

Bilateral Economic Relations

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**EXPANSION OF STRATEGIC OPPORTUNITIES
IN ECONOMIC COOPERATION BETWEEN
TURKEY AND UKRAINE**

Abstract

Bilateral relations between Ukraine and Turkey are strategically important for both countries as a part of planned integration into the EU. It is feasible to adjust the trade structures before establishing free economic modes. It is necessary that Ukraine insist on such a trade policy, which will ensure it does not become a raw material appendage for Turkey.

Key words:

Cooperation, localization, adaptation, external environment, foreign economic relations, transformation models, international partners, business processes, Black Sea region, Turkey, European community, starting positions, specification of economy, the structure of export, development of market relations, diversification, integration, business leaders, business projects.

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The Problem

In the process of globalization and parallel localization development, the world economists face the questions of the opportunities for joining the EU. Requirements for the new and acting EU partners have been changing greatly. Therefore, each country, even if not a participant of these processes, is affected by those processes in their national economy and international cooperation.

Turkey, which is a trade partner of Ukraine, shows a significant activity in joining the European Union [1, 3, 4, 5].

Objective of the Research

Globalization results in greater interdependence of the states. The problems of adjustment and flexibility are gain in urgency under conditions of constant external environmental changes. The economic openness of the majority of countries is increasing; the influence of the establishing international connections with suppliers and buyers capable of affecting both the efficiency of Ukraine's economy and the rates of its modernization is amplifying.

In this connection, the new task both for the economy of Ukraine as a whole and the regions, branches, and separate enterprises is to go beyond popular schemes of transformation of structures and begin reconstruction using new opportunities brought by globalization and information technologies.

Under new conditions, success is brought in by strategic opportunities, in particular new international partners, new technologies, and new business processes, which develop according to new rules of business.

Main Part

Much unites Turkey and Ukraine nowadays: vicinity in the Black Sea region, the states of national economies, which are striving to pass through transformation as soon as possible, and the attempt to become equal members of the European community and to appear among the advanced countries of the world.

Turkey applied for the EU membership in 1987, earlier than the other members from Eastern Europe. It took Turkey 18 years before the EU started official negotiations with this country about its integration on October 4, 2005.

There is a widespread opinion that the EU expansion should have its limits. There are certain concerns that if the EU accepts Turkey, it will not be able to

deny membership for the rest of the European countries (13) with the population of more than 200 million people. Some experts advise that countries of the so-called «privileged partnership» should organize their own regional political and economic community similar to the EU. This grouping would stretch from the Balkans in the West to Ukraine in the North and to Middle East countries in the South.

Turkey is third largest importer of Ukrainian goods and fifth largest exporter to Ukraine. Turkey views Ukraine as its international partner, the bilateral relations with which should be developed on the priority basis. When comparing the parameters of economic development of Turkey and Ukraine, it is necessary to remember that these countries had similar initial positions in 1990, but the structure of the Turkish economy was mainly agrarian, whereas Ukraine was mainly an industrial state [2]. Table 1 shows the structures of the Turkish and Ukrainian economies in 2005.

Table 1.

Comparative Structure of Turkish and Ukrainian Economies

Parameters	Turkey	Ukraine	Deviation	
			absolute	%
1. The structure of GDP, %				
– Industry	18.9	45.1	–	26.2
– Agriculture	12.9	18.0	–	5.1
– Services sector	68.2	36.9	–	–31.3
2. GDP per capita, at PPP	7687	6300	–1387	–22.0
3. Employment Structure, %				
– Industry	18.3	32.0	–	13.7
– Agriculture	34.0	24.0	–	–10.0
– Services sector	47.7	44.0	–	–3.7

Source: State Institute of Statistics; State Statistics Committee of Ukraine.

The sector of services generates 68.2 percent of GDP in Turkey and only 36.9 percent of GDP in Ukraine. This is a problem of Ukraine's economic structure, which makes its exports raw-materials-dependent even in relation to Turkey. If we compare the structure of population engaged in the sphere of services, we can observe that labour productivity in the Turkish services sector is much higher than in the Ukrainian. Ukrainian exports to Turkey are monotonous and undiversified. About 70 percent of Ukraine's exports to Turkey constitute raw materials and semi-finished items, about 50 percent of which is the produce of the metallurgical branch. Turkish exports are more diversified – they are

evenly represented by raw materials, produce of processing branches, and ready-to-use production. Turkey delivers a wide range of consumer goods to Ukraine. The volume of trade in services between Turkey and Ukraine falls short of the potential possibilities of the countries in this economic sphere.

In January-September 2005, exports of Ukrainian services to Turkey made only 1.32, while Turkish exports to Ukraine 2.9 percent of total volume of services, which indicates weak development of trade in services between Turkey and Ukraine. Thus, trade relations do not correspond completely with the potential of the neighbouring countries, and it is necessary to diversify trade and move from simple trade operations to joint projects in the sphere of high technologies [4], joint entry into the markets of third countries and expansion of investments.

Metallurgy, steelmaking, construction, manufacture of building materials, food industry, textiles industry, and tourism (which has an obvious unbalance for the benefit of Turkey) are considered to be the most perspective spheres for expansion of trade and business relations.

Many factors caused outstanding exports growth rates (33.6 %) in 2004 (Table 2).

Table 2.

Foreign Trade of Turkey

	Periods					Deviation, %
	2000	2001	2002	2003	2004	2004/2003
Exports (FOB)	27775	31334	36059	47253	63121	33.6
Imports (CIF)	54503	41399	51554	69340	97540	40.7
Turnover	82278	72733	87613	116593	160661	37.8
Balance	-26728	-10065	-15495	-22087	-34419	55.8

Source: basinyayin, Undersecretariat of foreign Trade.

First, industrial production became more competitive in result of low real wages and cost of electric power in 2004. Second, low (compared to previous years) interest rates reduced the cost of investments for manufacturers and exporters. Third, joint ventures contributed to technological improvements in the structure of the economy.

The majority of Turkish enterprises operating on Ukrainian markets are classified as small and medium-sized enterprises. Total direct investments from Turkey constitute more than \$100 mln., but they will soon increase substantially as Ukraine is officially announced the priority country in international economic

relations of Turkey. In general, there are 331 Turkish companies in Ukraine, most of which operate in Odessa (e. g. Efes Pilsen), Dnipropetrovsk (e. g. Olivia Beta Industrial Holding), Kyiv (e. g. Enerji Yapi), and Crimea (e. g. Er-Bek) [5].

The analysis of commodity exports shows that the share of agricultural produce in Turkish exports fell to 10.3 % (Table 3), total exports of industrial goods grew to 84.7 %, sector of mechanical engineering and transport equipment increased to 29%, exports share fell to 17.8 %.

Table 3.

Turkish Exports by Sector (WTO classification)

Sectoral Share of Turkey's' Exports by WTO Definition, %					
	1990	2000	2002	2003	2004
1 – Agricultural production	25.5	13.9	11.2	11.1	10.3
2 – Mineral industry production	6.8	4.2	4.2	4.3	4.6
3 – Manufacturing industry production	67.7	81.0	84.0	83.8	84.7
i – Metallurgy and Steelmaking	11.5	6.7	7.9	7.1	9.5
ii – Chemical Industry	5.8	4.5	4.2	4.0	4.1
iii – Non-completely Processed Production	5.2	8.2	8.7	8.8	8.7
iv – Mechanical Engineering and Transport Equipment	6.6	20.7	23.9	26.2	29.0
v – Textiles	11.1	13.3	11.8	11.1	10.2
vi - Clothes	25.7	23.7	22.4	21.1	17.8
vii – Other Consumer Goods	1.9	4.6	5.0	5.5	5.5

Source: basinyayin, Undersecretariat of Foreign Trade.

But the consequences of a more deep integration of Turkey into the EU may appear not as favourable for Ukraine. There are many unresolved questions between Ukraine and the EU. One is export duties on scrap metal. The EU presses Ukraine to eliminate restrictions on free trade in this product. The EU simultaneously imposes quotas on certain products, including delivery of metals from Ukraine, Russia and Kazakhstan. Ukraine has no «market economy» status; thus, the EU uses a special anti-dumping investigation procedure and insists on eliminating state pricing for certain export products. Thus, as Turkey will delegate its trade policy authorities to the EU and adjust its legislation to EU regulations, Ukraine will find it more complicated to trade with Turkey.

Traditionally, the nation state was a basic geographical unit for economic analysis, and therefore, the economic policy could also be only national. Today,

the interests of geographical units are much more diversified, and many economic policy areas are realized both at the national and international levels. The role of a region or a city is much more significant when considered through the prism of microeconomics (integration of economic and social policies, clusters, etc.). Business leaders shift their attention from the problems of developing geographically intensive scale economies to the problems of sustainable development of regional and local economies on the basis of their own resources.

Ukrainian-Turkish bilateral relations are not as developed as Ukrainian-Polish relations. The driver of bilateral relations is trade and investments, whereas political cooperation lags behind. The absence of big joint projects in the economic sphere prevents close relations of the countries. The question of joint satellites production (offered by Ukraine in June 2005) is still unresolved. Ukraine would like to see Turkey as a partner, which would help it diversify its supplies of petroleum and gas from, say, the Middle East [5]. The Ukrainian pipeline Odessa - Brody has never begun operating in reverse direction. Turkey is not working actively in this direction, by the reason of already existing oil traffic from the Mediterranean sea to Romania and general congestion of Bosphorus.

Turkey has practically solved the problem with diversification of power supplies, whereas Ukraine has not. Nevertheless, the potential for cooperation of the two countries in the sphere of power and transport is enormous.

It is necessary to note that Ukraine and Turkey together participate in the Organization of Black Sea Economic Cooperation. Its mission is to ensure that the Black Sea region becomes the region of peace, stability and economic prosperity. In December 1992, eleven BSEC member countries established the General Council in Istanbul as the mechanism for development of proposals, programs and projects in different economic spheres, the primary task of BSEC being the creation of an advanced transport network around the Black sea.

Some regions of Ukraine are more attractive to Turkey, and the priority is given to the South of Ukraine. First, the southern areas of Ukraine have the Black and Azov seacoasts and thus border on Turkey. Second, the Crimea and a part of Kherson area are locations of compact residing of Crimean Tatars and the Tatar-Meshetines. Third, the South of Ukraine has high transport and recreational potential that makes this region investment-attractive to Turkey. Turkish investors are ready to invest \$20 bln into the Crimean peninsula for a large-scale program of tourist and recreational complex development, as it was declared by the minister of culture and tourism of Turkey Atilla Koch. The transport potential of Kherson area in general is unique, as the area has exits both to the Black and Azov seas, the water artery - Dnieper flows on the territory of the region. It enables to trade successfully with many countries and regions using cheap water and sea transport. Kherson area has a rather high integral indicator for food-processing industry (0.318); therefore, there is a possibility of expanding exports of grain and oil-yielding cultures. According to the assessment of Kherson National Technical University, the indicators of agricultural and food industry production in Kherson area are higher than in Ukraine as a whole.

Conclusions

The aforementioned examples show that the management of Ukraine's economic competitiveness is directly connected with radical changes in the external economic environment in general and with attraction of foreign investments, technologies, and formation of investment and structural policies in particular.

The authors performed a comparative macroeconomic analysis of the economic potentials of Ukraine and Turkey and defined general features of structural development, export potential, and geopolitical situation. This will allow expanding the strategic possibilities of economic cooperation. It is also necessary to expand area borders for partners in Ukraine and Turkey.

The solution of national economic problems can be sped up, if all regions of the national economy appear similar in their national structure and culture, but unique in their specialization and resources.

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