

Zelha Altinkaya

INTERNATIONAL TRADE AND COMPETITION IN INTEGRATED MARKETS

Home Appliance Industry in Turkey

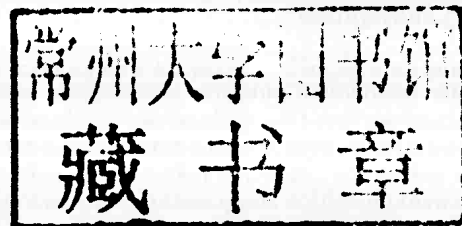


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I would like to dedicate this book to my lovely mother and to my family.*

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LIST OF ABBREVIATIONS

BEYSAD	Beyaz Eşya Yan Sanayicileri Derneği (White Good Suppliers Association: WGSA)
CU	Customs Union
DTM	Dış Ticaret Müsteşarlığı(Under-secretariat of Foreign Trade)
EFTA	European Free Trade Area
EC	European Community
EEC	European Economic Community
EU	European Union
EU25	European Union with 25 Member States
GATT	General Agreement on Tariffs and Trade
IGEME	Türkiye İhracatı Geliştirme Merkezi (Export Promotion Center of Turkey)
IMF	International Monetary Fund
IRS	Increasing Rate of Return
H-O	Heckscher Ohlin
H	Herfindall
IMKB	Istanbul Menkul Kıymetler Borsası (Istanbul Stock Exchange (ISE))
ISO	Istanbul Sanayi Odası (Istanbul Chamber of Industry (ICI))
MC	Marginal Cost
MR	Marginal Revenue
N.A.	Not Available
PCM	Price Cost Margin
R&D	Research and Development
US	United States
USA	United States of America
UK	United Kingdom
TL	Türk Lirası
TCMB	Türkiye Cumhuriyeti Merkez Bankası (The Central Bank of the Republic of Turkey)
TÜİK	Türkiye İstatistik Kurumu (Turkish Statistical Institute (TSI))
TÜRKBESD	Türkiye Beyaz Eşya Sanayicileri Derneği (White Goods Industrialist Association) (WGIAT)
YTL	Yeni Türk Lirası

INTRODUCTION

The scope of study is to analyse the impact of the Customs Union on Turkish Manufacturing Industry. In 1996, Turkey became member of the Customs Union as a result of long process starting with Ankara Agreement. Although, the European Union had been already removed all tariffs in earlier period than 1996, Turkey was just removing all tariffs and quantitative restrictions on the commodities imported from the European Union in 1996. The Customs Union is the final stage of liberalization process starting on January 24, 1980. Turkey was also following global wave of trade liberalization. The basic idea behind both the Ankara Agreement and trade liberalization was to raise wealth of both Turkey and the European Union. This idea was based on the argument of traditional trade theory. According to traditional trade theory, if nations export the commodities that they have comparative advantage, both of the nations would benefit from trade. This is the Ricardian trade model. Although this idea goes back to Adam Smith, later, it was developed by Heckscher-Ohlin. Heckscher-Ohlin states that the comparative advantage is determined by the nation's factor endowment.

All models within the framework of traditional trade theory are based on the assumption of perfectly competitive markets. Nevertheless, the perfectly competitive markets are rare in real life. Most of the traded goods are produced in imperfectly competitive markets. Especially, the recent studies in international trade demonstrated the largest part of international trade have been among the similar countries. So, intra industry trade gained importance as well as the concepts of industrial economies were introduced to the international trade. The trade among imperfectly markets were explained by the new trade theory. This was especially the inclusion of concepts of increasing returns to scale to the theory. This did not replace the concept of comparative advantage, but it is the fundamental change and it has equal role with comparative advantage in explaining the source of trade in new trade theory. The challenges in trade theory also bring challenges in policies. When the theory includes imperfectly competitive markets, the analysis and policy suggestion becomes more complex since the imperfectly competitive markets are more dynamic and interaction among the parties makes the markets more sensitive to policy changes.

The new trade theory provides firms in the industry have market power by the selective

use of trade barriers and industry subsidies to provide opportunity to capture more of profits of foreign firms. On the other hand, Levinsohn argued that import discipline the imperfect markets and provide more efficiency in those markets by removing excess profits. Starting Ann Krueger and Baran Tuncer, many analysts studied the effect of trade liberalization process in Turkey. Following Krueger and Tuncer, Foroutan and Levinsohn analyzed the Turkish case in early 1990s. Most of them agreed on that liberalization process was successful. Especially, on their study, Katircioğlu, Engin and Akçay found out that the price cost margin decreased in most of the manufacturing industries that were imperfect markets after trade liberalization policies in early 1980s.

Then, Cihan Yalçın (2000) measured the impact of liberalization for the period between 1980 and 1996. Yalçın found only in the paper and paper products industry, the concentration ratio decreased in this period. On the other hand, the study made by Özcan, Voyvoda and Yeldan for the same period also states that the speed of adjustment of concentration was revealed to be very slow in spite of the import discipline and export penetration and the technological and institutional barriers to entry. So, although, persistent and active liberalization policies have been followed since 1980s, there were still highly concentrated industries in Turkish economy at the beginning of the Customs Union. Although, their concentration level decreased, this could not avoid them to be highly concentrated industries. Home appliance industry is also one of them. Due to technological innovation, large initial investment cost and well-organized after sales organization, home appliance sector is the highly concentrated industry. While, most of the products in the industry have been only produced by only one producer in Turkey for long time, the remaining part would be produced by two or maximum three producers. Before 1996, the market share of two leading producers in refrigerator market was around 90 %. Actually, the home appliance industry has the same industry structure all over the world. Most of the products are produced by only few producers. However, depending on removal of tariffs and similar trade barriers through the Customs Union, it was expected that as one of the most highly concentrated industry, home appliance industry should be more competitive. Based on Levinsohn import discipline hypothesis, the case of home appliance industry will be analysed within the thesis.

After reviewing theoretical background of the trade theory within the first two chapters, firstly traditional trade theory then, the new trade theory and liberalization policies in Turkey will be overviewed in detail. The case studies on both Turkish economy in general and Turkish

Manufacturing industry are analysed in detail, here also. Finally, the impact of the Customs Union on Turkish Economy and especially on manufacturing industry will be analysed by sampling four basic products of home appliance industry. The Price Cost Margin model of Levinsohn will be used in the model.

CHAPTER I

THE TRADITIONAL TRADE THEORY

1.1. ABSOLUTE ADVANTAGE

Adam Smith says “Never to attempt to make at home what it will cost him more to make than to buy” (Smith,1776:1936 p:200). The international trade provides the opportunity for an international division of labour that leads to better allocation of resources and greater productive efficiency in every country as well as the other advantageous of wider markets. Even if we consider an international trade is simply an extension of domestic trade; the international market is much larger than a single one country’s domestic market. Traditionally, the international trade is explained by the comparative advantage which constitutes a base for free markets. The free trade theory is an extension of the competitive economic theory as one of the most important themes in the literature of economics. This is known as the first theorem explaining the welfare of societies which emphasizes the non-intervention to economic transactions. The first theorem goes back to Adam Smith who argues that each Country ought to specialize in the product in which it has an absolute cost advantage over its trade partners. In this theorem labour was the only factor of production.¹ So, Adam Smith also argued the concept of specialization for the first time, as he did on the “laissez faire” policy.²

If Country A has higher productivity than Country B in producing commodity x while Country B produces commodity y in less time than country A, each one should concentrate in producing commodities in which they have an absolute cost advantage. Both countries obtain advantage of trade both of the goods in large quantities in the presence of free trade as compare to the absence of free trade.³ It was argued that trade enables countries to import, in exchange for their own products, those commodities which can be produced at home only at a greater cost than that prevailing abroad. As a consequence, all products would tend to be produced in those countries where the costs of producing them would be lower.

¹ Formula used by Adam Smith to calculate Labour productivity as follows :

- Labour Productivity : production/labour input
- Labour Cost : labour input/production

	y	x
Country A	2	10
Country B	4	8

(Gerber:2007;40)

²,”Laissez faire” argues non government intervention to the economy

³ This is called “Absolute Cost Advantage”