

A Gravity Model Analysis of Turkey-EU Trade Relations for the Period of 2004-2014

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Abstract

Geographical proximity of countries, historical backgrounds and trade networks remain one of the most important factors which determine the development of foreign trade flows during the globalization era because of trade costs increased contrary to the expectations. European countries are always maintaining their place in the top among Turkey's foreign trade partners for these reasons. There are lots of studies which focus on the effects of the Customs Union Agreement on Turkey-EU bilateral trade flows, and also some of them attempt to shed light on if Turkey has a special trade relation with the EU. Antonucci and Manzocchi's (2005) paper taking into consideration Customs Union has an important place in this context.

This study investigates the special role of EU for Turkey foreign trade for 2004-2014 period, parallel to Antonucci and Manzocchi (2005). In this period political situation in Turkey has changed and Africa and Asia became more important trade partners. As a method we applied the Gravity model which used firstly by Tinbergen (1962) and commonly used for foreign trade analysis. Due to strong theoretical background and empirical success, the gravity model is considered as a 'workhorse' model for quantitative studies of international trade. In the context of the gravity approach to international trade, trade flows are basically explained by the demand and supply of countries representing by their economic magnitude, the distance between trade partners reflecting trade costs and social-cultural factors. In other words according to this approach trade flows are determined not only by economic factors but also by social-economic dynamics.

In this paper we analyse Turkey's bilateral trade flows over 2004-2014 by using panel data for more than fifty countries to take into account majority of Turkey's trade volume. As a result we are of the opinion that EU is still an important trade partner for Turkey however this trade relation is not special. The possible explanation could be that the Customs Union and trade preferential are not enough to make Turkey's trade relations with the EU special.

Keywords : Turkey, European Union, Gravity Model, International Trade, Panel Data Analysis.

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