WHAT TURKEY EXPECTED AND FOUND FROM THE CUSTOMS UNION IN THE TWENTIETH ANNIVERSARY

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Customs union is a kind of integration that creates both static and dynamic effects for the economies. In Integration Theory, static and dynamic effects don’t guarantee positive results for each country because of the country’s economic size, production potential, geographical location, neighbors and other reasons. In this study, the effects of the Customs Union between Turkey and The European Union on Turkey’s foreign trade in the last 20 years were studied. After The Customs Union period for Turkey and EU, Turkey’s exports and imports amounts to EU has increased. But the shares of exports and imports of Turkey to The EU decreased fifty percent in the last ten years. The EU’s shares of exports and imports to Turkey in all of its trade have increased. Turkey has kept its growth rate in exports and imports to countries except the European Union.

Keywords: Customs Union, Turkey-EU Trade, Effects of Customs Union.

Introduction

This study searches the effects of The Customs Union Agreement signed in 1995 on Turkey's economy and foreign trade in the twentieth anniversary. First, an overview is taken on EU-Turkey historical process of The Customs Union, then the effects of the Customs Union is analyzed.

In July 1959, shortly after the creation of the European Economic Community in 1958, Turkey made its first application to join. The EEC's response to Turkey's application in 1959 was to suggest the establishment of an association until Turkey's circumstances permitted its accession (http://www.ab.gov.tr/index.php?p=4&l=2 ). The way of the success of the accession process are bound to come to a certain level of the national economy. In the first process, this path of the Customs Union is drawn. The ensuing negotiations resulted in the signature of the Agreement Creating An Association Between The Republic of Turkey and the European Economic Community (the "Ankara Agreement") on 12 September 1963. This agreement, which entered into force on 1 December 1964, aimed at securing Turkey's full membership in the EEC through the establishment in three phases of a the Customs Union which would serve as an instrument to bring about integration between the EEC and Turkey (http://www.ab.gov.tr/index.php?p=4&l=2 ). The Customs Union has been foreseen in three stages, the preparation period, the transitional period and the Customs Union.

The European Union membership application started in 1959 and the first step of the preparatory period for The Customs Union has officially started in 1963 with Ankara Agreement. On April 23, 1970, the preparatory phase has ended with the signing of the Additional Protocol and transition phase of the Customs Union began. The Customs Union 22 years long membership process ended on 6th March 1995.
with the decision of Turkey-EU Partnership Council. The Customs Union Agreement is signed in 1 January 1995 and put into force one year later.

**Literature Review**

Major studies in the literature in this area are as follows.

In the study called, “Changes in Turkey's Import Function Coefficients After The Customs Union” covering the years 1981-2009 Cengiz Aktas and Didem Guven used the technique of “In Case of Increase in Observation Number the Coefficient of Determination Regression Testing”. As a result, The Customs Union has led to major changes in Turkey's import function coefficients.

Doğan Seyhun and Semanur Soyũygũt Kaya’s study 1996-2009, aimed to clarify “Country and Chapter -Based Changes in Turkey's foreign trade after the Customs Union”. They used concentration ratio (CR) and Herfindahl Index (HI). As a result, according to the country classification, covering both imports and exports in the first four ranks countries did not change the rate of CR4; according the product classification, exports were switched from low-cost technology group to medium high-tech group of goods; imports, medium and high-tech group of goods was found to decrease the share capital entered in these chapters. Therefore, a structural change was observed in the exports to the European Union. A structural change towards the reduction of import dependence of the European Union could not be found.

Dilek Temiz’s study focused on “If the Customs Union whether made an impact on Turkey’s export or not” by monthly data covering the years 1992-2007. ADF and Phillips Pherron and Unit Root Test and Least Squares Method are used in the study. Result: an increase in the volume of foreign trade occurred but it concluded a fall in net exports.

The studies on this issue are summarized in Table 1.

**Table 1.** The studies in literature on Integration Theory, the Customs Union, and the Customs Union Effects

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<th>Author-s</th>
<th>Integration Theory</th>
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<td>Hamza Çeştepe and Tuba Mistacoğlu(2012)</td>
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<td>Levent Gökdemir and Elif Karaman(2008)</td>
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<td>Mehmet Şentürk(2014)</td>
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<td>Orhan Gündüz and Kemal Esengül(2007)</td>
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The Effects of Customs Union on Turkey’s Trade

The period of this study includes pre-ten years and post-twenty years from the Customs Union. In some case, different periods is used because of data limitation.

The Customs Union agreement between Turkey an EU has started on 1 January 1996. To understand the effects of CU, before the CU and after the CU periods are compared. It is expected that some static and dynamic effects of CU should be seen on this study according to the Customs Union Theory. First, foreign trade data between Turkey and EU from 1981 to 2015 is shown on the Chart 1.
According to the Chart 1, both export and import of Turkey to EU are continuously rising. In some years like 2001 and 2009 there are some sudden and strong decreases in foreign trade. There was a domestic political crisis in 2001 in Turkey and there was a global crisis in the world in 2009, so that is why these decreases happened. All the period long Turkey has a foreign trade deficits and EU has a surplus. But both exports and imports quantities are increasing. Mentioning all the periods, best foreign deficit performance years for Turkey are crisis years because of the overvaluated foreign currency.

Chart 2. Turkey’s Annual Growth in Export and Import to EU (%)  
Source: www.tuik.gov.tr (The results are calculated by authors.)
The year 1996 is a milestone for Turkey because CU has started. To understand the effects of CU, pre and post periods of CU should be compared in terms of exports and imports. To do so first, annual export and import growth rate in percentage are calculated by us and then compared. The results of comparisons are shown on Chart 2.

According to the Chart 2, it is hard to tell definite results because the values are so indifference and not stable. It can be said that Turkey’s annual import growth rate reached up to 50% in the period and same can be said for export up to 40%. Before CU the indifference in export and import growth rates by years were more dramatic but after the CU more stable. To understand better, the effects of CU pre and post periods’ average growth in export and import rate were calculated by us.

In Chart 3 the average growth rates in export and import calculated for pre and post period of CU are shown.

There are some dramatic results in Chart 3. In contrast theory, both exports and imports annual growth rates decreased after the period in about 50 percent. According to trade-creating and trade-diverting effects in the Customs Union Theory, it is normally expected a rise in export and-or import after The Customs Union. But this fact may not be seen valid for Turkey. If the same comparison is made for all the world some different results can be seen in Chart 4.

In contrast to Chart 3, Chart 4 shows different results for EU and the World. While the average growth in exports and imports from Turkey to EU is decreasing through the pre and post periods about 50 percent, it is revealing without change for all the world. While this decrease happening, Turkey keeps the same average growth in export and import rates for pre-post periods to all world about 12%. This makes the situation more dramatic than the results shown in chart 3. It can be said that the CU may effect the Turkey’s trade in a different way.
It is not enough to find out some conclusion for the effects of CU. It is better to look on Turkeys’ trade shares with EU and the other countries.

**Chart 4.** Turkey’s Trade With EU and World: Before & After  
Source: www.tuik.gov.tr (The results are calculated by authors.)

**Chart 5.** Turkey’s Export Share by EU and Other Countries  
Source: www.tuik.gov.tr (The results are calculated by authors.)
It is clear that the year 2008 (global mortgage crisis year) is a breaking point for Turkey’s foreign trade. The EU had always been the biggest partner in foreign trade for Turkey. More than fifty percent of Turkey's exports were to the European Union until 2008. The European Union was always Turkey’s the biggest trading partner until that date. The data and the logarithmic trend curves in the Chart 5 show that the situation has changed. The countries out of The EU is now the biggest trading partner of Turkey.

Like chart 5, chart 6 also shows similar situation for imports of Turkey. Turkey is making a bigger and bigger section of increasing imports from countries outside the European Union. Initially, in 2005, the difference between EU and other countries share in Turkey’s imports of up to ten percent, reached twenty-six percent in 2014.

In chart 7, unlike Turkey, The EU’s exports and imports share to Turkey in its total exports and imports are increasing. Increases in exports share of EU to Turkey approximately 1 per cent and 0.6 per cent for imports in last ten years.

The situation in Chart 7 can be considered as an advantage for The EU but it may not be valid. It is clear that The EU is getting more focus on Turkey and its dependence on Turkey in foreign trade is getting stronger. While the EU concentration in the trade to Turkey is getting higher, Turkey’s is getting lower. As Turkey’s concentration in trade is rising for countries out of The EU, Turkey has diversified its trade.
Conclusion

Customs union is a kind of integration that creates both static and dynamic effects for the economies. In Integration Theory, static and dynamic effects don’t guarantee positive results for each country because of the country’s economic size, production potential, geographical location, neighbors and other reasons. Even if the Customs Unions don’t guarantee the positive results for the countries involving this kind of integration, it is expected for partner countries to experience a slight increase in their trade share towards union. Although European Union Countries were also Turkey’s major partners in international trade before the Customs Union, this trade relationship has changed in different ways after the Customs Union Agreement. In this context, Turkey’s exports and imports amount to EU continued to increase after CU. But the shares of exports and imports of Turkey to The EU decreased fifty percent in last ten years. The EU’s shares of exports and imports to Turkey in its all trade has increased. It is evaluated that theoretical effects of CU were realized for the EU but not for Turkey in last ten years. It can be considered a weakness for Turkey but it could not be a proper evaluation. Turkey increased its exports and imports to The EU in terms of amount and kept its annual growth rate over the World average in export to The EU.

Turkey has tried hard to find new trade partners in order not to be affected by international fluctuations and not to be dependent on some geographical markets after CU especially in last seven years. It can be considered that Turkey was very successful this way. While Turkey’s dependence on foreign trade to the European Union has been decreasing, its dependence on countries outside the European Union has increased in shares. Turkey has found new destinations in international trade. Turkey had great efforts to switch its trade from EU to other countries but it was not only because Turkey’s efforts, but global switching from west to east. Turkey kept this wind and now is more independent in international trade. Turkey has lower concentration rate to EU and diversified its trade all over the world.
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