A CASE OF TRADE DIVERSION BETWEEN TURKEY AND THE EUROPEAN COMMUNITY?

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ABSTRACT

The effects of regional trading agreements may not be beneficial to all members. Turkey's trade and investment patterns, which stem from her membership in the European Customs Union are explored to determine if the sheer dominance of the European Community undermines Turkey's economic growth potential.

Several World Bank, IMF and OECD studies (World Bank 1993, 1995; GCR 1996; OECD 1996) have shown that a pattern of trade creation and trade diversion have occurred in the European Community. Much of Europe's trade creation is evident in the industrial and service areas, while trade diversion appears in the agricultural industries throughout many European countries and its trading partners. This paper argues that the trade creation and trade diversion phenomena benefits the economically dominant European countries much more than its less economically endowed partners because the "richer" countries have been in a position to exploit the trade creation/diversion pattern. Subsequently, some of the objectives of regional trade agreement, which emphasize economic growth, may not be reached by the less dominant countries.

There is little doubt that some of the policies the European Economic Union has adopted thus far have influenced the trade pattern within the trading region, but to what extent has the general trade pattern affected its less economically dominant partner Turkey? The economically dominant members of the EC (e.g., Germany, France, U.K., and Italy) generally tend to have more developed industries, technology, and social welfare foundations relative to other member states. Subsequently, they are in a relatively better economic position (GCR 1996). This situation leads to the research questions that guide this study. Given that the dominant economies of the EC enjoy these fundamental advantages, have their conditions essentially altered economic relationships to the point of negatively influencing Turkey's potential to optimize *its* economic growth? In other words, have the economically dominant countries essentially subsidized their economies by exploiting *intra*-regional trade? Moreover, are the dominant economic states creating a situation of diverting trade from the less dominant nations while creating trade for themselves?

The study uses Organization for Economic Development (OECD) secondary data from the years 1984 through 1993. The EC and Turkey foreign direct investment trade patterns are analyzed to understand how and where the EC's dominant countries are investing. In addition, the nations' political, economic, social and structural factors are examined because they provide an indication of a country's current and potential competitiveness (Global Competitiveness Report 1996). Competitiveness is viewed as an attraction to invest. Finally, comments of high level Turkish managers from presentations and interviews are incorporated to help orient the study's direction. These comments provide insight into the current and potential interactions among the Turkish and EC industries. Propositions are developed to address the study's premise that (1) there exists a pattern of trade creation and trade diversion within the EC-Turkey relationship; (2) economically dominant nations of the EC have fundamental economic advantages that impact negatively upon Turkey's potential economic growth; and (3) due to these circumstances, Turkey may not be able to meet their economic growth objectives for *intra*-regional trade.

In conclusion, it appears that the dominant European Community countries do dictate the patterns of regional investment. The European countries have more diversified economies than Turkey, which enable them to have a greater degree of flexibility. Consequently, Turkey appears to be more dependent upon the European Community. Preliminary analysis of the OECD data indicates that the more dominant "richer" countries of the EC have influenced Turkey's economy to the point of creating a situation of trade diversion for Turkey.

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