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REVISION OF EU-TURKEY CUSTOMS UNION IN THE LIGHT OF TRADE RELATIONS IN HISTORICAL PERSPECTIVE

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Revision of EU-Turkey customs union in the light of trade relations in historical perspective

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Revision of EU-Turkey customs union in the light of trade relations throughout history[1]

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Introduction

The acceleration of Globalization, with the decrease in the costs of information, communication and transportation, changed the nature of the world economy. There was a shift in the power of developed countries to developing countries which affected the routes of world trade. Multilateral trade agreements under the umbrella of World Trade Organization (WTO) started to loose strength and global trade actors started to incline towards regional trade agreements (RTA).

After the 2000's, a new era started, also for the European Union. Not long after the single new currency was released and put in the circulation, EU was facing a financial crisis. The years of the 2010's were challenging for EU and at the same time, it was working on healing itself both economically and politically.

The EU, as a global actor, in order to be responsive to the changes worldwide, started to transform its trade structure gradually. A need to adapt trade policy to new

[1] The author would like to thank Andrea Éltető for mentoring during her stay in Hungary, as well as Tamás Szigetvári for proofreading this paper.
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developments emerged. Hence, EU started to build flexible FTA models that suit best the conditions with partners.

The European economic integration that started as a customs union and then was converted to more advanced models of integration such as single market, economic and monetary union within almost 60 years, now put the "special" free trade areas as a venue for conducting foreign trade relation.

Turkey, one of the oldest trade partners of EU started to be in disadvantage in the last years with its old-fashioned, 20 years old customs union established with EU. It is narrow in scope and not well equipped to overcome new challenges. In this study, the revision of Turkey-EU customs union will be discussed within the light of foreign trade policies of the EU by taking the integration models into consideration. The first part of the paper will make a brief overview of fundamental integration models that affect the foreign trade policies of partners. In addition, EU's policy changes in trade relations with the changes in conditions will be handled. In the second part, EU-Turkey trade relations within customs union will be examined.

I. Economic Integrations: Theoretical Approach

Economic integrations have their origins from the first global relations starting in the last decades of 19th century before the 1st World War. With the rise of openness in economic relations which led the way for trade relations, a new era started in economic history. As a result, price convergence started to increase competitiveness. Despite the wars and emergency situations, global movements never actually ended but fluctuated and established an environment for different types of economic integration models especially based on trade relations.[3]

These global movements are " based on the differentiation of a number of different levels of cooperation between states".[4] Different types of integration models were established in different regions. European integration has the most important example which had the highest degree of all integrations. In order to express the EU's economic

[3] Giovanni Federico, Antonio Tena Junguito, "Tale of two globalizations: gains from the trade and openness 1800-2010", Review of World Economics, Kiel Institute, 2017,pp. 602-603.

[4] Ian Barnes, Pamela M.Barnes (1995),: The Enlarged European Union, Longman,1995, p. 2.

integration processes, theories of integration models should be examined. In this study, economic integration theories will be handled from the trade liberalization perspective.

Economic integration is basically defined as the removal of barriers for goods, services, capital and labour between two or more countries. The barriers on goods trade can be classified as tariff and non-tariff barriers. Tariffs are imposed on the imported goods according to the quantity or the value. That's why reducing the tariffs is an important step in liberalizing the trade. Non-tariff barriers are also a way of restricting trade and these varies from country to country. They include quotas, custom barriers, taxes having equivalent affects and others. Main barriers on service trade are classified as quotas in consumption, market shares for domestic producers, public procurements, limitations in foreign money (currency) transfer and subventions.

I.1. Free Trade Area and Customs Union

The weakest form of an integration model is the free trade area (FTA). Among the members of the FTAs, tariffs and quotas are removed but each country is free to design a trade agreement with third countries.[5] The new style FTAs, identified as Deep and Comprehensive Free Trade Areas (DCFTA), widens the scope of the agreements by including trade in services and accessing public procurement markets, rules in intellectual property rights and dispute settlement mechanism being taken into consideration and remove the technical barriers to trade, customs union goes one step further. In a customs union, the group of countries which are in the free area, charges a common tariff to the third countries with a high degree of commercial policy alignment. Products, in the scope of the customs union, which also do not need to prove compliance with the rules of origin (RoO) are limited but also subject to preferential trade.[6]

The higher levels of integration are common market and economic and monetary union respectively. Common market means free movement of production factors which are labour, capital, goods and services. It is also called "four freedoms" in EU integration

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[5] Barnes, op cit, 1995, p. 53

[6] EU Commission Staff Working Document Impact Assessment, http://ec.europa.eu/smart-regulation/impact/ia_carried_out/docs/ia_2016/swd_2016_0475_en.pdf ,2016-475, p. 8

processes. The strongest is the economic and monetary union which requires the harmonization of both fiscal and monetary policies.

Fundamental theories of trade liberalization are those of FTAs and customs unions. As mentioned above in customs union tariff barriers are removed and common external tariff (CET) is established in order to make duties at the same rate. Then, custom revenues are distributed among members proportional to their contribution. Basicly, the logic behind customs union is also creating a FTA among members. If the goods are produced in that area, they can freely move without paying any tariff. In short, customs union is the free movement of goods in a group of countries which charges a common tariff to the third countries. However, products in the scope of the customs union are limited but subject to preferential trade. With this agreement, economic and trade relations among partners have been promoted and at the same time, the development of economy and improvement of living conditions as a dynamic effect should be taken into consideration.

If the good is imported to the customs union area, all members pay the same amount, regardless of the point of entry. However, mostly goods enter the area from different points. For example, France receives a specific amount of tariff for cargo payment destined to Spain. If it keeps the payment from third country, it would gain at the expense of Spain. In order to avoid such problems member countries transfers all the revenue to the EU Budget[7], to be used for the functioning of the EU.[8]

The trade creation effects of this is explained shortly in the tables below. Assume that country A is the home country and forms a customs union with country B. In addition, assume that A imposes 100% tariff on the good X. C is the rest of the World. Before customs union,consumers in country A buy good X from their own country at 160 euros each. After the customs union, they can buy good X from country B as well as the good is no more subject to customs union. However, if the tariff imposed by country A is 50%,

[7] Main sources of EU Budget are custom duties, value added tax revenues and percentage of member states gross national income to the EU.

[8] Barnes, op cit.,1995, p, 54.

consumers would buy X from country C. When there is customs union between A and B, trade will divert to country B.[9]

Table 1: Prices before customs union

EUR	Prices before customs union		
Countries	*A*	*B*	*C*
Prices for good X	160	140	100
100% tariff imposed to countries B&C		140	100
Prices for good X for country A	160	280	200

Source: Barnes (1995)

Table 2. Prices after customs union

EUR	Prices after customs union		
Countries	*A*	*B*	*C*
Prices for good X	160	140	100
50% tariff imposed to country C		0	50
Prices for good X for country A	160	140	150

Source: Barnes (1995)

Before the customs union, consumers in country A buy the good X produced in their own country because of the price difference due to the tariffs. After the customs union is established between A&B, good X is cheaper in country B. So consumers of country A would prefer good X produced in country B. Besides a cheaper opportunity for good X, a trade area is also created between A&B. If the tariffs are set back to 50%, all the consumers would prefer to buy good X from country C. However, as there is a preferential origin within customs union between countries A&B, trade would be diverted.

[9] Ahmet Gökdere, Gümrük Birliği Açısından Avrupa Topluluğu ve Türkiye ile İlişkileri, Ankara Üniversitesi Basımevi, 1990, p. 32-33.

Trade Effects of Customs Union

The main expectation from the customs union is to increase welfare. The theory called "Viner's ambiguity" makes an important notice. The Viner's paradigm came up with an idea that, preferential liberalization might harm countries within trade area describing concepts of trade creation and trade diversion. According to Viner, if the trade creation is bigger then the trade diversion welfare increases.[10] For example, if a good exported from a country outside the customs union is cheaper than the good produced in customs union member country an if members prefer the the good produced in customs union member country, trade diversion occurs due to the switch from a cheaper one to the more expensive one.Trade creation is considered beneficial by having the choice of more products with competitive prices.

Effects which are mentioned above are all static effects of customs union. However, static effects do not completely show the influence of customs union on the economies of member states which should be complemented by dynamic effects. Potential dynamic effects are really important but difficult to calculate even some appear in the long run. Dynamic effects are qualitative arising as a result of elimination of non-tariff barriers to trade in the medium and long-run. Regardless of changes in economic structure, with the motive gained by the dynamism of econımic integrations, increase in competititon and thus production capacities, results in a welfare increase in societies which will also reflect living conditions in the long run. With the formation of customs union, new economic conditions emerge. One of the most important of the dynamic effects is the rising competition which stimulates modernization and improvement of industries. Another important effect is the economies of scale. In larger markets, companies have the opportunity to increase production which would decrease costs per unit.[11]

I.2. EU's attitudes towards trade liberalization.

Strengthening the global power has been one of the healing methods of EU in the recent years as it is the world's biggest trader. EU's exports within intra-EU and to non-EU countries accounts for 1/3 of world trade which makes EU an important global actor in world trading system.

[10] Richard Baldwin - Charles Wyplosz(2015): The Economics of European Integration, McGraw Hill, London, 5th edition, p. 121.
[11] Burça Kızılırmak(2013): Ekonomik Bütünleşme Teorileri Çerçevesinde Avrupa Birliği, Avrupa Birliği Temel Konular, İmaj, p. 159.

Over the past six decades Europe has liberalized trade and factor markets, but not with everyone. By 1968, EU removed all the barriers on all imports among members by imposing significant tariffs to imports from the USA, Canada and Japan and goods from third countries.

After the late 1990s, the rise of regional trade agreements led by especially the European and Asian continent, started a new era as it created “cross-continental” relations and boosted global trade and networks. The weakening of the World Trade Organization (WTO) and growing need for countries to go beyond its rules in world trade resulted in increase in the number of Regional Trade Agreements (RTA) as a complementary relationship, built for deeper and comprehensive trade relations, to compensate free trade. They have more tariff cuts in especially agriculture and services included, export taxes, trade in services, investments, technical barriers to trade (TBT) and public procurement. Later on, RTAs also started to cover different aspects of intellectual property rights (IPR), the movement of capital, visa, immigration and so on.

The EU, which was formed as a customs union at the beginning and transformed into more advanced levels of economic integration, has been using RTAs as an important tool for politics as well. The EU is considered as one of the deepest regional economic integration models in the world. RTAs are good tools for building economic & social areas beyond territories independent from WTO rules.

Between 1999-2006 the EU was also giving priority to WTO rules and thus multinational trade. After the break-up of the Eastern block, the EU went on to form trade agreements with Central and Eastern European countries and Middle Eastern countries which paved the way for bilateral agreements till their full membership. These were good examples of the EU’s will in being an important global trade actor and increase its competitiveness as foreign trade is an important tool for EU’s wealth.

Currently, world trade is in a fast transmission period due to the changes in production, consumption patterns and legal infrastructure. Asia ranks first in world imports in global markets. Shift in world trade patterns towards upmarket and high-tech products enforced the global economies to invest in R&D, innovation and design which also affected the world trade patterns and thus, needs and expectations of European business. In addition, obligations in terms of technical, consumer, environmental and labour standards forced the EU for harmonized system for trade.

The EU's "global Europe" strategy launched in 2006 was an important milestone effort for renewing the trade policy. Its priority issues were investment, IPR, public procurement and services. After 2010, high-tech, climate change, green production, transparency and social needs widen the priorities. With the necessity for complementing the multilateral system of WTO, and increasing the integration degree for trade, EU started to make its trade agreements under deeper and more comprehensive Free Trade Areas (FTAs).

II. Revision of Economic Relations between Turkey and the European Union

Customs union between the European Union (EU) and Turkey date back to 1963 with the Ankara agreement, establishing an association between the European Economic Community (EEC) and Turkey. In this context, a road map was designed to be elaborated progressively for the establishment of customs union.

The final stage of this process was the entry of the customs union entering into force in 1995 according to the association decision no. 1/95. In the meantime, until 1995, there were several financial aids for Turkey in the scope of EU-Turkey financial cooperation. After 1995, with the formation of customs union, a new era started in Turkey-EU Relationship. It is followed by being an EU candidate in 1999 and the beginning of accession period in 2006.

II.1. EU-Turkey Customs Union

Customs union between EU and Turkey covers only industrial goods originating in Turkey, including processed agricultural products and coal and steel products.[12] In the context of decision 1/95; within customs union, common trade policy, preferential trade agreements with third countries, legislation on intellectual and industrial rights and

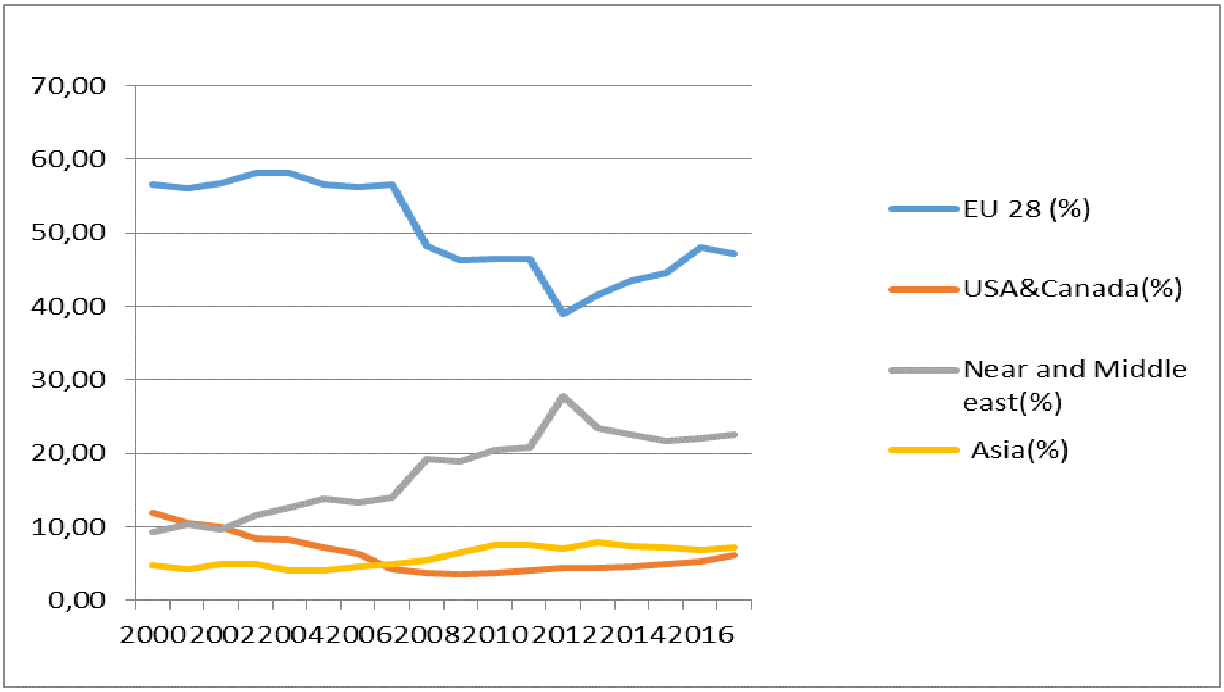
[12] Coal and products are subject to FTA, not involved in customs union.

technical barriers on industrial goods have been harmonized. customs union between the EU and Turkey was the first and unique example of the functioning customs union, established with a non-member state[13]. It has been an important tool for the integration of Turkish economy both into the EU and the other foreign markets. Since the establishment of partnership, it is frequently questioned how much and in which direction the Turkish trade policy was influenced by the EU.

As can be seen in Graphs 1, 2 below, the EU still ranks number one among Turkey's trade partners in terms of trade volume. Since the establishment of customs union in 1996, bilateral trade between the EU and Turkey has increased more than fourfold. Furthermore, as for the EU, Turkey is the 5th in terms of export and 7th in terms import among its partners.

In 2016, Turkey's export to the EU countries were 66,7 billion euro, approximately 47 % of total exports of Turkey and import from the EU countries was 78 billion euro, 39 % of total imports. Basic export items are machinery, vehicle equipments and manufacture goods. Graphs below shows the Turkey's exports and imports.[14]

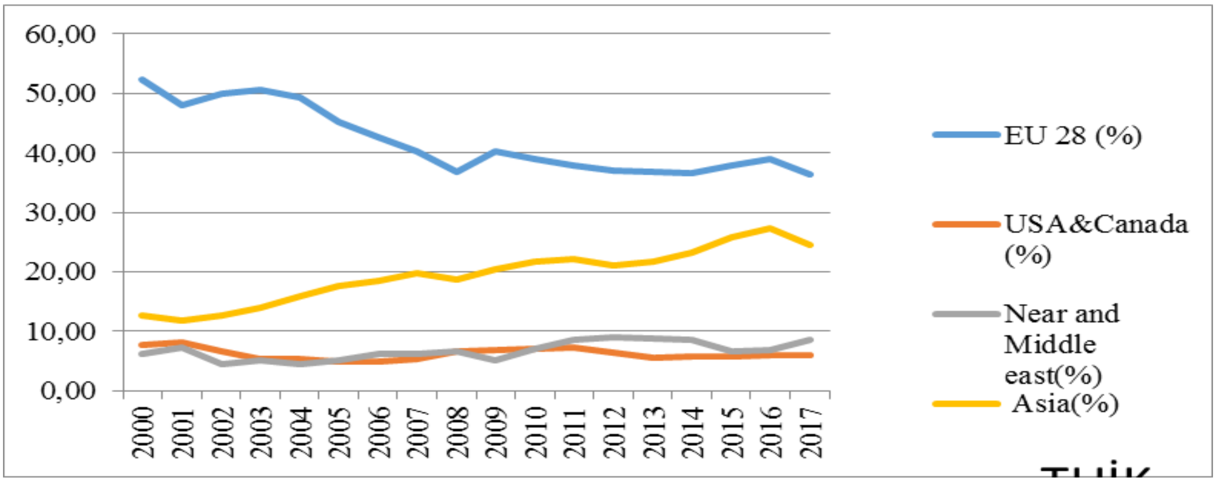
Graph 1: Exports from Turkey-country groups (%)



Source: Turkish Institute of Statistics (TUIK-2017)

[13] Evaluation of the EU-Turkey Customs Union 20149. *Report No:85830-TR.*World Bank.s.i.
[14] Evaluation of the EU-Turkey Customs Union 20149. *Report No:85830-TR.*World Bank.s.i.

Graph 2. Import to Turkey-country groups (%)



Source: Turkish Institute of Statistics (TUIK-2017)

As mentioned before, customs union between the EU and Turkey is an important milestone of the Turkey's European integration process as customs union has never been perceived as a final target rather an important political step for deeper ties, even full membership. However, in current conjuncture, EU-Turkey relations came to an open ended process. Instead of full membership, new future options for EU-Turkey relations have been debated in recent years.

Apart from the discussions on the status of relations, discussions over the Turkey-EU customs union have always remained on the top of the agenda and impacts on the Turkish trade have been discussed. Besides the static affects of customs union, the dynamic affects should also be taken into consideration. Inclusion to production chains of Europe, increment in competitiveness and efficiency, easing the harmonization of the production standarts, consumer rights, intellectual rights with the EU, are the most important ones. Moreover, customs union also creates opportunity for the increase in the international investments. As an example, about 75% of the foreign direct investment (FDI) between 2002-2016 stemmed from EU countries.

Global Changes and the EU

Since the customs union entered into force, factors have changed and the scope of the customs union no longer meets the expectations of Turkey, as it becomes narrower, well-equipped and the conditions of the global trade and EU's principals are changing. It is two decades old regime with old tools and just suits the needs and expectations of the 1990's. The current situation for Turkey is bearing the costs of customs union but not involving in decision making processes and deprived from the new FTAs, EU had established.

So, assessments on the revision of customs union being discussed through the possible expectations and impacts of revision and deepening of EU-Turkey economic relations.

New parameters of EU foreign economic relations, especially trade patterns have been re-designed through the changes in global dynamics. Development of information, communication and transformation ease the integration processes thus accelerated the globalization. Especially the rising power of East-Asian emerging markets led by China, started to unsettle the global power of EU in terms of industrial competititon and terms of trade. However the EU is still an important trader, by considering the share of trade with important markets, as can be seen in Table 3 below.

Table 3. Share of EU in the World trade

Share of national imports /exports in world trade (%)

% Imports	2008	2009	2010	2011	2012	2013	2014	2015	2016
China except Hong Kong	9,2	10,5	11,7	12,2	12,3	13,0	13,1	12,7	12,4
European Union (current composition)	18,8	18,0	17,0	16,8	15,6	15,0	15,0	14,5	14,8
United States	17,5	16,7	16,5	15,8	15,7	15,5	16,1	17,4	17,6
Japan	6,2	5,8	5,8	6,0	6,0	5,6	5,4	4,7	4,7
South Korea	3,5	3,4	3,6	3,7	3,5	3,4	3,5	3,3	3,2
Canada	3,3	3,4	3,3	3,1	3,1	3,1	3,1	3,2	3,2
Mexico	2,5	2,4	2,5	2,4	2,5	2,5	2,7	3,0	3,0
Russia	2,2	1,8	1,9	2,1	2,1	2,1	1,9	1,4	1,4
Singapore	2,6	2,6	2,6	2,6	2,6	2,5	2,4	2,2	2,2
India	2,6	2,8	2,2	3,2	3,3	3,1	3,1	2,9	2,8
Brazil	1,4	1,3	1,5	1,6	1,5	1,6	1,5	1,3	1,1
% Exports	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
China except Hong Kong	12,1	13,3	13,8	13,7	14,4	15,2	16,1	17,8	17,0
European Union (current composition)	16,4	16,8	15,7	15,7	15,2	15,9	15,6	15,5	15,6
United States	11,0	11,7	11,2	10,7	10,8	10,8	11,1	11,7	11,8
Japan	6,6	6,4	6,7	6,0	5,6	4,9	4,8	4,9	5,2
South Korea	3,6	4,0	4,1	4,0	3,8	3,8	3,9	4,1	4,0
Canada	3,9	3,5	3,4	3,3	3,2	3,1	3,3	3,2	3,2
Mexico	2,5	2,5	2,6	2,5	2,6	2,6	2,7	3,0	3,0
Russia	4,0	3,3	3,5	3,7	3,7	3,6	3,4	2,7	2,3
Singapore	2,9	3,0	3,1	3,0	2,9	2,8	2,8	2,7	2,7
India	1,5	1,9	1,9	2,2	2,0	2,3	2,2	2,1	2,1
Brazil	1,7	1,7	1,8	1,9	1,7	1,7	1,5	1,5	1,5

Eurostat, share of EU in World trade - 2017

Within the last 20 years there had been a pradigmal shift in EU's economic strategies, especially after economic crises. First years of 2000's were spent to increase for increasing in competitiveness and regional power oriented EU to big Eastern enlargement.[15]

The EU Commission launched its new trade strategy "Global Europe" in 2006, EU trade policy has shifted towards a new agenda which set around for more comprehensive and deep partnerships. After 2010, facing the new global dynamics became harder for the EU as ruins of economic crises after 2007 still being felt. On the other hand being the commander of global activities shifted from developed countries to developing countries.

In this direction, modernisation of trade relations were evaluated by February 2014. New generation Free Trade Areas (FTA), started to be the main actors of the global trade. More comprehensive, deep and tailor-made trade relations were built between partners which aim to remove non-tariff barriers, open up services and investment in public procurement markets and further expand competition. The EU as a global power, built its relations beyond traditional boundries which brings the need for re-design the future of EU's CCP. Accordingly, new generation FTAs became dominant among EU-trade policies in recent years. This transformation reflects deeper and more comprehensive structure in trade areas.

Through the evolution of EU's trade policy, EU made several FTAs with third countries. In 2000, trade agreement was made with Mexico and South Africa which are important trade partners. In 2003, Chile, in 2011 South Korea and in 2014 Canada became partners for free trade. Now Singapur is on the agenda. On 16th May, 2017, opinion 2/15 under CCP was launched, clarifying the exclusive competences of future trade policy between EU and Singapur and will probably be a benchmark in identifying UK negotiations after Brexit as well. It should also be beared in mind that, after the Brexit processes completed there would probably be a change in trade routes.

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15 Szigetvári, Tamás (2016): EU-Turkey relations: Custom Union and more...or less?: *European Neighbourhood Policy in a Comparative Perspective* (Sieglinde Gstohl(ed)), Routledge

It is inevitable that increase in the number of FTAs bring the need for re-designing the Common Commercial Policy(CCP) for the future.

Reflections on Turkey

The changes in the conditions and the increases in the number of FTAs established between EU and third countries (which are mostly the main competitiors of Turkey) started to weaken Turkey's position in the context of customs union. Meanwhile,Turkey also started to establish FTAs with Lebanon, Georgia, South Korea and Mauritus which are comperatively weaker than the EU's partners as a scale. Although there is a decrease in the Turkey's volume of trade with EU after the year 2007, EU is still an important partner.

The potential impact of Transatlantic Trade and Investment Partnership (TTIP) on the Turkish economy given its long-term relation with EU, should also be considered.[16]

The EU was negotiating with US for the biggest export market.[17]It was a project which was going to comprise for approximately one third of the world trade. However, conditions changed rapidly after the USA elections in which Donald Trump was elected. So the last decade in global trade can be characterised as before Trump and after Trump era. According to Trump, globalization started to be an obstacle for USA so tariffs and barriers came into agenda for trade restriction.

It was also interesting to know how the protection barriers and liberalization flows mentioned would affect the future of Turkish-EU customs union after the conditions changed. the protectionist winds in world trade speed up with Trump's election, EU's and China's reaction towards the liberalization seems positive. It is not easy to predict the future of this trade wars and how the EU-Turkey relations would be affected.

[16] Canan Balkır (2017): *Transatlantik Trade and Investment Partnership*. In Proceedings of the Revision of Turkey-EU Customs Union Within Context of Diversified Models of EU'S External Relations, ISBN:978-605-136-337-0, Ankara Üniversitesi ATAUM, 2015, Ankara. p. 60

[17] European Commission: Transatlantic Trade and Investment Partnership (TTIP).Retrieved from. http://ec.europa.eu/trade/policy/in-focus/ttip/about-ttip/questions-and-answers/

Like many countries, Turkey also wants to protect itself from the negative impacts of this partnership. As Turkey's integration with US market is very limited, deals and regulations under the customs union have become more important.

As mentioned above, EU's changing nature in trade relations through the new global dynamics of the commercial policy also raised the necessity of to revise the EU-Turkey customs union has never been perceived as a final target but rather as an important step to full membership.

The customs union being implemented between EU and Turkey has started to become narrower and less equipped in scope because it was designed as a transitional agreement rather than a technically equipped agreement for current challenges. With the bilateral and regional agreements coming into force in recent years the revision of customs union became more important because there is an asymmetry, stemming from the origins of the agreement. This is the uppermost reason of revision process which effects the affects Turkey's terms of trade thus welfare directly.

Examples:

- Turkish firms cannot have reciprocal access to third countries automatically which have FTAs with EU, but these countries can enter freely to Turkey. For ex: Because of the missing visa agreement between EU and Turkey, Turkish transporters cannot travel freely.

  Obstacles in transportation within EU borders load excess burden to Turkish exporters which have the the equivalent effect as tariffs and quotas by increasing the carrying costs. There is an active lobbying on this topic, especially in legal platform.

  Hungarian case was a good example. For transit passing on Hungary, a fee was being collected from Turkish trucks. The International Transporters Association of Turkey denounced that these fees interfere with free circulation and conflict with association decision no. 1/95. After that the transportation fees were removed.[18]

[18] İKV Dergi, https://www.ikv.org.tr/ikv_dergi/ikv_aralik_2017/html/index.html, Sayı.224, p. 58.

Currently, Turkey is dealing with a similar case in Austria. It is obvious that there is an active lobbying in this field but insufficent.[19]A permanent and more comprehensive solution should be found.

- The lack of platform for Turkey to negotiate for DCFTAs is disadvantagous. EU's trade partners that had built a DCFTA with EU may hesitate to conclude a trade partnership with Turkey.[20]As the number of DCFTA's EU has been negotiating increases, Turkey's position becomes harder.
- Also due to the design of the agreement, Turkey can not participate in decision-making processes sufficiently.
- There is a lack of effective and well-designed dispute settlement mechanism. The existing dispute settlement mechanism is not effective because it is currently limited to disagreements on the duration of safeguard measures.
- The other reason for the revision is the scope of the customs union. It is narrower compared to FTAs, as it does not involve agriculture, services and public procurement. Thus, Turkey should strengthen its position by revising and deepening customs union.

Hence, following the changes in conditions, it is necessary to widen and revise the scope of the Turkey- EU customs union agreement. As a result, on 12 May 2015, it was announced that Turkey-EU customs union decided to be revised to expand the scope of the 20-year old agreement.[21] Need for revision emerged not only in the light of the global challenges but also in the light of the need of being involved in decision making processes and asymmetric relations between EU and Turkey in the context of customs union.

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[19] İKV e-bülten, https://bulten.ikv.org.tr/?ust_id=8212&id=8214 , Şubat 2018.

[20] Sait Akman (2017): *Revision of Customs Union Between Turkey-EU in the Context of Global Dynamics.* In: Proceedings of the Revision of Turkey-EU Customs Union Within Context of Diversified Models of EU'S External Relations. ISBN:978-605-136-337-0, Ankara Üniversitesi ATAUM, 2015, Ankara. p. 89

[21] Çiğdem Nas, Emre Ataç, Ahmet Ceran, Çisel İleri (2017): İKV Report on Turkey-EU Relations: Keeping Together in the Face of Multiple Challenges (Publication no:288).İstanbul:İKV. p. 40

According to the facts mentioned above, the main target of this revision process shall be the wider trade integration which will cover agricultural goods and services which would potentially bring welfare. Agriculture is an especially important sector for Turkey as it accounts for 10% of Turkey's GDP and ¼ of employment.[22] Also, participating in decision-making processes effectively is very important in the road map of revision.

Possible scenerios for revision

Through the establishment of a new framework for Turkey-EU trade relations, impact assesments were made both by Economy Ministry of Turkey and the EU Commission in order to make predictions for the future scenerios. The impact assesments reached similar results at the end.

Deeper impact assesment made by EU Comission included the dynamic affects of customs union, in addition to the quantitative assesments. Social, ecological, institutional affects were taken into consideration also touching human rights and harmonization of acquie. According to EU, since 1996, customs union has made a boom affect in Turkish exports, but exports to third countries grew more.In other words, besides providing integration to EU markets, customs union became an important tool for opening the Turkish economy to the World as well.

Alternative scenerios proposed by EU Comission were predicted in three main assumptions.

First scenario is the status quo, which means regulations of EU-Turkey customs union remains unchanged. This choice absolutely lowers GDP for Turkey while the EU increases its welfare, as it is concluding new FTA's with the third countries.

Second scenario is the deepening and revising the customs union, which have been argued. While revising the customs union, better legislative allignment, effective dispute settlement and asymetric relations with Turkey will be taken into consideration. Agricultural goods, services and public procurement shall be liberalised under a FTA.

[22] Tarım İstatistikleri, www.tuik.gov.tr/IcerikGetir.do%3Fistab_id=148 ,TUİK.

The bilateral liberalization provides export gain for EU of 27 billion Euros which is much higher than 5 billion export gain of Turkey. For the EU, this scenario increases the real GDP of EU by 0,01%. Turkey's real GDP by 1,44%.

Third scenario is the replacement of customs union with a DCFTA. In this scenario, trade freedom in services, agriculture and public procurement would relatively be less.Turkey has to carry out trade relations with third countries independently. In this scenario, the GDP effect is negative (-0,01%). For Turkey, the impact is still positive about 0,26 %.[23]

Impact assesments made by the Turkish Ministry of Economics reached the similar results with EUs. Keeping the status-quo in EU-Turkey customs union would further lead to an increase in economic vulnerability in Turkey and thus, decrease its economic power. In the first scenario of Turkish Ministry of Economics, structural problems will be revised, %50 of agricultural goods will be liberalized, barriers in services and public procurement will be removed and then, Turkish GDP is expected to increase by %1,44 and GDP of EU is to by only %0,01. The second scenario is the revising of customs union and building new FTA's and the agricultural trade will fully be liberalized. In this situation, GDP change estimated in this scenario is %0,26 for Turkey and slightly negative, -0,01% for EU.

In case of a conversion of customs union to new generation FTA, in which the scope of the customs union will cover agriculture, services and public procurement and will be transformed to DCFTA, Turkish GDP is to increase by 1,9 %. In the last scenario, the conversion of customs union with current situation is proposed and scope of the customs union will cover only industrial goods and will be transformed into FTA. This scenario would decrease the level of Turkish GDP. According to the results of impacts assesments launched both by EU and Turkey, as seen in tables below, Turkey's GDP is to increase considerably.[24]

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[23] EU Commission Staff Working Document Impact Assessment, http://ec.europa.eu/smart-regulation/impact/ia_carried_out/docs/ia_2016/swd_2016_0475_en.pdf ,2016-475, page. 8

[24] Sait Akman (2017): *Revision of Customs Union Between Turkey-EU in the Context of Global Dynamics). pp. 92-94.,* Turkish Ministry of economics (2017): *Gümrük Birliği Güncellenmesi Etki Analizi Basın Bildirisi.* http://www.ekonomi.gov.tr/portal/faces/blog/newsDetail?news_id=EK-235432&_afrLoop=19146857317465663&_afrWindowMode=0&_afrWindowId=null&_adf.ctrl-

Table 4. Impact Assesments of Turkish Ministry of Economics

%	GDP		Export		Import	
	TURKEY	EU	TURKEY	EU	TURKEY	EU
Revision of customs union	1,44	0,01	3,2	0,05	3,02	0,1
Conversion of customs union to new generation FTA	0,26	-0,01	0,94	0,004	0,06	0,03
			EU	WORLD	EU	WORLD
Revision of customs union and building new FTA's	1,9		24,43	15,16	23,92	13,24
Conversion of customs union with current situation	-0,4		-16,02	-4,15	-11,25	-3,62

Turkish Ministry of economics (2017): *Gümrük Birliği Güncellenmesi Etki Analizi Basın Bildirisi.*

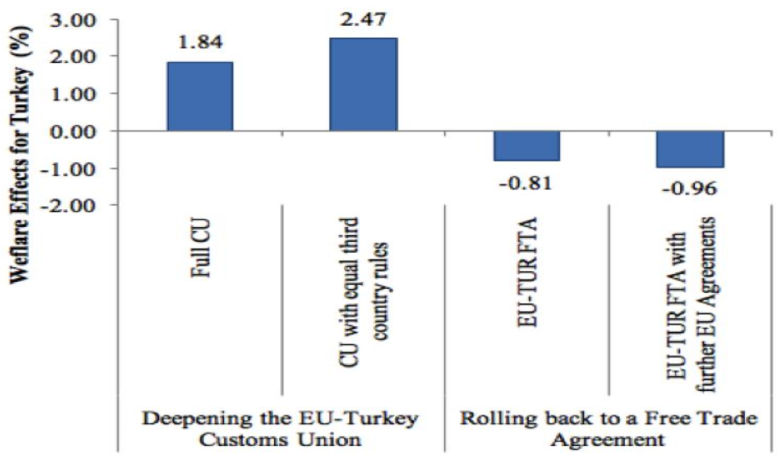
Table 5. Impact Analyses by EU Commission

	Bilateral Exports (EUR millions)	Welfare (EUR millions)	GDP(%)
EU			
customs union+FTA	27062	5388	0,01
DCFTA	7978	1150	-0,01
Turkey			
customs union+FTA	4960	12522	1,44
DCTF	-4342	-144	0,26

Source: EU Comission, 2016

state=5mbei9bvu_52#!%40%40%3F_afrWindowId%3Dnull%26_afrLoop%3D19146857317465663%26news_id%3DEK-235432%26_afrWindowMode%3D0%26_adf.ctrl-state%3D5mbei9bvu_56

Figure 1. Impact Assesments of World Bank



Evaluation of the EU-Turkey Customs Union 20149. *Report No:85830-TR.* World Bank. p. 65.

Economic Relations between UK-Turkey, possibilities after BREXİT

Brexit decision would absolutely shape not only Britain's future but also the EU's. It seems that there is also uncertainty of how the process will end practically, but it is obvious that it will have significant effects on both EU and Turkey. The exit conditions are declared in the 50th article of Lisbon Treaty[25], but has never been attempted and timing has not been estimated. Even the FTA negotiations lasts between 4-9 years, so it has to be taken into consideration that the end seems not too close. Britain is the EU's second biggest economy, meaning the second big contributer of EU Budget before anything else. Hence, the cost of exit seems to be high as the EU seems to have lost its important partner.

From the Turkish side UK is one of Turkey's biggest trade partners. So trade between Turkey and UK may suffer unless a new agreement is compromised such as a FTA.

Turkey, mostly exports intermediate and consumer goods to UK and imports capital goods from UK. The highest shares in total exports to UK (2016) are stone&glass (28,31%), textile&clothing (20,52%), transport (17,96%) and machinery and electronics (14,58%). The highest shares in total imports from UK are machinery and electronics (31,95%), transportation (19,03 %), metals and chemicals (16,23%).

[25] Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community, 13 December 2007.

When we consider the trade volume between UK and Turkey, it should also be clear that as the conditions of customs union will no longer exist after Brexit.

Even if the provisions from the Most Favoured Nation(MFN)[26] are imposed, there will probably be higher trade barriers due to the changes in regulations, border control and so on. The trade creation effect for manufacturing industry imports from both UK and Turkey would be negative,-4,92%. And from Turkey by -0,14%. As a trade diversion 66,36% of imports from UK will be replaced by EU countries. Creation of FTA would probably bring the same results, especially because of rules of origin requirements.[27] Apart from trade relations, Turkey lost its supporter in negotiation process as UK has been supporting Turkey's membership.

Besides trade relations, Brexit decision concerns Turkey, in the context of new relationship models to be built between UK and EU as an important trade partner country in a open ended process for 67 years. In the current situation, Turkey and EU face similar challenges. They both have to build a relationship with Europe under the newly changed assumptions about their future status. They are both experiencing a similar situation from different perspectives. One is ending ongoing journey, the other is trying to built up new type of a relation while waiting in the entrance hall.[28]

To conclude…

Despite fluctuations in EU-Turkey relations, economic dimension of this relation has always been on the agenda with a growing importance. The most important issue to focus on Turkey's trade policy is inevitably the relations with the EU. customs union between EU &Turkey have a significant role in determining Turkey's trade agreements and policies.

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[26] MFN-Under the WTO agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members.

[27] Arzu Akkoyunlu Wigley, Brexit'in AB'nin Dış Ekonomik İlişkilerine Etkisi ve Türkiye-AB Gümrük Birliği'ne Yansımaları Konferansı Ankara Üniversitesi Avrupa Toplulukları Araştırma Uygulama Merkezi, 08. 02. 2018.

[28] Negotiating Brexit: The prospect of a Turkey-UK Partnership, March 2017, https://www.brookings.edu/research/negotiating-brexit-the-prospect-of-a-u-k-turkey-partnership/

In the last decade, changing global environment in world trade started to re-shape the economic relations, especially the trade patterns. These trends also bring the need in shaping the trade relations with EU and Turkey. The relationship model between EU and Turkey seems to be old-fashioned and insufficient. The effects of EU's FTAs with third countries and the limited scope of customs union resulted in arguments on the functionality of customs union.

Reducing asymmetries by including Turkey in decision making procedures and re-designing the relations with respect to FTAs with third countries became inevitable. Both legislative and technical obstacles such as road transport permits should be overcome and also effective dispute settlement mechanism should be designed for greater trade integration. The transport permits, especially for transit drivers, create obstacles of the free movement of goods and thereby obstructing the functioning of customs union as it creates excess costs which are perceived as a barrier. In this direction, permanent and comprehensive visa solutions should be found at least for the business travelers.

The dispute settlement mechanism is another obstacle for the customs union to be solved. In order to make the dispute settlement mechanism more effective in resolving trade barriers, it should be shifted where one country can bring a case on a broader range of issues.

As for greater trade integration, the framework of the agreement also should be broadened into all aspects of trade such as trade in agricultural goods, services and public procurement which would bring mutual gains. All problems should be fixed due to the condition of urgency, not to take much time. In other words, upgrading customs union will revise the agreement according to the current expectations.

As a result, the modernization of customs union and the revision of the economic relations with EU and Turkey are necessary and will bring economic gains, especially for Turkish trade in new global era this is because customs union is very important in shaping Turkey's international trade relation. Moreover, it seems to be the only functioning mechanism to sustain Turkey-EU relations customs union and to enlarge relations to new areas.

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