INTERNATIONAL JOURNAL OF ECONOMICS AND FINANCE STUDIES
Vol 2, No 2, 2010 ISSN: 1309-8055 (Online)

GLOBAL SOURCING: A THEORETICAL STUDY ON TURKEY

Aytac GOKMEN
Çankaya University, International Trade Department,
Öğretmenler Caddesi No: 14, 06530, 100. Yıl, Balgat, Ankara, Turkey.
E -mail: agokmen@cankaya.edu.tr

Abstract

Global sourcing is to source from the global market for goods and services across national boundaries in order to take advantage of the global efficiencies in the delivery of a product or service. Such efficiencies are consists of low cost skilled labor, low cost raw materials and other economic factors like tax breaks and deductions as well as low trade tariffs. When we assess the case regarding to Turkey, global sourcing is an effective device for some firms. The domestic firms in Turkey at various industries are inclined to global source finished or intermediate goods from the world markets, finish the production process in Turkey and export. Eventually, on the one hand the export volume of Turkey increases, but on the other hand the import of a considerable volume of finished or intermediate goods bring about a negative trade balance and loss of jobs in Turkey. Therefore, the objective of this study is to assess the concept of global sourcing transactions on Turkey resting on comprehensive publications.

Key Words: *Global sourcing, import, growth, effect, Turkey.*

JEL Classification: F23, M10, M16, M19.

1. INTRODUCTION

The sourcing decision of firms has substantial impacts with respect to the efficiency and profitability of enterprises. Decades ago, firms were supposed to deal with every phase of the production process and secure quality in every step. However, today firms could outsource some parts of the production process from outside suppliers. The macro perspective of outsourcing is global sourcing. Global sourcing is to import intermediate and capital goods in order to sustain the production process. Also, some countries pursue exports policies based on importing and aim to provide economic development. Turkey is one of these countries that import a considerable amount of intermediate and capital goods in order to improve the future exportation process. Some Turkish firms benefit from global sourcing substantially by way of utilizing low cost investment goods. However, this process could be harmful for the economic performance of Turkey as a result of increasing the trade and current account deficit, since the imports have always been exceeding the exports for decades. Increasing the export volume by import process might be beneficial for countries, but only when the trade and current account deficit is under control. Thus, the objective of this study is to dwell on global sourcing theoretically as well as unfold the import based economic development of Turkey depending on statistical figures.

2. THE CONCEPT OF GLOBAL SOURCING

Global sourcing is the acquisition of products or services from independent suppliers, contractors or company owned subsidiaries (off-shoring) based abroad for manufacturing of other products and services or consumption at home country or in a third country. Global sourcing could also be called global procurement or global purchasing that leads to importing – the inflow of foreign produced goods and services to homeland – eventually. It is a form of international entry strategy that is consists of a contractual relationship between a local buyer and a foreign supplier of a source (Çavuşgil et al., 2008: 484-485; Sullivan, 1999: 285).

The firms in various countries had experiences with the sourcing activities abroad, but in recent years there is a tendency to subcontract the merchandise, capital goods, intermediate goods, services and business processes to subsidiaries and independent suppliers abroad. In some instances firms could transfer the entire production system abroad or procure entire parts from independent suppliers and market globally with having only the headquarters in home country. (Radebaugh, Daniels, 2001:640; Çavuşgil et al., 2008: 485-486).

Though, the main reasoning for global sourcing is to lower the costs of production, there is also other reasons. One reason is that, some particular products that a company needs for production may not exist in home land and must be imported. In certain industries company may be compelled to import the manufacturing machines as capital goods. With respect to the sourcing decision, companies either establish their subsidiaries abroad, or establish a strategic partnership with a local company located abroad or subcontract some of the operations or processes from an independent manufacturer (Ball et al., 2004: 650-651; Daniels et al, 2004: 541-542).

The global sourcing decision of companies has become "make or buy decisions". There are obviously many advantages and disadvantages of "make or buy decisions" involving the cost of manufacturing in either cases as well as the managerial monitor on phases of production and especially the methods of confidential production phases that reinforce competitive advantage, also the quality, design details and delivery time of products are quite significant. Some other factors to be considered are production expertise to manufacture the product, quality of the raw materials, labor force in disposal and the expenses that have to be bared in order to have the inputs, matter considerably. (Ball et al., 2004: 651; Daniels et al, 2004: 542).

The temptation of global sourcing is could be defined as the presence of suppliers with enhanced competitiveness with respect to cost, quality, timeliness and other related factors. This might explain why some firms chose to global source from domestic sources to foreign countries with cost saving motives. As these developing an less developed countries improve economically and industrially by means of receiving FDI as well as capital, know-how and new technologies, move forward to more industrial phases and would began to supply more qualified goods and services and become developers of new products and processes which results in development globally. (Ball et al., 2004: 651; Daniels et al, 2004: 542-543).

With other international trade and entry strategies, global sourcing also offers both advantages and disadvantages. The benefits of global sourcing are (Çavuşgil et al., 2008: 494-496; Daniels, Radebaugh, 2001: 642; Ball et al., 2004: 654-655; Daniels et al, 2004: 549-550; Hill, 2009: 579-581): Accomplishing cost efficiency; quicker corporate growth by means of sourcing some activities to independent suppliers, focusing more on core competences and performing more profitable events; accession to skilled and/or low cost labor abroad; accomplishing enhanced productivity and service by way of establishing value – chain activities; increasing the production efficiency and resource utilization by way of business process redesign and restructuring; increased speed and responsiveness in the markets; building presence in new markets by means of procuring and production in various locations globally; accessing to new technologies, knowledge, know-how and managerial methods in various countries and markets; achieving flexibility by having option to chose from numerous independent suppliers, affiliates and subcontractors;

reinforcing the reliability of supply by strengthening domestic suppliers with foreign suppliers; and reacting to rivals' offshore sourcing implementations in order to accomplish competitive advantage.

3. GLOBAL SOURCING: THE INSTANCE OF TURKEY

So far, it has been aimed to clarify the concept of global sourcing. Within this section of the study it is aimed to unfold the impacts of global sourcing on import – export policies of countries and on economic growth.

3.1. Literature Review

Global sourcing, which could also be defined as international outsourcing, has become increasingly significant in the global trade and economic activities for a few decades. Some empirical studies also indicate that outsourced merchandise comprises a considerable part of imports in some OECD countries and the percentage of global sourcing within the amount of imports kept to increase during previous years. Henceforth, the disintegration of production has considerable impacts both on the firms and countries with respect to productivity, efficiency, the procurement of higher quality of intermediate goods and capital goods, export expansion, balance of payments, employment, wage distribution and welfare effect and so on… (Görg et al: 2008; Geishecker, Görg: 2008).

When the reasoning of global sourcing is analyzed from a micro point of view, it is first straight forward effect is on plant and firm level productivity. The potential expectation is to attain internationally traded inputs that are available at higher quality and reasonable price than the domestically available ones. Therefore, the first impact of the utilization of international sourcing is to enhance the firm and plant productivity, profitability and competitive advantage over rivals. The second important effect of global sourcing is the option of off-shoring the production stages. Yet, third important effect of global sourcing from the micro point of view is the sunk costs; because, most of the time global sourcing is highly associated with the quality, experience and specialty of foreign suppliers and contractors. (Görg et al: 2008).

It is also possible to regard trade openness and global sourcing from a macro point of view on the grounds of economic development. For, the possible advantage of outward-oriented trade policy and economic development has been subject to much academic research, but the majority of literature is focused on development trough export to economic growth. However, the basic concern in export-led economic growth is that if an export-stimulated outward focused trade policy is more advantageous than an inward focused trade policy in promoting economic growth. Most of the literature is comprised of export led growth hypothesis. The reverse case is growth-led exports. Yet, the third alternative is import-led economic growth that indicates, an economic growth by means of exportation could be accomplished by an increase in intermediate and capital goods import, actually solely by imports. In spite of the possible significant factor of imports and import competition, relatively little attention has been focused on the causal relationship between imports and economic growth in comparison to comprehensively reviewed export-led economic growth theory; because, most of the trade literature is oriented on the importance of exports in economic growth and the potential contribution of imports in economic growth has been disregarded (Awokuse: 2008).

Even though imports, exports and economic growth has significant correlation in the development process, the relationship between exports and economic growth has been attributed much more attention; because international trade was viewed as a considerable resource of economic strength. Broadly speaking, exports have been regarded as the “Engine of Growth” for decades. First and foremost, export development could act as a catalyst of production increase directly as a factor of total output. Second of all, the export growth could also impact on growth in various ways such as the effective source allocation, expanded capacity utilization, benefiting from economies of scale and encouragement of technological enhancement stemming from foreign market competition. Eventually an increase in exports could provide foreign currency that would enable to increase the level of imports of intermediate goods which in tern may improve capital formation, relieving the foreign exchange constraint and promote output growth (Vera: 2006; Awokuse: 2008; Çetintaş, Barışık: 2009; Din: 2004).

Related to the case of export-led growth theory, increasing imports also have the possible force to play a complementary role in promoting economic strength. It is convenient to presume that the impact of imports on economic development might be different than that of export expansion. Various studies have indicated (as also mentioned previously) that imports can be a means for economic growth in the long run with respect to procure foreign technology and knowledge for domestic firms. Foreign technology[1] and know-how might be significant source of productivity growth as these sorts of sources usually involve imported intermediate and capital goods as computers, machines and equipments; thereby, it is possible to state that foreign imports could serve as resources of technology intensive intermediate components of production. (Awokuse: 2008; Çetintaş, Barışık: 2009).

3.2. Global Sourcing, Export-Import Policies and the Case of Turkey: Could Import Development be a Source of Economic Growth?

The Turkish economy has been experiencing a comprehensive transition process from a closed and planned economy to a liberal economy since 1980s and as of today it is one of the most dynamic and progressing economies of the world. The Turkish economy has recorded a significant growth rate especially after the 2000s and recorded a GDP growth of almost 7% per year between the periods of 2003-2008. However, the soaring growth rate has diminished considerably after the 2008 global economic crisis and naturally Turkey experienced an important economic downturn with the other countries as well. Today, Turkey is one of the 20 largest economies in the world. The growth of economy in Turkey mainly depends on the export-led growth strategy pursued since 1980s. By way economic reforms and transition policies restrictions on imports and import substation policies have been abandoned, safeguard policies were diminished and foreign exchange transactions were set free. As a result of the economic progress acquired with the reforms especially in the last decade the volume of exports increased. However, the current account deficit and trade deficit increased as well and the composition of the imports changed in compliance with this process.

Even though, the GNP and export volume of Turkey as been increasing and reinforcing the export-led growth policy, as well as fostering the economy, more rapidly growth of imports have realized

---

[1] An important effect of technology transfer might be observed with respect to human resources. As the import of high technology products increase the demand for unskilled labor shall decrease; because, the utilization of high technology outputs requires the same level skills. This may lead to two results: a decrease for domestic labor supply which is devastating for internal labor market and/or an increase in the wages of skilled labor force (Mullen, Panning: 2009).

a source of concern for the economy authorities and policy makers in the recent periods; because, it is considerable to comprehend the composition of imports and exports as to design the foreign trade policies of Turkey for the next years. Although, a sustainable and reliable economic growth mostly depending on industries mainly based on domestic raw materials and domestically produced intermediate and capital goods is considerable. When we consider the fragile status of the Turkish economy and the four economic and financial crises experienced in the last two decades, it has become substantial to accomplish price and currency stability as well as to focus on domestic industries to save currency, create employment, increase production, exportation and national income as a whole. However, in the case of Turkey the engine of growth is based on imports, therefore imports shall be one of the main macroeconomic variables to be disciplined, since imports are also regarded as spending difficultly-earned foreign currency reserves on intermediate and capital goods produced abroad. Thereby, in this process the national income of Turkey is transferred and becomes the national income of other countries (Aker: 2008; Gerni et al.: 2008)[2].

Table 1: Development of the Turkish Economy; 2001-2010 (billion USD)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010[3]
GNP	144	181.7	239	293	484	530	649	742	608	860[4]
Capacity Utiliz (%)	73.6	76.7	80	83.4	80	81	81	65	69	67.8
Unempl.	8.4	11.4	10.5	10.3	10.3	9.9	10.6	13.6	17.3	15
Internal Debt	101	149,9	194,4	225	182	175	195	2143	219	339.4
External Debt	113.9	131.1	147	15.,2	170	206	247	277	274	271
Export	31	35.1	46.9	56.2	73.4	85.5	107.2	132	102.2	7.8
Import	41.5	50.8	68.7	97.5	116.8	139.6	170	202	140.8	11.5
Trade Deficit	-10.1	15.8	21.9	30.6	42.3	54	62.8	70	38.6	2.7
Current Deficit	+3,4	1.8	6.8	12.7	22.6	32.2	38	41.7	14	3

Reference: www.tuik.gov.tr; www.dpt.gov.tr; www.tcmb.gov.tr.

The GNP rate of Turkey has always increased in accordance with the exports, imports, trade and current deficit. It is always important to improve the macro indicators of a country, but if the improving macro indicators also bring about deficiencies in some other indictors, then the economic polices shall be reviewed. It is also quite evident that the investments in Turkey are very much related with import volume. The investment goods have been consisted of almost 85-90% of import and /or global sourcing of capital + intermediate goods which enhance the economic growth in the short, intermediate and long run. The amount of consumption goods is mainly involved with energy (petroleum + natural gas) imports that are indispensable. Having imported between 85-90% of investment goods implies that the Turkish entrepreneurs tend widely to import and/or global source fixed capital investments and production capacity from abroad instead of producing domestically and reinforcing the national industries. This also means that the Turkish

[2] www.worldbank.org. WB, Turkey Economic Memorandum, pp.8-9.
[3] Values as of February 2010.
[4] Expected value by the State Palnning Organization by the end of 2010

businessmen are inclined to import in order to improve production and enhance efficiency to meet the foreign demand on the Turkish merchandise abroad. It could also be implied that the imported goods help develop the quality of the products by means of foreign factors of production and new core competences have got to be created in domestic industries based on contemporary quality demand in order to secure economic development with domestically produced intermediate and capital goods. (Aker: 2008; Gerni et al.: 2008)[5].

Table 2: Imports by Broad Economic Category (billion USD)

Year	Total	Capital Goods	Intermediate Goods	Consumption. Goods	Capitl + Intermed (%)
2000	54.5	11.3	35.7	7.2	86.3
2001	41.5	6.9	29.9	4	89.1
2002	50.8	8.4	37.4	5	89
2003	68.7	11.3	50	7.5	88.4
2004	97.5	17.3	65.3	13.9	85.1
2005	116.8	20.3	81.8	13.9	87.5
2006	139.6	23.1	98.5	16	87.9
2007	170	27	123.6	18.6	88.5
2008	202	28	151.7	21.4	88.8
2009	140.8	21.4	99.1	19.2	85.7

Reference: www.tuik.gov.tr

Thus, it is evident that the economic growth in Turkey is rested on import based export policy for years. However, reinforcing the manufacturing industries by means of imports and foreign factors of production is not an optimal one since the economic strength of the country becomes bound to foreign producers. However, the truth for Turkey is that the Turkish economy is not self sufficient and depends on foreign factors of production. If one assesses the performance of the Turkish economy with macro indicators, it could be comprehended that it is not optimal to use foreign factors of production for economic growth. The GNP value and capacity utilization kept increasing over the years as well as the value of consumer price index (CPI) and whole sale price index reduced since there has not been a significant amount of production to affect these indexes. Since Turkey has been using a considerable amount of foreign factors of production, the rate of unemployment remained at a significant rate and peaked in the crisis of 2008. Moreover, as import of the sources of production has always been more than the exports, there has always been an important trade deficit in Turkey and since the amount of the income of various industries have been short of paying liabilities and there has always been a current account deficit in Turkey as well. In addition to these facts, if one considers the amount of total debts to cover import and production costs and budget deficit of the government, it is evident that the import based export-led growth in Turkey is not advantageous for the Turkish State and this a considerable problem to be solved[6].

[5] www.worldbank.org. WB, Turkey Economic Memorandum, pp.8-9.
[6] www.tuik.gov.tr; www.tcmb.gov.tr; www.dpt.gow.tr

4. RESULT

The outsourcing activity is a useful tool to supply a process or service from an external provider in order to focus on core competence and accomplish efficiency, productivity and profitability too. The macro application of outsourcing is global sourcing which is to supply goods and services from providers located abroad. Global sourcing and/or importing helps firms to attain new technologies and knowledge, low cost labor and raw materials, quality and reasonably priced capital and intermediate goods.

Within the economics and business literature, it is stressed that the engine of growth in a country shall be exports and the state foreign trade policy should be rested on export-led growth strategy in order to attain a strong economic performance, national income and trade surplus. However, there are also assertions that for some countries, especially the developing ones, import based export strategy is also possible to enhance the economic growth. Although, it is possible to secure economic development by means of importing and/or global sourcing of capital and intermediate goods, this process could be risky as to create dependency to the resources abroad.

When we regard the situation with respect to Turkey, it is clear that within the foreign trade process, the import volume of Turkey has always been more than the export volume, comprising mostly capital and intermediate goods between 85-90% of all imports. Even though the GNP and capacity utilization have increased steadily, other macro indicators such as trade deficit, current account deficit and unemployment also have increased in the same sequence. The reason for this reality is that, the Turkish currency, Lira is over valued and the cost of importing is less then producing domestically. Therefore, Turkey actually imports production from abroad instead of producing domestically, creating employment and fostering national industries and attempts to improve exports with imported intermediate and capital goods. This process, by all means negatively affects the macro indicators such as national production, trade surplus, current account and employment. Thus, it is evident that Turkey pursues an import based export-led growth strategy instead of pure export-led growth strategy. This reality substantiates that the production and industries of Turkey are mainly bound to foreign factors of production which threatens national economic sovereignty considerably. Eventually, with respect to this study it is clear that; in order to sustain economic growth, Turkey is dependant on foreign factors of production and has too keep importing, contrary to export-led growth case, and therefore, it is essential for the government to at least subsidy the domestic industries that can produce the capital and intermediate goods domestically in order to accomplish real export-led growth, decrease trade and current account deficits, save hard currency and reinvest capital earnings in Turkey in order to establish new employment resources, increase domestic production as well as secure GNP and economic growth in the real sense.

REFERENCES

AKER, Şule (2008); "Major Determinants of Imports in Turkey" Turkish Studies, Vol.9, No:1, pp. 131-145.

AWOKUSE, Titus (2008); "Trade openness and economic growth: is growth export led or import-led?" Applied Economics, Vol.40, pp.161-173.

BALASSA, B. (1978); "Exports and economic growth: further evidence", Journal of Development Economics, Vol.5, 181-189.

BALL, Donald; McCULLOCH, Wendell; FRANTZ, Paul; GERINGER, Michael; MINOR, Michael; International Business; McGraw Hill, Boston, 2004.

ÇAVUŞGİL, Tamer; KNIGHT, Garry; RIESENBERGER, John; International Business, Prentice Hall, New Jersey, 2008.

ÇETİNTAŞ, Hakan; BARIŞIK, Salih (2009); "Export, Import and Economic Growth: The Case of Transition Economies", Transition Studies Review, Vol.15, pp. 636-649.

DANIELS, John; RADEBAUGH, Lee; International Business; Prentice Hall, London, 2001.

DANIELS, John; RADEBAUGH, Lee; SULLIVAN, Daniel; International Business; Prentice Hall, New Jersey, 2004.

DIN, Musleh-Ud (2004); "Exports, Imports and Economic Growth in South Asia: Evidence Using a Multivariate Time-series Framework"; The Pakistan Development Review, Vol.43, No: 2, pp. 105-124.

GEISHECKER, Ingo; GÖRG, Holger (2008); "Winners and losers: a micro level analysis of international outsourcing and wages", Canadian Journal of Economics, Vol. 41, No:1, pp. 243 – 270.

GERNI, Cevat; EMSEN, Selçuk; DEĞER, Kemal (2008); "Import Based Exports and Economic Development: The Turkish Experience Between 1980-2006", II. National Economics Congress, İzmir, Turkey.

GÖRG, Holger; HANLEY, Aoife; STROBL, Eric (2008); "Productivity effects of international outsourcing: evidence from plant – level data", Canadian Journal of Economics, Vol.41, No:2, 670 – 688.

HAYAKAWA, Kazunobu (2007); "Growth of Intermediate Goods Trade in East Asia", Pacific Economic Review, Vol.12, No:4, pp. 511-523

HELPMAN, E; KRUGMAN,P; Market Structure and Foreign Trade, MIT Press, Cambridge, Massachusetts, 1985.

HILL, Charles; International Business, McGraw-Hill, New York, 2009.

MULLEN, John; PANNING, James (2009); "Foreign Sourcing of Intermediate Inputs: Impacts on Unskilled Labor in US Manufacturing Industries", Eastern Economic Journal, Vol.35, pp. 160-173.

SULLIVAN, Jeremiah; Exploring International Business Environments, Pearson Publishing, Boston, 1999.

van BARGEIJK, Peter (2009); "Expected Extent and Potential Duration of the World Import Crunch"; KYKLOS, Vol.62, No:4, pp.479-487.

VERA, Leonardo (2006); "The balance-of-payments-constrained growth model: a north-south approach", Journal of Post Keynesian Economics, Vol.29, No:1, pp. 67-92.