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REVEALED COMPARATIVE ADVANTAGE AND PROTECTIONIST POLICIES

An analysis of Turkey's foreign trade in 1980

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Recent protectionist pratices forces all countries to reevaluate their foreign trade policy. This article shows that unless a countries trade partners are following a non protectionist policies, it becomes exceedingly difficult to identify sectors that enjoy a revealed comparative advantage over its trading partners which is also the assence of trading.

1.INTRODUCTION

The relative weakness of the gross national product (GNP) growth rates in the non-oil producing developing countries (NOPDC) is only a partial reflection of the hardship faced by them over the last decade. In the mid-1970s, the steady progress being made towards lower protectionist measures in foreign trade had reached a turning point. Since then with the industrialized countries in the lead, most nations, once again, have taken steps that may be termed "new protectionism." (1)

These developments and a general slowdown in the world economic performance caused a decrease in dollar value of the 1980-83 global trade. (2)

The new protectionist trend bears the following features and is somewhat different from the previous protectionist practices. The new protectionism is characterized by the following features:

-non-tariff barries, such as quotas, voluntary export constraints, orderly constraints, orderly marketing arrangements;

-government subsidies and incentives to "special" industries and for special regions;

-the establishment of international cartels. (3)

The common base among the NOPD countries is that specific product industries are highly protected as tough there was premeditated collusion. By carefully looking at the European Economic Community, the United

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(1) Fred Bergsten and William R.Cline. Trade Policy in the 1980's. Washington, DC: Institute of International Economics, 1982, p.15.

(2) International Monetary Fund. World Economic Outlook. Washington, DC: International Monetary Fund, 1984,

(3) Bela Balassa. Growth and Entrepreneurship Opportunities and Chalanges in a Changing World. Paris: International Chamber of Comberce, 1981, p.36.

States and Japan markets, we observe that in each of these markets high tariff walls have been erected around agriculture, textiles, apparel, steel, colored television sets, footwear, and shipbuilding.

A concentration of protectionist measures in these sectors might be explained by the fact that these sectors are relatively labor intensive and they have been able to transform their market power into political lobbies that have successfully managed to create tariff walls against workers are employed in these sectors, their voting power has enabled them to protect their economic interests by legislative and administrative means.

Although most, if not all, nations are fully cognizant of the adverse economic consequences of protectionism, they have not been successful in taking counter measures, primarily because of the existence of powerful lobbies in their respective political systems. The slow global economic recovery has further aggravated the situation. In an effort to "justify" their protectionist policies, policies which could not be justified on economic principles, these countries blame the global economic conditions for their policies. In other words, they seem to say that their protectionist policies would disappear when the global economic expansion begins! This is a cyclical argument that cannot be sustained. Most economists would argue that the protectionist wall must come down before the world economic conditions would improve.

Until 1980, Turkey, along with other developing countries, had subscribed to the "objections to free trade arguments." These objections were commonly stated as the infant or strategic industry argument, term of trade argument, and factor market imperfections. (4)

In 1980, however, Turkey abandoned these arguments and made a radical change in its course of action. Henceforth, Turkey began to focus on an export-led growth model.

This paper purports to test whether or not protectionist practices abroad induce changes in the revealed comparative advantage (RCA) of Turkish exports. Turkey's export performance will be a major measure to evaluate its success ar lack thereof in achieving its economic goals.

From the economic literature it has become popularly known tha not only protectionist practices abroad but also domestic protectionist practices affect the composition of RCA. In other words domestic subsidies are as much responsible as are foreign protectionist policies for distorting the revealed comparative advantage of a country.

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Alternatively, human capital endowment and distorted labor markets also may be identified as factors that lead to changes in the RCA of commodities destined to different countries. (5) In other words, differences in labor productivity and the labor's market power may be additional factors causing distortion.

(4) Anne O.Krueger. Trade Policies in Developing Coutries. Washington, DC: World Band, Reprint Series No:283, 1984, pp.521-27.

(5) Ashok Khanna. Testing the Direction of Exports. Washington, DC: World Bank, Staff Working Papers No: 537, 1982, p.29.

II.THE MODEL

The analytical methodology being used in this article has been previously employed by Ashok Khanna, to test the direction of India's manufacture exports. (6) The khanna formula measures the RCA and calculates India's export share of i th product in the world trade and compares this value with the total exports' relative share in the global trade.

Using the same RCA formula, we have tried to rank the RCA of commodity groups both for the EEC and for the world market. Also, we have attempted to find out whether or not Turkey's trade with these markets show a different structure. Since Turkey does not offer destination-wise export promotion incentives, we have a common base to make comparisons of commodity groups by destination.

At the end of this study, we have endeavored to measure Turkey's RCA vis-a-vis the commodity groups of the select 11 OECD countries. In this article, 1980 is the base year for all calculations.

The basic formula that is being used hare in measuring RCA is as follows:

$$RCA = \frac{\sum_j \sum_i X_{ij}}{\sum_j \sum_i W_{ij}} \Big/ \frac{\sum_i \sum_j X_{ij}}{\sum_i \sum_j W_{ij}}$$

where,

X_{ij} = Turkey's exports of commodity "i" to country "j"

W_{ij} = Total world export of commodity "i" to country "j"

III THE FINDINGS

In this analysis, we have used the United Nations SITC coding for commodity classifications (0-9 coding system). With the Khanna formula, a higher numerical value indicates a higher RCA. The data in table I has been arranged accordingly.

(6) Ibid, p.24.

Table 1. TURKEY'S REVEALED COMPARATIVE ADVANTAGE TO EEC (1980)

Chemicals (5)	15.341
Animal, Vagetable oil, Fat (4)	10.341
Machines, Transport equipment (7)	5.590
Basic manufac. Misc.manufac.manufac. goods (6-8)	0.783
Food, Live animals, Bevarages, Tobacco (0-1)	0.268
Crude materials, Excluding fuels (2)	0.195

Numbers in paranthesis show SITC coding

SOURCES: Oced Foreign Trade Statistics 1980
World Bank-World Tables 1984
Yearbook of International Statistics 1981 U.N. Vol.1

For a country such as Turkey, where the export composition was dominated by agricultural products in 1980 (and before), it is very hard to understand the reason for the chemicals to have the highest RCA. It becomes even more difficult to understand the situation when we recognize the fact that Turkey imported chemicals to the tone of 36 per cent of its annual domestic chemical production! (7) The third ranking of machines and transport equipment in 1980 also is an interesting finding. This is once again because in 1980 Turkey imported machines and transport equipment to the tone of 45 per cent of its domestic annual production of machines and transport equipment.

Although it is possible that in the case of some countries, these might reflect data for reexporting, this can not presumed to be the case for Turkey. Turkey recorded little reexport trade during the period under discussion.

To have a better understanding of the RCA for Turkish exports, let us rank the same commodity groups for Turkey's trade with the world markets, other than the EEC countries. (Table 2)

Table 2. TURKEY'S REVEALED COMPARATIVE ADVANTAGE TO THE WORLD (1980)

Food, Live animals, Bevarages, Tobacco (0-1)	5.023
Crude materials, Excluding fuels (2)	1.923
Basic manufac. Misc.manufac. goods (6-8)	0.903
Animal, Vegetable oil. Fat (4)	0.407
Chemicals (5)	0.355
Machines, Transport equipment (7)	0.112

Numbers in paranthesis show SITC coding

SOURCES: OECD Foreign Trade Statistics 1980
World-Bank-World Tables 1984
Yearbook of International Statistics 1981 Un. Vol.1

(7) Government of Turkey, State Planning Organization. State Planning Office 1982 Program. Ankara: SPD Publication No: 1832, 1982, pp. 139-40.

The RCA rankings for Turkish exports to the world markets show a change in the classification when compared with its exports to the EEC and the rest of the world. For example, Turkey's export of, beverages and tobacco ranked fifth for the EEC and were at top of the list for the rest of the world in 1980. The basic manufacturers' high ranking was primarily the result of Turkey's success in textile and apparel industry.

We should like to make it clear that, with respect to Turkey, the RCA differs from developed to developing countries. In 1980, more than 50 per cent of Turkish export destinations were either in the EEC or in the OECD countries. After 1980, Turkey increased its export share to the Middle East and North Africa. Therefore, these two sets of data (Tables 1 and 2) show how EEC's protectionist practices affected Turkey's RCA.

For policy considerations, at the trade policy decision-making level, one must consider not only the cost or factor endowment advantages, but also other countries' probable protectionist practices. These explanations also show why trade negotiations have critical importance, because of the fact that in the short-run, cost and production structure related to the exports can not be easily altered, due to the already set fixed investments and factor endowments.

IV. CONCLUSION

In this analysis, the relevant data for human capital endowment and for distorted labor market conditions have not been tested. Also, we have made no effort to take into considerations the fact that a higher market share in a foreign export market also could distort the RCA values.

The destination-wise overall RCA performance of the Turkish exports in 1980 is reflected in Table 3.These findings should enable the policy makers to compare alternative scenarios and to utilize the research finding in making short-term policy decisions.

Table 3.TURKEY'S REVEALED COMPARATIVE ADVANTAGE BY COMMODITY AND DESTINATION (1980)

	(0-1)	(2)	(4)	(5)	(6-8)	(7)
FRANCE	0.990	0.260	34.470	10.166	1.723	47.010
IRELAND	0.129	0.279	--	0.583	0.000	0.144
DENMARK	0.006	0.015	9.255	3.770	0.021	5.812
BENELUX	0.088	1.136	0.229	11.719	0.591	14.873
USA	0.052	0.355	32.235	46.434	0.649	12.482
NETHERLANDS	.071	0.211	2.722	26.066	0.846	26.748
GERMANY	0.151	0.250	4.763	20.493	2.841	81.724
U.K	0.067	0.041	0.974	13.858	3.751	39.432
JAPAN	0.003	0.001	--	3.273	6.667	96.890
ITALY	0.248	0.180	9.119	30.320	2.193	44.404
CANADA	0.001	0.180	--	1.069	0.576	4.506

Numbers in paranthesis show SITC coding

SOURCES: OECD Foreign Trade Statistics 1980
World Bank-World Tables 1984
Yearbook Of International Statistics 1981 Un.Vol.1

For many years, the developed countries have preaching about the benefits of free trade to the developing countries. However, as the study shows, these same developed countries have failed to follow their own advice in solving the world trade problems.

The study shows that unless a country's trade partners are following a non-protectionist policies, it becomes exceedingly difficult to identify the sector (s) that enjoy a revealed comparative advantage over its trading partners.

Another important finding is that the EEC is practicing and developing a more protectionist stance against Turkey than is the case with the country's other export partners.

SOURCES CİTED

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(4) Anne O.Krueger. Trade Policies in Developing Countries. Washington, DC: World Bank, Repring Series No: 283, 1984, pp.521-27.

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(6) İbid p. 24.

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ÖZET

Günümüzdeki korumacılık olgusu tüm dünya ekonomilerini, dış ticaret politikalarını yeniden gözden geçirmeye zorlamaktadır.

Bu çalışma korumacılık önlemlerinin var olması halinde, açıklanmış üstünlüğün belirlenemiyeceğini ortaya koymaktadır.