

An Economic Analysis of the Relationship Between Turkey and the Balkan Countries

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ABSTRACT

This study analyses the economic relationship between Turkey and the Balkan countries, focusing on trade and foreign direct investment relationships among the countries over the period from 2006 to 2013. The results shows that Turkey's economic relationships with the region strengthened rapidly over the sample period. While Turkey's trade and investments has increased significantly in the region, it has been observed that there were diversification in sectorial and geographical terms as well as fluctuations on a country basis. In terms of investments, Turkey is not among the top five in any country except Albania and Kosovo. However, there are still great opportunities for Turkey to invest in the region. Given that Turkey's trade and investments with the region increases over time, it can benefit from encouraging exports and investments in the region, but it should also be careful over its trade balance.

Keywords: Turkey, Balkans, Economic Integration, Foreign Trade, FDI

Türkiye ve Balkan Ülkeleri Arasındaki İlişkinin Ekonomik Analizi

ÖZ

Bu çalışma, Türkiye ve Balkan ülkeleri arasındaki ekonomik ilişkileri, özellikle 2006-2013 dönemleri arasındaki ticareti ve doğrudan yabancı yatırımları incelemektedir. Elde edilen sonuçlara göre, Türkiye'nin bölge ekonomileri ile ekonomik ilişkilerinin bu dönemde hızla geliştiği görülmektedir. Türkiye'nin bölgedeki ticaret ve yatırımları önemli ölçüde artarken, sektörel ve coğrafi açıdan çeşitlilik ve ülke bazında dalgalanmaların olduğunu gözlenmiştir. Türkiye, yatırımlar açısından sadece Arnavutluk ve Kosova'da ilk beş arasında, fakat Türkiye için bölgede hala büyük yatırım imkânları mevcuttur. Türkiye'nin zamanla bölgedeki ticaret hacminin ve yatırımlarının önemli ölçüde arttığı göz önüne alındığında, bölgeye olan ihracat ve yatırımları teşvik etmeye devam etmeli, fakat bunları yaparken dış ticaret dengesini de dikkate almalıdır.

Anahtar Kelimeler: Türkiye, Balkanlar, Ekonomik Entegrasyon, Ticaret, Doğrudan Yabancı Yatırımlar

Over the last two decades, economic integration between countries has been one of the most notable events in the world. The developing countries have gained importance by means of their economic activities and they now have important effects on other countries (Akin and Kose, 2008). As far as geo-politics is concerned, strong economic ties between Turkey and the Balkans countries will directly contribute to both countries' economic relations with the European Union (EU). As Turkey intended to strengthen its mutual cooperation with the region by way of "win-win" strategy, the Balkans' geographical location and proximity will affect Turkey's integration with EU through trade and investment.

In this context, the aim of this paper is to investigate economic relationships between Turkey and the Balkan countries. Specifically, it aims to examine the opportunities and challenges for both parties in terms of trade and investment patterns. To understand the economic relationship between Turkey and the Balkans, one must first know which countries make up the Balkans and what the economies of the region are. The countries that make up the Balkans today include Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Kosovo, Macedonia, Montenegro, Romania, and Serbia. In general, today, the economic modernization of the Balkans region has lagged behind that of the Western Europe. Thus the region contains the poorest places in Europe. For instance, Albania has the lowest standard of living and the lowest per capita (World Bank, 2014).

One of the important features of economic integration among countries is international trade. The current international trade dynamics leads to significant changes in the structure of global trade. There is a growing thought that some specific emerging economies are taking an important role in the reorganization of the structure of world trade (Athukorala and Yamashita, 2006 and Akin and Kose, 2008). Foreign direct investment (FDI) is also an important feature of economic integration between countries. FDI currently drives the integration of developing countries into the global economy and plays an important role in the globalization process. FDI is promoting economic growth in host countries, especially developing countries (Grossman and Helpman, 1991; Hermes and Lensink, 2003; Andreas, 2006; and Ndikumana and Verick, 2008).

The motivation for evaluating the economic relations between Turkey and the Balkans region is based on their geographical proximity to Turkey and the EU. It is well illustrated in the literature that geographical features play an important role in the economic progress of any country, influencing the prospects for development (Sachs 1997; Gallup, Sachs and Mellinger, 1999; and Petrakos and Totev, 2000). According to the modern trade theory, neighboring countries are in general the best customers and greatest buyers, the proximity of the Balkans region directly determines the

cost of transportation and thus the ease and potential access of Turkey's goods and services. Moreover, the proximity also allows easier access of Turkish products to the developed economies of Western Europe. Finally, geographical proximity also affects the distribution of foreign investments, as the Turkish investments in region increased substantially over the last decade.

TRADE BETWEEN TURKEY AND THE BALKAN COUNTRIES

Turkey's integration into the global economy has increased significantly after early 1980s adopting an export-led growth strategy, through international trade and financial activities. For instance, the volume of Turkey's foreign trade increased from US\$ 72 billion in 2001 to US\$ 403 billion in 2013. Of course this substantial growth in its trade has been accompanied by a change in its direction of trade, structure of trade and its trade patterns.

Table 1 displays the percentage of Turkey's exports to the Balkans region between 2006 and 2013. It shows that in 2006, Turkey's top export destinations in the region were the Romania followed by Bulgaria, and Greece. In 2006, Turkey's exports to these three countries amounted to 83,2% of all its exports to the Balkans, while its imports from these countries were as high as 92% (Table 2). Turkey's exports to the region increased substantially from US\$ 6,6 million in 2006 to around US\$ 10,8 million in 2008, but as a result of global crises it dropped to US\$ 6.8 million in 2009 and increased to US\$ 7.8 million in 2013.

Table 1. Turkey's Exports to the Balkan Countries, 2006-2013 (percentage)

Exports to:	2006	2007	2008	2009	2010	2011	2012	2013
Greece	24,2	22,7	22,4	23,9	20	20	19,4	18,4
Romania	35,4	36,6	36,7	32,3	37	37	34,5	33,5
Bulgaria	23,6	20,7	19,8	20,3	20,9	20,9	23,3	25,2
Albania	3,2	3	2,8	4	3,5	3,5	3,5	3,4
Croatia	3,2	3,6	3	3,1	3,1	3,1	2,8	2,6
Bosnia and Herzegovina	2,3	4,5	5,3	3,3	3,5	3,5	3,5	3,5
Kosovo	1,1	1,2	2,6	4,1	3,4	3,4	3,5	3,6
Macedonia	2,6	2,7	2,7	4,2	3,8	3,8	3,8	3,8
Montenegro	0,1	0,2	0,4	0,4	0,3	0,3	0,4	0,4
Serbia	4,2	4,8	4,2	4,5	4,6	4,6	5,3	5,6

Source: *Turkish Statistical Institute (TurkStat), 2014.*

Turkey's foreign trade volume in the Balkans region increased substantially as a result of liberalization process in the region in line with European Union (EU) accession requirements, as well as the economic growth in Turkey. Thus, in 2008, Turkey's exports to the Balkans region were 63% higher before the global economic crises, and now it is 18% higher than eight years before.

Table 2 illustrates the percentage of Turkey's imports from the region over the period 2006- 2013. Again, three countries, namely Romania, Bulgaria, and Greece have been Turkey's top source of imports from the region. Romania was the dominant supplier of imports to Turkey between 2006 and 2011. But in 2012, Greece became the biggest import market, overtaking Romania and supplied 34,4% of total Turkey's imports, while imports from Romania decreased from 47,9% in 2006 to 31,1%. Imports from Greece increased from 18,8% of total imports from region in 2006 to 37,2% in 2013. Imports from Bulgaria also increased over the period, but an exceptional decline occurred in 2009 and remains low as a result of global economic and financial crisis. However, Bulgaria currently is the third largest import source to Turkey from the region.

Table 2. Turkey's Imports from the Balkan Countries, 2006-2013 (percentage)

Imports from:	2006	2007	2008	2009	2010	2011	2012	2013
Greece	18,8	15,2	16,9	23,7	21,3	26,5	34,4	37,2
Romania	47,9	49,7	52,1	47,2	47,6	39,2	31,5	31,8
Bulgaria	29,9	31,1	27,0	23,4	23,5	25,5	26,8	24,4
Albania	0,2	0,4	0,5	0,1	1,2	1,3	1,0	0,7
Croatia	1,1	1,2	1,6	2,2	2,9	3,2	2,0	1,7
Bosnia and Herzegovina	0,2	0,3	0,4	1,1	1,0	0,9	1,1	1,1
Kosovo	0,0	0,0	0,1	0,2	0,2	0,1	0,1	0,1
Macedonia	1,0	0,9	0,4	0,8	0,7	0,9	1,0	0,7
Montenegro	0,0	0,0	0,0	0,1	0,1	0,2	0,2	0,1
Serbia	0,9	1,1	0,9	1,2	1,5	2,2	2,0	2,2

Source: Turkish Statistical Institute (TurkStat), 2014.

Table 3 break downs the four most important Turkish export product groups to the Balkan countries in 2013. Turkey's exports to the region generally consist of basic intermediate goods as in 2013, 58% of Turkey's export products to the region was intermediate goods, followed by household consumption with 25,5%, capital goods with 8% and mixed end-use with 2,3% which consist of personal computers, passenger cars, personal phones, precious goods, packed medicines. Table 3 also shows that 81,2% of intermediate goods, 70,3% of household consumption, 75,9% of capital goods, and 78,6% of Turkey's mixed end-use was with Romania, Bulgaria, and Greece only.

Table 3. Turkey's Exports to the Balkans by Product Group, 2013, (percentage)

Export to:	Intermediate goods	Household consumption	Capital goods	Mixed end-use
Greece	15,56	16,51	12,03	22,95
Romania	37,37	32,13	33,34	30,40
Bulgaria	28,23	22,17	30,49	25,30
Albania	2,75	5,79	3,32	2,83
Croatia	1,65	4,36	4,55	5,71
Bosnia and Herzegovina	2,20	0,97	0,67	0,00
Macedonia	3,52	4,98	4,36	3,58
Montenegro	0,23	0,71	0,42	0,97
Serbia	8,50	12,39	10,80	8,26

Source: OECD Statistics, 2014

Looking more deeply, Turkey's exports to Greece consist mainly of end-use products (22,9%), such as computers, cars, phones, precious goods and packed medicines. As is the case with Greece, Turkey's exports to Croatia also consist mainly of end-use products (5,7%). Turkey's main exports to Romania are intermediate goods (37,4%), household consumption (32,1%), capital goods (33,3%) and end-use products (30,4%). Intermediate goods constitute around 65,7% of Turkey's exports to Bulgaria and Romania. Turkey's exports to Serbia is different from the product grouping that than it exports to other Balkan countries and mainly consist of household consumption and capital goods, which account for 12,4% and 10,8% respectively. Turkey also exports intermediate goods (8,5%) and end-use products (8,2%) to Serbia.

On the import side, the Turkey's top four import categories from the Balkan countries are listed in Table 4. According to the table, in 2013, Romania, Bulgaria, and Greece dominate the Balkan-Turkey trade flows. Turkey's imports from these three countries amounted to 93,3% of all its imports from the Balkans. Moreover, from these countries Turkey's imports were mainly intermediate goods (Table 4). Romania mainly exports end-use products (79,6%) to Turkey. Household consumption and capital goods are also main export product groups to Turkey. Turkey's major imports from Bulgaria and Greece are intermediate goods, which account for 25,4% and 41,2%, respectively. Turkey mainly imports household consumption and capital goods from Bosnia and Herzegovina.

Table 4. Turkey's Imports from the Balkans by Product Group, 2013, (percentage)

Imports from:	Intermediate goods	Household consumption	Capital goods	Mixed end-use
Greece	41,17	9,41	13,21	1,53
Romania	26,99	43,89	47,39	79,65
Bulgaria	25,49	18,45	15,35	9,07
Albania	0,77	0,73	0,91	0,01
Croatia	1,68	1,38	7,33	0,21
Bosnia and Herzegovina	1,10	24,17	12,00	1,44
Macedonia	0,78	0,44	0,71	0,00
Montenegro	0,12	0,00	0,00	0,00
Serbia	1,90	1,53	3,11	8,09

Source: *OECD Statistics, 2014*

In general, we observe that between 2006 and 2013, the volume of trade between Turkey and the Balkans region increased substantially. It is important to note that the increase in Turkey's imports from the region is higher than its exports (147% as opposed to 106%). Turkey's main trade partners within the region are Romania, Bulgaria, and Greece. Turkey's exports to these three countries amounted to 77,2% of all its exports to the Balkans, while its imports from these countries were as high as 93,3%. Other Balkan countries have also managed to sustain and accelerate their trade ties with Turkey since 2006.

FDI BETWEEN TURKEY AND THE BALKAN COUNTRIES

FDI flows between countries are mainly associated with the liberalization of capital account regimes that has been taking place since 1986 (Akin and Kose, 2008). Bilateral FDI flows seem to vary noticeably across countries and over time.

In the literature, there are few studies both at a theoretical and empirical level that establish the direct links between FDI inflows and FDI outflows. However, there are various studies that establish indirect links between the growth process and FDI inflows to contribute growth, which in turn, contributes to FDI outflows. According to the investment development path approach presented by Dunning (1981) and Dunning and Lundan (2008), FDI outflows begin in the second level of the development process. Then exports are encouraged in the second level when the country reaches the growth point threshold. In the third level, the FDI outflows become stronger and its components are concentrated in certain sectors of the economy that are related to the searching of new markets and resources. In the final level of this development process, FDI outflows become even stronger and are heavily concentrated in hi-tech products.

In terms of financial activities, Turkey and the Balkan countries has been integrating with the global economy through inward FDI. Turkey has seen as major developing country sources of FDI with the India, the Republic of Korea, the Russian Federation, the United Arab Emirates (UNCTAD, 2013). Moreover, according to According to the UNCTAD's World Investment Prospects Survey for 2013-2015, Turkey is among the top 20 recipient's countries in the world (UNCTAD, 2013). Similarly, in 2012, Turkey ranked the 13th FDI recipient country in the world in the FDI Confidence Index, an indication of a confidence in the country (Kearney, 2012). Like Turkey, the Balkan countries are also been integrating with the global economy through inward FDI. For instance, FDI inflows to these economies have increased from US\$ 5.5 billion in 2000 to US\$ 60.3 billion in 2008, but an exceptional decline occurred in 2010 as a result of global economic and financial crisis.

In terms of Turkey's yearly outward FDI to the Balkans region, Bulgaria and Romania exclusively the recipient countries until 2004. From that year onwards, the rest of the Balkan countries have undertaken important economic reforms in order to attract more FDI to integrate with the global economy. As a result of rapid liberalization process and bilateral agreements signed with Turkey, Turkish investments began to flow in to the Balkans region.

The nature of Turkish FDI flows to the region is different in each of the Balkan economies. Table 5 shows FDI inflows to the region countries between 2007 and 2012. It shows that Croatia is the leading destination of FDI among the Balkan countries. Total inward FDI to Croatia was US\$ 164 million, followed by Romania with US\$ 133 million, and Bosnia and Herzegovina with US\$ 126 million over the period, which accounts 60% of total FDI inflows to the Balkan countries.

Turkey's FDI flow of investment into the Balkan countries has been relatively diversified. For instance, in 2007, Albania alone received 42,2% of total outward FDI from Turkey. This large FDI inflow of investment into the country is a reflection of foreign participation in the partial privatization of Albania's public telecommunication company ALBtelecom, which was acquired by a Turkish consortium in 2007. Moreover, Turkey became the fifth country having the largest share in FDI stocks in Albania in 2011.

However, Bosnia and Herzegovina over passed these countries in 2010, thus becoming the largest FDI recipient country among the region. Bosnia and Herzegovina received US\$ 22 million FDI in 2008, and reached a record level of US\$ 61 million FDI in 2009. This large investment into the country is a reflection of Turkish Airlines purchase of 49 % of the BH Airlines of Bosnia and Herzegovina.

As Table 5 shows, despite the increase in Turkey's investments into the region total, big fluctuations are observed in Turkey's FDI outflow when examined on country basis. While in some years significant Turkey's FDI outflows went into the Balkan

countries, in other years their amount was insignificant compared to the investments from other countries (see Table 5). However, Turkey's investments in Kosovo has been gradually increasing and recently been fairly stable especially after 2007. According to Kosovo Statistics Agency and IMF's Coordinated Direct Investment Survey Turkey has been one of the leading suppliers of FDI in this country. In 2013, Turkey was the third largest source of FDI to Kosovo after Slovenia and Germany, investing around US\$ 61 million (IMF, 2014). Turkish FDI flows to Serbia gradually decreased over the period. Turkish FDI to Serbia is led by the textiles and food & beverages sectors. Montenegro lagged the other region countries as preferred destination of Turkish FDI flows. Turkish investments in the Balkans are in various sectors including telecommunication, energy, transportation, finance and some airport facilities. Some of these facilities such as international airports of Skopje and Pristina have been built and/or run by Turkish companies (Hamidi, 2010).

Table 5. Turkey's FDI Outflows to the Balkan Countries, 2007-2012 (% of Balkan total)

FDI outflows to:	2007	2008	2009	2010	2011	2012
Albania	42,2	2,8	0,0	3,0	2,6	3,6
Bosnia and Herzegovina	9,4	9,3	31,0	61,0	11,1	3,6
Bulgaria	4,7	5,6	18,3	0,0	9,5	3,0
Croatia	0,0	0,0	19,7	2,0	24,9	60,5
Greece	0,0	36,1	0,0	2,0	0,5	12,6
Macedonia	1,6	0,9	2,8	7,0	36,5	-8,4
Montenegro	3,1	3,7	0,0	4,0	0,0	0,0
Romania	21,9	21,3	23,9	18,0	14,3	20,4
Kosovo	0,0	15,7	15,5	4,0	13,8	31,7
Serbia	17,2	20,4	4,2	3,0	0,5	4,8

Source: FDI flows by partner country, OECD, 2014.

In terms of regional sources of FDI, Greece is the largest source of FDI flows to Turkey from the Balkans region, followed by Serbia, and Albania. Overall, Greece's FDI inflow to Turkey increased significantly since 2002. FDI from Greece alone was US\$ 2.36 billion in 2007, which accounted for 99.1% of total FDI inflows from the region. Specifically, foreign capital participation and financial intermediation sectors are the main contributor of the FDI inflows to Turkey that around 25,837 companies operating in these sectors only. According to the data provided by the Central Bank of the Republic of Turkey, Greece ranked the third largest country with invested capital after Netherland and the U.S between 2002 and 2010. In terms of sector allocation, FDI into Turkey wholesale and retail trade is the main recipient of FDI, followed by the manufacturing and transport, storage and communications sectors.

Table 6. Turkey's FDI Inflows from Balkan Countries, 2007-2012 (% of Balkan total)

FDI inflows from:	2007	2008	2009	2010	2011	2012
Albania	0,0	0,0	0,0	0,0	0,0	8,6
Bosnia and Herzegovina	0,0	0,0	0,0	0,0	0,0	0,0
Bulgaria	0,0	0,1	0,0	0,2	1,7	0,0
Croatia	0,0	0,0	0,0	0,0	0,0	0,0
Greece	99,1	97,4	93,1	98,4	92,2	81,4
Macedonia	0,0	0,4	0,0	0,0	0,0	1,4
Montenegro	0,0	0,0	0,0	0,0	0,0	0,0
Romania	0,0	0,0	1,7	0,0	0,0	0,0
Serbia	-0,8	2,0	5,2	1,4	6,0	8,6

Source: *FDI flows by partner country*, OECD, 2014.

Generally, we observe that the Turkish investments in the Balkans region increased substantially, but on a country basis there are big fluctuations. However, Turkey is not among the top five in any country except Albania and Kosovo. Turkey became the fifth country having the largest share in FDI stocks in Albania in 2011, and in 2013; it was the third largest source of FDI to Kosovo.

CONCLUSIONS

This paper presents a descriptive analysis of economic relationship between Turkey and the Balkan countries. It focuses on trade and foreign direct investment relationships among the countries over the period from 2006 to 2013.

The results shows that Turkey's economic relationships with the region strengthened rapidly over the sample period. While Turkey's trade and investments has increased significantly in the region, it has been observed that there were diversification in sectorial and geographical terms as well as fluctuations on a country basis. The significant growth of Turkey's trade and investments with the region has particularly been supported by the bilateral free trade agreements and the encouragements offered by the recipient governments. The substantial increase in trade volume, means increasing interdependence between countries. In terms of investments, Turkey is not among the top five in any country except Albania and Kosovo. However, there are still great opportunities for Turkey to invest in the region, especially in tourism, estate, transportation and food production sectors as Turkish companies are strong in that field.

Given that Turkey's trade volume with the region increases over time, it can benefit from encouraging exports and investment in the region, but it should also be careful over its trade balance. Therefore, as there is strong demand for certain goods and for technical know-how in certain sectors in the region, Turkey should carefully plan and organize its economic and commercial activities with the region.

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