

THE EFFECTS OF CUSTOMS UNION ON TURKEY'S COMPETITIVENESS AND FOREIGN TRADE

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Abstract

In this study we will look at the relations between Turkey and the EU from the perspective of the Custom Union. First we will try to observe and understand the process of the Custom Union and its possible effect on the Turkish economy. Then we will try to understand the problems with Custom Union and its results on the relationships between Turkey and EU countries. Finally, we will make a general assessment in order to cover the whole issue.

Keywords: Turkey, EU Countries, Custom Union, Trade Relations, Importation, Exportation, Economical Integration

1. Introduction

There were some opposing claims when Turkey signed Custom Union treaty in 1996. Some people said that Turkey signed the Custom Union treaty without negotiating the agreement of Custom Union in detail and Turkish industry is not ready to compete with the other industries. Also, this treaty introduces some limitations on Turkey's foreign trade. So, it can cause some problems for the Turkish economy. On the other hand, some people claim that the EU countries already apply custom tariffs on Turkish goods and they already make it zero the all kind of custom tariffs and duties before Turkey joins the Custom Union. So, this behaviour will contribute to the flourishing of the Turkish industry and free trade, which will also increase wealth according to them.

2. The Definition Of The Custom Union

The Custom Union is an integration model of finance and trade between contracted countries. This model provides no need for any kind of tariffs between contracted parties. However, for third parties, which are not the members of the custom union, a common agreement is applied. At this stage, a custom union is a contract and it abolishes all kinds of tariffs among two or more countries. The main purpose of a custom union is merging the national economies and realising greater economic potential between them (Demirel, 1995).

Forming of common custom area requires the following:

- Preparing and enforcing of mutual areas.
- Abolishing of any kind of tariffs and equivalent taxes among the member countries.
- Banning of any sort of restrictive legislation.
- Developing of a customised custom union process instead of a conventional custom process.
- A requirement of CCT (Common Custom Tariff), it is mandatory to share the acquired custom taxes among member states.

There are two types of custom union. The first, is a mutual custom tariff, which was determined in 1968. The second, is custom laws and custom legislation, a kind of guide which enables the application of mutual tariffs (Şençalar, 2013).

3. Turkey's Entrance To The Custom Union

Since the 20th century, globalization has had a great impact on the world. Globalization has some positive and some negative effects. With the emergence of globalization, countries have tried to protect themselves from its negative effects. On the other hand, it is not possible for countries to ignore the positive effects of globalization. In order to enjoy the benefits of globalisation, they developed better intergration. The countries reformed their foreign trade policies in the competitive enviroment and they eased custom tariffs and quotas. This means that these countries preferred the free trade model.

After World War II, industrilized western countries united in an economically integrated way in order to increase their foreign trade. To apply this, they established an organisation, known today as the European Union, and also another organisation called the Custom Union (Uyar, 2001). The six founders, France, Germany, Italy, the Netherlands, Belgium and Luxembourg, signed the Treaty of Rome establishing the European Economic Community (EEC), a common market facilitating the free movement of goods, capital, labour and services in 1957 [5]. After that, Britain, Denmark and Ireland joined. Norway voted not to join in 1973. The EU leaders approved the first major revision of the founding treaty, called the Signal European Act, providing for the creation of a genuine single market and laying the ground for foreign policy cooperation in 1986 . Turkey has become a partner of the EU especially in the economic area. Turkey was eager to take part in some of the EU agreements. In 1963, Turkey initiated the process of becoming a full member of the EU. This process reached a landmark as Turkey was accepted to the Custom Union in 1996. The process of getting a membership of Turkey to the Custom Union based on a partnership relations in 1960.

The framework of the custom union was designed with the Ankara Agreement and this agreement came into force in the year of 1963. The details of the Custom Union framework were identified with the layer protocol (Uyar, 2001). Turkey's relations with the EU was interrupted by the Turkish military intervention in 1980. When a civil government came to power in 1983 the relations resumed. After a while, Turkey made an application to the EEC (European Economic Community) for full membership in 1987. However, the EEC did not accept the Turkey's application. On the grounds that Turkey was not ready to be a part of the EEC from economical and political perspectives. They declared that the EEC would not accept a new member and they would give priority to the SEA (Single European Act) (Düzgit, 2011). Followingly, Turkey made a real the Custom Union with the Ankara Agreement.

4. The Effects Of The Custom Union On Turkish Economy

After Turkey became a partner of the Custom Union in 1996, the Turkish foreign trade deficit increased. Actually, some experts predicted that the Turkish foreign trade deficit would continue to rise up when Turkey made a comprehensive integration with this strong block. Nonetheless, it is important to state that the Custom Union is not the single reason for the increase in the foreign trade deficit. Rather, it was driven by several economical and political crises during 1997 in Turkey and in other European countries. These events or crises effected the foreign trade deficit of Turkey.

5. Custom Union Period And Exportation Of Turkey

After becoming a member of the Custom Union, the total of Turkey's exports in 1996 was just 23.2 billion USD. Sustaining average annual growth rates of approximately 15.3%, total exports reached 131.9 billion USD by 2008. It was observed that Turkish exports became intensified from 2003 to 2008. The earthquake of 1999 and some global economical crises effected the Turkish economy. That is why the rate of exportation out of Turkey. In other words, it was effected negatively. In the year of 2001 Turkish domestic demand narrowed. As a result, companies were redirected to foreign markets. In 1999 our total exports were valued at almost 26.6 billion Dollars. However, this figure jumped to 36.1 billion dollars in 2002. The rising rate of annual exports between 2003 and 2008 provided the

turkish economy with strength and dynamism. Between 2003 and 2008 due to the accelerated growth in the economy, dynamism in global trade, increments in machine investment, an unusual increase was observed in export performance (Yükseler and Türkan, 2006).

In the summer of 2008 insufficiently collateralized loans and overborrowing to subprime lenders by American banks caused a global financial crisis. This financial crisis effected most industrial sectors, as a result this became a very strong and devastating economic crisis in world history. Consequently, growth of the countries had been negative. In 2008 the Turkish economy attained a total export value of 132 billion USD (Şençalar, 2013).

6. TRANSITION TO THE CUSTOM UNION AND IMPORTATION OF TURKEY

In 1996 the total value of importation into Turkey was 43,6 billion US. In just 8 years time, Turkish imports increased considerably and reached 202 billion USD in 2008. From 1996 to 2001 the average growth rate for importation per year was nearly 4.43%. However, between 2002 and 2008 this figure jumped to a range of 25% to 65%. Among the total importation, consumer goods rate had been 8% before 1996. But, after joining to the Custom Union this rate became 12% (Filiztekin, 2013).

7. Turkey's Foreign Trade Balance After Custom Union

In 2008 Turkey had a foreign trade deficit of almost 70 billion USD. This high deficit was due to a low exchange rate since 2003. The low exchange rate policy caused some significant damage to the foreign trade balance. Because of the rising importation due to low rated foreign currency against Turkish Lira, the foreign trade deficit increased extremely rapidly (Dura, 1999). We can say that despite Turkey's good exportation performance, it is clear to observe that foreign trade deficit increased gradually due to increment in the importation (Uyar, 2001).

8. The Effects Of The Custom Union On The Competitive Power

Turkey tried to strengthen its economy in order to make it more competitive with the other economies. Turkey applied several regulations on its economy in order to harmonise with the EU competition policy. These regulations contributed to Turkish goods and improved their likelihood of adoption into the EU and world markets. There were some firms producing low quality goods but selling them at inflated prices. They either improved on this or exited the market (Demir and Temur, 1998). When Turkey joined the Custom Union the legal regulations encouraged the Turkish economy to be more comprehensive and institutional. Especially with regards to the regulations on protection of intellectual property has been a crucial in the further development of economy in Turkey (Demir, 1998). Turkey encouraged industrial products and their production with its comparative supremacy after the 1980s (Katircioğlu, 1994). Turkey has supremacy on 72 goods against EU and EU countries have a comparative supremacy of 188 goods against Turkey. On the other hand, Turkey has a comparative supremacy of 104 goods against Non-EU countries and they have comparative supremacy on 156 goods against Turkey (Ulusoy, 1997). Turkey has supremacy on agricultural products against EU countries. Despite Turkey's competitive supremacy agricultural products are not included in the Custom Union (Dura, 1999). The other problem Turkey faces in the international area is the lack of democracy and lack of human rights. These factors affect Turkey and its competitive power. Today economics and policies move together in the world. Turkey interprets the issue of democracy as its domestic issue and this behaviour has become complicated relations with EU countries.

Free market economy and participatory democracy, stability on economical and political issues make Turkey more attractive and put it in a key position, and this makes Turkey indispensable to EU countries (Kayhan, 1998). If we compare labor costs between Turkey and the EU. Turkey has cheaper labour costs than EU countries. In addition, the geographical position and natural resources of Turkey are better than most EU countries. Turkey gives importance to infrastructure and this enables the possibility of all kinds of investment available in Turkey. Firms applied technological modernisation in order to integrate to the international competition conditions. Turkey has a competitive advantage in cement, textile, food, ceramic, iron and steel sectors (Ocak, 1997).

9. The Effects Of Custom Union On Employment In Turkey

The biggest employment effect of the Custom Union has been seen especially in Turkish industry. After joining to the Custom Union the importation from EU countries shows itself in investment and intermediate sectors. In the medium term it is projected that this process will increase the quality of production in the structure of manufacture structure (Soğuk and Uyanusta, 2004). Furthermore, when Turkey joined the Custom Union the sectors that gained from increased exportation opportunity, lead to a reduction or some significant effect towards reducing unemployment in Turkey. On the other hand, the expectations of positive effects of the Custom Union on foreign investment has not been realized. The foreign investments of the custom union was very low. One reason of this is that the economical environment in Turkey did not have encouraging conditions for domestic and foreign investments. When the suitable conditions are provided, effective stimulus and harmonization of competition legislation will give an opportunity for increased foreign investment in Turkey. A possible effect of the foreign investmnet in Turkey would improve the employment rate in Turkey.

10. In The Process Of The Custom Union The Trade Between Turkey And Eu

When we look at the trade relation between Turkey and EU countries, especially with regards to joining to the Custom Union, it can be said that overall Turkey has made progress and the trade volume increased. But both the economic and the competitive power of Turkey was very low. So, this caused negative effects (Nart, 2010). It is observed that the growth rate of exportation to the EU countries is much lower than importation rate from the EU countries after joining the Custom Union. The other crucial fact is that the tendency of importation into Turkey based on interim goods and investment goods. When Turkey joined the Custom Union importation and exportation relations developed with EU countries more than those with USA and Far East countries. As a result of abolishing tariffs and custom duties the importation rate has shown a greater growth than the total importation rate. Despite the rise of total importation of 22% the importation rate from EU countries jumped to 37%.

This boost is a natural result of the Custom Union. Between 1993 and 1995 the total rate of EU on Turkish foreign trade was 48%. But, this ratio jumped into 54% between 1996 and 2000. Turkey joined the Custom Union without any plan. So, importation from EU to Turkey rose. But the exportation to the EU from Turkey did not raise so much (Kidb, 2003). After joining the Custom Union the importation from the EU countries and this is followed fluctuations in the internal and external economic relations (Kayalar, 2003). Between 1995 and 2000 the importation rate became 57.8% and the exportation rate became 30.9%. When we make an assesment from this data we can see that the trade with EU countries experienced a tremendous increase and it contributed to the total exportation. But the exportation trend is good for EU countries. In other words, Turkey is dependent on the EU and it's market step by step. This is a threat, as of 2004 the exportation rate of 54,5 % and importation rate of 46,6 % belonged to the EU countries (Tokathoğlu, 2005). For example, trade with USA and Japan has been diminishing since 1996. In the year of 1990 the total imports of Japan was 5% and this rate gradually decreased and became 3.9% in 1995 and in 1996 it became 3.3% this trend continued and in 2008 and 2009 it became 1.9% (TÜİK, 2012).

11. External Terms Of Trade Of The Custom Union

External terms of trade is a rate between importation prices and exportation prices. If a country sells products at a low price and purchase another good at a high price. It means that this country has a trade deficit, and if external terms of trade began to grow in a positively way it means that the country can raise its wealth. When we look at the terms of trade in recent years, they have always caused negative results for Turkey (Kip, 2011).

12. The Foreign Trade Developments After The Custom Union

The first crucial question here. When Turkey joined the Custom Union the possible changes of the Custom Union agreement on the structure of Turkish foreign trade. In order to answer this question we should look at the

distribution of foreign trade according to the interim goods in Turkey. If we look at the exportation distribution on interim goods, exportation of capital goods increased but interim goods exportation did not go up in Turkey. If we look at the importance of the EU on Turkish importation and exportation we can see that the rate of exportation is decreasing. But the rate of importation is increasing. If we look at the general trade ratio in Turkey almost in every product both importation rate and exportation rate went up in the total production. We can summarize it as the Custom Union and its effects are very diverse especially on Turkish foreign trade (Filiztekin, 2013).

13. Conclusion

The result of the Custom Union Agreement is that Turkey has encountered a loss of taxes and the Turkish domestic market has experienced difficulty with the entrance non tariff goods. So, it increases cheap foreign goods and raises unemployment rates in Turkey at the same time. So, there are two possible opportunities presented to Turkey in order to improve the bad conditions of the Custom Union agreement. One of them is that Turkey may make a new sort of free treaty with US in an independent situation. The other one is that Turkey could attempt to use its ability of persuasion on EU countries in order to add his self to the game (Çetingüleç, 2014) .

In the framework of legislative arrangements and standards with technical statue Turkish industry run into radical change. The other good thing is that the custom union provides room Turkey could use to gain momentum in liberalising in the area of world trade organisation. In the scope of the custom union legislative alignment became real and it doesn't only require institutional structures of this country but also negotiations for full membership to the EU make the process more easier for Turkey (Demir, 1998).

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