Chapter 4
The Impact of USD–TRY Forex Rate Volatility on Imports to Turkey from Central Asia

Yakup Ari
https://orcid.org/0000-0002-5666-5365
Alanya Alaaddin Keykubat University, Turkey

ABSTRACT

The purpose of this study is to put out the impact of volatility of the USD-TRY forex rate on imports to Turkey from Central Asia. The volatility of the USD/TRY exchange rate is analysed with a conditional variance model which is Generalised Autoregressive Conditional Heteroscedastic (GARCH) model and its extensions. The other section of the methodology is an application of Autoregressive Distributed Lag (ARDL) bounds test which is an efficient approach to determine the cointegration, long-term and short-term relations between macroeconomic variables. The exponential GARCH volatility of the exchange rate and the monthly trade data between the years 2005 and 2018 are used in the ARDL bounds test.

INTRODUCTION

The concept of Central Asian countries was formed after the declaration of independence of the five independent states of Kazakhstan, Uzbekistan, Kyrgyzstan, Uzbekistan, and Turkmenistan from the Union of Soviet Socialist Republics (USSR) in the 1990s. The sovereignty of the Central Asian countries in 1991 opened a new gateway to international and security relations. However, these relations included the special qualities that were the legacy of the USSR. The sudden disintegration

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of the Soviet Union posed a serious threat to new institutional arrangements on regional security. Following the breakup of the USSR, Turkey showed great effort to improve the political and economic cooperation with Central Asian states. After the socialist period, these countries became a great market for western countries.

Turkey’s relations and cooperation with these countries, which have common language, historical and cultural ties, have developed rapidly based on common interest in many areas. Turkey’s relations with Uzbekistan, Kazakhstan, and Kyrgyzstan are at the level of a strategic partnership and iyd relations with all three countries were established within the framework of the High Level Strategic Cooperation Council mechanism. It was decided to establish a Cooperation Council between Tajikistan and Turkey. Turkey’s relations with Turkmenistan are developing rapidly in many areas, especially in the fields of commercial, economic, investment and contracting (www.mfa.gov.tr, 2019).

The Central Asian region is a growing market with an increasing purchasing power and a population close to 100 million. Kazakhstan, Turkmenistan and Uzbekistan are among the fastest-growing economies in the world. Central Asian countries constitute a rich geography in terms of natural resources. For example, Kazakhstan is expected to become one of the world’s largest oil-producing countries and the country has a very rich geography in terms of mineral resources. Kazakhstan, which is estimated to have 15% of uranium reserves in the world, is the largest uranium producer country in the world since 2009. It is known that the coal reserves in Kazakhstan are the ninth-largest in the world. It is estimated that Turkmenistan has the world’s fourth-largest natural gas reserve. Uzbekistan and Turkmenistan are among the most important cotton-producing countries in the world. Uzbekistan has the fourth-largest gold reserves in the world.

The hydroelectric potential and mineral deposits of Kyrgyzstan and Tajikistan stand out. Kumtor gold deposits in Kyrgyzstan contain the eighth largest gold reserves in the world. Tajikistan is expected to become an important player in the world aluminium market with its existing aluminium reserves (Budak, 2013). Turkey’s trade volume with countries in the region in 2018 was realized 6 billion dollars, a total investment of Turkish companies in the region approached $ 15 billion. The total value of the projects undertaken by Turkish contracting firms in the region exceeded 86 billion dollars. More than 4,000 Turkish companies operate in the region (www.mfa.gov.tr, 2019).

The purpose of this study is to examine the impact of the exchange rate volatility on imports from Central Asia to Turkey. This is an important topic since the usage of national currencies for trade is often discussed today. Turkey especially wishes to eliminate the effect of foreign exchange rates on international trade because the fluctuations in the forex markets affect the economy of developing countries. The historical development of international trade between Turkey and Central Asia
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