International Trade, Economic Growth, and Turkey

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BACKGROUND OF THE STUDY

The debate over whether international trade spur economic development or economic development spur international trade has long been on the agenda of economists. The existence of exports as an instigator of economic growth dates back to the times of mercantilism which accentuates the conformity of international trade. Since then, numerous authors have in a similar manner emphasized the importance of international trade for the development of a country. For example, the classical economists manifested that trade instigates growth in essentially bilateral ways. On the one hand, the increase in exports accommodate for more optimal distribution of sources and afterwards enhance productivity. Moreover, the classicals believed that by means of international trade, a state may acquire the necessary raw materials and equipment which it is not able to manufacture by itself. This transfer of materials serves a profound means of economic development. Identically, in his theory of exports of surplus, Adam Smith denoted that by managing to export the commodities of excess capacity or simply widening the market, the productivity of a country could increase, thereby concluding in an increase in the wealth of a nation. Consequently, Ricardo postulated that exports would enable specialization as a state shall manufacture and trade in those commodities in which it has got a competitive advantage. A widening scale of production should be probable and thereby, economies of scale would be comprised. Nonetheless, one may identify five ways in which a country's international trade could favorably impact on the economy with the; revenue effect, capital accumulation effect, substitution affect, income distribution affect and weighted elements effect. When aggregated altogether, these effects of exports reinforce the economic development gradually. Additionally, rising export earnings should lead to the ease of constraints on growth by improving the capacity of trading fundamental inputs in the form of intermediate and capital goods. Therefore, one could conclude that an increase in the volume of exports foster capital accumulation and economic growth consequently (Sannassee et al., 2014).

INTRODUCTION

International trade can be postulated as a potential stimulator of a country's economic growth. The value and volume of commerce fostering economic growth has been ascribed to several factors involving more efficient utilization of sources, employing economies of scale and labor training, fostered technological change and moving investments towards more productive sectors and businesses. While, the export-leg growth (ELG) hypothesis indicates that exports necessarily promote economic growth, the import-led growth (ILG) hypothesis stands for economic growth would be stimulated by growth in imports. Imports do not only cause to long-run economic growth by catering endogenous businesses with access to the

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necessary inputs and foreign technology, but also act as a medium for transfer of growth-developing foreign research and development (R&D) knowledge from developed to developing states (Bastola & Sapkota, 2015).

The correlation among international trade, commercial openness and economic growth have been debated over the years. Commerce enables the integration with the resources of innovation and developed gains from foreign direct investment. By rising the size of the market, international trade enables economies better utilize the possible benefits of increasing returns to scale and economies of specialization. Trade openness enhances the transfer of new technologies, lead to technological progress and productivity development as well as these advantages rest on the degree of openness. Foreign trade and economic growth are based on the premise that trade constitutes economic incentives which fosters productivity by two dynamics; in the short-run, trade diminishes resource misallocation and; in the long-run, it enables the transfer of technological improvement. Commercial development could also cause governments to commit reform programs under the pressure of international rivalry, thus achieve economic development. Nevertheless, commercial development policies act as an important role in accomplishing higher growth as well as human development. Commercial improvement in in developing countries has thus been implemented with the expectation of growth promotion. Moreover, macroeconomic stability and advantageous investment environment shall supplement to trade development (Egbetunde & Obamuyi, 2018).

The correlation between openness of an economy and economic growth are two considerable issues for development of a country. While on the one hand, one can state that a nation's openness can attract more investment and improve its commercial potential, on the other hand, international trade causes faster growth and increase income per capita. Henceforth, more opened and outward-oriented economies consistently outperform states restrictive commercial policies and foreign investment regimes (Cieslik & Tarselewsak, 2011). Moreover, the aim of this paper first to analyze the importance and correlation of international trade and economic growth also involving the foreign investments and their impact on the commercial development, then scrutinize the international trade and economic growth issues in particular of Turkey.

1. INTERNATIONAL TRADE, ECONOMIC GROWTH & THEIR CORRELATION: A THEORETICAL APPRAISAL

The accomplishment of sustainable economic growth is one of the most important priority of any country, especially the developing ones. Recently, international trade has been noticed as one of the significant factors which designates economic growth in the world. Institutions such as the World Trade Organization (WTO), International Monetary Fund (IMF), United Nations (UN) and Organization for Economic Cooperation and Development (OECD) consistently promote countries, especially the developing ones to emphasize growth sequences by means of trade liberalization in order to assure expected growth at increasing rates. Foreign trade is a significant factor of the gross domestic product (GDP) especially in developed and emerging countries, that enhances the economic growth of a state. One can state that international trade contributes positively to the economic growth of a country by means of benefits from economies of scale particularly in small and developing countries; promotes competition through efficiency; and fosters the transfer of knowledge. International trade is a necessary source of foreign exchange that is needed for the importation of intermediate and capital items needed for domestic production. International trade also ensures access to new technology, different varieties of consumer

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