

The Effect of New Turkish Foreign Policy on International Trade

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ABSTRACT *Turkish foreign policy has changed substantially within the last decade. Even though its relationship with the West still has significance, relations with neighboring countries and other countries in Africa, the Middle East, and Asia have improved. This new foreign policy incorporates Turkey's political and economic aspirations. Its aim is to utilize the country's economic strength in order to reach political goals while simultaneously using political tools to obtain economic benefits. This study analyzes the effects of the recent change in foreign policy on Turkey's international trade. Specifically, we investigate the influence of Turkish Prime Minister Erdoğan's foreign visits on international trade by using a standard trade gravity model. Statistical analyses imply that Erdoğan's visits help increase Turkish international trade.*

Economic interests have always been one of the most important elements of foreign policy. In today's globalizing world, the significance of economic relations in foreign policy has increased even more, and the success of specific foreign policies is now measured by their economic impact. International trade has become the leading factor in international policy making, especially since the Cold War. In recent decades, policy makers of both developed and developing countries have been able to appreciate the mutual benefits of international trade to importing and exporting countries. In addition, the establishment of the World Trade Organization (WTO) and other developments in international law have liberalized and greatly reduced the barriers to international trade, thus increasing its volume and importance.

By contrast, after the foundation of the Republic in the 1920s, security concerns were the focus of Turkey's foreign policies. The decision-makers gave priority to policies that would strengthen the regime and reinforce the reforms. Turkish foreign policy continued to follow this approach even long after the establishment of the Republic. However, after the Cold War, Turkey became much more

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open to broad structural changes in its foreign policy framework. With Turgut Özal's new government in the 1980s, Turkey started to put economic interests at the forefront of its foreign policy decisions. Özal decided to reshape foreign policy in Turkey when the country could only pay for its petrol import with its export revenues. His primary concern was to ensure Turkey's productivity, and then establish a country that could sell its products in the world market. Özal, who could read the signs of globalization very well, knew that Turkey had to cover a large distance to meet these goals, and he prioritized trade development by first improving relations with neighboring countries. Özal's foreign policy was an "instrument of development" model based on exports. He wanted to undo economy policies based on import substitution, and continued global

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initiative policies by opening up relations with the Soviet Union. Preferring an aesthetic and pragmatic foreign policy, Özal established the Black Sea Economic Cooperation Organization with the region's countries after the dissolution of the Soviet Union, and also showed interest in the republics of Middle Asia. By expanding the trade volume mutually with neighbors in the region, Özal defended the view that

regional conflicts could be solved easily and with lower risks. He emphasized that to be a regional power, it is necessary to have a strong economy and substantial economic relationships, and he attempted to reach these goals through regional peace. As can be seen, most of the successful foreign and economic policies that are on the agenda of the Justice and Development party (the AK Party) were also on Özal's agenda. This kind of change prevents a nation's foreign policy from remaining too restricted. In order to be a more effective state in its region, Turkey has started to follow a relatively more independent and multidimensional foreign policy by putting more emphasis on bilateral relationships. However, even though there is great support for the new Turkish foreign policy, there are also critics who claim that Turkey is making an "axis shift" toward the East, and that the policy makers are driven by neo-Ottomanism rather than by Turkish national interests.¹ But approaches based on identity like Islamist preferences and ideological definitions are insufficient in explaining the present situation and can be deceptive. With the phrase "order establishing country in Ottoman geography," Ahmet Davutoğlu refers to the transformation of those countries into stabilized and competitive polities; and though he objects to the ideological concept of "neo-Ottomanism".²

Turkey's economy is becoming increasingly dynamic, as shown by an increase in foreign visits from decision makers and top-level leaders, as well as an in-

crease in competition over shares in regional and world markets between Turkish investors and industrialists. Under this new and active foreign policy, the international trade of Turkey has increased significantly in the relevant period. Turkey's total international trade volume increased from \$72 billion in 2001 to \$389 billion in 2012.³ In this study, the interaction between Turkish foreign policy and international trade is analyzed. It is argued that as in many other modern countries, an important dimension of the new Turkish foreign policy is that of economic benefits to the country. It is shown that this new foreign policy has benefited Turkey economically; specifically, the positive effects of diplomatic activities on international trade are estimated by using a standard trade gravity model.

The rest of the paper is organized as follows: Background information is given about Turkish foreign policy and the changes in its structure during the AK Party governments. Then a brief literature review and the empirical methodology is presented, followed by a discussion of the results.

New Turkish Foreign Policy

Turkey's new regional role embodied by Ankara, cannot be explained only by the identity preferences of the AK Party; instead, an "interest-based" approach with a perspective of economic and geopolitical acquisitions is relevant here. After Turkey gained the legal status of full membership in the EU, its economy began to be defined as safe and consistent, with the ability to make investments. Ankara, which prefers a rational foreign policy in parallel with identity-based approaches, started to form a foreign policy that gradually adopted the concept of a "trade state."⁴ The AK Party, which came into power with great hopes after the economic crisis of 2001, focused on rational preferences, as it knew it would be impossible to sustain economic success using identity politics.

The AK Party shaped Turkish foreign policy with these rational goals in mind as well as the new paradigms of EU policies, emphasized above. The new foreign policy preferences of Ankara, aimed at establishing unproblematic relationships with peripheral countries, have always been economic benefits. Turkey accepted the dialogue with peripheral countries as a driving force for its economy, security policy and new image, and removed foreign policy from its priorities. By abolishing visas with most Middle East countries, Turkey's aim was to influence the culture of Arabic society while concurrently increasing foreign trade volume .

Because of the Islamist background of the AK Party government, there are analyses that interpret these preferences as idealist as well as analyses that prioritize economic rationality – which is the focus of this article.



Turkish Foreign Minister Ahmet Davutoglu, (R) Shakes Hands With Deputy Prime Minister Ali Babacan
AFP / Adem Altan

Why does Turkey prefer an active foreign policy? Does the Turkish Ministry of Foreign Affairs, which added ‘success in foreign trade’ to its performance criteria, use foreign policy as an instrument to increase trade? Are trust-based policy preferences reflected positively in Ankara’s tourism and export volumes? Apart from its Western identity, Turkey discovers new markets with the help of the relationships it establishes through its Muslim counterparts; and in these new markets, it finds new zones of influence and bilateral relations. International trade is one of the leading instruments of Turkish foreign policy. This is not merely an incidental issue; it forms a new platform that accelerates bilateral relations on a real political field. Increasing mutual dependence through trade has enabled Turkey to establish more predictable and sustainable relations with other countries.⁵

The biggest risk that threatens this new and major preference of Turkish foreign policy is the presence of many regional conflicts in the Middle East and African countries. Parallel to these risks, Turkey’s industrial substructure is quite weak, while the industrial and economic substructure of China – its rival in regions such as the Middle East and Africa – is developed and strong; this leads to many discussions and doubts about when and how much Turkey should rely on foreign trade. For Turkey to be able to exist in the asymmetric competition of the region, the status of a trade state should be widely accepted, supported on different levels, and practiced efficiently.

Given this environment, western neighbors of Turkey will face numerous problems due to financial crises, while the eastern neighbors will face problems due to political instabilities. These problems will not be solved in the near future in Europe or the Arabic world, either. This can mean a shrinking of the market for a productive economy. Security issues caused by the movement of political fault lines are as much a threat for Ankara as losing markets. Thus, Ankara turning to Africa as an alternative market, can be evaluated as a consequence of rising conflicts in the Middle East.

However, the 2001-10 governments have followed a proactive diplomacy. Being at the center of its region requires Turkey to balance both South-North and East-West relations. As a necessity of proactive diplomacy, it is indispensable for Turkey to establish close relationships with all the countries in the region. Turkey started to demonstrate an interest in events in the region by pushing variety of foreign policy instruments through diplomatic processes.⁶ By focusing on past competitors such as Russia, Greece, Armenia, Iran, Iraq and Syria, Ankara has replaced the Cold War strategy of static polarization and regional isolation with a multidimensional foreign policy, embracing the new role of regional leadership.

The principle of good neighborly relations began before the AK Party came to power. For instance, relations with Greece had already been easing due to mutual aid attempts after earthquakes hit both countries in 1999. However, the support of the Annan Plan in Cyprus was the result of the new foreign policy of the AK Party. Turkey also exerted considerable effort to bring about more normalized relations with Armenia. Moreover, in spite of international political criticism and UN sanctions, Turkey enjoys a positive relationship with Iran. Similarly, relations with Iraq (not only the Central Government but also the Regional Kurdish Government) have improved. A democratized Middle East means more predictable neighbor relations, long-term investment plans, and an expansion in the scope of regional cooperation projects for Turkey.⁷

In terms of foreign policy, Turkey has made the largest investment in Syria, accepting the country as a significant market and route for both security policies and foreign trade. With the Arab awakening, Turkey has distanced itself from the Assad regime; but because of this, the foreign trade volume of Turkey has decreased in many Arab countries that are reached by land. Parallel to these positive political relationships that emerged before the Arab Spring, economic ties with neighboring countries have also improved. Even if we exclude energy imports, the growth in trade (exports as well as imports) with neighboring



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states is remarkable. This alone suggests that Turkey's "zero problem" policy has created some economic benefits.

Another distinctive point of the AK Party's foreign policy is the attempt to abandon the single-axle concept, which is more accepted in the West. Even though Turkey's relationship with the West remains important, the strength of Turkey's relationships with neighboring countries and other countries in Africa, the Middle East and Asia has increased. According to Davutoğlu, Turkey currently has an opportunity to redefine its position in "Afro-Eurasia" as a geopolitically important country.

He presents this vision in his book *Strategic Depth*:

"Turkey is a country at the epicenter of the Balkans, the Middle East, and the Caucasus, the center of Eurasia in general and is in the middle of the Rimland belt cutting across the Mediterranean to the Pacific."

The AK Party's policy makers argue that rather than being peripheral, Turkey is a central international player and a regional power. Turkey has attempted to gain observer status to organizations such as Association of Southeast Asian

Casual observation suggests that trade volume has increased more with those countries where Turkish foreign policy makers have developed greater interactions

Nations (ASEAN), the U.N. Security Council, the African Union and the Shanghai Cooperation Organization. Regions that were regarded as distant and irrelevant before the AK Party governments are now considered hotspots. A large area from Africa to Far Asia and Latin America is included in the sphere of interest of new foreign policy. Moreover, in purely economic terms, the axis is rapidly shifting toward developing countries. While the economic weight of industrialized countries such as the United States, Japan, Germany, England, Canada, France, Italy and Belgium is decreasing, developing countries such as China, India, South Korea, Indonesia, Thailand and Malaysia, are becoming bigger players in the world

economy. As a result, a five-polar (at least) world is forming. Taking into account this new balance of economic power, Turkey's newly constructed foreign policy and its regional involvement have expanded the economic horizons or Ankara.

Looking at the international trade flows of Turkey, the consequences of these connections with non-Western countries can easily be identified. Table 1 presents the trade data of Turkey with different country groups and how it changed between 2001-2012. In 2001, EU and North American countries were making 60 percent of the total Turkish international trade volume; that ratio decreased

to 44 percent in 2012. Similarly, countries within the Organization of Economic Co-operation and Development (OECD) saw trade decrease from 66 percent to 46 percent. (Note: most EU countries are also members of OECD.) On the other hand, the share of Asian, Near and Middle East countries, members of Black Sea Economic Cooperation, and Organization of the Islamic Conference has increased substantially. We observe a 20 to 30 percent increase - in some countries, it's even close to 50 percent - in annual trade volume. Although those growth rates cannot continue indefinitely, they are nevertheless related to Turkey's new foreign policy.

However, Ankara's attempt at multidimensional foreign policy is not as simple as it looks, especially when conflicts of interests are taken into consideration. On the one hand, Turkey tries to balance between the EU-United States and the Middle East-Eurasia; on the other, it searches for harmony between the North and the South, and the policies that give importance to both Russia and Africa involve risks. Thus, multidimensional foreign policy generates new rivalries in different centers and involves new risks⁵. While some experts consider Turkey's new foreign policy to be a proactive expansion, others accuse of Davutoğlu of being unrealistic and irrational. They interpret the policy conducted by Davutoglu to be neo-Ottomanist.

As the data in Table 1 clearly shows, not only has trade with geographically close countries like Iran, Lebanon and Israel increased during the last decade, but so too has trade with other Asian, African, European, and Muslim countries. Casual observation suggests that trade volume has increased more with those countries where Turkish foreign policy makers have developed greater interactions. Specifically, we observe that trade has increased with the countries where the Prime Minister, President and Ministry of State have made frequent visits. It shows that the new foreign policy has generated positive economic results. In the next section we will statistically test the hypothesis that Turkish foreign policy activities have indeed had a beneficial impact on the country's trade.

Data and Methodology

In order to understand the influence of diplomatic activities on the international trade of Turkey, we use a standard gravity model. This framework predicts the trade flows between two countries by their economic sizes and geographic distances between them. The model, first proposed by Jan Tinbergen (1962)⁸, has been used frequently in empirical trade flow studies. The underlying concept is simple and attractive: bigger countries (per capita income and population) trade more, and the further away from each other the higher the costs of trade, and thus, the lower the trade flow. The basic model is defined by the following formula, which is similar to the Newtonian gravity equation:

$$Trade_{ij} = \frac{[(Size]_i [\square] (Size)]_j}{Distance_{ij}}$$

Where

- Trade_{ij} : The trade flow between countries i and j,
- Size_i : The economic size of country i,
- Size_j : The economic size of country j,
- Distance_{ij} : The geographic distance between countries i and j.

There have been many theoretical justifications and adjustments to the basic model. Alan Deardoff (1998)⁹ provided a good theoretical assessment of the model and concluded that a gravity specification is consistent with many types of trade models. Generally, it has been observed that the gravity model is indeed a good predictor of bilateral trade flows. Later empirical studies added many other variables to the basic gravity model, such as the existence of common borders, language, currency and colonial links. Those additional explanatory variables both improve the predictive power of the model and help to clarify the impact of specific factors on trade. However, since the goal of this paper is not to accurately describe all factors affecting trade between Turkey and other countries, the gravity model is kept as simple as possible and only the most basic explanatory variables are used. Keeping the model simple allows us to use almost all countries in this statistical analysis, since the required income and population data are available for virtually all countries.

Thus we estimate the following panel gravity equation:¹⁰

$$[(TRD)]_{it} = \beta_0 + \beta_1 [(Y)_{Tt}] + \beta_2 [(Y)_{it}] + \beta_3 [(Pop)_{Tt}] + \beta_4 [(Pop)_{it}] + \beta_5 (D_{it}) + \epsilon_{it} \quad (1)$$

$$[(MPRT)]_{it} = \beta_0 + \beta_1 [(Y)_{Tt}] + \beta_2 [(Y)_{it}] + \beta_3 [(Pop)_{Tt}] + \beta_4 [(Pop)_{it}] + \beta_5 (D_{it}) + \epsilon_{it} \quad (2)$$

$$[(XPRT)]_{it} = \beta_0 + \beta_1 [(Y)_{Tt}] + \beta_2 [(Y)_{it}] + \beta_3 [(Pop)_{Tt}] + \beta_4 [(Pop)_{it}] + \beta_5 (D_{it}) + \epsilon_{it} \quad (3)$$

Where

- TRD_{it} : The total trade between country i and Turkey in year t,
- XPRT_{it} : The export of Turkey to country i in year t,
- MPRT_{it} : The import of Turkey from country i in year t,
- Y_{Tt} : The real income per capita in Turkey in year t,
- Y_{it} : The real income per capita in country i in year t,
- Pop_{Tt} : The population of Turkey in year t,
- Pop_{it} : The population of country i in year t,
- D_{it} : The geographical distance between country i and Turkey.

The aim of this study is to understand the influence of diplomatic activities of the government on Turkey’s international trade. Therefore, the diplomatic activities of the government in these estimations could be included. A positive

coefficient would represent a positive relationship between diplomatic activities and international trade. However, if the government concentrates on its diplomatic activities in those countries where there are already strong trade links, we would see a positive relationship between trade volume and diplomatic activities. This is the typical question of whether there is causation or mere correlation between two events – which causes what? Do diplomatic missions cause more trade, or does trade cause an increase in diplomatic missions?

As stated before, endogeneity can be a serious problem in econometric analysis. There are two possible ways to handle this problem: IV-estimation and the differences-in-differences (diff-diff) method. Since it is difficult to find a strong instrumental variable, the diff-diff method is more common than IV. Also, the diff-diff method is used mostly for panel data while IV is used for cross-sectional data. Andrew Rose (2007)¹¹ uses IV to overcome the causality problem in cross-sectional data for whether foreign missions are in fact systematically linked to exports or not. He links exports from 22 important countries to 200 destination countries and uses data averaged between 2002-03. On the other hand, Volker Nitsch (2007)¹² studies whether visits from heads of state from France, Germany and the U.S. from 1948-2003 promoted exports. Nitsch applies a long-run differences-in-differences specification. Specifically, he regresses the annual growth rates of bilateral exports on a dummy variable that takes the value of 1 when a country in his sample has ever received an official visit from the exporting nation, and another dummy that is equal to 1 when an actual visit has taken place. The method used in this paper, explained below, is similar. What we do is regress differences between actual trade and predicted trade by the number of visitations. In this aspect, it operates like the diff-diff method.

Our hypothesis is that if more diplomatic missions occurred between Turkey and any country, we should expect a higher increase in trade with that country

To analyze the possible effects of diplomatic missions on trade, we use a simple two-step strategy. In the first step, we estimate a standard gravity trade model using the Equations 1-3. In these estimations, we use the annual international trade data of Turkey with more than 150 countries in the years of 1998, 1999 and 2000. By using these estimation results we predict the trade of Turkey with other countries in 2008. We compare those predicted values with the actual trade volume in 2008. Then, we look at whether there is any relationship between diplomatic missions in the related period and any unpredicted increase in the trade volume. Essentially, we simulate trade between Turkey and the relevant country in 2008, assuming that only per-capita incomes and populations of these two countries changed after 2001. Obviously many other things have

A positive relationship between the residual of actual and predicted values of trade volume and diplomatic missions can be loosely interpreted as diplomatic missions helping (and thus, causing) the increase in international trade

changed in the relevant period; but the one thing we are interested in is the diplomatic missions. Our hypothesis is that if more diplomatic missions occurred between Turkey and any country, we should expect a higher increase in trade with that country. In other words, the actual change in the trade volume would be higher than the expected change due to the increase in income and population of Turkey and the other country. In short, a positive relationship between the residual of

actual and predicted values of trade volume and diplomatic missions can be loosely interpreted as diplomatic missions helping (and thus, causing) the increase in international trade. The standard gravity model explains the trade volume between two countries by the incomes and populations of two trading countries and the distance between them. Therefore, we expect the trade volume between Turkey and other countries to have increased from 2001 to 2008, since the populations and incomes of both Turkey and the trading partner countries increased. However, if the diplomatic missions of the Prime Minister were successful in encouraging trade, the actual increase in trade volume would have been bigger than the rise in trade volume because of the rise in income and population. In order to test this hypothesis we estimated the following equations.

$$UTRDD_i = \beta_1 + \beta_2 DM_i + \varepsilon_i \quad (4)$$

$$UMPRTD_i = \beta_1 + \beta_2 DM_i + \varepsilon_i \quad (5)$$

$$UXPRTD_i = \beta_1 + \beta_2 DM_i + \varepsilon_i \quad (6)$$

Where

$UTRDD_i$: The difference between actual trade between Turkey and country i and predicted trade between Turkey and country i in 2008,

$UMPRT_i$: The difference between actual imports of Turkey from country i and predicted imports of Turkey from country i in 2008,

$UXPRT_i$: The difference between actual exports of Turkey to country i and predicted exports of Turkey to country i in 2008,

DM_i : The number of formal visitations of the Prime Minister of Turkey (Recep Tayyip Erdogan) to country i between 2003 and 2008.

A positive β_2 coefficient can be interpreted as the fact that diplomatic visitations from Turkish officials (the Prime Minister in this case) increase the

trade between two countries. Obviously many other government officials, including the President of the Republic, the Minister of Trade, other ministers and lower-level public officials, also make formal visitations to the other countries. Naturally those visitations also have an effect on trade. However, categorizing and weighting the different officials' formal visitations would require a lot more data and some ad hoc assumptions, so we use only the Prime Minister's visitations. In fact we can presume that the visitations of the Prime Minister and other public officials are highly correlated. We obtained data on formal visitations from the Prime Minister's General Office through private communication. Income and population data were obtained from The World Bank's World Development Indicators Database. Export and import data were obtained from the Turkish Statistical Office's (TUIK) website.³ The distances between Turkey and other trading partner countries were obtained from data software EU Gene version 3.204 by Bennett Scott and Stam Allan.¹³

Results and Discussion

Table 2 presents the estimation results of Equations 1-3 using data from 1998-2000. We omitted the 2001 and 2002 data in our estimations to avoid the distortionary effects of the 2001 financial crisis. On the other hand, we do not want to go too far from today in our estimations, as we rely on the presumption that the Turkish economy and global economy are not too different today than in the years on which we do our estimations. By using these three years of data we have a relatively reasonable number of observations (between 414 and 445 on different specifications) in the estimations.

All coefficients on the estimations have the expected signs and almost all of them are statistically significant at conventional levels. In column 1, the estimation results of Equation 1 are presented. Here the dependent variable is total trade between Turkey and the other country. The positive sign on the coefficient of Turkish per capita income variable means that as the per capita income in Turkey increases the total trade between Turkey and the other country rises.

The estimated elasticity is presented in brackets. Elasticity is a measurement that indicates the changes in one variable in response to a change in another variable. In this case elasticity is defined as:

$$\text{Income elasticity of total trade} = \frac{\frac{\Delta Y_{Tt}}{Y_{Tt}}}{\frac{\Delta TRD_{it}}{TRD_{it}}}$$

Elasticities with respect to other variables are calculated similarly. A coefficient of 3.9 in the first row of the first column indicates that a 10 percent increase in the per capita income of Turkey increases the trade volume by 39 percent. Similarly, an increase in the per capita income of the corresponding country increases the total trade between Turkey and the other country. The populations of both countries (Turkey and its trading partner) also positively affect the trade volume between them. Similar to other studies on the subject, we also find a negative relationship between trade volume and geographical distance. If a country is 10 percent farther away from Turkey than another country, *ceteris paribus*, its total trade with Turkey is 7.9 percent less than the other one. There could be many explanations for that negative effect of distance, but the most basic and significant one is that transportation and communication costs are higher for faraway places.

In the second column, the dependent variable is the import of Turkey from the other country.¹⁴ Similar to total trade estimation, all coefficients have the expected signs and they are all significant. The third column presents the estimation results of Equation 3, where the dependent variable is the export of Turkey to the other country. In this estimation many coefficients are insignificant, though they have the “correct” sign. Turkish per capita and the population values do not seem to be affecting the exports of Turkey to the other country. That result is not surprising, since we do not expect those variables to be very important for Turkish exports to the other country. The other country’s per capita income and population are more important explanatory variables.

Table 3 presents our main estimations. In this table, the dependent variable is the unexplained increase in trade between Turkey and other countries. The dependent variable in the first column is the trade (due to the change in the income and population) between Turkey and the other country from 2001-08. The explanatory variable is the number of formal visitations of the Turkish Prime Minister Erdoğan to each country from 2003-08. We use the total number of visitations in that period since we presume that it is very unlikely that diplomatic visitations would increase trade immediately. It will take time to launch and increase the trade, so there will be latency. There is no theoretical basis to choose a specific latency period, and there is not enough empirical data to choose a latency period by using quantitative methods, either. Hence, we choose to analyze the cumulative effect of diplomatic visitations on the trade in 2008.

The positive coefficient on the diplomacy variable suggests that there is a very strong and positive relationship between the Prime Minister’s visits and an increase in the trade. Since the dependent variable is the unexplained increase in trade due to the change in standard gravity model explanatory variables, there is no straightforward interpretation of the coefficient. It tells us that a 10 percent increase in the formal visitations of the Prime Minister would increase

the trade by 21 percent, if there is no other change in the factors affecting the trade. According to that estimation, the Prime Minister's visits are highly effective in promoting trade relations. The second and third columns of Table 3 suggest that international visits of the Prime Minister increase both the imports and exports of Turkey.

Conclusion

During the Cold War, Turkey had practically no room for practicing its own independent foreign policy, since it was a member of NATO. Turkey had developed a concept of foreign policy and security in a bipolar world, and believed for years that its importance derived solely from its geopolitical position. Changing regional and global circumstances are now providing new opportunities for Ankara. Thus, experimentation with different foreign policy approaches should be expected.

Turkey has thus turned into a country that can make flexible political decisions for its own benefit in the world and the region. Emiliano Alessandri (2010) expresses this perspective in following statement:

“Turkey, it is stressed, has in recent years come to adopt a soft-power as opposed to a hard-power approach to foreign policy. Economic opportunity and peace have become the driving forces of its external action, allowing Turkey to greatly expand its trading relations and to act as facilitator of dialogue in such realms as the Caucasus and the Arab-Israeli peace process. To European countries subscribing to this view, Turkey’s activism in the Middle East is nothing to be afraid of. It is, on the contrary, a clear demonstration that Turkey would be a critical ‘asset’ for the EU¹⁵.”

The new foreign policy concept involves close interaction between the political and economic aspirations of Turkey. Its aim is to utilize its economic strength in order to reach political goals, while concurrently using political tools to obtain economic benefits. However, when Turkey's economic and military capacities are critically assessed, it is obvious that they are not sufficient for Turkey to meet its very ambitious political goals. The relatively ineffective role played by Turkey in the latest Middle East crisis has only made that point clearer. On the other hand, Turkey's somewhat reluctant attitude toward the latest crisis in Libya may be attributed to economic ties that sometimes become barriers, rather than instruments in political processes.

Is the new foreign policy associated with Davutoğlu a sustainable concept? Whether or not the same line of new foreign policy can be maintained under a different government is a question that can only be answered in time. Yet, very fast and significant changes in the region show that Turkey cannot afford

to be closed to regional and global progress. It can be argued that peace, democratization, and the maintenance of economic stability will bear positive results not only for its own subjects, but for other countries in the region and for international security.

When we analyze Turkish foreign policy from a perspective that takes into account its historical roots, we see that sometimes an interest-seeking foreign policy has been dominant while at other times a value-based foreign policy has emerged. Even if Turkey seems to have developed a new foreign policy line in which certain values are in the foreground, it can't be claimed that these values are distinct from Turkey's interests. Turkey, as the only liberal, democratic, secular and Muslim country in the region, will be active in the Middle East.¹⁶

The increasing interest of Turkish foreign policy in Muslim areas, and especially in the Middle East, should not be perceived as an opposition to traditional Western-oriented foreign policy; nor should it be described as an "axis shift" or as "neo-Ottomanism." A stable Middle East in the process of democratization and normalization presents Turkey with a golden opportunity for better security and improved economy policies. ■

Table 1. The Change in Trade Structure of Turkey between 2001 and 2012³.

Country Groups	2001				2012			
	Export (Million \$)	Import (Million \$)	Trade (Million \$)	% to Total Trade (%)	Export Export (Million \$)	Import Import (Million \$)	Trade Trade (Million \$)	% to Total Trade (%)
EU (27 Countries)	17,546	19,823	37,369	51	59,201	87,447	146,648	38
Other Europe	2095	5738	7833	11	14,368	37,416	51,784	13
Africa	1521	2819	4340	6	10,357	5922	16,279	4
North America	3297	3390	6688	9	6662	15,084	21,746	6
Central America	201	41	242	0	769	1069	1838	0
South America	186	410	596	1	2191	4079	6270	2
Near and Middle East	3261	3016	6278	9	42,452	21,410	63,862	18
Other Asia	1331	4884	6216	9	10,575	49,601	60,176	15
OECD	21,307	26,886	48,193	66	66,293	113,723	18,016	46
Black Sea Economic Cooperation Organization	2932	5553	8486	12	18,793	41,509	60,302	16
Commonwealth of Independent States	1978	4630	6608	9	15,075	35,248	50,323	13
Organization of the Islamic Conference	4197	5540	9736	13	55,220	31,690	86,910	22
Total	31,334	41,399	72,733	1	152,469	236,545	333,991	1

Table 2. International Trade Gravity Model.

This table reports results from estimation of equation 1, 2 and 3 by random effects generalized least squares using heteroskedastic structure. The t statistics are reported in parentheses. ***, ** and * denotes significance levels at the 1%, 5% and 10% levels, respectively. The numbers in brackets represent the elasticity values.

Exogenous Variables	Dependent Variables		
	Total Trade between Turkey and the Other Country	Imports of Turkey from the Other Country	Exports of Turkey to the Other Country
	Model 1	Model 2	Model 3
Intercept	-3.27e+9*** (-3.93)	-3.66e+9*** (-4.78)	1.94e+8 (0.57)
Per capita income in Turkey	[3.90] 456582.6*** (3.90)	459312.4*** [0.33] (4.26)	[5.82] 13496.2 (0.50)
Per capita income in the other country	[0.79] 36040*** (2.99)	58958.2*** [0.89] (3.53)	[0.77] 23455.4** (2.54)
Population in Turkey	[3.87] 31.63*** (3.31)	27.97*** [-0.67] (3.59)	[6.61] -1.647 (-0.42.)
Population in the other Country	[0.17] 1.33** (2.20)	1.93** [0.12] (2.54)	[0.17] 0.52 (1.32)
Distance between Turkey and the other country	[-0.79] -61309.7*** (-2.72)	-106956.1*** [-0.88] (-2.70)	[-0.69] -39642.6*** (-2.62)
# of Obs.	414	426	445

Table 3. Effects of Diplomatic Visitations on Trade.

This table reports results from estimation of Equation 1 and 2 by ordinary least squares using heteroskedastic structure. The t statistics are reported in parentheses. ***, ** and * denote significance levels at the 1%, 5% and 10% levels, respectively. These are estimation results of equations 4, 5 and 6. The numbers in brackets represent the elasticity values. The dependent variable is the difference between the predicted value of trade in 2008 (import, export) using the coefficients from estimations of equations 1-3 using 1998-2000 data and actual trade volume.

Exogenous Variables	Dependent Variables		
	Difference in Trade between Turkey and the Other Country	Difference in Imports of Turkey from the Other Country	Difference in Exports of Turkey to the Other Country
	Model 1	Model 2	Model 3
Intercept	-8.63E+08**** (-3.63)	-8.51e+8*** (-4.87)	3.36e+8*** (3.96)
Diplomacy	[2.10] 1.20e+9*** (4.46)	1.93e+9*** [0.63] (3.97)	[6.35] 7.38e+8*** (4.37)
R²	0.42	0.31	0.56
# of Obs.	142	144	153

Endnotes

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3. The data is obtained from Turkish Statistical Institute's website, http://www.tuik.gov.tr/VeriBilgi.do?alt_id=12 (accessed on 04-06-2013).
4. Ahmet Davutoğlu, *Stratejik Derinlik, Türkiye'nin Uluslararası Konumu* (Istanbul: Küre Yayınları, 2001)
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9. Alan Deardoff, "Determinants of Bilateral Trade: Does Gravity Work in a Neoclassical Framework?" In J. A. Frankel (ed.), *The Regionalization of the World Economy*. (Chicago: University of Chicago Press, 1998), p. 7-32.
10. See following articles for more details about gravity models and specific examples. James Anderson and Eric van Wincoop, "Gravity with Gravitas: A Solution to the Border Puzzle," *American Economic Review*, Vol. 93, No. 1 (2003), p.170-92. Peter Egger, "An Econometric View on the Estimation of Gravity Models and the Calculation of Trade Potentials," *World Economy*, Vol. 25 (2002), p. 297-312.
11. Andrew Rose, "The Foreign Service and Foreign Trade: Embassies as Export Promotion," *World Economy*, Vol. 30, No. 1 (2007), p. 22-38.
12. Volker Nitsch, "State Visits and International Trade," *The World Economy*, vol. 30, No. 12 (2007), p. 1797-1816.
13. Scott Bennett and Allan Stam, EU Gene Software <http://eugenesoftware.org/> (accessed on 12-10-2011).
14. One critic has suggested that since oil and natural markets are different than others (prices change substantially and demand price elasticities are very low), we should exclude those from our analysis but include only non-energy trade. So we exclude six countries where Turkey imports substantial amount of oil and/or natural gas from our analysis: Algeria, Iran, Iraq, Kazakhstan, Russia and Saudi Arabia. The results were qualitatively the same and quantitatively very similar.
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16. Şaban Kardaş, *Turkey and the Arab Spring: Coming to Terms with Democracy Promotion?* Foreign Policy Program Policy Brief (October 27, 2011).