

FINANCIAL CRISIS IMPACT OF FOREIGN TRADE AND FOREIGN TRADE FINANCING IN TURKEY

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Abstract: *Foreign trade finance, foreign trade (exporter or importer) to perform, is fulfilling the requirements the funds. 2008 global financial crisis, both in Turkey and Turkey's foreign trade partners, is caused to fall. The global crisis is one of the most important channels in Turkey which are referred to as foreign trade channel. In this study, the financial crisis period in Turkey, is stated how will be foreign trade and foreign trade financing. For this purpose, the structure of foreign trade in the financial statements is evaluated with the help of the tables.*

Keywords: *Foreign Trade, Foreign Trade Finance, Financial Crisis*

1. INTRODUCTION

Many developed and developing countries, whether liberalized financial systems, in the period of their capital account market hem outward, while realized exceptional growth in the international movement of capital, on the one hand and violence has emerged rapidly expanding domain long-term financial crisis(Delice, 2003,57). Since the early 1990s, in many countries financial markets'the crisis has been occurred. In the second quarter of 2007, the first Symptoms of the economic crisis has been observed in America and in a financial crisis severely felt in 2008, Europe has infected too and thus many countries entered in economic downturn (Yıldız, 2011:2).

The problems started in housing market in US and taking its effect the entire financial system and the real economy under the influence, spreads to other countries and It has acquired a global dimension (Ertuğrul vd., 2010.61-62). Started out as a mortgage crisis and than transformed into the liquidity and confidence crisis in financial markets, the real economy under the influence of the global crisis has severely shaken the world economy. Turkey's economy is among the countries affected by the crisis. Including currency crisis mainly Turkey's economy, it has faced financial and economic crisis. Therefore, economic development difficulties cause to the financing deficit. While causing the problems, unable to maintain the financing gap, especially in the financial crisis (Oktar ve Dalyancı, 2010: 12).

Global crisis where lived in US, caused the trade contraction in the World economy and has dragged the country into recession, including many in developed countries. Turkey is among the countries affected by the crisis in the economy. In this context, the aim of this study is to evaluate the effects of the crisis on 2008 in terms of foreign trade of Turkey's economy. This purpose, study will be mentioned first as the financial crisis and foreign trade financing then during the crisis will be analyzed foreign trade and trade finance in Turkey.

2. FINANCIAL CRISIS AND FOREIGN TRADE FINANCE

Although quite back to the history of financial crises, the last 20 years have intensified efforts to create a theory, in this context, the financial crisis has made numerous definition. Bordo (1987), has been defined the financial crisis as a change in expectations, some financial institutions heard from bankruptcy fears, real estate or non-illiquid assets monetized. Schwartz (1995),

Financial Crisis, „is based on the fear that can not be made without paying any price, where the excessive government intervention need to find the cash, called back credits an also the banks do not give new loans. Mishkin (1996: 39) is defined the financial crisis, in the framework of the theory of asymmetric information; „A financial crisis adverse selection and moral hazard (moral hazard) to arrive to the next dimension of the problem and thus, financial markets, due to the loss of effectiveness in channeling economic unit, having the most productive investment opportunities fund is a non-linear distortion occurs in the financial markets.”

Üşür (2009), Various factors in the formation of the financial crisis is concerned. These factors may result from the country's economy or the global economy, the financial sector and the real sector can also be caused. One of the most important effects of the global financial crisis channels in Turkey, has been foreign trade. The global recession means; decline in the global income for per person and decrease of the world demand for commodities what we produced (Ertuğrul vd. 2010.65). Nowadays, more global commercial activities are increasingly gaining intensity, In particular, export financing, has brought with the development of new methods and new institutional arrangements (Özgün, 2009:3). After 1980 in Turkey, within the framework of sustained economic policies, export growth is a top priority and importance.

Trade finance is provided by two methods, the first to the exporter and second to the importer. In terms of developing countries' export financing " has more importance than the other. Export activities process, importers are generally not willing to pay before hand goods and would prefer alternatives that a longer loan term. The exporter desire to be made as soon as the payments done, <http://journal.mufad.org.tr/attachments/article/231/10.pdf>).

3. FINANCIAL CRISIS IMPACT OF FOREIGN TRADE AND FOREIGN TRADE FINANCING

Turkey is quite familiar with financial crises and recessions that follow and the recent 2008-09 crisis is the fifth in the last 30 years. Turkey had a foreign debt crisis in 1979, followed by a „stabilization and liberalization program” in January 1980. This program was based on a stand-by agreement with the IMF and countered the crisis with an extensive liberalization in finance and trade. Measures continued throughout the 1980s and culminated into capital account liberalization in August 1989. In early 1994, a post-liberalization financial crisis started, followed by another stabilization program that was supported with an IMF stand-by agreement in April 1994. The contagion effects of the Asian and particularly the Russian crises brought about a protracted crisis in Turkey in 1998 and 1999.1 Negative growth in these years, combined with an inflation of over 60%, led to the announcement of a „disinflation program”, accompanied by the 17th stand-by agreement with the IMF at the end

of 1999.2 The nominal anchor of the disinflation program was a pre-announced crawling peg exchange rate system, formulated in the context of the IMF agreement. The program emphasized on structural reforms, privatizations and downsizing of the public sector and would be in effect for three years until end-2002. But it was short lived; following a twotier crisis in December 2000 and February 2001, the crawling-peg system was ended to be replaced by a floating exchange rate system. Thus came in the 18th stand-by agreement accompanied by a sizeable IMF credit (Uygur, 2010:1).

In 2000-2001, with the economic crisis, Turkey's economy was entered into a major recession in the process, with tight monetary and fiscal policies implemented in the post-crisis period has managed to capture the re-stabilization. In the period from 2001 until today, Turkey's economy macro variables, significant improvements in the financial structure and budget size have been achieved. However, the second half of 2008, completely spread from the US, the impact of the Far East countries too. This has affected the stability that captured in Turkey's economy (Susam ve Bakkal, 2008: 75). The financial crisis has affected the direction of Turkey's foreign trade significantly.

Financing of the current account deficit in Turkey's economy and to sustain the economic growth, the importance of exports are greater.

Because of the current account deficit is one of the most important element of foreign trade export decline in the deficit after the crisis escalation, already high and rising current account deficit, put into a bad situation of Turkey's economy(Selçuk ve Yılmaz, 2008: 349).

Table1: Foreign Trade by Years in Turkey (thousand \$)

Years	Exports		Imports		Balance of foreign trade	Volume of foreign trade	Proportion of imports covered by exports %
	Value	Change %	Value	Change %	Value	Value	
2005	73 476 408	16,3	116 774 151	19,7	-43 297 743	190 250 559	62,9
2006	85 534 676	16,4	139 576 174	19,5	-54 041 498	225 110 850	61,3
2007	107 271 750	25,4	170 062 715	21,8	-62 790 965	277 334 464	63,1
2008	132 027 196	23,1	201 963 574	18,8	-69 936 378	333 990 770	65,4
2009	102 142 613	-22,6	140 928 421	-30,2	-38 785 809	243 071 034	72,5
2010	113 883 219	11,5	185 544 332	31,7	- 71 661 113	299 427 551	61,4
2011	134 906 869	18,5	240 841 676	29,8	- 105 934 80	375 748 545	56,0
2012	152 461 737	13,0	236 545 141	-1,8	- 84 083 404	389 006 877	64,5
2013	151 802 637	-0,4	251 661 250	6,4	- 99 858 613	403 463 887	60,3
2014	157 616 885	3,8	242 177 004	-3,8	- 84 560 119	399 793 888	65,1

Resource: TÜİK

When examined Turkey's foreign trade figures according to the crisis that took place in 2009, the effects of the crisis were seen in certain ways. Export and import figures showed a negative change in 2009.From 2005 to 2008, the foreign trade deficit has increased steadily.In 2008 it reached a very high figure.

The global crisis on domestic and external demands due to the depreciation of the Turkish lira and the sudden decline, depending on the downsizing trend, the trade deficit stood at 69.9 billion dollars in all of 2008.

In 2009, Turkey's trade due to the effects of the crisis in his country, both imports and exports are greatly reduced, the foreign trade deficit fell to \$ 38.8 billion, the export-import ratio has increased to 72.5% for the first time in last 10 years(Yıldız, 2011: 78-79).

Table 2: Annual Exports according to Country Group

Share (%)										
Country Group	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total	100	100	100	100	100	100	100	100	100	100
European Union (AB 28)	56,5	56,3	56,6	48,3	46,2	46,5	46,4	39,0	41,5	43,5
OECD Countries	62,4	60,9	57,5	50,3	51,1	50,4	49,7	43,5	45,2	48,6
EFTA Countries	1,1	1,4	1,2	2,5	4,2	2,1	1,4	1,7	1,1	2,4
Black Sea Economic Cooperation	11,7	13,5	15,6	15,8	12,0	12,7	13,2	12,3	13,4	12,5
Organisation for Economic Co-operation	3,6	3,9	4,4	4,7	5,8	6,7	6,9	10,9	7,8	7,4
Commonwealth of Independent State	6,5	7,7	8,8	9,8	7,8	9,0	9,9	9,9	11,1	9,9
Turkish Republics	1,9	2,3	2,7	2,8	3,3	3,4	3,7	3,8	4,6	4,5
Organisation of Islamic Cooperation	17,8	17,5	18,9	24,7	28,0	28,5	27,7	36,2	32,5	30,9

Resource: TÜİK

Table 3: Annual Import according to Country Groups

Share (%)										
Country Group	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total	100	100	100	100	100	100	100	100	100	100
European Union (AB 28)	45,2	42,6	40,3	36,9	40,2	39,0	38,0	37,1	36,7	36,7
OECD Countries	57,6	53,5	51,9	49,0	51,8	50,7	50,4	48,1	49,4	48,1
EFTA Countries	3,8	3,2	3,4	3,1	2,0	2,2	2,4	2,2	4,2	2,4
Black Sea economic Cooperation	17,5	19,3	20,4	22,3	19,6	17,8	16,1	17,5	16,4	16,9
Organisation for Economic Cooperation	4,3	5,8	5,8	6,0	4,3	6,3	7,2	6,9	5,9	5,6
Commonwealth of Independent State	14,5	16,5	18,1	20,3	17,6	15,6	13,8	14,9	13,5	13,7
Turkish Republics	1,0	1,4	1,5	1,6	1,3	1,6	1,5	1,5	1,4	1,2
Organisation of Islamic Cooperation	8,3	9,8	10,2	10,9	9,5	12,0	13,0	13,4	12,7	12,0

Resource: TÜİK

As shown in Table 2 and Table 3.

Large part of Turkey's foreign trade realize with OECD countries and OECD member countries and EU countries. In the range of 2005-2010 year, these two groups have a share of over 50% of Turkey's exports and imports. However, with the global crisis, following the entry into recession the economy of Europe and the OECD countries, Turkey's imports and exports are adversely affected. (Yıldız, 2011:78). Turkey's exports to the EU in 2007 was 56.6%, this rate decreased to 48.3% in 2008. Likewise, Turkey's imports from the EU in 2007, was 40.3%, this rate decreased to 36.9% in 2008. Therefore, for the first time after a long period of time, the share of exports to the EU decreased below 50%.

The main factors enabling sustainable global economic integration through trade, finance comes from foreign trade. The lack of trade financing foreign trade is the most important factor (Meiwer-Ewer, 2003).

Table 4: Export According to payment type

Payment types years	Cash against goods	Cash payment	Payment against document	Letter of credit	other
2005	41 611 198	3 335 895	15 768 999	7 007 514	5 752 802
2006	48 788 199	4 971 299	17 030 589	9 049 143	5 695 446
2007	63 298 652	6 014 484	20 239 352	11 849 694	5 869 568
2008	75 415 020	8 724 564	22 974 625	18 708 341	6 204 246
2009	60 757 596	8 099 638	19 176 247	9 625 268	4 483 463
2010	67 473 121	8 819 323	20 993 863	12 029 350	4 567 562
2011	81 351 495	9 682 526	24 637 849	14 525 143	4 709 856
2012	87 324 963	21 875 516	24 409 530	14 328 538	4 523 188
2013	93 795 859	15 136 099	25 878 334	12 280 664	4 711 682
2014	102 838 848	14 929 862	24 229 144	11 239 941	4 379 089

Resource: TÜİK

According to the payment methods in Turkey, exports will be discussed on topic as cash on delivery payment, advance payment, payment against documents, letters and other topics. In other forms of payment Express as; letter of credit, transfer, private exchange, depending on treatment, agreed overdraft credit, acceptance credit cash against documents, cash against acceptance credit goods, offsetting swap, foreign credit, payment ambiguous and private accounts.

The majority of export goods in Turkey is financed with the corresponding payment method. Funded export value, while in the year 2005 was 41 611 198 thousand \$, on 2008 increased to 75 415 020 thousand.

Another method which is very important for export financing in Turkey, the documents against payment and Money. This way, the value of exports funded, in 2005 15 768 999 thousand \$ but on 2008 reached the level of 22,974,625 usd. Another method which is very important for export financing in Turkey, the documents against payment and money

This way, the value of exports funded, in 2005 15 768 999 thousand \$, has reached the level 22.974.625 in 2008. Remittance method is not a method that is widely used for export financing in Turkey. This method funded in 2005 with a total value of exports 7,007,154 thousand in 2008 rose to 18,708,341 level. The prevalence of at least the methods and the use of advance payments in 2005 to 3 335 thousand \$ 895 thousand and reached the level of \$ 8,724,564 level. This table is a risk in terms of Turkey's exports, mostly importers can be considered funded through methods that reveals. According to Turkey in payment, payment against imports of goods, advance payment, payment against documents, letters of credit and are grouped under other headings. In other forms of payment, letter of credit, transfer, private exchange, related transactions, accept the letters of credit, cash against documents acceptance credit, expressed as a special account accept credit and cash on delivery (Acar, 2009: 11).

Table 5: Import according to payment type

Payment types Years	Cash on delivery payment	Cash payment	Payment against document	Letter of credit	Other
2005	24 898 927	50 236 569	13 663 133	5 307 881	226 676 240
2006	28 474 226	65 756 368	13 793 862	8 060 674	23 491 044
2007	33 787 641	82 217 326	16 590 933	11 931 658	25 535 156
2008	38 947 901	95 972 043	19 253 249	14 762 442	33 027 939
2009	29 648 056	68 655 166	11 756 239	11 009 131	19 859 830
2010	34 719 132	95 437 547	14 963 761	23 246 838	17 177 055
2011	42 854 536	111 372 484	17 358 346	48 999 536	20 256 774
2012	70 734 281	108 000 257	14 985 436	22 540 652	20 284 515
2013	77 764 400	117 639 578	15 523 196	21 271 411	19 462 666
2014	71 529 327	119 325 618	14 920 321	18 442 201	17 959 537

Resource: TUIK

The majority of imports in Turkey are funded by the advance payment and this payment type is the most risky method for importers. The total cash value of imports financed by the payment method, in the year 2005, level from 50 236 569 thousand \$ in 2008 increased 95 972 043 thousand \$. Importers in terms of the use of the most appropriate payment method in the year 2005 24 898 927 thousand \$ level increased to \$ 38.947.901 thousand in 2008. The total value of imports financed with credit, in 2005 were \$ 5.307.881 thousand, in 2008 reached \$ 14.765.442 thousand (Acar, 2009: 10-11). Finally, document equivalent amount of imports in 2005, funded by the payment level \$ 13.663.133 thousand, in 2008 reached 19 253 249 thousand \$. This statement demonstrate that Turkey's imports are mostly funded by the method which considered risky in terms of exporters.

4. RESULT

In September of 2008, before starting in the US, then in waves all over the world on the basis of the spreading global financial crisis, It lies in the explosion of the real estate and credit bubble. The foreign trade volume of Turkey in 2008 was followed by a fairly low cruising. The reason for this, that uncontrolled hot money and speculative capital movements.

Speculative capital flows and increased foreign exchange crisis narrowed accordingly. But this time it did not increase as both export and import, declined for lack of external demand. Thus, the volume of trade got narrowed (Korkmaz ve Tay, 2010). Turkey's foreign trade figures when compared to the year examined, export and import figures showed a negative change in 2009. From 2005 to 2008, the foreign trade deficit has increased steadily. In 2008 it reached a very high figure. After entering the recession with the global crisis, the economies of Europe and the OECD countries, than Turkey's imports and exports are adversely affected. Turkey's exports to the EU in 2007, while 56.6%

In 2008, this ratio has fallen to 48.3%. Likewise, Turkey's imports from the EU in 2007, while 40.3%, this rate decreased to 36.9% in 2008. Therefore, for the first time after a long period of time, the share of exports to the EU decreased below 50%. In our study, the majority of exports of goods in Turkey are financed with the corresponding payment method. In 2005 the value of exports financed by this method at \$ 41,611,198 thousand, in 2008, increased to \$ 75,415,020 thousand level. The majority of imports in Turkey was expressed that funded the cash payment method is the most risky method for importers. The total cash value of imports financed by the payment in 2005 was 50 236 569 thousand \$ level, in 2008 has risen 95 972,043 thousand.

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