in particular.

In the period of 1923 to 1930, Turkish foreign trade ran considerable deficits except 1930. Foreign trade in 1923 was around 36 million US Dollars, for instance, while it recorded a surplus of nearly 2 million US Dollars. The basic components of the export items in that decade were agricultural products as expected, which constituted some 86 percent of the total. The structure of Turkey's foreign trade in terms of export destinations however was considerably similar to that of 2000s as the main trading partners were UK, Italy, France, Germany and the US. For the most of 1930s and 1940s however, Turkey could be assessed as a closed economy (almost an *autarky* regime), partly due to domestic dynamics such as the rise of "etatism", or state capitalism and partly due to the global depression, followed by the Second World War. For the last decade in the first half of 20<sup>th</sup> century, Turkey had a significant inward orientation in terms of foreign trade as the efforts for domestic industrialization gained momentum. Despite the heavily subsidized industrial infrastructure however, Turkish export sector did not show much of development under the rule of Republican Peoples' Party (CHP), or "the founder" of the Republic by their definition.

With the CHP's defeat in 1950 general elections, the Democrat Party (DP) began a new era of rapid liberalization in many aspects, including foreign trade. In the early decade (1950-52), 65 percent of the import goods were gradually allowed though efforts came to a dead end due to shortage of foreign exchange. Temporary shocks in

the agricultural sector added up to the ongoing difficulties regarding Turkish exports such as the fixed exchange rate and strong subsidy policies in the last couple years of the decade. Turkish exports declined from 345 million US Dollars in 1957, down to 247 million US Dollars in 1958. Again, some 70 percent of the export revenue was from agricultural products within the decade.<sup>1</sup> Followed by the military coup of 1960, Turkey's export sector was once again hit in the 1960s while the same period witnessed the rise of "planned development" via five-year development plans. Import substitution was the touchstone in industrialization strategy. Export volumes surpassed the five-year development goals in that decade although the structure of Turkey's export sector almost remained unchanged or even deteriorated. During the period of 1960-1970, agricultural products made some 80 percent of the total export revenue. 1970s however marked an era of foreign exchange shocks, oil crisis, deteriorating fiscal balances and increasing total debt stock for the country. In that period however, the export share of industrial products surged to 27 percent despite the continuing weight of agricultural sector in the export sector.

Until the early 80s therefore, one could easily claim that Turkey's export sector has under-developed, compared to the Western and Eastern rivals such as Italy, Greece and South Korea. In short, since the early 1930s, like in many Latin American and Asian economies, a dominant public sector along with a market-enemy ideology of 'etatism', Turkey remained a relatively closed economy until 1950s. 1960s and 1970s witnessed two decades of back and forth with an import substitution based industrialization strategy which aimed at establishing basic industrial sectors such as chemicals, metals, automotive and durable goods with limited foreign participation.

A new wave of outward oriented economic move came in 1980s however, led by the former president Turgut Ozal's Motherland (Anavatan- ANAP) Party which ruled for the most of the decade. Following the Washington consensus in late 1970s, Turkey witnessed significant reforms in opening up its economy to international markets as well. Import substitution policy was abandoned and the new "export-oriented" industrialization policy was adapted. Early attempts to promote exports, such as formation of Foreign Trade Capital Companies were partly successful due to the lack of adequate monitoring mechanisms. Still however, Turkey's new outward-looking business elite emerged during the decade which could be argued as constituting the grassroots of current stars of emerging exporters. Trade liberalization was followed by financial liberalization which brought the country closer to the EU markets and marked 1987 as the key date for Turkey's application for full membership to the then European Community (EC). Accompanied by favorable global conditions for the emerging economies, Turkey's exports totaled 12.9 billion US Dollars in 1990, dramatically higher than 2.3 billion US Dollars of 1979.<sup>2</sup> The share of industrial goods in total export volume also surged incredibly, reaching at 80 percent by 1990.

An important bracket for the period could well be the argument that Turkey's relations with the Arab world laid its foundations under the rule of Ozal's Anavatan. "One of the reflections of this new interest was an increasing number of Arab students studying in Turkey as well as booming tourism and trade between Turkey and the Arab world."<sup>3</sup> For the mid-1990s and early 2000s however, country's financial and fiscal fragility, paired by political instability led an inward contraction, or rather *autism* in the ruling elites' focus on every dimension, including foreign policy and therefore trade. With the political instability in place for almost a decade, Turkey had a period of poor economy management which resulted in the republican history's most severe financial crisis in 2001. During that decade, first three years which ended with the Stability Pack of 1994, exports witnessed a nominal increase of only 18 percent. In

1. Turkey's Export Development, Undersecretariat for Foreign Trade Report, 2009.

2. Turkey's Export Development, Undersecretariat for Foreign Trade Report, 2009.

3. Basheer M. Nafi, "The Arabs and Modern Turkey: A Century of Changing Perceptions," *Insight Turkey*, Vol. 11, No. 1 (2009) pp. 71; also cited in Meliha Benli Altunışık, "Turkey: Arab Perspective", TESEV Foreign Policy Analysis Series 11, May 2010, pp. 7.

1995, Turkey became a member of the World Trade Organization and the Customs Union with the EU. Turkish exports continued to portray a sluggish performance in the second half of 1990s, partly due to the South East Asian crisis.

End of the decade and early 2000s were drastically destructive due to the massive earthquake in 1999 and the banking crisis of 2000-1. By the year 2000, Turkey's total export volume reached around 27.8 billion US Dollars while the composition of exports was in favor of manufacturing goods by far with a share of 91.2 percent. Organization for Economic Co-operation and Development (OECD) countries in that year were the leading export markets with a share of 68.4 percent as the share of EU members exceeded 52 percent of the total export volume. In 2001, Turkey was badly hit by its worst financial crisis which was coupled with the significant shrink by 4.1 percent in total world merchandise exports. Thanks to the dramatic devaluation in the exchange rate and the compensation of the dramatic output losses incurred in 1999 and 2000 however, Turkish exports surged by 12.8 percent, reaching at 31.3 billion US Dollars in 2001.<sup>4</sup>

The period of 2002-2008 under the AK Party rule marked yet another breakthrough in terms of Turkey's foreign policy as well as trade orientation. The multi-dimensional approach with a theoretical background re-defining the country's position as central rather than peripheral or acting as a bridge brought Turkey forward to a new era. The sharp rebound in Turkey's export performance manifested itself in the continuous surge in total export volume which reached at 36 billion US Dollars in 2002; around 47.3 billion US Dollars in 2003; 63.2 billion US Dollars in 2004; 73.5 billion US Dollars; and 85.5 billion US Dollars by 2006. During the period of 2004-2006, government undertook the Exports Strategic Plan which was a roadmap for Turkey's new export orientation as well as rising targets. The Plan targeted a total export volume of 75 billion US Dollars by the end of 2006 while it was exceeded by more than 10 billion. Turkey ranked 22<sup>nd</sup> in terms of exports during the period of 2004-2006, compared to its previous position at 25<sup>th</sup> in 2002, according to the World Trade Organization statistics.<sup>5</sup>

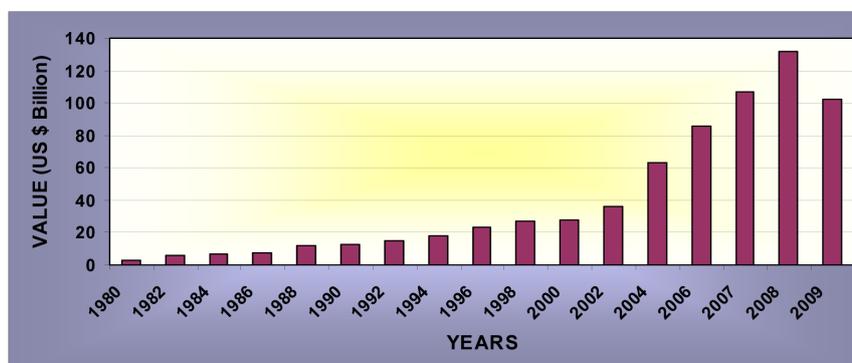
Exports witnessed robust growth rates, by 25.3 percent in 2007 and 23.1 percent in 2008. Total volume therefore reached at 107.2 billion US Dollars and 132 billion US Dollars in 2007 and 2008, consecutively. The share of industrial sector in exports was 115.2 billion US Dollars as of 2008. It was still the EU-27 countries by far that constituted the main export destination for Turkey in 2008 as the exports to the EU members reached at 63.4 billion US Dollars, with an increase of 4.9 percent and a share of 48 percent out of the total. Due to the global financial crisis erupted in 2008 however, Turkey's main export markets as well as the world economy as a whole were negatively affected so total export volume decreased by a significant 22.6 percent, down to 102.1 billion US Dollars in 2009, as shown in Figure 1 below. It was still above the previously targeted 98.5 billion, envisioned by the Mid-term Economic Program (2010-2012). Exports to the EU-27 countries faced a sharp decline of 25.8 percent in 2009, reaching at 47 billion US Dollars. Two significant developments emerged within the second half of the decade however. Turkey's exports to the Middle Eastern –especially to the Gulf Cooperation Council (GCC) - and African countries witnessed dramatic increases. The share of African economies in Turkey's exports for instance witnessed a strong increase of 12.3 percent, reaching at 10.2 billion US Dollars in 2009, where trade volume in almost all main export destinations fell drastically.<sup>6</sup>

4. Turkey's Export Development, Undersecretariat for Foreign Trade Report, 2009.

5. Cited in, "Turkey's Export Development", Undersecretariat for Foreign Trade Report, 2009.

6. Undersecretariat for Foreign Trade, 2009 Annual Foreign Trade Report.

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



Source: Undersecretariat for Foreign Trade, 2009

This analysis argues that the basic motivation behind Turkey becoming a 'rising star' is foremost its economic, rather than political, cultural or religious orientation. "A major shift in the Turkish economy occurred in the 1980s with the adoption of more liberal economic policies. Despite several crises, the Turkish economy has developed to a considerable degree making it the 16th largest in the world (by 2010). Turkey's vibrant economy and democratic reforms have increased its soft power in the region and made it particularly attractive for reformers."<sup>7</sup>

The arguments around the so-called "axis shift", frequently vocalized nowadays, might seem to be well fitting into Turkey's changing foreign trade scheme as the number of new export destinations and the significant rises in Turkey's bilateral trade volume with Latin American, African and Mid-eastern countries as well as China could display such a case. The fact is rather different however, as Turkey's changing foreign trade structure fits well into the new global trends since the 1990s. A simple while careful analysis of the world merchandise trade and Turkey's export-import dynamics in the last decade show a considerable overlapping, given the rise of the East in the early 21<sup>st</sup> century. Given the aforementioned brief history on Turkey's foreign trade and overall economic performance, the exponential growth in figures needs to be somehow reasoned. The globally favorable investment, capital flow and trade climate for the emerging economies alongside the politically stable domestic environment might be argued to lead such a robust performance in many ways. The structural efficiencies and the low-cost margins coupled with product and market differentiation strategies are arguably some of the components behind the rapid expansion witnessed through bilateral and multilateral trade. Record-high amounts of foreign direct investment (FDIs) are considered as other sources of economic growth, which reached around 84 billion US Dollars during the period of 2002-2009, including mergers& acquisitions as well as privatization revenues.<sup>8</sup>

With its strong political and economic development over the decade, Turkey has become at the focus of global interests; including major events such as the IMF-World Bank Annual Meetings in October 2009, globally important energy projects like Nabucco gas pipeline and strategically significant issues such as Iranian nuclear standoff. Beside, Turkey's regional significance is also on the rise as it is heavily involved in Mideast peace efforts, Balkan disputes, and rivalries in the Caucasus region and so on. Trade, or in more general terms, business has been one of the driving forces of increased Turkish attractiveness in its region, particularly the Middle East. Turkey's prolonged desire for

7. Meliha Benli Altunışık, "Turkey: Arab Perspective", TESEV Foreign Policy Analysis Series 11, May 2010, pp. 9.

8. UNCTAD and Central Bank of the Republic of Turkey, 2010.

becoming a full EU member and its harmonization efforts with the EU *acquis* led to extensive political, judicial and economic reforms in the last decade.

From the far east to the west, the baiting 'axis shift' debate hovers around Turkey's political re-orientation as "the questions being asked are whether Ankara is turning its back on the West and drawing closer to the East. This is described as a "shift of axis" and there is even talk of Turkey joining a Eurasian Union along with Russia, China and other regional countries, or finding its moorings as leader of an Islamic bloc in the Middle East and Central Asia."<sup>9</sup> The 'axis shift' arguments abide by the traditional elite's new rhetoric that the AK Party government has moved the country away from its prolonged axis –which is by definition 'the West'. A most recent snapshot on the discussions around Turkey's new orientation or axis however rightly describes the 'axis shift' arguments as simple blackmails that aim at setting down Turkey's new foreign policy makers.<sup>10</sup> This study also shares the views on the manipulating characteristics of the axis shift debate as the it lacks i) a proper definition of the 'axis shift'; ii) necessary conditions for the fulfillment of axis shift; and iii) definition of Turkey's present axis and the counter axes along with the needs of remaining in an axis.<sup>11</sup> Based on these three basic deficiencies of the ongoing debate around Turkey's shifting axis, the present study is in search of finding evidences for –or against- the axis shift arguments on the grounds of Turkey's evolving nature of foreign trade.

## 2. TURKEY'S NEW FOREIGN POLICY: A DYNAMIC EQUILIBRIUM

The undisputed architect of Turkey's new foreign policy, Ahmet Davutoglu, who initially served as an advisor, holds the minister of foreign affairs position since 2009 while his groundbreaking 'strategic depth' doctrine began shaping the country's foreign policy since the early days of AK Party government in 2002, or even before. Davutoglu built the new strategy upon the 'zero problems' approach with the neighboring countries while acting as a central power rather than a peripheral one. As put correctly in a recent article; "today, those who criticized axis shift in Turkish foreign policy miss the reality that Turkey, as a model country for its neighboring countries, increases its capabilities. Therefore, rather than axis shift, one can emphasize on the boom of self-confidence in Turkish Foreign Policy."<sup>12</sup> Turkey's direction however still becomes a concern for everybody, from West to East, from South to North,<sup>13</sup> as the claims for an axis shift could easily be done from various geographic perspectives. Turkey's new policy identity has also drawn skepticism, contradictions, and even tensions as the country has become globally and regionally active.<sup>14</sup>

Within this context, Turkey has extended arms to its prolonged adversaries such as Syria, Iraq, Iran, Russia, Greece and even Armenia. The changing global equilibria following the end of Cold War also helped Turkey to construct a multi-dimensional and multi-layer dynamic foreign policy. The shift of axes therefore was initiated long before the debates around Turkey emerged. This new approach however has clearly boosted foreign trade and other economic ties with the Middle-eastern, Central Asian (including Russia and Caucasian) nations; paved the way for entering into African and Latin American markets while maintaining the traditional relations with the European and Western countries.

9. Rahimullah Yusufzai, "A 'shift of axis' by Turkey?", *The News International*, Peshawar, June 22, 2010.

10. Nuh Yılmaz, 'Axis Shift as Neighborhood Pressure' (Mahalle Baskısı Olarak Eksen Kayması), USA Sabah Daily, SETA Commentary, September 2010.

11. See Nuh Yılmaz, 'Değer Eksenli Dış Politika ve Eksen Kayması' (A Value-Oriented Realist Foreign Policy and Axis Shift), *Anlayış*, SETA Commentary, November 2009.

12. Ihsan Bal, "Axis Shift or Boom of Self Confidence?", *The Journal of Turkish Weekly*, USAK, Ankara, July 6, 2010.

13. Cengiz Çandar, "Turkey's Soft Power Strategy: A New Vision for a Multi-Polar World", SETA Policy Brief No: 38, December 2009, pp. 3.

14. E. Fuat Keyman, "Turkish Foreign Policy in the Era of Global Turmoil", SETA Policy Brief No. 39, December 2009, pp. 5.

At the dawn of 21<sup>st</sup> century, Turkey has become increasingly a global actor with still mostly regional capabilities and internal weaknesses. Nevertheless, many argue that more powerful than a decade ago, Turkey has emerged a key member in international organizations including the United Nations Security Council, Organization of the Islamic Conference (OIC), the OECD and even in the International Monetary Fund (IMF) and the World Bank. The latter two however should be read under the context of increasing influence of emerging market economies altogether. Along with the increasing weight in the IMF and the World Bank Group, Turkey's G-20 membership (1999) also becomes even more critical and operational nowadays, thanks to the gradually evolving nature of global economy and governance since 2008.

In an assessment of the foreign policy developments of 2007, Ahmet Davutoglu asserted that Turkey's diverse regional composition –or unique central position- lent it a capability of maneuvering in several regions simultaneously which in turn created an area of influence in its immediate environs.<sup>15</sup> Mentioning the five pillars of Turkey's new foreign policy vision as i) balance between security and democracy; ii) 'zero problem policy toward Turkey's neighbors'; iii) development of relations with neighboring and distant regions; iv) adherence to a multi-dimensional foreign policy; and v) rhythmic diplomacy, Davutoglu refers to the role of individuals, corporations and civil organizations as complementary to the pursued foreign policy.<sup>16</sup>

Turkey asserts its new geo-strategic position via set of policies and instruments under the light of strategic engagement along with the practical and often tactical moves that would enhance regional and bilateral diplomatic and economic relations. An emerging business group, TUSKON, which is largely comprised of exporters, has been actively engaging into African and East Asian markets while another business group MUSIAD is in search for increased cooperation with the Gulf countries. Turkey's oldest business group TUSIAD meantime actively lobbies for the eventual EU membership of the country. Given such a diversified composition of efforts to promote Turkey's global position, one should also note the dramatic rise in the number of direct or indirect flight routes of national flagship carrier Turkish Airlines (THY) since 2002 in that respect. The distribution of the newly opened routes is also intuitive as 14 out of the total 58 new routes are to European cities, while 18 routes are for Asia between 2002 and 2010. THY has opened 14 flight routes to the Middle Eastern and North African cities, along with eight new routes in Africa.<sup>17</sup> Businessmen are now easily conducting their relations with counterparts via direct flights to the new capitals in Africa, Asia and Europe.

Turkey's increased economic influence in its region manifested itself in the volume of trade with neighboring countries, as observed in Turkish-Iranian (up from 1.2 billion US Dollars in 2002 to around 5.4 billion US Dollars in 2009); Turkish-Russian (up from 5.1 billion US Dollars in 2002 to 22.7 billion US Dollars in 2009) and Turkish-Syrian (up from 773 million US Dollars in 2002 to 1.8 billion US Dollars in 2009) bilateral trade figures, despite the negative effects of the recent global financial crisis.<sup>18</sup> Similarly, total trade volume with the Latin American and Caribbean countries boosted from 735 million US Dollars in 2002 up to more than 4 billion US Dollars as of 2008. All above are practical indicators for Turkey's changing foreign policy structure from an international trade perspective, as the study aims to underline. Basic foundations or the pillars of this new foreign policy construction are worth of an in-depth analysis with a quick review of underlying theoretical background.

15. Ahmet Davutoglu, "Turkey's Foreign Policy Vision: An Assessment of 2007", *Insight Turkey*, Vol. 10 No. 1, 2008, pp. 78.

16. *Ibid*, pp. 83.

17. Turkish Airlines, [www.turkishairlines.com](http://www.turkishairlines.com)

18. Undersecretariat for Foreign Trade, 2009 Annual Foreign Trade Report and Turkish Statistical Institute (TurkStat).

## 2.1. Theoretical Approach

The new dynamic foreign policy's chief Ahmet Davutoglu had previously emphasized the inevitable shift in Turkey's strategic assessment which was based on a security perspective during the Cold War era as the new economic structure emerged in the post-cold war period.<sup>19</sup> Amid the changing nature of global economy, Davutoglu predicted the early 21<sup>st</sup> century to become an Asian while the end of it being an African era.<sup>20</sup> That prediction realized itself in the government's announcement of 2005-2006 as the 'year of Africa'. New initiatives targeting at Latin American and Caribbean countries via economic formations such as bilateral free trade agreements and the MERCOSUR; or African nations via Africa Union (in which Turkey became an observer member in 2005) and the African Development Bank; or the Arab countries via Turkish-Arab Forum with the Arab League turned out to be fruitful in all dimensions. The new foreign policy is constructed by a multi-dimensional approach with advanced tools, highlighting Turkey's soft power.

Regarding Turkey's relations with and position to the Middle East, Davutoglu underlined the importance of paying attention to the region at least in terms of its potential strategic assets while showing efforts to get the pieces together in the 'geo-economically torn apart' Mid-eastern countries.<sup>21</sup> On economic ties with the European Union (EU), Turkey's foreign policy chief stresses that due to the uncertainties regarding the future track of Turkey's EU membership process; the country should develop a new development strategy based on not only its domestic potential but also supportive potential opportunities originating from its geographic location.<sup>22</sup>

In theory, all works fine, as long as Turkey is able to create the necessary tools for creating such a competitive power out of a prolonged statist and a stagnant structure. As it is put so correctly, Turkey's attempt to achieve 'zero problems' in its relations with its neighbors is hard to oppose in principle: it was obviously better to try to resolve problems than to continue with xenophobic attitudes which had assumed that Turkey was 'surrounded by enemies'.<sup>23</sup> Having the EU membership track on one hand and the long-standing transatlantic relations with the United States (US) and more than a century old ultimate dream of westernization since late Ottoman period; Turkey is now reconsidering not only its foreign policy postulates but also its identity. The Cold War Era's pole country positioned against the Soviet threat and a loyal fellow under the NATO is undergoing a significant transformation with an increased self-confidence. Claiming itself as a regional master in shaping North African, Middle Eastern, Caucasian, Balkan, Mediterranean and Southeast European hinterland, Turkey also defines itself a new role in global political and economic affairs: mediation. Rather than the post-Cold War world's praised 'bridge country' between the so called east and the west, Turkey now emerges as a must-have element in creating peaceful and stable environment by all meanings. Davutoglu's 'strategic depth' conceptualization plays a vital role in realizing Turkey's commercial and economic potential as well. Theoretical basis on creating such environment in its region and worldwide is the so called 'zero problems' doctrine which by Davutoglu and the AK Party government's own statements is an 'ideal' rather than an absolute 'real'. The mutual 'win-win' approach as the game theoretic models imply is simply set as Turkey's new foreign policy scheme that manifests itself most in bilateral, regional or international trade relations.

19. Ahmet Davutoglu, 'Stratejik Derinlik' (Strategic Depth), Küre Publications, 2001, pp. 288.

20. Ibid, pp. 288.

21. Ibid, pp. 336.

22. Ibid, pp. 513.

23. William Hale, "Turkey and the Middle East in the 'New Era'", Insight Turkey, Vol. 11 No. 3, 2009, pp. 156.

AK Party's initial record in foreign policy is quite spectacular as it sped up the EU accession process which ended up with the start of negotiations in October 2005, took new initiative in Cyprus issue where the Turkish Cypriots approved the UN-backed so-called Annan Plan with a great majority while the Greek Cypriots declined; launched the so-called rhythmic diplomacy and zero-problem policy with the neighboring countries; reproached to the international body memberships which resulted with securing the UN Security Council membership for 2009-2010 period and taking the seat for general secretary in the Organization of Islamic Conference (OIC); and broadening the horizons of Turkey's foreign policy reach such as proclaiming 2005 as 'the year of Africa' and 2006 as 'the year of Latin America'.<sup>24</sup>

## 2.2. Policy Implications

Turkey's changing foreign policy vision turns itself into new engagements, co-operations or discontinuities at traditional lines. There are several dimensions and destinations in terms of the *praxis* under the new theoretical vision. Coupled with the new global environment, policy implications of the new vision could be assessed under the following headlines:

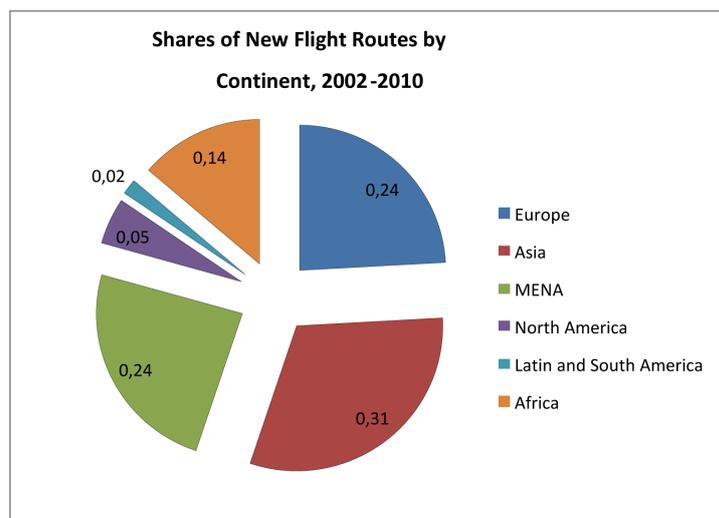
- **Commercial Ties:** Along with the improving diplomatic and political relations, Turkey's foreign trade witnessed an impressive diversity and range of commodities as well as countries. Over the last decade, businessmen from all seven regions of Turkey have developed or improved commercial and industrial cooperation with their counterparts. From automotive parts to chemicals and agricultural products, a variety of commodities are exported to a number of countries from Mideast, Central Asia, Southern Europe, and EU-27 and overseas (i.e. Latin America, North America and East Asia). Thanks to the rapid development in cross-border trade, Turkish businessmen have increased ties to the neighboring countries via official trade liaison offices, chambers of commerce and trade associations. Corresponding institutions in the trade partner countries have also emerged during that process.
- **Capital and Greenfield investments:** Due to the relatively stable political environment and globally favorable outlook for the emerging markets along with the investors' high levels of risk appetite, Turkey was able to attract around 84 billion US Dollars in terms of FDIs while total foreign capital inflows exceeded 200 billion US Dollars during the period of 2002-2009.<sup>25</sup> The latter includes portfolio investments as well as short-term and long-term financial capital flows. The interest in Turkey's growing economy attracted a significant amount of capital from the GCC between 2005 and 2009 for instance, despite the recent declines in 2008 and 2009 due to the global financial woes. From agricultural investments to the banking sector, Turkey witnessed a period of rapid expansion in foreign capital shares in the key industries, including communication and information technology. European investors were more influential in the banking sector while the total share of foreign banks in the industry exceeded 40 percent as of 2009. The share of Arab-based banks is around 5-6 percent in terms of assets and liabilities however.
- **Transportation and communication:** With the increasing pace of domestic integration of Turkish economy as well as rapid outward expansion, transportation and communication sectors also grew during the period of

24. For a concise discussion of the new set of tools in Turkey's foreign policy: see Ahmet Selim Tekelioğlu, 'AK Party's Performance in Foreign Policy', SETA Commentary, July 2007.

25. Central Bank of the Republic of Turkey ([www.tcmb.gov.tr](http://www.tcmb.gov.tr)) and TurkStat ([www.turkstat.gov.tr](http://www.turkstat.gov.tr)).

2002-2010. New domestic flight routes with the establishment of private airline companies within the decade boosted the number of passengers, flights and flight routes. According to the ministry of transportation figures, the annual turnover in the airline industry has reached more than 8 billion US Dollars as of 2009, up from 2.2 billion US Dollars level of 2002.<sup>26</sup> Total number of airline companies has reached five as of 2009, compared to the only operator Turkish Airlines in 2002 with a total number of domestic destinations up from 25 to 44. International flight routes surged from 70s up to more than 130 during the seven year-period. Figure 2 shows the shares of new international flight routes (including direct flights) initiated or extended by the national flag carrier Turkish Airlines between 2002 and 2010. The development in the transportation and communication sectors is an important indicator of boosting trade activity in the country. Turk Telekom, national communication company's 55 percent stake for instance was privatized in 2005 with a total value of 6.5 billion US Dollars while the winner Oger Telecom was a Saudi-based company, for instance. Global players such as UK's Vodafone took over Turkey's Telsim, the no. 2 GSM-operator company with a total amount of 4.5 billion US Dollars, by the end 2005. Mergers& acquisitions in the sector continuously rise due to the revised trade laws regarding the industry.

**Figure 2. New Turkish Airlines Flight Routes (Shares), 2002-2010**

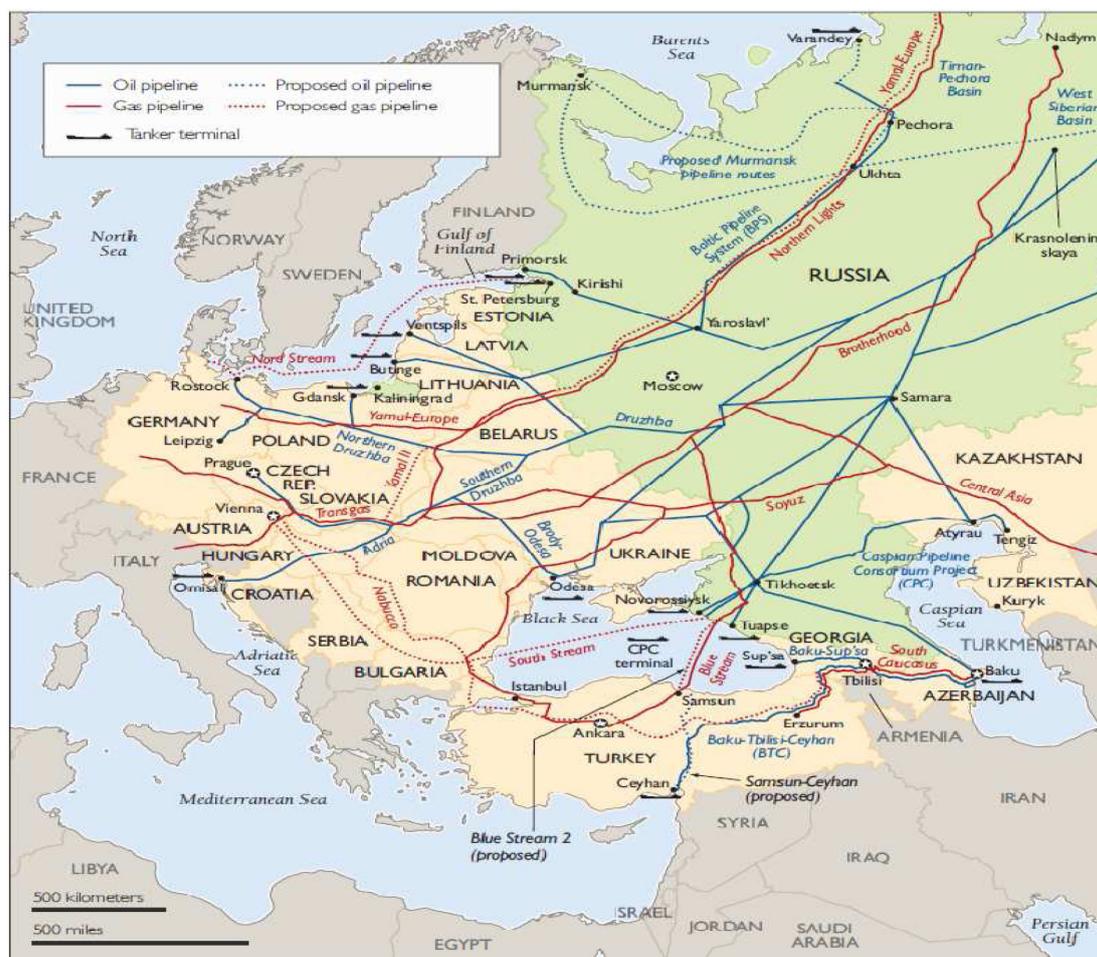


Source: Turkish Airlines

- **Energy:** One of the most significant indicators of Turkey's evolving foreign policy is the recent developments in the energy sector. Turkey's ties with Russia were already solid before the AK Party's term while bilateral relations boosted under the current government since 2002. Sharing common and conflicting interests in the world politics, Turkey has become the no. 1 importer of natural gas from Russia as of 2009. On the eastern front, Turkey's ties with Iran also improved in terms of bilateral trade, while gas imports constitute a large portion in the Iranian exports. Taking part in the Europe's long-standing ambitious Nabucco pipeline project is envisioned to be 3.300 km-long with a total capacity of some 30 billion cubic meters of Central Asian gas annually to the European continent via Turkey, Bulgaria, Romania and Hungary, the recent attempts to become

a regional energy hub seem to bear fruits. Turkey is also expected to join into the Russian-led South Stream natural gas and oil pipeline project together with the Italian and possibly German counterparts. Major gas pipelines across Turkey therefore include Baku–Tbilisi–Erzurum, Blue Stream, Iran–Turkey (Eastern Anatolia), and the Romania–Bulgaria–Turkey connector. The planned South Stream and Blue Stream II pipelines will carry Russian gas, and the planned Nabucco pipeline will transport Azeri and possibly Iraqi and Turkmen gas. Map 1 below locates the routes of natural gas and oil pipelines from Eurasia (excludes Iran) to Europe. Other projects to extend the natural gas and oil pipeline projects to the Mid-eastern countries such as Israel are also on the table, despite the recent conflicts in bilateral relations with the Jewish state. Most recently, the renewed deal on Kirkuk-Ceyhan oil pipeline operating between northern Iraq and southern Turkey which dates back to 1970s has been another sign of the new foreign policy approach towards neighbors. The increasing energy demand due to the considerable economic development in Turkey motivates the government seeking new suppliers while playing the card of a natural transmitter in terms of energy transfer routes. A projected amount of more than 130 billion US Dollars should be invested in the energy sector until 2020, which should be well explanatory of Turkey's growing interests in the field.

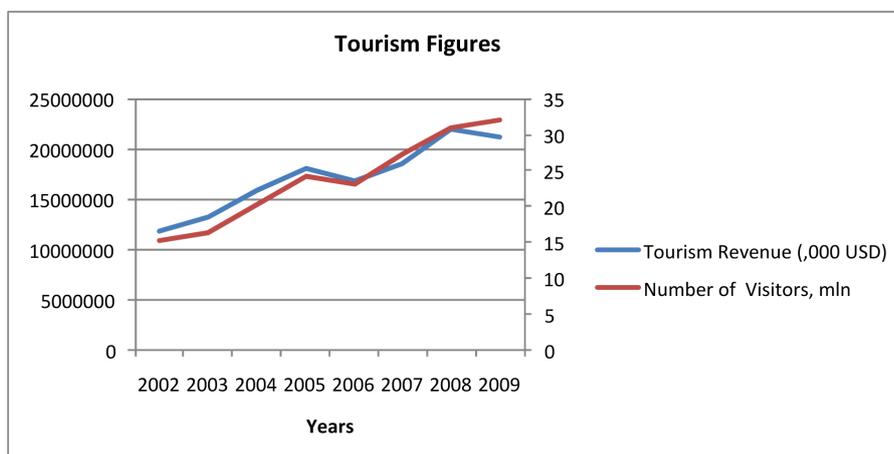
**Map 1. Oil and Gas Pipelines from Eurasia to Europe**



Source: U.S. Department of Energy, Energy Information Administration, "Russia," Country Analysis Brief, May 2008

- Tourism: Despite the rare occasions that terrify the foreign visitors and tourists to the country, Turkey has managed to attract an increasing number of tourists with boosting tourism revenue within the period of 2002-2009. According to the ministry of culture and tourism data, tourism revenue surged by almost two-folds while the number of visitors (including citizens) has increased more than two-folds between 2002 and 2009, reaching at despite the unfavorable global economic situation in the past two years. The bilateral visa facilitation and exemption process during the last five years also helped the mutual flow of tourists between Turkey and a number of countries a gain significant pace. Currently, Turkish citizens are in visa-exempt status in their travels to some 58 nations. Increasing number of mutual visa agreements accompanied by the Turkish Airlines flights had an important effect on boosting the country's total trade volume during the AK Party's term. The trend in tourism revenue and the number of visitor between 2002 and 2009 is depicted in Figure 3.

**Figure 3.** Tourism Revenue and Number of Visitors, 2002-2009



Source: Ministry of Culture and Tourism, 2010

The aforementioned dimensions of Turkey's new foreign policy become visible in certain destinations in different forms. The so-called 'axis shift' debate is in fact on the changing directions of Turkey's new interests. The conflicting views are on the nature of this new approach as the static analyses regard Turkey's recent focus to restore its central/pivotal position as a shift of axis which deliberately implies a divergence from its traditional pro-Western and away from Eastern world policy. A more dynamic framework however should put Turkey's new "orientation towards east" as a corridor open to a wider set of opportunities in order to maximize the country's interests. Following the end of Cold War, Turkey's position long remained as before, acting as an exclusionist and isolationist regional power, actually with less power than it exerts. With almost a decade of ups and downs in domestic politics, Turkish economy has also suffered an occlusion in every dimension, including its trade structure. With the evolving foreign policy in 2000s, Turkey's old 'new' interests emerged in the following territories most significantly:

- Russia and Caucasia: Since 2002, Russia has gradually emerged as Turkey's biggest trade partner, thanks to the partly removal of strategic rifts between the two countries. Both have business and geopolitical interests in common as Russia became Turkey's largest trade partner as of 2008, with an annual bilateral trade volume of around 40 billion US Dollars. Major source of Turkish-Russian trade however remains as energy, as Turkey is one of the biggest importers of natural gas and crude oil from Russia. 65 percent of Turkey's gas imports

as well as a significant 40 percent of crude oil imports are supplied by Russia. Strong commercial ties are also visible in the construction sector, as "Russia accounts for one-fourth of the global market for Turkish construction companies while Turkey has become one of the most attractive tourist destinations for Russians with a nearly 4 million Russian tourists visiting Turkey in 2008. Bilateral relations are further improving due to the mutual visa exemption agreement signed in May 2010."<sup>27</sup> With Turkey's participation in the Russian Gazprom-led South Stream 2 pipeline which is a rival to the EU-backed Nabucco and the inter-state agreement on constructing Turkey's first nuclear power plant by the Russian energy companies, relations continue to deepen between the two. Other developments during the last decade were the signing of Turkish-Armenian accords and the efforts for normalization of ties between Azerbaijan and Armenia. Turkey took a significant step towards normalizing ties with Armenia on two grounds. The prolonged claims for the 1915 genocide were estimated to cool down as both parties of the issue gather and begin talks while reducing the strength of the Armenian diasporas while opening the border with Armenia would enhance Turkey's bargaining power on the EU front as well as relations with the US. The normalization of whole Caucasia on the other hand was another goal which in turn would increase Turkey's economic activity in the region. The recent opening in the Armenian issue is also backed by the US, due to her "interests in resolving the Karabakh stalemate as well as opening a border between Armenia and Turkey as it would reduce Armenia's economic and political dependence on Russia and Iran and open the door to new energy export routes."<sup>28</sup> Ties with Georgia also developed significantly, despite the armed conflict between Russia and Georgia in 2008. Turkey was an important element of negotiations between the two during the war times. Relations with Azerbaijan, Turkey's long time sister country however witnessed hard times due to the Turkish-Armenian rapprochement. Still, bilateral ties remain strong thanks to the readjusted oil and natural gas deals in favor of Azerbaijan recently.

- Middle East and North Africa: Relations with the Middle East countries, including the traditional leaders of the Arab world such as Egypt and Saudi Arabia have changed favorably during the period of 2002-2010. The mutual dependence among Turkey and its neighbors stems from the natural sources such as energy fields, water resources and common borders. "As three-quarters of the world's proven oil and gas reserves are located in Turkey's neighborhood, including the Persian Gulf and the Caspian Sea, Turkey plans to have at least 6 percent of global energy consumption pass through its territory. Europe already depends on Turkey for the transportation of energy resources from Russia, the Caspian region, and the Middle East."<sup>29</sup> A new dimension is added by Turkey's increasing trade volume with the region. The visa-free travel helped cross-border and intra-regional trade volume increase on behalf of Turkey, as Turkish citizens are able to travel Iraq, Syria, Iran, Lebanon, Qatar and Libya without visas, for instance. Similarly these countries' citizens are exempt from acquiring a Turkish visa, including Egyptian nationals. Turkish Airlines have as many direct flights to Iraqi cities as it does to France while some of its fastest growing routes include Libya and Syria. Turkish companies have investments in Iran, Iraq –which hosts Turkish construction companies with a total business volume of 30 billion US Dollars, only coming second after China- and Saudis have significant investments in Turkey's growing Islamic finance sector."<sup>30</sup> Yet another indicator for Turkey's higher involvement in the Middle East is its mediation in the peace talks between Syria and Israel in 2008. On the Israel-Palestine conflict however, Turkey's

27. "Tuncay Babali, "Turkey at the Energy Crossroads," *Middle East Quarterly*, Vol. 16, No. 2 (Spring 2009), pp. 25–33", cit. in 'Countering Turkey's Strategic Drift', Sally McNamara, Ariel Cohen and James Phillips, The Heritage Foundation Backgrounder No. 2442, July 26, 2010, pp. 5.

28. Stephen F. Larrabee, "Troubled Partnership: U.S.–Turkish Relations in an Era of Global Geopolitical Change," RAND Corporation, 2010", p. 52.

29. "U.S. Energy Information Agency, "Turkey: Natural Gas," April 2009", cit. in 'Countering Turkey's Strategic Drift', Sally McNamara, Ariel Cohen and James Phillips, The Heritage Foundation Backgrounder No. 2442, July 26, 2010, pp. 8.

30. Landon Thomas Jr., "Turning East, Turkey Asserts Economic Power", *The New York Times*, July 5, 2010.

closer ties with the Palestinian Authority, Israeli government (until 2008) and other influential elements such as Hamas provided a leverage to mediate between the parties. Israel's massive attack against Gaza city which is under Hamas' control however led Turkey to suspend its role. Despite the ongoing disputes and the critical situation in Israeli-Palestinian peace talks, it seems that Turkey's increasing influence in the region not only stems from its mediation among the rivals or its cultural and religious ties with the Arab world as well as the Jewish community in Israel. Turkish public broadcast (TRT) has reached the Arab World via TRT Arabic (Al-Turkiyya) while Turkish soap operas are among the most popular in the region. As significant as such factors, is Turkey's rising democratic and economic standards over the decade. Its strong ties with the EU block and the US, while further developing relations with its natural hinterland continue inspiring masses in the Middle East. The reform process Turkey witnessed parallel to the progress in the EU accession talks have had an impact on how Turkey is perceived in the Arab world, for instance.<sup>31</sup> According to several respective studies in the region, the foremost issue for the residents of the region is economic situation, despite the common presumption of the Palestinian issue. According to a most recent study carried out in seven Mideast countries (Egypt, Jordan, Lebanon, Palestine, Saudi Arabia, Syria and Iraq), economic problems such as chronically high unemployment rates and poverty are by far the most important ones on the country level, as an average of 49 percent of the survey participants indicate so. For the whole region, the picture does not change a lot as 26 percent indicate that economic challenges dominate the Arab world today.<sup>32</sup>

- Balkans: Turkey's another growing interest targeted the Balkan region in the AK Party's term. During the period, significant steps toward consolidating the Serbian-Bosnian relations as well as Turkey's regional influence were taken. Serbia recently made its first official apology for the massacres in the Bosnian war of 1992-1995. The domestic strife within Bosnia and Herzegovina (BiH) after the Dayton Peace Agreement is eased with Turkey's involvement and mediation between the Croats and Bosnians as well as the separatist Serbian Republic in the BiH. Furthermore, Turkey has established free trade zones in those lands in order to maintain economic ties and increase stability in the region. Even Turkey's recognition of Kosovo in 2008 does not seem to harm the improving relations with the Serbian state. Turkey has an important stake in reconstructing the demolished Bosnian cities and its cultural heritage. Via Turkish International Cooperation and Development Agency (TICA), Turkey has become influential in the region as it sponsored several projects, including the restoration of historical monuments dating back to the Ottoman era. TRT Avaz is founded to reach the Turkish-speaking peoples along with the Balkan and other Central Asian citizens.

Since the aforementioned regions all correspond to the Ottoman Empire's former domain, the 'axis shift' debate takes on a new dimension: the so-called 'neo-Ottomanism'. Such a judgment however remains deficient as it misses pointing out the rest of Turkey's regional interests which are widespread all around the world. The above-mentioned regions thus could be multiplied to cover Latin American, East Asian, Sub-Saharan African and others. Both the advocates of and opponents to the 'axis shift' argument assess Turkey's new foreign policy reach as a pursuit of its "aspiration to become an independent pole in a multi-polar world"<sup>33</sup> while the basic differentiation is on the question of whether Turkey has distanced itself from Europe and the US and reached out to Russia and the Muslim world. Another approach to Turkey's new foreign policy however argues that "Turkey is striving for development on the one hand and making efforts for democratization, on the other. Enduring even the most unacceptable matters on

31. Meliha Benli Altunışık, "The Possibilities and Limits of Turkey's Soft Power in the Middle East", *Insight Turkey*, Vol. 10 No. 2, 2008, pp. 44.

32. Mensur Akgün-Gökçe Perçinoğlu-Sabiha Şenyücel Gündoğar, "Perceptions on Turkey in the Middle East", *TESEV Foreign Policy Analysis Series* 10, March 2010, pp. 9.

33. 'Countering Turkey's Strategic Drift', Sally McNamara, Ariel Cohen and James Phillips, *The Heritage Foundation Backgrounder* No. 2442, July 26, 2010, pp. 2.

its quest for EU membership, Turkey, as its national power increases, its available history and cultural bonds in the geography it once belonged makes it a significant political power in the region.”<sup>34</sup> As Turkey’s chief foreign policy maker, Ahmet Davutoglu repeatedly states, Turkey’s foreign policy initiatives and the new approach well fit into the Obama administration’s aspirations in the regions that are in Turkey’s neighborhood. Therefore the debates around an axis shift are obsolete for many observers while counter arguments claim that the US Administration’s embrace of Turkey was based on what he wanted it to be, not on the reality created under (PM) Erdogan.”<sup>35</sup>

### 3. ‘AXIS SHIFT’ DEBATE: AN ILLUSION

This study asserts that the ongoing ‘axis shift’ debate is at least groundless, provided Turkey’s multi-dimensional and multi-layer foreign policy setup, implemented effectively during the AK Party’s ruling term. Since the axis shift debate is not neutral and does possess a hidden connotation while being used accusative of the country’s expansion to new regions. “Those who accuse Turkey of changing axis confuse the transformation of global politics with that of values and (ideological) trends. And this is where the question of axis shift is perceived as a threat and there is a ringing of alarm bells. But Turkey is simply continuing the broad trends and values begun in 1839 during the period of the Tanzimat (Reorganization) reforms”<sup>36</sup>, according to moderate observers. Whether a continuation of the Tanzimat reforms or not, Turkey’s new orientation both at the homeland and overseas deserves a more profound analysis. The frontiers of limitations of an axis shift however are not well defined and the arguments around it are based on perceptions rather than realities. Therefore, a robust definition for the term should be introduced for each epistemological and actual domain that would legitimize the ongoing debate. Since our analysis takes Turkey’s foreign trade as the main perspective however, the subsequent arguments regarding the debate will be put forward accordingly.

#### 3.1. A Global Axis Shift: Rise of the East

The global economic relations has considerably changed in favor of the Eastern countries or in more general terms the emerging market economies over the last couple decades (i.e. 90s and 2000s). The share of developing countries –or emerging market economies- has consistently increased both in terms of financial-capital inflows as well as trade-commodity flows. A quick look at a glance provides the necessary intuition to the issue as observed in the course of world merchandise trade, based on the World Trade Organization (WTO) statistics. Though Russia and China, two giants of world commodity trade have lately shown interest in becoming members of the WTO, they still constitute a major part in world’s trade as well as investments. The so-called BRIC (Brazil-Russia-India and China) countries, the ASEAN+3 countries (Indonesia, Malaysia, Philippines, Thailand, Singapore, Brunei, Vietnam, Laos, Myanmar, Cambodia plus China, Japan and South Korea) group and the G-20 group as the rising star of global economy in the post-2008 financial crisis period are the signal rockets of the new global economic system. Despite the comparatively low levels of capital and FDI stocks or world trade shares, compared to the EU-27 and North American Free Trade Agreement (NAFTA) economies, the Eastern powers emerged as the representatives of a multi-polar global economy. To provide an understanding of the great potential born by the recent giants of the world economy, China’s non-financial FDI outflows –not inflows- reached 48 billion US Dollars in 2009 alone, according

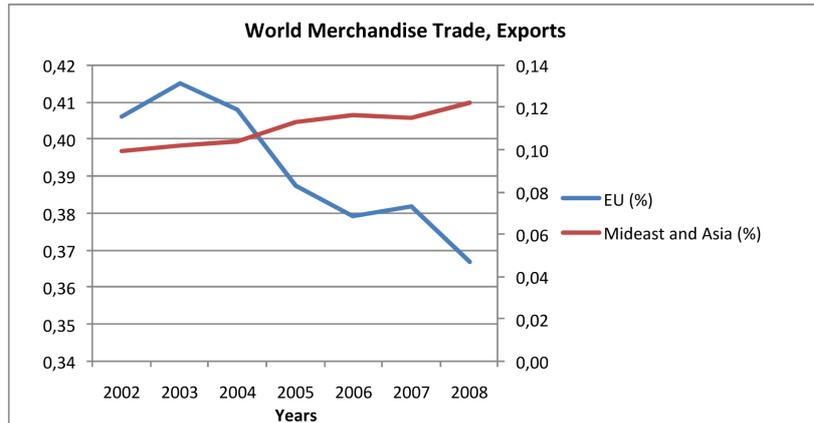
34. Celalettin Yavuz, *Why Turkey is Associated with an Axis Shift?*, June 18, 2010, <http://www.turksam.org/tr/a265.html>

35. ‘Countering Turkey’s Strategic Drift’, Sally McNamara, Ariel Cohen and James Phillips, *The Heritage Foundation Backgrounder* No. 2442, July 26, 2010, pp. 3.

36. Mensur Akgün, “Turkey: what axis shift?”, *Le Monde diplomatique English edition Blog Posts*, July 9, 2010.

to the UN's 2010 World Investment Report. China's total outbound FDI stock is expected to hit some 500 billion US Dollars as of 2013, according to Chinese authorities.<sup>37</sup>

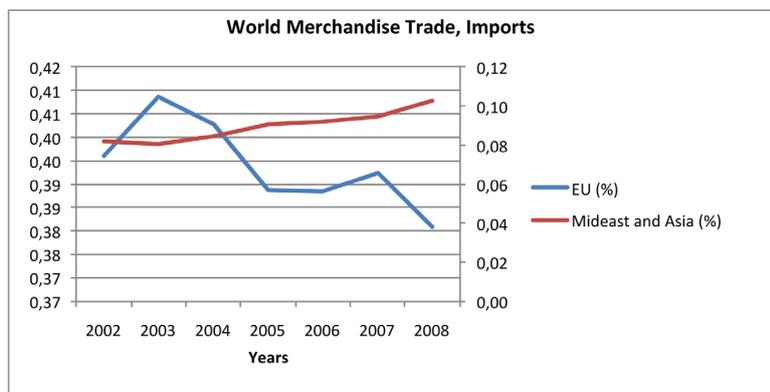
**Figure 4a.** World Merchandise Trade Shares (Exports), 2002-2008



Source: World Trade Organization, 2009

For a meaningful comparison for Turkey's case (i.e. the axis shift debate), the above and below figures (Figure 4a and Figure 4b) provide a depiction of the evolving shares of the EU-27 countries (including intra-EU trade) and the Asian economies, including Middle Eastern countries. Accordingly, total share of the EU-27 block in world merchandise trade is steadily declining over the period of 2002-2008, from 41 percent down to 37 percent in exports and from 40 percent down to 38 percent in imports. Meantime, share of Asian exports witnessed an increase from 10 percent up to 12 percent while imports were up from 8 percent to 10 percent.<sup>38</sup> Therefore, if the term is applicable, it is quite evident that a slow but gradual 'axis shift' towards East is in place at a global scale.

**Figure 4b.** World Merchandise Trade Shares (Imports), 2002-2008



Source: World Trade Organization, 2009

37. UNCTAD World Investment Report, 2010 and China Investment Promotion Agency of Ministry of Commerce (CIPA).

38. World Trade Organization (WTO), 2009, [www.wto.org](http://www.wto.org).

It should not be a surprise to see the continuation of the declining trend in the total trade share of the EU countries coupled with the rising share of Asian economies as of today, especially the financial crisis of 2008 considered. Capital flows to the US and the EU markets have significantly slowed down while the inter-trade volume among the developed nations (i.e. the G-7 members) was also hit considerably for the last couple years. Global FDI figures also imply that the developed economies such as the US and the UK were severely affected by the crisis as total FDIs declined by 68 percent and 85 percent, respectively in 2009. Overall drop in the FDI flows to the 20 developed nations reached 54 percent while the 34 emerging market economies suffered from a 40 percent decline in the FDI flows in 2009, due to the crisis. A total of 54 countries referred accounts more than 90 percent of the world FDI flows as global figures imply a decrease of 49 percent in these terms.<sup>39</sup> Recent data that provides a projection for the mid-term also suggests that China is expected to surpass all G-7 members except the US as of 2015, in terms of its economic size.<sup>40</sup> The IMF's World Economic Outlook (WEO) 2010 report also suggests that the Emerging and Developing Economies' stake at the world trade has increased from a total volume of 3.2 trillion US Dollars (approx.) up to around 11.8 trillion US Dollars in 2010. During the same period however, IMF data suggests that the total trade volume of advanced economies witnessed an increase from 9.5 trillion US Dollars in 2002 up to 18.2 trillion US Dollars in 2010.<sup>41</sup>

All in all, 'the rise of the East' is gradually becoming a factual rather than a perceptual phenomenon under which Turkey re-positions itself accordingly. The emerging and developing economies mostly located in the East are also increasingly the financers of the world economic growth as the IMF data projects the total debt stock in the US to become 110.7 percent of the total GDP while it is expected to be 89.3 percent for the Euro area in 2015. The same data indicates expected current account deficit of advanced economies to reach around 274.4 billion US Dollars in 2015 while emerging and developing economies are expected to run a surplus of 763.8 billion US Dollars in 2015.<sup>42</sup>

Other indicators such as savings and investment numbers are also providing a strong mark for emerging economies' increasing role in the global economy. Net FDI and portfolio investment flows are also suggestive of the developing economies' robust performance regarding their attractiveness for global capital movements. According to the most recent estimates, savings rate (as portion of the total GDP) for the emerging economies will be reach at 33.8 percent during the period of 2012-2015 while investment ratio will hit at 32 percent in the same period. Meantime the savings and investment ratios will stand at 19.7 percent and 20.1 percent, respectively.<sup>43</sup>

### 3.2. Turkey's Shifting Axis Towards East: Integration or Penetration?

As long as Turkey considered, the traditional trading markets include the EU, Russia, the US and partly the Middle East for more than half a century. The EU has the highest share due to its market size in terms of geography, population (i.e. demand) as well as the GDPs. Higher involvement in bilateral trade with the European Union (EU) economies imply that Turkey's export sector maintains its competitiveness while regionally westward oriented. Trade between Europe and Turkey has boosted, especially after Turkey's accession to the EU Customs Union by the end of 1995. Total trade volume hit around 81 billion Euros (104 billion US Dollars) in 2009. The Customs Union agreement was signed without concluding a free trade agreement however. Therefore, Turkey still suffers certain losses due to the lack of a Free Trade Agreement (FTA) or not becoming a full member to the EU.

39. UNCTAD World Investment Report, 2010 and Bloomberg.

40. IMF World Economic Outlook (WEO), October 2010, <http://www.imf.org/external/pubs/ft/weo/2010/02/index.htm>.

41. IMF World Economic Outlook (WEO) 2010, Statistical Appendix, Table B16, pp. 21.

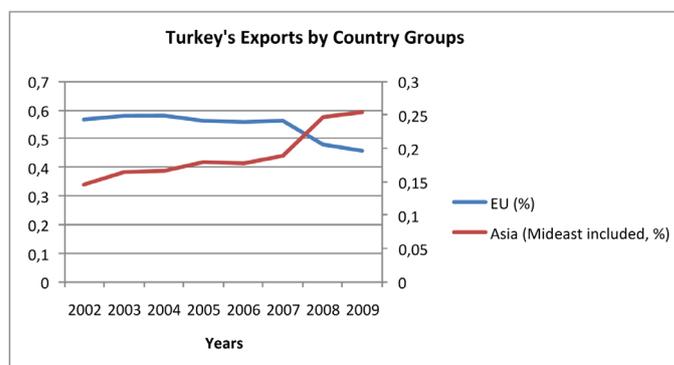
42. IMF World Economic Outlook (WEO) 2010, Statistical Appendix, Table A8, pp. 191.

43. IMF World Economic Outlook (WEO) 2010, Statistical Appendix, Table A16, pp. 204.

The current status of the EU-Turkey trade is therefore increasingly questioned on the Turkish front, despite the free trade of certain goods and preferential access to the EU markets since “this relationship remains overly complex and discriminatory toward Turkey in two respects. First, as a precondition of joining the customs union (CU), Turkey was required to adopt the EU’s existing FTAs with partner countries, including the European Free Trade Area. However, arrangements between the EU and third countries since 1995 automatically extend to Turkey, even though Ankara is excluded from the decision-making process. Second, Turkish markets are automatically opened to these third countries under the customs union agreement, but Turkey is not automatically granted reciprocity by the third country. Reciprocity depends on Brussels’ goodwill and willingness to include a ‘Turkish clause’ in their final agreement. This arrangement is unsatisfactory. Turkish commercial policy has essentially been seconded to Brussels without any gain in voting rights. Trading away its sovereignty might be a price worth paying if EU membership was assured, but membership is not assured. Therefore, the EU should adopt a full and comprehensive FTA with Turkey to replace the customs union agreement.”<sup>44</sup>

A new wave of free trade agreements with the neighboring countries is expected to take place, as stated in the EU’s 2007 Market Access Strategy. Under such terms, Turkey expects to be included in such an expanded FTA scheme such as the Euro-Mediterranean Free Trade Area (EMFTA), as a current member of the Union for the Mediterranean. Sectors previously excluded from the EU–Turkish Customs Union, including agriculture should therefore be included under such an FTA. Although relatively a staunch supporter of Turkey’s EU bid to become a full member, the US has still gains from Turkey’s advanced ties with the EU as a recent analysis puts it: “A bold and comprehensive FTA with Turkey could set a precedent for achieving greater volumes of trade than the EU Customs Union and would create an enduring basis for EU–Turkish integration separate from the highly politicized question of EU membership. Establishing an FTA with Turkey in place of the customs union should not remove the prospect of EU membership for Turkey. Nor should the EU withdraw its financial aid to Turkey as designated under the Instrument for Pre-Accession Assistance. However, if Turkey is ultimately denied EU membership, Ankara will still be in a position to benefit from an enduring trading relationship with the EU and its Mediterranean partners. If Turkey’s accession to the EU remains as unlikely as it appears today, Europe needs a fallback position to ensure that Turkey still has a reason to maintain good relations.”<sup>45</sup>

**Figure 5a.** Turkey’s Trading Partners (Export Shares), 2002-2009



Source: TurkStat, 2009

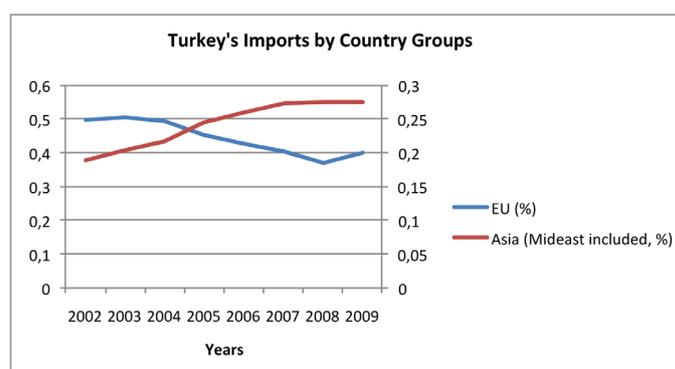
44. ‘Countering Turkey’s Strategic Drift’, Sally McNamara, Ariel Cohen and James Phillips, The Heritage Foundation Backgrounder No. 2442, July 26, 2010, pp. 14.

45. ‘Countering Turkey’s Strategic Drift’, Sally McNamara, Ariel Cohen and James Phillips, The Heritage Foundation Backgrounder No. 2442, July 26, 2010, pp. 14.

Turkey's trade with the EU-27 block has been consistently subject to limited declines over the period of 2002-2009 in terms of its share in total, as observed in the above and below figures. This phenomenon is partly due to the above-mentioned problems over the customs union agreement and Turkey's prolonged quest for joining into the 'club' as a full-member while the EU's bigger members like Germany and France are still resistant to such an occasion. It is crystal clear that the customs union in practice for instance has not yielded a long-run 'trade creation' in terms of percentage change but rather a 'trade diversion' on behalf of Turkey.<sup>46</sup> The recent comparative shift in Turkey's trade with its neighboring countries and 'clubs' has also to do with the globally rising performance of the East as stated in the previous sub-section. Besides, "the share of the EU-27 group in the Turkish exports declined from 48 percent down to 46 percent between 2008 and 2009 which is considered as a setback in Turkey's traditional trade markets and an indicator of both a shift of axis in the EU markets and Turkish exports, by some circles. Accordingly, a recent global shift away from the EU-27 block to the rest of the world is taking place in terms of multi-national firm operations, investments and capital and commodity flows during the crisis period of 2008-2009."<sup>47</sup> Turkey however missed the opportunity of both increasing its exports to the EU members in a period of declining intra-EU trade figures while taking advantage of outbound capital and commodity flows as it attracted significant amounts of FDIs and boosted its trade volume over the last decade.

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

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



Source: TurkStat, 2009

Another significant development in Turkish trade is observed in the relative changes in the shares of Turkey's regions from the total trade volume. Turkey's South-Eastern Anatolian and Mediterranean regions as well as Eastern

46. For arguments on the defensive of the customs union between the EU and Turkey see, 'The Future of Turkish-EU Trade Relations', Sinan Ülgen and Yiannis Zahariadis, Centre for European Policy Studies and the Economics and Foreign Policy Forum, EU-Turkey Working Papers No. 5/ August 2004, pp. 30.

47. Ayşegül Dinççağ-Ümit Özlale, "Export Losses in EU markets", TEPAV Policy Note, July 2010, pp. 3.

Anatolian region gained comparative advantages in the period of 2002-2009 where a significant overall increase was witnessed (see Table 4). Cross-border trade has also substantial contribution on the recent increase in trade activities in the Southeastern provinces, thanks to the visa-free travel regimes and lesser bureaucracy since 2002. Turkey's recently improving ties with the Middle Eastern and North African countries as well as Russia and other Eastern economies are partly due to the overall development in Turkish trade sector's performance while partly due to the EU-Turkey political issues (including the visa disputes). Therefore, it is still too early to speak about an axis shift since the EU-27 block will remain as the main trading partner for Turkey for a longer period, even if its full-membership bid fails to reach a successful end in the next decade.

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

**Table 1. Turkey's Trade by OECD Country Group Classification, 2002-2009 (in US Dollars)**

Commodity		TOTAL : ALL COMMODITIES								
Measure		Value								
Partner Country		Non-OECD Middle East								
Year		2002	2003	2004	2005	2006	2007	2008	2009	
Turkey	Imports	2.973.381.628	4.058.675.297	5.142.629.246	7.391.304.798	9.882.727.705	12.022.006.674	16.172.652.698	8.555.032.577	
	Exports	3.044.249.105	4.994.251.381	7.311.204.161	9.384.325.752	10.212.501.535	13.387.571.248	22.764.206.638	17.044.450.897	
		Non-OECD Europe								
Year		2002	2003	2004	2005	2006	2007	2008	2009	
	Imports	6.292.870.977	8.910.152.283	15.002.495.324	19.909.831.816	24.321.942.310	32.251.938.308	42.426.426.801	26.246.662.767	
	Exports	3.416.147.517	4.717.983.160	6.458.500.877	8.909.045.600	10.104.708.716	14.704.606.532	18.595.921.534	10.799.603.338	
		Non-OECD Asia								
Year		2002	2003	2004	2005	2006	2007	2008	2009	
	Imports	4.347.710.412	6.800.740.288	10.685.776.221	14.562.104.929	19.570.319.489	26.204.205.042	31.423.130.026	23.976.148.454	
	Exports	1.937.373.696	2.604.207.255	2.876.844.506	3.494.783.784	4.625.754.726	6.522.064.571	9.136.845.496	8.380.388.624	
		Africa								
Year		2002	2003	2004	2005	2006	2007	2008	2009	
	Imports	2.645.626.702	3.338.423.713	4.820.378.449	7.310.071.557	9.201.103.248	8.963.654.487	9.274.636.228	6.801.430.479	
	Exports	1.681.889.607	2.128.558.625	2.966.951.499	3.947.918.791	5.164.916.713	6.634.272.034	10.305.278.566	11.047.279.020	
		Gulf Arabian Countries								
Year		2002	2003	2004	2005	2006	2007	2008	2009	
	Imports	945.034.029	1.236.140.430	1.946.715.251	2.671.130.551	3.150.213.118	3.819.537.709	5.681.334.107	3.623.242.242	
	Exports	1.316.638.172	2.662.478.304	4.317.060.606	5.958.886.002	6.423.611.529	8.686.651.989	16.537.993.251	10.895.287.280	
		European Union (27 countries)								
Year		2002	2003	2004	2005	2006	2007	2008	2009	
	Imports	25.665.900.973	35.174.568.438	48.134.238.894	52.740.736.597	59.440.725.139	68.672.148.929	74.853.199.438	56.613.483.041	
	Exports	20.480.357.216	27.716.389.332	37.036.420.410	42.119.474.801	48.821.113.660	61.330.770.409	64.450.875.539	47.763.892.794	

Source: OECD Statistical Database, 2010

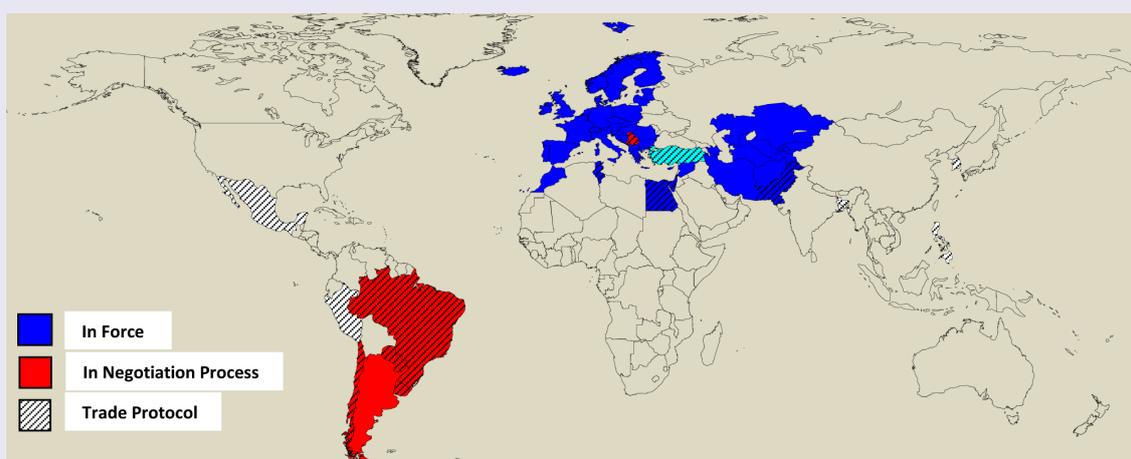
The above table provides insight on Turkey's commodity trade which clearly indicates a decline both in Middle Eastern and European trade volumes during the recent crisis period (2008-2009) while boosting during times of the world trade booms (2002-2007). Significant determinants of an 'axis shift' should have also revealed themselves in terms of services and labor flows. Although the latter is still far from being accomplished in today's world, the first is

increasingly developing, particularly with the EU. As pointed out in the previous sections, Turkey's service industry has strong ties with its European counterparts, in telecommunications, tourism and finance. Therefore, bilateral trade in services which reached at 46.5 billion US Dollars in 2008, mostly with the EU members is yet another indicator of a broadening axis, rather than an 'axis shift'.<sup>48</sup>

**Box: Turkey's FTAs and the New Gravity Equation**

Gravity (equation) models are considerably new to the theory of international trade though they are in use for more than a decade now. For the purpose of this study however, we will refrain from going beyond the limits of descriptive analysis provided so far. In general, new trade theory takes economic size, geography or rather proximity, culture, common language or border and such issues into account in order to estimate the role of trade in cross-country growth forecasts. In case of Turkey, the FTAs created other than the customs union with the EU are increasingly effective on diversifying and magnifying Turkish exports. Below table and the map provide an insight on Turkey's new trade dimensions, taking the common elements in bilateral relations into account.

**Map 2. Turkey's Free Trade Agreements (FTAs; based on WTO Data)**



Source: Undersecretariat for Foreign Trade, March 2009

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

48. Data from Undersecretariat for Foreign Trade, 2009.

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

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

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

While establishing FTAs and RTAs throughout different regions in the world, Turkey has managed to establish visa-free travel regimes at all levels with more than a dozen countries within the last decade. Group of countries that Turkey had mutual visa-free travel regimes on different levels or visa holder-status include: Tajikistan (2003 and 2009); Uzbekistan (2003); Romania (2004); Guatemala (2004); Venezuela (2005); Paraguay (2006); Colombia (2006); Latvia (2006); Vietnam (2007); Kuwait (2007); Afghanistan (2007); Montenegro (2008); India (2008); UAE (2008); Kosovo (2009); Djibouti (2009); Syria (2009); Pakistan (2009); Albania (2009); Kenya (2009); Qatar (2009); Libya (2009); Jordan (2009); Azerbaijan (2009); Lebanon (2010); Tanzania (2010); Cameroon (2010); Russia (2010); Serbia (2010); Portugal (2010); and Greece (2010). One could assess the reach and diversity of Turkey's new foreign policy and thus trade relations via established free trade agreements, new flight routes and visa agreements which indicate a multi-polar geographic orientation rather than a clear-cut axis shift. In addition, Turkish Undersecretariat for Foreign Trade documents reveal that the government is in negotiations for finalizing the establishment of FTAs with Lebanon, the GCC countries, Ukraine, MERCOSUR countries, Libya, Mauritius, Seychelles, and Faroe Islands while initiating talks with Mexico, Algeria, South African Customs Union, ASEAN, South Africa, ANDEAN, India and 36 countries under Africa Caribbean Pacific Group of States (ACP). The relatively unexploited nature of Turkey's bilateral trade with the aforementioned countries or groups therefore offers a unique opportunity to develop rapidly. This list by its own is also refuting the argument for an axis shift while providing some insight on Turkey's future vision of diversifying its trade destinations. The role of 'gravity equation' is crucial when the location, size and diversity of the newly established FTAs or other forms of bilateral trade relations are taken into account.

### 3.3. Prospects for Turkish Trade in a Changing Global Economy

Due to the structural comparative advantage and the country's increasing competitiveness, Turkey is expected to remain as one of the foremost trading partners for the EU countries as well. It is quite natural for a pivotal state like Turkey to develop new ties with the global economies' rising stars and its neighboring countries due to several reasons: increasing economic power (GDPs etc.), dynamic population (driving the demand), common ties (i.e. geography, history, religion and culture). Therefore, an axis shift debate becomes obsolete due to the factual reasons once the negative and skeptical perceptions over Turkey's new foreign (trade) policy are removed. Such a debate would only reveal the old compartmentalizing mentality of the Cold War under the minds of Western allies.

The traditional Western perception of the 'East' once again seems to have emerged in the recent 'axis shift' debates without any solid basis. In the wake of changing global economic setup with the rise of G-20 specifically, it would be quite normal to see Turkey becoming a regional playmaker as well as an important element of the newly shaping global economic structure. Based on the trend over the last decade, Turkey could be argued to witness a continuous development in terms of its foreign trade for the next couple decades, given the political stability within the country and surrounding regions together with the favorable global economic conditions. The significant dependence over the intermediate goods and the lack of proper R&D strategy however are among the hindering factors of a more rapid economic growth in the country. Turkey meantime needs to develop a long-term trade policy strategy map to address the current weaknesses in the production, marketing and other segments of its trade structure.

Turkey's recent rise based on the rapid economic growth is reinforced by its strong ties to the EU, as it functions as a high standard level for Turkish exporters. Sitting at the quality ladder's top, the EU markets drive the export sector become more competitive by increasing the quality of commodities and services while competing at price levels. With its unique geographic advantage, supported with a dynamic population and a significantly large market size as well as improving human and physical capital stock, Turkey is also becoming an indispensable partner of European trade. As depicted in Table 3, Turkey's position among EU-27's trade partners is almost unchanged over the period of 2005-2009 as it ranks 7<sup>th</sup> in the whole five-year period, which could be read as another rejection of the axis shift arguments, this time from the opposite direction.

**Table 3. Major Trade Partners of the EU-27**

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

Source: European Commission (EC), 2010

The traditionally advantageous export industries such as textiles, machinery, chemicals, plastics, metals and automotive subsidiary seems to be dominating Turkey's trade not only with the EU member countries but also the newly engaged markets. A significant shift towards high-technology intensive products would be crucial for a sustainable future for Turkish exports however.

#### 4. CONCLUSION

Turkey is emerging as a pivotal state with its vibrant economy and increasingly stable domestic political scene in the first decade of the 21<sup>st</sup> century. The present report provides an intuitive while descriptive understanding to the evolving nature of and the debates hovering around Turkey's new foreign policy structure through foreign trade perspective over the period of 2002-2010. A detailed and careful analysis reveals that the so-called 'axis shift' debate becomes obsolete once the factual indicators are put forward in the economic sphere. From the number of flights to overseas to the mutual visa-exemption agreements and the cross-border commercial ties; all indicators related to Turkey's changing trade environment are subject to an attentive survey in order to have a healthier apprehension over the issue.

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

Nonetheless, Turkey's new trade destinations and relations have helped to alleviate the negative impacts of the global financial crisis of 2008. Although its GDP shrank by 4.7 percent and total trade volume significantly by around 27 percent on annual basis<sup>49</sup>, Turkey has managed well to avoid a long-term recession as it is expected to grow around 7 percent in 2010<sup>50</sup> while total trade volume is estimated to recover dramatically. The negative part however is the widening current account deficit, of which trade deficit is a major factor. As Turkey's trade volume increases, so does the deficit, due to structural issues as stated in the previous sections. Therefore, a sustainable trade scheme should incorporate a solution for the structural deficit problem which stems from the modes of production and low levels of technology thus value-added.

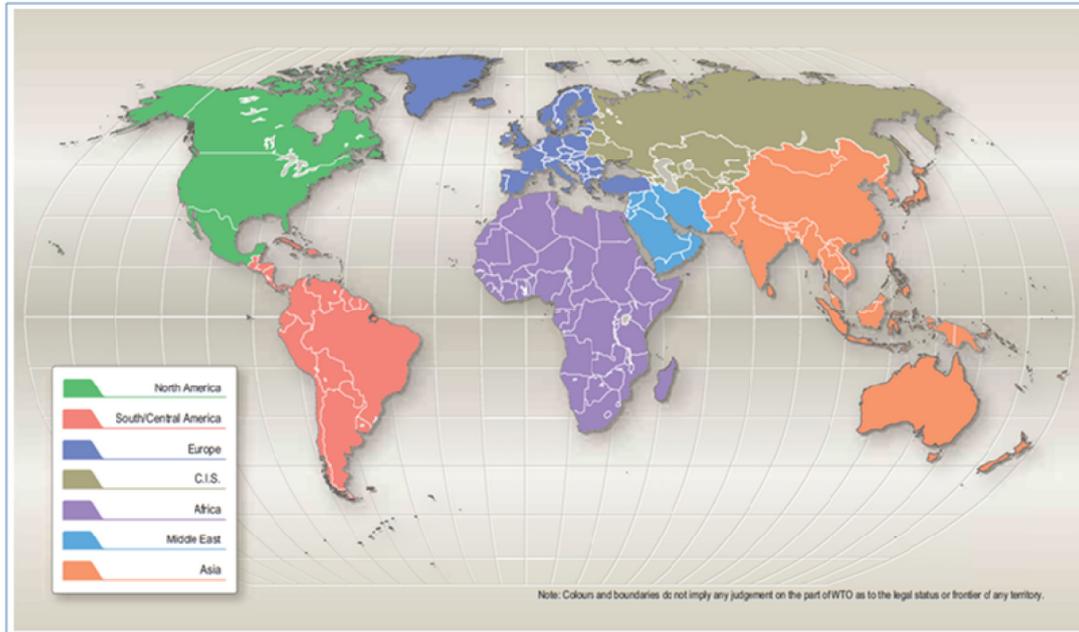
Since the current trade deficit is unsustainable in the long-run, Turkey's recently discovered trade relations which usually yield trade surpluses are of crucial importance for a balanced path for foreign trade. Such a structural break would only have long-term positive contribution to the aggregate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

49. Turkish Statistical Institute (TurkStat), 2010.

50. IMF forecast for Turkey's GDP growth in 2010 is 7.8 percent (WEO 2010) while the government's projection is revised from 3.5 percent up to 6.8 percent according to the recently announced Mid-Term Economic Program.

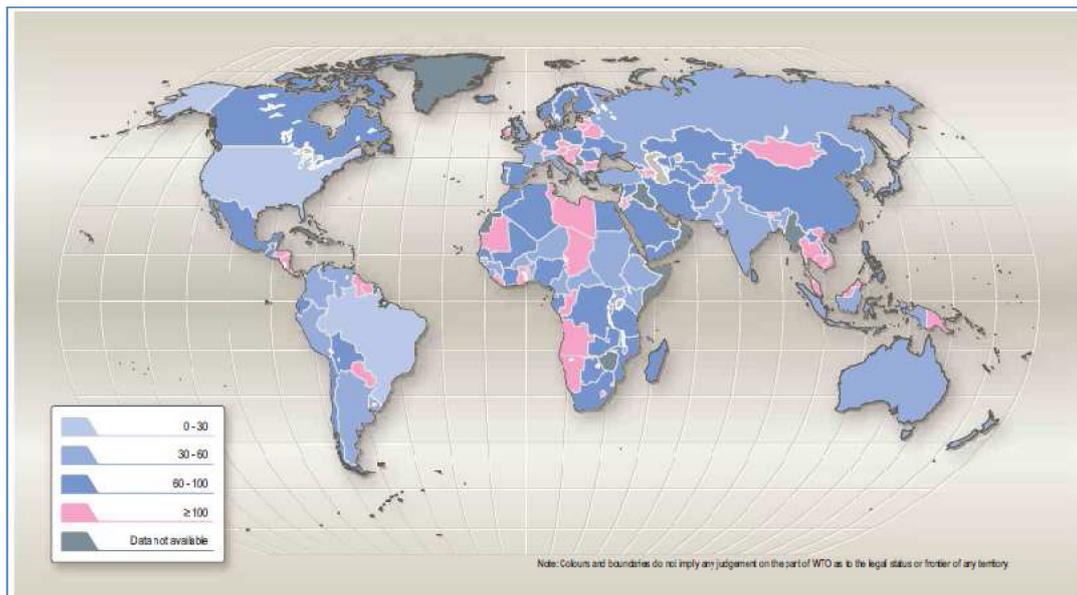
## APPENDIX: MAPS, TABLES and FIGURES

**Map 3.** Composition of Geographical Regions in World Trade



Source: WTO International Trade Statistics 2009, World Maps

**Map 4.** Ratio of Exports and Imports of Goods and Commercial Services to GDP, 2007



Source: WTO International Trade Statistics 2009, World Maps (percentage based on current USD values)

**Table 4.** Turkey's Foreign Trade by Years, 2002-2009

Years	Exports		Imports		Trade Balance	Total Trade Volume	Proportion of Imports covered by Exports
	'000 \$	%	'000 \$	%	'000 \$	'000 \$	%
2002	36 059 089	15,1	51 553 797	24,5	-15 494 708	87 612 886	69,9
2003	47 252 836	31,0	69 339 692	34,5	-22 086 856	116 592 528	68,1
2004	63 167 153	33,7	97 539 766	40,7	-34 372 613	160 706 919	64,8
2005	73 476 408	16,3	116 774 151	19,7	-43 297 743	190 250 559	62,9
2006	85 534 676	16,4	139 576 174	19,5	-54 041 498	225 110 850	61,3
2007	107 271 750	25,4	170 062 715	21,8	-62 790 965	277 334 464	63,1
2008	132 027 196	23,1	201 963 574	18,8	-69 936 378	333 990 770	65,4
2009*	102 128 447	-22,6	140 898 982	-30,2	-38 770 535	243 027 429	72,5

\*Data for 2009 are provisional.

Source: Turkish Statistical Institute (TurkStat), 2010

**Table 5.** Turkey's Exports-Imports by Country Groups, 1996-2001

Years	Exports						Imports*					
	1996	1997	1998	1999	2000	2001	1996	1997	1998	1999	2000	2001
<b>Countries</b>	<b>23.224</b>	<b>26.262</b>	<b>26.974</b>	<b>26.587</b>	<b>27.775</b>	<b>31.334</b>	<b>43.627</b>	<b>48.559</b>	<b>45.921</b>	<b>40.671</b>	<b>54.503</b>	<b>41.399</b>
A- EU COUNTRIES (27)	12.569	13.435	14.813	15.424	15.664	17.546	24.321	26.119	25.282	22.530	28.527	19.823
B- TURKEY'S FREE ZONES	447	611	831	780	895	934	297	361	418	508	496	303
C- OTHER COUNTRIES	10.208	12.216	11.331	10.383	11.216	12.854	19.009	22.080	20.221	17.633	25.480	21.273
Other European Countries	2.549	3.296	2.489	1.740	1.855	2.094	3.974	4.513	4.414	4.172	6.149	5.738
African Countries	1.159	1.234	1.818	1.655	1.373	1.521	1.994	2.197	1.758	1.687	2.714	2.819
North African Countries	986	980	1.502	1.344	1.087	1.150	1.618	1.813	1.493	1.404	2.257	2.115
Other African Countries	174	253	316	311	285	371	376	385	265	283	457	704
American Countries	1.898	2.376	2.657	2.869	3.596	3.685	4.634	5.453	5.016	3.799	4.799	3.841
North America Countries	1.740	2.149	2.389	2.586	3.309	3.297	3.860	4.641	4.230	3.257	4.167	3.390
Central America And Caraiops	72	103	146	163	167	201	240	108	117	91	80	41
South America Countries	86	124	122	120	120	186	534	704	669	452	551	410
Asian Countries	4.520	4.783	3.984	3.817	3.871	4.592	7.951	8.791	8.286	7.197	10.306	7.901
Near And Middle Eastern	2.595	2.821	2.681	2.566	2.573	3.261	3.315	2.774	2.084	2.124	3.373	3.016
Other Asian Countries	1.925	1.962	1.304	1.250	1.298	1.331	4.636	6.017	6.202	5.073	6.933	4.884
Australia and New Zealand	65	80	76	87	135	98	428	547	439	157	305	232
Other Countries	18	447	306	215	385	864	29	579	307	621	1.208	741
<b>SELECTED COUNTRY GROUPS</b>												
OECD Countries	14.456	15.609	17.003	18.077	19.006	20.616	31.116	34.838	33.496	28.356	35.682	26.011
EFTA Countries	336	414	357	362	324	316	1.112	1.287	1.169	926	1.155	1.481
Organization of Blacksea Economic Co-operation	2.926	3.825	3.290	2.232	2.467	2.932	3.897	4.495	4.358	4.308	6.746	5.553
Organization for Economic Co-operation	1.129	1.286	1.125	866	874	972	1.197	1.107	948	1.123	1.543	1.238
New Independent States (CIS)	2.664	3.512	2.667	1.533	1.649	1.978	3.074	3.615	3.724	3.734	5.693	4.630
Turkish Republics	747	908	835	574	572	557	304	399	449	457	628	283
Organization of Islamic Conference (OIC)	4.143	4.218	4.391	3.961	3.573	4.197	5.587	5.233	4.238	4.078	6.321	5.540

\*Updated on August 3rd, 2009

Source: Undersecretariat for Foreign Trade, 2009

**Table 6. Turkey's Imports and Exports by Country Groups, 2002-2009**

Imports by country groups								
000 \$								
Country Groups	Years							
	2002	2003	2004	2005	2006	2007	2008	2009
<b>TOTAL</b>	51 553 797	69 339 692	97 539 766	116 774 151	139 576 174	170 062 715	201 963 574	140 898 982
<b>A-E.U. COUNTRIES (27)</b>	25 688 833	35 140 139	48 102 744	52 695 793	59 400 922	68 611 562	74 802 380	56 583 320
<b>B-FREE ZONES IN TURKEY</b>	574 504	588 912	811 460	760 060	944 142	1 223 729	1 334 250	965 363
<b>C-OTHER COUNTRIES</b>	25 290 460	33 610 642	48 625 562	63 318 298	79 231 111	100 227 423	125 826 945	83 350 299
1-Other European Countries	7 487 347	10 341 499	15 756 926	20 385 906	25 695 361	34 253 510	44 196 490	25 883 403
2-North African Countries	2 138 099	2 518 707	3 231 235	4 212 112	4 878 401	3 616 397	5 267 239	3 541 894
3-Other African Countries	558 078	819 763	1 589 145	1 835 122	2 526 126	3 167 700	2 503 214	2 158 010
4-North American Countries	3 420 584	3 740 706	5 114 159	5 822 698	6 935 690	9 032 926	13 404 016	9 506 230
5-Central America and Caraiaps	103 054	169 378	209 040	287 280	334 966	448 291	560 444	475 745
6-South America Countries	541 251	1 012 373	1 271 462	1 747 404	2 130 616	2 671 179	3 259 762	2 286 192
7-Near And Middle Eastern	3 185 675	4 455 199	5 584 836	7 966 854	10 568 063	12 641 279	17 627 603	9 590 265
8-Other Asian Countries	6 529 948	9 643 755	15 500 398	20 581 162	25 657 979	33 658 278	38 087 261	29 128 043
9-Australia and New Zealand	313 072	246 974	301 553	321 399	398 688	671 742	876 169	647 843
8-Other Countries	1 013 352	662 288	66 810	158 360	105 221	66 122	44 747	132 675
<b>Selected country groups</b>								
OECD Countries	34 154 851	45 544 874	62 308 552	69 582 656	77 812 573	91 856 829	102 901 962	75 132 426
EFTA Countries	2 511 999	3 395 678	3 911 430	4 439 552	4 522 434	5 774 587	6 217 519	2 780 556
Organization of Blacksea Economic Co-operation	6 587 757	9 297 694	15 368 136	20 480 090	27 021 455	34 808 872	45 632 225	28 294 449
Organization for Economic Co-operation	1 548 166	2 735 688	3 217 953	5 108 258	8 101 662	9 972 107	13 220 660	7 010 312
New Independent States (CIS)	5 554 504	7 777 111	12 926 894	17 252 743	23 372 924	31 262 659	42 613 879	26 041 247
Turkish Republics	467 790	623 295	945 581	1 267 479	1 967 429	2 669 249	4 278 503	2 873 525
Organization of Islamic Conference	6 071 754	8 195 006	10 630 643	14 459 182	19 110 794	21 524 428	29 178 544	17 968 868
<b>Exports by country groups</b>								
000 \$								
Country Groups	Years							
	2002	2003	2004	2005	2006	2007	2008	2009
<b>TOTAL</b>	36 059 089	47 252 836	63 167 153	73 476 408	85 534 676	107 271 750	132 027 196	102 128 447
<b>A-E.U. COUNTRIES (27)</b>	20 415 034	27 393 762	36 580 859	41 364 962	47 934 746	60 398 502	63 390 419	46 984 272
<b>B-FREE ZONES IN TURKEY</b>	1 438 477	1 928 266	2 563 637	2 973 224	2 967 219	2 942 876	3 008 061	1 957 113
<b>C-OTHER COUNTRIES</b>	14 205 578	17 930 808	24 022 657	29 138 222	34 632 711	43 930 087	65 622 092	53 187 062
1-Other European Countries	2 606 971	3 381 997	4 507 410	5 855 304	7 961 672	10 842 681	15 678 083	11 358 129
2-North African Countries	1 266 596	1 576 974	2 203 356	2 544 398	3 096 665	4 029 683	5 850 262	7 447 344
3-Other African Countries	430 060	554 243	764 791	1 086 849	1 469 127	1 946 661	3 212 341	2 732 016
4-North American Countries	3 596 000	3 972 875	5 206 705	5 275 698	5 439 399	4 540 601	4 801 535	3 563 478
5-Central America and Caraiaps	196 883	166 016	333 715	410 753	548 451	548 835	828 687	596 763
6-South America Countries	120 951	130 540	192 754	273 783	340 598	513 179	901 401	677 747
7-Near And Middle Eastern	3 439 789	5 464 810	7 921 284	10 184 230	11 315 751	15 081 322	25 430 395	19 186 958
8-Other Asian Countries	1 789 998	2 347 927	2 544 121	3 028 878	3 941 556	5 227 250	7 074 123	6 703 850
9-Australia and New Zealand	121 669	158 098	264 495	270 794	327 020	342 812	435 326	359 987
8-Other Countries	636 661	197 329	84 026	207 536	192 474	856 524	1 409 938	560 790
<b>Border Trade Centers</b>						285	6 624	
<b>Selected country groups</b>								
OECD Countries	24 498 070	31 919 772	42 648 300	47 325 438	54 480 970	65 674 811	70 471 749	54 226 768
EFTA Countries	409 043	538 086	666 588	820 849	1 189 267	1 327 977	3 261 728	4 327 105
Organization of Blacksea Economic Co-operation	3 598 969	5 044 444	6 778 995	8 619 516	11 583 697	16 784 102	20 867 277	12 315 291
Organization for Economic Co-operation	1 041 911	1 569 221	2 206 321	2 669 869	3 340 996	4 700 072	6 247 706	5 945 099
New Independent States (CIS)	2 278 878	2 962 593	3 961 619	5 056 779	6 992 529	10 088 336	13 938 226	8 741 807
Turkish Republics	619 345	899 114	1 194 307	1 409 257	1 981 603	2 874 467	3 749 451	3 397 085
Organization of Islamic Conference	4 725 287	7 204 574	10 214 345	13 061 019	15 007 499	20 310 574	32 596 965	28 663 217

Source: TurkStat, 2010

**Table 7.** Turkey's Exports-Imports by Domestic Regions, 2002-2009

<b>Exports</b>																
\$ Million	NUMBER OF EXPORTER FIRMS									EXPORT VALUE						
	ANNUAL									ANNUAL						
	2002	2003	2004	2005	2006	2007	2008	2009	2002	2003	2004	2005	2006	2007	2008	2009
MEDITERRANEAN	2.082	2.327	2.531	2.847	2.989	3.237	3.294	3.391	1.486	2.086	2.740	3.037	3.537	4.410	5.558	4.865
EASTERN ANATOLIA	296	397	518	606	638	586	653	789	157	225	348	575	621	835	1.080	1.460
AEGEAN	4.216	4.784	5.277	5.442	5.635	6.199	5.825	5.637	4.112	5.193	6.423	7.325	8.560	10.365	12.288	9.615
SOUTH EASTERN ANATOLIA	719	844	966	1.129	1.203	1.267	1.349	1.522	666	943	1.457	1.986	2.205	2.980	3.990	3.833
CENTRAL ANATOLIA	3.080	3.425	3.964	4.378	4.630	5.026	5.318	5.567	2.254	2.927	3.516	4.191	5.429	6.847	8.444	7.556
BLACK SEA	756	820	792	852	853	1.011	1.109	1.125	750	872	1.418	2.086	1.971	2.512	3.332	2.606
MARMARA	20.570	22.990	25.384	26.884	28.211	30.939	30.595	30.555	26.635	35.007	47.265	54.277	63.212	79.323	97.337	72.194
<b>TOTAL</b>	<b>31.719</b>	<b>35.587</b>	<b>39.432</b>	<b>42.138</b>	<b>44.159</b>	<b>48.265</b>	<b>48.143</b>	<b>48.586</b>	<b>36.059</b>	<b>47.253</b>	<b>63.167</b>	<b>73.476</b>	<b>85.535</b>	<b>107.272</b>	<b>132.027</b>	<b>102.128</b>
<b>Imports</b>																
\$ Million	NUMBER OF IMPORTER FIRMS									IMPORT VALUE						
	ANNUAL									ANNUAL						
	2002	2003	2004	2005	2006	2007	2008	2009	2002	2003	2004	2005	2006	2007	2008	2009
MEDITERRANEAN	1.857	2.051	2.463	2.805	2.801	3.129	3.145	2.920	1.563	2.027	2.867	3.573	4.546	6.497	7.769	6.133
EASTERN ANATOLIA	293	306	375	373	368	386	376	373	70	126	117	173	223	297	235	227
AEGEAN	3.947	4.372	4.842	5.062	5.418	5.934	5.797	5.600	2.999	4.250	5.805	6.459	7.412	9.506	11.262	8.467
SOUTH EASTERN ANATOLIA	965	1.098	1.296	1.269	1.238	1.461	1.395	1.346	762	1.152	1.514	1.885	2.128	2.629	3.186	2.437
CENTRAL ANATOLIA	4.741	5.121	5.937	6.383	6.771	7.391	7.350	7.144	7.248	7.728	8.845	11.985	16.176	19.586	26.365	18.878
BLACK SEA	706	821	960	1.028	1.005	1.103	1.037	984	783	1.164	1.690	2.317	2.725	2.820	3.988	2.598
MARMARA	26.533	29.561	32.186	34.367	36.164	39.498	38.684	36.648	38.129	52.894	76.702	90.382	106.364	128.729	149.158	102.159
<b>TOTAL</b>	<b>39.042</b>	<b>43.330</b>	<b>48.059</b>	<b>51.287</b>	<b>53.765</b>	<b>58.902</b>	<b>57.784</b>	<b>55.015</b>	<b>51.554</b>	<b>69.340</b>	<b>97.540</b>	<b>116.774</b>	<b>139.576</b>	<b>170.063</b>	<b>201.964</b>	<b>140.899</b>

Source: Undersecretariat for Foreign Trade, 2009

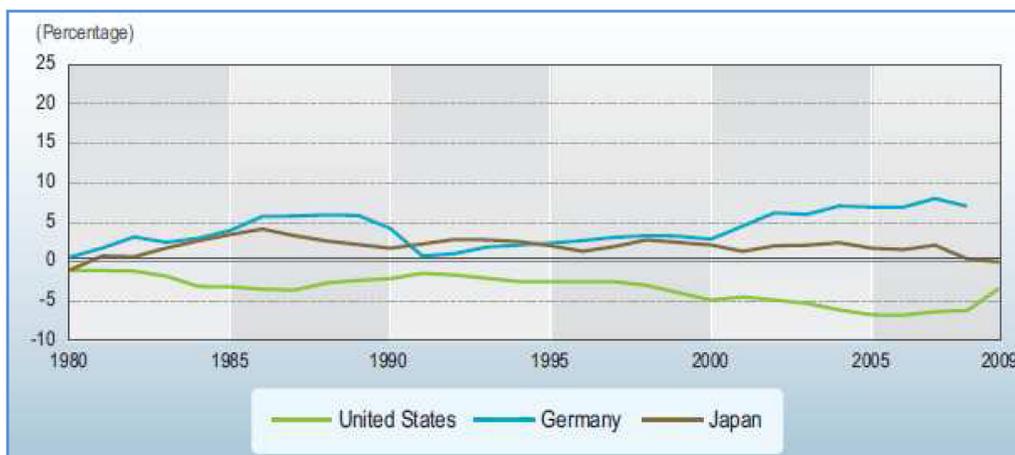
**Table 8.** World Merchandise Exports by Region and Selected Economy: 1948, 1953, 1963, 1973, 1983, 1993, 2003 and 2008 (Billion Dollars and Percentage)

	1948	1953	1963	1973	1983	1993	2003	2008
	Value							
<b>World</b>	<b>59</b>	<b>84</b>	<b>157</b>	<b>579</b>	<b>1838</b>	<b>3676</b>	<b>7377</b>	<b>15177</b>
	Share							
<b>World</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>North America</b>	<b>28.1</b>	<b>24.8</b>	<b>19.9</b>	<b>17.3</b>	<b>16.8</b>	<b>18.0</b>	<b>15.8</b>	<b>13.0</b>
United States	21.7	18.8	14.9	12.3	11.2	12.6	9.8	8.2
Canada	5.5	5.2	4.3	4.6	4.2	4.0	3.7	2.9
Mexico	0.9	0.7	0.6	0.4	1.4	1.4	2.2	1.9
<b>South and Central America</b>	<b>11.3</b>	<b>9.7</b>	<b>6.4</b>	<b>4.3</b>	<b>4.4</b>	<b>3.0</b>	<b>3.0</b>	<b>3.8</b>
Brazil	2.0	1.8	0.9	1.1	1.2	1.0	1.0	1.3
Argentina	2.8	1.3	0.9	0.6	0.4	0.4	0.4	0.4
<b>Europe</b>	<b>35.1</b>	<b>39.4</b>	<b>47.8</b>	<b>50.9</b>	<b>43.5</b>	<b>45.4</b>	<b>45.9</b>	<b>41.0</b>
Germany a	1.4	5.3	9.3	11.6	9.2	10.3	10.2	9.3
France	3.4	4.8	5.2	6.3	5.2	6.0	5.3	3.9
Italy	11.3	9.0	7.8	5.1	4.0	4.6	4.1	3.4
United Kingdom	1.8	1.8	3.2	3.8	5.0	4.9	4.1	2.9
<b>Commonwealth of Independent States (CIS) b</b>	-	-	-	-	-	-	-	<b>2.6</b>
<b>Africa</b>	<b>7.3</b>	<b>6.5</b>	<b>6.7</b>	<b>4.8</b>	<b>4.5</b>	<b>2.5</b>	<b>2.4</b>	<b>3.5</b>
South Africa c	2.0	1.6	1.5	1.0	1.0	0.7	0.5	0.5
<b>Middle East</b>	<b>2.0</b>	<b>2.7</b>	<b>3.2</b>	<b>4.1</b>	<b>6.8</b>	<b>3.5</b>	<b>4.1</b>	<b>6.5</b>
<b>Asia</b>	<b>14.0</b>	<b>13.4</b>	<b>12.5</b>	<b>14.9</b>	<b>19.1</b>	<b>26.1</b>	<b>26.2</b>	<b>27.7</b>
China	0.9	1.2	1.3	1.0	1.2	2.5	5.9	9.1
Japan	0.4	1.5	3.5	6.4	8.0	9.9	6.4	5.0
India	2.2	1.3	1.0	0.5	0.5	0.6	0.8	1.1
Australia and New Zealand	3.7	3.2	2.4	2.1	1.4	1.4	1.2	1.4
Six East Asian traders	3.4	3.0	2.4	3.4	5.8	9.7	9.6	9.0
<b>Memorandum item:</b>								
EU d	-	-	27.5	38.6	31.3	37.4	42.4	37.5
USSR, former	2.2	3.5	4.6	3.7	5.0	-	-	-
GATT/WTO Members e	62.8	69.6	75.0	84.1	77.0	89.4	94.3	93.4

a Figures refer to the Fed. Rep. of Germany from 1948 through 1983.  
b Figures are significantly affected by i) changes in the country composition of the region and major adjustment in trade conversion factors between 1983 and 1993; and ii) including the mutual trade flows of the Baltic States and the CIS between 1993 and 2003.  
c Beginning with 1998, figures refer to South Africa only and no longer to the Southern African Customs Union.  
d Figures refer to the EEC(6) in 1963, EC(9) in 1973, EC(10) in 1983, EU(12) in 1993, EU(25) in 2003 and EU(27) in 2008.  
e Membership as of the year stated.  
Note: Between 1973 and 1983 and between 1993 and 2003 export shares were significantly influenced by oil price developments.

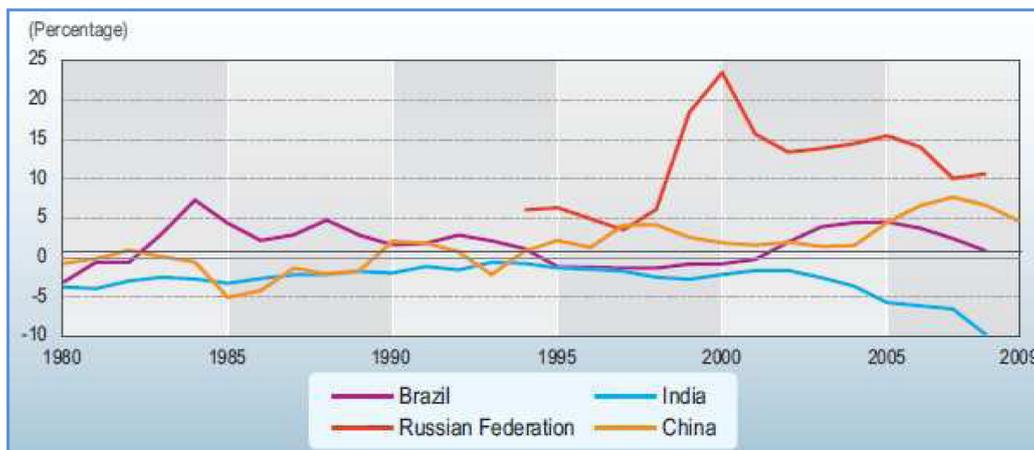
Source: WTO International Trade Statistics, 2009

**Figure 6.** Merchandise Trade Balance as Percentage of GDP, 1980-2009FH



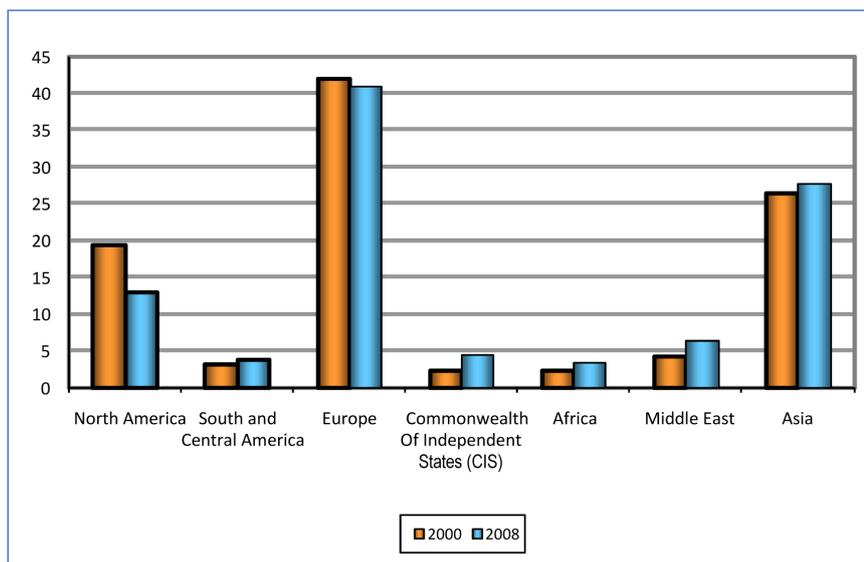
Source: WTO International Trade Statistics, 2009

**Figure 7.** Merchandise Trade Balance as Percentage of GDP, 1980-2009FH



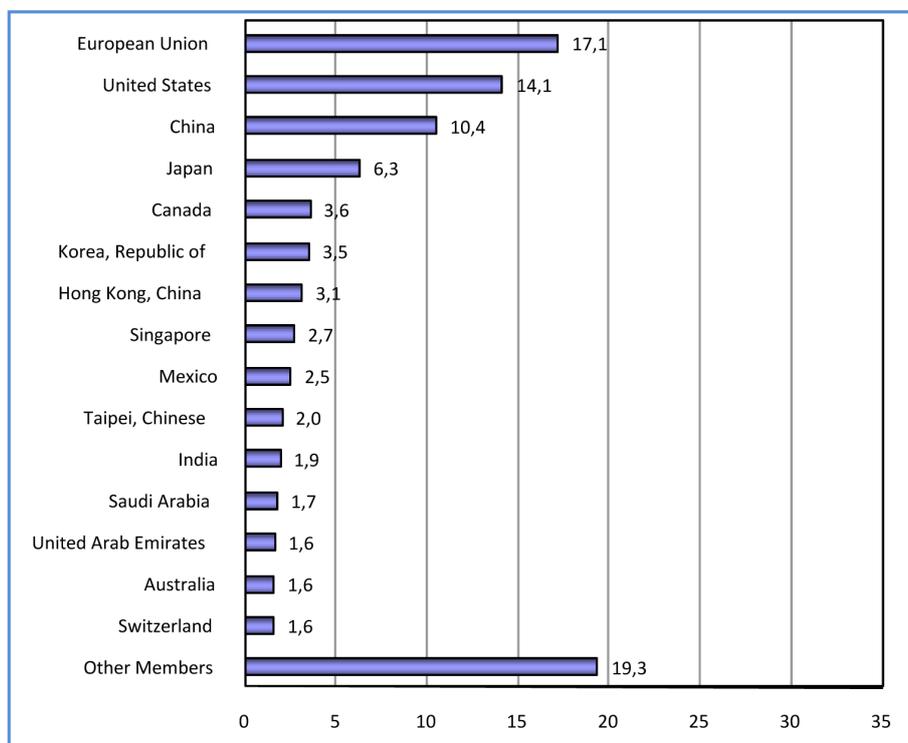
Source: WTO International Trade Statistics, 2009

**Figure 8.** Regional Shares in World Merchandise Exports, 2000 and 2008 (percentage)



Source: WTO Statistical Database, 2009

**Figure 9.** WTO Members Share in World Merchandise Trade, Intra-EU (27) Excluded, 2008 (percentage)



Source: WTO Statistical Database, 2009

The ongoing debate on Turkey's so-called axis shift could well be analyzed through a foreign trade perspective. Therefore, our analysis will discuss Turkey's changing direction, if any, in terms of its trade orientation, i.e. trading partners, relative trade shares and changes in import-export volumes, and domestic structural changes in trading goods with regards to the global shifts in world trade. Foreign trade by itself does not possess full explanatory power in defining country-wide, regional or global economic orientation while international investments and financial movements have equally significant importance in that regard. Still, it accounts for an important portion of defining a country's economic performance and orientation. Whether measured by total trade volume or exports only, the role of foreign trade in growth is evident for many countries. Changing patterns or direction in Turkey's exports and imports could therefore serve as a well-qualified parameter in order to assess the so-called shift in the country's orientation.

With that regards, a more diversified trading pattern both in terms of goods and destinations is also elusive for an open economy. The report underlines the fact that Turkish trade sector has maintained its long-standing direction towards the major European Union (EU) member countries with only minor setbacks while new dimensions in bilateral trade have emerged not only due to the changing foreign policy considerations in Turkey but also the turn of the tide in global economy within the last decade. Several indicators such as the worldwide expansion of Turkish Airlines operations or the visa-free travel to numerous countries which have connected new Turkish business elite to the rest of the world under the Justice and Development Party's (AK Party) term depict the new face of Turkey's foreign trade policy clearly. All in all, the report argues that Turkey's trade partners are subject to change as the whole global economy shifts, i.e. to the East.

In the first section, a brief introduction to modern Turkey's foreign trade in a historical perspective will be provided. The second section will analyze the changing structure in the country's foreign policy with special reference to foreign trade in the last decade, particularly during the AK Party's ruling term (2002-2010), regarding the aforementioned dimensions. Third section will discuss the scope of regional and worldwide changes in trade patterns and analyze the recent shift in Turkey's trade orientation under the light of Asian economic and political rise in early 21st century.

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