

# APPLIED ANALYSIS OF INTERNATIONAL TRADE THEORIES FOR AUTOMOTIVE AND AGRICULTURAL SECTORS IN TERMS OF COMPANIES DECLARING CONCORDAT

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## Abstract

The main purpose of this article is to examine the development of foreign trade of automotive industry of countries such as USA, China, India, Japan and Germany from 1999 to 2017 by implementing panel data analysis. The variables are export volume, automobile production capacity and agricultural production capacity. Data is obtained from the official website of the World Bank (2019) and the International Organization of Motor Vehicle Manufacturers OICA (2019). Panel data analysis is applied from 1999 to 2017 (annual data) by taking into account the automobile and agricultural production volume which are determined as independent variables and export volume is determined as dependent variable for the USA, Germany, France, China, India and Japan. According to results on the basis of Heckscher Ohlin theory, USA, Germany and France begin to switch from capital-intensive sector to labour-intensive sector which is empirically proved through panel data analysis. On the other hand, China, India, Japan enter in the process of capital-intensive (automobile industry) sector instead of labour-intensive sector (agriculture industry) which is empirically proved through panel data analysis as well. When the fragmentation theory is taken into account, the western countries draw back due to the factors of lowering production costs, lowering prices and advancing in production technology in terms of know-how, which is empirically proved by PDA. Furthermore, when the fragmentation theory is taken into account, the eastern countries' strategy of dispersing into different countries in terms of production has been benefited by obtaining knowledge and technology. Therefore, they increase their market share by producing value-added goods. In the Conclusion, the processes who are leading to bankrupt the companies getting into act in capital intensive sectors especially such automotive are approached through the discussion about projections of macroeconomic policies onto companies. While reasoning in the context of theory of fragmentation, the strategy for making production in the eastern markets of automotive companies which ar especially active in USA, has backlashed and although the logistic cost has decreased, that situation has lead until the bankrupt by losing their marketshares.

Keywords: International Trade, Heckscher Ohlin Theory, Fragmentation Theory, Automotive Industry, Comparative Advantage Theory, Companies Declaring Concordat.

Jel Codes: P33, O24, L6, O24.

## 1. Prologue

While analysing the sectors occupying an important place in the world trade, automotive sector is deemed among important decision centres. While analysing the development level of a country, the magnitude of automotive sector is considered as a base among evaluation criteria. Developing countries and developed countries are ranked as different phases in regard to automotive sector. While developing countries take place into assemblage phase, developed countries take place into design and manufacturing phase (Yurdakul and Ic, 2004).

While we are analysing nowadays the automotive sector, competition environment is critically an international level. During the years where the manufacturing technology wasn't so developed and the competitions environment wasn't in such situation while the price competition was the sole matter, nowadays the product range, quality criteria and the competition for investing to future technologies constitute the important facts with price competition. This situation has contributed to increase substantially the production volume in the entire world and to amplify the concerned commercial volume (Özdağoğlu, 2013).

The automotive sector constitutes an industrial branch which is manufacturing road vehicles and fulfilling the requirements concerning passenger and cargo transport. The automotive sector was firstly founded in USA and developed and strengthened in Europa with leadership of France and Germany. Activities in automotive sector started through the manufacturing of first automobile before one century and during the First World War years it diversified its manufacturing through commercial vehicles and still constantly changing and creating innovation, although the automobile manufacturing takes the first place (Nakiboğlu, 2007).

World automotive sector has incurred to a different structuring during 80's and thus caused to evolvments which has deeply influenced the automotive sector in the entire world. Firsrtly, as North American, European and Japanese markets have been already saturated, moreover the Japan has developed advanced technologies in design and manufacturing which allowed them to get optimum advantages for contributing into search of new technologies (Karaatlı, Helvacioğlu, Ömürbek, Tokgöz, 2012).

Likewise, automotive sector affects remarkably the competitive capacity. Because, the countries owning strong automotive companies which can be caught on the market are

more likely can exhibit a more flexible attitude against global economic crisis. Because, such countries possess more economic diversity with automotive industry and they can implement more and faster growth. For the purpose of gather speed in the growth and have voice into the competitive environment, Turkey must take an important part from this sector (Özdemir and Deste, 2009).

Automotive sector which is one of sector receiving the greatest investment spending presents according to the research made in 2013, a sum of 85 billion Euro for articles of investment spendings in the scope of research-development and manufacturing and a tax income of more than 433 billion Euro into the countries which made these investments. The automotive sector has got an endorsement of approximately 2 trillion Euro. That data corresponds to the countries data with the greatest economies on the world gelir (Girginer and Çavdar, 2007).

Globalization is defined in a different ways according the opinions of various researchers. In this regard, it is possible to define globalization as an acceleration and intensification to mutual interdependence of economic and commercial activities in domestic and international area. Moreover, globalization means also that an event which can occur in one corner of the world can positively or negatively affect another corner of the world as an interregional influence. Analysing of such effect through the automotive sector which owns a gigantic global commercial volume, will allow to throw light on the factivity of globalization in the context of international trade. USA based automotive part manufacturers such Delphi and Visteon have been restructured the same automotive components due to the pressure by Asian, Mexican and Eastern European manufacturers which can manufacture the same components for a much lower costs. These manufacturers have made remarkable investments for research-development for the purpose of manufacturing qualified products which would provide added value to automotive industry. Volkswagen has benefited from german labour force as a condition to sustain the production domestically. While the fueloil price in USA is partially determined by taking into account the energy demand in other countries, increasing consumption in China and India has lead to redouble oil prices between 2004 and 2006. Thereby, the ongoing process and globalization have caused deep influences in determination of economic policies of states and strategies of all company in the entire world. USA National Intelligence Council points into 2020 Project Report that there is no likelihood for disappearance of some facts belonging to globalization and thus will present great consequences in the favour of the increasement of international trade. The mutual interdependence has enlarged the reach scope for multinational companies, contributed to marketing for smaller companies and other multinational companies for marketing between their borders and brought to the international area some services which weren't commercial until now (Shenkar, Luo and Chi).

Yirmibesoglu (2017) points out that globalization is a process which is driven by new technologies and new commercial relationship. In addition, this process is a policy space including international companies, business and civil society. Globalization provides sustainability in terms of international trade in goods and services, the free movement of capital and labor among economies, and the reproduction and dissemination of technology. Yirmibeşoğlu (2017) also specifies that the process of liberalization in trade is one of the most significant facts of globalization such as westernization and modernization. The influence of this parameter on trade beyond borders is complemented by media imperialism

and consumption culture.

Notwithstanding to that China and India have been generally focused on their domestic market within the scope of global automotive industry, all of two are appearing as a global actor. That situation is valid especially for Chinese automotive industry. Compared to South Korea, Chinese automotive industry seem to be more competitive than South Korea. The chinese hybrid economy system in the automotive industry allows it to be transformed to an industrial power central into the sector, as it contributed to reach a globally dominant position into other industries such toys, computer, bike and microwave oven and let it take a leader position on the World. The Chinese central political system allowed to remarkably increase the volume of trade through the modifications that it made into the business law. Although the China remains a great advantage through low cost of production and high quantities of production, numerous Chinese automotive companies have established a corporation with foreigner companies which has accelerated the process which will allowing them to acquire more know-how. Thereby, these joint adventures allowed china automotive manufacturers to access more easily to know-how and knowledge on one hand and foreigner partner to access to Chinese automotive market which is potentially in growth. All of these helped Chinese automotive manufacturers in making remarkably profit by means of scale economy before entering to international market and make growing more their domestic market. China's automotive industry possesses enough infrastructure and specialists in the matter of developing an industrial capacity for manufacturing a world-bracing automobile. Consequently, China has increased the exportation of automobile by means of its growth in domestic market and reached to gigantic measures (Sardy and Fetscherin, 2009).

In recent years, the equation of gravity has been considerably extended and renewed in regard to its theoretical bases. The expanding strategy of Chine within the context of automotive sector can be leant on the equation of gravity. Starting from a modified version of the theoretical equation developed by Anderson and Van Wincoop (2003), they made a particular underlining to commercial costs. Indeed, once a company enters to the world exportation market, it can be faced by notably sunk costs. Consequently, before of deciding to export whether or not, a company must provide the amortization of sunk cost in the future. Thus allows expectations to enter upon the equation of gravity. Thusly, the fact that this equation can be obtained from Ricardian, Heckscher-Ohlin and from monopolistic competition model has gained more admission and more (Shelburne 2002).

In the saturated markets, customer preference is one of most important fact in determining of sales, developments made onto the product, brand value and styling a marque are increasing their own importance. The importance that Japanese manufacturer companies attach to their side industries and subsidiaries make them superior in developing of new car models (Özdağoğlu, 2013).

The USA greatest industrial company has encountered its milestone at its centesimal year during its travel which began at 16 September 1908. The company that has been affected by global crisis has declared a state of loss of 39 billion USD. This sum has been

recorded at the centenary company history as the greatest state of loss declared. The crisis which began at July 2007 continued to wrap the company. Rick Wagoner, has expressed that they could sell Hummer, solely thus didn't come true. George Bush, USA President has expressed that short term credits for a sum of 17, 4 USD will be granted to General Motors and Chrysler which are on the brink of bankruptcy. 13, 4 billion USD of that sum would be provided from bailout of 700 billion USD during months of December and January in order to prevent the bankrupt. 4 billion USD remaining would be granted provided that these companies fulfill all the conditions of loan agreement and take a step seriously in the matter of restructuring. However that boost had a condition. In the case where these companies wouldn't establish that they take concluded measures and move into profit until 31 March, so they would immediately begin to refund the debt.

After Barack Obama has become USA President, General Motors sent its message to the new administration at the end of January. The company explained that it needs of 30 billion USD. General Motors has declared that it would fire 21.000 employees in this year and would stop the production of its vehicles with marque of Pontiac. With coming of the month of May, the first quarterly balance sheet of the company has shown the loss. The total loss of General Motors has reached 6 mbillion USD. The revenues of the company which was 42,4 billion USD in the first trimester on the past year, has regressed to 47% and has become 22,4 billion USD. General Motors has declared that it has split with 1.100 of its dealers at 15 May. The company which has got 6.600 dealers has restricted its sales network to 40% so. Obama government has provided more a fund of 4 billion USD to the company at 25 May. So, the sum of take on loan from USA Government by General Motors has reached 19, 4 billion USD. The Government has granted a delay until 01 June for abatement of debts, reduction of employment costs and for liquidation of factory. Once 01 June has arrived, that was the end of the road for a company of 101 years. General Motors has applied for bankrupt protection and declared a concordatum.

The main purpose of this article is to analyse with detail the evolution of international trade between 1999 and 2017 in the automotive industry belonging to the countries such USA, Germany, France, China, India and Japan. The variables are export volume, production of automobile and agricultural sector. Datas appearing in this article are cited through the official websites of World Bank (2019) and International Organization of Motor Vehicle Manufacturers OICA (2019). Panel data analysis has been applied and relation between variables has been identified for USA, Germany and France. In the context of the fragmentation and Heckscher Ohlin Theory, the sectors making production with labour intensive system the capital intensive sectors have been analysed by using the panel data analysis through two empirical model for USA, China, India, Japan, Germany and France. In that context, the automotive sector which is more capital intensive and the agricultural sector which is more labour intensive have been compared and suggestions have been added in the section of conclusion by predicating on the theory of comparative advantages. In the section of conclusion, reflection of macroeconomic policies onto companies have been discussed and the processes leading companies making activity into capital extensive sectors such automotive sector have been analysed with detail.

## 2. Literature Review

Countries such as Brasil, China and Mexico have made an effort to improve their own automotive industry by the way of collaboration with technologically advanced countries such as Germany and USA. Until the debut of 2000s, the countries such as USA and Germany where the automotive industry is exclusively domestic have profited from advantages derived from production of automotive with high technology and dominated millascenaous markets. Moreover, India, which became also a manufacturing centre for the countries which have already got their own market, rised up until 6th rank in the World as an automotive manufacturer, so they have become pionner for radical changes into automotive industry (Thakkar ve Jain, 2018).

In recent years, the dynamic inflow of foreign direct investments into the automotive industry of countries such as the USA, China, India, Japan and Germany has encouraged the foreign trade of automotive products. The decline in trade among sector in the trade model. In this context, it is observed that the western countries such as USA, Germany and France are moving from the capital intensive sector to the labor intensive agriculture sector within the framework of Heckscher Ohlin theory. According to the empirical findings in Table 4, from 1999 to 2017, it is proved that the agricultural sector clearly affects the export volume for the USA, Germany and France rather than the volume of the automotive sector.

Katircioglu (2006) demonstrates that there is a causality among agricultural production and economic growth from 1975 to 2002 which exists at all lag lengths. Agricultural production Granger causes economic growth at only lag 1. When lag lengths are extended from 2 to 6 years, relatively smaller F-statistics are examined notably for equation. On the other hand, Bidirectional causation exists between GDP and AGR at lag 2. The lag lengths higher than 2 years demonstrate a unidirectional causality from GDP to agriculture, according to the Granger causality test. One lag for equation and 3 to 6 lags for equation did not give considerable findings (Katircioglu, 2006).

On the basis of the theory of fragmentation, China benefited from know-how of western countries. Western countries produce especially in the eastern european and Asian markets in order to sell their products to relevant markets and reduce the logistics cost. However, they all decrease the volume of exports due to strong rival China. Moreover, eastern countries that had previously imported vehicles have acquired knowledge and technology and increased the production volume in the automotive industry from 1999 to 2017. As a matter of fact, the empirical findings in Table 2 clearly indicates that China, India and Japan acquire higher value added automotive production rather than agricultural sector. China and India are the countries that have surpluses in terms of trade volume, mainly due to their focus on automotive production. Especially, China has increased its automobile production capacity as twenty times and India increased its automobile production capacity as eight times from 1999 to 2017.

Automotive sector is the industrial arm of a country that manufactures have to meets passenger's and freight transport requirements. Hummels, Rapoport and Yi (1998) examined the importance of trade for intermediate goods and developed a vertical specialization index in terms of fragmentation theory. According to their approach, vertical

specialization occurs when a country uses imported intermediate goods in production channels to produce goods in order to export them. If the country does not export the product, outsourcing has taken place, due to vertical specialization. The fragmentation is widely used in trade theory and empirical studies for production strategy. They concluded that international integration involves the interconnection of the production process in vertical trade of various countries.

Based on the fragmentation theory, there may be increased returns through final production in terms of sequence of components that must be linked together which is stated by Jones and Kierzkowski (1990). In this context, the development of new technologies, country's bureaucracy and corruption and regulations of the country attract foreign direct investments. Labor costs and labor efficiency, transportation infrastructure and communication contribute to reduce cost of production. Jones and Kierzkowski (1990) have complete their work by taking into account all variables such as financial incentives, costs of interconnecting production blocks and the organization of service activities both nationally and across countries.

Deardorff (2001) defines the theory of fragmentation as to conduct the manufacturing process into two or more processes in different geographies in order to making production of similar product. In this context, Deardorff (2001) stated that, all processes in value-added production channels are fragmented through liberalization of investment and trade volume, R&D investments and technological advances.

The production of automotive is among activities of geographically dividible character; manufacturing process is divided on different countries in different phases. That disintegration has led to a remarkably increase in international trade volume due to the expansion of reciprocating processes in regard to transfrontierly peak divided processes of manufacturing. The root cause arises from the search for low cost labour force by companies. Moreover, other factors are the ratio for tax on corporations, the search by automotive companies for cheaper raw material and production sites. The participation of China and India to these international peak channels of production is dramatically changing since the last few years (Amighin, 2012).

The theory of fragmentation, ensuring of competition environment, advancements in sciences and technologies by means of research-development investments, generating of income by companies, possibility of passage to higher chains have all contributed to reduce the price and to hike up the production technologies. The countries which have adapted to these tough circumstances of competition have increased their trade volume and market share and brought their industrial, scientific and technological capacity onto highest levels. Nonetheless, the countries which failed to adapt to the circumstances have been faced with losses. The good part of fragmentation is to be able to show that the production in different regions of certain product or output depending on the nature of fact required is possible. Indeed, in the case of fragmentations where production chains are divided into different geographies, the parts of production or output are significantly decreasing in the regions where the production costs are more favourable and thus leads to decrease the total production costs. For example, outputs belonging to the capital intensive sectors are manufactured in the regions where the capital is in abundance and outputs belonging to the labour intensive sectors are manufactured in the regions where the labour force is in

abundance. Thereby, the theory of fragmentation is indicated as distribution of manufacturing process onto different regions. Consequently, the apex manufacturing philosophy is expressed within this theory (Özkul, 2011).

Wad (2009) has stated that the progress of China and India as a great automotive markets and the integration of their automotive industry in company with low cost manufacturing plant in Asia allowed these developing countries to increase their export capacity through the increase of domestic and stranger direct investments. He moreover stated that Thailand is in growth in the automotive industry as exporter and makes more export comparing to Malaysia.

Imran, Jian, Haque, Urbański, Nair (2018) found that the automobile industry contributed greatly to the export performance of China. The automobile industry has made significant contributions to China's economy. After producing approximately 24.5 million vehicles in 2015, it was emphasized that China's automobile industry emerged as the best automobile manufacturer as worldwide and reached its highest level.

Nishitatenno stated in his article (2013) that in Japan there's a periodical increase in export due to foreign direct investments and consistent manufacturing in automotive industry. He also stated that by means of oligopolistic structure of automotive industry great investments have been made and thus reinforced the correlation coefficient between foreign trade and foreign direct investments.

Ozun and Turk have analysed affects of Turkish agricultural sector on export (2010) by the way of using GARCH model in the way to predicate on the economical facts. So, they shown that the correlation coefficient between trade volume and agricultural production capacity is at high levels. They also established the long term relation between export volume and agricultural sector by analysing the period between 1990 – 2007 and making co-integration test in the form of monthly data. So, they demonstrated theoretically and empirically that both export volume and import volume are affined with agricultural production, consumer price index, market capitalisation of companies and international agricultural prices.

Basarir, Karli and Bilgic have established (2006) that in 90s the increase of fueloil prices in Turkey due the Gulf War has affectated agricultural production capacity and thus lowered the export volume. They also stated that in June 1992, the Third Economic Congress of İzmir has been organized in order to solve economic problems in Turkey and according the decisions taken in this Congress the purpose of Turkish State is to situate Turkey among most developed economies in the 21th Century.

While it is approached to the matter in the context of companies which have declared a concordatum, Chrysler which is considered among "Three Giants" in USA in Detroit deemed as heart of sector, has applied for bankruptcy protection in 30 April as it didn't overcome its problems. When the Company founded in USA at 1925 by Walter P. Chrysler has applied for the first time for bankruptcy protection at the end of 70s, it



Baltagi demonstrates that before of beginning to the panel data analysis, both fixed effects and random effects must be taken into consideration (2004). In order to determine the type of effect, it is necessary to make Hausman statistical test. According the result of tests made for China, India, Japan and USA, Germany, France between 1999 – 2017, fixed effects model has been selected ( $P < 0.05$ , Table 1).

Table 1. Hausman Test for China, Japan and India

Correlated random effect - Hausman Test			
Data Repository			
Oblique Section Fixed Effect Test			
Results of Test	Chi-Sq. Statistic	Chi-Sq. d.f.	Probability
Oblique Section Random	9.406138	2	0.0091

(Significance level) value is compared with table value ( $\alpha$ ). As the probability in the Table 1 is  $= 0.0091 < 0.050$ , the hypothesis  $H_0$  is rejected. In a word, there is a fixed effect. In that case, it is necessary to estimate the model with fixed effect. Results of fixed effects for the panel data analysis are shown in the Table 2.

Ampirical results obtained have shown that in the context of Heckscher Ohlin Theory, China, India and Japan have more converged to capital intensive sectors. As stated in the comparative advantages theory of David Ricardo (1817), each country must be focused in the domain where it is specialised, so it must make a production with low costs so, total output of World’s production will increase has come true. East block countries which possess advantages such lowness of production costs, know-how and cheaper labour force, have had the upper hand and increased their marketshare by producing more than USA, Germany and France and began to give current surplus, according the data of OICA (2017).

Table 2. Panel Data Analysis for China, Japan and India (1999-2017)

Dependent Variable: EXPORT?

Variable	Coefficient	Standard Error	t-Statistic	Probability
C	4.88E+13	1.63E+13	2.997492	0.0042
AUTOMOTIVE?	-4284488.	6555131.	-0.653608	0.5162
AGRICULTURE?	-17.93310	178.4854	-0.100474	0.9204
Fixed Effects (Cross)				

_CHINA--C	4.65E+13			
_INDIA--C	-3.57E+13			
_JAPAN--C	-1.08E+13			

Table 3. Hausman Test for USA, Germany and France

Correlated random effect - Hausman Test			
Pool: PDA			
Oblique Section Fixed Effect Test			
Results of Test	Chi-Sq. Statistic	Chi-Sq. d.f.	Probability
Oblique Section Random	68.151187	2	0.0000

(Significance level) value is compared with table value ( $\alpha$ ). As the probability in the Table 3 is  $= 0.0000 < 0.050$ , the hypothesis  $H_0$  is rejected. In a word, there is a fixed effect. In that case, it is necessary to estimate the model with fixed effect. Results of fixed effects for the panel data analysis are shown in the Table 4.

Table 4. Panel Data Analysis for USA, Germany and France (1999-2017)

Bağımlı Değişken: IHRACAT?

Variable	Coefficient	Standard Error	t-Statistic	Probability
C	-1.50E+11	2.23E+11	-0.674138	0.5032
AUTOMOTIVE?	39104.17	35867.86	1.090229	0.2806
AGRICULTURE?	16.39062	1.850144	8.859104	0.0000
Fixed Effect				
_GERMANY--C	8.27E+11			
_FRANCE--C	8.66E+10			
_USA--C	-9.14E+11			

Result of tests shows clearly that, while the total production volume in agricultural sector in USA, Germany and France has increased, the export volume has also increased between 1999 and 2017 (See Table-4). Moreover, the high value obtained for R2 coefficient proved that the model can be explained by these 3 determined variables. In the context of Heckscher Ohlin Theory, USA, Germany and France has converged from capital intensive automotive industry to labour force intensive agricultural industry. While it is predicated on the theory of fragmentation, it has been proved by means of empirical findings that west block countries have entered in the way of loss, by taking into consideration facts such lowering the production costs, lowering prices and advancing in the production technologies.

Additionally, while taking into consideration the theory of fragmentation, the strategy of dispatching into different countries in production, has served more to the countries where they are dispatched, in regard to acquire know-how. Thereby, they didn't increase their marketshare as the past et they did presented before us as loser countries according time-series analysis.

#### 4. Conclusion

Dynamic foreign direct investment inflows to the Chinese and Indian automotive industries have promoted the foreign trade of automotive products. Fundamentally, the decrease of trade between sectors has also reflected onto changes in trading model. In this context, it is monitored that west block countries such USA, Germany and France are more oriented to the labour force intensive agricultural sector rather than capital intensive automotive sector, within scope of Heckscher Ohlin Theory. Especially, findings acquired by panel data analysis show that situation. According to the empirical findings in the Table 4, by predicating on the years between 1999 and 2017, the agricultural sector has more clearly affected the export volume rather than automotive sector in USA, Germany and France.

By predicating on the theory of fragmentation, the production activities by west block countries in western European and Asiatic markets have both decreased the export volume and served to China who profited from their know-how. East block countries which have previously imported vehicles, acquired now the knowledge and technology and increased their production capacity much more in automotive industries. As a matter of fact, China, India and Japan have been canalised to the automotive production which offers much more added value than agricultural sector. Indeed, findings in the Table 2 show clearly that situation. In the panel data analysis where the export volume is modelled as a dependant coefficient, it is indicated that automotive industry affects more export capacity than agricultural industry. China and India are countries which present current surplus in the balance of payments, this is because they are especially focused on the automotive production. Moreover, China has increased its production capacity approximately 20 times from 1999 until 2017. India has increased its production capacity approximately 8 times from 1999 until 2017. Comparative advantages theory of David Ricardo (1817), which asserts that each country must be focused in the domain where it is specialised, so it must make a production with low costs so, total output of World's production will increase has become more strong. Low costs of production, East block countries which possess advantages such as lowness of production costs, know-how and cheaper labour force, have had the upper hand and increased their marketshare by producing more than USA, Germany and France and began to give current surplus, according to the data of OICA (2017).

West block countries have to adopt Japanese Kaizen Philosophy and develop new strategies in order to lower costs of production. In that context, they must increase their research-development's investments and obtain new technologies. While reasoning within scope of Creative Destruction Theory of Schumpeter (1942), they must acquire new technologies in order to continue to live among these tough circumstances of competition. Although research-development's investments increase the total cost in the short term, west block countries (USA, Germany and France) may become a monopol in the automotive markets through new technologies which will be acquired in medium and long term.

Consequently, misguided policies applied in USA have conducted to bankrupt General Motors and Chrysler which were making activities in the capital intensive automotive sector. Especially, China and India have remarkably increased their

marketshares. In the context of automotive sector, both government support and decrease of production cost without sacrificing quality have helped in China and India to increase their marketshares. American automotive companies which make stock and product expensively, didn't avoid from bankrupt. East block countries which possess advantages such lowness of production costs, know-how and cheaper labour force, have had the upper hand and increased their marketshare by producing more than USA, Germany and France and began to give current surplus, according the data of OICA (2017). Results of panel data analysis shows clearly that situation. While reasoning in the context of theory of fragmentation, the strategy for making production in the eastern markets of automotive companies which are especially active in USA, has backlashed and although the logistic cost has decreased, that situation has lead until the bankrupt by losing their marketshares.

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