

Trade and Regional Development in a Developing Country: The Case of Turkey

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Abstract

There is a widespread literature to investigate the relations among increasing trade, economic growth and development; however the relationship between trade and regional development is remained inconsiderable. **The aim of this study is, to investigate the interrelationship between trade and regional development in Turkey.**

Therefore firstly, regional development index is defined for 81 provinces of Turkey for the period from 2002 to 2008. This definition is based on the concept and calculation method of Human Development Index (HDI) of United Nations Development Programme (UNDP). HDI is taken as a basis because it is a composite measure of education, health, and income. Health and education data used in this paper are Regional Statistics of Turkish Statistical Institute. However, GDP/GDP per capita data are not available for provinces for the period under concern. Several studies obviously show that there is a causality relationship between GDP and energy consumption. Thus, energy consumption statistics are used instead of income data.

The seminal approaches of uniform (UIS) and heterogeneous intra-national space (HIS) of urban systems and new economic geography (NEG) models are considered to be worthwhile. To show the relationship between regional development index and share of volume of trade and between regional development index and trade openness, these approaches are utilized within generalized method of moments (GMM) procedure in a panel data framework. Accordingly we use three dummy variables as endogenous or exogenous, namely large city, port and border provinces.

The empirical findings show that the increases in trade openness are positively associated with future increases in regional development. As a result, large cities have a positive effect in this relationship, while the dummy variables of port and border provinces have not found statistically significant. The link between share of volume of trade and regional development is found out negative, merely when the approach of uniform intra-national space of new economic geography model is considered in our estimation. Furthermore, the results of panel causality tests, the share of volume of trade significantly causes regional development. On the other hand, there is a bilateral causality relationship between regional development and trade openness.

Keywords: Regional Development, Trade, Human Development Index (HDI), Panel Data, Generalized Method of Moments (GMM).

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