



COMMERCIAL DIPLOMACY IN THE CONTEXT OF EXPORT SOPHISTICATION: THE MIKTA CASE

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Abstract:

Commercial diplomacy has been of interest to researchers in the context of export development due to the many empirical studies indicating that the international economic integrations provide more growth and employment for the governments and internationalization for the enterprises. Unlike the strict and/or regional economic integrations, MIKTA was created as an informal and cross-regional group of 'middle powers' bringing together Mexico, Indonesia, the Republic of Korea, Turkey, and Australia in 2013. Being distant apart from each other geographically and having many differences besides their similarities, each of the member states is considered influential in their regions and of high importance for the paradigm shift to a new world order. This paper aims to figure out if MIKTA has been utilized as a powerful advocate for enhancing exports of the member states while also resuming sustainable economic growth. For this reason, it is analyzed to what extent the members' exports were and have become sophisticated, meaning capital intensive or labour intensive, over the past 20 years and how the members' economic growth rates were contributed. For the analysis, PRODY and EXPY indices are calculated representing the sophistication levels of, respectively, product groups and the total exports of the states.

Keywords:

Commercial Diplomacy, Integration, Export Promotion, Sophistication, MIKTA

1. Introduction

Commercial diplomacy has been of interest to researchers in the context of export promotion due to its definition as "all public policy measures that actually or potentially enhance exporting activity either from a firm, industry or national perspective" (Serlinghaus 1986). Naray (2008) defines commercial diplomacy as "an activity conducted by state representatives with diplomatic status in view of business promotion between a home and a host country", and studying the commercial diplomacy concept as a business promotion activity the author reviews many empirical studies indicating that the international economic integrations provide more growth and employment for the governments and internationalization for the enterprises.

This study begins with the background information over the global conditions and motives regarding the evolution of international integrations to the emergence of middle power concept. Subsequently, MIKTA is addressed as the research subject representing an informal and cross-regional group of middle powers. In the methodology section, the research question, export sophistication model of Hausmann, and the data gathered and shortlisted for the study are introduced, and model results are presented. The study finishes with conclusion with research recommendations for the future.

2. Economic Integrations and Emerging Concept of Middle Powers

There may be multiple motives for building any integration or commitment and they cannot be fully understood without considering the political context within which they are formed. According to the World Trade Organization's World Trade Report 2011 which was focused on trade agreements, motives for building trade agreements can be neutralizing beggar-thy-neighbour trade policies - based on the idea that trade policy decisions of one country be harmful the another country through cross-border effect, gaining credibility serving as instruments to stop governments from implementing "beggar-thyself" policies and making more credible commitments than it

would otherwise make, increasing market size, increasing predictability, developing commitments, attracting investors by strengthening the “open economy” perception, political considerations, and some other drivers. In line with the empirical findings, the increase in the regional trade agreements (RTA) have become a dominant feature of global trade since the early 90s. The Figure 1 shows that while many integrations dissolved over time, on the other hand the increase in the number of RTAs has not weakened ever since, and 355 RTAs are in force currently.

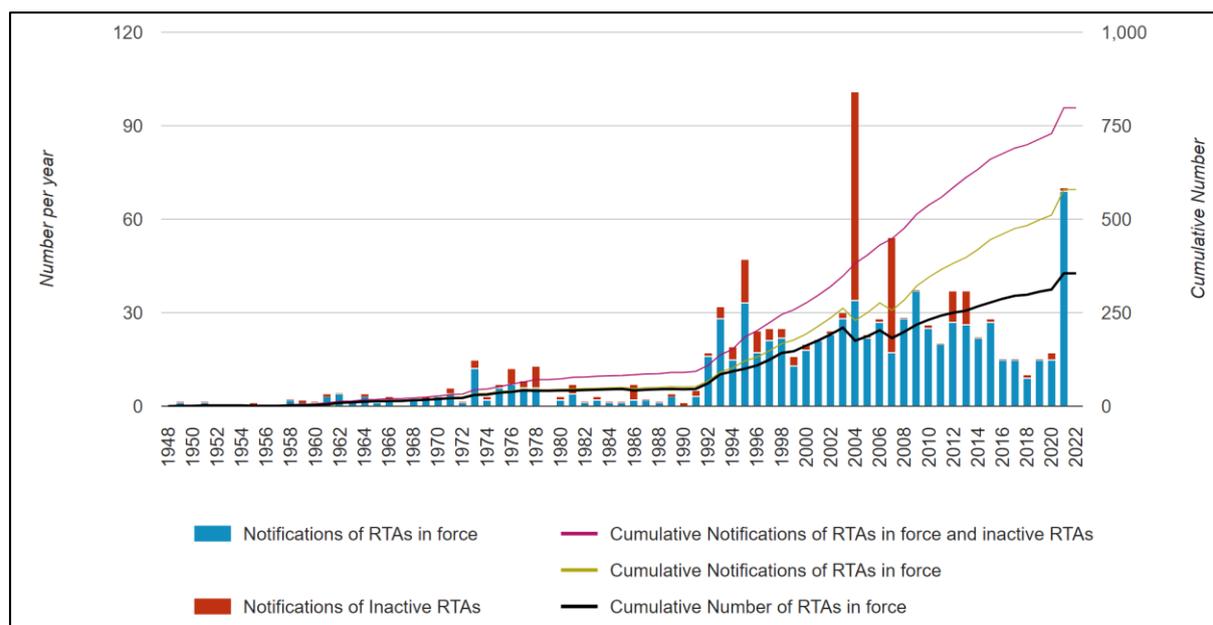


Figure 1: RTAs in force and inactive, 1948 - 2022

Source: World Trade Organization, retrieved from <https://rtais.wto.org/> on 20 May 2022

Taking into consideration that this era faced with the decline of the United States as the sole hegemonic power in the world and the empowerment of China as a new economic and political superpower and the insights towards a reorientation of the world to the Pacific, together with international institutions facing enormous challenges, the need for innovative alternatives has emerged. Thus the concept of “middle powers” has been highlighted. Cooper (2015) explains the G20’s raising to the level of leaders in the wake of the 2008 financial crisis as a turning point for middle power activity.

An agreement has not yet been reached in the literature for definitions or clear-cut lists of “middle power”, and “regional power”. Trying to find out the intersections of multiple definitions, criteria, and the country lists performed by other authors, Schiavon and Domínguez (2016) reached to two basic criteria for a country to be considered a middle and constructive power. According to the authors, those countries should be “sufficiently important in terms of territory, population, capabilities and resources to have a significant influence in the international system but, at the same time, not so big to be a threat to other countries”, and should “serve as bridges in multiple policy areas, especially between developed and developing countries” (Schiavon & Domínguez, 2016).

While many acronyms such as BRICS, MIKTA, MINT, MIST, Next-11 have been produced within the scope of this new conceptualization, BRICS and MIKTA were among the most striking of these acronyms (Kırbaşoğlu & Tüfekçi, 2020). However, Table 1 shows the Google Scholar search results with MIKTA and BRICS keywords, and it is understood that studies on BRICS are almost 50 times of the studies on MIKTA. Also, the studies on MIKTA are dominantly from political science perspective while there is an enormous literature on trade and economics about BRICS. Taking into consideration that MIKTA is younger than BRICS, which is effective on the divergence in the research numbers, this paper aims to contribute to the literature in this sense.

Table 1: Search Results on Google Scholar

Keyword	Number of results
BRICS	292.000
MIKTA	6.080

3. MIKTA as an Informal and Cross-Regional Group of Middle Powers

Unlike the strict and/or regional economic integrations, MIKTA was created as an informal and cross-regional group of ‘middle powers’ bringing together Mexico, Indonesia, the Republic of Korea, Turkey, and Australia (MIKTA, 2022). In MIKTA’s vision document, it is underlined that in this rapidly changing world, new global issues are emerging including in the areas of finance and economics, environment and sustainable development, and setup motivations were included as “The world needs to foster renewed and innovative partnerships to provide pragmatic and constructive solutions to these challenges. With this as its context, MIKTA was created in New York in September 2013 at a meeting held on the sidelines of Leaders’ Week of the UN General Assembly.” (MIKTA, 2022). The seven key priorities of MIKTA countries are defined as energy, anti-terrorism and security, commercial and economic cooperation, good governance and democracy, sustainable development, gender equality, peacekeeping operations (T.C. Dışişleri Bakanlığı, tarih yok). MIKTA is chaired by each member in turn. The chair hosts a series of meetings and coordinates joint activities between MIKTA headquarters and missions during its one-year tenure. In 2022, it is Turkey’s presidency since March for the second time, the first of which was in 2017 (T.C. Dışişleri Bakanlığı, 2022).

Being distant apart from each other geographically with its membership coming from the Asia Pacific, the Middle East, and the Americas, and having many differences besides their argumentative similarities, each of the member states is considered influential in their regions and of high importance for the paradigm shift to a new world order. MIKTA diverges from other dialogue platforms in such a way also that some MIKTA members (Turkey, Australia and Korea) have close links with the traditional powers, still another member Mexico have avoided formal alliances, while Indonesia has kept still in alignment (Cooper, 2015).

MIKTA members benefit from open economies with robust growth rates and a significant level of economic power. It is important to see that members have had two stages in their development process. After following an inward import substitution industrialization model, they implemented outward oriented export promotion model to sustainably abide by the highly interdependent international system (Schiavon & Domínguez, 2016).

Foreign trade figures of the MIKTA group are drawn from ITC Trademap database and summarized in the Table 2. MIKTA’s share in world exports is almost 9 percent. The exports and trade balance in 2020 indicates that these countries are exporting countries and except Turkey they have trade surplus.

Table 2: Trade Indicators of MIKTA

Country	Exports in 2020 (Billion USD)	Trade balance in 2020 (Billion USD)	Annual growth in exports between 2016-2020 (%)	Annual growth in exports between 2019-2020 (%)	Share in world exports (%)	GDP pc in 2020
South Korea	513	45	0	-5	2,9	31.631
Mexico	417	34	3	-9	2,4	8.329
Australia	255	52	8	-7	1,5	51.693
Turkey	170	- 50	5	-6	1	8.536
Indonesia	163	22	2	-3	0,9	3.870
MIKTA Aggregation	1.517	103			8,7	
World	17.503	- 203	3	-7	100	

4. Research Methodology

4.1. Research Question

MIKTA is an informal and cross-regional group of middle powers unlike the strict and/or regional economic integration, and the group recognized commercial and economic cooperation and also sustainable development among its priorities. In the light of these given facts, this study aims to find out if this integration has been utilized as a powerful advocate for enhancing exports of the member states while also resuming sustainable economic growth.

4.2. Calculating Export Sophistication

In this study, the guidance of Hausmann, Hwang, and Rodrik's (2007) studies are utilized. Hausmann, Hwang, and Rodrik (2007) have shown that

"... not all goods are alike in terms of their consequences for economic performance. Specializing in some products will bring higher growth than specializing in others"

Therefore, what kind of goods a country exports matters more for its economic growth compared to its total export volume. Here is where the sophistication eclipses specialization. Focusing on the statistical testing of this phenomenon, Hausmann created the PRODY index, which represents the sophisticated value of exported products. The higher the PRODY value, the more technology-intensive, capital-intensive and sophisticated the product, and the lower the PRODY, more ordinary, labor-intensive and lower value added the product. Most studies prefer to use the Hausmann's PRODY since it excludes any normalization procedure. Being a variant of Balassa's Revealed Comparative Advantage Index (RCA), the formulation is as below:

$$PRODY_k = \sum_{n=1}^i \frac{\frac{X_{ik}}{X_i}}{\sum_{n=1}^i \left(\frac{X_{ik}}{X_i} \right)} Y_i \quad (1)$$

where X_{ik} : export of country i in the product k , X_i : total export of country i , Y_i : GDP per capita of country i .

Using the PRODY indices, Hausmann (2007) obtained the EXPY index which represents the sophisticated value of the export baskets of the countries. The higher the EXPY value, the more sophisticated the country's export basket become. Formulation of EXPY is as follows.

$$EXPY_i = \sum_{n=1}^k \frac{X_{ik}}{X_i} * PRODY_k \quad (2)$$

where X_{ik} : export of country i in the product k , X_i : total export of country i , $PRODY_k$: PRODY value of product k . Some products are more sophisticated as a result of associating with higher productivity levels. The authors show that countries that export goods associated with higher productivity levels grow more rapidly. In this sense, the sophistication of a country's production structure may evolve over time through an increase in the quality of already-being-produced goods or a move into new, more sophisticated products (Anand, Mishra, & Spatafora, 2012).

4.3. Data

Embarking from the argument that the more a country's export basket is similar to the rich countries (Hüseyini & Çakmak, 2017), the more sophisticated that very country's exports mean, the exports of G7 country group was examined in order to determine the products for which the PRODY index will be calculated. Export data were retrieved from ITC Trademap in 4-digit Harmonized System (HS) codes for the interval 2005-2020. As a result, the following list of products were selected because they are the products the most exported by the G7 country group and also excludes some of the highest ones related with the energy sources, the petroleum, since they are resource intensive and thus not sophisticated in the means this paper is in search for. Table 3 gives the final list of products with the 4-digit HS codes and full explanation of the codes, and it includes medicaments, medical appliances, electronics, electro-medical apparatus, various transportation vehicles, and gold plates.

Table 3: Selected Products with the highest export figures by G7

Code	Product label
3004	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic uses, put up in measured doses (including those in the form of transdermal administration systems) or in forms or packings for retail sale.
7108	Gold, incl. gold plated with platinum, unwrought or not further worked than semi-manufactured or in powder form
8411	Turbojets, turbopropellers and other gas turbines
8486	Machines and apparatus of a kind used solely or principally for the manufacture of semiconductor boules or wafers, semiconductor devices, electronic integrated circuits or flat panel displays; machines and apparatus specified in note 9 C to chapter 84; parts and accessories, n.e.s.
8542	Electronic integrated circuits; parts thereof
8703	Parts and accessories for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles principally designed for the transport of persons, motor vehicles for the transport of goods and special purpose motor vehicles of heading 8701 to 8705, n.e.s. products include: parts of car windsheild glass, water pump spare parts
8708	Parts and accessories for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles principally designed for the transport of persons, motor vehicles for the transport of goods and special purpose motor vehicles of heading 8701 to 8705, n.e.s. Products Include: Parts Of Car Windsheild Glass, Water Pump Spare Parts
8802	Powered aircraft "e.g. helicopters and aeroplanes"; spacecraft, incl. satellites, and suborbital and spacecraft launch vehicles.
9018	Instruments and appliances used in medical, surgical, dental or veterinary sciences, incl. scintigraphic apparatus, other electro-medical apparatus and sight-testing instruments, n.e.s. Products Include: Disposable Surgical Face Mask. Instruments and appliances used in dental sciences, n.e.s.

As an indication of the importance of these selected goods for G7 economies and the competition around these goods, the export data of these goods were drawn for each country in the world. Accordingly, Figure 2 reveals the share of the exporters in this product group cumulatively. G7 had made 57% of the exports in this product group in 2005. In the course of the last 15 years, this share has decreased down to 35 % in 2020. MIKTA countries' share in the exports of this product group seems to hover around 10%. The increase in the years just after 2013 which is the foundation of the group cannot be meaningfully explained with the limitations of this Hausmann's method. So apparently, there are some new players in the exports of the developed countries favourite products. The newcomers of this particular export basket have been China, Singapur and Taiwan mainly according to ITC Trademap data.

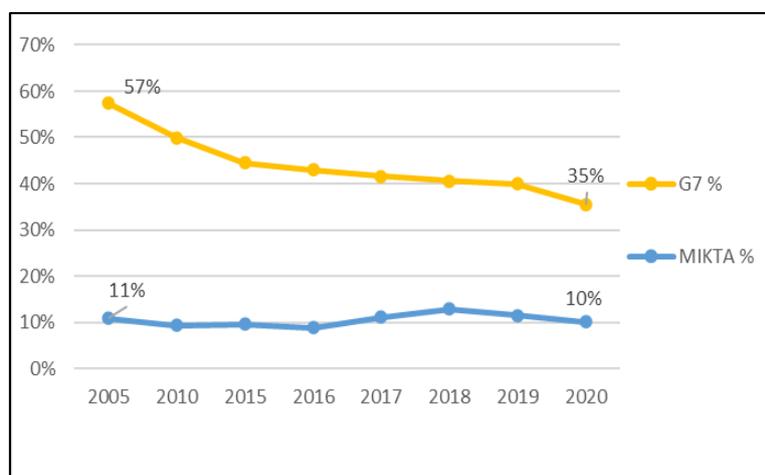


Figure 2: Share of the Exports in the Selected Product Group

In addition, the GDP per capita data required for the index calculations are retrieved from the World Bank database.

4.4. Results

PRODY indices which represent the sophistication of the selected products (as 4 digit HS codes) were calculated for each year in between 2005-2020 using the export data and GDP pc and the results are summarized as in Table 4. The change in the indices can be observed throughout the years. For instance, 8486 HS code represents semiconductor devices, and some relating apparatus. Its PRODY is always the highest in the study's time period. (In fact, in the years 2005 and 2006, there is not any export record regarding this product.) Being at the top means that this product is dominantly exported by the developed countries and thus this product is highly sophisticated.

Table 4: PRODYs of the products

HS Code	2005	2010	2015	2016	2017	2018	2019	2020	Change
8486	-	42.928	38.439	33.271	40.436	32.522	43.659	42.395	
8411	24.656	30.663	22.762	28.081	25.959	28.013	33.272	32.753	33%
3004	24.103	28.185	27.976	26.806	29.793	33.026	32.154	31.008	29%
8802	18.931	27.744	27.289	37.638	25.924	30.506	12.106	28.094	48%
8703	20.462	23.537	20.995	22.113	24.106	25.969	26.756	26.179	28%
8542	13.666	20.761	22.204	22.786	19.217	26.058	25.879	24.380	78%
8708	18.149	21.945	16.445	18.752	20.521	23.279	23.315	21.972	21%
9018	19.796	20.938	19.114	18.191	19.937	20.375	20.868	21.002	6%
7108	1.911	3.652	10.156	6.964	7.209	6.697	6.075	5.281	176%

After having the product sophistication values, the country sophistication values were calculated depending on the selected products, which means that EXPY indices which represent the sophistication of export of each country (195 countries in total) were calculated using these PRODY values for each year in between 2005-2020.

Table 5 shows the EXPY indices of some selected countries and it is designed in descending order according to the EXPY value of the year 2020. The higher the EXPY value, the more sophisticated the country's exports. Using the particular export basket, the most sophisticated exports belong to Taiwan, Singapore, Hong Kong, Japan, South Korea. Countries marked with single star (*) indicate the G7 countries. Countries marked with double star (**) indicate the MIKTA countries. Average change over the 15 years is conducted with the compound interest formulation.

Table 5: EXPY of some selected countries

Country	2005	2010	2015	2016	2017	2018	2019	2020	Average % Change over 15 years
Taipei, Chinese	2.283	4.288	6.137	10.067	6.430	8.267	8.801	9.510	10,0
Singapore	731	5.695	6.384	8.983	6.391	7.658	8.168	9.138	18,3
Hong Kong, China	1.508	3.362	4.992	9.238	5.059	6.952	7.575	7.974	11,7
Japan *	4.472	6.133	5.770	6.661	6.820	7.290	7.885	7.574	3,6
South Korea **	3.714	4.466	5.052	6.485	5.866	7.758	7.384	7.355	4,7
Switzerland	3.842	5.166	6.468	9.068	6.456	6.917	6.736	6.461	3,5
France *	4.786	6.423	6.048	3.794	6.220	6.901	5.842	6.113	1,6
UK *	3.916	4.992	5.662	6.057	6.049	6.083	6.240	5.858	2,7
Germany *	4.385	5.339	5.426	4.663	5.803	6.140	5.914	5.785	1,9
Mexico **	2.700	3.571	3.700	4.375	4.613	5.228	5.409	4.861	4,0
Sweden	3.349	3.289	2.985	3.218	3.762	4.332	4.763	4.790	4,2
USA *	2.879	3.490	3.235	3.490	3.417	3.422	3.678	3.942	2,1
Italy *	2.115	2.609	2.615	2.578	2.935	3.097	3.336	3.484	3,4
India	917	1.415	2.384	2.168	2.276	2.647	2.854	3.103	8,5
Turkey **	1.744	2.053	2.170	3.325	3.013	2.952	2.859	2.543	2,5
China	496	781	1.086	1.517	1.115	1.511	1.674	1.701	8,6
Afghanistan	0	0	0	0	0	0	0	1.602	-
UAE	466	0	1.134	1.872	1.431	1.519	1.491	1.374	7,5
Indonesia **	321	473	814	1.076	918	1.002	1.163	987	7,8
Australia **	1.241	972	1.061	2.029	845	775	763	738	-3,4
Ukraine	450	698	652	553	412	370	406	472	0,3
Canada *	49	982	1.203	814	1.043	265	102	316	13,2
Sierra Leone	0	0	281	26	103	137	126	232	-
Albania	75	61	87	213	47	26	114	128	3,6
Seychelles	857	127	146	79	2.892	1.769	131	44	-18,0

In Figure 3, the three countries with the highest EXPY values are shown with the tones of gray color, and MIKTA is colorful. The dotted line represents the foundation year of the MIKTA. The colorful lines show a tendency to increase following the dotted line although Turkey and Australia seems behind the other MIKTA countries.

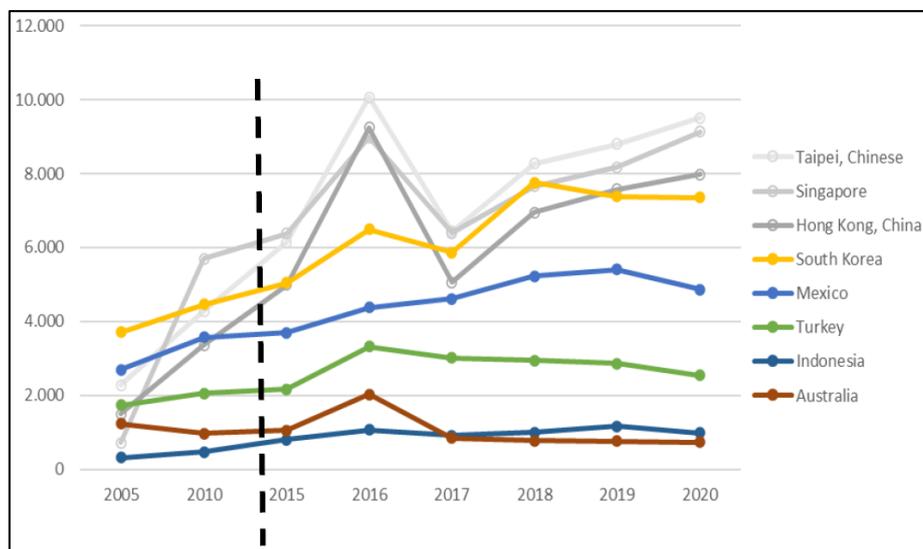


Figure 3: EPXY for MIKTA Members and the Countries with Highest Index Values

5. Conclusion

In this paper, it is aimed to analyze whether MIKTA as an informal and cross-regional group of middle powers has provided export sophistication for the member states since it prioritized commercial and economic cooperation and sustainable development with its establishment. It is seen that export sophistication of MIKTA has increased cumulatively. However, the members perform differently from each other. The increase is led by South Korea and mitigated by Australia in particular. On the other hand, the number of products is limited with the most exported products of the G7 group and thus evaluation of the change in export sophistication of MIKTA is limited within the competition conditions of the G7 sets. As a future task, all the 4-digit HS codes which make 1259 products in the year 2020 should be studied for PRODYs. Since the effect of the Covid-19 pandemic was heavy on international trade flows and the pandemic has made some products all the more important, the rapid change in the PRODYs might be read easier when the trade statistics of the year 2021 becomes fully available. Therefore, the study should be updated with the new year's figures.

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