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Financial Integration Of Turkey With Countries Which Turkey Export Volume Is Most Intense

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Extensive Summary

Today, investors are also benefiting from securities from various countries included in their portfolio, as part of portfolio diversification. However, in order for the diversification provided by inclusion of securities from various countries to be beneficial for the investor it is required that the relation between the financial markets of these countries are weak, in other words their markets should not be integrated. If the markets are integrated in a perfect level (if the inter-country correlation is one) international diversification will not provide any benefit. If the markets of these different countries are completely independent from each other, international diversification will be beneficial.

Differences or similarities between financial markets of countries may arise from volume of trade between the countries, being located in the same geological region, being members of the same union, monetary and fiscal policies. For this reason, in the study, the stock markets of countries where Turkey's export volume is intense have been examined and it was aimed to investigate the level of integration with the stock markets of these countries in intense trade relations with Turkey. Within this scope, countries such as Germany, UK, Italy, USA and France were selected and long-term relation between the index values of these countries and index values of Turkey was analyzed with the help of Hatemi-J (2008) cointegration test. By this means, it was aimed to determine whether it is beneficial or not to provide international diversification with the securities from the markets of these countries.

In the study, the correlation and cointegration relations were studied between the stock markets of these five countries where Turkey's export volume is high. Within this scope, country stock indexes of Germany, UK, Italy, USA and France were examined and monthly price series of these indexes were used. The analysis include 163 monthly prices between the period from 30/01/2004-31/07/2017. Within this scope, the study utilized Zivot Adrews test, in which structural fraction history is intrinsically identified, single fraction unit root test and Hatemi-j cointegration test that allows existence of double structural fraction and allows the determination of long-term cointegration relation of the variables.

As a result of the analysis, it was observed that the country market which has the highest correlation with Turkey is the German market followed by the UK. When the correlation coefficients were examined, the lowest correlation was observed with USA. In general, it was seen that Turkey has a lower correlation with the Italian market and the US market, when compared to the moderate correlation between the markets of Turkey and the European countries such as Germany, UK and France.

Besides, under the scope of the study, Hatemi-J (2008) cointegration test was conducted to examine the existence of a long term relation between stock markets of five countries where Turkey's export volume is high. When the ADF, Zt and Za test statistics obtained from the cointegration test were evaluated, Zt and Za test statistics other than ADF and together with fractions showed that Turkish stock market has a tendency to act in the long term together with markets of countries where Turkey's export volume is high, namely, Germany, UK, France, Italy and USA. This result demonstrates to the investors that, in regard to international portfolio diversification, the benefits to be obtained from a portfolio diversification provided with preferences of financial values in Turkey and the abovementioned countries will be low.