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**Research Article**

## Economic Growth Effects of Economic Integration: An Economic Analysis on Turkish Economy in the Context of the European Union and Shanghai Cooperation Organization

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### ABSTRACT

For many years the EU countries in Turkey's foreign trade is seen as the main trading partners. However, due to particularly in energy and raw material trade, shares of countries that are members of the Shanghai Cooperation Organization (SCO), especially the Russian Federation and China, also increased in the foreign trade of Turkey. The main purpose of the study is to discuss the comparative view of EU and SCO in the foreign trade of Turkey which goals to be an economic power in its region and reveal the effectiveness of trade with these two trading blocks for Turkey's economic growth. In the study, data from 6 EU countries and 6 SCO member countries with the highest transaction volume between the years of 2000-2017 were used. Place of 12 countries that considered approximately 42% in the foreign trade of Turkey. The results of the analysis of both trade blocs have been considered to be very important for Turkey's economy. Trading (import-export) both with EU and SCO countries influence Turkey's economic growth and variables in both the short and long term shows the presence of a meaningful relationship. Economic growth and foreign trade data show that there is a bi-directional causality between the two trading blocks.

### Keywords:

Turkish Economy, European Union, Shanghai Cooperation Organization, Foreign Trade



## 1. Introduction

Approached within the historical process, one of the clearest determination related to Turkey's foreign trade is that continental Europe in particular has occupied a great deal in Turkey's foreign trade. In this, Turkey's main tendencies inherited from the Ottoman Empire and an established tradition that has turned to Europe in terms of socio-political and cultural senses; the effect of superiority held by the European countries in the production of goods that directly interfere with daily life is also important. Industrial Revolution for more in-depth understanding of this process, Baltalimanı Agreement, Duyun-u Umimiye practice, must be addressed as the First World War and the founding of the explanatory variables of the new Republic of Turkey. As a result of these processes to be dealt with, direction and extent of the relationship between European countries with Turkey's economy can be evaluated in a healthy way.

The main purpose of this study is to reveal the comparative importance of the economic blocks that are often highlighted today rather than probing relations between Turkey and the European Union economy. The ultimate aim of the study is to make a comparative evaluation between Shanghai Cooperation Organization (SCO), which has been a matter of debate in terms of being an up-to-date alternative to European Union countries, which have taken quite a space in Turkey's foreign trade and have been in close cooperation with Turkey. In this comparison, economic relations are handled independently of other factors. In other words, the effects of social, historical, political and cultural connections on the economy are ignored.

The idea underlying economic integrations is theoretically put forward in Classical Foreign Trade Theories. The main objective is to liberalize foreign trade and increase mutual gains. Economic mergers, free trade agreements and strategic cooperation agreements can also be considered in this context. In today's world economy, the most important economic union, both in terms of quantity and quality, is the European Union (EU). There exist numerous unions in different parts of the world that are similar to the EU in economic terms however differ in other respects. These include the Black Sea Economic Cooperation (BSEC), the Union of Southeast Asian Nations (ASEAN), the Gulf Cooperation Council (GCC), the North American Free Trade Agreement (NAFTA), the Organization for Islamic Cooperation (OIC) and the South American Common Market (MERCOSUR). However, SCO differs from other integrations both in terms of population density, geopolitics, and in terms of density of raw material resources. The Shanghai Cooperation Organization, which was signed by the Russian Federation, People's Republic of China, Kazakhstan, Kyrgyzstan and Tajikistan in 1996, continues its activities with 6 member countries with the inclusion of Uzbekistan in 2001. Afghanistan, Belarus, India, Iran, Mongolia and Pakistan took part as observers. Also, Azerbaijan, Armenia, Cambodia, Nepal, Sri-Lanka and Turkey are dialog partners. From this point of view, it can be inferred that there is an economic unity and a potential political organization addressing a very dense population and a large geographical area.

When the data regarding Turkey's foreign trade, it is seen to be in relationships with about 80 countries in the period before 1980. According to 2018 data, it is seen that foreign trade is carried out with approximately 190 countries including Pacific-island

countries. However, as a condition to both cases in parallel, Turkey's foreign trade transactions in monetary value and ranking in the EU member states and member states of the SCO appears to be in the front row. Dependence on the EU bloc is high, especially in terms of raw material and energy inputs and SCO countries with intermediate goods inputs. In terms of exports, Turkey seems to be far ahead for EU bloc. From this point of view, in terms of foreign trade between the two economic blocs with Turkey, it is possible to make a comparison of the qualitative and quantitative evaluation.

Systematics of the study is determined as;

- Turkey's economic position in the world trade
- Trade data between Turkey and EU
- Trade data between Turkey and SCO
- Comparison of EU and SCO countries' activities in Turkey's economic growth.

## 2. Literature

Şanlı (2008), in his study, discussing the feasibility and sustainability of the Eurasian Union in the context of integration theories, expresses that it is possible to realize and sustain these after studies that can be conducted not only in economic, but also social, political, infrastructure, security and similar fields based on population, economic data and geographical information.

Hepaktan and Çınar (2011) stated that integration gained momentum in the process of globalization and had implications for enhancing regional cooperation for economic purposes. It is highlighted that there are many reasons that lead countries to economic mergers. Among these reasons, they expressed that matters such as making use of the expanding market scale, creating internal and external economies, increasing the mobility of production factors, and providing social and economic harmony were prominent.

Öniş and Kutlay (2012) carried out an analysis of integration success through the paradox of economic integration and political fragmentation in their analysis on the basis of monetary union, which is one of the important stages of economic integration. It is pointed out that in order for economic integration to be successful; there should be a co-directional decision-making mechanism among the countries that are included in the union. It was also signified that the different approaches of the members on the same issue, the inadequacy to produce policies together and the governance problems are the factors that affect the success of integration.

Sarı (2005), examined the structure of trade conducted with the economic blocks of economic organizations such as EU and BSEC (Black Sea Economic Cooperation) countries. In the study, it is stated that economic integration could have both positive and negative aspects, the trade that Turkey conducts with BSEC countries has positive effects on balance of payments while the trade with EU includes negative effects on balance of payments and that foreign trade is given abundantly with these countries.

Zeyrek (2010) states that Shanghai Cooperation Organization is not only an economic organization, but also has the intention of being a regional military, social and political power center. Particularly after the Dushanbe Declaration (2000), it is emphasized that discourses such as contributing to regional and global peace, increasing diplomatic and regional cooperation, and commercial and economic cooperation come to the forefront. However, it is also stated that there is an aim of keeping the NATO and US influences away from the region or even preventing them, as well as intending to eliminating the influence of NATO and the US, which aims to intervene in the region through Afghanistan.

In his study, Marvis (2015) analyzes the probability of success of regional integration between African countries based on EU and SCO integration. It is stated in the study that the migration problem in African countries is an element that prevents integration and that trade may develop due to reasons such as political instability thus a probability of increase wealth. It is also expressed in the study that EU integration and SCO efforts can be seen as a stable integration directed towards the goal.

Shao (2008), in the discussion text study, highlights that the existence of important energy resources in the Central Asian geography may be an element of increasing interdependence for the countries in the region in the long term. Especially in the political sense, it is considered that the Russian Federation's heavy influence on former loyal countries and the economic desire of China to secure energy demand in line with the rapid growth demand will make cooperation in the region compulsory.

Indeo (2016), in his analysis, examined a perspective based on Russia and China, two dominant powers of Asian geography economically and politically. He also stated that the two countries that do not desire US activity in the region could also have positive economic effects for the other countries in the region. It is also emphasized that the need of the countries in the region for each other can produce mutual gains and this will have positive results in terms of achieving economic targets.

Naveh et al. (2012) analyzed the effects of regional integration and outward policies on the economic growth and prosperity of Iran and its neighboring northern countries, including the 1995-2009 period. As a result of the study, the increase in foreign trade between these countries has led to economic integration in the long term and the growth indices of these countries have become integrated with each other at a certain time. In addition, economic liberalization in these countries has positive effects on economic welfare and GDP.

Azarbaijani (2002), in his study, examined the effects of globalization and economic integration on the regional development of the Caucasus and Caspian countries. As a result of the study, it has been concluded that regional cooperation with trade liberalization can affect the economic growth of the countries of the region to a great extent and positively.

Bong and Premaratne (2018), in their study, conducted a panel data analysis covering the years 1970-2013 to examine the effects of regional cooperation on economic growth for Southeast Asian countries. As a result of the study, it was found that regional integration has positive effects on economic growth. In addition, it was emphasized that public institutions should work to eliminate corruption and balance

macroeconomics and political stability while promoting international trade among the member states in order to increase regional integration and economic growth in the region.

Berthelon (2004) emphasized the positive impact of regional integration agreements on economic growth and sets out a new measure of regional integration by taking into account the share of the member states in the world GDP. As a result of the study, it was found out that the agreements between the northern countries had a positive effect on economic growth, the agreements between the southern countries had uncertain effects according to the size of the country and the agreements between the northern and southern countries had no clear result.

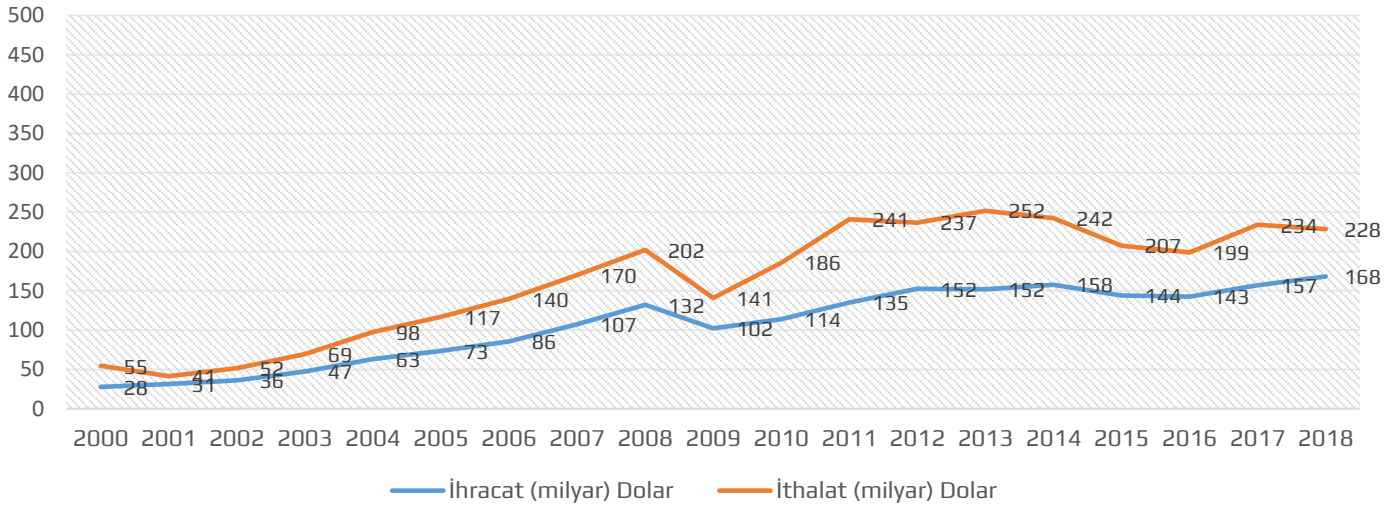
Velde (2008), in his study including 100 developing countries between 1970 and 2004, stated that regional integration had no direct strong effect on economic growth, but integration had an increasing effect on international trade and foreign direct investment, and the increase in trade and direct foreign capital increased economic growth positively.

Haveman et al. (1998), in a study examining the effects of the membership of less developed countries on their economic growth, it is concluded that foreign direct investments in a country have positive contributions to the growth of that country and that being a member of a commercial block facilitates the growth in that country. In addition, the study concludes that the size of the trade block of and income change of a country in the trade block support faster growth among the member states.

### 3. Data and Methodology

Considering the details of the period in which a structural transformation is observed in Turkey's foreign trade, another issue that needs to be addressed is the general position of Turkey in the world economy and expectations for foreign trade between Turkey and EU and for SCO. In this part of the study, trade between the EU, SCO members and Turkey as well as their impact on growth of Turkey's economy will be examined.

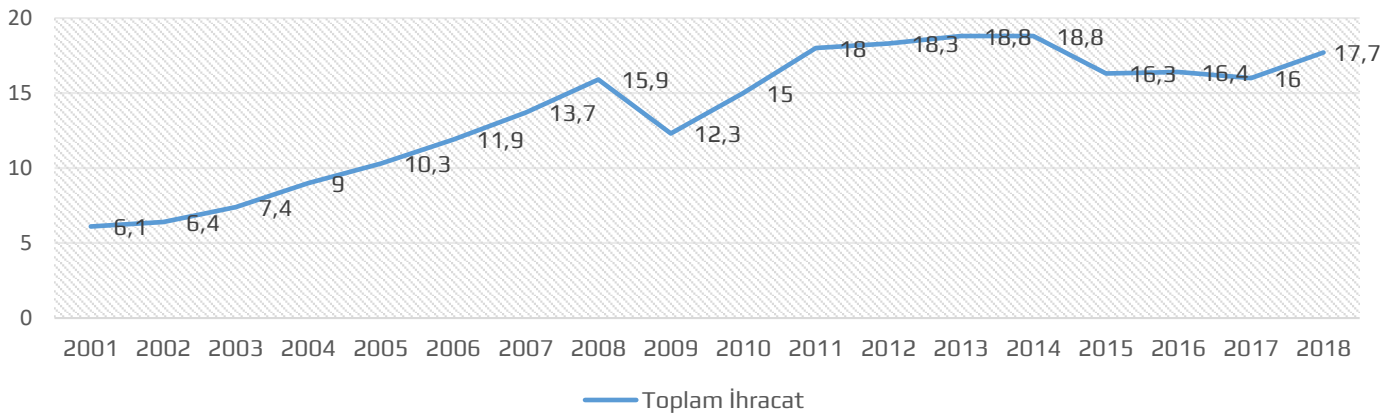
While statistical data on foreign trade that Turkey conducted with EU countries has been being compiled for many years, reaching the healthy data for countries, which gained their independence especially after 1990, is only possible as of mid-1990s. For this reason, it is preferred to use 19 years of data after 2000 in order to make a balanced analysis. Data is analyzed through the first 6 countries (Germany, France, Britain, Italy, Spain and the Netherlands) that have approximately 70% share in the trade that Turkey conducted with EU countries and 6 countries that are members of SCO (Russia, China, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan).



Source: Compiled from Foreign Trade Data of 2019 TSI<sup>1</sup>, <https://biruni.tuik.gov.tr/disticaretapp/menu.zul>, (Access: 03.02.2019).

**Figure 1.** The course of Turkey's Foreign Trade 2000-2018

Figure 1 shows yearly statistics of Turkey's foreign trade. While Turkey's exports in 2000 was around 27.7 billion dollars, this figure has reached 168 billion dollars in 2018. Similarly, this figure increased from 54.5 billion dollars in 2000 to 223.3 billion dollars in 2018. The graphic also shows a substantial numerical structural transformation in Turkey's economy in parallel with the world economy. There is a significant increase in trade in the world trade over the years. In the last 19 years, there has been a 2.5-times increase in world trade. Details of this information are indicated in Figure 2.



Source: Compiled from Foreign Trade Data of 2019 TSI, <https://biruni.tuik.gov.tr/disticaretapp/menu.zul>, (Access: 03.02.2019).

**Figure 2.** Change in World Trade 2000-2018

In response to these developments in world trade, Turkey's foreign trade is emerging as quite an insufficient level in world trade volume. Turkey covering approximately 1% level in total world trade volume has difficulty in reaching economic developmental target based on export at sustainable current account deficit.

Germany, especially in terms of Turkey's foreign trade is seen to have an important place in the EU. Apart from Germany, the countries with the highest trade volume among the EU countries are France, England, Italy, Spain and the Netherlands. In Table 1, foreign trade figures between the EU countries and Turkey are indicated. As

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can be seen from the data, although Turkey's trade with EU countries has been decreasing proportionally, it has been increasing in nominal terms. Despite the increase in the ratio of exports to imports, external deficits are continuously seen.

Year	Country Group	Export (USD)	Import (USD)	Foreign Trade Volume	Foreign Trade Balance	X/M	AB-27/Turkey DTH
2000	EU 27	15.664.420.819	28.526.901.881	44.191.322.700	-12.862.481.062	54,91	53,71
2003	EU 27	27.393.761.936	35.140.138.607	62.533.900.543	-7.746.376.671	77,95	53,63
2006	EU 27	47.934.745.690	59.387.030.056	107.321.775.746	-11.452.284.366	80,71	47,67
2009	EU 27	47.013.414.698	56.508.918.085	103.522.332.783	-9.495.503.387	83,19	42,58
2012	EU 27	59.197.801.592	87.447.695.740	146.645.497.332	-28.249.894.148	67,69	37,69
2015	EU 27	63.746.841.966	78.545.588.813	142.292.430.779	-14.798.746.847	81,15	40,53
2018	EU 27	83.616.062.185	80.621.126.328	164.237.188.513	+2.994.935.857	103,71	41,99

Source: Compiled from Foreign Trade Data of 2019 TSI, <https://biruni.tuik.gov.tr/disticaretapp/menu.zul>, (Access: 03.02.2019).

**Table 1.** Turkey-EU-27, 2000-2018 Foreign Trade Data

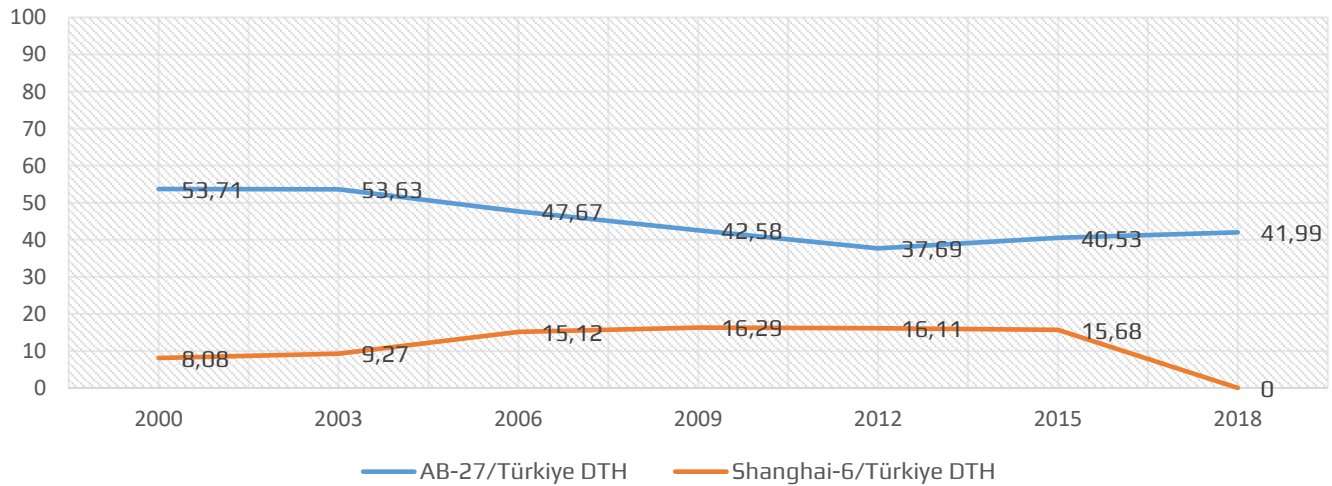
In Turkey's trade volume, the share of the Russian Federation and the countries that are members of the SCO, especially in China is high. Russia, China, Kazakhstan, Kyrgyzstan, Tajikistan and trade carried out by the group of countries with Uzbekistan revealed that Turkey's external deficit is higher than the deficit in the trade conducted with the EU countries. The most important reason for this is the high level of imports of energy raw materials and minerals, which have a high dependency ratio. Additionally, import stemming from cheap labor in trade with China is also effective in that. In this part of the study, data of foreign trade with Turkey covering 2000-2018 of 6 SCO countries and 6 EU countries with which the highest transaction volume was performed is set forth.

Year	Country Group	Export (USD)	Import (USD)	Foreign Trade Volume	Foreign Trade Balance	X/M	Shanghai-6/Turkey DTH
2000	Shanghai-6	966.301.622	5.682.346.003	6.648.647.625	-4.716.044.381	17,00	8.08
2003	Shanghai-6	2.314.973.058	8.495.617.888	10.810.590.946	-6.180.644.830	27,24	9,27
2006	Shanghai-6	5.007.426.564	29.030.768.521	34.038.195.085	-24.023.341.957	17,24	15,12
2009	Shanghai-6	5.969.650.771	33.637.904.421	39.607.555.192	-27.668.253.650	17,74	16,29
2012	Shanghai-6	11.524.959.431	51.180.305.018	62.705.264.449	-39.655.345.587	22,51	16,11
2015	Shanghai-6	7.699.213.252	47.377.218.384	55.076.431.636	-39.678.005.132	16,25	15,68
2018	Shanghai-6	8.518.240.331	45.223.348.079	53.741.588.410	-36.705.107.748	18.83	13.74

Source: Compiled from Foreign Trade Data of 2019 TSI, <https://biruni.tuik.gov.tr/disticaretapp/menu.zul>, (Access: 03.02.2019).

**Table 2.** Turkey and Shanghai Cooperation Organization Foreign Trade Data 2000-2018

When Table 1 and 2 are cross-referenced, the initial result was that both EU and SCO blocks are quite significant in Turkey's foreign trade. Trade with both blocks is increasing and foreign trade volume is expanding. Although the weight of EU countries in Turkey's total foreign trade proportionally diminishes, foreign trade volume expands. However, depending on trade conducted with SCO block, the weight increases rapidly in Turkey's foreign trade. In terms of total foreign trade deficit, although the transaction volume is relatively less, the external deficit seen in the trade with the SCO block is much higher than the deficit in trade with the EU countries.



Source: Compiled from Foreign Trade Data of 2019 TSI, <https://biruni.tuik.gov.tr/disticaretapp/menu.zul>, (Access: 03.02.2019).

**Graphic 3:** EU-27 and SCO in Turkey's Foreign Trade

The net result of these two tables indicates the necessity of qualitative analysis of the result rather than transaction volumes. Total foreign trade share in EU-27 of the first 6 countries that have the highest bilateral transaction volumes with Turkey is approximately 68%. Germany takes the first place amongst all world countries which Turkey have trade with. In trade with this country, the volume of transactions as well as the quality of the goods subject to trade are quite remarkable. Germany is followed by France, England, Italy, Spain and the Netherlands.

Year	Country	Export (USD)	Import (USD)	Foreign Trade Volume (USD)	Foreign Trade Balance (USD)	X/M
2000	Germany	5.179.844.047	7.198.209.376	12.378.053.423	-2.018.365.329	71,96
2003	Germany	7.484.930.597	9.452.963.795	16.937.894.392	-1.968.033.198	79,18
2006	Germany	9.686.234.819	14.768.220.038	24.454.454.857	-5.081.985.219	65,58
2009	Germany	9.793.005.648	14.096.963.072	23.889.968.720	-4.303.957.424	69,46
2012	Germany	13.124.374.835	21.400.613.808	34.524.988.643	-8.276.238.973	61,32
2015	Germany	13.418.068.177	21.351.984.056	34.770.052.233	-7.933.915.879	62,84
2018	Germany	16.144.214.824	20.407.162.327	36.551.377.151	-4.262.947.503	79,11

Source: Compiled from Foreign Trade Data of 2019 TSI, <https://biruni.tuik.gov.tr/disticaretapp/menu.zul>, (Access: 03.02.2019).

**Table 3.** Turkey-Germany Foreign Trade Figures

Germany has been amongst the first countries taking place in Turkey's foreign trade for many years. Trade between the two countries is important in terms of both nominal value and goods subject to trade. When the products that are subject to trade are evaluated, it is seen that the trade between these two countries evolved from garment products and other low value added products to industrial production products such as iron and steel, especially in the automotive sector. At the same time, Germany has an important place in the investment goods and intermediate goods imports for Turkey.

Another country that has important place in Turkey's foreign trade is France. Especially recently, the trade volume between the two countries has increased by 2.5 times. However, although the trade deficit decreases in some periods, there is continuity in the external deficit. When we look at the products that Turkey's exports to France, textile products seem to be prominent in the beginning of the 2000s, while today the situation has shifted towards industrial products. The most exported



products to France are motor vehicles and imports from France are firstly boilers and machines.

Year	Country	Export (USD)	Import (USD)	Foreign Trade Volume (USD)	Foreign Trade Balance (USD)	X/M
2000	France	1.656.968.347	3.531.817.961	5.188.786.308	-1.874.849.614	46,91
2003	France	2.826.140.554	4.164.120.125	6.990.260.679	-1.337.979.571	67,86
2006	France	4.604.349.258	7.239.952.633	11.844.301.891	-2.635.603.375	63,59
2009	France	6.211.415.361	7.091.795.276	13.303.210.637	-880.379.915	87,58
2012	France	6.198.536.242	8.589.895.931	14.788.432.173	-2.391.359.689	72,16
2015	France	5.845.727.476	7.583.968.485	13.429.695.961	-1.738.241.009	77,08
2018	France	7.289.429.714	7.412.852.868	14.702.282.582	-123.423.154	98,33

Source: Compiled from Foreign Trade Data of 2019 TSI, <https://biruni.tuik.gov.tr/disticaretapp/menu.zul>, (Access: 03.02.2019).

**Table 4.** Turkey-France Foreign Trade Figures

Referring to foreign trade between Turkey and the UK shows substantial external surplus recorded as different from other countries. In a period of nineteen years, exports increased about five times, while imports about two times. The ratio of exports to imports and the trade surplus figures are remarkable. For products subject to foreign trade between the two countries, Turkey's exports to the UK capital from labor-intensive products is an inclination towards intensive products in question.

Year	Country	Export (USD)	Import (USD)	Foreign Trade Volume (USD)	Foreign Trade Balance (USD)	X/M
2000	UK	2.036.825.739	2.747.746.249	4.784.571.988	-710.920.510	74,12
2003	UK	3.670.092.528	3.500.015.220	7.170.107.748	170.077.308	104,85
2006	UK	6.814.300.847	5.137.552.739	11.951.853.586	1.676.748.108	132,63
2009	UK	5.937.997.069	3.473.433.486	9.411.430.555	2.464.563.583	170,95
2012	UK	8.693.598.733	5.629.454.631	14.323.053.364	3.064.144.102	154,43
2015	UK	10.557.304.491	5.541.275.780	16.098.580.271	5.016.028.711	190,52
2018	UK	11.113.290.661	7.446.027.070	18.559.317.731	3.667.263.591	149,25

Source: Compiled from Foreign Trade Data of 2019 TSI, <https://biruni.tuik.gov.tr/disticaretapp/menu.zul>, (Access: 03.02.2019).

**Table 5.** UK-Turkey Foreign Trade Figures

When foreign trade figures between Turkey and Italy are examined, an unstable process can be observed. Increases and decreases both in export and in import appear in some periods and the balance in trade between the two countries is against in terms of continuity for Turkey. In the foreign trade articles conducted between the two countries, mostly same type of products and goods are in sight.

Year	Country	Export (USD)	Import (USD)	Foreign Trade Volume (USD)	Foreign Trade Balance (USD)	X/M
2000	Italy	1.789.307.437	4.332.788.267	6.122.095.704	-2.543.480.830	41,29
2003	Italy	3.193.241.664	5.471.536.579	8.664.778.243	-2.278.294.915	58,36
2006	Italy	6.752.346.420	8.649.577.086	15.401.923.506	-1.897.230.666	78,06
2009	Italy	5.888.958.025	7.594.645.080	13.483.603.105	-1.705.687.055	77,54
2012	Italy	6.373.079.588	13.344.467.997	19.717.547.585	-6.971.388.409	47,75
2015	Italy	6.887.871.318	10.639.076.617	17.526.947.935	-3.751.205.299	64,74
2018	Italy	9.566.345.511	10.154.449.174	19.720.794.685	-588.103.663	94,20

Source: Compiled from Foreign Trade Data of 2019 TSI, <https://biruni.tuik.gov.tr/disticaretapp/menu.zul>, (Access: 03.02.2019).

**Table 6.** Turkey-Italy Foreign Trade Figures

Despite not being in high volumes as much as Germany, France and Italy, foreign trade between Turkey and Spain have tendency to proceed at a consistent line. Although

the ratio of exports to imports in foreign trade is relatively high, the continuity of the foreign trade deficit is remarkable. In the details of foreign trade between Turkey and Spain, textile sector in exportation and automotive sector in importation become prominent while difference in article base seems insignificant.

Year	Country	Export (USD)	Import (USD)	Foreign Trade Volume (USD)	Foreign Trade Balance (USD)	X/M
2000	Spain	713.529.780	1.678.156.280	2.391.686.060	-964.626.500	42,51
2003	Spain	1.789.497.065	2.003.745.367	3.793.242.432	-214.248.302	89,30
2006	Spain	3.720.457.950	3.832.589.470	7.553.047.420	-112.131.520	97,07
2009	Spain	2.818.470.049	3.776.917.481	6.595.387.530	-958.447.432	74,62
2012	Spain	3.717.345.194	6.023.625.233	9.740.970.427	-2.306.280.039	61,71
2015	Spain	4.742.941.450	5.588.524.891	10.331.466.341	-845.583.441	84,86
2018	Spain	7.710.439.527	5.492.394.113	13.202.833.640	2.218.045.414	140,38

Source: Compiled from Foreign Trade Data of 2019 TSI, <https://biruni.tuik.gov.tr/disticaretapp/menu.zul>, (Access: 03.02.2019).

**Table 7.** Turkey-Spain Foreign Trade Figures

Foreign trade figures between Turkey and the Netherlands are summarized in Table 8. In the last 19 years, periodic increase and decrease of foreign trade has been observed, the relative superiority of the Netherland's trade appear although in the product base, Turkey's advantageous position is in question against the Netherlands in comparison to some other countries. Compared to other countries, trade in garment, food and similar goods is more prominent than industrial product trade.

Year	Country	Export (USD)	Import (USD)	Foreign Trade Volume (USD)	Foreign Trade Balance (USD)	X/M
2000	Netherlands	874.182.289	1.584.460.922	2.458.643.211	-710.278.633	55,17
2003	Netherlands	1.525.929.493	1.656.669.963	3.182.599.456	-130.740.470	92,10
2006	Netherlands	2.539.245.676	2.160.109.821	4.699.355.497	379.135.855	117,55
2009	Netherlands	2.127.296.707	2.543.072.706	4.670.369.413	-415.775.999	83,65
2012	Netherlands	3.244.428.597	3.660.634.272	6.905.062.869	-416.205.675	88,63
2015	Netherlands	3.154.942.631	2.914.731.126	6.069.673.757	240.211.505	108,24
2018	Netherlands	4.778.109.030	3.304.603.201	8.082.712.231	1.473.505.829	144,58

Source: Compiled from Foreign Trade Data of 2019 TSI, <https://biruni.tuik.gov.tr/disticaretapp/menu.zul>, (Access: 03.02.2019).

**Table 8.** Turkey-Netherlands Foreign Trade Figures

In the study in which significant changes have appeared in the last 19 years of Turkey's foreign trade, it is analyzed that SCO comes into prominence as another economy block, which has important share in Turkey's trade volume. Especially the Russian Federation and China's position in this transaction volume is quite comprehensive. The striking point in Turkey's trade with the block formed by Russian Federation, China, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan is the fact that in the trade with these countries, external deficit is higher than the one conducted with EU countries. The most important reason for this is the high level of imports of energy raw materials and minerals, which have a high dependency ratio. In this part of the study, foreign trade data between Turkey and 6 SCO countries in parallel with 6 EU countries with which the highest transaction volume is carried out through the years of 2000-2018 are set forth.

Two main articles stand out in trade between Turkey and Russian Federation. These are food products for export, energy raw materials for imports and mining products. Although the food products subject to export are highly dependent on the climate

and substitutes, the foreign trade deficit is quite high and continuous due to the high dependency degree of the importation articles and costly products. Russian Federation ranks the first place with about 10% share in Turkey's import in 2018. The mineral fuels article in imports of products subject to foreign trade between the two countries constitutes a high rate of approximately 60 percent of total imports.

Year	Country	Export (USD)	Import (USD)	Foreign Trade Volume (USD)	Foreign Trade Balance (USD)	X/M
2000	Russian Fed.	643.902.938	3.886.583.276	4.530.486.214	-3.242.680.338	16,56
2003	Russian Fed.	1.367.590.908	5.451.315.438	6.818.906.346	-4.083.724.530	25,08
2006	Russian Fed.	3.237.611.322	17.806.238.758	21.043.850.080	-14.568.627.436	18,18
2009	Russian Fed.	3.189.607.392	19.450.085.570	22.639.692.962	-16.260.478.178	16,39
2012	Russian Fed.	6.680.777.245	26.625.286.056	33.306.063.301	-19.944.508.811	25,09
2015	Russian Fed.	3.588.330.986	20.401.756.568	23.990.087.554	-16.813.425.582	17,58
2018	Russian Fed.	3.401.617.084	21.989.571.103	25.391.188.187	-18.587.954.019	15,46

Source: Compiled from Foreign Trade Data of 2019 TSI, <https://biruni.tuik.gov.tr/disticaretapp/menu.zul>, (Access: 03.02.2019).

**Table 9.** Turkey-Russian Federation Foreign Trade Figures

Another important country of the Shanghai organization is the People's Republic of China. The country has a long-standing trade relations with Turkey, has an absolute advantage in his bilateral trade with Turkey. China is the country, which affects Turkey's most external deficit in foreign trade as a result of rapidly growing importation from China even despite increasing importation for years. This deficit occurs due to the garment sector, household electrical appliances, small electronic products and components where it has a dual competitive advantage thanks to cheap labor. For the importation, there is no optimism regarding the sustainability/convertibility of trade with China, which is the most exporting country in the world, taking advantage of cheap labor and wide raw material opportunities.

Year	Country	Export (USD)	Import (USD)	Foreign Trade Volume (USD)	Foreign Trade Balance (USD)	X/M
2000	China	96.010.398	1.344.731.391	1.440.741.789	-1.248.720.993	7,13
2003	China	504.625.797	2.610.298.044	3.114.923.841	-2.105.672.247	19,33
2006	China	693.037.514	9.669.110.140	10.362.147.654	-8.976.072.626	7,16
2009	China	1.600.296.212	12.676.572.760	14.276.868.972	-11.076.276.548	12,62
2012	China	2.833.255.270	21.295.241.830	24.128.497.100	-18.461.986.560	13,30
2015	China	2.414.790.409	24.873.456.845	27.288.247.254	-22.458.666.436	9,70
2018	China	2.915.130.704	20.719.069.509	23.634.200.213	-17.803.938.805	14,06

Source: Compiled from Foreign Trade Data of 2019 TSI, <https://biruni.tuik.gov.tr/disticaretapp/menu.zul>, (Access: 03.02.2019).

**Table 10.** Turkey-China Foreign Trade Figures

After gaining its independence after 1990, Kazakhstan has shown long-standing commercial breakthroughs with Turkey's commercial relations especially through its underground sources. However, a similar situation as in the previously conducted foreign trade with Russia is emerging in Turkey-Kazakhstan trade. Despite rapid increasing foreign trade volume, Kazakhstan is one of countries that Turkey has difficulty in competing in the market with China and Russia. Product-based, in spite of bilateral trade in which generally manufactured goods export and raw material importation come into prominence, Turkey demonstrates deficit in the foreign trade.

Year	Country	Export (USD)	Import (USD)	Foreign Trade Volume (USD)	Foreign Trade Balance (USD)	X/M
2000	Kazakhstan	118.701.179	346.375.953	465.077.132	-227.674.774	34,26
2003	Kazakhstan	233.993.792	266.638.012	500.631.804	-32.644.220	87,75
2006	Kazakhstan	696.822.999	993.728.450	1.690.551.449	-296.905.451	70,12
2009	Kazakhstan	633.417.314	959.454.596	1.592.871.910	-326.037.282	66,01
2012	Kazakhstan	1.068.625.191	2.056.085.650	3.124.710.841	-987.460.459	51,97
2015	Kazakhstan	750.027.228	1.109.831.671	1.859.858.899	-359.804.443	67,58
2018	Kazakhstan	695.417.116	1.470.242.241	2.165.659.357	-774.825.125	47,29

Source: Compiled from Foreign Trade Data of 2019 TSI, <https://biruni.tuik.gov.tr/disticaretapp/menu.zul>, (Access: 03.02.2019).

**Table 11.** Turkey-Kazakhstan Foreign Trade Figures

Although trade conducted with countries apart from SCO's China and Russia that occupy quite a place in Turkey's foreign trade show a structure that includes external surplus, an insufficient transaction volume is observed. Although Turkey's trade relationship with Tajikistan has increased approximately 50-times in the last 19 years, these figures may lead to misleading results. Turkey, despite being in the first place in Tajikistan's exports, the country has a fairly small share in Turkey's foreign trade. In trade between the two countries, which cannot be said to be very stable, it is seen that the products subject to trade are generally labor intensive and substitutable products.

Year	Country	Export (USD)	Import (USD)	Foreign Trade Volume (USD)	Foreign Trade Balance (USD)	X/M
2000	Tajikistan	4.467.496	16.511.405	20.978.901	-12.043.909	27,05
2003	Tajikistan	29.478.210	56.998.592	86.476.802	-27.520.382	51,71
2006	Tajikistan	71.786.989	118.395.227	190.182.216	-46.608.238	60,63
2009	Tajikistan	126.363.875	107.266.646	233.630.521	19.097.229	117,80
2012	Tajikistan	234.946.906	345.177.678	580.124.584	-110.230.772	68,06
2015	Tajikistan	162.783.124	203.760.272	366.543.396	-40.977.148	79,88
2018	Tajikistan	177.176.109	201.406.474	378.582.583	-24.230.365	87,96

Source: Compiled from Foreign Trade Data of 2019 TSI, <https://biruni.tuik.gov.tr/disticaretapp/menu.zul>, (Access: 03.02.2019).

**Table 12.** Turkey-Tajikistan Foreign Trade Figures

When foreign trade figures between Turkey and Kyrgyzstan are analyzed, both exports and imports shows a rapid and steady increase. Despite exportation is high with Kyrgyzstan, it is one of the countries with which the transaction volume is insufficient. Considering the general outlook of the commodities traded, it is seen that exports of manufactured goods, imports of raw materials and intermediate goods gain weight.

Year	Country	Export (USD)	Import (USD)	Foreign Trade Volume (USD)	Foreign Trade Balance (USD)	X/M
2000	Kyrgyzstan	20.572.202	2.349.517	22.921.719	18.222.685	875,59
2003	Kyrgyzstan	40.861.990	10.905.892	51.767.882	29.956.098	374,67
2006	Kyrgyzstan	132.172.258	27.454.982	159.627.240	104.717.276	481,41
2009	Kyrgyzstan	140.002.456	31.446.013	171.448.469	108.556.443	445,21
2012	Kyrgyzstan	257.470.373	45.226.316	302.696.689	212.244.057	569,29
2015	Kyrgyzstan	294.701.653	76.857.917	371.559.570	217.843.736	383,43
2018	Kyrgyzstan	377.195.350	47.342.116	424.537.466	329.853.234	796,74

Source: Compiled from Foreign Trade Data of 2019 TSI, <https://biruni.tuik.gov.tr/disticaretapp/menu.zul>, (Access: 03.02.2019).

**Table 13.** Turkey-Kyrgyzstan Foreign Trade Figures

Looking at the foreign trade statistics between Turkey and Uzbekistan, transaction volume exchange similar to other countries appear. With an insufficient but stable export, a raw material-weighted import structure that causes external deficit arises. It is seen that the articles that will create dependency on foreign trade do not appear in both items. It is noteworthy that the energy raw materials and the articles related to the mining sector, which were drawn attention in trade with countries such as Kazakhstan, China and Russia, are not seen in trade with Uzbekistan, whereas cotton and yarn-like raw materials constitute the product weight.

Year	Country	Export (USD)	Import (USD)	Foreign Trade Volume (USD)	Foreign Trade Balance (USD)	X/M
2000	Uzbekistan	82.647.409	85.794.461	168.441.870	-3.147.052	96,33
2003	Uzbekistan	138.422.361	99.461.910	237.884.271	38.960.451	139,17
2006	Uzbekistan	175.995.482	415.840.964	591.836.446	-239.845.482	42,32
2009	Uzbekistan	279.963.522	413.078.836	693.042.358	-133.115.314	67,77
2012	Uzbekistan	449.884.446	813.287.488	1.263.171.934	-363.403.042	55,31
2015	Uzbekistan	488.579.852	711.555.111	1.200.134.963	-222.975.259	68,66
2018	Uzbekistan	951.703.968	795.716.636	1.747.420.604	155.987.332	119,60

Source: Compiled from Foreign Trade Data of 2019 TSI, <https://biruni.tuik.gov.tr/disticaretapp/menu.zul>, (Access: 03.02.2019).

**Table 14.** Turkey-Uzbekistan Foreign Trade Figures

## 4. Analysis and Findings

In this part of the study, trade between Turkey and the EU countries and the countries of the SCO effects on Turkey's economic growth performance / ineffectiveness is discussed. In the study, annual import, export and economic growth data for 2000-2017 period were used. Foreign trade data acquired from 6 EU countries and 6 other countries from SCO that take the first place in Turkey's foreign trade were tested via EViews 9 software.

### 4.1. Foreign Trade Relations between Turkey and the EU

Firstly, in the study, analyses using data belonging to Turkey and EU countries were made. Table 15 shows the unit root test results of the series. While the unit root tests were processed, constant models for Levin, Lin & Chu (2002), Im, Pesaran and Shin (2003) tests and constant-trend models for Levin, Lin & Chu (2002), Im, Pesaran and Shin (2003) and Breitung (2000) tests were estimated. These models were preferred both in terms of considering breaks and pointing out a possible false regression problem.

Variable/Test	Constant				Constant-Trend			
	Level		First Difference		Level		First Difference	
	Test Statistics	Probability	Test Statistics	Probability	Test Statistics	Probability	Test Statistics	Probability
LNBUYUME	1.78877	0.9632	-6.21148	0.0000	0.62836	0.7351	-6.29858	0.0000
Breitung	-	-	-	-	-1.45654	0.0726	-2.90464	0.0018
Im, Pesaran and Shin	4.91326	1.0000	-5.96002	0.0000	-2.55396	0.0053	-3.78977	0.0001
LNİHRACAT								
Levin, Lin & Chu	-6.27892	0.0000	-3.79133	0.0001	-0.61880	0.2680	-4.43085	0.0000
Breitung	-	-	-	-	0.08705	0.5347	-4.08345	0.0000
Im, Pesaran and Shin	-3.64119	0.0001	-2.52856	0.0057	0.56331	0.7134	-5.02519	0.0000
LNİTHALAT								
Levin, Lin & Chu	-2.33910	0.0097	-6.70642	0.0000	-2.07281	0.0191	-4.24297	0.0000
Breitung	-	-	-	-	-0.89585	0.1852	-3.58107	0.0002
Im, Pesaran and Shin	-0.15249	0.4394	-6.20839	0.0000	0.33513	0.6312	-5.83936	0.0000

**Table 15.** Unit Root Tests Results for Turkey and EU Countries

When the unit root tests applied are considered together, it is concluded that all three variables I (1) are stationary. The fact that all three series I (1) are stationary allows for cointegration analysis.

The cointegration relationship between the variables was examined by the Pedroni (1999-2004) panel cointegration test. In the panel cointegration test developed by Pedroni (1999-2004), 7 panel cointegration tests, four of which are panel and three are group test statistics, and “no cointegration” basic hypothesis are tested (Tatoğlu, 2012:235). Cointegration analysis was carried out using two separate data sets: economic growth-export and economic growth-import. Pedroni (1999-2004) panel cointegration test results are given in Table 2. As can be seen from table 16, in both cases, according to the five statistics except for Panel rho-Statistic and Group rho-Statistic, “no cointegration” basic hypothesis is denied and the series are thought to be cointegrated. This shows us that there exists at least one-way causality relationship between the series. The causality relationship between the series was examined through Granger Causality Test and the test results are shown in Table 3.

Statistic	GROWTH → EXPORT		GROWTH → IMPORT	
	Test Statistics	Probability	Test Statistics	Probability
Panel v-Statistic	26.20671	0.0000	32.38738	0.0000
Panel rho-Statistic	-1.259513	0.1039	-0.726485	0.2338
Panel PP-Statistic	-4.050747	0.0000	-3.675671	0.0001
Panel ADF-Statistic	-4.090528	0.0000	-3.763680	0.0001
Group rho-Statistic	-0.043384	0.4827	0.429264	0.6661
Group PP-Statistic	-3.618575	0.0001	-3.196940	0.0007
Group ADF-Statistic	-3.664130	0.0001	-3.295285	0.0005

\* The delay length is automatically determined according to the Schwarz Information Criteria.  $\alpha=0.05$

**Table 16.** Pedroni Panel Cointegration Test Results for Turkey and EU Countries

Table 17 shows that there is a two-way causality relationship between economic growth and exports, as well as between economic growth and imports.

H <sub>0</sub> Hypothesis	Test Statistics	Probability
LNBUYUME → LNİHRACAT	6.79692	1.E-05
LNİHRACAT → LNBUYUME	10.2709	9.E-13
LNBUYUME → LNİTHALAT	21.7510	1.E-10
LNİTHALAT → LNBUYUME	15.8785	4.E-05

\* The length of the delay is eight according to the Schwarz Information Criteria.

**Table 17.** Granger Causality Test Results for Turkey and EU Countries

Finally, the Pooled Mean Group Estimator (PMGE) was used to estimate the panel error correction model. PMGE allows both short and long-term parameters to be estimated together (Tatoğlu, 2012: 243). Table 18 gives the PMGE results.

D(LNBUYUME)				
Variables	Coefficient	Standard Error	t statistics	Probability
Long Term				
LNİHRACAT	1.760412	0.170273	10.33877	0.0000
Short Term				
ECT	-0.082748	0.010453	-7.915851	0.0000
D(LNİHRACAT)	0.104639	0.004563	22.93350	0.0000
C	-2.050556	0.298205	-6.876320	0.0000
D(LNBUYUME)				
Variables	Coefficient	Standard Error	t statistics	Probability
Long Term				
LNİTHALAT	1.936797	0.216142	8.960764	0.0000
Short Term				
ECT	-0.061471	0.005842	-10.52259	0.0000
D(LNİTHALAT)	0.092223	0.011477	8.035752	0.0000
C	-1.751482	0.170855	-10.25129	0.0000

**Table 18.** PMGE Results for Turkey and EU Countries

According to PMGE results, in which economic growth and export data are used, error correction parameter (-0.082748) was found to be negative. This shows that the parameter is significant. In other words, approximately 8% of the short-term deviations due to non-stationary series will disappear after a period. Moreover, the long-term coefficient (1.760412) and short-term coefficient (0.104639) of the export variable were found to be statistically significant. Both coefficients are positive as expected in economic terms. A 1% increase in our exports to EU countries increases economic growth by approximately 1.76% in the long term and by 0.104% in the short term. Again, according to PMGE results using economic growth and import data, error correction parameter (-0.061471) was found to be negative and significant. In other words, approximately 89% of the short-term deviations resulting from non-stationary series will disappear after a period. Both long-term coefficient (1.936797) and short-term coefficient (0.092223) of the import variable were found to be statistically significant and positive as expected. A 1% increase in our imports with EU countries increases economic growth by approximately 1.94% in the long term and by 0.09% in the short term.

#### 4.2. Foreign Trade Relations Between Turkey and the SCO

The tests applied above were also applied to the data belonging to Turkey and SCO countries. Firstly, constant models for Levin, Lin & Chu (2002), Im, Pesaran and Shin (2003) tests and constant-trend models for Levin, Lin & Chu (2002), Im, Pesaran and Shin (2003) and Breitung (2000) tests were estimated. After determining that all three of the series were stationary in I (1), the cointegration relationship between the variables was examined by Pedroni (1999-2004) panel cointegration test. Table 19 shows the unit root test results of the related variables and Table 20 shows the results of the Pedroni (1999-2004) panel cointegration test.

Variable/Test	Constant				Constant-Trend			
	Level		First Difference		Level		First Difference	
	Test Statistics	Probability	Test Statistics	Probability	Test Statistics	Probability	Test Statistics	Probability
LNBUYUME								
Levin, Lin & Chu	1.78877	0.9632	-6.21148	0.0000	0.62836	0.7351	-6.29858	0.0000
Breitung	-	-	-	-	-1.45654	0.0726	-2.90464	0.0018
Im, Pesaran and Shin	4.91326	1.0000	-5.96002	0.0000	-2.55396	0.0053	-3.78977	0.0001
LNİHRACAT								
Levin, Lin & Chu	-4.88909	0.0000	-5.91487	0.0000	-1.21276	0.1126	-4.85063	0.0000
Breitung	-	-	-	-	1.60706	0.9460	-2.93832	0.0016
Im, Pesaran and Shin	-2.12043	0.0170	-5.01289	0.0057	0.32715	0.6282	-4.65451	0.0000
LNİTHALAT								
Levin, Lin & Chu	-2.65351	0.0045	-7.31408	0.0000	0.20066	0.5795	-8.11768	0.0000
Breitung	-	-	-	-	0.25909	0.6022	-2.37921	0.0087
Im, Pesaran and Shin	-0.61180	0.2703	-7.41954	0.0000	1.44350	0.9256	-7.55846	0.0000

**Table 19.** Unit Root Tests Results for Turkey and the SCO Countries

As can be seen in table 20, according to the five statistics except for Panel rho-Statistic and Group rho-Statistic, “no cointegration” basic hypothesis is denied and the series are thought to be cointegrated. This shows us that there exists at least one-way causality relationship between the series.

Statistics	GROWTH → EXPORT		GROWTH → IMPORT	
	Test Statistics	Probability	Test Statistics	Probability
Panel v-Statistic	24.28738	0.0000	28.52278	0.0000
Panel rho-Statistic	-1.090150	0.1247	-0.836499	0.2014
Panel PP-Statistic	-4.280383	0.0000	-3.967849	0.0000
Panel ADF-Statistic	-4.371645	0.0000	-4.038190	0.0000
Group rho-Statistic	-0.054338	0.5217	0.386712	0.6505
Group PP-Statistic	-3.940670	0.0000	-3.410339	0.0003
Group ADF-Statistic	-4.038755	0.0000	-3.520803	0.0002

\* The delay length is automatically determined according to the Schwarz Information Criteria.

**Table 20.** Pedroni Panel Cointegration Test Results Pedro for Turkey and the SCO Countries

The causality relationship between the series was examined through Granger Causality Test and the test results are shown in Table 21. As can be seen from the table, there is a two-way causality relationship between economic growth and exports as well as between economic growth and imports.

	Test Statistics	Probability
LNBUYUME → LNİHRACAT	3.67556	2.E-05
LNİHRACAT → LNBUYUME	6.25846	0.0024
LNBUYUME → LNİTHALAT	3.75900	0.0020
LNİTHALAT → LNBUYUME	2.20667	0.0197

\* The length of the delay is eight according to the Schwarz Information Criteria.

**Table 21.** Granger Causality Test Results for Turkey and the SCO Countries

Table 22 indicates the error correction model estimation results using the PMGE method. Table 22 shows that both the error correction parameter (-0.210596) according to PMGE results using economic growth and export data and the error correction parameter (-0.036892) according to PMGE results using economic growth and import data are negative and significant.



D(LNBUYUME)				
Variables	Coefficient	Standard Error	t statistics	Probability
Long Term				
LNİHRACAT	0.648435	0.018696	34.68268	0.0000
Short Term				
ECT	-0.210596	0.107530	-1.958487	0.0554*
D(LNİHRACAT)	0.064187	0.013923	4.610020	0.0000
C	0.423785	0.191746	2.210132	0.0314
D(LNBUYUME)				
Variables	Coefficient	Standard Error	t statistics	Probability
Long Term				
LNİTHALAT	1.114641	0.315343	3.534688	0.0007
Short Term				
ECT	-0.036892	0.002626	-14.04843	0.0000
D(LNİTHALAT)	0.054592	0.017991	3.034321	0.0032
C	-0.266090	0.059817	-4.516374	0.0000

\* $\alpha=0.10$  is significant.

**Table 22.** PMGE Results for Turkey and the SCO Countries

According to PMGE results using economic growth and export data, approximately 21% of the short-term deviations resulting from non-stationary series will disappear after a period. Moreover, the long-term coefficient (0.648435) and short-term coefficient (0.064187) of the export variable were found to be statistically significant. Both coefficients are positive as expected in economic terms. A 1% increase in our exports to SCO countries increases economic growth by approximately 0.65% in the long term and by 0.06% in the short term. Again, according to PMGE results, in which economic growth and import data are used, approximately 3% of short-term deviations resulting from non-stationary series will disappear after a period. Both long-term coefficient (1.114641) and short-term coefficient (0.054592) of the import variable were statistically significant and positive as expected. A 1% increase in our imports with SCO countries increases economic growth by approximately 1.11% in the long term and by approximately 0.05% in the short term.

## 5. Conclusion and Evaluations

Numerous studies have shown that foreign trade has a close relationship with economic growth. In a significant part of these studies, a co-directional relationship between foreign trade (both for export and import) and economic growth was demonstrated. Similar results were obtained in this study, too. Analyses conducted through clear export, import and economic growth for Turkey's economy between the years of 2000-2017 show that when the economic growth increases, both exportation and importation increase. Similarly, it is seen that when the export and import increase, the economic growth increases. It is also valid vice versa.

The economic growth target based on outward exports for Turkey's economy is seen as a state policy. With inadequate natural gas and natural resources such as oil and precious metals and high unemployment as well as increasing population, Turkey is required to accomplish a growth based on production and performance. The sustainability of this growth is just as important. For many years, the main foreign trade partner of Turkey are the European Union countries. However, the effectiveness of China and other Turkish Republics, especially the Russian Federation, has been increasing in the last two decades. Although the share of EU countries in Turkey's

foreign trade decreased proportionally, this does not mean that EU countries lost its importance for Turkey.

Additionally, although trade volumes of SCO countries with Turkey go up, this increase seems to happen in a way leading Turkey to demonstrate current account deficit. In particular, it is observed that the imports of energy and raw materials are quite high and the products that are essential for economic growth are imported from these countries. Because the economic growth of Turkey is (mainly) based on raw material and energy imported from SCO countries and intermediate goods from EU countries, it seems not possible for Turkey to accomplish desired performance in economic growth. The existence of an export-dependent import structure is not sustainable. The existence of an export-dependent export structure is not sustainable. Especially in the last two decades, the emergence of an import-based structure in order to realize economic growth leads to the formation of a fragile real sector. Moreover, deficit in foreign trade of Turkey conducted with SCO countries has become severe than the one conducted with EU countries. Struggles for supporting domestic industry in Turkey and applied neo-import substitution policies seem to be insufficient.

In conclusion, it appears rather essential to reconsider the cost-increasing factors such as taxes and tariffs in trade with both groups of countries, to review foreign trade policies and to accelerate measures to reduce dependence. Otherwise, it is estimated that the import-dependent structure of exports will not provide the expected capital accumulation contribution to the national economy and sustainable foreign trade and economic growth cannot be achieved.

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